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A Comparative Financial Ratio Analysis Between Conventional and Islamic Banks in GCC

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Abstract

Banking framework establishes the central mainstay of any economy. Banks functions as monetary conduits between sectors that have abundance reserves and those that are in deficiency. The historical backdrop of banking in the Gulf Cooperation Council (GCC) traces all the way back to 1918 with the foundation of the primary bank in Bahrain. The territorial financial evolution is attributable to oil abundance and loaning business that spotlights on building, land and client advances. Throughout the long term, the financial framework worldwide has advanced in its contributions to suit the changing customer requests. One of the essential determinants of this change came about because of the strict convictions of individuals bringing about the remarkable development of Islamic Banking System. The prevalence of these banks are in nations with critical Muslim populace like Iran, Pakistan and Sudan but not limited to them. Islamic banks work under Sharia standards of hazard sharing and premium preclusion as appeared differently in relation to customary banks that purchase cash-flow to pool assets and offer cash-flow to produce revenue pay or benefit. This paper applies banks' endogenic elements identified with their monetary record and pay explanation and utilizing an aggregate of 24 financial ratios relating to the banks' performance and seeks to thoroughly analyze the same among customary and Islamic banks. This examination clarifies the design, activity and the board of traditional banks in the GCC combined with the working of Islamic banks. The paper likewise intends to decide the beneficial and proficient banks among the chosen sample. The study incorporates 20 institutions, similarly dispersed among Islamic and customary banks utilizing information between the time of 2014 - 2017. The example is comprehensively ordered dependent on benefit ratios, proficiency ratios, asset indicator ratios and risk ratios. Further sub categorization is done to show up at an aggregate of 24 ratios. An independent T-test is used to determine a substantial ratio between Islamic and conventional banks.

JEL classification: G21; F37; P48; P51; N25

Keywords: Islamic banking, Interest-free, Profit-and-loss sharing, Financial Ratios, Bank deposits

1. Introduction

Dubai Islamic Bank was the first independent Islamic Bank set up in 1975. Throughout the long term, a few worldwide banks have set up Islamic financial division that maintains customary Islamic qualities and offers items and administrations consistent with Sharia standards. Today, in excess of 200 Islamic banks work in 70 nations with $ 2.6 billion in resources under administration. In its underlying years, Islamic banks saw its development in South Asia and GCC nations. Islamic banks get assets from deposits rather than investors. Rather than the ordinary banks, the rule of risk sharing lead to a superior profit from value for Islamic banks. Factual proof likewise shows that Islamic banks will quite often accomplish a higher net revenue contrasted with customary banks.

2. Background on Islamic Bank and Conventional Bank

The contrast between the Islamic Bank and the Conventional Bank is by and large the structure and rule that oversees them. Sharia or Islamic law administers Islamic financial organizations. The sacred book of Islam, Quran disallows all exchanges from getting and paying interest, Riba, as it is accepted that interest bearing credit structure prompts an unjust conveyance of cultural pay. To defeat this test, Islamic banks procures income from benefit sharing arrangements. The idea of premium is rebuilt with a period markup of installments and business financing commissions under the Islamic financial model.

3. Literature Review

Tamimi and Amiri (2003) directed exploration on the contrasts between ordinary and Islamic banks among the middle east dependent on financial ratios. Islamic banks principally work on the standards of risk sharing revenue disallowance. However, each bank managed comparative difficulties and in this manner the review couldn't convincingly demonstrate whether financial ratios help can really separate between the two classes of banks. Their research utilized 26 monetary ratios and applied rationale, neural organization and k-means to observe whether scientists and controllers can utilize these ratios in giving explicit contrasts between these two arrangements of banks. Bashier (1983) researched on the administrative consistence among Islamic and Non-Islamic banks in Bangladesh. The review included 223 insights among 23 custom banks and seven Islamic banks between 2003 to 2013. The result of the review guaranteed that Islamic banks having higher income when contrasted with their customary partners were better useful. Grais and Pellegrini (2006) audited corporate administration difficulties of organizations that offered Islamic monetary administrations (IIFS) and proposed choices that tended to them. The paper proposed an unmistakable treatment of corporate Governance issues for IIFS when contrasted with customary corporate administration. The paper proposed an administration model dependent on a blend of inner and outer game plans and that depends intensely on straightforwardness and revelation of data that is market important. Hume (2004) examines the likelihood to recognize traditional

