NEAR EAST UNVERSITY

GRADUATE SCHOOL OF SOCIAL SCIENCES

BANKING AND FINANCE

MASTER'S PROGRAMME

MASTER'S THESIS

THE EFFECTS OF BANK PROFITABILITY ON CUSTOMERS TO CHOOSE BETWEEN ISLAMIC BANKING AND CONVENTIONAL BANKING

HAVAL ASAAD AHMED

NICOSIA

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Thesis Defence

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Master of Banking and Finance

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I HAVAL ASAAD AHMED , hereby declare that this dissertation entitled "THE EFFECTS OF BANK PROFITABILITY ON CUSTOMERS TO CHOOSE BETWEEN ISLAMIC BANKING AND CONVENTIONAL BANKING has been prepared myself under the guidance and supervison of "Assist. Prof. Dr. Turgut Türsoy" in partial fulfilment of The Near East University, Graduate School of Social Sciences regulations and does not to the best of my knowledge breach any Law of Copyrights and has been tested for plagarism and a copy of the result can be found in the Thesis.

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ACKNOWLEDGMENTS

DEDICATION

This study is dedicated to my supportive mother, Mrs. SARGUL and late father Mr. ASAAD.

ABSTRACT

This thesis is trying to examine financial performance of two different types of bank sectors which are Islamic banking system and Conventional banking system. The thesis will also seek about the difference among this kind of banks in term of historical origin which mean time of publishing and start working, mobilization of financial resource, their own principle and how to generate profit. The main base of the thesis is to compare this form of banks in the term of profitability which includes Return on Asset (ROA) and Return on Equity (ROE). In order to make an investigation between Islamic and Conventional banks the thesis will use 22 banks including 11 Islamic and 11 Conventional banks in different countries. The data collected from annual financial reports over the period 2005-2014. Using impact of the independent variables such as Capital adequacy(CA), Asset quality(ASQ), management efficiency(MAE), liquidity(LIQ) and Asset size(ASZ) on the profitability determination (ROA) and (ROE) of the Islamic and Conventional banks. Consequently, the results from the chapter of empirical analysis will show that there is a difference in profitability determination.

Keywords: Islamic Banking, Conventional banking, profitability.

ÖZET

Bu tezde bankacılık sektöründe yer alan İslam Bankacılığı ve Geleneksel Bankacılık çeşitlerinin finansal performansları analiz edilmeye çalışılmaktadır. Tez, ayrıca her iki bankacılık çeşidi arasındaki farkları da ortaya koymaya çalışacaktır. Tezin ana temasında her iki banka çeşitinin karlılık anlamında, Aktif Karlılığı (Return on Asset-ROA) ve Özkaynak Karlılığı (Return on Equity-ROE) karşılaştırılması yapılmıştır. İslam Bankacılığı ve Geleneksel Bankacılık karşılaştırmasında farklı ülkelerden 11 İslam Bankası ve 11 Geleneksel Banka olmak üzere, toplamda 22 banka analize konu edilmiştir. Analiz verileri 2005-2014 yılları arasındaki yıllık finansal raporlardan derlenmiştir. Bağımsız değişkenler olarak İslam Bankacılığındaki ve Geleneksel Bankacılıktaki sermaye yeterliliği, varlık kalitesi, yönetim etkinliği, likidite ve toplam varlık büyüklüğü kullanılmış ve karlılık üzerindeki etkileri aktif ve sermaye karlılığı olarak analiz edilmiştir. Sonuç olarak, empirik analiz sonuçlarında karlılık tanımlamasında farklılıklar ortaya çıkmıştır.

Anahtar Kelimeler: İslam Bankacılığı, Geleneksel Bankacılık, Karlılık

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LIST OF ABBREVIATIONS

ROA: Return on Assets

ROE: Return on equity

CA: capital adequacy

ASQ: Asset Quality

MAE: Management Efficiency

LIQ: Liquidity

ASZ: Asset size

CAMEL: Capital adequacy, asset quality, management efficiency, earning and liquidity

GCC: Gulf cooperation countries

AAOIFI: Accounting and auditing organization of Islamic financial institution

CHAPTER ONE

INTRODUCTION

1.1 Introduction

Banks are playing a big role in the every countries economy and also to the society. They are a financial intermediation who taking funds from depositors and give it to borrowers, furthermore, imagine the world without banks. Because approximately all the business transactions will be done through the banks activities or services, for instance, take two traders from two different countries who trading with each other, the money that they will pay to each other will be involving around banks activities. Additionally, if the government want to catalyze the economy of the own country they will do that through banking system via monetary tools.Moreover, banks will be a significant part in the difficult situations for the Government.

Nowadays the people recognized about the banks sector around the world and they are dealing with them to facilitate their daily works like trade, exchange, transfer etc. the idea about the banks is these institutions will be like an octopus in the society because the nature of the banks activity is to take the fund from the peoples who have an extra money and give it to the banks, In the other hand, the banks will give this funds to the peoples who in need to money. There are different types of the banks sectors around the world for helping the citizen such as a Conventional banks and Islamic banks. This two kinds of bank sectors known in the early time and they provide so many services and activities to the society, moreover, there are some differences between these two sectors about dealing with their customers such as the term of the interest rate and other different activities. These two sectors are competitors to presenting the best services and new activities to the customers but many of peoples are do not know the differences between them or how they are working. The processes of operation between these two types of the banking system are different. Islamic banking system is working with the profit and loss sharing between the bank and the customer but in the other hand, the

Conventional banking system is not dealing with this kind of principle and it is based on the interest rate. The styles of working between these two sectors are different. Islamic banks are point out to the banking system that is parallel with the Islamic Sharia. Specially, in the Islamic principle the interest is prohibited, also commonly called Riba. In any event, Islamic principle also does not dealing with the trading in financial risk. The obvious diversity amid Conventional banking system and the Islamic banking system is that the Conventional banking is run with the interest rate but, the Islamic banking system is dealing with the profit and loss sharing. The Conventional banks getting profits by pulling deposits from the depositors at a low-interest rate after this reselling those funds to the borrowers at higher interest rate, based on it is the opportunity of obtaining information and at gathering information guaranteeing threats. There are many of citizen who always dealing with that kind of banks system. About the advantages of the conventional banks they are providing funds to small business and it will make easier to manage day to day. And in the commercial bank will make easier to borrow money when your business is growing and also in the investment banks they will let the customers to borrow funds for long term and let them to put their money in the banks also give the interest to the clients. Moreover, in the conventional banks there are many services are free like giving a credit card to make withdraw money automatically with ATM machines. Additionally, they will give advises to their client to make merger and acquisition and guide them to buy which kind of shares in the market.

The alternative of the conventional banks system it is Islamic banks system which is different in all activities with conventional banking. The main difference between these two financial sectors it is the interest rate. The whole principle of Islamic banks system it is taking from Shariah. Islamic banks will deal with the customers as partners and share the loss and profit with them, but the conventional banks deals with the customers as a creditor and debtor.

1.2 Motivation and Contribution

The study will examine the Islamic banks and Conventional banks performance during 2005-2014 by identifying internal variables which impacting on the profitability term in the banks. The importance of choosing this two sectors Islamic and Conventional banks

is that approximately all populations using these sectors to facility their daily works and most of them do not know which kind of these banks are more profit and secure than the other during 2005-2014.

1.3 Aim of the study

Investigation about the profitability performance is such a crucial point for the depositors and the investors because with the results the depositor and investor will recognize in which time they have to invest their funds or making withdraws to their money. This research will intent to test 22 banks consist of 11 Islamic banks and 11 Conventional banks using cross countries which they are Malaysia and Emirates, additionally during 10 years from 2005-2014.

1.4 Framework of the study

This study will search around the profitability of two kinds of banks which are Islamic and Conventional banks to find the difference between them in the term of profitability. The study will use ROA and ROE which they are the main important profitability measurement ratios as dependent variables, moreover also using CAMEL ratios approach which are, capital adequacy, assets quality, management of efficiency, Liquidity and size of assets during 2005-2014.

1.5 Research Hypotheses

The hypothesis that this study seeks to verify are as stated below:

H0a: There is no significant impact of capital adequacy on ROA and ROE.

H1a: There is a significant impact of capital adequacy on ROA and ROE.

H0b: There is no significant impact of asset quality on ROA and ROE.

H1b: There is a significant impact of asset quality in ROA and ROE.

H0c: There is no significant impact of m. efficiency on ROA and ROE.

H1c: There is a significant impact of m. efficiency on ROA and ROE.

H0d: There is no significant impact of liquidity on ROA and ROE.

H1d: There is a significant impact of liquidity in ROA and ROE.

H0e: There is no significant impact of asset size on ROA and ROE.

H1e: There is a significant impact of asset size on ROA and ROE.

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1.6 Structure of the Thesis

The thesis possessed six chapters, after this introductory chapter, the remainders of this thesis are organized as follow:

Chapter 2: Background Review chapter, which puts the light on the historical part of the banks publishing and first founding the period of civilizations, and also differences system of banking sectors between Islamic and Conventional banks will be informed. Additionally talking about different activities between this two sectors, moreover the general information about the country.

Chapter 3: Literature Review chapter, the aim of this chapter will put the information about the previous literature who involved around the similar studies.

Chapter 4: Data and Methodology chapter, the objective of this chapter is to express the selected variables which are will use in this study, and also apply econometric techniques that will use in the analysis.

Chapter 5: Empirical Analysis and Results chapter, the goal of this chapter will be focusing on running the regressions and show the results which will be between Islamic and Conventional banks.

Chapter 6: Conclusion chapter, the target of the chapter will be talking about the conclusion and the different results between Conventional and Islamic banks.

CHAPTER TWO

BACKGROUND REVIEW

2.1History of Banking

Banks are financial institutions that are allowed to receive funds from depositors and investors then give it to investors and borrowers. The banking activity appeared in the ancient Mesopotamia in the B.C. in that times a written norms of practice was very necessary. These norms were parts of low of Hammurabi the king of Babylonia. Clearly these primeval banks activities were very different compared to this nowadays banking activity. The deposit part of banking was not by funds, but it was of cattle, grain, and precious metals. They were using a clay tablet to write an information between borrower and lender it was used such a paper that we are using nowadays. Additionally, some of the basic norms of today banking activities were taking from ancient bank system. Massive range of deposits accepted, and many loans made to the clients. And borrower paid an interest to the lenders.[1]

This kind of bank activities can be found also in the ancient Egyptian civilization, but the activity was that the grain harvest is stored in centralized state warehouse. And the depositor can use such a written for withdrawing of a quantity of grain as a means of payment. These kinds of activities are existed now in the private banks that dealing with coinage and precious metals.

In the medieval bank development age, we will see that the banks of Italian cities of Florence, Venice and Genoa. Because of the shape of the city and the water around the country it was showed the beast activities of merchandise this time. The Italian bankers made loans to the princes for both uses to finance and wasteful lifestyle. In fact, there were many reach families who making a trading business around the country or to foreign countries, like the Bardi and Peruzzi families were take control in Florence in the

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[1] Davies, G. (2002). A History of Money from Ancient Time to the Present Day. Third edition, published in co-operation with juliaa hodgy bank limited, university of wales press, cardif. Pp 48-52.

14th era they established banks in their country and different areas found in Europe so as to enable trade.[2]

The most famous bank who established in Italy was Medici bank by Giovanni Medici in 1397. The activities of the banks were extended in this time and the numbers of the employee increased they were accepting a deposit from rich families and give a loan to traders. The establisher of the bank was had a vision about future so he extended branches of the bank as far north of London. It was also the main bank for Pope. With his supporting he was able to establish other branches in Italian cities and around the Europe.

After years, the bank of Amsterdam established in 1587-1609. Then the bank of Hamburg established in 1619. After that in 1694, the bank of England established with original capital was 1,200,000 British Pound.[3]This money was not in the cash but in state stock. The subscribers to the bank had to lend the government above the total of £1,200,000 with the interest %8 beside an additional annuity of £4,000. After then banks had spread around the countries, like America.

In the other hand, the Islamic banks were the substantial part of growing banks, especially in the Islamic countries. The age of Islamic banks development can be divided into three ages such as early, middle and modern era. In the early era, the beginning of Islamic activities was the age of Prophet Muhammad (peace and bless upon him). When the Mecca was a city of trade between countries, in this period of time they were working with rules of Islam which are Shariah and this period ended with the end of Calipha al Rashidin. The Middle era of Islamic banks development starts with the end of Calipha Uthmany. With the collapse of the Islamic empire and the Roman Empire the economy of the Islamic countries become decreasing rapidly. In the 12th century, European countries expanded the economic to the Muslim countries in that time the development of Islamic banks failed because the European economic was not working with Islamic rules. The modern era begins with establishing Mit Ghamr Saving Bank in

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[2] Hoggson, N. F. (1926). Banking Through the Ages. Third printing. New york, dodd, mead & company. Pp 55-56-57.

[3] Hildreth, R. (2001). The History of Banks. Batoche book limited, 52 eby street south, Canada. Pp 6-7.

