

FINANCIAL PERFORMANCE OF ISLAMIC AND CONVENTIONAL BANKS IN THE UNITED
ARAB EMIRATES: A COMPARATIVE STUDY.

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IBRAHIM IBRAHIM

201203872

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MAIN SUPERVISOR: PROF AHMAD SANDA

ABSTRACT

The study was conducted to evaluate the financial performance of Islamic and conventional banks, so as to facilitate the bank's stakeholders (i.e. depositors, bank management, shareholders, investors and the banking sector regulators respectively) with the true state of performance of the banks in the UAE banking sector. To achieve this, we assessed the financial performance of some selected Islamic and conventional banks in the UAE, by measuring their profitability, liquidity, risk and efficiency for the period 2009-2013.

We made use of ten (10) important performance ratios to measure the financial performance of the banks in terms of their profitability, liquidity, risk and efficiency. The ratios includes Return on Asset (ROA), Return on Equity (ROE), Profit Expense Ratio (PER), Loan to Deposit Ratio (LDR), Loan to Asset Ratio (LAR), Debt to Equity Ratio (DTAR), and Debt to Total Asset Ratio (DTAR). Other ratios used include Interest Expense Ratio (IER), Operating Efficiency (OE) and Asset Utilization (AU).

The performance of the banks were analysed using the 10 ratios by the banks inter-sectional ratio analysis technique, t-test analysis and regression comparing the results of the 2 set of banks to determine which of the bank performed better than the other. The study concluded from the results of the banks analysed that the Islamic banks are more profitable, more efficient and more liquid. However, both banks appeared to be indifferent in terms of credit risk.

Keywords: Islamic banks, Conventional banks, financial performance

Table of Contents

ABSTRACT	I
List of Tables	IV
List of Figures.....	V
DECLARATION.....	VI
ACKNOWLEDGEMENT.....	VII
DEDICATION	VIII
CHAPTER 1: INTRODUCTION.....	1
1.1 Background of the Study	1
1.2 Statement of the Problem	2
1.3 Objectives of the Study	2
1.4 Significance of the Study.....	3
1.5 Limitations of the study.....	3
CHAPTER 2: LITERATURE REVIEW	4
2.1 Introduction	4
2.2 Differences between Islamic and Conventional Banking.....	4
2.3 The UAE Banking Sector Activity.....	6
2.4 Empirical Literature Review	6
2.5 A Review of Relevant Empirical Literature from UAE.....	10
2.6 Summary.....	12
CHAPTER 3: RESEARCH METHODOLOGY	13
3.1 Introduction	13
3.2 Research Design	13
3.3 Population.....	13
3.4 Sample	13
3.5 Research Instrument	14
3.6 Procedure.....	14
3.7 Data Analysis.....	15
3.8 Research Ethics	15
CHAPTER 4: DATA PRESENTATION AND ANALYSIS.....	16
4.1 Introduction	16
4.2 Data Presentation.....	16
4.2.1 Abu Dhabi Islamic Bank (ADIB).....	16
4.2.2 Dubai Islamic Bank (DIB).....	17
4.2.3 Emirates Islamic Bank (EIB).....	17

4.2.4 Abu Dhabi Commercial Bank (ADCB).....	18
4.2.5 Emirates NDB Bank (ENDB).....	18
4.2.6 National Bank of Abu Dhabi (NBAD).....	19
4.3 Data Analysis.....	19
4.3.1 Profitability Ratios.....	19
4.3.2 Liquidity Ratios.....	26
4.3.3 Risk and Solvency Ratios.....	31
4.3.4 Efficiency Ratios.....	35
4.4 Independent Two–Sample T–Tests Analyses Results.....	41
4.5 Regression Analyses Results.....	43
4.6 Summary.....	46
5.1 Conclusion.....	47
5.2 Recommendation.....	48
5.3 Future Research.....	49
REFERENCES.....	50
APPENDICES.....	55
APPENDIX A.....	55
TABLE 1: List of Banks (Sample) For the Study.....	55
APPENDIX B.....	57
Table 1: STATA Results.....	57
APPENDIX C.....	65
Table 1: ADIB Financial Highlight (2009-2013).....	65
Table 2: DIB Financial Highlight (2009-2013).....	66
Table 3: EIB Financial Highlight (2009-2013).....	67
Table 4: ADCB Financial Highlight (2009-2013).....	68
Table 5: ENDB Financial Highlight (2009-2013).....	69
Table 6: NBAD Financial Highlight (2009-2013).....	70

List of Tables

Table 4. 2: Return On Equity (ROE)

Table 4. 3: Profit Expense Ratio (PER)

Table 4. 4: Loan To Deposit Ratio (LDR)

Table 4. 5: Loan To Asset Ratio (LAR)

Table 4. 6: Debt To Equity Ratio (DER)

Table 4. 7: Debt To Asset Ratio (DTAR)

Table 4. 8: Income Expense Ratio (IER)

Table 4. 9: Operating Efficiency (OE)

Table 4. 10: Asset Utilization (AU)

Table 4.11: Means of Financial Ratios of Islamic and Conventional Banks 2009-2014

Table 4.12: Two Sample T-test for Comparison of Means of Financial Ratio of Islamic and Conventional Banks 2009-2013

Table 4.13: Comparison of Islamic and Conventional Banks in terms of Regression Analysis of ROA, ROE, PER, LDR, DER, DTAR, IER, OE and AU

List of Figures

- Figure 4. 1: Return On Assets (ROA)
- Figure 4. 2: Return On Equity (ROE)
- Figure 4. 3: Profit Expense Ratio (PER)
- Figure 4. 4: Profitability Ratios Bar Chart
- Figure 4. 5: Loan To Deposit Ratio (LDR)
- Figure 4. 6: Loan To Asset Ratio (LAR)
- Figure 4. 7: Liquidity Ratio Bar Chart
- Figure 4. 8: Debt To Equity Ratio (DER)
- Figure 4. 9: Debt To Asset Ratio (DTAR)
- Figure 4. 10: Risk And Solvency Ratio Bar Chart
- Figure 4. 11: Income Expense Ratio (IER)
- Figure 4. 12: Operating Efficiency (OE)
- Figure 4. 13: Asset Utilization (AU)
- Figure 4. 14: Efficiency Ratio Bar Chart

DECLARATION

I, Ibrahim Ibrahim, declare hereby that this study is a true reflection of my own research, and that this work, or part thereof has not been submitted for a degree in any other institution of higher education.

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Date.....

Ibrahim Ibrahim

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DEDICATION

I dedicate this piece of work to my lovely late parents for their effort towards my life. Miss you so much baba (Alh Ibrahim Danhaire) and Umma (Hajiya Rabi Shantali), may your souls rest in perfect peace and may Almighty Allah cover your fault and grant you paradise. Ameen.

CHAPTER 1: INTRODUCTION

1.1 Background of the Study

Banks are important financial system entities of every economy (Gahir, 2009). An effective and efficient banking system helps to create a developed and successful society. The banks act as intermediaries between the surplus and deficit sectors of the economy (Gahir, 2009). The Islamic banking system experienced a rapid growth over the past years (Gahir, 2009). According to a global finance's publisher (2001) "the Shariah compliant finance is the fastest growing area of finance worldwide, with more than 300 financial institutions that are either fully Islamic or provide Islamic financial products to their customers, in addition to several hundred Islamic banks and insurance companies (Gahir, 2009). There has been increasing number of countries around the world adopting the system in their financial environment, especially in the Middle East, southern Asian countries, Europe, North America and African countries (Gahir, 2009).

The Islamic banks continue to attract the customer who seeks to avoid the interests related to the conventional banking system. This is based on the principle of prohibition of interest in Islam. The Islamic banking system is based on Islamic principle of interest prohibition with respect to financial transactions (Tahir, 2003). The Islamic banks operate in such a manner of ensuring the safe guarding both the Muslim and other communities from carrying activities or transactions that involves paying or receiving such interests prohibited in Islam (Tahir, 2003). The banks (Islamic) strictly operate in accordance with the laid down principles of Islamic law, which are based on profit and Loss sharing (PLS) and other forms of sales contracts which do not involve payment of interests in any form (Tahir, 2003).

On the other hand, the conventional banks are the direct opposite of the Islamic banking system whereas they operate fully on interest basis. They pay interest on their lenders (Depositors) and the banks also receive interests from their debtors. The profits the conventional banks make are mostly from the difference of the interests they pay and receive from their entire banking operations. The conventional banks as against the principles guiding the Islamic banking system use interest mechanism to finance most of their businesses. The UAE has a relatively large number of banks, about 51 banks (both local and foreign) in the system serving a limited population of about 8 million people (Hashim, 2007). The commercial banks in the UAE are divided into Local incorporated banks which consists 23 banks and the foreign owned banks 28 banks which are branches of foreign banks with licenses to operate in the country. (Hashim, 2007) the local banks about 23 (banks) consists of 15 conventional banks and 8 full-fledged Islamic banks. The study will make use of some selected banks, 3 banks each from the Islamic

and conventional banks in the country. The researcher will make use of some important financial ratios used in other related studies conducted by previous researches. The ratios are analysed using data obtained from the annual financial reports of the selected banks for a five years period (2009-2013). These are further explained in the methodology of the study.

1.2 Statement of the Problem

Over a decade, numerous studies were conducted on the Islamic and conventional finance industry, however the performances of the Islamic and conventional banks was as a result of the huge growth potentials noticed in the sector over the past years see for example (Hashimi, 2007; Al-Tamimi, 2010; Miniaoui & Gohour, 2011). The banking industry in the UAE is at its growth phase, hence performance of the Islamic and conventional banks in the sector is affected by financial instability in the economy, and therefore there is strong need to carry out a study to evaluate the financial performance of the banks in the industry in order to provide a better understanding and explain the gap that exists between the performances of the Islamic and conventional banks in the UAE. It is important to measure the performance of the banks in the UAE in order to fill in the gap using the financial ratios, hence a number of variables such as profitability, liquidity, efficiency, risks and solvency have been considered.

1.2 Objectives of the Study

The main objective of the study is to compare the performance of the Islamic and conventional banks in the UAE. The specific objectives of the study are:

- To evaluate the Islamic and Conventional banking systems and their roles in the UAE banking sector.
- To examine and make comparative assessment of the financial performance of the Islamic and Conventional banks in the UAE with reference to profitability, liquidity, efficiency and risk.
- To examine the gap of the financial performance between the Islamic and Conventional banks in the UAE from 2009 to 2013.

1.3 Significance of the Study

The study is beneficial to many important stakeholders in the banking sector. These are the depositors (customers), regulators, management of the banks and the overall general public. They will all benefit from the findings of the research conducted, as the study will further contribute towards more understanding of the factors that influence the financial performance of both the Islamic and Conventional banks in the UAE.

The main purpose of the study is to provide a clear picture to the affected or stakeholders of the banks on the bank's financial position most importantly their customers, investors, management and others not mentioned whom might be affected by the operation and services the banks rendered to its customers. The study also seeks to make the general public more aware of Islamic banks financial position by comparing it with that of the conventional banks to see how the Islamic banks have improved in recent times compared to the conventional banks which in most cases have advantages of size and more experience in the entire banking sector due to number of years it has been in existence. Usman and Khan (2012) examined the performance of Islamic and conventional banks. In their study titled "Evaluating the financial performance of Islamic and conventional banks in Pakistan A comparative analysis". They used some important financial ratios in order to compare the performances of the Islamic and conventional banks. Their findings revealed that the profitability of the Islamic banks in Pakistan were more worthwhile than that of the conventional banks in the country. They also stated that the result was affected by the aftermath of the global recession of 2008 during the period the study was based on.

1.5 Limitations of the study

The study was faced with periodic limitation of data that will be used to conduct the study which only use 5 years period from 2009 to 2013 of the selected banks. Secondly the study only use six banks, 3 from Islamic bank and the other 3 from conventional banks for the study, the study used only six banks because the remaining 5 fully fledged Islamic banks are new, therefore they don't have five years period audited financial statements with which to conduct the study.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter aims to provide a background information on the subject matter (the performance of Islamic and conventional banks) based on related previous literatures.

There have been so many studies conducted on the Islamic and conventional finance industry in the past decade. This was as a result of the huge growth potentials noticed in the sector over the past years. It is important to measure the performance of the banks using the financial ratios, hence a number of variables such as profitability, liquidity, efficiency and risks and solvency haven been considered.

To fulfil this aim, the researcher first explain the similarities and differences of the Islamic and conventional banking system. The researcher will then go ahead to give an update on the UAE banking sector activities. Then conclude by reviewing past studies on the performance of banks conducted by other researchers both on the UAE and other countries using Capital adequacy, Asset quality, Management, Earning and Liquidity (CAMEL) framework and other financial ratios.

2.2 Differences between Islamic and Conventional Banking

The Islamic banks, just like the conventional banks, are all intermediaries and trustees of other people (Dar & Presley, 2000). The only difference between the 2 sets of banks are that the conventional banks, unlike the Islamic bank, charge interest on loans while the Islamic banks shares the profit and loss with their depositors (Dar & Presley, 2000).

This difference distinguishes the Islamic banks from their conventional counterparts based on the element of mutuality present in the Islamic banking system, with regards to treating their customers with some ownership of right in the bank itself (Dar & Presley, 2000).

The Islamic banking system is based on the Shariah principle of Profit-Loss-Sharing (PLS); this differs from the conventional banking system which follows the conventional interest based principle in performing their operations (Arif, 1988). There have been various Islamic economics studies explaining the rationale behind the Islamic prohibition of interest found in the Islamic banking system like the one by Chapra (2000). Yudistra (2003), explained that the Islamic banking principle of PLS creates a better relationship of financial trust and partnership between the bank's customer and the bank (i.e. lender, borrower and the intermediary).

The Islamic banking system acts in accordance with the Islamic finance which is a financial system based on fulfilling the teachings of the Islamic holy book (Holy Quran) and the sunnah of the holy prophet, as opposed to the conventional financial system which is out to reap maximum return on its financial assets (Yudistra, 2003). The Islamic financial system is guided by the norms of Islamic ethics as enunciated by the principle of Shariah which governs all transactions in the entire system. The Islamic financial system can be described as a fair system where the main objective is fairness (Yudistra, 2003). It also circumscribes the freedom of the participants in the system. Even though in Islam the participants are free to enter into any transactions, but this freedom does not mean rampant freedom to contract that are constrained by other norms like the prohibition of Riba and Gharar.

The Islamic banks act as partners with their depositors and debtors unlike the conventional banks who operate either as borrower or lender of funds. There exists a major difference between the two set of banks in respect to the governance structure of the banks (Suleiman, 2001). As in the case of the Islamic banks, they must obey the various set of rules in accordance to the holy Quran and provide different Islamic acceptable modes of financing to meet the expectations of the Muslim community where the bank operates (Suleiman, 2001).

Islamic banks are similar to the conventional banks in the sense that both provide financial services to their customers, and they both play a pivotal role towards the development of the financial sector and the economy in which they all operate. It is important to note, that they achieve this objective in a different way, where the Islamic banks unlike their conventional counterparts are bound to operate in accordance to the laid down principle of Islamic Shariah (Suleiman, 2001). They don't offer services or products that involve Riba (Interest) or transactions that involve risk or speculative investments (Suleiman, 2001). Siddique (1988) compared to the Islamic banks with the conventional ones as "the banks which seek for just and equitable distribution of resources". The Islamic banks do their businesses based on the teaching of Islamic Shariah and its transactions must be within the boundaries of the Shariah.

Suleiman (2001) stressed four rules that govern the investment behaviour of the Islamic banks namely:

- Absence of interest based (RIBA) transactions
- Avoidance of those economic activities that involve speculative activities (GHARAR)
- Introduction of an Islamic tax (ZAKAT)
- Islamic banks discourage all production of goods and services that contradict the value pattern of Islam (HARAM).

2.3 The UAE Banking Sector Activity

Due to the political-security tensions across the Middle Eastern countries during the 2011 period, there has been a moderate banking growth in the country. The total banking asset in the year grew by 7.5% from the figure of 2010 to US\$455.5 billion as at the end of 2011 (Barakat, 2012).

The UAE banking sector deposits have been one of the most important drivers of the entire banking sector in recent time, for instance in 2011 it accounted for about 63% of the entire bank's balance sheet. The deposit sector of the banking system posted an increase in 2011 of 0.4% from the 2010 figure to reach a total of US\$286.9 billion as at the end of 2011 (Barakat, 2012).

The bank's deposits have been increasing between the periods December 2010 to April 2011 with an estimated volume of growth more than that of the entire year of 2010. The political-security crises across neighbouring Middle East and North African Countries were taking place, therefore this led to rises in oil prices and also some depositors in some of the affected neighbouring countries where the crisis was taking place sought safer haven markets in the region such as the UAE.

There have been a huge progress also on the lending activities; this was greatly affected by the stable deposit base and the high capitalization of the banks in UAE in the period. The banks' loan and advances rose by 4.2% in 2011 to reach the figure US\$292.6 billion (UAE Economic Report, 2012). The breakdown of the UAE banking sector lending activities reveals that most of the banks in the country continue to target the public sector with about 8.3% in the first 9 months of 2011 (Barakat, 2012)

The domestic sector (private) rise by a mere 1.1% over the period. This reflects continuous deleveraging and low appetite for bank lending, especially after the period of Dubai debt crisis. The bank's capital remain significant in the sector with the capital adequacy ratio of the banks getting to a high level of about 21.2% as at 2011 compared to the 20.8% in the year 2010 (UAE Economic Report, 2012).