and Islamic banks in the Gulf Cooperation Council (GCC) in view of monetary characteristics. Iqbal (2006) broke down the fluctuated understandings of Riba and the absence of agreement in its importance. The review reasons that Riba in deal credits likewise falls in the classification of genuine Riba and produces results when any of the six items specifically gold, silver, wheat, grain, dates and salt are traded with a delay in various measures, essentially ascribed to the chance of fundamental ware value change making vulnerability for the two players of the trade. Coats and Fant (1993) inspected and broke down the monetary misery forecast utilizing neural organization approach applying monetary proportions. Hassan, Khamis, and Oulidi, (2010) broke down the progressive development of the financial area in the Gulf Cooperation Council (GCC) nations. The review managed cross-line linkages, accounting report openings and dangers, focus, possession, monetary adequacy and late patterns in credit development. The examination recognized the assortment of dangers that represented a danger to the monetary security of the financial area with regards to the worldwide emergency and proposed ways of moderating them. Ajmi, Hussain, and Saleh investigated into the expectations of Bahraini clients in picking a banks, their comprehension of bank items and their relative advantages. Viewed as the principal study on that examples three unmistakable arrangement of customers, specifically Islamic, customary and both. Utilizing poll strategy to 1000 customers and applying Mann-Whitney and Kruskal-Wallis tests and component investigation the review presumed that Islamic strict conviction, social obligation and money saving advantage are the essential determinants in bank choice among Bahraini bank customers. The concentrate likewise uncovered that however the customers of traditional and Islamic banks share normal prerequisites, they truly do vary in their item understandings. Islamic bank customers are more acquainted with sharia 'an agreeable the items/administrations. Islam (2003) investigated the inside exhibition of homegrown and foreign banks in Bahrain, Oman, the United Arab Emirates (GCC nations) by concentrating on their financial ratios. The review showed that the business banks in these nations are all around equipped through the reception of present day banking administrations, they have worked on their exhibition in the beyond couple of years. Most banks were monetarily strong according to global principles and monetary proportions benchmarks. Essayyad and Madani (2003) examined the focus, proficiency, and productivity of business banks in Saudi Arabia. Applying the methods of relapse examination, the creators explored the determinants of Saudi bank proficiency, fixation, and productivity. The significance of the review originated from the hypothesis that profoundly thought banking or credit market got failures that might conceivably impede the bank's admittance to credit driving dialing back development. Kunt and Hizinga (1999) utilizing information for 80 nations crossing a period between 1988-1995 showed that distinctions in revenue bank productivity and edges mirrored a few determinants specifically bank macroeconomic conditions, in general monetary design, unequivocal and understood bank tax collection, store protection guideline, and numerous administrative and institutional pointers. The consequences of the paper showed that a more prominent bank resource for GDP proportion and a lower market fixation proportion lead to bring down edges and benefits. Hussain, Islam, Gunasekaran and Maskooki (2002) brought up that of late, economies and monetary organizations in the GCC nations tried to make nearer ties. This calls for better coordination of bookkeeping guidelines

bringing about further developed participation and work on the productivity of the monetary establishments among these nations. Muharrami and Matthews (2009) assessed the exhibition of the GCC banking industry in the appearance of the "Design Conduct-Performance" speculation utilizing test information between the time of 1993-2002 and applied board assessment recognizing bank fixed impacts and nation fixed impacts. The paper analyzed the "Relative-Market-Power and the Efficient-Structure theories" recognizing the two by applying a non-parametric proportion of specialized effectiveness, and observed that the financial business in the GCC nations is best clarified by the standard SCP speculation. Regardless of minor contrasts, the GCC share a typical monetary, social and political comparability with a productive, steady and beneficial aggregate financial framework (Al-Muharrami and Matthews 2009). The financial areas add to GDP is close to oil and gas area. This area developed quickly during the period 2000-2008 basically from oil trades. The Islamic banking and monetary administrations industry has shown fast development in the course of recent years, arriving at an achievement of more than $ 2 trillion in esteem by 2015. GCC banks have developed further, very much promoted and present day banking administrations have been embraced. Islamic banks represented 18% of the monetary framework in 2007 that represented around 36% of worldwide Islamic monetary resources. In the course of the last decade, Islamic Banks has developed at a pace of 20 - 30 percent each year, which is multiple times higher than ordinary banks. The Islamic financial framework in examination with customary banks was less impacted by the monetary and monetary emergency since interests in harmful resources and subordinates are completely disallowed (Iqbal, 1997).