1963 from Egypt. The Islamic principle was their form of conduct in the provision of services such as investments, loans, and equity services. In the other hand, (OIC) was established in 1969 by the king of Saudi Arabia King Faisal Organization of Islamic Cooperation Countries, which is an international organization consisting of 57 member states. The group states that which happens to be the voice of Islamic world and exists to protect and implement the interests of the Muslim population with the aim of promoting peace and tranquility and debated Muslim nations built up their own banking sector. After that Islamic development bank (IDB) established in 1975. Furthermore, Dubai Islamic bank established in 1975. Moreover Faisal Islamic bank established in Egypt in1977. Additionally, Bank Islam Malaysia Berhad started 1983. The development of Islamic bank continued with establishing Islamic inter-bank money market in 1994. The AAOIFI, accounting and auditing firm was then set up in 1990.[4]

2.2 Islamic banking system

The Islamic banking happens to be a bank system that many of peoples around the world working with or dealing with to facilitate their daily works. The principle of Islamic banking system is involving around Islamic law which is called Shariah. The most important principles that Islamic banks are not working with is interest rate (riba). All activities which are dealing with interest (usury) are prohibited in Islamic shariah. Another point in Islamic banking systems they are working on this principle that sharing profit and loss with the customer in any situations it is a powerful point in the Islamic bank system which gives a trust relation between banks and customers. All the points will give notifications that Islamic bank systems are made by Islamic Shariah. Furthermore, sharia-consistent financial organizations were roughly 1% of aggregate world resources. By 2009, there were more than 300 banks and 250 common assets on the planet react with Islamic standards and starting 2014 aggregate resources of around $2 trillion were Sharia consistent. As indicated by Ernst and Young which is one of the greatest four auditing firms, albeit Islamic Banking still makes up just a small amount of the banking sector owned by Muslims, it has been becoming greater than managing an

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[4] Nor I. (2014). History and Development of Islamic Banking System, first chapter of Islamic banking, course (FAB 1233), Astin collage.

account resources in general, developing at a yearly rate of 17.6% somewhere around 2009 and 2013, and is anticipated to develop by a normal of 19.7% by 2018. As indicated by the 2013–2014 World Islamic Banking Competitiveness Report that, Qatar, Indonesia, Saudi Arabia, Malaysia, United Arab Emirates and Turkey have up to 78% of the worldwide Islamic banking resources

Table 2.1 Islamic Bank Balance Sheet (Bank Islam Malaysia Berhad 2014)

	2014	2013
Asset		
Cash and short-term funds	3,164,402	3,598,078
Deposits and placements with banks	104,725	130,580
Financial assets held-for-trading	916,539	1,216,895
Derivative financial assets	62,541	29,118
Financial assets available-for-sale	10,237,120	12,418,932
Financial assets held-to-maturity	60,752	63,327
Financing, advances and others	29,524,571	23,740,948
Other assets	124,902	39,167
Statutory deposits with Bank Negara Malaysia	1,335,000	1,297,100
Current tax assets	40,468	40,468
Deferred tax assets	31,220	24,613
investments in subsidiary companies	15,525	28,027
Property and equipment	211,522	209,278
Total assets	45,829,287	42,836,531

Liabilities and equity		
Deposits from customers	41,021,556	37,272,452
Deposits and placements of banks	300,000	1,529,975
Derivative financial liabilities	32,407	13,565
Bills and acceptance payable	127,524	170,598
Other liabilities	572,599	476,626
Zakat and taxation	44,573	43,941
Total liabilities	42,098,659	39,507,157
Equity		
Share capital	2,319,907	2,298,165
Reserves	1,410,721	1,031,209
Total equity	3,730,628	3,329,374
Total liabilities and equity	45,829,287	42,836,531

According to the bank Islam Malaysia berhads indicators it shows that they will expecting that the economy of the country will decrease by %5.3 in the year 2015 and the amount was %6 in 2014. In the other hand, the banking sector of the Malaysia will keep on experiencing extreme rivalry and pressure as banks continue vying for money to cover loans and liquidity scope proportion necessities. In spite of, a little bad situations and the challenges the industry loans indicators shows the range between %7 to %8 in the year 2015 but, this amounts was different in the previous year 2014 the indicators shows a little higher than 2015 which is %8 to %9. Additionally, the indicators show that the total asset of the bank in increased from 42,836,531 in 2013 to 45,829,287. Moreover, liability indicators tell that the amount of the liability increased also from 39,507,157 in 2013 to 42,098,659. In the other hand total equity of the banks was

3,329,374 in 2013 and 3,730,628 in 2014. According to the Bank Islam Malaysia Berahd that the profit indicators shows the increasing year by year 430,785RM in 2012, 491,645RM in 2013 and 509,031RM in 2014.

2.3 Islamic banking contrivance

There are numerous exercises that are being utilized as a part of Islamic bank framework, these activities will lead Islamic banks to be more active and profession. The most popular activities are:

- **Mudarabah**
- **Musharakah**
- **Murabaha**
- **Ijarah**
- **Istisna salam**
- **Qard al Hassan**
- **Wadiah**

2.3.1 The Mudarabah it is a term that used in Islamic banks which means partnership. Essentially there are two parts in this activity first it is the part who providing capital called (rabb-al-maal) and another part who taking capital called (mudarib). (rabb-al-maal) will make a contract with (mudarib) in the kind of investment or making a venture, Because the term of investment should be according to with Shariah principle and regulations. The lender will not involve to the investment management or venture activities just customer will make the activities and they will make an agreement in the first time about profit and type of business and time of investment that they will do. At the end of stipulated period customer or (mudarb) will bring back the principle of capital to (rabb-al-maal) and pre-agree proportion of profit which they agreed in the first time, and there is no guarantee to the (rabb-al-maal) to make profit it means in the case of loss the lender will take all losses.[5]

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[5] Kettell, B. (2011). Islamic banking and finance. New Delhi, India. Printed in Great Britain. Pp 49-50.

The Mudarabah is mentioned in (figure2.1).[6]

Bank profit and loss sharing investment account using mudaraba contract
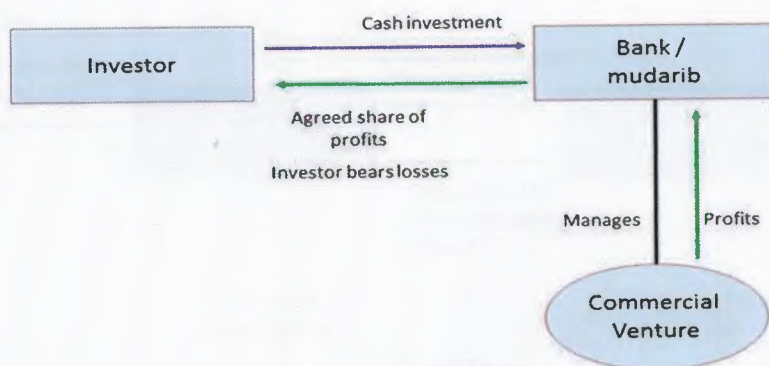
Figure 2.1: Mudarabah

2.3.2 The Musharakah is meaning partnership. This principle shows the relation between banks and customer in term of profit and loss or joint venture. Under this principle customer and bank will bring their capitals to conduct a specific investment or project. In this kind of activity both parties may participate in managing the project. At the beginning lender and customer will agree about the profit ratio, because the profit should be divided among this parties according to the agreement ratio, but losses will be sharing according to the ratio of the contribution it means the amount of invested.[7]

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[6]https://www.google.com.cy/search?q=Administrator,+Mudaraba&biw=1242&bih=606&source=ln ms&tbm=isch&sa=X&ved=0ahUKEwjL4-Hq-YrMAhVEWxQKHZMeClcQ_AUIBigB#tbm=isch&q=Administrator+Mudaraba&imgrc=WUqzhnu9V3 DHAM%3A.

[7] Usmani, M. M. T. (1998). Introduction to Islamic Finance. Karachi. Pp17-18-19.

The musharakah mentioned in (figure 2.2).[8]

Diminishing musharaka
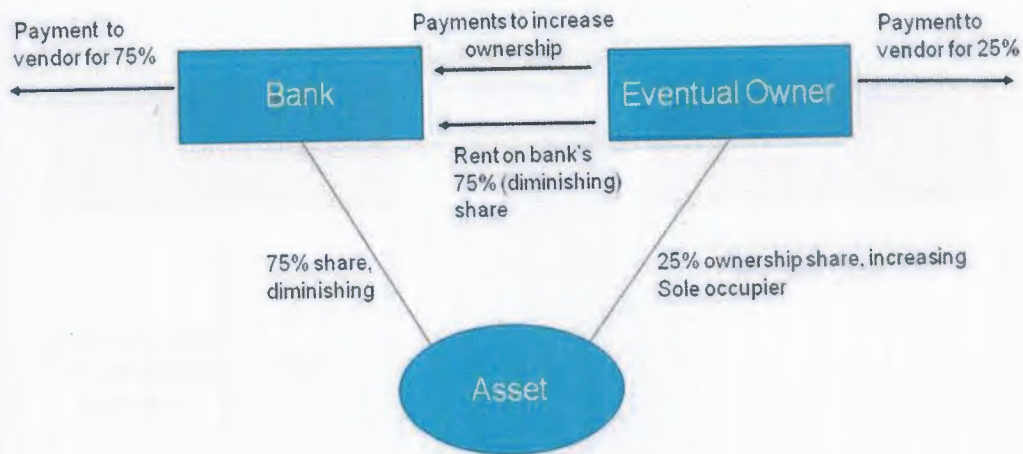
Figure 2.2 Musharakah

2.3.3 The Murabahah means sales tangible asset with mark-up. It is such a popular principle or activity among Islamic institutions as an Islamic mode of financing. Actually this instrument will lead to economic growth especially in industrial area. There are three sectors or parts in Muadarabah such as seller, bank and buyer. The operation will stars with buyer when make an agreement with bank about the merchandise as crude materials or machine or additional equipment. After agreement bank will buy the goods and resale to the customer which he or she required, but with higher price when the bank bought the good. In the other hand, the addition price should not be high and customers should continuously be alert about the charged fee.

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[8]https://www.google.com.cy/search?q=Administrator,+Mudaraba&biw=1242&bih=606&source=ln ms&tbm=isch&sa=X&ved=0ahUKEwjL4-Hq-YrMAhVEWxQKHZMeClcQ_AUIBigB#tbm=isch&q=musharakah&imgrc=7v8jNpp3QZ4XIM%3A.

Furthermore in this activity the customer or buyer can pay to the bank by cash or installment. [9]

The Murabahah mentioned in (figure 2.3).[10]
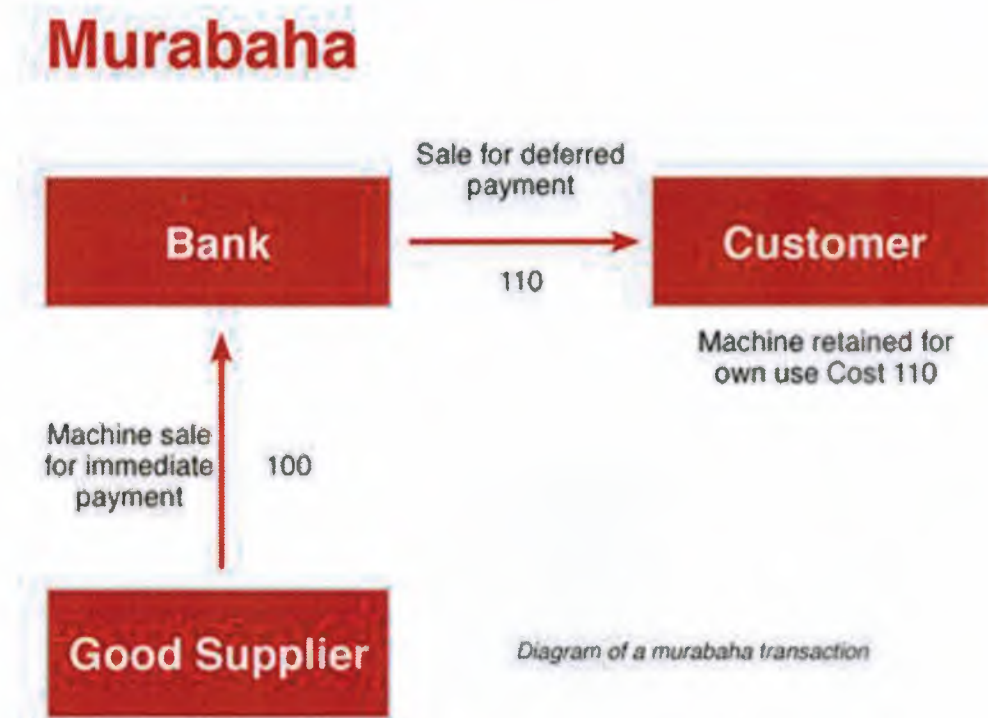
Figure 2.3 Murabaha

2.3.4 Ijarah-Leasing it is a term of Islamic fiqh. In fact the principle of Ijarah in Islamic banking system it is mean to rent something like equipment, land, building and machine. Ijarah is using for two parts, first it means when the employee getting his or her wages or salary from working place on daily working. When the employer called (mustajir) and employee called (ajir). The second meaning or purpose for Ijarah is related to usufructs of properties it means transfer a house, land, building and equipment to another person

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[9] Haron, S. and Nursofiza, W. (2009). Islamic Finance and Banking System. Mcgraw-Hill Malaysia Sdn, Bhd. Pp134-135.

[10]https://www.google.com.cy/search?q=Administrator,+Mudaraba&biw=1242&bih=606&source=l nms&tbm=isch&sa=X&ved=0ahUKEwjL4-Hq-YrMAhVEWxQKHZMeClcQ_AUIBigB#tbm=isch&q=murabahah&imgrc=fQHRppa2q6WQtM%3A.

for a rent in this situation Lessor called (mujir) and lessee called (mustajir). Actually Ijarah is a normal business activity like sale, but the main different between sale and Ijarah. With sale at the end the assets will be transferred to purchaser, but with Ijarah the assets will return to the ownership which is bank.[11]

The Ijarah mentioned in (figure 2.4).
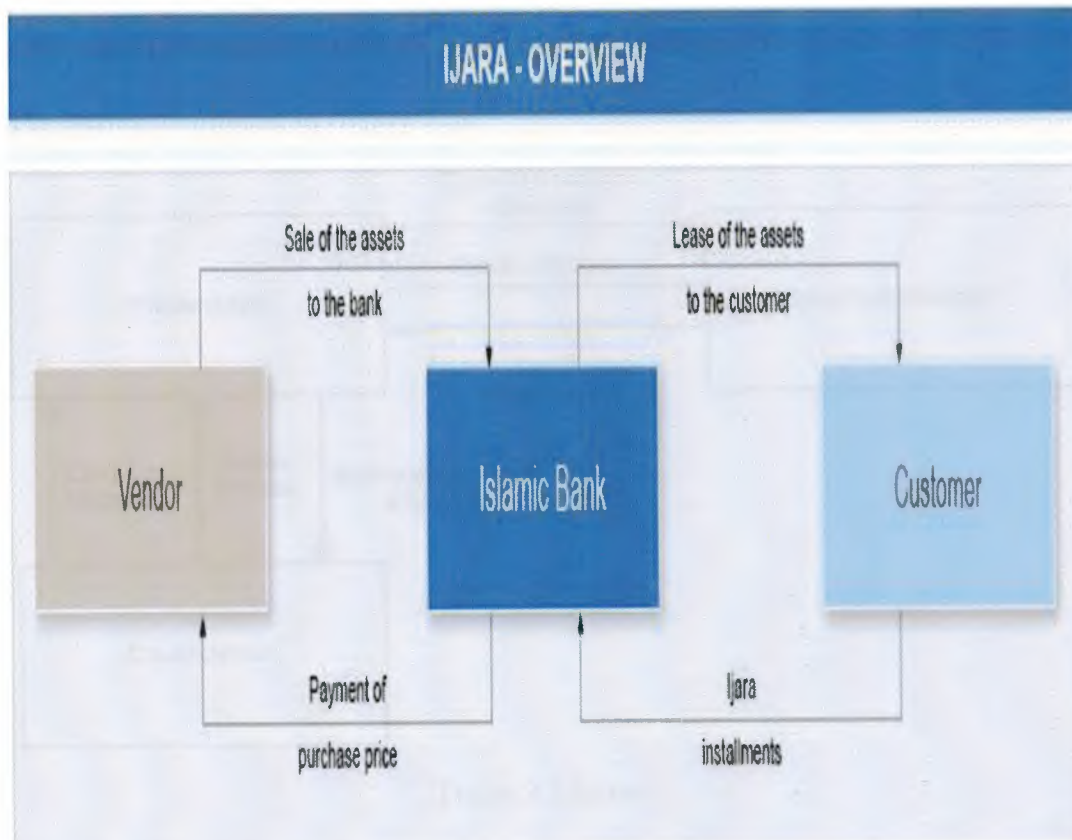
Figure 2.4 Ijarah