2.4 Empirical Literature Review

In the past decades there have been many studies on the performance of both Islamic and conventional banks. In most of the studies financial ratios have been used by so many scholars in studies that explain bank's performance. Tarawneh (2006) applied financial ratios in examining the profitability and relationship of the bank's characteristics of 5 selected Omani's bank in his study. He found that those banks with higher capital, deposits and credit are not necessarily the ones that are more profitable.

Another study was conducted by Zainol and Kasim (2010) and showed how the change in the interest rate of the economy affects the rate of return of the Islamic banks. These had yielding effects on the amount of deposits on the Islamic and conventional banks. The study also showed the significant relationship between the rate of return of both the Islamic and conventional banks and they concluded that when the interest rate rises, the Islamic banks are left with no option than to follow the market trend by increasing their deposit rate. The researchers also found the great implications of the interest rate fluctuations on the risk management of the Islamic banks in Malaysia.

There is another comparative study of the performance Islamic and conventional banks by Akhtar, M.F., Ali, K., & Sadaqat, S. (2011). The study focused on the importance of bank size, networking capital, and return on asset on the overall liquidity management of the banks. The study found that size, networking capital to net asset of the banks has a positive insignificant relationship with the liquidity risks of the banks. While the capital adequacy in the conventional banks both has a positive significant relationship with the liquidity risk of the banks (Akhtar, M.F., Ali, K., & Sadaqat, S. 2011).

Another study by Kouser and Saba (2012) “comparative study of conventional, mixed and pure Islamic banks in Pakistan”. The CAMEL is a model used to assess five key aspects of the organisational operations which include capital, assets, management, earnings and its liquidity. The study was conducted by the researchers based on the performance of the full-fledged Islamic banks, mixed banks (i.e. those conventional banks that operate Islamic banking) and the conventional banks using the CAMEL model. The CAMEL model was analysed using ANOVA (Analysis of Variance) to investigate the significant difference between the banks selected for the study. A total of 14 banks were used for the study comprising 4 full-fledged Islamic banks, 6 mixed banks, and 4 conventional banks in Pakistan. The statistical findings of the research conducted revealed that there was significant difference in the mean CAMEL ratio of the 3 set of banks used for the study. The conventional banks were found to have performed better. This was as a result of the fact that the conventional banking system had longer history, deeper roots, vast experience of management and larger market share in the financial system of Pakistan than the Islamic banks.

Samad (2004) made a comparative study of the performance of interest free and conventional banks using Bahrain as his case study during the period 1991-2001 (i.e. post-gulf war period). The study took note of profitability, liquidity, and credit risks as the basis for measuring the bank's performances. About 9 financial ratios were used in the study to measure the performance of the selected banks. The researcher used 3 basic financial measures namely Return on Asset (ROA), Return on Equity (ROE), and also Cost to Income Ratio (CORS) to effectively evaluate the overall profitability of the banks. The comparison of the financial measure expressed in term of the various financial ratios used and analysed by the study

from six Islamic banks and fifteen conventional banks indicates that there was no significant difference in the credit performance between the banks. Also they found that there was not much difference in the profitability and liquidity performances of the two sets of banks selected for the study. The study went ahead to state that the Islamic banks were more exposed to credit risk than their conventional counterparts. Usman and Khan (2012) examined the performance of Islamic and conventional banks. In their study titled "Evaluating the financial performance of Islamic and conventional banks in Pakistan A comparative analysis". They used some important financial ratios in order to compare the performances of the Islamic and conventional banks. Their findings revealed that the profitability of the Islamic banks in Pakistan were more worthwhile than that of the conventional banks in the country. They also stated that the result was affected by the aftermath of the global recession of 2008 during the period the study was based on. Hanif (2011) examined the similarities and differences between the interest free and conventional banks in Pakistan. The researcher found out that some of the interest free banks were practising some similar aspect of conventional banking with little restriction imposed by the Islamic Shariah. The study however, argued that still there is a big difference between the Islamic and conventional banking system. He concluded by saying it will be wrong to say that the Islamic banking system is a mere copy of the conventional system of banking. Jaffar and Manarvi (2011) measured the performance of the Islamic and conventional banks in Pakistan during the period 2005 to 2009. The study also made use of CAMEL test to evaluate the performances of the banks, using 5 Islamic and 5 conventional banks as their sample. In conclusion they found that the Islamic banks performed better, and also had better liquidity base than their conventional counterparts. However, they noticed that the conventional banks had better earning ability than the Islamic banks as they have been pioneers in the management of the banking sector.

The financial performance of Meezan bank in Pakistan was compared with a group of 5 conventional banks in Pakistan by Moin (2008). The study evaluated the profitability, liquidity, risk and efficiency of the banks within the period 2003-2007. The researcher made use of 12 important financial ratios namely Return on Asset (ROA), Return on Equity (ROE), Loan to Deposit Ratio (LDR), Loan to Asset Ratio (LAR), Debt to Equity Ratio (DER), Asset Utilization (AU) and Income to Expense Ratio (IER) were used to assess the financial performance of the selected banks. The study also used T-Test and F-test to measure the significant difference in the performance of the 2 sets of banks. The study's findings concluded that the Islamic bank (Meezan Bank) was less profitable but more solvent (less risky) than the selected conventional banks in the country. The study also found that the Meezan bank was less efficient compared to the conventional banks averages.

Hanif (2012) conducted a research on the performance of Islamic and conventional banking in Pakistan. The study covers the period 2005-2009 and it made use of 22 conventional banks comparing their

performance to 5 Islamic banks. The study also made use of 2 portfolios of 2 streams of banking (i.e. the conventional and Islamic banking) to analyse the data gotten from the banks in the form of sectional averages. The findings of the research were that the conventional banks performed better in terms of profitability and liquidity management than the Islamic banks. He also concluded that the Islamic banks performed better in the area of credit risk management and solvency maintenance. The study identified from the results he analysed from survey carried in the study, that the single motivating factor for Islamic banking customers was Shariah compliance of the Islamic banking system which is lacking in the conventional banking system. As for the conventional banks customers, their most motivating factors were the variety of banking products and services offered by the conventional banks in Pakistan.

Hassan (2005) used some selected Islamic and conventional banks from 22 countries to analyse their performance using some efficiency techniques. He later found that the Islamic banks were relatively less efficient in containing their costs compared to the selected conventional banks used for the study. However, the Islamic banks were also found to be more efficient in generating more profit than their conventional counterparts. The variables used by the researcher to measure the efficiencies of the selected banks were bank size, profitability, and loan to asset ratios. The study found out that the Islamic banks were less efficient because they often face regulations that are not favourable to Islamic transactions in most countries.

Iqbal (2001) made a comparative study on the performance of Islamic and conventional banks by selecting 12 banks of equivalent size during the year 1990-1998 in Pakistan. The study used other variables apart from the common profitability, liquidity, and risk variables used in most studies. He used other variables like capital adequacy and deployment efficiency for the research. The performances of the selected banks were then evaluated using trend and ratio analysis. He arrived at the conclusion that the Islamic banks outperformed their conventional counterparts in almost all the areas the banks were analysed in relation to their performance. The study also stated from its findings that the ratio analysis conducted on the banks showed that the Islamic banks were not suffering from excess liquidity and they were more cost effective and profitable than the conventional banks.

Srairi (2010) conducted a research on the cost and profit efficiency of 71 selected conventional banks in the Gulf Cooperation Council countries (GCC) between the periods 1999-2007. The research was conducted and most of the banks selected were from the Gulf countries. The study found that the banks in the GCC region were more efficient compared to those from the other regions around the world selected for the study. Among selected banks for the study, the researcher also found that the Islamic banks among were less efficient than the conventional banks.

2.5 A Review of Relevant Empirical Literature from UAE

There have been very few studies over the years on the empirical investigation of the banking sector in the UAE especially that of the interest free banking. The existing ones have focused strictly on simple financial ratios.

Miniaoui and Gohou (2011) in their study tried to find out whether the Islamic banks performed better during the financial crisis in the UAE. They examined the profitability and productivity of the main Islamic financial instruments of the global economic crises. They used the financial data of some 37 selected banks in the UAE to ascertain the performance gap between the conventional and Islamic banking systems. The profitability of the banks was analysed using conditional and unconditional differentiation econometric regression. The conditional and unconditional econometric regression used in measuring the performance differences between the banks showed that unlike in other studies done on other GCC countries, the conventional banks in the UAE performed better than the Islamic banks. They also noted that however, after the crises the Islamic banks reduced the difference for most of the performance indicators used for the study.

Al-Tamimi (2010) conducted a study on the factors influencing the performance of the Islamic and conventional banks in the UAE. The study investigated some of the influential differences in the banking sector of the country between Islamic and conventional banks in the period 1996-2008. A regression model was used in the study in which ROE and ROA were used alternatively as dependent variables. The result from the study revealed a positive impact of cost and branch number on the Islamic banks performance and the liquidity in the case of the conventional banks. The study was however faced with some limitations related to availability of data from the banks.

Siraj and Pillai (2012), in their study evaluated and compared the performance indicators between the Islamic and conventional banks in the GCC region which includes the UAE. They used 12 major banks in the region, 6 each from Islamic and conventional banking sectors between the years 2005-2010. The researchers found some similarities and differences while comparing the 2 sets of banks in the region using the leading banks. They also found that operating profit increased at a faster rate in the Islamic banks compared to that of the conventional banks.

Hashmi (2007) made an analytical and cross-sectional evaluation of the UAE banking sector. The study compared and analysed the domestic and foreign bank's micro and macro characteristics, using the financial ratios and data's sourced from the banks and central bank of the UAE. The study used a total of 21 domestic and 25 foreign banks operating in the country. The analysis of the banks revealed that the banking sector had high growth, healthy spread of deposit rate, and limited banking fraud in the system

within the period 2001-2004. It also stressed the importance of the central bank of the UAE towards its role in streamlining the banking operation in the system, hence increasing consumer confidence on the banks. The financial performance of the UAE banking sector before and during the financial crisis was analysed by Mehta, (2012). The study concludes that the performance of the banks has been greatly impacted by the global crisis in the area of overall returns generated on total assets of the banks.

In a study which named multiple approaches on the performance assessment of the UAE commercial banks was carried out by Al-Tamimi and Charif, (2011). The study was conducted to assess the performance of the commercial banks by using multiple approaches. They considered effects of bank size on their performance. The study later concludes that the size of the banks affects the performance of the banks, as larger banks perform better than the smaller ones. Their conclusion was confirmed by the hypothesis used which states that there was a positive and significant difference between the small and large banks in terms of their performance

Kader and Asarpota (2007) used bank level data to examine the financial performance of the Islamic banks in the UAE. They used data's sourced from the balance sheets and income statements of the 3 Islamic banks and 5 conventional banks selected for the study to effectively analyse and compare the performances of both type of banks during the time period of 2000-2004. The financial ratios were used to ascertain the performance of the banks in terms of profitability, liquidity, risk and solvency, and efficiency. Their findings revealed that the Islamic banks after all the analysis appeared to be more profitable, less liquid, having less risk and were more efficient than the conventional banks in the study. They concluded by stating 2 important implications found by their study: firstly, the rapid growth seen in the Islamic banking system was greatly influenced by the profit and loss banking paradigm. They also suggested that the Islamic banks in the UAE need to be supervised in a different way from the conventional banks due to the fact that the Islamic banking practices are different from those of the conventional banks. Rafiuddin and Alam (2012) also analysed the performance of Islamic and conventional banks before and after the recession. They used the profitability, liquidity and risk and solvency ratios to evaluate the performance of the leading Islamic and conventional banks, most of them from Abu Dhabi and Sharjah for the period of 5 years period between the years 2005-2009. The study after analysing the performance of the 2 sets of banks reached the conclusion that the conventional banks were more profitable than the Islamic banks in the UAE. However, the Islamic banks had higher liquidity and were less risky than the conventional banks. As the conventional banks in most cases takes more stress of making excessive loans. The study also states that the Islamic banks have shown a relatively higher growth after the global financial meltdown of 2008.

2.6 Summary

All the studies reviewed were conducted in different countries in most cases with similar problem of trying to evaluate the financial performance of the Islamic and conventional banks. It is important to note that despite having common problem; most of the studies did not arrive at the same conclusions. These were due to the following reason; which includes differences in selected time periods, analytical tools, cultural perspective and economies in which the studies were conducted. It is analysed through majority of the studies that the Islamic banks are in most cases more profitable, cost effective and less risky than their conventional counterparts. They also appeared from the literature reviewed, to have better quality of loan portfolio and capital adequacy than the conventional banks. However, the conventional banks were more efficient as in most cases than the Islamic banks lose ground in terms of operational efficiency. It can also be concluded from the studies that the financial ratios have been widely used as measures of bank's performance.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

The methodology of this research is based on positivism research paradigm which goes with quantitative research method. This chapter of the study presents the research design, population, sample, research instrument used, data collection procedure, data analysis and presentation.

3.2 Research Design

In this study the quantitative research design was used for comparing the performance of the Islamic and conventional banks in the UAE. The study used current information like audited financial statements (i.e. income statement and balance sheet) by using ratio analysis to suit the study. The performance of the banks were analysed using 10 ratios (Return on Asset (ROA), Return on Equity (ROE), Profit Expense Ratio (PER), Loan to Deposit Ratio (LDR), Loan to Asset Ratio (LAR), Debt to Equity Ratio (DTAR), and Debt to Total Asset Ratio (DTAR). Other ratios used include Interest Expense Ratio (IER), Operating Efficiency (OE) and Asset Utilization (AU)) by the banks inter-sectional ratio analysis technique and regression analysis comparing the results of the two types of banks to determine which of the bank performed better than the other.

3.3 Population

The population under the study is a finite type, comprised of 23 local banks operating in the UAE in which 8 are Islamic banks and 15 are conventional banks.

3.4 Sample

In practice, most of the information obtained by researchers about any population comes from examining a small representative subject of the population, this is called a sample. Therefore the sample in this study will be convenient sampling and convenient sampling is a specific type of non-probability sampling method that relies on data collection from population members who are conveniently available to participate in the study. Since some Islamic banks are new, random sampling may pick banks that do not have adequate data for the analysis. To overcome the problem of sampling banks without adequate data, convenient sampling was used to ensure that the banks sampled have the data for the analysis. Even though the population comprises of 23 banks, most of the banks do not have complete information for the period under consideration (2009 – 2013) for the study. Therefore, the three banks in each sector (Islamic and conventional) with complete information were selected for data collection for the study. The Islamic

banking group includes Abu Dhabi Islamic bank (ADIB), Dubai Islamic Bank (DIB) and Emirate Islamic Bank (EIB). While the conventional banking group includes Abu Dhabi commercial bank (ADCB), Emirate National Bank (ENB) and National Bank of Abu Dhabi (NBAD).

3.5 Research Instrument

In order to effectively examine the financial performance of Islamic and conventional banks, quantitative research method was used based on financial ratios of the selected banks from the UAE. This study used secondary data to analyse the financial performance of the selected Islamic and conventional banks. The data were collected from the audited financial statements (i.e. income statement and balance sheet) of the banks for the period 2009 – 2013, Journals and textbooks. The annual reports were downloaded from the websites of the banks selected for the study.

3.6 Procedure

Secondary data, which were audited financial statements of Islamic and conventional banks (using balance sheet and income statements from the selected banks for a five-year period (2009-2013)) were downloaded from the websites of the six banks, three from Islamic banks and other three from conventional banks for the study. The financial performance of some selected banks were assessed by measuring their profitability, liquidity, risk and efficiency for the period. The ratios include Return on Asset (ROA) = Net profit/Total asset, Return on Equity (ROE) = Net profit/Equity, Profit Expense Ratio (PER) = Profit before tax/Operating expenses, Loan to Deposit Ratio (LDR) = Total Loans/ Total Deposits, Loan to Asset Ratio (LAR) = Total Loans/ Total Assets, Debt to Equity Ratio (DTAR) = Total debt/ Shareholders equity, and Debt to Total Asset Ratio (DTAR) = Total Debt/ Total Asset. Other ratios used include Interest Expense Ratio (IER) = Total Income/ Total Operating Expenses, Operating Efficiency (OE) Total Operating Expense/ Total Operating Revenue and Asset Utilization (AU) = Total Revenue/ Total Asset. This ten important ratios are chosen for the study because they are every effective, efficient and accurate to be used as a performance evaluate in banking industries and to anticipate the future and relative risk. All data were processed through Stata statistical and Excel software.

3.7 Data Analysis

The data collected were analysed using interbank comparison to compare the financial performance of both the Islamic and conventional banks. The analysis was based on the 10 selected financial ratios, as these were considered to be important ratios used for measuring performances of the banks. The interbank study of the banks' financial ratios for a limited period of 5 years from 2009 to 2013 were conducted to ascertain which of the banks performed better within the periods. The average of the ratios from each of the Islamic and conventional banks for each year was calculated and compared for the variables evaluated in terms of profitability, liquidity, efficiency, risk and solvency. Regression analysis was also carried out to provide quantitative analysis of any differences between the two types of banks and the regression model was specified as: Financial Ratio = $F(\text{Time trend, Bank type})$. A significant time trend coefficient will mean the particular ratio is statistically significant over time. Similarly, a significant bank type coefficient will mean the financial ratio for the two banks are statistically significantly different. Data were further presented through the use of tables, line charts, t-test and bar charts.

3.8 Research Ethics

Ethic concerns itself with what is good or right in human interaction, ethical behaviour results when one does not merely consider what is good for oneself, but also considers what is good for others (Rossouw & Vuuren, 2010).

This study did not involve human, animal or plant subjects and had no bearing on human, animal or plant ethical considerations. However, the researcher will be honest and fair in conducting the research activity, reporting and when drawing conclusion from the research and analysis carried out.