4. Hypotheses to Examine

To inspect our examination targets, we must have to analyze monetary proportions of ordinary and Islamic banks. For these reasons we have characterized the accompanying exploration speculation.

Hypotheses 1: There is no huge distinction between productivity proportions of ordinary banks and Islamic banks in the UAE.

Hypothesis 2: There is no huge distinction between proficiency proportions of the ordinary banks and Islamic banks in the UAE.

Hypothesis 3: There is no huge distinction between resource nature of the regular banks and Islamic banks in the UAE.

Hypothesis 4: There is no huge distinction between Liquidity of the regular and Islamic banks in the UAE Hypothesis

Hypothesis 5: There is no critical contrast between liquidity hazard the executives of the traditional and Islamic banks in the UAE.

The elective speculation for all the above would remember a huge contrast for the monetary proportions being tried at each stage.

5. Data and Methodology

The proposed study will scientific in nature and will utilize optional information from the yearly distributed fiscal reports of the ordinary and Islamic banks in the UAE. The creators have picked quantitative investigation utilizing dominate to come to the end result. Information identifying with productivity, effectiveness, resource quality, liquidity and hazard the executives have been taken from the yearly reports of 2018. The example size comprises of top 5 regular banks and Islamic banks, individually, working in the UAE. These include:

Conventional banks:

i. First Abu Dhabi Bank (FAB),
ii. Emirates NBD (ENBD),
iii. Abu Dhabi Commercial Bank (ADCB),
iv. Mashreq Bank (MB),
v. Commercial Bank Dubai (CBD)

Islamic Banks:

i. Abu Dhabi Islamic Bank (ADIB),
ii. Dubai Islamic Bank (DIB),
iii. Noor Bank (NB) and
iv. Sharjah Islamic Bank (SIB)
v. Al Hilal Bank (AHB)

5.1 Dependent and Independent Variables

Ratio	variables	variables	Formula	Dependent/ Independent	Description
Bank profitability ratios	ROA	return on assets	net income/ average total assets.	Dependent	The return on assets shows the percentage of how profitable a company's assets are in generating revenue.
Bank efficiency ratios	NIM	net interest margin	(net interest income−net interest expenses) / average total assets.	Dependent	Net interest margin is a measure of the difference between the interest income generated by banks or other financial institutions and the amount of interest paid out to their lenders, relative to the amount of their assets.
Asset-quality indicators	PEA	provision to earning assets	provision for loan losses / average total loans and advances.	Dependent	A loan loss provision is an expense set aside as an allowance for uncollected loans and loan payments. This provision is used to cover a number of factors associated with potential loan losses, including bad loans, customer defaults, and renegotiated terms of a loan that incur lower than previously estimated payments