2.3.5 Salam and Istisna both are sale items in Islamic principle. Validity of sale in Sharia must be tangible asset which mean physically constructed or manufactured. Because in Islamic sale the commodity should exist, if the goods do not have existed

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[11] Usmani, M. M. T. (1998). Introduction to Islamic Finance. Karachi. Pp 109-110.

then the contract will not have any sense between buyer and seller. Additionally both of salam and istisna are the modes of finance. Moreover, the seller should gain the ownership of that commodity. The main different between Salam and Istisna that the price of salam should pay in advance, but for Istisna it is not necessary. Another point that contract of Salam cannot be cancelling, while the Istisna contract can be canceled before starting manufacturing. About delivery time will be not important for in Istisna, in the other hand it would be such a significant point in Salam.[12]

The Istisna mentioned in (figure 2.5).[13]
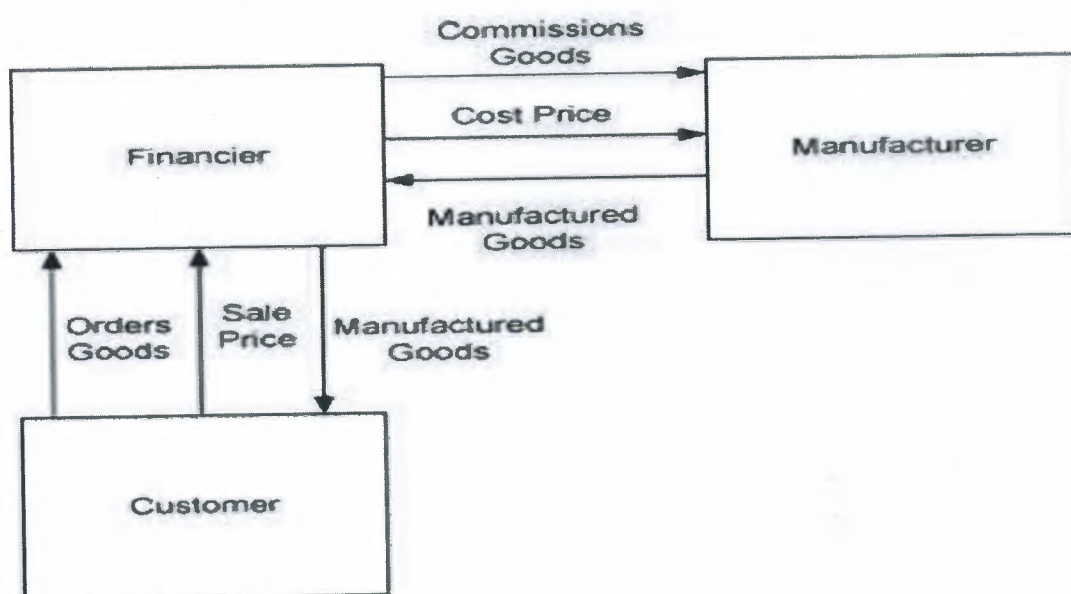
Figure 2.5 Istisna

2.3.6 Qard Al Hassan it is a loan that allowes strongly in Islam Sharia and Muslim people among them self, in the other hand, this kind of loan it is free of interest that was a biggest principle of Islamic banking system that there was interest is prohibited. The customer can borrow an amount from bank without interest for the period of time, and borrower will repay only the origin amount that borrowed from bank. Although there is

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[12]Usmani, M. M. T. (1998). Introduction to Islamic Finance. Karachi. Pp128-136.

[13]https://www.google.com.cy/search?q=what+is+salam+and+istisna&biw=1242&bih=606&source =lnms&tbm=isch&sa=X&ved=0ahUKEwiHqZKP1IvMAhUGOpoKHePhBakQ_AUIBigB&dpr=1.1#tbm =isch&q=istisna&imgrc=_.

no convention that borrower should repay more than original amount, but if the borrower wants to pay addition over the principal amount it will be allowed. Additionally, this kind of loan it is very significant for small projects and social welfare. Furthermore, if the borrower could not be able to pay back the loan in the time bank will extend this time for borrower.[14]

Qard Al Hassan mentioned in (figure 2.6).[15]
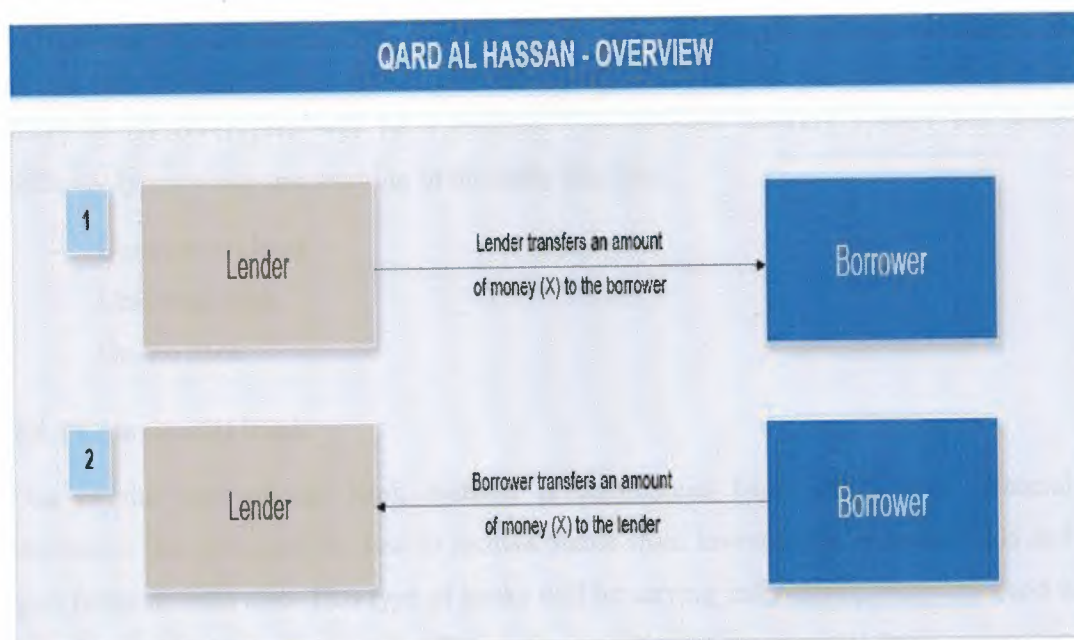
Figure 2.6 Qard Al Hassa

2.3.7 The Wadiah it is another activity that Islamic bank presents to their clients. It is a trusteeship between bank and customer, when customer requests the banks to deposit his funds for safekeeping. Bank should take the client permission to use the funds and the money guaranteed by bank. Additionally, if the customer wants to withdraw some of the funds the process can be allowed at any time.

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[14] Haron, S. and Nursofiza, W. (2009). Islamic Finance and Banking System. Mcgraw-Hill Malaysia Sdn, Bhd. Pp138.

[15] http://tridenttrust.com/index.htm.

2.4 conventional banking system

The conventional banking is one of the famed banks around the world which depends on fixed rate of interest. The main point of conventional banks are working on interest rate, because banks pretending as a intermediary between two sides first lender and investors, Second borrowers and investors which banks getting an interest from them. When bank accept a lending from lender they give an interest rate to them, also when bank give funds to borrower taking interest from them. Actually the connection among banks and customers based on Debtor and Creditor. When the banks accepting deposit from lender at this time bank will be a debtor plus depositors are creditors, but when bank giving funds to borrower then will be a creditor. Conventional banking system has some different types which are working in the daily life, like:

- Commercial bank
- Universal bank
- Online bank

2.4.1 Commercial bank

One of the conventional bank systems is commercial bank which is a financial institution that protected by law to receive funds from investments or individuals and give funds to them also. This type of banks will be serving individuals, companies and it is most trusted banks by people. The main activities of commercial bank are taking deposit from individuals, disburse payments, banks will be acting like your agent to collect funds from another banks for you. Additionally commercial bank will invest your money in securities, service saving and checking account for depositor[16].

2.4.1.1 Commercial banks Activities

There are mainly five activities performed and these are explained below.

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[16] Raymond p. Kent. (1966) money and banking, fifth edition, university of NOTRE DAME. Pp 111-112.

2.4.1.1.1 Accepting deposit

This activity of the commercial banks it known as the oldest services that bank performing during in the first time of publishing. The commercial bank providing some different types of accepting the deposits like saving a deposit, current deposit and fixed deposit. This kinds of deposits that commercial banks providing to their customers are to facilitate the customer's daily works around the world. The commercial banks also provide the cheque to the customers to make withdraws and they can transfer the funds to another person or to themselves [17].

2.4.1.1.2 Advancing loan

It is another kind of the activities that the commercial banks getting profit with this way. Advancing loans to the customers it is such as a significant and strength point for the banks, it shows the powerful sides of the commercial banks. Commercial banks providing these services in the different ways such as cash credit, in this type of loan the bank advances loan to the businessman against certain specific securities. The advancement is credited to the client current bank account. The customer can draw money via cheques according to the customer desires and paying interest on full sum. Another type of advancing loan is call loan. The purpose of this kind is to advancing loans to the bill brokers usually it is short-term not more than 15 days. Overdraft it is another kind of the commercial banks advancing loans. This loan is presented to the businessman who wanting an excess amount over their original amount and the banks will take the interest on the actually overdraft not on the full amount. If the creditor wanting funds immediately but he is not having any but he have a bills the bank will provide him the money by discounting it is called the discounting bills of exchange[18].

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[17] http://www.yourarticlelibrary.com/banking/commercial-bank-meaning-types-and-function-1797-words/10989/. Commercial Bank: Meaning, Types and Function.

[18] Raymond p. Kent. (1966) money and banking, fifth edition, university of NOTRE DAME. Pp 111-112.245-248.

2.4.1.1.3 Credit creation

The significant point is that bank has to earn profit and the creation of credit is another way to getting profits. It is one of the vital activity of the CB through this activity banks receive deposits and spread loans by having smaller amount of cash in their reserves for everyday activities. The bank gives loans by depositing the cash into the customer's account. It does not give the customer the money directly. The customer then withdraws the cash as he or she wishes.

2.4.1.1.4 Financing foreign Trade

This kind of the commercial banks activities is to helping the traders by financing the foreign trade of it is clienteles by receiving foreign bills of exchange and gathering them from other banks. It also manages other corporations and purchases and trades foreign currency[19].

2.4.1.1.5 Agency Services

The agency services of commercial banks it is one of the important activities. In this kind of activity the banks will act as an agent of the their customers in bills exchange, draft, dividends, collecting and paying cheques, buying and selling shares, securities, debentures. About the fee the banks will take from some of these activities but, for some other activities it will be free.

2.4.2 Types of Commercial bank

There are three types of commercial bank which are

1- public sector bank
2- private sector bank
3- foreign bank

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[19] Raymond p. Kent. (1966) money and banking, fifth edition, university of NOTRE DAME. Pp 249-250.

2.4.2.1 Public sector bank

Public bank sector is banking operated in a public interest. The public bank can be owned by the people through their representative government. This sort of banks can exist in a wide range of level, from regional to state to national. Any legislative body which can meet nearby saving money necessities may, hypothetically, make such a monetary establishment. The Public bank is different from the private bank that deals with the publics interests like generating short-term profits. Public banks are able to decrease taxes inside their authorities since their profits are repaid to the over-all account of the civic entity. The charges of civic projects done by state bodies are further decreased because they do not render interest upon themselves.

2.4.2.2 Private sector bank

This kind of the banks and financing is provided by the banks to high-net-worth individuals with high level of income. The term private refers to the clients services it means the services will be more personal and special than the other banks. The term of private banks originally found in the city of Venice when they were managing the rich families funds. Conventionally, private banks were connected to relatives for numerous generations. They frequently counselled and executed all fiscal & banking facilities for families.

2.4.2.3 Foreign bank

It is the kind of the commercial banks that have branches in the other countries and headquarters in the main state. Foreign banks are prone to the banking rules of the host country and also of branch countries. A bank may elect to start foreign bank divisions in order to satisfy local customers. And about the loan part, it will be limited because it is based on this kind of banks will be based on the parent bank, therefore making foreign banks to give more loans than other local banks.

2.4.3 Universal bank

Universal bank system it is one of the banking activities who making a wide diversity of financial services for the customers, because it is including both services which commercial and investment banks providing. This kind of activities will serve bank

sector better such it is making diversify for risks. Some of activities that this banks providing like making credit, loan, payments, asset administration, investment advisory, payment processing, securities transaction, funding and financial analysis.[20]

2.4.4 Online bank

It is another form of the conventional banks types that dealing with the customers via the internet because it is known also as an internet banking or web banking. This kind of bank is providing every traditional service to their customers such as accepting depositing, pay interests on savings and bill payment system. With this service the customer can permanent access to the bank and pay lower general costs also, can access it in anywhere.

2.5 Types of Accounts in the Conventional bank

There are different accounts in the Conventional banks that helping and facing the customers daily requests such as:

- Current Account
- Saving Account
- Fixed or term Account

2.5.1 Current Account

It is one of the Conventional bank account services that allow to their customers to lend their funds to the bank account and withdraw in any time that the customers want from any branches of the bank or via ATM machine. In the other hand, the bank will give a check to their clients to pay funds to the other person. Moreover, this type of bank account will not give any interest over customers deposit and to Opening a current account does not require any minimum amount to open the account and it is required to be 18 years at least.[21]

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[20] Jan, S. (2012). Optimal for Clients and Financial Stability, universal bank, November 20,2012, Page 4.

[21] Cox David. (1988) Success in ELEMENTS OF BANKING, fourth edition, printed and bound in Great Britain. Pp 204-205.

2.5.2 Saving Account

It is a deposit account in the banks or in the financial institutions that provides principal security and monthly, quarterly or annually interest rate. Additionally, the yield depends on the amount deposited in the account and the greater the savings, the greater return you will get. About withdraw for the customers they could drag on demand through the use of the delivery of the clouds through the banks branches or through automatic teller machines for individuals. Moreover, there are no constraints for opening saving account and also a minor can take a benefit from this account[22].