3.9 Summary

In the chapter the research methodology was reviewed. The study used the audited financial statement of the six selected Islamic and conventional banks in the UAE. The chapter also explained how the data sourced from the banks were analysed giving reference to various financial ratios to be used to achieve the set aims and objectives of the study. The sample size used in the study comprised three Islamic banks and three conventional banks. The financial performances of the selected banks were analysed using ratio analysis in the five-year period between 2009 and 2013. The study made use of the interbank comparison technique, t-test analysis and regression to compare the performance of the selected banks to achieve its set objectives.

CHAPTER 4: DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents the empirical results of evaluating the financial performance of the 6 selected Islamic and conventional banks in the UAE during 2009-2013. We will give a brief overview of the various banks selected including the bank's nature, activities and objectives. The data sourced from the selected banks were also analysed and discuss the findings using a descriptive statistics of the selected financial ratios to compare and evaluate the performance of the selected banks.

4.2 Data Presentation

The data presentation will give a brief overview of the various banks selected including the bank's nature, activities and objectives. The data sourced from the selected banks were also analysed and discuss the findings using a descriptive statistics of the selected financial ratios to compare and evaluate the performance of the selected banks.

4.2.1 Abu Dhabi Islamic Bank (ADIB)

Abu Dhabi Islamic Bank (ADIB) is a public joint stock company incorporated in the emirate of Abu Dhabi in the year 1997. The bank commenced its commercial operations in 1998, though formally inaugurated in 1999. ADIB is a full-fledged Islamic bank with all its transactions carried in accordance with the principles of Islamic Shariah. The bank commenced operation in 1997 with a paid-up capital of 1 billion dirham, which was divided into millions of shares with value of each share at 10 dirham. The founders of ADIB (royal family of Abu Dhabi) hold about 29% of the bank's equity with the remaining 71% held by about 100,000 shareholders (ADIB, 2012). The shares of ADIB are quoted on the Abu Dhabi securities exchange (ADX).

The bank in recent years has been experiencing rapid expansion, presently with a branch network of about 70 branches and 460 ATMs around the UAE. They have also extended branch opening hours in their in-mall branches and introduced 24hours branch at the Abu Dhabi airport. They offer internet banking and other numerous products and services to their customers. In 2011 the bank was named the best bank in the UAE in customer services and the most improved bank in customer service. The position the bank improved from the previous year in 2010 (ADIB Annual report, 2013).

4.2.2 Dubai Islamic Bank (DIB)

Dubai Islamic bank (DIB) established in 1975, the bank has the unique distinction of being the first full-fledged Islamic bank on the entire globe. The bank is a public joint stock company incorporated in UAE based on the principle of Islamic Shariah. Dubai Islamic bank is the largest Islamic bank and the 6th largest bank by market capitalisation in the UAE (DIB, 2012). The bank currently operates 64 branches in the UAE, with subsidiaries in other countries like Pakistan, Jordan, Turkey and Sudan. The shares of DIB are quoted on the Dubai financial market (DFM).

DIB has won so many awards in the banking sector around the world affirming its leading position in the UAE banking sector. The bank was named the best Islamic bank for the 4th consecutive year in 2011 by the Middle East magazine. Its services were also recognised around the globe by awards it earned from international organisations like the 'Bank of the year' award from The Banker (Financial Magazines), UK based Euro money and the New York based global Finance Magazines (DIB, 2012)

4.2.3 Emirates Islamic Bank (EIB)

The Emirates Islamic bank (EIB) formerly the Middle East Bank was incorporated in the emirate of Dubai in the year 1975 as a commercial bank. The bank was registered as a public joint stock company in the year 1995. In the year 2004 the bank transformed to a full-fledged Islamic bank and changed its name to the Emirates Islamic Bank. EIB was formed in 2004 to provide the highest standard of Shariah compliant services in the UAE. The bank (EIB) is also listed on the Dubai Financial market (DFM), it is a subsidiary of the Emirates Bank International PJSC Dubai which is also a subsidiary of the Emirates NDB Company (EIB website, 2012).

As an Islamic bank, EIB is committed to providing products and services that are based on the principles of Islamic Shariah. The bank offers its services in a different way from the conventional banks in the market. Utilizing Islamic financing methods like the Murabaha, Ijarah and Salam and focused on transactions that does not involve uncertainty (EIB, 2012)

4.2.4 Abu Dhabi Commercial Bank (ADCB)

ADCB was formed in 1985 as a public limited company. The bank came into existence after the mergers of 3 banks Emirates commercial bank, Federal commercial and Khaleej commercial bank. The bank is partly owned by the government of Abu Dhabi holding 65% of its shares through its investment company Abu Dhabi Investment Authority (ADIA). The remaining 35% is held by other institutions and individual investors. The bank is ranked as one of the largest bank in the UAE related to market capitalisation (ADCB website, 2012).

ADCB provides a full range of consumer and corporate banking services to its customers in the area of Islamic banking, trade finance, structured finance, foreign exchange, derivatives and financial advisory services. The bank currently operates 47 branches/pay offices and 265 ATMs in the UAE. They have 3 branches in India and UK (ADCB annual report 2013)

4.2.5 Emirates NDB Bank (ENDB)

Emirates NDB was formed in 2007 when the shares of the bank were officially quoted on the Dubai financial market (DFM). The bank was formed as a result of the merger between the Emirates bank international (EBI) and the National bank of Dubai (NBD). This merger formed a leading banking group in the country (ENDB), as it combined the second and fourth largest bank in the UAE to form a banking champion with the largest assets base in the GCC region summing about AED 281.6 billion as at 2010 (ENDB website, 2012).

Emirates NBD is a leader in various business lines across the banking sector in the UAE. The bank is leading retail franchise in the UAE, operating over 141 branches and over 740 ATMs around the country (ENDB website, 2012). The banking group (ENDB) have branches and subsidiaries in other countries like the Kingdom of Saudi Arabia, Qatar, United Kingdom, Singapore, Jersey (Channel Island) and representative offices in India and Iran (ENDB website, 2012). Emirates NDB is a well-positioned bank in the UAE, with great ability to grow and deliver outstanding value to both its customers and investors. The bank in the past years has received prominent awards of excellence services to its customers (ENDB website, 2012)

4.2.6 National Bank of Abu Dhabi (NBAD)

The National bank of Abu Dhabi (NBAD) was incorporated in the UAE in the year 1968. The bank is listed on the Abu Dhabi securities exchange (ADX) under the stock code NBAD. The bank is one of the primary banks to the Abu Dhabi government and public sector companies. About 70.5% of its shares are owned by the Abu Dhabi government through its investment company Abu Dhabi Investment council (ADIC). The bank operates about 120 branches and cash offices and 490 ATMs across the UAE. It also has offices in other countries like Egypt, Oman, Bahrain, Kuwait, Libya, Sudan and Jordan in the MENA region, Hong Kong in the Far East, London, Paris and Geneva in Europe and Washington D.C in United States (NBAD annual report, 2013).

Since the year 2009 NBAD has been ranked as one of the world's safest banks by the prestigious Global finance magazine, making NBAD the safest bank in the Middle East. In 2011 the bank was named the best bank in the UAE for the 3rd. consecutive year by Euro money. The bank also surpassed the US\$1 billion net profit in 2010 to become the first UAE bank to achieve that milestone (NBAD website, 2012).

4.3 Data Analysis

The data collected were analysed using interbank comparison to compare the financial performance of both the Islamic and conventional banks. The analysis was based on the 10 selected financial ratios, as these were considered to be important ratios used for measuring performances of the banks. The interbank study of the banks' financial ratios for a limited period of 5 years from 2009 to 2013 were conducted to ascertain which of the banks performed better within the periods. The average of the ratios from each of the Islamic and conventional banks for each year was calculated and compared for the variables evaluated in terms of profitability, liquidity, efficiency, risk and solvency.

4.3.1 Profitability Ratios

In this study, profitability ratios such as return on assets (ROA), return on equities (ROE) and profit expense ratios were analysed to determine differences between the two banking systems.

4.3.1.1 Return on Assets (ROA)

Return on total assets = (profit for the year – preference share dividend)/ total assets. Table 4.1 show the analysis of the ROA for the two banking systems. The average ROA of the Islamic banks which was 1.36% was better than that of the conventional bank of 1.24%. The study observed that there was a decline in the ROA ratio of the banks (Islamic and conventional banks) leading to 2009. The decline were

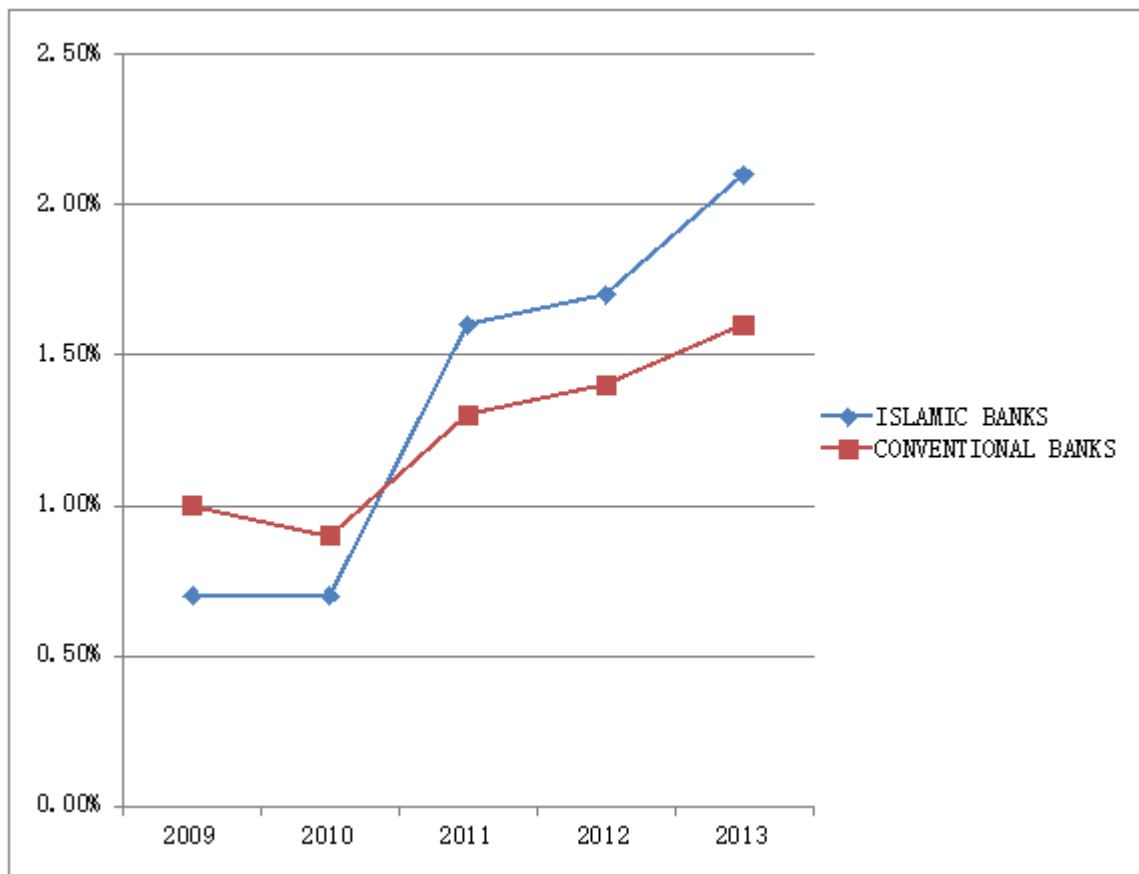
greatly impacted by the financial crisis around 2009, this had a negative impact on the profitability of the banks. The banks in the financial crisis period generated a low profit from their total assets. All the conventional banks in the group had far higher total assets (not ROA) compared to the Islamic banks, this also affected the ROA ratio of the conventional banks, in most cases giving the Islamic banks a bit higher ROA. Both banking groups showed a sign of recovery post financial crisis period into 2010-2011 financial periods, as their profitability was better than the previous years from the ROA ratio analysis.

Table 4.1: Return on Assets (ROA)

Bank Group	Study Period					Average
	2009	2010	2011	2012	2013	
Islamic Banks	0.7%	0.7%	1.6%	1.7%	2.1%	1.36%
Conventional Banks	1.0%	0.9%	1.3%	1.4%	1.6%	1.24%

The ROA of the Islamic banks appeared to be more stable than that of the conventional banks even though with lower ROA compared to the conventional banks in 2009 and 2010 just coming out of the financial crisis.

Figure 4.1: Return on Assets of the two banking systems in the UAE



In 2009, 2010 and 2013 the Islamic banks ROA ratio was higher and more favourable than that of conventional banks. The results from the 2 sets of banks indicated that the banks were both experiencing some difficulties in their profitability as a result of the financial crisis. Hence, very important to note that the UAE banking sector is still growing since 2010, the future might be brighter as the banks are still recovering from effects of the financial crisis in the past years. Additional analysis was carried out using the two-sample t-test analysis of ROA between the Islamic and conventional banking system. The results of further analysis revealed that there is no statistical significant difference in their ROA. However, the regression analysis result of the growth in ROA in the two banks revealed a significant upward trend over the years of study post-financial crisis period of 2008-2009 although not between the banking systems.

4.3.1.2 Return on Equity (ROE)

Based on average returns on equity, from Table 4.2 and Figure 4.2 of the line chart graph we can conclude that the Islamic banks performed better in the years 2011-2012 and 2013, the conventional banks were more profitable in 2009-2010. The average of both banks showed a similar trend related to their profitability with just minor difference between the 2 set of banks. The Islamic banks were more

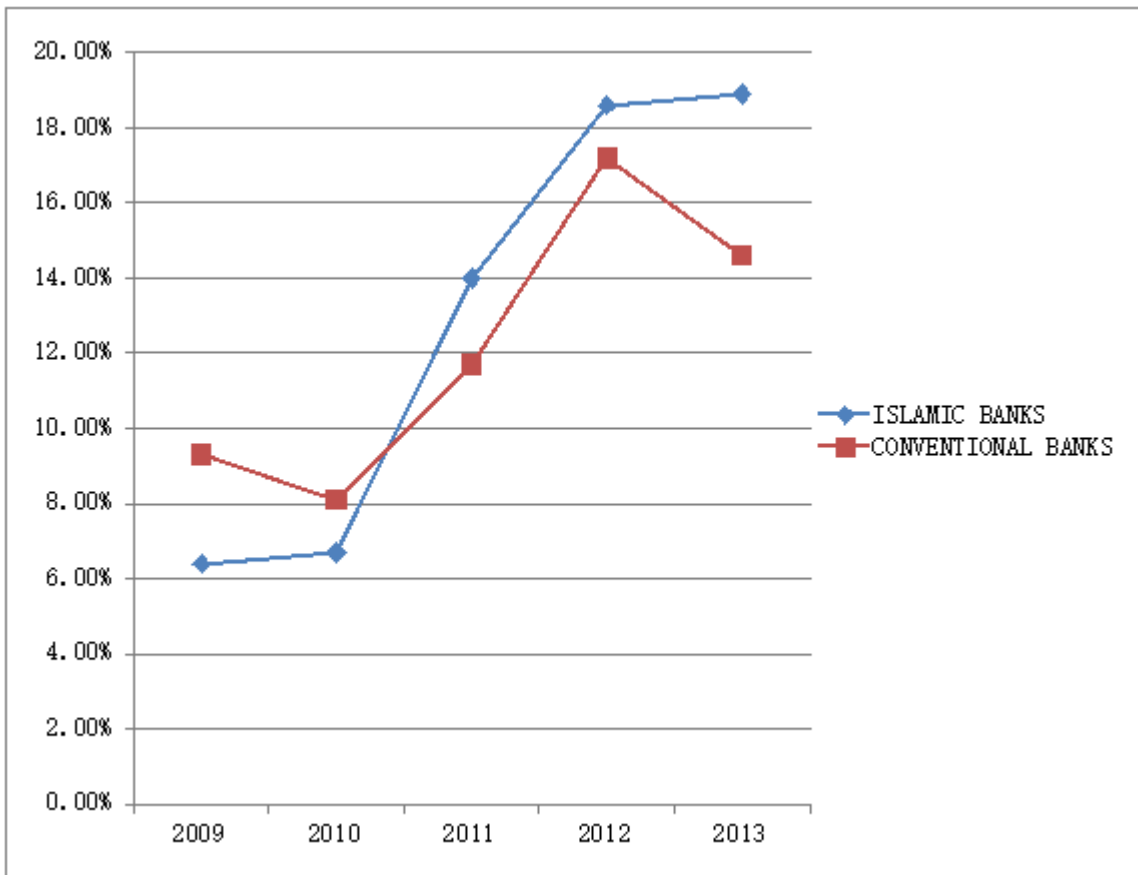
profitable in 2013 with 18.9% returns on equity, compared to its lower profitability in 2009-2010 which was 6.4% and 6.7% respectively, the figure increased in 2011 to 14% to show the banks are recovering. The conventional banks also showed a similar trend, though lower than the Islamic banks. In 2013, their ROE fell to its lowest point at 8.1% but further increased to 11.7% as at the end of 2011.

Table 4.2: Return on Equity (ROE)

Bank Group	Study Period					Average
	2009	2010	2011	2012	2013	
Islamic Banks	6.4%	6.7%	14%	18.6%	18.9%	12.9%
Conventional Banks	9.3%	8.1%	11.7%	17.2%	14.6%	12.2%

The reason for the lower ROE of the conventional banks in the period reviewed was due to decrease in their profitability and increase in equity base. Unlike in the Islamic banks which mostly had increase in their profitability more than in their equity base. The two-sample t-test analysis of ROE between the Islamic and conventional banking in the UAE revealed that there is no statistical significant difference in their ROE. However, the regression analysis result of the growth in ROE in the two banks revealed a significant upward trend over the years of study post-financial crisis period of 2008-2009 although not between the banking systems.