Liquidity ratios	CTA	cash to assets	cash / average total assets.	Dependent	A liquid asset requirement, or ratio, is defined as the obligation of commercial banks to maintain a predetermined percentage of total deposits and certain other liabilities in the form of liquid assets.
Risk ratios	EM	equity multiplier	average total assets / average stockholders' equity.	Dependent	The equity multiplier is a financial leverage ratio that measures the amount of a bank's assets that are financed by its shareholders by comparing total assets with total shareholder's equity. In other words, the equity multiplier shows the percentage of assets that are financed or owed by the shareholders.
Bank profitability ratios	ROE	return on equity	net income/ average stockholders' equity.	Independent	the return on equity is a measure of the profitability of a business in relation to the equity, also known as net assets or assets minus liabilities. ROE is a measure of how well a company uses investments to generate earnings growth
Bank profitability ratios	PM	profit margin	net income/ operating income.	Independent	Profit margin, net margin, net profit margin or net profit ratio is a measure of profitability. It is calculated by finding the net profit as a percentage of the revenue.
Bank profitability ratios	ROD	return on deposits	net income/ average total customer deposits.	Independent	It is calculated by dividing net income to average total customer deposits
Bank profitability ratios	ROSC	return on shareholder capital	net income/ shareholder contributed capital.	Independent	Return on shareholder equity is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE could be thought of as the return on net assets
Bank profitability ratios	NOM	net operating margin	operating profit or income/ interest income.	Independent	The net interest margin in banking is similar to the gross profit margin for operating companies. It is equal to a bank's total interest income minus total interest expense
Bank efficiency ratios	IEE	interest income to expenses	(interest income−interest expenses) / average total loans and advances.	Independent	It is calculated by dividing NIM to average total loans and advances
Bank efficiency ratios	OEA	operating expense to assets	operating expenses/ average total assets.	Independent	It is calculated by dividing operating expenses to average total assets
Bank efficiency ratios	OIA	operating income to assets	operating income/ average total assets.	Independent	It is calculated by dividing operating income to average total assets
Bank efficiency ratios	OER	operating expenses to revenue	operating expenses/ operating income (revenue).	Independent	Expense to income ratio is calculated by dividing the operating expenses by the operating income generated i.e.net interest income plus the other income. Cost-to-income ratio is important for determining the profitability of a bank

Bank efficiency ratios	ATO	asset turnover	interest income/ average total assets.	Independent	Asset Turnover measures how quickly a company turns over its asset through sales. It is calculated as Revenue divided by Total Assets
Bank efficiency ratios	NNIM	net non-interest margin	(net non-interest income−net non-interest expenses) /average total assets.	Independent	No interest margin is a financial measurement that helps asses the usefulness of revenue from non-interest items such as fees and service charges.
Asset-quality indicators	LR	loan ratio	average total loans and advances / average total assets.	Independent	It is calculated by dividing Average total loans to average total assets
Asset-quality indicators	LTD	loans to deposits	average total loans and advances / average total customer deposits.	Independent	The loan-to-deposit ratio (LDR) is used to assess a bank's liquidity by comparing a bank's total loans to its total deposits for the same period.
Liquidity ratios	CTD	cash to deposits	cash / average total customer deposits.	Independent	Cash Deposit ratio (CDR) is the ratio of how much a bank lends out of the deposits it has mobilized. It indicates how much of a bank's core funds are being used for lending, the main banking activity
Risk ratios	DTA	deposits to assets	average total customer deposits / average total assets.	Independent	Deposits to Assets is a ratio that tells you that to what extent bank's assets have been funded from a stable source
Risk ratios	ETD	equity to deposits	average shareholders' equity / average customer total deposits.	Independent	It is calculated by dividing average shareholders' equity to average customer total deposits.
Risk ratios	TLE	total liabilities to equity	average total liabilities / average stockholders' equity.	Independent	The Debt to Equity ratio is calculated as total liabilities divided by total shareholders' equity
Risk ratios	TLSC	total liabilities to shareholder capital	average total liabilities / shareholder contributed capital.	Independent	It is calculated by dividing Average total loans to average total assets
Risk ratios	RETA	retained earnings to total assets	retained earnings / average total assets."	Independent	The retained earnings to total assets ratio measures the banks' ability to accumulate earnings using its assets

5.2 Descriptive Analysis

The study is proposed to include regression analysis to ascertain underlying factors that contribute to the performance of conventional and Islamic banks in the UAE. Based on the formation of hypothesis, five different models have been established. These models will encompass one independent variable and several dependent variables within each hypothesis. This has been described in Table 1 below. Mehta, A., & Bhavani, G. (2017) stated that there are several internal and external variables that are determinants of the profitability of the profitability of the banks in the UAE. Most notable among these were the cost efficiency ratio,

adequate capital adequacy ratio and improvement in the asset quality ratio. However, it is also important to keep in mind Return on Assets which could also enhance profitability by diversifying income sources.