2.5.3 Fixed or Term Account

This kind of account will give high-interest rate to their customers compare to the other accounts like saving account and restrict the interest on the deposit maturity. The specifications of this account are competitive interest rate varies depending on the deposit amount and duration of the linkage and the interest rate varies between 4 to 11 percent. Additionally, possibility of interest rate conversion of any other account or added to the deposit itself and access to facilities to ensure the usefulness of competition. Moreover, the customer can take the electronic services for free, but the condition of the fixed account is that the Customer can not withdraw from the deposit account only at maturity and the tenure of fixed account vary from 7, 15 or 45 days to 1.5 year and can be as high as 10 years. In case the clients desire to break the deposit before the maturity date, it bears the fine fraction (according to the central bank instructions).[23]

Table 2.2 Conventional Bank Balance Sheet (Maybank Berhad 2014)

	2014	2013
Asset		
Cash and short-term funds	34,778,324	29,320,984
Deposits and placements with banks	15,811,015	15,723,864

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[22]Cox David. (1988) Success in ELEMENTS OF BANKING, fourth edition, printed and bound in Great Britain. Pp 206-207.
[23] http://www.investopedia.com/terms/f/fixedterm.asp.

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Financial assets purchased under resale agreements	3,625,291	20,558
Financial assets at fair value through profit or loss	9,425,390	5,546,091
Financial investments available-for-sale	73,630,705	64,532,797
Financial investments held-to-maturity	9,100,155	5,354,097
Loans, advances and financing	264,524,441	237,971,279
Derivative assets	4,533,709	3,199,141
Other assets	6,488,988	5,706,874
Statutory deposits with central banks	7,576,028	7,327,996
Investment in subsidiaries	20,450,502	19,505,514
Interest in associates and joint ventures	451,518	451,518
Property, plant and equipment	1,308,775	1,363,898
Intangible assets	506,267	527,268
Deferred tax assets	348,350	1,053,598
Total assets	452,559,458	397,605,477
Liabilities and equity		
Deposits from customers	306,938,972	273,670,380
Deposits and placements of banks	47,500,184	37,582,577
Obligations on financial assets sold under repurchase agreements	3,166,372	4,300,055
Bills and acceptance payable	1,187,310	1,442,612
Derivative liabilities	5,173,575	3,071,472
Other liabilities	8,789,557	9,872,786

Recourse obligation on loans and financing sold to Cagamas	1,058,860	656,293
Provision for taxation	275,373	578,100
Borrowings	13,846,812	9,318,389
Subordinated obligations	12,264,578	10,404,418
Capital securities	6,185,060	6,208,623
Total liabilities	406,386,653	357,105,705
Equity		
Share capital	9,319,030	8,862,079
Share premium	22,747,922	19,030,227
Shares held-in-trust	(113,463)	(107,248)
Retained profits	3,600,804	3,478,214
Reserves	10,618,512	9,236,500
Total equity	46,172,805	40,499,772
Total liabilities and equity	452,559,458	397,605,477

According to the Maybank Berhad annually reports indicators shows that the net profit of the bank has a new record which is reached to RM6.72 billion in the year 2014 but, the net profit indicator was RM 5.74 billion in 2013 it means the bank net profit is increased by the different amount RM 0.98 billion. Additionally, the ROE guidance of is between13.0% to 14.0%. FY2014 was supported by higher net operating income progress through business supports and better-quality cost management. Moreover, the Dividend per share of the may bank berhad indicator reached %6.5 higher than the dividend per share of 2013, and raising the dividend payout ratio to the amount %78.5 in 2014 but, this indicator was %71.9 in 2013 and provided a good dividend yield of 6.2

percent. According to the bank indicators the total asset of the bank is increasing year by year in 2011 was 323,999,608 billion, 2012 was 342,556,673, 2013 was 397,605,477 and in 2014 reached to 452,559,458. The net profit of the bank in 2011 was 2,065,285 billion, in 2012 was 4,305,904, in 2013 was 4,885,616 and in 2014 reached to 5,903,015 billion.

2.6 Variations between Islamic and Conventional Banks

To describe the variations between Islamic banks and Conventional banks there will be a table where to display the main variations.

Table 2.3 Variations between Islamic and Conventional banks.[24]

Islamic banks	Conventional banks
Islamic banks operating and activities are all founded on Shariah principles.	Conventional banks operating and activities are not based on Shariah principles.
The newfangled of Islamic bank it has become a center for collecting ZAKAT and they also paying ZAKAT.	Conventional bank it does not dealing with ZAKAT.
The aim of Islamic banks is to maximizing the profit by the Shariah	The aim of Conventional banks is also to maximizing the profit, but without any

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[24]Abdul, A., Ridhwan, A., Sanusi, A. and Hinai, S. (2014). A comparative study of Islamic financial system and conventional financial system. Globe journal vol 3 (5). Pp 19-24.

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principle.	constraints.
In the case of defaulters Islamic banks will not take any extra money. Only small amount of reparation and this will be given to charity.	Conventional banks will take additional funds from defaulters.
The risk is sharing between bank and the customers.	Predetermined rate of interest are guaranteed to the investor.
The main function of Islamic bank is to make a partnership between parts and share loss and profit among them.	The main function of Conventional bank is to offer the loan to the customers and getting back with compounding interest and not sharing the loss.
It must be related to a Shariah approved underlying transaction.	For CB borrowing from the money market is more comfortable.
The Islamic bank will deal with their customers as a partner. Buyer, seller and trader.	The Conventional bank will deal with their customers as a debtor or creditor.
The Islamic bank will be more careful about the developing projects and evaluation because of sharing the profit and loss	As income from the advances is static, it will give little priority to developing expertise in project appraisal and evaluations.
More concerned with the feasibility of the schemes during working	The conventional banks give greater emphasis on credit-worthiness of the clients when they are dealing with each other.

In Islamic bank if the account was based in Mudarabah then client must share the loss, but with wadiah must bank give the guarantee to the client.	Conventional banks have to guarantee all deposits.

2.7 Countries Overview

The area of the Malaysia is in the south East Asia only north of the Equator, and is flanked by Thailand, Singapore, Indonesia and Brunei and shares sea limits with Vietnam and the Philippines. Malaysia nation has partitioned into 13 states and three government regions and they are isolated by the South China Ocean. The autonomy of Malaysia was on 16 September 1963 as a league of Malaysia, Singapore, Sabah and Sarawak, however in 1965 Malaysia Withdraw from organization to be a different country.

Malaysia is one of the most developed economics in the part of Asia. The country changed their economy from raw material into the multi-sector economic since 1970. The Economic of Malaysia is based on electronic, agriculture, petroleum sector and tourism.

MALAYSIA BANKS BALANCE SHEET

SOURCE: WWW.TRADINGECONOMICS.COM : CENTRAL BANK OF MALAYSIA
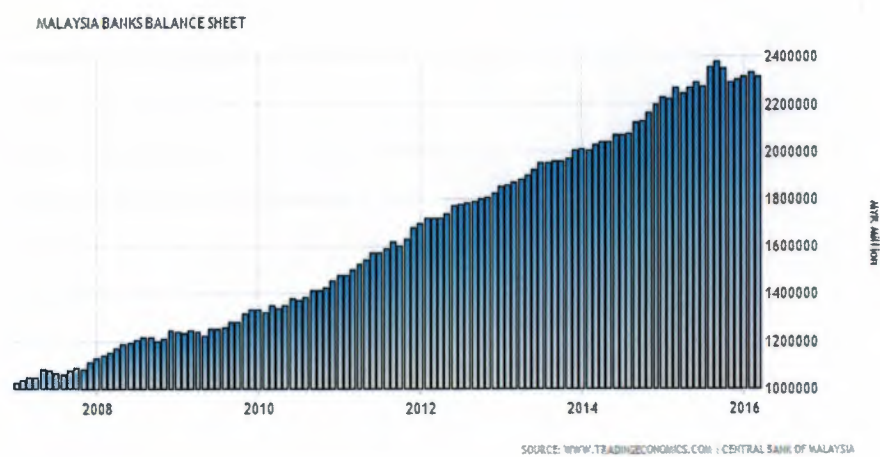
Graph 2.1 Malaysia Banks Balance Sheet

The banks in Malaysia have a significant role in the economy of the country. In the graph above shows that that the balance sheet of bank which contains Total Asset in the left side of balance sheet and Total Equity and liability in the right side they are growing year by year in the 2008 was $1200000 MYR million, and the indicators shows that this amount increased to $1800000 MYR million in 2012 that means the bank sector in Malaysia flourishing and helping the country economy to get more profits. Moreover, these indicators tell that in 2015 the balance sheet of the banks in Malaysia reached approximately $2400000 MYR million.

In spite of the challenging with the external environment, but the Malaysian economic was growing day by day. The commercial bank from Malaysia founded in 1884, establishing banks and working hard was the biggest point of growing fast. Additionally the central bank of Malaysia established in 1957. Moreover the first Islamic bank of Malaysia founded in 1983 under the name of (Bank Islam Malaysia Berhad). After that the Islamic banking sector was growing faster because the majority of Malaysian citizen it Muslims[25]. Depending on the indicators of bank Negara Malaysia (2012) in banking sector, there are 27 commercial banks including 8 domestic banks and 19 foreign owned banks. Moreover there are 21 Islamic banks including 10 domestic Islamic banks, 6 foreign and 5 international Islamic bank services. Additionally there are 15 investment banks in Malaysia banking sector.

Graph 2.2 Malaysian GDP

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[25] http://www.worldbank.org/en/country/malaysia.

United **Arab Emirates** located in the South East of the Arabian peninsula, bordering with Oman and Saudi Arabia. And the population in Emirate it is about 8.1 million people. They are using Dirham as a currency, and the major language it is Arabic, about the area of UAE 77.700 sq km. In 1971 Emirates become a union of six emirates such as Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Quwain and Fujairah. After the year of 1972 the seventh emirate become to the union which is Ras Al Khaima. Since the early years emirates developed the economy of the country and it was very rapidly as we see now, it owns one of the greatest per capital income in the world. In the other hand UAE is has largest economy in the middle-East after Saudi Arabia. Emirates have 6% of the world oil reserves and 7th biggest gas reserve. According to the UAE indicators in 2014 the petroleum exports reached to 126$ billion. The UAE government is planning to making and diversification inside the economy, for not only depending on oil sector for getting income also working in tourism and also planning about civil nuclear energy program[26].

UNITED ARAB EMIRATES BANKS BALANCE SHEET

SOURCE: WWW.TRADINGECONOMICS.COM : CENTRAL BANK OF UNITED ARAB EMIRATES
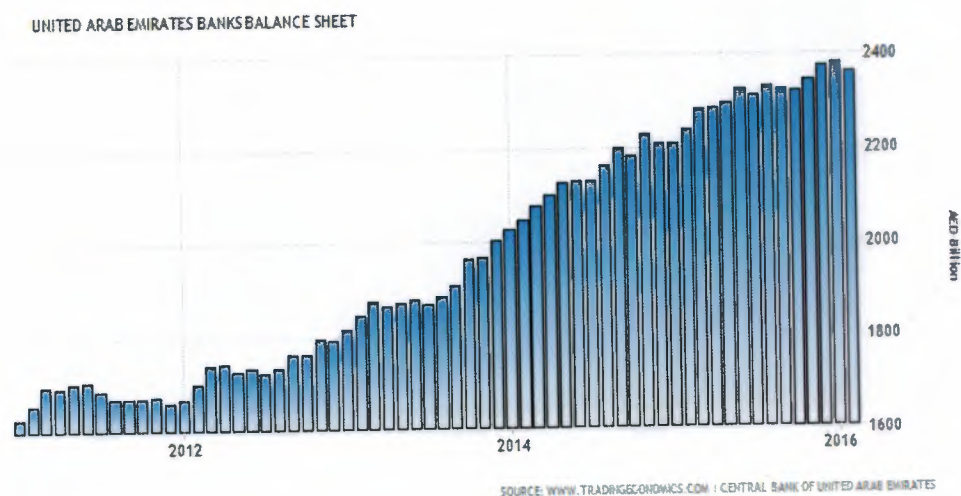
Graph 2.3 United Arab Emirates Banks Balance Sheet

When the banks are established in the United Arab Emirates the Government of UAE trying to be in the first position and increase their economy by oil or by tourists, but also banks had significant activities from growing the county. In the graph above the indicators shows that the balance sheet of banks in 2011 was $1600000 AED Billion, but

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[26] http://www.bbc.com/news/world-middle-east-14703998, United Arab Emirates country profile.

this numbers increased and reached $2200000 in 2015 and $2400000 AED Billion in 2016.

The banking sector in United Arab Emirate has a huge role in the economic growth of the nation because of that the first bank was established National bank of Abu Dhabi in 1968 and opening branch of in Cairo in 1975 and also in Sudan and Oman in 1976 after a year the branch opened in UK in 1977 and in USA and France in 1979 and the Central bank of united Arab Emirates was established in 19 may 1973 also Dubai Islamic banks established in 1973 with paid-up capital of $14 million. Moreover, establishing the first Islamic bank in 1975.There are 23 National banks in the UAE and 28 foreign banks.

UNITED ARAB EMIRATES GDP

SOURCE: WWW.TRADINGECONOMICS.COM | WORLD BANK GROUP

Graph 2.4 UAE GDP

CHAPTER THREE

LITRETURE REVIEW

There are plentiful studies about the comparison between Islamic and Conventional Banks that done it by researchers in the different countries. Because the comparative analysis of Islamic and Conventional Banks in the term of profitability it is such as a vital subject. Additionally, Banks are fulfilling the big role for the country's economic growth. Different papers who investigate about the profitability indicators or financial performance of the banks with using CAMEL ratio analysis. Banks performance evaluation is decisive for the banks position and the results will be a guide for the depositor and investor to be sure their funds are in the safe hands.

There is a research by Alimshan (2011), who attempted to classify the profitability of factors of Islamic and Conventional Banks. He used panel data for the profitability indicators ROA, ROE and NIM. As independent variables he used capital adequacy, asset quality, management quality, earning quality, liquidity quality, logarithmic of total assets. Also, cross country bank level has been used over period 2006-2009 from Turkey, Egypt, Pakistan, Malaysia, and Emiratis. For the relative research ordinary regression equation is employed to measure the difference between Islamic and Conventional Banks. Also, he used the E-views software program in his study. He found in the results of all banks regression that capital adequacy has an inverse relation with the dependent variables and statistically significant for Islamic banks, but for Conventional banks, he found that capital adequacy is absolutely impacting on ROA, NIM just. In the other hand, he investigated that ROE has confidently related to loan losses / total loan and statistically important in Islamic banks, unlike Conventional banks. With the Loan to Deposit ratio he found that if the amount of this ratio increases then the profitability determination ROA and NIM will increase it is meaning that there is a positive relation among them in Islamic Banks and they are statistically significant, but in the Conventional Banks they are not impacting it is mean not statistically significant.

Bahmanyar (2013), he investigated for 14 banks in Malaysia 7 Islamic and 7 Conventional Banks for the years 2005-2011 about profitability indicators of banks. To show the difference between these two sectors of banks he used for dependent variable ROA and ROE, but for independent variables, there are such as CA, AQ, ME, liquidity and AS. According to the panel data and the E-views program results tell that the profitability determination ROA which calculated during 2005-2011 it illustrations that Conventional banks are performing healthier than Islamic banks. They generate greater than Islamic banks, but Islamic banks have good performance during crisis time than Conventional banks because making profit by Conventional banks reduced in this time.