Figure 4.2: Return on Equity (ROE)



4.3.1.3 Profit Expense Ratio (PER)

Table 4.3 and Figure 4.3 present the profit expense ratios for the two banking systems in the UAE. From the line chart graph, the conventional banks appeared to be more profitable in 2012 than the Islamic banks, but it declined in 2013. The profitability of the Islamic banks relative to its expenses in the 5 year period was more stable, though low in 2011 even lower than the conventional banks. The average of the 2 sets of banks showed they had similar PER ratio over the 5 year period. The major reason for the fall in the ratios of the Islamic and conventional banks from its highest point in 2009 to the figure in 2013 was due to the increase in their expense caused in most cases due to the expansion in most of the banks, and low profitability of the banks.

Table 4.3: Profit Expense Ratio (PER)

Bank Group	Study Period					Average
	2009	2010	2011	2012	2013	
Islamic Banks	1.1%	1.3%	0.8%	1.4%	1.4%	1.2%
Conventional Banks	0.7%	0.8%	1.1%	1.6%	1.1%	1.1%

Further analysis carried out using two-sample t – test revealed that there is no significant difference in the PER of the two banking systems. This result was further supported by triangulating with regression analysis which robustly confirmed that there is no difference between the two banking systems.

Figure 4.3: Profit Expense Ratio (PER)

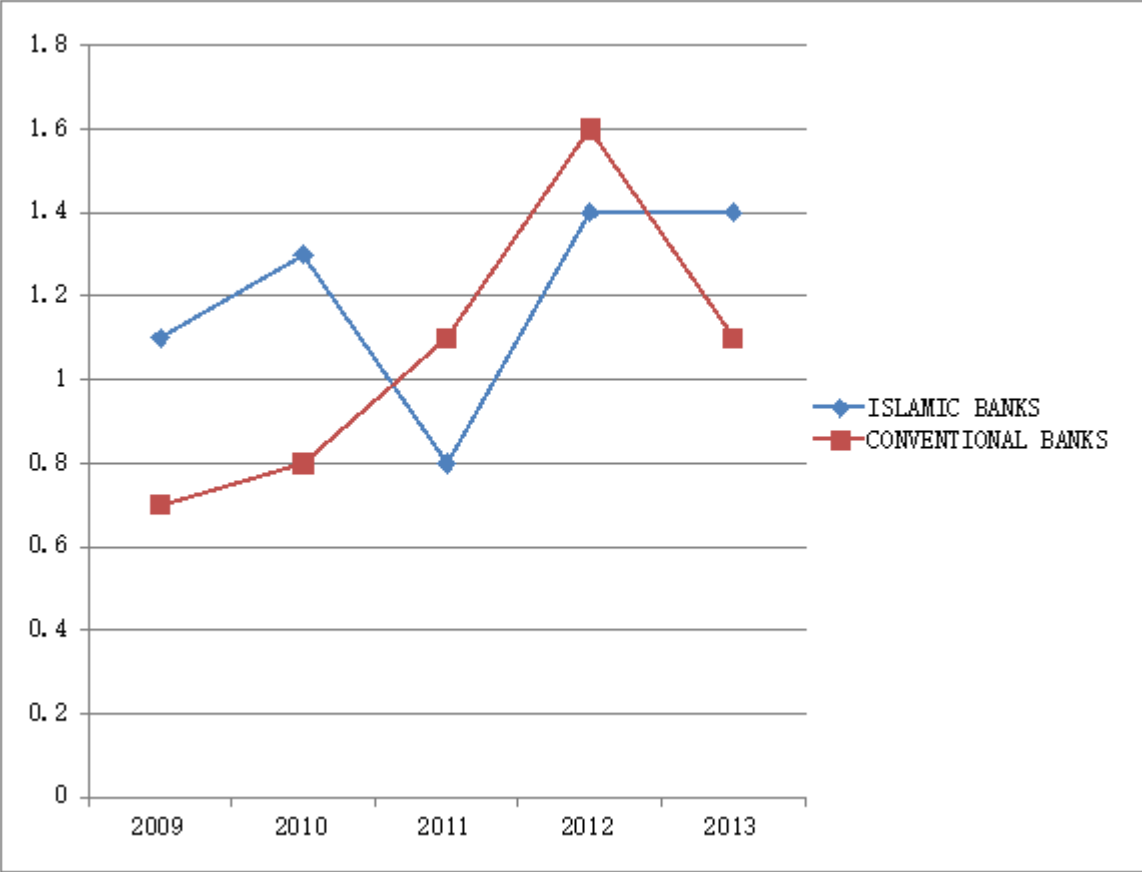


Figure 4.4: Graphical Comparison of the Profitability Ratios using Bar Chart

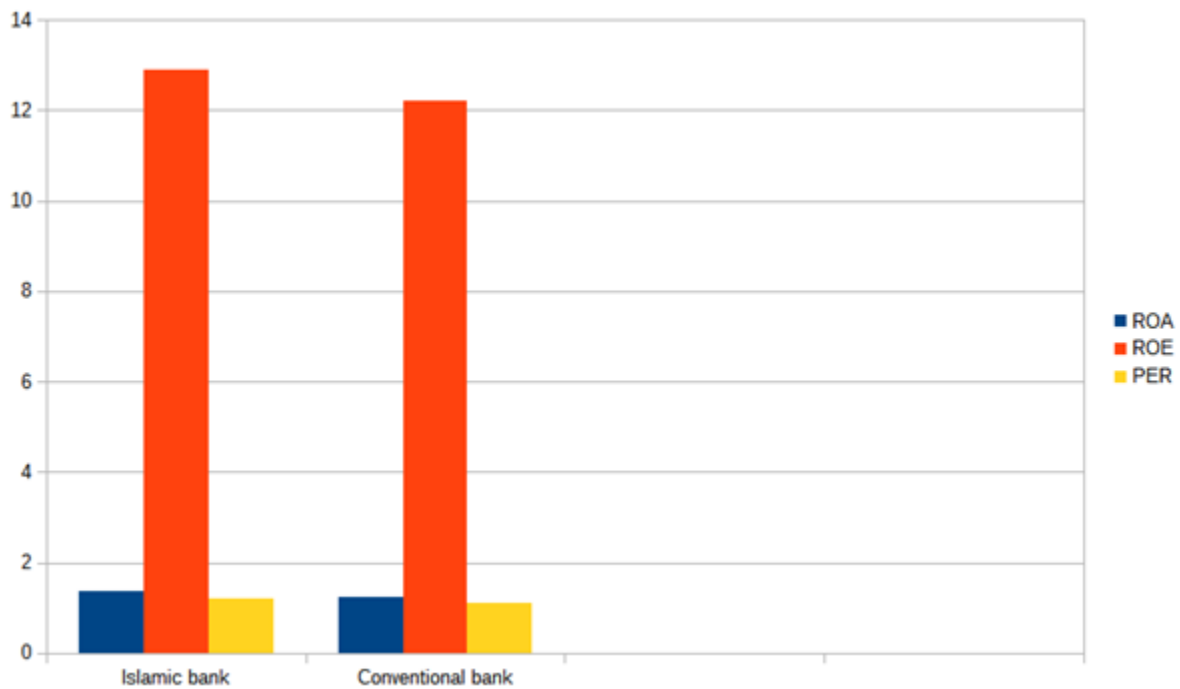


Figure 4.4 shows the overall results from the profitability ratios of the banks analyzed and showed that the Islamic banks appeared to be more profitable, although there is no significant difference in the profitability of the Islamic and conventional banks as discussed in the previous sections. There was slight difference between the averages of both banks in their ROA, ROE and PER ratios calculated with the Islamic banks having a more favorable average ratio in the ROA and ROE, while the conventional bank performed better in the PER.

4.3.2 Liquidity Ratios

Two liquidity ratios (loan to deposit and loan to asset) ratios for the Islamic and conventional banking systems in the UAE were analysed in this section.

4.3.2.1 Loan to Deposit Ratio (LDR)

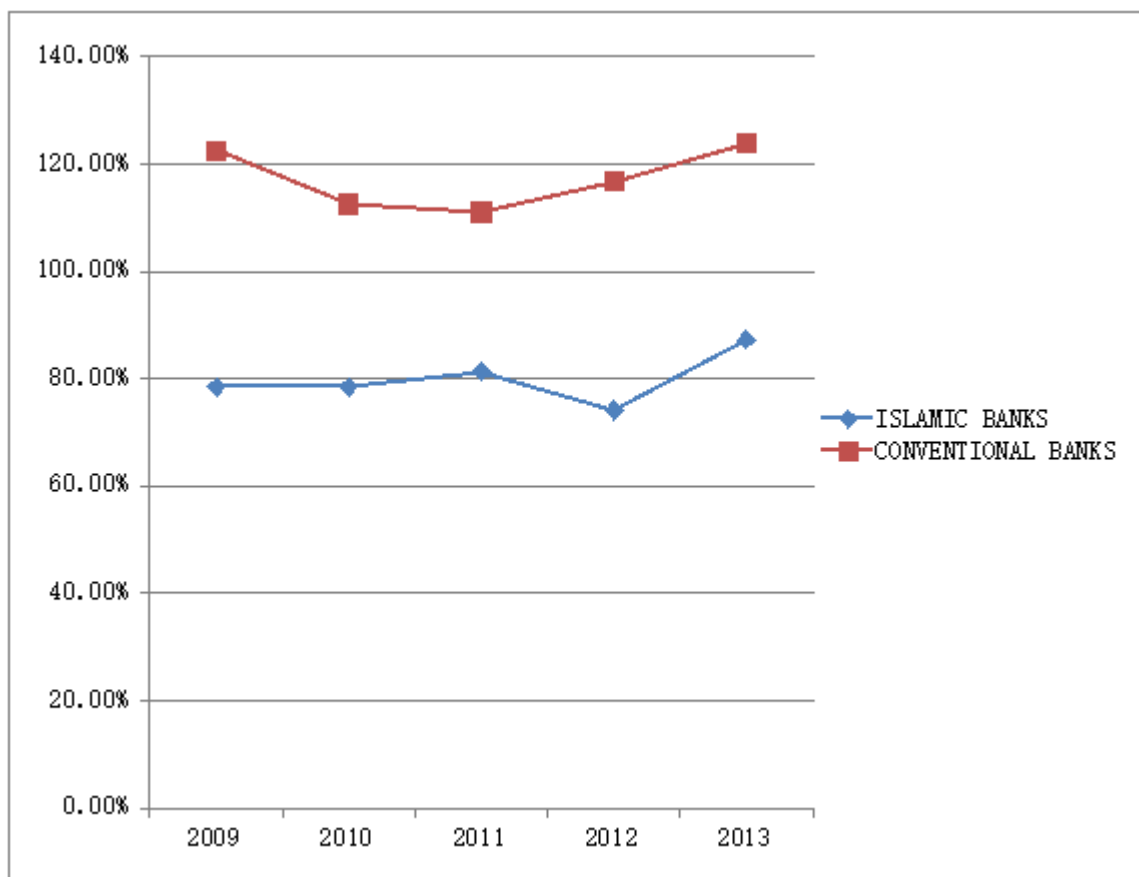
The results from Table 4.4 and Figure 4.5 showed the conventional banks having higher value of the LDR than the Islamic banks for the entire period 2009-2013. The higher LDR of the conventional banks compared to the Islamic banks indicates the conventional banks being comparatively less liquid than their counterpart. The average LDR of the conventional banks was far higher at 117.4% than that of the Islamic banks at 80.8%.

Table 4.4: Loan Deposit Ratio (LDR)

Bank Group	Study Period					Average
	2009	2010	2011	2012	2013	
Islamic Banks	82.6%	78.5%	81.3%	74.1%	87.3%	80.8%
Conventional Banks	122.5%	112.5%	111.1%	116.8%	123.9%	117.4%

The conventional banks take more risk in providing excess loans to their customers, unlike the Islamic banks with lower LDR figure which reflects the risk averse nature of the bank Islamic banking system. The two – sample t – test analysis revealed that the two loan deposit ratios of the banking systems are statistically different just as reflected in the averages. The result of regression analysis further confirmed that the LDR in the two banking systems are indeed statistically significantly different with the ratio for the Islamic banks much lower than that of the conventional banks perhaps showing the more risk averse nature of the Islamic banks compared to the conventional banks.

Figure 4.5: Loan to Deposit Ratio (LDR)



4.3.2.2 LOANS TO ASSET RATIO (LAR)

The results of the loans to assets ratio analysis for the two banking systems are presented in Table 4.5 and Figure 4.6. The line chart graph for the conventional banks LAR was higher for the entire period 2009-2013. The ratio of the banks (conventional) increased in 2009-2011, declined in 2012-2013. The higher LAR of the conventional banks indicates the high risk and financial stress the banks take, making them less liquid than the Islamic banks. The lower LAR of the Islamic banks makes the banks more liquid and less risky than their conventional counterparts.

Table 4.5: Loan to Asset Ratio (LAR)

Bank Group	Study Period					Average
	2009	2010	2011	2012	2013	
Islamic Banks	62.8%	57.3%	61.0%	55.7%	65.5%	60.5%
Conventional Banks	69.7%	65.2%	64.1%	62.8%	69.7%	66.2%

The increment of the LAR of the Islamic banks in the periods shows the popularity the banks are gaining in the banking sector (Islamic products). The result of the two – sample t – test on the LAR of the two banking systems corroborated that the Islamic banks had statistically significantly lower LAR than the conventional banks. Furthermore, the regression analysis also confirmed that the LAR is statistically different between the two banking systems

Figure 4.6: Loan to Asset Ratio (LAR)

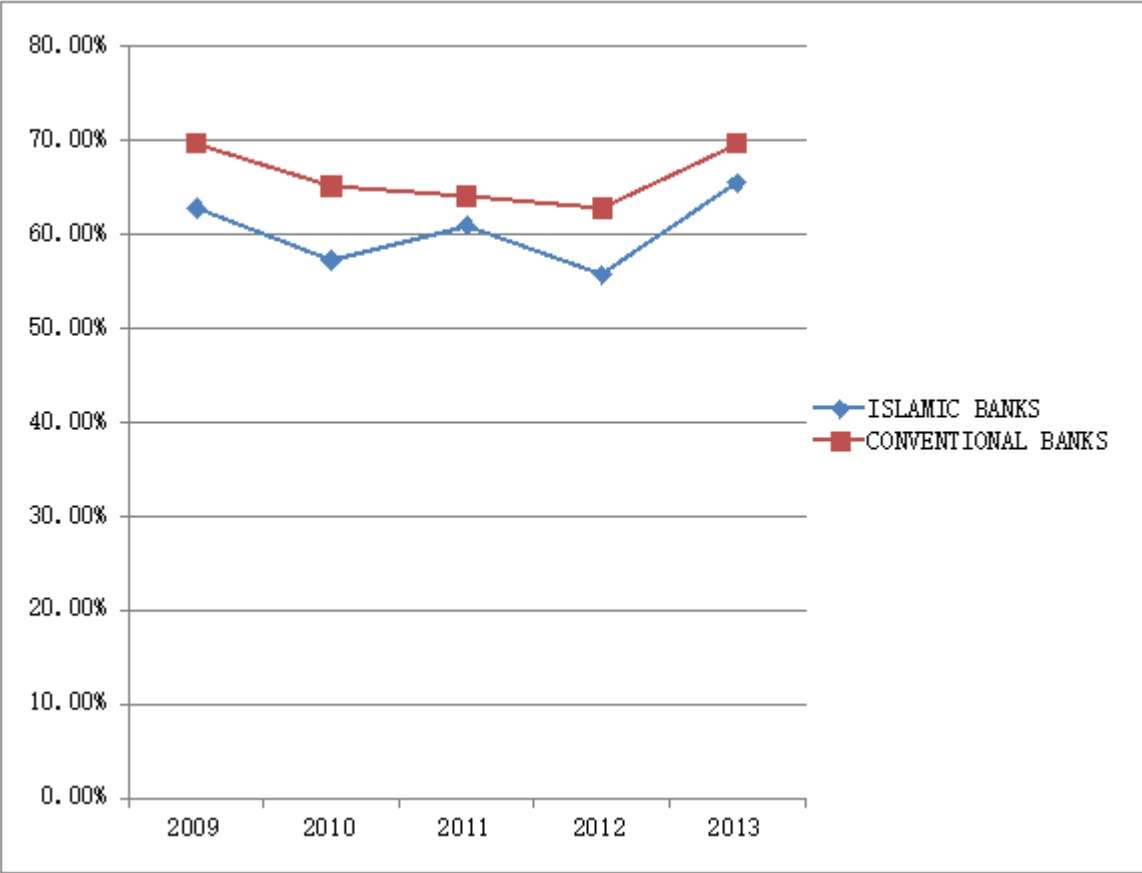
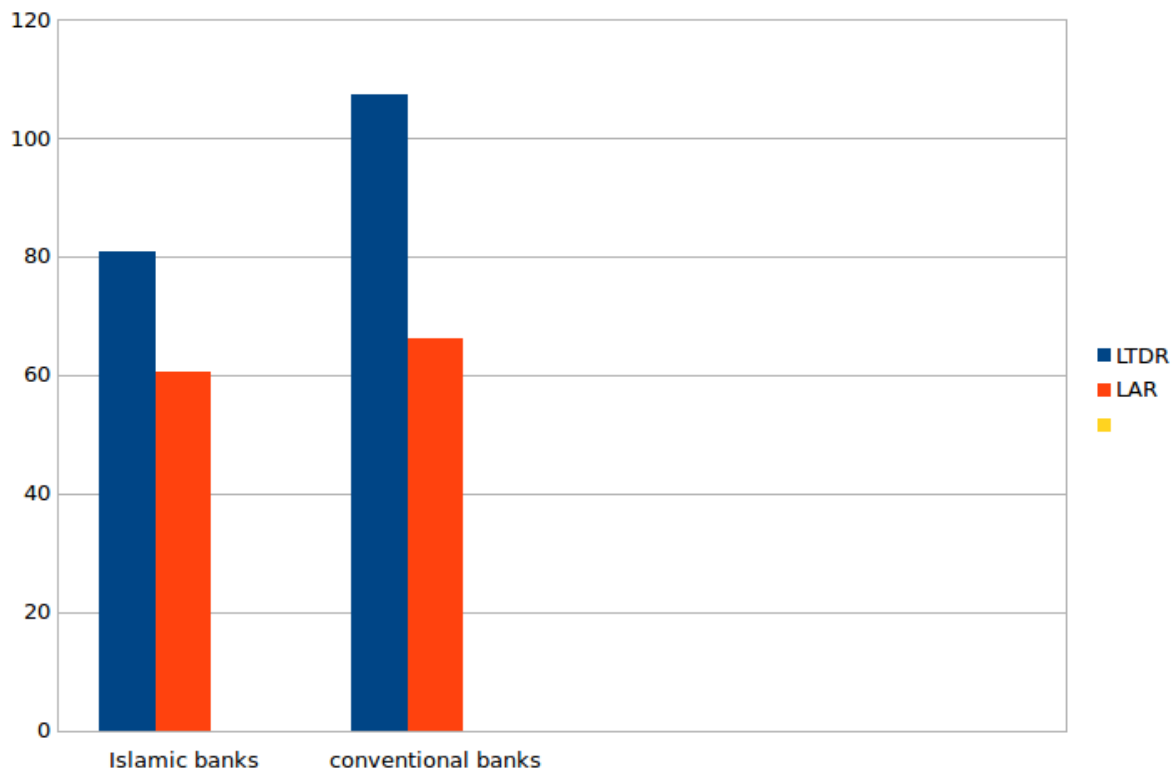