Table 1. Descriptive statistics for conventional and Islamic banks based on defined hypothesis

variables	Dependent/ Independent variables	Conventional Banks					Islamic Banks				
		Sample Size	Min value	Max value	Mean	Standard Deviation	Sample Size	Min value	Max value	Mean	Standard Deviation
Return on Assets (ROA)	Dependent	6	0.0148	0.0201	0.0169	0.0018	6	0.0024	0.0224	0.0140	0.0071
Net Interest Margin (NIM)	Dependent	6	0.0175	0.0526	0.0289	0.0121	6	0.0134	0.0350	0.0250	0.0072
Provision to Earning Assets (PEA)	Dependent	6	0.0048	0.0425	0.0151	0.0143	6	0.0019	0.0189	0.0094	0.0061
Cash to Assets (CA)	Dependent	6	0.1303	0.3084	0.2139	0.0732	6	0.1379	0.3156	0.2140	0.0588
Equity Multiplier (EM)	Dependent	6	6.7386	8.5300	7.6342	0.6286	6	6.5545	8.4380	7.7338	0.7546
Return On Equity (ROE)	Independent	6	0.0995	0.1568	0.1295	0.0206	6	0.0193	0.1466	0.1050	0.0470
Profit Margin (PM)	Independent	6	0.2398	0.6205	0.4556	0.1449	6	0.0842	0.6101	0.3753	0.1742
Return On Deposits (ROD)	Independent	6	0.0219	0.0289	0.0260	0.0024	6	0.0034	0.0321	0.0198	0.0096
Return on Shareholder Capital (ROSC)	Independent	6	0.0995	0.1568	0.1295	0.0206	6	0.0193	0.1466	0.1050	0.0470
Net Operating Margin (NOM)	Independent	6	0.7929	1.1074	0.9373	0.1075	6	0.7347	1.1314	0.9551	0.1579
Interest Income to Expenses (IIE)	Independent	6	0.0369	0.0843	0.0490	0.0182	6	0.0248	0.0557	0.0401	0.0105
Operating Expense to Assets (OEA)	Independent	6	0.0068	0.0282	0.0146	0.0077	6	0.0104	0.0211	0.0160	0.0040
Operating Income to Assets (OIA)	Independent	6	0.0261	0.0727	0.0410	0.0164	6	0.0260	0.0461	0.0363	0.0077
Operating Expenses to Revenue (OER)	Independent	6	0.2589	0.4409	0.3432	0.0634	6	0.2831	0.5740	0.4477	0.1054

Asset Turnover (AT)	Independent	6	0.0294	0.0656	0.0429	0.0121	6	0.0296	0.0424	0.0380	0.0045
Net Non-Interest Margin (NNIM)	Independent	6	-0.0081	0.0019	-0.0027	0.0033	6	-0.0106	0.0097	-0.0032	0.0075
Loan Ratio (LR)	Independent	6	0.4745	0.6875	0.5886	0.0862	6	0.5391	0.6526	0.6190	0.0408
Loans to Deposits (LD)	Independent	6	0.7842	1.0201	0.9496	0.0979	6	0.8123	0.9787	0.9304	0.0633
Cash to Deposits (CD)	Independent	6	0.1816	0.5186	0.3331	0.1288	6	0.1981	0.4428	0.3071	0.0887
Deposits to Assets (DA)	Independent	6	0.5947	0.7175	0.6521	0.0460	6	0.5909	0.8020	0.7027	0.0675
Equity to Deposits (ED)	Independent	6	0.1734	0.2495	0.2034	0.0283	6	0.1700	0.2192	0.1864	0.0202
Total Liabilities to Equity (TLE)	Independent	6	5.7386	7.5300	6.6342	0.6286	6	5.5545	7.4380	6.7338	0.7546
Total Liabilities to Shareholder Capital (TLSC)	Independent	6	5.9157	8.5756	7.1698	0.9821	6	7.0957	10.4447	8.0712	1.2380
Retained Earnings to Total Assets (RETA)	Independent	6	0.0369	0.1336	0.0865	0.0322	6	-	0.0870	0.0439	0.0368