Alzghoul (2015), his research was about (performance analysis of Conventional banks Vs. Islamic banks in Jordan). He aimed to identify the difference between two kinds of Banks which are 3 conventional Banks and 2 Islamic Banks in Jordan during 2005-2011. He used two forms of models. First CAMEL rating system is utilized to evaluate banks perspective. Secondary, profitability analysis which is performed for the banks owners perspective. And he used variables such as capital adequacy, asset quality, management efficiency, earning ability, liquidity ratio. The information had performed with the help of a statistic technique called "trend analysis". According to the outcomes of analysis the capital adequacy ratio of Islamic banks are less than Conventional banks in the period 2005-2011 it is mean that Conventional banks are more efficiency managing the capital to protect the lenders and depositors. Moreover about the asset quality he used non-performing loans/total loans. The result will show that Conventional banks reducing their bad loans more than the Islamic banks since from 2005. It shows that Conventional banks are managed their asset quality better than Islamic banks. Additionally about the management efficiency he used income per employee and expense per employee for period 2005-2011. The author deduced that Islamic banks are more efficiency than Conventional banks because as he investigated that per employee earning it is quite equal to per- employee expense for the Conventional banks, but in the Islamic banks per worker income ratio it is higher than per worker expense. This shows that the Islamic banks are more efficiency managing their operating income and expense. For the liquidity ratio, he used loans/deposit after checking the results he found that the Islamic banks have lowest ratio amount than Conventional banks it is mean Islamic banks are

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more liquid than Conventional banks. About the profitability ratio or earning ability ROA he found that the Islamic banks are performed a much improved than Conventional banks during 2005-2011, but about the profitable determination ROE the result was reversed because the Conventional banks are performing better than the Islamic banks for 2005-2011.

Suzanna and Ola (2015), they aimed to investigate between Islamic and Conventional banks and know which kind of them performing better than the other. They used panel data for 5 Islamic banks and 11 Conventional banks in the United Arab Emirates in the period 2008-2014. To compare through this two categories they used financial ratio analysis for profitability, liquidity, credit risk, and solvency. They calculated the average of each ratio in each group and then used T-test and P-value to know the significant of the variables and show the difference between them. In this study for measuring profitability, authors used ROA and ROE and for liquidity ratios they used the loan to deposit ratio and total loan to total asset ratio. About the credit risk, they used total equity to total asset, total equity to net loan ratio and impair loan to gross loan ratio in order to measure the degree of credit risk between sectors. At the end of investigating they found that the Islamic banks are much risky, less lucrative and have high credit risk while Conventional banks are much better in profitably and solvency.

Iqbal (2012), he analyzed the liquidity risk management between 5 Islamic banks (IB) and 5 Conventional banks in Pakistan during 2007-2010. He used Ratio analysis to compare among these two sectors. For independent variables are contented such as the size of banks and NPL ratio, ROA, ROE and CAR and for dependent variable he used liquidity risk. With the help of using descriptive and correlation and regression he recognized that there is better liquidity position of IB compare to CB. It is mean that Islamic banks have more liquid to pay off it is obligations. The NPL ratio shows the decreasing in Islamic banks which mean less nonperforming loan, so it is mean that Islamic banks are better than Conventional banks. About the size of banks, it shows that Islamic banks are less than Conventional banks because the Islamic banks start operating

in Pakistan in 2007. And the results of capital adequacy about these two banks will indicate that Islamic banks have strong cushion than conventional banks it will inform us that Islamic banks can protect the lenders and investors more than conventional banks during 2007-2010.

Faisal (2005), this study was also implementing about the differentiation between Islamic and Conventional banks for Gulf cooperation council for 1997-2004. The profitability indicators are ROA, ROE and NIM. The independent variables are the total asset, total equity to total assets, and total loan to total asset, deposit to total asset, total expense to total asset and noninterest expense to total expense. He used cross country bank level to conduct ordinary least square. The outcomes of analysis were the total asset of the banks which taken the logarithmic of asset size has a positive relation with the profitability determination of Islamic banks, but reverse with Conventional banks which mean negative relation. The capital adequacy positively connected to the profitable indicators of Islamic banks, but with Conventional banks has a negative relation. Moreover, total loans have a positive relation with dependent variables ROA, ROE and NIM for both kinds of banks. In addition to, he found that the cost of two kinds of banks Islamic and Conventional banks have a affirmative influence on productivity determination.

Jaffar and Manarvi (2011), the goal of the study was to find the different points between Islamic and Conventional banks in Pakistan during 2005-2009 With using CAMEL ratio approach. The researchers analyzed about CA, AQ, earning ability, management quality and liquidity position. With taking 10 banks 5 Islamic and 5 Conventional banks. After an investigation, they recognized that Islamic banks are earned less on their assets, but Conventional banks are getting more profit during 2005-2009.In additional they found that Islamic banks are more liquid than Conventional banks. And using a high loan to asset ratio by both kinds of banks and developed debt and evasion risk were encountered by the two.

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Siraj and pillai (2012), they searched for 12 banks 6 Conventional and 6 Islamic banks in the period of time 2005-2010 in Arab league countries. They used "ANOVA" test for checking between these two forms of banks and also use utilize working expenditures, profits, assets, operating income, deposit and total equity as the variables. After running the test they found that IBs had more or greater ROA and ROE than the Conventional banks. Additionally, they found that Islamic banks had greater equity than Conventional banks. Moreover, the degree of operating income was higher than operating expenses in Islamic banks relating to Conventional banks.

Ansari and Rehman (2011), The goal of the study was to know difference between two kinds of banks in Pakistan which are Islamic and Conventional banks during 2006-2009. They used t-test and ANOVA. The study will evaluate the profitability of Islamic and Conventional banks in the term of profitability, liquidity, risk and solvency, CA, operation and resource allocation efficiency. This comparative study which is done in Pakistan the results of the analysis will show that IBs have more financial performance than Conventional banks. About the profitability performance do not show the significant different between the performance of Islamic and Conventional banks it will say that Islamic banks are not more profitable than Conventional banks. The liquidity measure results will show that Islamic banks are more liquid than Conventional banks which are statistically different from each other. And also found that Islamic banks are less risky than Conventional banks. About the capital adequacy and efficiency performance quite different from each other which tells that Islamic banks are less efficiency than Conventional banks. And also for source allocation Conventional banks are extra resourceful than IBs.

Masruki, Ibrahim, Osaman&Wahab (2011), the aim of the study is to find the different or to compare two kinds of banks which are 1Islamic and 1Conventional banks in Malaysia during 2004-2008. They used audited financial statements for realizing the differentiation in the area of profitability, liquidity, risk, solvency and efficiency. They used T-test to getting the target. After checking the results of this two founders the

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outcomes tells that in the term of profitability and liquidity Conventional bank is more profit and liquid than Islamic bank and statistically significant and different from each other during 2004-2008. For efficiency measure, they found that Islamic bank is more effective than Conventional bank plus also about risk and solvency perspective they found that Conventional bank is less risky than Islamic bank during 2004-2008.

Another study by Sherish, Saleem, Yasir, Shehzad and Ahmed. (2012), who done the comparison between sectors which are Islamic banks and Conventional banks in Pakistan during 2007-2011. He used the financial ratios for investigating the different between these two sectors. Take the profitability ratio, efficiency ratio and credit ratios. In additional he has taken 4 Islamic banks and 4 Conventional banks. After analyzing the data of these banks he found that the Islamic banks were more profitable in the first three years of the study, but after this time Conventional banks passed the IBs in term of profitability, but ultimately there was no big difference between this two banks. About risk term, he recognized that Islamic banks are less risky than Conventional banks. And in the general the Islamic banks are performed extra satisfactory than the Conventional banks.

Awan A.G.(2009), The study was aimed to make a comparison among Islamic and Conventional banks in Pakistan during 2006-2008 for 12 banks which are 6 Islamic and 6 Conventional banks. The author selected the financial ratios to find a variation of the banks in Pakistan. The Author used such as capital adequacy, asset quality, earning and liquidity. And also he used straight interview method to record the view of Islamic and Conventional banks and comparative analysis technique was applied to compare the operation framework between banks and also he used ratio analysis technique to measure as we mentioned above. After checking the results Islamic banks was more profession and better working than Conventional banks in term of earning and more transparent during 2006-2008. About the debt ratio term was show that Islamic banks are stronger than Conventional banks because the amount of debt of Islamic banks was less than Conventional banks also the capital was high. The indicators were showing that Islamic banks are more efficiency than Conventional banks in term of liquid ratios it

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meant they are do not want the external funding in the sudden situations. About the capital adequacy ratio, the result was telling that Islamic banks are doing better than Conventional banks in time 2006-2009.

Samad (2004), behaved a research on taking the comparison between the Conventional banks and the Islamic banks in Bahrain. During 1991-2001 in the term of profitability, liquidity and credit risk ratio. The execution examination of Bahrains routine saves money with Islamic banks set up that there was a critical distinction in credit execution between this two areas. Nonetheless, no distinction in the gainfulness and liquidity exhibitions of both saving money sections was found amid 1991-2001.

Saifullah (2010), The purpose of this study was to know which type of the banks are more efficient and working better and stronger than the other such as the Conventional banks and the Islamic banks in Bangladesh during 2004-2008. The study was using the terms like profitability, liquidity, business development, solvency, efficiency and productive. After checking the data and analysis he found that Conventional banks are better than Islamic banks in term of efficiency and productivity, but in the term of profitability, liquidity, solvency and business development the Islamic banks doing better than the Conventional banks.

Another study done by Hamid and Azmi (2011), The study was in Malaysia which it is one of the countries who using the Islamic and Conventional banks. Authors have taken 2 banks consist of 1 Islamic and 1 Conventional bank in the period of time 2000-2009 which means 10 years. To making the comparison between these two sectors they used profitability, liquidity, risk, solvency and community involvement. Authors also used T-test to find the difference. After checking the outcomes they recognized that Islamic bank is more liquid and more risky than the Conventional bank, but in the profitability term they did not find a significant different between this two sector banks, additionally, in this research they notice that there is a failure of contribution in public financing for Bank Islam Malaysia berhad due to be accessible other Islamic instruments that are extra lucrative than musharakah and mudarabah.

Kader and Asarpota (2007), they employed bank level information to measure the enactment of the UAE Islamic and conventional banks. 3 Islamic banks and 5 conventional banks used. Balance sheets and income statements from 2000 to 2004 are utilized for the study. To examine the performance of the Islamic and conventional banks in term of profitability, liquidity, risk and solvency, and efficiency financial ratios was applied. The findings show that Islamic banks of UAE are relatively more profitable, fewer liquid, less risky, and additionaly efficient when compared to UAE conventional banks.

Rozzani and Rahman (2013), the main aim of the research was to ascertain the efficiency of two types of the banks in Malaysia which are Islamic and Conventional banks during 2008-2011. The sample was obtained 16 Islamic banks and 19 Conventional banks. They also used annual reports to getting data for making analysis for banks. After taking out the results they recognized that both institutions are extremely similar in the terms of profit efficiency, but in the term of risk and cost the Islamic banks are healthier than the Conventional banks during 2008-2011.

Rima Turk Ariss (2009), the study was about analyzing the aggressive conditions winning in Islamic and traditional worldwide managing an account advertises, and explore the conceivable contrasts in benefit between these business sectors. The author collected data across 13 countries from 2000-2006. After analyzing the result inform us that Islamic banks are healthier than Conventional banks in the capital and less competitive than the Conventional banks and Islamic banks assign a larger part of their resources to funding activities paralleled to conventional banks.

Table 3.1 summary of previous studies

Authors	Period studied	Variables	Results	Methodology	Country
Alimshan Faizulayev	2006-2009	ROA-ROE-NIM- CA-ASQ-MAE-LIQ- ASZ	CA negatively impacting on profitability term for Islamic banks, but positively relation with ROA and NIM for Conventional banks. Total loan losses/total loan positive impacting on ROE for Islamic banks and also loan to deposit positively impacting on ROA and NIM for Islamic banks	Panel data-ordinary regression equation	Turkey-Malaysia-Pakistan-UAE-Egypt
Bahman yar Hamedian	2005-2011	ROA-ROE- CA-ASQ-MAE-LIQ-ASZ	Conventional banks performing better than Islamic banks. Because they generate more profit, but Islamic banks well performing than Conventional banks during crisis time	Panel data-vector auto regression method	Malaysia
Mohammad Omar	2005-2011	CA- ASQ-MAE-LIQ-	ROA for Islamic banks was better than Conventional banks,	Past data-Trend analysis	Jordan

Alzghou l		ROA- ROE	but ROE for Conventional banks was preferable than Islamic banks. CA for Conventional banks was doing better than Islamic banks also same result for ASQ, but MAE of Islamic banks was superior over Conventional banks also same result for LIQ		
Suzanna El Massah and Ola Al- sayed	2008- 2014	Profitabilit y- liquidity- credit risk- solency	Islamic banks are more risky, less profit and higher credit risk than Conventional banks, but Conventional banks are more profit and solvency than Islamic banks	Panel data- descriptive financial analysis	United Arab Emirates
Anjum Iqbal	2007- 2010	Liquidity risk- ASZ- NPL ratio- CA- ROA- ROE	For LIQ ratio the result tells that Islamic banks are much liquid than Conventional banks also about NPL ratio have the same results, but about ASZ of the banks Conventional banks were doing better	Descriptive analysis of mean value of ratios	Pakistan

Authors	Period	Variables	Results	Methodology	Country
			than Islamic banks. Additionally, Islamic banks performing better than Conventional banks in CA ratio		
Faisal A. Alkassi m	1997-2004	ROA- ROE- NIM- ASZ- total equity to total asset- total loan to total asset- deposit to total asset- total expenses to total asset- non interest expense to total asset	Total asset has positive relation to the profitable indicators for Islamic banks, but negatively relation with Conventional banks. CA has a positive impact in Islamic banks, but negative impacting in Conventional banks. About the Loan ratio and COST, the have a positive relation with profitability indicators for Islamic and Conventional banks	OLS	GCC-Gulf cooperation council
Authors	Period	Variables	Results	Methodology	Country
Muham mad	2005-2009	CA- ASQ-MAE-	Islamic banks earning less on their assets than	Average ratio comparison	Pakistan

