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**Financial Performance of Islamic Banks vs.
Conventional Banks: The Case of Palestine**

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Financial Performance of Islamic Banks vs. Conventional Banks: the Case of Palestine

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Thesis Approval

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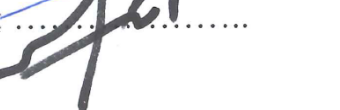
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Jerusalem – Palestine

Dedication

This work is dedicated to my great parents, lovely husband,

Smart son Qais, and kindly daughter Mayar.

Declaration

I Certify that this thesis submitted for the degree of Master, is the result of my own research, except where otherwise acknowledged, and that this study (or any part of the same) has not been submitted for a higher degree to any other university or institution.

Signed.....

Marwa Samih Ismae'el Qaraqe'

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Abstract

Banks play a vital role in the economy of all countries. The stability of any economy depends on banks' well-performance within a country. This study intended to examine financial performance of two different banking systems in Palestine: Islamic versus Conventional.

There were two main objectives of this study the first one is to compare banks' performance in Palestine over the time period from 2008 to 2017. Secondly, to find out the factors that affects the bank's performance (DTAR, LAR, and BS).

In order to investigate and compare these two banking systems, two Islamic and two Conventional banks were selected from the Palestinian banking sector. Data collected from published financial statements (balance sheet and income statement).

Financial ratios analysis was used to analyze the data under three broad categories, which were: profitability performance (return on assets, return on equity), liquidity performance (liquid assets to total asset ratio, liquid assets to deposit ratio) and capital structure (debt to assets ratio).

The results revealed different findings in each category, as in profitability performance conventional banks had a higher return on assets ratio, while Islamic banks were performing better in allocating equity into profits, which means that Islamic banks have a higher ROE ratio. In liquidity performance, the liquid assets to total asset ratio analysis show that conventional banks are doing better, on the other side there was a major difference between Islamic banks and conventional banks in terms of liquid assets to deposit ratio, with Islamic banks being dominated.

The capital structure informs us with the type of financing, debt or equity finance .the analysis show that conventional banks have a lower debt to assets ratio, which is favorable. Such Islamic banks have a higher debt to assets ratio so they are exposed to a higher risk,

they are more debt financing.

The second part of the study focused on examining the factors that will significantly affect both the conventional and Islamic banks performance. A multiple c regression analysis was used to find out the impact of the independent variables (factors) including liquid assets to total asset ratio (LAR), debt to assets ratio(DTAR), bank size (BS), on ROA (return on assets) as a dependent variable to be examined. Results revealed that liquid assets to total asset ratio (LAR) and debt to assets ratio (DTAR) have an insignificant influence on ROA for both banking systems, on the other hand, bank size (BS) was the only significant positive determinant of the ROA for both Conventional banks and Islamic banks. Therefore, it is recommended that Islamic banks should design a comprehensive plan for identifying objectives, goals and strategies to decrease depending on debt financing. Moreover, it is suggested to cover more factors that could influence the bank's performance. In addition, for future research, it is recommended to have a longer time periods. With longer data coverage, it might be interesting to carry out the same research over different time period as different results may be observed.

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Abbreviations

- IB's: Islamic Banks.
- CB's: Conventional Banks.
- FRA: Financial Ratio Analysis.
- ROA: Return on Assets.
- ROE: Return on Equity.
- PMA: Palestine Monetary Authority.
- DEA: Data Envelopment Analysis.
- LAR: Liquid Assets Ratio= $\text{liquid assets} / \text{total assets}$.
- DTAR: Debt to Assets Ratio= $\text{total liabilities} / \text{total assets}$.
- CS: Capital Structure.
- EU: European Union.
- OIC: Organization of Islamic Cooperation.
- BS: Bank Size.
- TA: Total Assets.
- Ln (TA): Natural logarithm for Total Assets.
- IMF: International monetary fund.
- Banking stream: Islamic or conventional banking system.
- MIFC: Malaysia International Islamic Financial Centre.

Chapter 1:

Introduction

A country's economic growth is based on its financial sector's performance, with the banking sector being the most prominent. Siraj and Pillai (2012) assert that the stability and growth of any economy to a great extent depends on the stability of its banking sector. As a key component of the financial system, banks allocate funds from savers to borrowers in an efficient manner. They provide specialized financial services, which reduce the cost of obtaining information about both savings and borrowing opportunities. These financial services help to make the overall economy more efficient (Econ, 2001), So Banking system plays a crucial role in the economies of all countries; it can be considered as the life-blood of modern economy.