Figure 4.7: Liquidity Ratio Bar Chart



From the bar chart in Figure 4.7, the LAR and LDR ratios of the bank analysed revealed that, the Islamic banks appeared to be more liquid than the conventional banks. The reason behind the high liquidity of the Islamic banks was due to the fact that they have lower investment opportunities compared to the conventional banks. Due to the fact that the Islamic banks are not allowed by the principles guiding the Islamic banking system (Shariah) to invest in transactions that are not Shariah compliant. Thirdly, the Islamic banks unlike their conventional counterparts rely more on their equity when issuing loans, making the bank left with less lending opportunities than compared to the conventional banks.

4.3.3 Risk and Solvency Ratios

In this section, debt to equity (DER) and debt to assets ratio (DTAR) were analysed for the two banking systems in the study area.

4.3.3.1 Debt to Equity Ratio (DER)

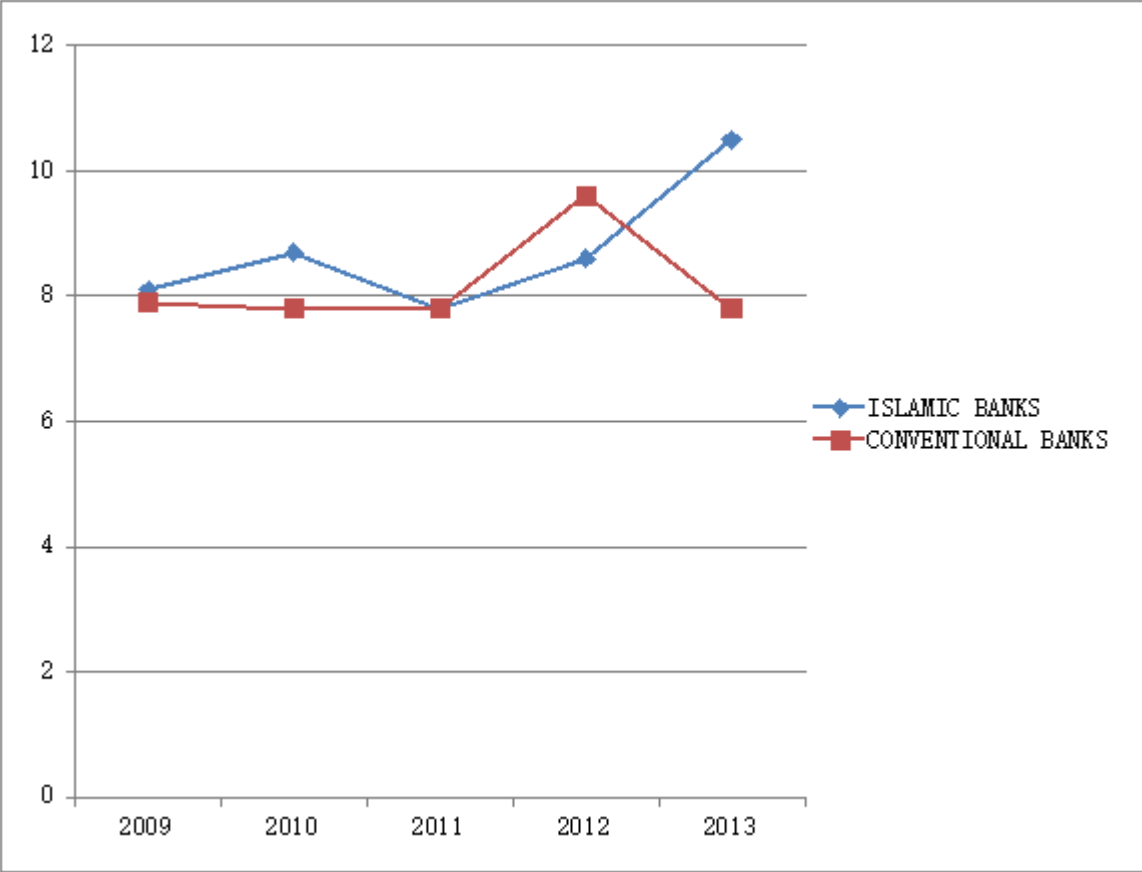
Table 4.6 and Figure 4.8 present the result of the analysis of average DER. The line chart graph of the DER of the Islamic banks increased to 10.5 times in 2013 from 8.6times in 2012 showing the highest increasing trend during the entire 5 year period for both banks. The conventional bank’s DER remains constant “between” 2012-2013 at 9.6 times. The Islamic banks’ higher DER indicates the bank’s increasing deposit base of the banks more than its shareholder’s equity in the periods. Unlike in the conventional banks with falling DER figures due to the bank’s reliance on deposit financing as against equity base.

Table 4.6: Debt to Equity Ratio (DER)

Bank Group	Study Period					Average
	2009	2010	2011	2012	2013	
Islamic Banks	8.1%	8.7%	7.8%	8.6%	10.5%	8.7%
Conventional Banks	7.9%	7.8%	7.8%	9.6%	9.6%	8.5%

The averages DER of Islamic and conventional banks in the 2009-2013 periods were similar at 8.7 times and 8.5 times respectively. However, results of inferential statistical test of differences between the two banking systems using two-sample t-test and regression analysis revealed that in both cases, there were no statistically significant difference between the two banking systems based on their DER.

Figure 4.8: Debt to Equity Ratio (DER)



4.3.3.2 Debt to Asset Ratio (DTAR)

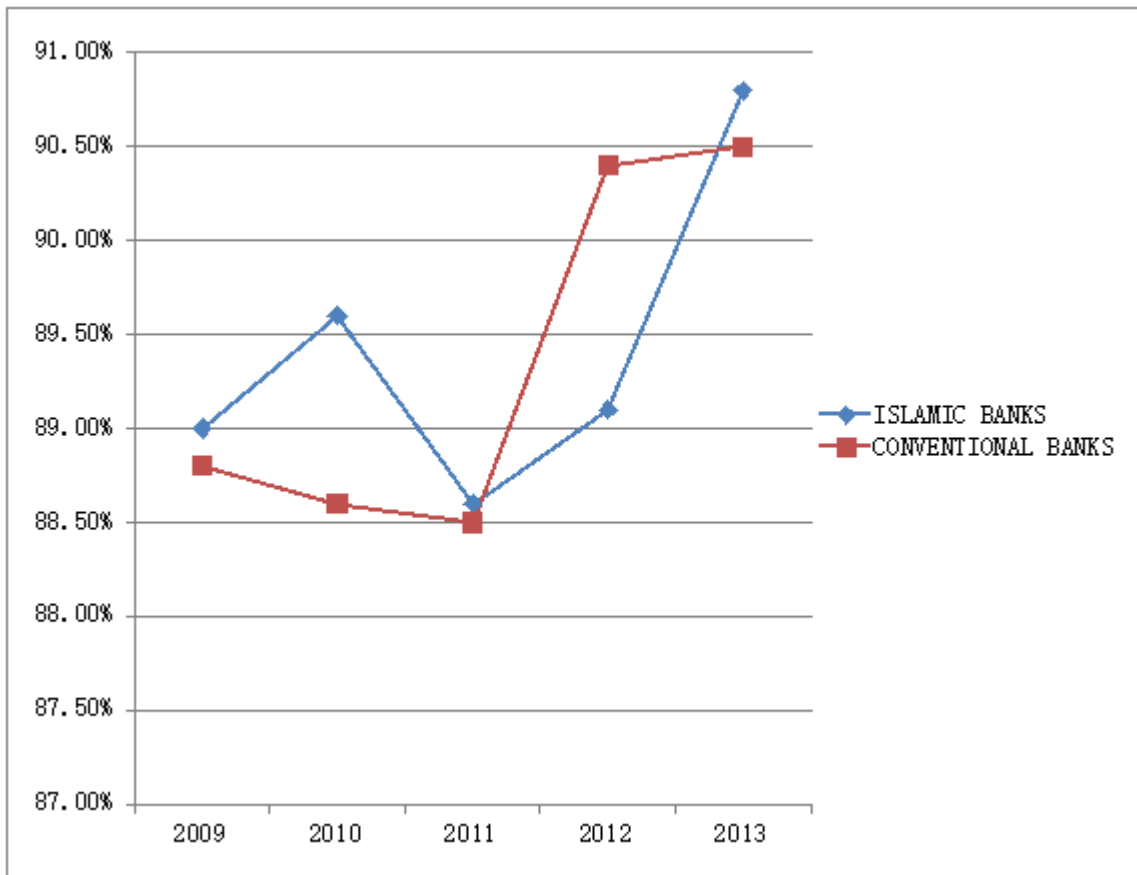
The results from Table 4.7 and Figure 4.9 revealed that the line chart for the banks showed similar DTAR for both the Islamic and conventional banks in 2009-2013 periods. The banks produced same average DTAR for the 5year period at 89.4%. The high values of the 2 sets of bank indicate the bank's involvement in risky businesses.

Table 4.7: Debt to Asset Ratio (DTAR)

Bank Group	Study Period					Average
	2009	2010	2011	2012	2013	
Islamic Banks	89%	89.6%	88.6%	89.1%	90.8%	89.4%
Conventional Banks	88.8%	88.6%	88.5%	90.4%	90.5%	89.4%

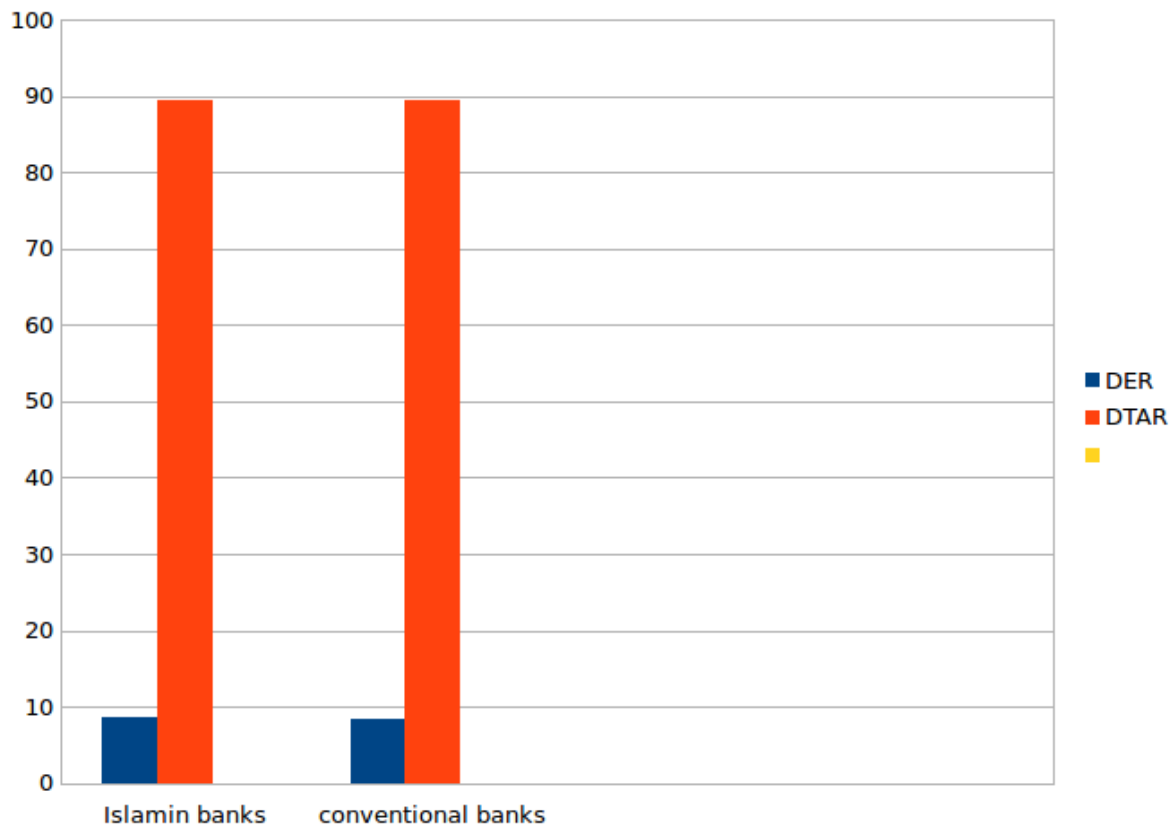
Further, results of inferential statistical test of differences between the two banking systems using two-sample t-test and regression analysis revealed that in both cases, there were no statistically significant difference between the two banking systems based on their DTAR.

Figure 4.9: Debt to Asset Ratio (DTAR)



The overall analysis of the 2 sets of banks from the bar chart above risk and solvency ratios, based on DER and DTAR indicates the similarity of both banks as demonstrated by the ratios. There was no much difference between the 2 banks in terms of their credit risk. There was also increasing trends in the ratios between the period 2009-2013 for the banks, this was due to increase in their total liabilities for the period except in 2011 where they both had decreases from the previous year's figure. This increase in their total liabilities over the years was caused by corresponding increase in the bank's total deposit. The item makes the largest component of the total liabilities of the banks. This was the main reason for the rising trend in their DTAR and DER ratios.

Figure 4.10: Risk and Solvency Ratio Bar Chart



4.3.4 Efficiency Ratios

In this section, the inter banks efficiency ratios represented by the income expense ratio (IER), operating efficiency and assets utilization were analysed for the two banking systems in the UAE.