Jaffar and Irfan Manarvi		Earning ability-LIQ	Conventional banks. For LIQ ratio Islamic banks were more liquid than Conventional banks, but both of them using high loan to asset ratio and debt		
Siraj and Pillai	2005-2010	Total income-total expenses-total asset-total profit-deposit-total equity-share capital	ROA and ROE for Islamic banks performing better than Conventional banks also the Equity of Islamic banks were more than Conventional banks. Operating income was more than operating expenses in Islamic banks comparing to Conventional banks	ANOVA	GCC
Ansari and Rehman	2006-2009	Profitability-liquidity-risk and solvency-capital	Islamic banks have better financial performance than Conventional banks, but they are equal in getting profits. Islamic banks were more liquid	t-test and ANOVA	Pakistan

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		adequacy	and riskier than Conventional banks. Conventional banks more efficiency than Islamic banks and more efficient with source allocating		
Masruki, Ibrahim, Osaman &Wahab	2004-2008	Profitability- liquidity- risk and solvency- efficiency	The profitability and liquidity of Conventional banks were better than Islamic banks, but about the efficiency, Islamic banks were more efficient than Conventional banks. In the other hand, Conventional banks were less risky	T-test significant	Malaysia
Sherish, Saleem, Yasir, Shehzad and Ahmed	2007-2011	Profitability ratio- efficiency ratio- credit risk ratio	The profitability ratio result tells that there are no big differences between this two banks, but Islamic banks less risk than Conventional banks and more satisfactory	Comparative analysis	Pakistan

Awan A.G	2006-2008	Capital adequacy-asset quality-earning-liquidity	After checking the results Islamic banks were more profession and better working than Conventional banks in term of earning and more transparent. The indicators of debt ratio was telling that Islamic banks stronger than Conventional banks also the Liquid ratio was the same result. About the CA ratio, the result was preferring Islamic banks over Conventional banks	Direct interview method-comparative analysis –ratio analysis technique	Pakistan
Samad	1991-2001	Profitability-liquidity performance- credit risk	The results show that there was a significant difference in credit performance between this two sectors. However, no difference in the profitability and liquidity performances of both banking segments was found	Equality of mean test	Bahrain

Saifullah	2004-2008	Profitability ratio- liquidity ratio- solvency- business developm ent ratio- efficiency ratio- commitme nt to economy	Conventional banks are better than Islamic banks in term of efficiency and productivity, but in the term of profitability, liquidity, solvency and business development the Islamic banks doing better than the Conventional banks.	T-test method	Banglade sh
Authors	**Period**	**Variables**	**Results**	**Methodology**	**Country**
Hamid and Azmi	2000-2009	Profitabilit y ratio- liquidity ratio- risk- solvency- communit y involveme nt	The indicators tell that Islamic bank was more liquid and risky than Conventional bank, also, they found that there is no significant different between both banks in term of profitability	T-test method	Malaysia

Kader and Asarpota	2000-2004	Profitability-liquidity-risk-solvency-efficiency	The findings show that Islamic banks of UAE are relatively more profitable, less liquid, less risky, and more efficient when compared to UAE conventional banks.	Bank level data	United Arab Emirates
Rozzani and Rahman	2008-2011	Profit efficiency-total asset	The profit efficiency indicators show that the Islamic and Conventional banks are similar, but in the term of risk and Coast Islamic banks were working better than Conventional banks	Financial measurement method	Malaysia
Rima Turk Ariss	2000-2006	Average of total loan to asset-equity to asset-ROA-ROE	Islamic banks are better than Conventional banks in term of capital and less competitive than the Conventional banks and also the Islamic banks allocate a greater share of their assets to financing activities compared to conventional banks.	Competitive conditions prevailing	13 countries

CHAPTER FOUR

DATA AND METHODOLOGY

4.1 Data

In this study, the panel data has been utilized to procedure the empirical examination of the determination of profitability about Islamic and Conventional banks that are derived from financial accounts. The data has been taken and calculated from balance sheet and income statements of banks annual reports[27].Taking 22 banks from United Arab Emirates and Malaysia bank sectors (11 Islamic and 11 Conventional banks) over the period of 2005-2014. The Number of the observations are 220. Countries and banks are illustrated bellow.

Table 4.1:Table of Islamic and Conventional Banks in Emirates for period 2005-2014.[28]

Country	NO	Name of Islamic and Conventional Banks
Emirates	1	Emirates Islamic Bank
	2	Sharjah Islamic Bank
	3	Dubai Islamic Bank
	4	Abu Dhabi Islamic Bank
	5	Mashreq Bank PSC
	6	Union national Bank
	7	Commercial bank of Dubai
	8	Emirates NBD

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[27] Google/Annual reports for banks financial statements.
[28] https://en.wikipedia.org/wiki/List_of_banks_in_the_United_Arab_Emirates

Table 4.2: Table of Islamic and Conventional Banks in Malaysia for period 2005-2014.[29]

Country	NO	Name of Islamic and Conventional Banks
Malaysia	1	Bank Islam Malaysia Berhah
	2	Banks Muamalat Malaysia Berhad
	3	RHB Islamic bank Berhad
	4	Affin Islamic bank Berhad
	5	Hong Leong Islamic bank Berhad
	6	HSBC Amanah Islamic bank Berhad
	7	Kuwait finance house Malaysia Berhad
	8	CIMB investment bank Berhad
	9	Deutsche bank Berhad
	10	Maybank investment bank Berhad
	11	RHB investment bank Berhad
	12	United overseas bank Malaysia Berhad
	13	Standard chartered bank Malaysia Berhad
	14	OCBC al Amin bank Berhad

[29] http://www.bnm.gov.my/index.php?ch=13&cat=banking&type=CB&fund=0&cu=0

4.2 Methodology

4.2.1 CAMEL System

The CAMEL score method is a global bank assessment method where bank managerial specialists grade the firms in terms of 5 factors, which are:

- Capital Adequacy
- Asset Quality
- Management Efficiency
- Earnings
- Liquidity

The purpose of CAMEL rating system is to control the banks overall state and to classify its powers and flaws points of financial operational and managerial risks. Each bank is allocated an even complex assessment based on five features. The system offers a strategy of assessing banks. The management therefore, notes which institutions need more emphasis in management.

4.2.2 Stationary Test

Panel unit root test has been used to the variables, in order to realize that data is stationary or non-stationary. As per the methodology development by Levin Lin and Chu (LLC) the data will reject null hypotheses which is non-stationary and accept alternative hypotheses, that tells unit root does not exist in the data or the data is stationary

4.2.3 Correlation Test

The estimated model will take the correlation test to determine the relation between the independent variables. These relations will be between (-1) and (+1), and also show the existence of multicollinearity in regression of the model. According to the correlation of the independent variables are very low, also, R-squared is low which is will prove of the absence of multicollinearity.

4.2.4 Ordinary Regression Equation

In this thesis ordinary regression equation is used to quantify and estimate the difference between Islamic and Conventional banks based on the profitability during 2005-2014.

4.2.5 Panel data analysis

Panel analysis which is a statistical technique vastly adopted in social science and econometrics, which handles a two-dimensional, they are cross-sectional and time series. A common panel data analysis will take dependent and independent variables.

The common Panel data regressions are as follows:

$$y_{it} = a + bx_{it} + \epsilon_{it}$$

Where Y is a dependent variable, X is the independent variable, a and b are the coefficient, I and t are indices for individuals and time.

The error ϵ_{it} is vital for this examination. Suppositions about the error term figure whether we speak of fixed effects or random effects, in the static effects model, ϵ_{it} is presumed to differ non-stochastically over i or t but in a random effects model, ϵ_{it} is assumed to vary stochastically over i or t . After running test for (Hausman) which guide the researcher which kind of effects will be used between (Fixed or Random) effects. In the Hausman test the result will show if the p-value was greater than (0.05) then we should use Random effect because it will give the best results, but if p-values were less than (0.05) then the Fixed effect will be the best way to run the regression. Then make a comparison between these two outcomes. We run regression analysis by using E-views software program to estimate the equation.

The following below are the econometric models:

$ROE = \beta_0 + \beta_1(CA) + \beta_2(ASQ) + \beta_3(MAE) + \beta_4(LIQ) + \beta_5(ASZ) + \varepsilon$

$ROA = \beta_0 + \beta_1(CA) + \beta_2(ASQ) + \beta_3(MAE) + \beta_4(LIQ) + \beta_5(ASZ) + \varepsilon$

Where:

ROE represents the Return on Equity,

ROA represents the Return on Assets,

β_0 signifies the constant,

CA denotes Capital Adequacy,

ASQ denotes Asset Quality,

MAE symbolizes Efficiency,

LIQ symbolizes Liquidity,

ASZ denotes Asset Size,

E symbolizes error term.

4.3 Variables descriptions

The CAMEL ratios or method will be adopted in this thesis so as to ascertain the profitability of banks. This method is considered as one of the most appropriate instruments to evaluate the performance of banks. There will be independent and dependent ratios, dependent variables which are Return on Assets (ROA) and Return on Equity (ROE), about independent variables are Capital Adequacy (CA), Asset Quality (ASQ), Efficiency (MAE), Liquidity (LIQ) and Asset Size (ASZ).

Table 4.3: The variables, measures and notations

Variables	Variables	Measures	Notation
Dependent variables	Return on assets	Net income/Total Assets	ROA
	Return on equity	Net income/Total Equity	ROE
Independent variables	Capital adequacy	Equity/Total Assets	CA
	Asset quality	Total loan, advances and financing/Total Assets	ASQ
	Management efficiency	Total expenses/Total income	MAE
	Liquidity	Liquid Assets/Total Assets	LIQ
	Asset size	Natural Logarithm of Total Assets	ASZ

In this study, all the variables will be an account by using CAMEL ratios for comparative study.

Table 4.4 Expected sign with Dependent variables

Independent variables	Expected sign
Capital adequacy	(+/-)
Asset quality	(+/-)
Management efficiency	(-)
Liquidity	(+/-)
Asset size	(+)

All dependent and independent variables which mentioned above in the models will be defined bellow.

4.3.1 Dependent variables

4.3.1.1ROE

Return on Equity is one of the profitability determination which equals to net income over Total equity. This indicator will show how much profit is created from the sum of capital which stockholders invested. with this ratio, executives will comprehend how well they using equity to create profit.

4.3.1.2ROA

Return on Assets is one of the profitability determinations for the banks or financial companies which equal to net income over Total assets. ROA determine the efficiency of management in term of resources. In the other word this indicator will tell us how the efficacy of the banks to making a profit by utilizing assets.

4.3.2 Independent variables

4.3.2.1 Capital adequacy

Total Equity over Total assets (CA) or capital to risk weighted asset ratio, which is represents capital adequacy. Otherwise, with the use of capital adequacy, it is estimated how well banks will protect depositor and lenders from bankruptcy. Therefore, if bank managers oversee banks well in the term of capital adequacy that will show the stability for bank position and the customers will be comfort. So it means increasing amount of this ratio will lead to the high return for banks.

Furthermore, the capital adequacy ratio from an investment risk perspective has a negative relation with total revenue to the banks or companies. This is assumed from the investment theory that lower risk will lead to lower returns. So it will inform us that increase in the amount of this ratio will tend to reduce the risk of equity and decrease the revenue on the companies bought by investors and thus will decrease market share price and market returns.

4.3.2.2 Asset Quality

This ratio is computed by dividing of total loan, advances, and financing over Total Asset. Which Asset will be on the left-hand side of the balance sheet that consists mostly of loans. And this ratio will express how much Asset utilized as a loan. The quality of the loans is very important to depositors and investors because from loans Banks will generate most profits or returns. It will make to expect a positive relation with the banks profit indicators.

Additionally, in some cases where the economy is not exhibiting sound productive capacity despite an increase in bank loans to the public the bank profitability may not increase. The reason will be in bad loans or bad general economic problem or if the bank makes the loan to the customers they will not return the loan, in this case, banks are not getting a return it will lead to loss rather than profit Bahmanyar(2013).

4.3.2.3 Management Efficiency

Management efficiency is equal to Total expenses over Total income. It will take from income statement of the banks and it will show how much the cost such as incomes, wages, and assets, fixed and managerial expense of the banks are and how they will get from investments. If the amount of this ratio was high must managers be careful because it means the cost it is getting high and it is not a good sign for banks.

4.3.2.4 Liquidity

Liquidity is computed as Liquid Assets over Total Assets. This indicator will inform us that if the amount of this ratio was high then banks will be in safe position because they will be able to face daily withdrawals and it is safer for the time of bankruptcy it means there is a positive relation (Bourke, 1989)), but in the otherwise more excess cash in the banks will lead to less profit because instead of investing the funds will keep it in banks that will lead to negative relation (Molyneux and Thorton(1992) page 1173-1178).

4.3.2.5 Asset Size

Logarithmic of Total Assets, Which Total asset will show on the left side of the balance sheet and contain short-term funding long-term funding and tangible and intangible assets. That is why logarithmic of the total asset is obtained to make a regression analysis. A large amount of this factor will lead to more profit for the banks (Hidayat, Abdul Rashid and Haty, 2014)

CHAPTER FIVE

EMPIRICAL ANALYSIS AND RESULTS

5.1 Stationary Test

For the period of 2005 to 2014, we need to verify if the data used is stationary. Therefore to verify this data stationarity, a unit root test was used. As per the unit root test used by Levin, Lei and Chu, we need to reject null hypothesis if the data is not stationary and accept if the data is stationary. The tables below will support our decision.

H0: Data is non-stationary

H1: Data is stationary

Table 5.1: Stationary unit root test

NO	Variables	Unit root test (Levin, Lin& Chu) Prob p-value	
1	ROA	0.0000***	Level
2	ROE	0.0000***	Level
3	CA	0.0000***	Level
4	ASQ	0.0000***	Level
5	MAE	0.0000***	Level
6	LIQ	0.0000***	Level
7	ASZ	0.0000***	Level

Note: * significant at $\alpha=10\%$; ** significant at $\alpha=5\%$; *** significant at $\alpha=1\%$.

As indicated by the outcomes in the tables above 5.1, we recognized all the prob p-value is less than (0.05). In this case, we will accept the Alternative Hypothesis which is the data is stationary and reject Null Hypothesis which is the data is non-stationary.

5.2 Correlation Analysis

So as to ascertain the relation amid the independent or explanatory variables among themselves, correlation analysis has used. Correlation analysis shows how the variables affecting each other in during the time (2005-2014), this outcome can be positively or negatively on the variables with dissimilar amounts. We will show the results as whole and separately.

Table 5.2: Correlation of variables for All Banks (Islamic and Conventional).

	CA	ASQ	MAE	LIQ	ASZ
CA	1.00				
ASQ	-0.33	1.00			
MAE	-0.05	-0.15	1.00		
LIQ	0.01	-0.64	0.28	1.00	
ASZ	-0.28	0.34	-0.20	-0.37	1.00

According to table 5.2, first we will talk about capital adequacy (CA) it will show us that the (ASQ, MAE and ASZ) have a negative correlation between them, but with variable liquidity (LIQ) have positive correlation which is (0.01). Moreover (MAE,LIQ) have a negative relation with Asset quality (ASQ), but Asset size (ASZ) have a positive relation with (ASQ) which is (0.34). About management efficiency (MAE) as we see (LIQ) have a positive correlation (0.28), but (ASZ) have a negative correlation with (MAE). Additionally (ASZ) have a negative relation with (LIQ). The results are shows the relations are very low between the variables and it is a good sign.