For the reliant factors, the creator has picked ROA, NIM, PEA, CA and EM. The reliant factors relate to studies made by Pradhan, R. S., and Shrestha, R. (2016) which expressed that administration productivity has a positive solid connection to the bank execution. While full scale monetary elements are significant, they don't assume a fundamental part on the effect of the exhibition of the bank. The concentrate additionally uncovered that ROA and NIM could be unequivocal elements influencing banks execution. Menicucci, E., and Paolucci, G. (2016) further explored the connection between bank explicit elements with benefit in the European Banking Sector to discover the job of inside factors accomplishing higher productivity. His investigation utilized relapse model for 35 banks dependent on capital proportions and advance misfortune arrangement proportions on the proficiency of the banks over the period 2009 to 2013. His review proposed that manages an account with higher stores and credit proportions are more productive yet their impact was genuinely immaterial to think about proficiency of these banks. Abobaker, M. J. (2018) concentrate on expressed that high benefit can be accomplished by expanding the bank resources, capital proportion and working pay. Subsequently, the productivity is diminished as non-interest pay increments over the long run. Following similar ideas for regular and Islamic banks as given in Table 1 above, there is ostensible deviation in ROA, NIM and CA of the customary and Islamic banks in the UAE. The explanation could remember that banks for UAE apply comparative loan costs and include adequate fluid resources inside UAE disregarding full scale monetary variables. There is huge

variety in PEA and the explanation could be the shariah prerequisites which should be trailed by the Islamic banks as these are more moderate in their loaning rehearses. For free factors, the table uncovers scope of variety. Most prominent variety is found in ROE, ED, TLSC and RETA. The justification for huge distinction in the means is because of size and piece of the bank's asset report. Likewise, a few banks have been in presence for a more extended time frame than others viz customary banks in the UAE. While other free factors show immaterial variety, it connotes consistency of the plan of action among Islamic and regular banks. It must be realized that UAE is an overbanked market with 22 neighborhood public banks, 27 parts of unfamiliar banks and 11 discount unfamiliar bank offices as at 30 June 2019. Further, despite the fact that there is interest for Islamic items, UAE Islamic banks partake in a generally little piece of the pie when contrasted with its customary partners as expressed by study directed by Manoj, K (2020).

6. Accounting Ratios

accounting Ratios Across the GCC, regular banks have embraced bookkeeping approaches dependent on International Accounting Standards Board (IASB) (Hussain, Islam, Gunasekaran and Maskooki 2002). Interestingly, Islamic banks follow bookkeeping arrangements set up by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOFI). Each Islamic bank builds up a Sharia board that screens and analyzes all bank exchanges in consistence with Islamic standards. The 24 monetary proportions utilized in the exploration are characterized in annexure 1. They are ordered dependent on benefit, effectiveness, nature of resources and hazard. Existing exploration zeroed in exclusively on benefit and proficiency. This exploration utilizes proportions like Bank Return on Asset (ROA), Profit Margin (PM), Deposit Return (ROA), Equity Return (ROE) and Return on Shareholder Capital (ROSC). In light of the past study, Hypotheses 2 expresses that Islamic banks are more moneymaking than ordinary banks. Arrangement for procuring benefit (PEA), show how a bank deals with its resources. High PEA infers higher stores for awful advances and unanticipated crises and to bring down hazard

7. Descriptive Statistics

The research begins by examining the possibility of distinguishing between conventional banks and Islamic banks using financial data. Table 1 shows descriptive statistics of both categories. Results of table 1 (sig 2 tail) shows the result of the t-test for equity of means between the two bank categories for each of 24 ratios. In total, only 2 ratios have mean values that differ significantly at the confidence level of 10 percent between the two categories of banks. Accepting Hypotheses 1, the two types of banks can therefore be distinguished primarily by two ratios, NIMM and LR. This is mainly due to the nature of the interest ban on Islamic banks. This has led to changes in non - interest earnings and loan ratios.

Rejecting Hypotheses 2 - Islamic banks are not significantly profitable as the means of profitability ratio shown in Table 1, due to the remodeling of Islamic banks.

Rejecting Hypotheses 3 - the efficiency ratio also shows that between the two types of banks there is no significant difference in efficiency. The results imply that each category of bank

characteristically has the same efficiency when measured on common grounds; however, Islamic banks are more efficient than conventional banks on average when measured against their own borders. This is again due to the standardized restructuring of the bank operations of Islamic banks and conventional banks.