4.3.4.1 Income Expense Ratio (IER)

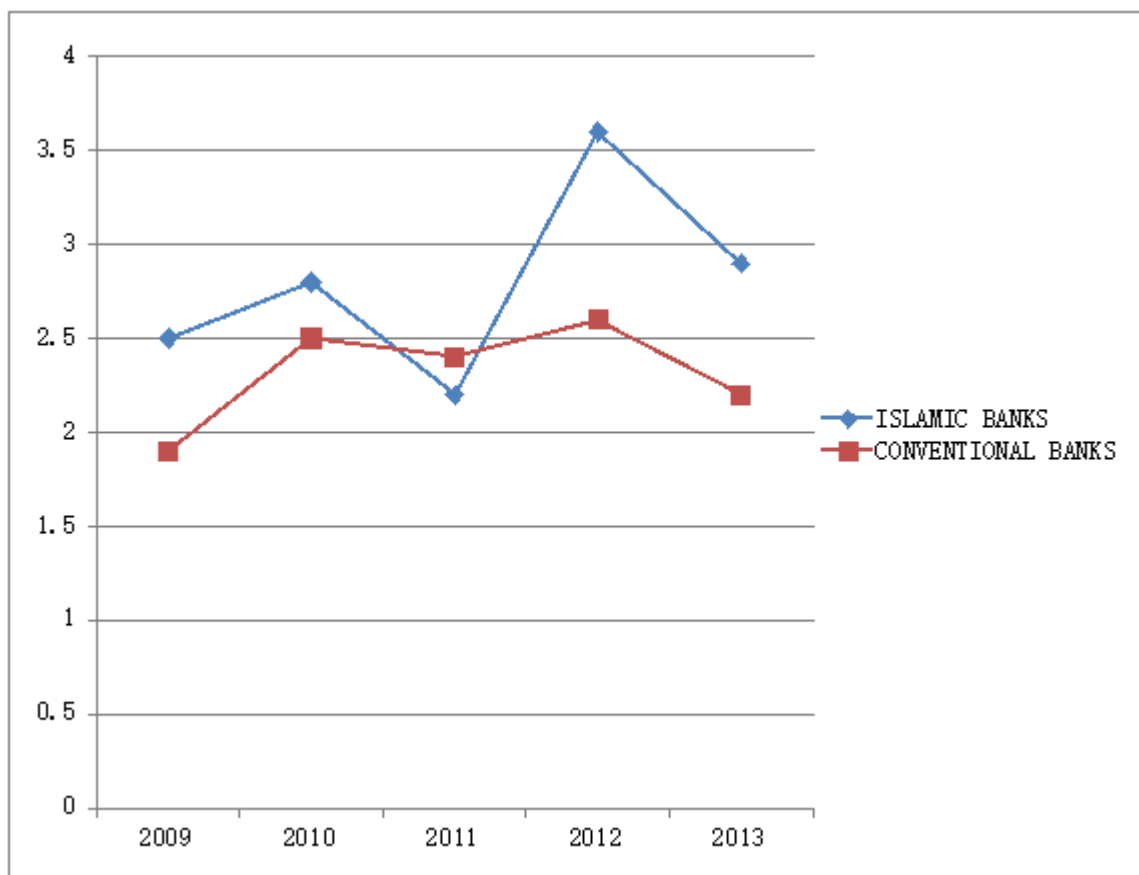
Table 4.8 and Figure 4.10 show the line chart graph for the IER of the Islamic banks in 2009 were 2.5 times which higher than that of the conventional banks in the period at 1.9 times. The values of the IER for the Islamic banks were higher in 2009, 2010, 2012 and 2013 except in the year 2011 where the conventional bank’s IER was higher at 2.4 times compared to the Islamic bank’s figure at 2.2 times. The average IER of the Islamic banks was 2.8times higher than the conventional bank’s 2.3 times, this indicates that the Islamic banks were more efficient than their conventional counterparts. Further analysis of the annual financial statements of the banks revealed that the lower IER of the conventional banks was due to increase in the bank’s expense as a result of the expansion in the banks and a bit lower income and it is more favourable in 2013 were Islamic banks have 2.9 times.

Table 4.8: Income Expense Ratio (IER)

Bank Group	Study Period					Average
	2009	2010	2011	2012	2013	
Islamic Banks	2.5%	2.8%	2.2%	3.6%	2.9%	2.8%
Conventional Banks	1.9%	2.5%	2.4%	2.6%	2.2%	2.3%

The statistical test of difference between the IER in the two banking systems using two-sample t-test revealed that there was no statistical significant difference between the two banking systems and so was the result of the regression analysis.

Figure 4.11: Income Expense Ratio (IER)



4.3.4.2 OPERATING EFFICIENCY (OE)

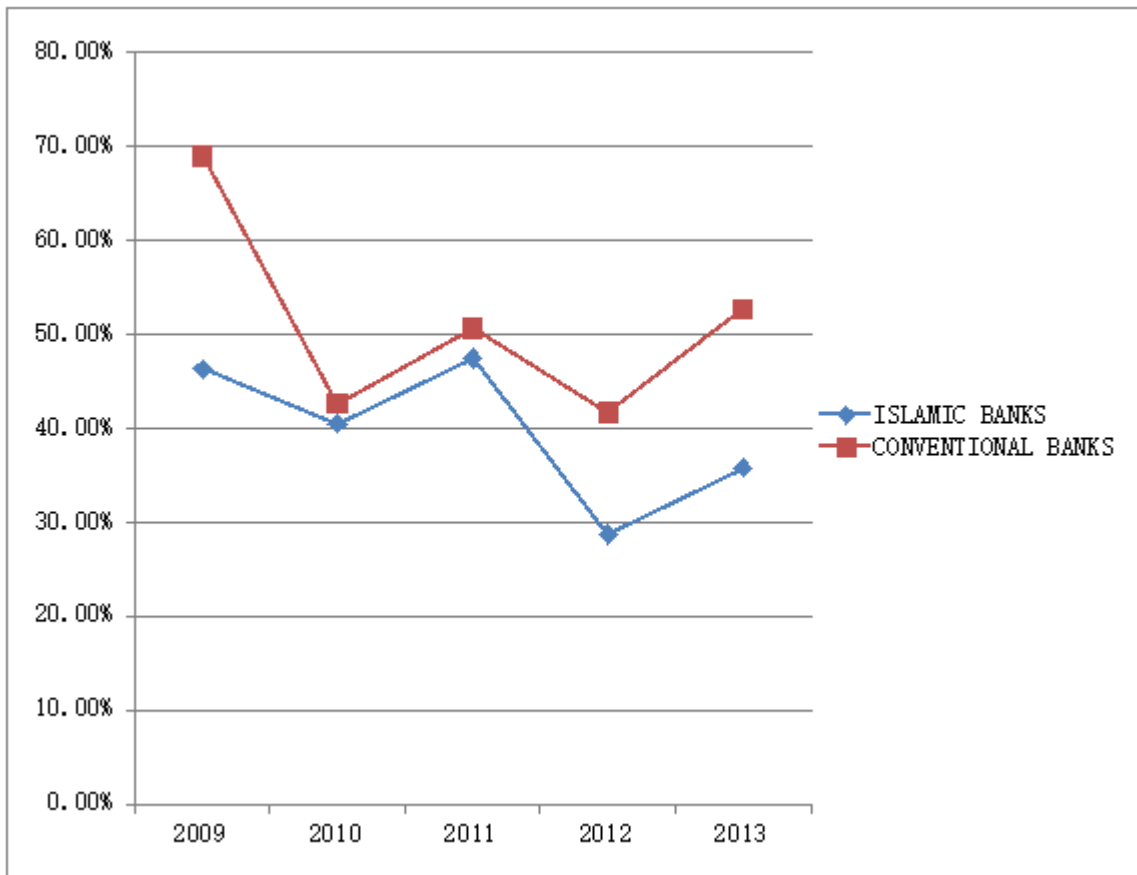
The analysis of the OE presented in Table 4.9 and Figure 4.12 which is a measure of the bank’s overhead or operating expenses divided by total revenue. The OE of the Islamic banks was more favourable in 2009 at 46.3%, the figure increased to reach its highest point in 2011 at 47.5%. The figure for the conventional banks was 69% in 2009, the figure decreased in 2011 to 50.7%. The decrease in the figures of both banks was due to efforts made by the banks in managing their operational expenses. The Islamic banks appeared to be more efficient in their operations with an average OE of 39.8% far lower than that of the conventional banks at 51.2%.

Table 4.9: Operating Efficiency (OE)

Bank Group	Study Period					Average
	2009	2010	2011	2012	2013	
Islamic Banks	46.3%	40.5%	47.5%	28.7%	35.8%	39.8%
Conventional Banks	69%	42.6%	50.7%	41.7%	52.7%	51.2%

The two-sample t – test between the two banking systems revealed that there is statistically significant difference in the mean OE of two banking systems although this difference was not statistically significant in the regression analysis result.

Figure 4.12: Operating Efficiency (OE)



4.3.4.3 Asset Utilization (AU)

Table 4.10 and Figure 4.13 present the analysis of the mean AU. The line chart graph shows that AU of the Islamic banks in 2009 was 5.8% higher than the conventional bank’s at 3.4%. The figure for Islamic banks in the next 4 years increased to 6% in 2013. The conventional bank’s AU in all the periods (2009-2013) was lower than that of their Islamic banking counterparts. This result indicates that the Islamic banks were more efficient with an average AU of 5.8% higher than the conventional banks with 3.1%.

Table 4.10: Asset Utilization (AU)

Bank Group	Study Period					Average
	2009	2010	2011	2012	2013	
Islamic Banks	5.8%	5.3%	5.6%	6.5%	6%	5.8%
Conventional Banks	3.4%	3.2%	3.3%	2.7%	3.1%	3.1%

The results of the two-sample t-test of difference in AU between the two banking systems as well as the regression analysis revealed that there is statistically significant difference between the two banking systems based on their AU.

Figure 4.13: Asset Utilization (AU)

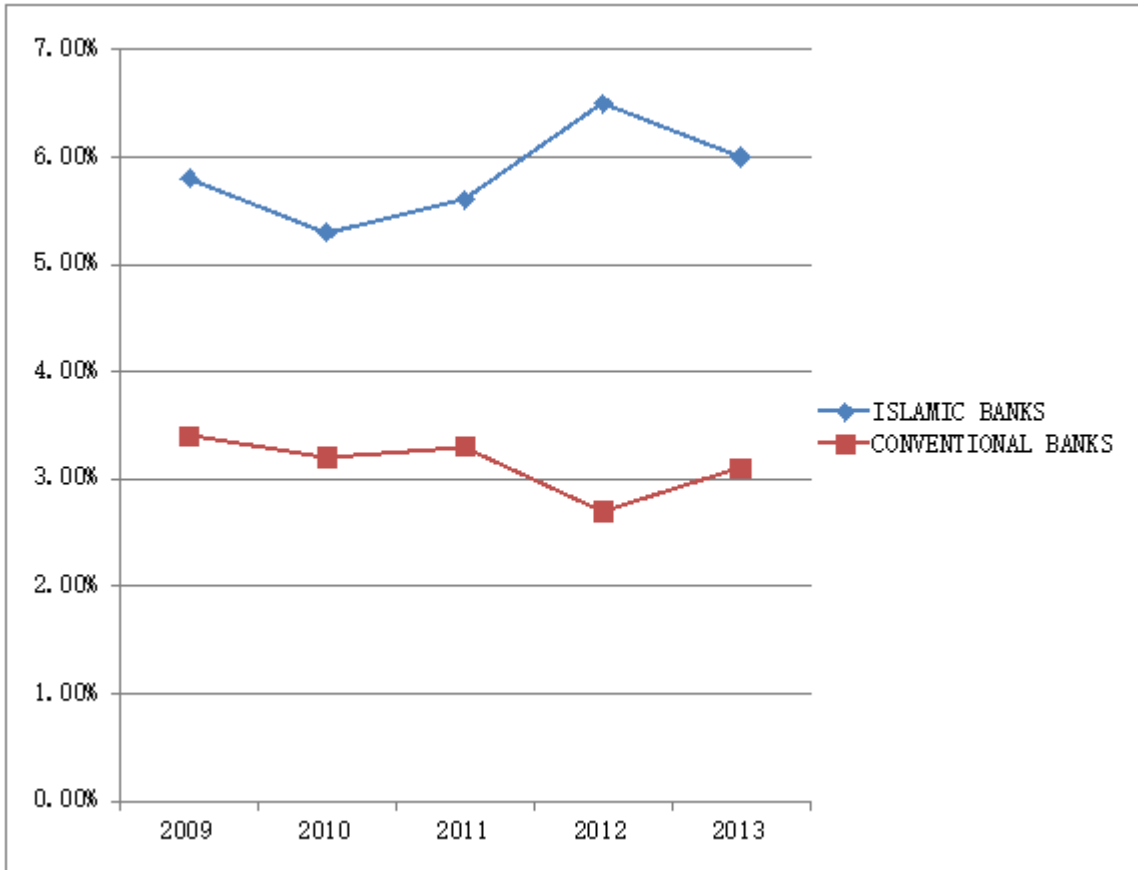
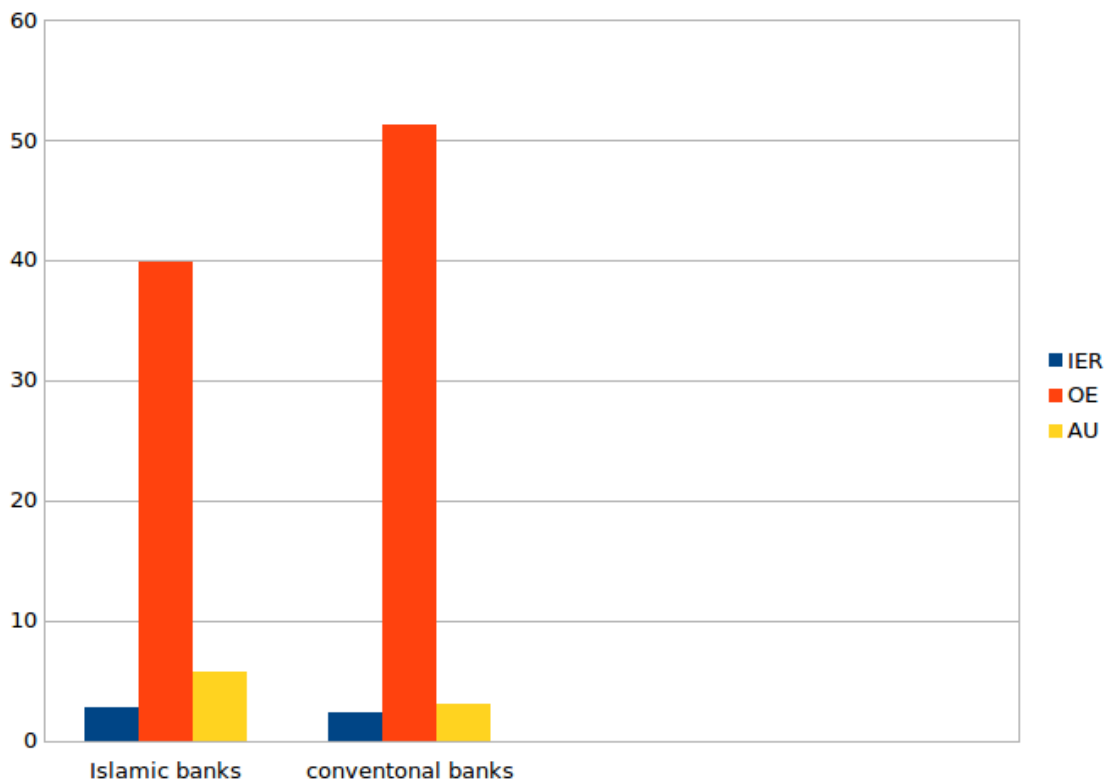


Figure 4.14: Efficiency Ratio Bar Chart



The overall efficiency ratios analysed is graphically summarized in Figure 4.14 in the bar chart which revealed that the Islamic banks were more efficient in income generation, managing its expenses and asset utilization better than their conventional bank counterparts.

4.4 Independent Two-Sample T-Tests Analyses Results

Tables 4.11 and 4.12 show the results obtained from the two – sample independent t-test analyses. From the results Table 4.12),thus, there was no statistical difference between the Islamic and conventional banks in their ROA, ROE, PER, DER and DTAR for the study period 2009 – 2013.Thus, the null hypothesis of no significant mean difference in financial ratios is rejected in five out of ten cases. Results of further test of difference in means revealed that Islamic banks were found to have significantly lower LDR and LAR ratios compared to conventional banks. The results also show that in terms of AU, Islamic banks performed significantly better than conventional banks.

Table 4.11: Means of financial ratios of Islamic and conventional banks 2009-2013

Financial Ratio	Mean Islamic	Standard Deviation	Mean Conventional	Standard deviation
ROA	1.36	0.6308724	1.24	0.2880972
ROE	12.92	6.131639	12.18	3.749267
PER	1.2	0.254951	1.06	0.3507136
LDR	80.76	4.896735	117.36	5.751348
LAR	60.46	3.99412	66.3	3.217918
DER	8.74	1.050238	8.54	0.9685041
DTAR	89.42	0.8497075	89.36	1.001499
IER	2.8	0.5244044	2.32	0.2774887
OE	39.76	7.765822	51.34	10.99377
AU	5.84	0.4505552	3.14	0.2701851

Table 4.12: two sample t-test for comparison of Means of financial ratios of Islamic and conventional banks 2009-20013

Financial Ratio	Mean Ratio	Standard Deviation	T-statistic DF = 8
ROA Islamic	1.36	0.6308724	0.3869
ROA Conventional	1.24	0.2880972	
ROE Islamic	12.92	6.131639	0.2302
ROE Conventional	12.18	3.749267	
PER Islamic	1.2	0.254951	0.7220
PER Conventional	1.06	0.3507136	
LDR Islamic	80.76	4.896735	- 10.8377***
LDR Conventional	117.36	5.751348	
LAR Islamic	60.46	3.99412	- 2.5460**
LAR Conventional	66.3	3.217918	
DER Islamic	8.74	1.050238	0.3130
DER Conventional	8.54	0.9685041	
DTAR Islamic	89.42	.8497075	0.1021
DTAR Conventional	89.36	1.001499	
IER Islamic	2.8	0.5244044	1.8091*
IER Conventional	2.32	0.2774887	
OE Islamic	39.76	7.765822	-1.9238*
OE Conventional	51.34	10.99377	
AU Islamic	5.84	0.4505552	11.4920***
AU Conventional	3.14	0.2701851	

Note: *** Means financial ratios are significantly different at 1% level

** Means financial ratios are significantly different at 5% level

* Means financial ratios are significantly different at 10% level

4.5 Regression Analyses Results

In order to triangulate the results in this study, regression analysis was carried out to further test for differences in the financial ratios between the two banking systems in the UAE. To achieve this, the computed average financial ratios in each year of study was regressed as a function of time trend (2009 to 2013) and a dummy variable where the Islamic bank takes a value of one, if the ratio belongs to it and zero. If it belongs to conventional bank. The regression results are presented in Table 4.13. As seen in the table, ROA has a significant upward time trend, but no significant difference was found in this performance measure of conventional and Islamic banks. The same conclusion is reached for ROE, DER and DTAR. The results also show that no significant time trend was found for PER and at the same time the dummy testing for significant difference in the performance of conventional and Islamic banks turned out to be not statistically significant. The same conclusion was found for IER and OE. For LDR and LAR, conventional banks turned out with significantly higher ratios compared to the Islamic banks. It is only with respect to AU that Islamic banks were found to have significantly higher ratios compared to conventional banks. Overall, the results of the two-sample t-tests and the regression analyses triangulated by giving similar outcomes showing the result of the study to be robust despite the small sample size used in the study.