Table 5.3: Correlation of variables for Conventional Banks (2005-2014)

	CA	ASQ	MAE	LIQ	ASZ
CA	1.00				
ASQ	0.17	1.00			
MAE	-0.12	-0.13	1.00		
LIQ	-0.007	-0.79	0.18	1.00	
ASZ	-0.30	0.34	-0.04	-0.29	1.00

After analyzing of conventional banks variables correlation we checked that there is a negative correlation between (MAE, LIQ and ASZ) with Capital adequacy (CA). In additional Asset quality (ASQ) have a positive correlation which is (0.17). Likewise (MAE, LIQ) has a negative relation with (ASQ), but (ASZ) have a positive relation with (ASQ) in (0.34). Moreover, Liquidity (LIQ) have a positive correlation with Management efficiency (MAE) which is (0.18), but have a negative correlation with Asset size (ASZ). Also (ASZ) have a negative relation with Liquidity (LIQ). The result will show us that the relation or Correlation among independent variables is low which is a good sign.

Table 5.4: Correlation of variables for Islamic Banks (2005-2014)

	CA	ASQ	MAE	LIQ	ASZ
CA	1.00				
ASQ	-0.51	1.00			
MAE	-0.07	0.03	1.00		
LIQ	-0.04	-0.47	0.07	1.00	
ASZ	-0.35	0.01	-0.0002	0.1	1.00

According to table 5.4 for correlation of variables for Islamic banks we investigated that the (ASQ, MAE, LIQ and ASZ) have negatively correlated with Capital adequacy (CA). And (MAE, ASZ) have a positive correlation with Asset quality (ASQ) which is (0.03, 0.01), but Liquidity (LIQ) have a negative correlation with Asset quality (ASQ). Otherwise, Liquidity (LIQ) positively related with Management efficiency (MAE) in amount (0.07), but Asset size (ASZ) negatively related with Management efficiency (MAE). In the other hand, Asset size (ASZ) positively correlated with Liquidity (LIQ) in (0.1). In sum up the relations between independent variables are very low which is a good sign.

5.3 Regression analysis

The aim of this chapter is to explain the output of the regression analysis for both Islamic and conventional banks. In order to elucidate how the alterations of the independent variables will affect the determination of profitability which are ROA, ROE. The thesis projected six regression analysis which is classified into two models (separate and general) regression models. Furthermore General model consists of two regression analysis for all the banks and then take models separately into Islamic banks and conventional banks and the outcomes are compared.

5.3.1 General Model Regression Analysis of All Banks

The general model will contain all the banks together Islamic banks and Conventional banks.

Table 5.5: Regression Analysis for All Banks

	All banks	
	ROA	ROE
Constant coefficient	-6.038	55.353
T-statistic	-2.581885 **	5.418722***
CA coefficient	0.077	-0.476
T-statistic	3.870380***	-5.345850***
ASQ coefficient	0.014	0.086
T-statistic	1.305657	2.053595**
MAE coefficient	0.002	-0.214
T-statistic	0.296823	-6.751523***
LIQ coefficient	0.021	-0.014
T-statistic	1.805787*	-0.320473

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ASZ coefficient	0.618	-4.195
T-statistic	2.274404**	-3.638989***
R-squared	0.404	0.256
Adjusted R-squared	0.323	0.238
F-test	5.031***	14.752***

Note: * significant at α=10%; ** significant at α=5%; *** significant at α=1%.

According to the result of table 5.5, we will interpret the result of affecting the independent variables on dependent variables over the period (2005-2014).There are two dependent variables which are Return on Assets and Return on Equity (ROA, ROE) and five independent variables which are Capital adequacy (CA), Asset quality (ASQ), management efficiency (MAE), Liquidity (LIQ) and Asset Size (ASZ). In the first model for ROA we run the fixed affect because the result of the Hausman Test was less (0.05). As we see (MAE) it is not statistically significant which mean is not affecting on the determination of profitability ROA the same result with Bahmanyar (2013). Otherwise, (LIQ) have a positive relation with dependent variable and statistically significant it means if (LIQ) change or increase by %1 so ROA will increase by 0.02 Bahmanyar (2013) has come up with the same result, but Alimshan (2011) has inverse result. And also, capital adequacy (CA) have a positive relation with Return on Assets (ROA) and statistically significant so if (CA) increase by %1 then ROA will increase by 0.07 it means if the banks increase an amount of the total equity or capital of the banks then they will get more profit on ROA and it is the results that we expected and the results are in also in line with Alimshan (2011). Furthermore, if we check (ASZ) we will see it also has a positive relation with dependent variable ROA and statistically significant it means if Total Assets (ASZ) increase by %1 then ROA will increase by 0.61 positive inelastic affecting since it is less than 1 we see the same result with Alimshan (2011). On the other hand (ASQ) is not statistically significant because the prob p-value more than (0.1, 0.05, 0.01) which means it is not affecting to the profitability determination ROA. The model is reliable due to F-test which is statistically

significant and R-squared is (0.40) which means the model can be explained by the variables in 0.40 and also it is a sign for an absence of multicollinearity in the model.

Referring to Table 5.5 we will run the ROE model with random effect because the result of Hausman Test will show us that prob p-value more than 0.05. if we check the variables we will see that Management efficiency (MAE) it is negatively impact the dependent variable Return on Equity (ROE) and it is statistically significant it meant if (MAE) increase by %1 then (ROE) will decrease by (-0.2) so if the banks increase the cost to revenue ratio they will get loss on Return on Equity Alimshan (2011) has come up with the same result. Otherwise, (LIQ) is not statistically significant it is not affecting to dependent variable ROE same results with Alimshan (2011), but (CA) is statistically significant and negatively impact to ROE it show if (CA) increase by %1 so ROE will decrease by (-0.4) also (CA) named risk-weighted Asset which is an indicator of banks capital to it is risk the results come up with Bahmanyar (2013). In the other hand (ASZ) negatively impacting the dependent variable which is ROE and it is statistically significant it means if the (ASZ) increase by %1 then the dependent variable which is (ROE) will decrease by (-4.1) maybe the bank is not managing the Total asset efficiently or it is not big enough. Furthermore (ASQ) positively affecting the profit determination which is ROE and it is statistically significant which tell us if (ASQ) increase by %1 then ROE also increase by (0.08)which is tells if the banks increase the Total loan to the customers then they will get more profit on equity the results are in also in line with Bahmanyar (2013). And the model is reliable due to F-test which is statistically significant an R-squared is low (0.25) it means that the model can explain by the variables in 0.25 and it will be also a sign of the absence of multicollinearity in the model.

5.3.2 Regression Analysis Result for Conventional banks

The separate model for the Conventional banks

Table 5.6: Regression Analysis Result for Conventional banks

| | Conventional Banks | |
	ROA	ROE
Constant coefficient	4.286	61.221
T-statistic	3.954699***	5.417555***
CA coefficient	0.064	-0.878
T-statistic	4.072276***	-5.310491***
ASQ	0.023	0.200
T-statistic	3.866858***	3.319646***
MAE	-0.009	-0.162
T-statistic	-1.985244**	-3.698028***
LIQ	0.005	0.063
T-statistic	0.696162	0.882626
ASZ	-0.605	-5.771
T-statistic	-4.807103***	-4.389300***
R-squared	0.454	0.320
Adjusted R-squared	0.428	0.287
F-test	17.328***	9.794***

Note: * significant at α=10%; ** significant at α=5%; *** significant at α=1%.

According to the regression analysis result of ROA of conventional banks in Table 5.6 and use the random effect because the result of Hausman test was more than (0.05). First of all, we will be recognized that management efficiency (MAE) has negative relation and statistically significant with the profitable determination which is ROA it means if (MAE) increase by %1 then ROA will decrease by (-0.009) Alimshan (2011) found the same result. So when conventional banks increase this factor then will lead to loss or decrease in Return on Assets. In the other hand Liquidity (LIQ) has not statistically significant which inform us that it is not affecting to dependent variable ROA Alimshan (2011) and Bahmanyar (2013) they found the same results. And Capital adequacy and Asset Quality also have a positive impact on the dependent variable ROA and statistically significant which inform us that if they increase by %1 then ROA will increase by (0.06) for CA the results are in also in line with Alimshan (2011). And (0.02) for ASQ it means if conventional banks increase the number of loans they will get more profit because they will take an interest on loans Bahmanyar (2013) found the inverse results. Otherwise, Asset Size (ASZ) has a negative affecting on the ROA and statistically significant it means if the (ASZ) increase by %1 then the dependent variable which is (ROA) will decrease by (-0.6) maybe the bank is not managing the Total asset efficiently or it is not big enough. R-squared is (0.45) which is low and the model best fitted because the F-tests prob p-value less than (0.05).

As we observe the result of regression analysis of conventional banks for check the relation between profit determination or dependent variable which is ROE and independent variables which are Capital Adequacy (CA), Asset Quality (ASQ), management efficiency (MAE), Liquidity (LIQ) and Asset Size (ASZ). To running right regression we have to check Hausman Test to know which of the models we have to run. After checking the result the best effect was Random effect model because the prob p-value was more than (0.05). As we see in the outcomes of the regression that management efficiency (MAE) negatively impacting the profitability determination ROE and statistically significant which inform us that if (MAE) increase by %1 then ROE will fall by (-0.16) so if conventional banks increase the amount of cost to revenue ratio they will get loss in Return on Equity Alimshan (2011) has hound the same results. For (LIQ) is not statistically significant which is not affecting on dependent variable

ROE same results with Bahmanyar (2013). Otherwise (CA and ASZ) they have negative relation or negative impact on ROE and statistically significant it will show if (CA and ASZ) increase by %1 then ROE will decrease by (-0.87, -5.77) which mean conventional banks should not increase the amount of the Total Asset randomly and save cash more because if they want to get more profit they must invest this cash instead of saving Bahmanyar (2013) has found the same results. In the other hand Asset quality (ASQ) positively impacting over dependent variable ROE and statistically significant which means if (ASQ) increase by %1 so ROE will increase also but by (0.2) it tell that conventional banks should increase the amount of the loans to customers to get more interest or more profit for the bank Alimshan (2011) and Bahmanyar (2013) have found reverse results. About R-squared is (0.32) it is low, but it will be a good sign for the absence of multicollinearity and the model best fitted because the f-statistics prob p-value less than (0.1, 0.05, 0.01).

5.3.3 Regression Analysis Result for Islamic banks

The separate model for the Islamic banks

Table 5.7: Regression Analysis Result for Islamic banks

	Islamic Banks	
	ROA	ROE
Constant coefficient	-18.654	72.780
T-statistic	-4.806100***	4.179308***
CA coefficient	0.156	-0.554
T-statistic	5.139717***	-4.048029***
ASQ coefficient	0.006	-0.029
T-statistic	0.347967	-0.330843
MAE coefficient	0.023	-0.307

T-statistic	1.922717*	-5.703076***
LIQ coefficient	0.038	-0.126
T-statistic	1.649089	-1.195552
ASZ coefficient	1.976	-4.442
T-statistic	4.476843***	-2.243132**
R-squared	0.363	0.702
Adjusted R-squared	0.262	0.657
F-test	3.581***	14.790***

Note: * significant at α=10%; ** significant at α=5%; *** significant at α=1%.

Referring to table 5.7 and the result of the Hausman Test which tell us what kind of the effects should use between (Random or fixed) so the result tells that we have to use fixed effect because the p-value is less than(0.05).if we investigate management efficiency (MAE) positively impacting to the profitability determination (ROA) and statistically significant because p-value is less than (0.1) which means if (MAE) increase by %1 then ROA of Islamic banks also increase by (0.02) it will be a sign that Islamic banks should decrease the amount of the Costs to get more profitability on Assets, but (LIQ) is not statistically significant which is not impacting on dependent variable ROA. Furthermore (CA and ASZ) they have a positive impact on the ROA and statistically significant it tell us if (CA, ASZ) increase by %1 then ROA will increase by (0.15) for CA and (1.97) for ASZ this will inform us that Total Asset it is important for Islamic banks they should work to increase the amount of the Total Assets and also increase the capital of the banks then they will be able to get more profit or Return on Assets. Otherwise, Asset Quality (ASQ) is not statistically significant and not impacting to ROA. If we look to the R-squared it is low (0.36), but the model is best fitted because the f-statistics is statistically significantly less than (0.05).

According to the outcomes above Table 5.7 after running the model with fixed effect because the result of Hausman Test prob p-value was less than (0.05) we will be

recognize that explanatory variable management efficiency (MAE) has negatively relation with dependent variable (ROE) and statistically significant which means if (MAE) increase by %1 then (ROE) will decrease also by (-0.3) inverse direction that will inform us when the Islamic banks decrease the amount of COST to REVENUE ration then they will get more Return on Equity the results are in also in line with Alimshan (2011). Otherwise (LIQ) is not statistically significant, but Capital adequacy (CA) has statistically significant and negatively impacting on (ROE) which tell that if (CA) increase by %1 then ROE will decrease by (-0.5) the same result found with Bahmanyar (2013). in the other hand (ASZ) impacting the dependent variable negatively and statistically significant which mean if total asset increase by%1 then ROE will increase by(-4.4) maybe the bank is not managing the Total asset efficiently or it is not big enough, but (ASQ) not statistically significant because the prob p-value is more than(0.1,0.05,0.01). About R-squared is (0.70) which means the independent variables can explain dependent variable by (%70) and the model best fitted because f-statistics is statistically significant prob p-value less than (0.05).

5.4 Comparison between Islamic and Conventional Banks Results

So as to compare two diverse sectors in term of profitability, the outcome of these two banks are calculated for the period of 2005-2014. According to the results in the tables 5.6 and 5.7 above tells that with the profitability determination Return on Asset (ROA) Conventional banks performing well than the Islamic banks because the independent variables are explained the dependent variables more which is by %45 for Conventional banks and %36 for Islamic banks Bahmanyar (2013), Alimshan (2011) and Masruki, Ibrahim, Osaman & Wahab (2011), Suzanna and Ola (2015), Jaffar and Manarvi (2011), have the same results, but Alzghoul (2015) and Sherish, Saleem, Yasir, Shehzad and Ahmed (2012) have inverse results. About the profitability determination Return on Equity (ROE) the findings indicate that the Islamic banks are performing better than the Conventional banks because the independent variables are explained the dependent variable more efficient which is by %70 for Islamic banks and %32 for Conventional banks. The result was come up in line with Siraj and pillai (2012), but inverse Alzghoul (2015).