8. Summary and Conclusion

This paper examines the comparative performance between conventional and Islamic banks in GCC countries. The GCC financial environment has a number of standard monetary procedures in the GCC countries. The study uses several statistical tools to ensure their reliability, including mean testing and T-testing. Results from the study reveals indicators of financial characteristics such as profitability ratios, efficiency ratios, asset quality indicators and cash/liability ratios. Results show that Islamic banks are operationally efficient and profitable because of risks sharing and greater dependency on deposits capital. The results also show that operating efficiency and profitability are not significantly different. Economic conditions in the GCC have shielded the exposure of Islamic banks to risks.

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Annexure 1

Bank profitability ratios
ROA=return on assets=NI /ATA=net income/ average total assets.
ROE=return on equity=NI /SE=net income/ average stockholders' equity.
PM=profit margin=NI /OI=net income/ operating income.
ROD=return on deposits=NI /ATD=net income/ average total customer deposits.
ROSC=return on shareholder capital=NI /SC=net income/ shareholder contributed capital.
NOM=net operating margin=OI /IN=operating profit or income/ interest income.

Bank efficiency ratios
IEE=interest income to expenses=(IN−IE) /ATLA= (interest income−interest expenses) / average total_loans and advances.

OEA=operating expense to assets=OE/ATA=operating expenses/ average total assets.
OIA=operating income to assets=OI /ATA=operating income/ average total assets.
OER=operating expenses to revenue=OE/OI=operating expenses/ operating income (revenue).
ATO=asset turnover=IN/ATA=interest income/ average total assets.
NIM=net interest margin=(IN−IE) /ATA=(net interest income−net interest expenses) / average total assets.
NNIM=net non-interest margin=(NIN−NIE)/ATA=(net non-interest income−net non-interest expenses) /average total assets.
Asset-quality indicators
PEA=provision to earning assets=PLL/ATLA=provision for loan losses / average total loans and advances.
LR=loan ratio=ATLA/ATA=average total loans and advances / average total assets.
LTD=loans to deposits=ATLA/ATD=average total loans and advances / average total customer deposits.
Liquidity ratios
CTA=cash to assets=C/ATA=cash / average total assets.
CTD=cash to deposits=C/ATD=cash / average total customer deposits.
Risk ratios
DTA=deposits to assets=ATD/ATA=average total customer deposits / average total assets.
EM=equity multiplier=ATA/SE=average total assets / average stockholders' equity.
ETD=equity to deposits=SE/ATD=average shareholders' equity / average customer total deposits.
TLE=total liabilities to equity=TL/SE=average total liabilities / average stockholders' equity.
TLSC=total liabilities to shareholder capital=TL/SC=average total liabilities / shareholder contributed capital.
RETA=retained earnings to total assets=RE/ATA=retained earnings / average total assets.”

Descriptive statistics

Independent Samples Test									
	Levene's Test for Equality of Varian		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	90% Confidence Interval of the Difference	
								Lower	Upper
Return on Assets	3.238	0.089	-1.305	18	0.208	-0.003178669	0.002434834	-0.0074008	0.0010435
			-1.305	14.865	0.212	-0.003178669	0.002434834	-0.0074496	0.0010923
Return on Equity	8.139	0.011	-1.293	18	0.212	-0.02116272	0.016371466	-0.0495519	0.0072264
			-1.293	11.865	0.221	-0.02116272	0.016371466	-0.050369	0.0080436
Profit Margin	0.427	0.522	-1.331	18	0.2	-0.091284035	0.06859268	-0.2102281	0.02766
			-1.331	17.943	0.2	-0.091284035	0.06859268	-0.2102487	0.0276806
Return on Deposit	4.018	0.06	-0.797	18	0.436	-0.002813477	0.003530209	-0.0089351	0.0033081
			-0.797	14.734	0.438	-0.002813477	0.003530209	-0.0090095	0.0033825
Return on Shareholder's capital	8.919	0.008	-1.402	18	0.178	-0.02579808	0.018402811	-0.0577097	0.0061136
			-1.402	11.217	0.188	-0.02579808	0.018402811	-0.0587891	0.0071929
Net Operating Margin	2.787	0.112	-0.716	18	0.483	-0.051816755	0.072367489	-0.1773066	0.0736731
			-0.716	10.506	0.49	-0.051816755	0.072367489	-0.1823417	0.0787082
Int Income to Exps	2.409	0.138	-0.489	18	0.631	-0.002435155	0.004982434	-0.011075	0.0062047
			-0.489	13.073	0.633	-0.002435155	0.004982434	-0.0112549	0.0063846
Operating Exp to Asset	1.298	0.27	-0.677	18	0.507	-0.000983861	0.001453128	-0.0035037	0.001536
			-0.677	15.192	0.509	-0.000983861	0.001453128	-0.0035292	0.0015614
Operating Income to Assets	5.785	0.027	-0.108	18	0.915	-0.000385102	0.003553719	-0.0065475	0.0057773
			-0.108	11.147	0.916	-0.000385102	0.003553719	-0.0067595	0.0059893