Table 4.13: Comparison of Islamic and conventional banks in terms of regression analysis of ROA, ROE and PER.

Financial Ratio = F (Time trend, Bank Type)

Variable	ROA (Standard error)	ROE (Standard error)	PER (Standard error)
Year	0.275* (0.542152)	2.830** (0.5759341)	0.115 (0.1140175)
Dummy	0.120 (0.1533437)	0.740 (1.628987)	0.140 (0.1568439)
Cons	-551.785**	-5678.950**	-230.205
N	10	10	10
R2	0.790	0.777	0.391
R2-a	0.730	0.713	0.217
Aic	2.473	49.734	4.168
Bic	3.381	50.642	5.076

Legend: *p<0.1, **p<0.05, ***p<0.001

Table 4.13: Continued ... regression analysis of LDR and LAR.

Variable	LDR (Standard error)	LAR(Standard error)
Year	0.605 (1.256138)	0.070 (0.8665777)
Dummy	-36.600*** (3.552895)	-5.840** (2.451052)
Cons	-1099.296	-74.471
N	10	10
R2	0.938	0.448
R2-a	0.921	0.290
Aic	65.330	57.905
Bic	66.238	58.813

Legend: *p<0.1, **p<0.05, ***p<0.001

Table 4.13: Continued ... regression analysis of DER, DTAR and IER.

Variable	DER (Standard error)	DTAR (Standard error)	IER (Standard error)
Year	0.495** (0.1526785)	0.415** (0.1571058)	0.115 (0.903762)
Dummy	0.200 (0.4318399)	0.060 (0.4443622)	0.480 (0.2556225)
Cons	-986.905**	-745.205	-228.945
N	10	10	10
R2	0.605	0.500	0.424
R2-a	0.492	0.357	0.259
Aic	23.181	23.753	12.694
Bic	24.089	24.660	13.602

Legend: *p<0.1, **p<0.05, ***p<0.001

Table 4.13: Continued ... regression analysis of OE and AU.

Variable	OE (Standard error)	AU (Standard error)
Year	-3.315 (1.899059)	0.025 (0.882974)
Dummy	-11.580 (5.37135)	2.7000*** (0.2497427)
Cons	6717.805	-47.135
N	10	10
R2	0.524	0.944
R2-a	0.388	0.927
Aic	73.597	12.228
Bic	74.504	13.136

Legend: *p<0.1, **p<0.05, ***p<0.001

4.6 Summary

This chapter presented and analysed the empirical results of the financial performance of 6 selected Islamic and conventional banks in the UAE during 2009-2013. The overview information and financial highlights of the selected banks for the study was discussed in the chapter so as to give a better understanding of the overall result on the performance of bank used in the group of Islamic and conventional banks respectively.

The financial data of the banks were analysed using 10 selected important financial ratios to ascertain the profitability, liquidity, efficiency and risk of both banks grouped as Islamic and conventional banks.

CHAPTER 5: CONCLUSION AND RECOMMENDATION

5.1 Conclusion

The results from the empirical data analysed in the study allowed us to shed more light on the financial performance of the selected Islamic banks for the last 5 years, as well as the bank's financial position in the UAE banking sector as opposed to the conventional banks in the UAE. The analysis of various performance measures and the interbank, t-test analysis and regression comparison of the various results revealed that there was no much difference in the performance of the 2 set of banks, as there was no much difference in most of the financial ratios analysed. This finding might be affected by the period the study was conducted (2009-2013), as a result of the effect of the global and Dubai financial crisis within the period affected the profitability of most of the banks in the UAE banking sector.

In the comparative study of the 2 set of banks conducted in order to examine the bank's performance in the UAE, we found that the Islamic banks in the UAE have better financial performance than the conventional banks in the UAE banking sector. The profitability ratios of the banks analysed which include ROA, ROE, and PER were used to measure the selected banks profitability. The profitability ratios indicated that the Islamic banks were more profitable than the conventional banks, though there was not much difference in the profitability of both banks. The Islamic banks were more profitable in their ROA and ROE than the conventional banks, while the PER of the conventional banks was higher than that of their Islamic counterparts.

In the liquidity measures, the study suggests that the Islamic banks were more liquid in the interbank analysis compared to the conventional banks. The Islamic banks appeared to be more liquid in the periods 2009- 2013, hence hold better liquidity position than their conventional counterparts both in the LAR and LDR measures. The LAR and LDR ratios of the Islamic banks were lower than that of the conventional banks; impliedly stressing the Islamic banks don't rely more on borrowed funds compared to the conventional banks. This indicates that the percentage of the Islamic banks assets tied to their loans is lower than that of the conventional banks. The risks and solvency measures of the 2 set of banks were found to be similar, insinuating that the ability of both banks to pay their debt is similar.

The efficiency measures indicated that the Islamic banks performed better, they were more efficient in their operation in the efficiency ratios calculated which includes IER, OE, and AU ratios. In all the efficiency ratios analysed in the study, the Islamic banks performed better with more favourable IER, AU and OE ratios than the conventional banks. This shows that the Islamic banks were more cost effective than their conventional counterparts. The Islamic bank's IER, AU was higher, with lower OE more favourable compared to that of the conventional banks with lower IER, AU and higher OE ratios respectively.

The Findings conclude that the Islamic banks were more liquid, and more efficient than the conventional banks. The profitability of the Islamic banks appeared to be more favourable also, whereas both banks had similar credit risks. Based on the above results from the analysis of the bank's financial results, the Islamic banks appeared to perform better than the conventional banks in the 2009-2013 periods.

5.2 Recommendation

The scheme can be easily completed that Islamic Banking System is scattering in a very elevated speed as contrast to conventional Banking in UAE, and according to the declarations of different researches and Banking Survey, Islamic system of Banking will grow more in future.

The strategy maker should provide more significance to the Awareness, since the people in UAE and still in different Islamic countries around the world believe Islamic Banking as the same to Conventional, the dissimilarity is of name only and nothing else. They think that Conventional Bank is contribution Interest and Islamic Bank sharing profit and loss among its customers. The focal point should be on this subject that makes consciousness all of them that there is enormous disparity between Conventional and Islamic Banking. A general awareness is essential to make clear the difference between Islamic and Conventional Banking.

Special importance should be known to make sure that good training programs are working by the Islamic Banking Institutions. Islamic Banks should be asked to give proper training seminars to the team members so that they may work in a better way.

Though Islamic Banks have good growing rate in Branches network but they require more and more investment to fulfill the need of the market. Islamic Banks should introduce new Islamic financial products that can be easily compared and competed with the products of conventional banking so that they may attract the new clients.

Based on the findings from the research, there is need for the Islamic banks in the UAE to further diversify by providing different products and services to their customers related to the principle of Profit-Loss Sharing instruments like the Mudaraba and Musharaka (2008) to effectively compete with their conventional counterpart in the sector in terms of their total revenue. This will also further boost their profitability in the long run. It is also important for the Islamic banks to reduce over-depending on debt-like financing instruments like the Murabaha and Ijarah, these instruments forms about 90% of the Islamic banks operations. There is a great need for the Islamic banks to think of other Shariah compliant avenues to invest.

5.3 Future Research

The results from the present study carried out lead to a wide path on which future studies could be done. There are several recommendations addressed on future studies related to areas not addressed within the work presented here. There is every need for the next study to increase the sample size. Due to the limitation faced by the present study in relation to data collection in some banks, it will be important for future studies conducted on the subject matter to involve more banks in the industry so as to generalise the result on the whole banking sector in the country.

The banking industry in the UAE is at its growth phase, hence performance of the Islamic and conventional banks in the sector are affected by different sectors and financial instability in the economy. These economical terms will have great effects on the performance of the banks in the industry, as such there is strong need to carry out studies in the future (e.g. periodically) to evaluate the performance of the banks in the industry from time to time. This will serve as a means of correcting the problems faced by both the Islamic and conventional banks in the UAE banking sector that affects its performance.

Finally, it will be very important also for future research to be able to provide a better understanding and explain the gap that exists between the performances of the Islamic and conventional banks. This research will also provide the following questions to other researchers conducting a future study on the performance of Islamic and conventional banks. Why the profitability of both banks in the study was indifferent? Why the conventional banks were less liquid than the Islamic banks? Why the Islamic banks were more efficient in their operations than the conventional banks? And why both types of banks appeared to be indifferent in term of risks?

5.4 Research Limitation

The study was faced with one limitation related to sourcing and analysing data's for the study. The limitation concerns the data of the selected banks in respect of the year's data of the banks covers, the 5 year period through 2009-2013. The UAE banking sector have 23 domestic banks operating as commercial banks in the country, this figure include 5 full-fledged Islamic banks. The full-fledge Islamic banks we were able to select out of the 5 include ADIB, DIB, and EIB, whereas the other 2 namely Noor Islamic banks and Sharjah Islamic banks were newly established as such we couldn't source the financial data needed from the banks for the study for the 5 year period (2009-2013).

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APPENDICES

APPENDIX A

TABLE 1: List of Banks (Sample) For the Study

S/ N	BANKS	TYPE OF BANK	HEAD OFFICE	BANK YEAR DATA
1	<i>DUBAI ISLAMIC BANK PJS C</i>	ISLAMIC BANK	DUBAI	2009-2013
2	<i>ABU DHABI ISLAMIC BANK</i>	ISLAMIC BANK	ABU DHABI	2009-2013
3	<i>EMIRATES ISLAMIC BANK</i>	ISLAMIC BANK	DUBAI	2009-2013
4	<i>NATIONAL BANK OF ABU DHABI</i>	CONVENTIONAL B ANK	ABU DHABI	2009-2013
5	<i>ABU DHABI COMMERCIAL BANK</i>	CONVENTIONAL B ANK	ABU DHABI	2009-2013
6	<i>EMIRATES NDB BANK</i>	CONVENTIONAL B ANK	DUBAI	2009-2013

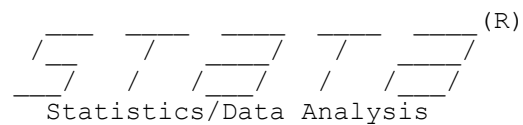
TABLE 2: LIST OF LOCAL BANKS AND TOTAL BRANCHES AS AT 31-10-2013

S/N	NAME OF BANK	HEAD OFFICE	BRANCH TOTAL
1	<i>ABU DHABI COMMERCIAL BANK</i>	ABU DHABI	52
2	<i>ABU DHABI ISLAMIC BANK</i>	ABU DHABI	62
3	<i>AL HILAL BANK</i>	ABU DHABI	17
4	<i>AJMAN BANK</i>	AJMAN	9
5	<i>ARBIFT</i>	ABU DHABI	7
6	<i>BANK OF SHARJAH PSC</i>	SHARJAH	4
7	<i>COMMERCIAL BANK OF DUBAI</i>	DUBAI	29
8	<i>COMMERCIAL BANK INTERNATIONAL</i>	DUBAI	17
9	<i>DUBAI BANK</i>	DUBAI	24
10	<i>DUBAI ISLAMIC BANK</i>	DUBAI	64
11	<i>EMIRATES NDB BANK</i>	DUBAI	129
12	<i>EMIRATES ISLAMIC BANK</i>	DUBAI	33
13	<i>FIRST GULF BANK</i>	ABU DHABI	18
14	<i>INVESTBANK PLC</i>	SHARJAH	12
15	<i>MASHREQ BANK PSC</i>	DUBAI	71
16	<i>NATIONAL BANK OF ABU DHABI</i>	ABU DHABI	119
17	<i>NATIONAL BANK OF FUJAIRAH PSC</i>	FUJAIRAH	14
18	<i>NATIONAL BANK OF U.A.Q PSC</i>	U.A.Q	21
19	<i>NOOR ISLAMIC BANK</i>	DUBAI	18
20	<i>SHARJAH ISLAMIC BANK</i>	SHARJAH	25
21	<i>THE NATIONAL BANK OF R.A.K</i>	RAK	33
22	<i>UNION NATIONAL BANK</i>	ABU DHABI	61
23	<i>UNITED ARAB BANK PJSC</i>	SHARJAH	11
	TOTAL		850

(U.A.E CENTRAL BANK, 2013)

APPENDIX B

Table 1: STATA Results



```
name: <unnamed>
log: H:\Ibrahimib\ibrahim.smcl
log type: smcl
opened on: 26 Mar 2016, 07:16:17
```

```
1 .listbankcat year roa roe per ldrlar der dtarieroe au, sep(0)
```

```

+-----+
-----+
|          bankcat   year   roa   roe   per   ldrlar   der   dta
>rieroe  au |
|-----|
1. | Islamic Banks   2009   .7   6.4   1.1   82.6   62.8   8.1   8
> 9  2.5  46.3   5.8 |
2. | Islamic Banks   2010   .7   6.7   1.3   78.5   57.3   8.7   89.
> 6  2.8  40.5   5.3 |
3. | Islamic Banks   2011   1.6   14   .8   81.3   61   7.8   88.
> 6  2.2  47.5   5.6 |
4. | Islamic Banks   2012   1.7   18.6   1.4   74.1   55.7   8.6   89.
> 1  3.6  28.7   6.5 |
5. | Islamic Banks   2013   2.1   18.9   1.4   87.3   65.5   10.5   90.
> 8  2.9  35.8   6 |
6. | Conventional Banks 2009   1   9.3   .7   122.5   69.7   7.9   88.
> 8  1.9  69   3.4 |
7. | Conventional Banks 2010   .9   8.1   .8   112.5   65.2   7.8   88.
> 6  2.5  42.6   3.2 |
8. | Conventional Banks 2011   1.3   11.7   1.1   111.1   64.1   7.8   88.
> 5  2.4  50.7   3.3 |
9. | Conventional Banks 2012   1.4   17.2   1.6   116.8   62.8   9.6   90.
> 4  2.6  41.7   2.7 |
10. | Conventional Banks 2013   1.6   14.6   1.1   123.9   69.7   9.6   90.
> 5  2.2  52.7   3.1 |
+-----+
-----+

```

```
2 .graph bar roa roe per, over(bankcat)
3 .graph save "H:\Ibrahimib\ibr1", replace
   (file H:\Ibrahimib\ibr1.gph saved)
4 .graph bar ldrlardtar, over(bankcat)
5 .graph save "H:\Ibrahimib\ibr2", replace
   (file H:\Ibrahimib\ibr2.gph saved)
6 .graph bar der au, over(bankcat)
7 .graph save "H:\Ibrahimib\ibr3", replace
   (file H:\Ibrahimib\ibr3.gph saved)
8 .graph bar der ier au, over(bankcat)
```

```
9 .graph save "H:\Ibrahimib\ibr3", replace
   (file H:\Ibrahimib\ibr3.gph saved)
```

```
10 .sortbankcat
```

```
11 .bybankcat: summarize roa roe per ldrlar der dtarieroe au
```

```
-----
->bankcat = Islamic Banks
```

	Variable	Obs	Mean	Std. Dev.	Min	Max
roa	5	1.36	.6308724	.7	2.1	
roe	5	12.92	6.131639	6.4	18.9	
per	5	1.2	.254951	.8	1.4	
ldr	5	80.76	4.896735	74.1	87.3	
lar	5	60.46	3.99412	55.7	65.5	
der	5	8.74	1.050238	7.8	10.5	
dtar	5	89.42	.8497075	88.6	90.8	
ier	5	2.8	.5244044	2.2	3.6	
oe	5	39.76	7.765822	28.7	47.5	
au	5	5.84	.4505552	5.3	6.5	

```
-----
->bankcat = Conventional Banks
```

	Variable	Obs	Mean	Std. Dev.	Min	Max
roa	5	1.24	.2880972	.9	1.6	
roe	5	12.18	3.749267	8.1	17.2	
per	5	1.06	.3507136	.7	1.6	
ldr	5	117.36	5.751348	111.1	123.9	
lar	5	66.3	3.217918	62.8	69.7	
der	5	8.54	.9685041	7.8	9.6	
dtar	5	89.36	1.001499	88.5	90.5	
ier	5	2.32	.2774887	1.9	2.6	
oe	5	51.34	10.99377	41.7	69	
au	5	3.14	.2701851	2.7	3.4	

```
12 .ttestroa , by(bankcat)
```

```
Two-sample t test with equal variances
```

	Group	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]
Islamic	5	1.36	.2821347	.6308724	.5766684 2.143332	
Conventi	5	1.24	.128841	.2880972	.88228 1.59772	
combined	10	1.3	.147573	.4666667	.9661668 1.633833	
diff		.12	.3101612		-.5952331 .8352331	

```

diff = mean(Islamic) - mean(Conventi)          t = 0.3869
Ho: diff = 0                                degrees of freedom = 8

Ha: diff < 0                                Ha: diff != 0                                Ha: diff > 0
Pr(T < t) = 0.6455                          Pr(|T| > |t|) = 0.7089                          Pr(T > t) = 0.3545

```

13 .ttest roe , by(bankcat)

Two-sample t test with equal variances

Group	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
Islamic	5	12.92	2.742152	6.131639	5.306564	20.53344
Conventi	5	12.18	1.676723	3.749267	7.524671	16.83533
combined	10	12.55	1.520179	4.807228	9.111116	15.98888
diff		.7399997	3.214156		-6.671858	8.151857

```

diff = mean(Islamic) - mean(Conventi)          t = 0.2302
Ho: diff = 0                                degrees of freedom = 8

Ha: diff < 0                                Ha: diff != 0                                Ha: diff > 0
Pr(T < t) = 0.5882                          Pr(|T| > |t|) = 0.8237                          Pr(T > t) = 0.4118