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CHAPTER SIX

CONCLUSION

It is such a significant mission to make a performance evaluation for financial institutions. With the establishing of traditional banks, there was also a sector who were eliminated interests and work with their own principles and make the rivalry with Conventional banks to offer their best services to the customers. In this thesis, we are not telling that the Islamic banks systems are better when compared to Conventional banks systems. Furthermore, there is a different and similarity between these two sectors, for instance, both of the banking systems are working to generate profit, but the way of collecting this profits will be different amid Islamic and Conventional banks.

In this thesis, the researcher used the system which named CAMEL ratio system to find the difference between Islamic and Conventional banks in the term of profitability. For the dependent variables, ROA and ROE used to profitable indicator performance, moreover for the independent variables the researcher used the internal pointers which are capital adequacy, asset quality, management efficiency, liquidity plus asset size for both type of banks during 2005-2014.

The data gathered from annual reports for the banks in the period of time 2005-2014. And used cross country between Emirates and Malaysia, taking 22 banks consist of 11 Islamic banks and 11 Conventional banks.

To show the dissimilarity between Islamic and Conventional banks obviously the main variation between them it is interest rate and sharing the loss and profit. If we begin with the results, first of all showing the outcomes of the general model which is combine all the banks Islamic and Conventional banks. Starting with capital adequacy the result tells us that (CA) it is statistically significant for both profit indicators, but positively impacting to the (ROA), in the other hand negatively impacting (ROE). Which means if (CA) increases then (ROA) will increase also, but if (CA) decreases then (ROE) will increase.

(ASQ) statistically significant to (ROE), but is not impacting ROA. Additionally MAE management efficiency statistically significant to ROE negatively impacting which inform us that if (MAE) increases then ROE will decrease and that was we are expecting. About asset quality (ASQ) it is impacting positively on the ROA it is shown that if banks increase the degree of (ASQ) then they will generate more profits. The (ASZ) indicator shows it is statistically significant for both profit indicators (ROA) and (ROE), but positively impacting on (ROA) and negatively impacting on (ROE).

About the separate regression model of both Islamic and Conventional banks after checking the outcomes we will see that First of all for the independent variable Capital adequacy (CA) results will show that it is statistically significant on the (ROA) for both types of banks, but it is performing better for the Islamic banks than Conventional banks. Furthermore, about asset quality (ASQ) it is statistically significant positively impacting on the (ROA) for the Conventional banks. It means if Conventional banks increase the total loan for the customers then they will get more return on assets, but it is not impacting (ROA) for Islamic banks. The results of management efficiency (MAE) inform us that it is statistically significant on (ROA) for both kinds of banks, but negatively impacting on (ROA) for Conventional banks that the sign we are expecting, because if the banks increase the costs then they will generate fewer profits. About independent variable liquidity ratio (LIQ) it is not statistically significant on (ROA) for both banks. Additionally, the results of asset size (ASZ) will inform us that it is statistically significant on (ROA) for Islamic and Conventional banks, but negatively impacting of Conventional banks and positively impacting of Islamic banks and that we were expecting.

In sum up the results show that the profitability indicator (ROA) for conventional banks are performing well than Islamic banks, but about the capital adequacy (CA) total equity/total asset Islamic banks are performing better than Conventional banks and for management efficiency (MAE) the result shows that Conventional banks working much better than Islamic banks. Additionally, asset size (ASZ) of Islamic banks is preferable than Conventional banks.

On the other hand, we have another profitable indicator which is ROE return on equity. The first independent variable which is capital adequacy (CA) is statistically significant for both type of banks and negatively impacting on ROE which means if the banks increase the degree of (CA) or capital to risk weighted asset ratio then they will generate less profit on equity. The asset quality (ASQ) ratios result show it is statistically significant on (ROE) for Conventional banks and positively impacting it means if the banks increase the total loan for the clients then they will get more profit or return on equity. About management efficiency (MAE) it is statistically significant for both of banks and negatively impacting on ROE that is the sign we will expecting. It means if the banks decrease the amount of (MAE) then they will generate more profits. And liquidity ratio (LIQ) it is not statistically significant for both financial sectors Islamic and Conventional banks. The final independent variable asset size (ASZ) it will inform us that it is statistically significant for both type of banks, but negatively impacting on (ROE) and it is not the sign that we are expecting.

In sum up the results inform us that return on equity (ROE) of Islamic banks performing better than Conventional banks, but about asset quality (ASQ) the Conventional banks performing better than Islamic banks, additionally, the management efficiency (MAE) doing much better for Conventional banks over Islamic banks. Moreover, capital adequacy (CA) of Islamic banks shows the better result than Conventional banks.

This study tried to display the difference between two types of financial sectors which are Islamic and Conventional banks in the term of profitability. The important point is that both banking sectors are had their different way of business processing and earnings. The idea is that if the country who working on the conventional economic rules they must also establish standard rules for the Islamic banking such as an accounting monetary tools. There should be also one body governor who will observe and regulate all of the Islamic banks around the world and oblige them to follow the principles set up by the central Islamic bank. In the other hand, the Islamic banks should increase their capital to be able to offer such a different and risky services to get more profits, also they should increase the number of the branches around the world so that citizen should be informed about the principles of Islamic banking. Moreover, the managers of Islamic banks must decrease the costs to get more Return on Asset (ROA)

and Return on Equity (ROE). Additionally, Conventional banks should make a revision to their policy working especially on the (CA) and (ASZ) they have to increase the number of ratios to generate more Return on Asset (ROA) and Return on Equity (ROE).

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APPENDICES

Appendix 1: E-views test results

Appendix 1.1: ROA regression for all the banks

Dependent Variable: ROA

Method: Panel Least Squares

Date: 04/22/16   Time: 10:16

Sample: 2005 2014

Periods included: 10

Cross-sections included: 22

Total panel (balanced) observations: 220

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CA	0.077944	0.020138	3.870380	0.0001
ASQ	0.014422	0.011046	1.305657	0.1932
MAE	0.002077	0.006999	0.296823	0.7669
LIQ	0.021800	0.012072	1.805787	0.0725
ASZ	0.618225	0.271819	2.274404	0.0240
C	-6.038835	2.338925	-2.581885	0.0106

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.404011	Mean dependent var	1.096910
Adjusted R-squared	0.323722	S.D. dependent var	1.001134
S.E. of regression	0.823294	Akaike info criterion	2.563510
Sum squared resid	130.8179	Schwarz criterion	2.980001
Log likelihood	-254.9861	Hannan-Quinn criter.	2.731700

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F-statistic	5.031980	Durbin-Watson stat	1.378211
Prob(F-statistic)	0.000000		

Appendix 1.2: ROE regression for all the banks

Dependent Variable: ROE

Method: Panel EGLS (Cross-section random effects)

Date: 04/22/16   Time: 10:18

Sample: 2005 2014

Periods included: 10

Cross-sections included: 22

Total panel (balanced) observations: 220

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CA	-0.476587	0.089151	-5.345850	0.0000
ASQ	0.086234	0.041992	2.053595	0.0412
MAE	-0.214896	0.031829	-6.751523	0.0000
LIQ	-0.014513	0.045286	-0.320473	0.7489
ASZ	-4.195197	1.152847	-3.638989	0.0003
C	55.35372	10.21527	5.418722	0.0000

Effects Specification

	S.D.	Rho
Cross-section random	3.595307	0.4118
Idiosyncratic random	4.296714	0.5882

Weighted Statistics

R-squared	0.256332	Mean dependent var	4.414198
Adjusted R-squared	0.238956	S.D. dependent var	4.976475
S.E. of regression	4.341369	Sum squared resid	4033.361
F-statistic	14.75253	Durbin-Watson stat	0.899503

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Prob(F-statistic)	0.000000		

	Unweighted Statistics		
R-squared	0.283799	Mean dependent var	12.48651
Sum squared resid	6964.459	Durbin-Watson stat	0.520934

Appendix 1.3: ROA regression for conventional banks

Dependent Variable: ROA

Method: Panel EGLS (Cross-section random effects)

Date: 04/22/16   Time: 10:22

Sample: 2005 2014

Periods included: 10

Cross-sections included: 11

Total panel (balanced) observations: 110

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CA	0.064707	0.015890	4.072276	0.0001
ASQ	0.023485	0.006073	3.866858	0.0002
MAE	-0.009165	0.004617	-1.985244	0.0498
LIQ	0.005305	0.007621	0.696162	0.4879
ASZ	-0.605110	0.125878	-4.807103	0.0000
C	4.286197	1.083824	3.954699	0.0001

Effects Specification

	S.D.	Rho
Cross-section random	0.148146	0.1088
Idiosyncratic random	0.424100	0.8912

Weighted Statistics

R-squared	0.454476	Mean dependent var	0.963883
Adjusted R-squared	0.428249	S.D. dependent var	0.571251
S.E. of regression	0.431947	Sum squared resid	19.40415
F-statistic	17.32848	Durbin-Watson stat	0.811521
Prob(F-statistic)	0.000000		

	Unweighted Statistics		
R-squared	0.584419	Mean dependent var	1.436226
Sum squared resid	21.44328	Durbin-Watson stat	0.734350

Appendix 1.4: ROE regression for conventional banks

Dependent Variable: ROE

Method: Panel EGLS (Cross-section random effects)

Date: 04/22/16   Time: 10:23

Sample: 2005 2014

Periods included: 10

Cross-sections included: 11

Total panel (balanced) observations: 110

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CA	-0.878263	0.165383	-5.310491	0.0000
ASQ	0.200961	0.060537	3.319646	0.0012
MAE	-0.162185	0.043857	-3.698028	0.0003
LIQ	0.063872	0.072365	0.882626	0.3795
ASZ	-5.771068	1.314804	-4.389300	0.0000
C	61.22147	11.30057	5.417555	0.0000

Effects Specification

		S.D.	Rho
Cross-section random		1.917011	0.1937
Idiosyncratic random		3.911750	0.8063

Weighted Statistics

R-squared	0.320139	Mean dependent var	7.746625
Adjusted R-squared	0.287453	S.D. dependent var	4.662588
S.E. of regression	3.935807	Sum squared resid	1611.020
F-statistic	9.794483	Durbin-Watson stat	1.014599
Prob(F-statistic)	0.000000		

	Unweighted Statistics		
R-squared	0.329357	Mean dependent var	14.28751
Sum squared resid	1927.719	Durbin-Watson stat	0.847914

Appendix 1.5: ROA regression for Islamic banks

Dependent Variable: ROA

Method: Panel Least Squares

Date: 04/22/16   Time: 10:28

Sample: 2005 2014

Periods included: 10

Cross-sections included: 11

Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CA	0.156873	0.030522	5.139717	0.0000
ASQ	0.006991	0.020090	0.347967	0.7286
MAE	0.023097	0.012013	1.922717	0.0575
LIQ	0.038791	0.023523	1.649089	0.1025
ASZ	1.976052	0.441394	4.476843	0.0000
C	-18.65464	3.881450	-4.806100	0.0000

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.363686	Mean dependent var	0.757595
Adjusted R-squared	0.262147	S.D. dependent var	1.143666
S.E. of regression	0.982391	Akaike info criterion	2.936069
Sum squared resid	90.71863	Schwarz criterion	3.328866
Log likelihood	-145.4838	Hannan-Quinn criter.	3.095389
F-statistic	3.581723	Durbin-Watson stat	1.626538
Prob(F-statistic)	0.000069		

Appendix 1.6: ROE regression for Islamic banks

Dependent Variable: ROE

Method: Panel Least Squares

Date: 04/22/16   Time: 10:30

Sample: 2005 2014

Periods included: 10

Cross-sections included: 11

Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CA	-0.554332	0.136939	-4.048029	0.0001
ASQ	-0.029821	0.090135	-0.330843	0.7415
MAE	-0.307374	0.053896	-5.703076	0.0000
LIQ	-0.126175	0.105537	-1.195552	0.2349
ASZ	-4.442209	1.980360	-2.243132	0.0272
C	72.78066	17.41452	4.179308	0.0001

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.702398	Mean dependent var	10.68551
Adjusted R-squared	0.654908	S.D. dependent var	7.502990
S.E. of regression	4.407597	Akaike info criterion	5.938260
Sum squared resid	1826.130	Schwarz criterion	6.331057
Log likelihood	-310.6043	Hannan-Quinn criter.	6.097581
F-statistic	14.79051	Durbin-Watson stat	1.156273
Prob(F-statistic)	0.000000		

Appendix 2: Hausman test

Appendix 2.1: Hausman test for ROA all the banks

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	15.784742	5	0.0075

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
CA	0.077944	0.066642	0.000235	0.4609
ASQ	0.014422	0.018903	0.000093	0.6418
MAE	0.002077	-0.007276	0.000026	0.0640
LIQ	0.021800	0.006765	0.000113	0.1569
ASZ	0.618225	0.235863	0.048026	0.0810

Appendix 2.2: Hausamn test for ROE all the banks

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	9.471250	5	0.0917

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
CA	-0.599990	-0.476587	0.003098	0.0266
ASQ	0.072850	0.086234	0.001560	0.7347
MAE	-0.249636	-0.214896	0.000321	0.0525
LIQ	-0.031958	-0.014513	0.001919	0.6904
ASZ	-6.213689	-4.195197	0.683377	0.0146

Appendix 2.3: Hausman test for ROA Conventional banks

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.884116	5	0.1138

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
CA	0.015956	0.064707	0.000601	0.0468
ASQ	0.026107	0.023485	0.000051	0.7128
MAE	-0.013883	-0.009165	0.000005	0.0424
LIQ	0.008071	0.005305	0.000016	0.4861
ASZ	-0.823451	-0.605110	0.050588	0.3317

Appendix 2.4: Hausman test for ROE Conventional banks

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	6.283086	5	0.2796

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
CA	-1.290661	-0.878263	0.045272	0.0526
ASQ	0.224751	0.200961	0.003791	0.6992
MAE	-0.205071	-0.162185	0.000349	0.0218
LIQ	0.099748	0.063872	0.001045	0.2670
ASZ	-5.638389	-5.771068	3.923165	0.9466

Appendix 2.5: Hausman test for ROA Islamic banks

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	21.560665	5	0.0006

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
CA	0.156873	0.076306	0.000574	0.0008
ASQ	0.006991	0.019766	0.000346	0.4919
MAE	0.023097	-0.003598	0.000101	0.0080
LIQ	0.038791	0.014838	0.000494	0.2810
ASZ	1.976052	0.753482	0.095951	0.0001

Appendix 2.6: Hausman test for ROE Islamic banks

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	21.331943	5	0.0007

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
CA	-0.554332	-0.347257	0.006639	0.0110
ASQ	-0.029821	0.082554	0.005451	0.1280
MAE	-0.307374	-0.234947	0.001210	0.0373
LIQ	-0.126175	0.020879	0.007781	0.0955
ASZ	-4.442209	-2.392325	1.267217	0.0686

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