Operating Exps to Revenue	2.525	0.129	0.512	18	0.615	0.045588759	0.088954684	-0.1086643	0.1998418
			0.512	9.977	0.619	0.045588759	0.088954684	-0.1156758	0.2068533
Asset Turnover	5.785	0.027	-0.108	18	0.915	-0.000385102	0.003553719	-0.0065475	0.0057773
			-0.108	11.147	0.916	-0.000385102	0.003553719	-0.0067595	0.0059893
Net Int Margin	5.9	0.026	0.03	18	0.976	9.69942E-05	0.003201819	-0.0054552	0.0056492
			0.03	10.376	0.976	9.69942E-05	0.003201819	-0.0056849	0.0058789
Net Non-interest Margin	3.377	0.083	-1.839	18	0.083	-0.005401162	0.002937707	-0.0104953	-0.000307
			-1.839	13.254	0.088	-0.005401162	0.002937707	-0.010596	-0.000206
Provision to Earnings Asset	2.008	0.174	-1.239	18	0.231	-0.002884299	0.002327995	-0.0069212	0.0011526
			-1.239	15.408	0.234	-0.002884299	0.002327995	-0.0069583	0.0011897
Loan Ratio	0.179	0.678	2.035	18	0.057	0.062085399	0.03050495	0.0091879	0.1149829
			2.035	17.762	0.057	0.062085399	0.03050495	0.0091495	0.1150213
Loans to Deposits	4.237	0.054	-0.894	18	0.383	-1.160461707	1.298691045	-3.4124746	1.0915512
			-0.894	9.071	0.395	-1.160461707	1.298691045	-3.5389985	1.218075
Cash to Asset	4.816	0.042	-1.543	18	0.14	-0.03968553	0.025727351	-0.0842984	0.0049273
			-1.543	14.89	0.144	-0.03968553	0.025727351	-0.0848087	0.0054377
Cash to Deposits	6.91	0.017	-1.484	18	0.155	-0.053078456	0.035758837	-0.1150866	0.0089296
			-1.484	13.379	0.161	-0.053078456	0.035758837	-0.116268	0.0101111
Deposit to Assets	4.303	0.053	-0.473	18	0.642	-0.0235919	0.049924969	-0.110165	0.0629812
			-0.473	12.125	0.645	-0.0235919	0.049924969	-0.1124962	0.0653124
Equity Multiplier	1.099	0.308	0.077	18	0.94	0.048732151	0.636350744	-1.0547405	1.1522048
			0.077	14.621	0.94	0.048732151	0.636350744	-1.0687259	1.1661902
Equity to Deposits	2.998	0.1	0.738	18	0.47	0.039397534	0.053411955	-0.0532222	0.1320173
			0.738	9.57	0.478	0.039397534	0.053411955	-0.0578525	0.1366476
Toatl Liability to Equity	1.099	0.308	0.077	18	0.94	0.048719744	0.636351754	-1.0547547	1.1521942
			0.077	14.621	0.94	0.048719744	0.636351754	-1.0687401	1.1661796
Total liability to Shareholder Capital	1.099	0.308	0.077	18	0.94	0.048719744	0.636351754	-1.0547547	1.1521942
			0.077	14.621	0.94	0.048719744	0.636351754	-1.0687401	1.1661796
Return Earning to Total Assets	0.036	0.852	-1.091	18	0.29	-0.014013786	0.012841536	-0.0362818	0.0082543
			-1.091	17.886	0.29	-0.014013786	0.012841536	-0.0362895	0.0082619