```

14 .ttest per , by(bankcat)

Two-sample t test with equal variances

Group	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
Islamic	5	1.2	.1140175	.254951	.8834366	1.516563
Conventi	5	1.06	.1568439	.3507136	.6245316	1.495468
combined	10	1.13	.0943398	.2983287	.9165885	1.343411
diff		.14	.1939072		-.3071508	.5871508

```

diff = mean(Islamic) - mean(Conventi)          t = 0.7220
Ho: diff = 0                                degrees of freedom = 8

Ha: diff < 0                                Ha: diff != 0                                Ha: diff > 0
Pr(T < t) = 0.7546                          Pr(|T| > |t|) = 0.4909                          Pr(T > t) = 0.2454

```

15 .ttestldr , by(bankcat)

Two-sample t test with equal variances

Group	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
Islamic	5	80.76	2.189887	4.896735	74.6799	86.8401
Conventi	5	117.36	2.572081	5.751348	110.2188	124.5012
combined	10	99.06	6.304429	19.93635	84.79839	113.3216
diff		-36.6	3.378047		-44.38979	-28.81021

```

diff = mean(Islamic) - mean(Conventi)          t = -10.8347
Ho: diff = 0                                degrees of freedom = 8

Ha: diff < 0                                Ha: diff != 0                                Ha: diff > 0
Pr(T < t) = 0.0000                          Pr(|T| > |t|) = 0.0000                          Pr(T > t) = 1.0000

```



```

-----+-----
Islamic |      5      2.8  .2345208  .5244044  2.148866  3.451134
Conventi |      5      2.32  .1240967  .2774887  1.975452  2.664548
-----+-----
combined |     10      2.56  .1484737  .4695151  2.224129  2.895871
-----+-----
diff |           .48  .26533           -0.131852  1.091852
-----+-----
diff = mean(Islamic) - mean(Conventi)           t = 1.8091
Ho: diff = 0           degrees of freedom = 8

Ha: diff < 0           Ha: diff != 0           Ha: diff > 0
Pr(T < t) = 0.9460           Pr(|T| > |t|) = 0.1080           Pr(T > t) = 0.0540

```

20 .ttestoe , by(bankcat)

Two-sample t test with equal variances

```

-----+-----
Group |      Obs      Mean  Std. Err.  Std. Dev.  [95% Conf. Interval]
-----+-----
Islamic |      5      39.76  3.472981  7.765822  30.11746  49.40254
Conventi |      5      51.34  4.916564  10.99377  37.68943  64.99057
-----+-----
combined |     10      45.55  3.431755  10.85216  37.78683  53.31317
-----+-----
diff |           -11.58  6.019485           -25.46096  2.300957
-----+-----
diff = mean(Islamic) - mean(Conventi)           t = -1.9238
Ho: diff = 0           degrees of freedom = 8

Ha: diff < 0           Ha: diff != 0           Ha: diff > 0
Pr(T < t) = 0.0453           Pr(|T| > |t|) = 0.0906           Pr(T > t) = 0.9547

```

21 .ttest au , by(bankcat)

Two-sample t test with equal variances

```

-----+-----
Group |      Obs      Mean  Std. Err.  Std. Dev.  [95% Conf. Interval]
-----+-----
Islamic |      5      5.84  .2014944  .4505552  5.280562  6.399438
Conventi |      5      3.14  .1208305  .2701851  2.804521  3.475479
-----+-----
combined |     10      4.49  .4634293  1.465492  3.44165  5.53835
-----+-----
diff |           2.7  .2349468           2.158212  3.241788
-----+-----
diff = mean(Islamic) - mean(Conventi)           t = 11.4920
Ho: diff = 0           degrees of freedom = 8

Ha: diff < 0           Ha: diff != 0           Ha: diff > 0
Pr(T < t) = 1.0000           Pr(|T| > |t|) = 0.0000           Pr(T > t) = 0.0000

```

22 .regressroa year dummy

```

-----+-----
Source |      SS      df      MS
-----+-----
Model | 1.54849997      2  .774249985
Residual | .411499987      7  .058785712
-----+-----
Total | 1.95999996      9  .217777773

Number of obs = 10
F( 2, 7) = 13.17
Prob> F = 0.0042
R-squared = 0.7901
Adj R-squared = 0.7301
Root MSE = .24246

```

```

-----
roa |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-----+-----
year |      .275   .0542152     5.07  0.001     .1468015     .4031985
dummy |       .12   .1533437     0.78  0.460     -.2426002     .4826002
      _cons |    -551.785  109.0268    -5.06  0.001    -809.5924    -293.9776
-----

```

23 .regress roe year dummy

```

-----
Source |      SS      df     MS                Number of obs =      10
-----+-----
Model |  161.547001     2   80.7735005           F( 2,      7) =    12.18
Residual |  46.4380042     7    6.6340006           Prob> F      =    0.0053
-----+-----
Total |  207.985005     9   23.109445           R-squared    =    0.7767
                                           Adj R-squared =    0.7129
                                           Root MSE    =    2.5757
-----

```

```

-----
roe |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-----+-----
year |      2.83   .5759341     4.91  0.002     1.468132     4.191868
dummy |   .7399997   1.628987     0.45  0.663     -3.111944     4.591943
      _cons |   -5678.95  1158.204   -4.90  0.002   -8417.667   -2940.233
-----

```

24 .regress ldr year dummy

```

-----
Source |      SS      df     MS                Number of obs =      10
-----+-----
Model |  3356.22052     2  1678.11026           F( 2,      7) =   53.18
Residual |  220.903577     7   31.5576539           Prob> F      =    0.0001
-----+-----
Total |  3577.12409     9   397.458233           R-squared    =    0.9382
                                           Adj R-squared =    0.9206
                                           Root MSE    =    5.6176
-----

```

```

-----
ldr |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-----+-----
year |   .6050007   1.256138     0.48  0.645     -2.365294     3.575295
dummy |    -36.6    3.552895   -10.30  0.000    -45.00126    -28.19874
      _cons |  -1099.296  2526.095    -0.44  0.677   -7072.561    4873.969
-----

```

25 .regress lar year dummy

```

-----
Source |      SS      df     MS                Number of obs =      10
-----+-----
Model |   85.3619384     2   42.6809692           F( 2,      7) =     2.84
Residual |  105.133971     7   15.0191386           Prob> F      =    0.1249
-----+-----
Total |  190.495909     9   21.1662121           R-squared    =    0.4481
                                           Adj R-squared =    0.2904
                                           Root MSE    =    3.8755
-----

```

```

-----
lar |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-----+-----
year |   .0700003   .8665777     0.08  0.938     -1.97913     2.119131
dummy |  -5.839998   2.451052    -2.38  0.049    -11.63581     -.0441811
      _cons |  -74.47054  1742.689    -0.04  0.967   -4195.274    4046.333
-----

```

26 .regress der year dummy

```

-----
Source |      SS      df     MS                Number of obs =      10
-----+-----
Model |                               F( 2,      7) =    5.36
-----

```

Model		5.00050047	2	2.50025024	Prob> F	=	0.0387
Residual		3.26349943	7	.466214204	R-squared	=	0.6051

Total		8.2639999	9	.918222211	Adj R-squared	=	0.4923
					Root MSE	=	.6828

der		Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
year		.495	.1526785	3.24	0.014	.1339729	.8560272
dummy		.1999999	.4318399	0.46	0.657	-.8211391	1.221139
		_cons	-986.9051	307.0365	-3.21	0.015	-1712.931 -260.8791

27 .regressdtar year dummy

Source		SS	df	MS	Number of obs	=	10
Model		3.45350226	2	1.72675113	F(2, 7)	=	3.50
Residual		3.45551089	7	.493644414	Prob> F	=	0.0885

Total		6.90901315	9	.767668128	R-squared	=	0.4999
					Adj R-squared	=	0.3570
					Root MSE	=	.7026

dtar		Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
year		.4150002	.1571058	2.64	0.033	.0435041	.7864962
dummy		.0599991	.4443622	0.14	0.896	-.9907506	1.110749
		_cons	-745.2053	315.9398	-2.36	0.050	-1492.284 1.873713

28 .regressier year dummy

Source		SS	df	MS	Number of obs	=	10
Model		.840500032	2	.420250016	F(2, 7)	=	2.57
Residual		1.14349974	7	.163357105	Prob> F	=	0.1454

Total		1.98399977	9	.220444419	R-squared	=	0.4236
					Adj R-squared	=	0.2590
					Root MSE	=	.40417

ier		Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
year		.115	.0903762	1.27	0.244	-.0987057	.3287057
dummy		.48	.2556225	1.88	0.103	-.1244511	1.084451
		_cons	-228.945	181.7466	-1.26	0.248	-658.7074 200.8174

29 .regressoe year dummy

Source		SS	df	MS	Number of obs	=	10
Model		555.025487	2	277.512744	F(2, 7)	=	3.85
Residual		504.899523	7	72.1285032	Prob> F	=	0.0746

Total		1059.92501	9	117.769446	R-squared	=	0.5236
					Adj R-squared	=	0.3875
					Root MSE	=	8.4929

oe		Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
year		-3.315	1.899059	-1.75	0.124	-7.805561	1.175561
dummy		-11.58	5.37135	-2.16	0.068	-24.28122	1.121224
		_cons	6717.805	3819.01	1.76	0.122	-2312.718 15748.33

30 .regress au year dummy

Source	SS	df	MS	Number of obs =	10
Model	18.2375006	2	9.1187503	F(2, 7) =	58.48
Residual	1.09149988	7	.155928554	Prob> F =	0.0000
Total	19.3290005	9	2.14766672	R-squared =	0.9435
				Adj R-squared =	0.9274
				Root MSE =	.39488

au	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
year	.025	.0882974	0.28	0.785	-.1837902	.2337901
dummy	2.7	.2497427	10.81	0.000	2.109452	3.290548
_cons	-47.1349	177.5661	-0.27	0.798	-467.0121	372.7423

31 .log close
name: <unnamed>
log: H:\Ibrahimib\ibrahim.smcl
log type: smcl
closed on: 26 Mar 2016, 07:16:19

APPENDIX C

Table 1: ADIB Financial Highlight (2009-2013)

	2009	2010	2011	2012	2013	5YEAR GRO WTH%
	AED, 000	AED,000	AED,000	AED,000	AED,000	
TOTAL ASSETS	44,039,779	51,210,056	64,084,004	75,257,518	74,335,066	69.8
GROWTH %		16.3	25.1	17.4	(1.2)	
NET LOANS & ADVAN CES	24,327,282	34,178,616	40,473,700	47,952,592	48,831,341	100.7
GROWTH %		40.5	18.4	18.5	1.8	
CUSTOMERS DEPOSI T	29,628,826	37,486,246	48,219,662	56,517,045	55,171,783	86.2
GROWTH		26.5	28.6	17.2	(2.4)	
SHAREHOLDER'S EQ UITY	5,420,878	5,636,716	7,144,536	8,110,652	8,157,067	50.5
GROWTH %		4.0	26.8	13.5	0.6	
NET INCOME	769,044	851,052	78,026	1,023,565	1,155,091	50.2
GROWTH		10.7	(90.8)	1211.8	12.9	
ROE %	14.2	15.1	1.0	12.6	13.5	
ROA %	1.8	1.7	0.1	1.4	1.6	

ADIB Annual Report (2009-2013)

Table 2: DIB Financial Highlight (2009-2013)

	2009	2010	2011	2012	2013	5YEAR GRO WTH%
	AED,000	AED,000	AED,000	AED,000	AED,000	
TOTAL ASSETS	84,359,911	84,756,617	84,304,271	89,884,401	90,588,464	7.4
GROWTH %		0.5	(0.5)	6.6	0.8	
NET LOANS ADVAN CES	40,534,848	52,659,011	49,924,941	57,171,067	51,586,088	27.3
GROWTH %		29.1	(5.2)	14.5	(9.8)	
CUSTOMER DEPOSI T	65,175,594	66,328,677	64,195,503	63,447,070	64,771,317	(0.62)
GROWTH %		1.8	(3.3)	(1.2)	2.1	
SHAREHOLDER'S E QUITY	10,665,117	8,749,391	8,980,800	10,273,087	10,173,757	(4.6)
GROWTH %		(18)	2.6	14.4	(1.0)	
NET INCOME	2,512,821	1,554,327	1,212,281	559,263	1,056,415	(58)
GROWTH %		(38.1)	(22)	(53.9)	88.9	
ROE %	23.6	17.8	13.5	5.4	10.4	
ROA %	3.0	1.8	1.4	0.62	1.2	

DIB Annual Report (2009-2013)

Table 3: EIB Financial Highlight (2009-2013)

	2009	2010	2011	2012	2013	
	AED,000	AED,000	AED,000	AED,000	AED,000	
TOTAL ASSETS	16,953,909	26,400,450	25,289,639	32,746,515	21,483,795	26.7
GROWTH %		55.7	(4.2)	29.5	(34.4)	
LOANS AND ADVANCES	10,836,828	17,855,630	16,705,800	14,625,722	12,969,041	19.7
GROWTH %		64.8	(6.4)	(12.5)	(11.3)	
CUSTOMER'S DEPOSIT	13,909,058	19,582,652	19,418,087	24,222,865	17,125,152	23.1
GROWTH %		40.8	(0.84)	24.7	(29.3)	
SHAREHOLDER'S EQUITY	1,332,906	1,674,086	2,872,861	2,927,176	2,478,086	85.9
GROWTH %		25.6	71.6	1.9	(15.3)	
NET INCOME	238,533	400,583	130,794	59,340	448,552	88.1
GROWTH %		67.9	(67.4)	(54.6)	655.9	
ROE %	17.9	23.9	4.6	2.0	18.1	
ROA %	1.4	1.5	0.52	0.18	2.1	

EIB Annual Report (2009-2013)

Table 4: ADCB Financial Highlight (2009-2013)

	2007	2008	2009	2010	2011	5YEAR
	AED,000	AED,000	AED,000	AED,000	AED,000	GROWTH %
TOTAL ASSETS	106,213,849	148,430,469	160,208,778	178,271,194	183,725,630	73
GROWTH %		39.8	7.9	11.3	3.1	
LOANS AND ADVANCES	75,676,082	109,081,089	116,610,292	122,771,870	124,754,737	64.9
GROWTH %		47.6	6.9	5.3	1.6	
CUSTOMER'S DEPOSIT	57,160,820	84,360,821	86,299,957	106,134,185	109,887,447	92.2
GROWTH %		47.6	2.3	23.0	3.5	
SHAREHOLDER'S EQUITY	11,411,743	15,915,152	19,090,119	19,573,348	22,077,523	93.5
GROWTH %		39.5	20.0	2.5	12.8	
NET INCOME	2,084,930	1,358,473	512,799	390,615	3,045,111	46.05
GROWTH %		34.8	(62.3)	(23.8)	679.6	
ROE %	18.3	8.5	2.7	2.0	13.8	
ROA %	2.0	0.92	0.32	0.22	1.7	

ADCB Annual Report (2009-2013)

Table 5: ENDB Financial Highlight (2009-2013)

	2009	2010	2011	2012	2013	5YEAR GROWTH %
	AED,000	AED,000	AED,000	AED,000	AED,000	
TOTAL ASSETS	253,815,643	282,413,676	281,576,482	286,078,324	284,613,386	12.1
GROWTH %		11.3	(0.3)	1.6	(0.5)	
LOANS & ADVANCES	151,952,233	188,006,789	194,702,689	177,003,613	176,815,034	16.4
GROWTH %		23.7	3.6	(9.1)	(0.11)	
CUSTOMER'S DEPOSIT	126,134,743	139,979,804	157,976,541	159,872,602	154,013,407	22.1
GROWTH %		11.0	12.9	1.2	(3.7)	
SHAREHOLDER'S EQUITY	25,758,774	25,761,921	31,970,644	33,749,590	34,981,054	35.8
GROWTH %		0.01	24.1	31	3.7	
NET INCOME	2,770,908	3,681,233	3,342,532	2,339,183	2,483,483	(10.4)
GROWTH %		38.9	(9.2)	(0.3)	6.2	
ROE %	11.01	14.3	10.5	6.9	7.1	
ROA %	1.1	1.3	1.2	0.82	0.87	

ENDB Annual Report (2009-2013)

Table 6: NBAD Financial Highlight (2009-2013)

	2009	2010	2011	2012	2013	5YEAR GROWTH %
	AED,000	AED,000	AED,000	AED,000	AED,000	
TOTAL ASSETS	139,430,718	164,654,480	196,807,016	211,427,270	255,667,505	83.4
GROWTH %		18.1	19.5	7.4	20.9	
LOANS & ADVANCES	79,729,100	111,764,267	132,258,330	136,833,496	159,522,178	100.1
GROWTH %		40.2	18.3	3.45	16.6	
CUSTOMER'S DEPOSIT	81,736,671	103,481,145	121,205,104	123,130,589	151,816,887	85.7
GROWTH %		26.6	17.1	1.6	23.3	
SHAREHOLDER'S EQUITY	11,214,232	14,356,599	20,440,568	24,113,416	26,389,485	135.3
GROWTH %		28.0	42.4	18.0	9.4	
NET INCOME	2,505,137	3,018,735	3,019,937	3,683,159	3,707,547	48
GROWTH %		20.5	0.04	22.0	0.66	
ROE %	22.3	21.0	14.8	15.3	14.1	
ROA %	1.5	1.7	1.5	1.8	1.8	

NBAD Annual Report (2009-2013)