1.1 Conventional banks and Islamic banks

Unlike conventional banks, Islamic banks must comply with the Islamic law (Shariah), which is an interest-free system. Because of this characteristic of Islamic banks, many were skeptical when the first Islamic bank was established, considering that interest-free banking can't survive. Despite this skepticism, Islamic banks are one of the fastest growing financial industries. Interest-free banking doesn't mean banking without

profit, but a more stable and secure ethical alternative, because instead of interest, Islamic banks receive fees and commissions for their services, participate in a profit(loss)-sharing with their clients and they are protected with contracts (Cerović, Nikolaj, Maradin,2017).

1.1.1 Introduction to Islamic banking

In 1963, Islamic banking came into existence on an experimental basis on a small scale in a small Egyptian town. The success of this experiment opened the doors for a distinct and separate market for Islamic banking and finance, as a result, in 1970s Islamic banking came into existence at a moderate scale and a number of full-fledge Islamic banks were introduced in Arabian and Asian countries. Islamic banks and non-banking financial institutions are now in operation even on larger scale (Usman and khan, 2012).

The recent global financial crisis brought the Islamic financial industry into the spotlight as a possible alternative for investment and banking (Smola and Mirakhor, 2010).

Islamic banking has grown rapidly and gained universal acceptance, and it emerged as a competitive and a viable substitute for the conventional banking system.

Nowadays, Islamic banks are operating in all regions of the globe, and are looked upon as a viable alternative system, which have many services to offer.

Islamic financial institutions have a relatively high market share in several emerging markets, such as Malaysia and several Middle Eastern countries (Beck et al., 2013).

The rapid development of Islamic finance in various parts of the world has proven the practicality of Islamic financial solutions. In Europe, Islamic finance offers a unique proposition through alternative ethically driven products and services. These are capable of further enhancing trade and financial linkages between EU and various OIC

countries where Islamic finance has deep presence, including Malaysia (MIFC, a rising opportunity for Islamic finance, 2015).

It should be noted that many countries today having a dual banking system, i.e. the system that comprise of both conventional banks and Islamic banks. The example of the first country with a dual banking system is the United Arab Emirates, where Dubai Islamic Bank was established in Dubai in 1973, that resembled the conventional commercial bank in the way it operated, but without paying or receiving interests (El Massah and Al-Sayed, 2015).

1.1.2 Introduction to Conventional Banks

The appearance of banks was related to religious beliefs, thus the temples were bank founders. After Hammurabi's Code on the Banks from 2500 BC, the banking changes from a religious to a commercial activity, it is taken out of the temples and the real banking industry begins. Still, the banks as we know them developed only with the emergence of money. The first beginnings of banking similar to modern conventional banking were seen in Italy, in the region of Lombardy, while "Casa di San Giorgio" in Genoa is considered the first bank and was established in 1407 (Cerović, Nikolaj, Maradin, 2017).

The development of banking through history was largely influenced by the growing human needs in the fields of production and trade. The increasing concentration of capital in production and trade resulted in an increasing concentration of capital in banking (Cerović, Nikolaj, Maradin, 2017).

Various economic and political conditions led to new processes in banking as we know it today, so the period between the 19th century and the 1st World War is characterized by the process of concentration of banks. The period between the 1st and the 2nd

World War is characterized by bank specialization, whereas the development of modern banking is seen through the process of globalization (Cerović, Nikolaj, Maradin, 2017).

1.2 Statement of the Problem

Islamic finance hardly existed 30 years ago, yet today there is a \$2.2 trillion industry with hundreds of specialized institutions located in more than 60 countries. Islamic banks are by far the biggest players in the Islamic finance industry and account for \$1.5 trillion in assets. According to 2017 Reuters report, Islamic bank assets should reach \$2.7 trillion while total sharia-compliant assets are expected to grow to \$3.5 trillion by 2021. The IMF plans to add Islamic finance to its financial sector assessments beginning in 2019 (Chloe Domat, 2018).

Palestinian Islamic banking assets account for 12% of the banking system's assets at the end of 2016, stressing that it is witnessing growth rates increasing from year to year, with total assets have grown in 2016 by 27%, while the banking system's assets grew by 13 % (PMA, 2017).

Islamic finance only represents about 1% of global financial assets but with a 10%-12% annual growth rate, it is expanding faster than conventional finance (Chloe Domat, 2018). This rapid growth must be reflected on the performance of the banking system.

This study evaluate the comparative performance between Islamic and conventional banking systems in Palestine, Since the Islamic Bank is an alternative for conventional bank, it was necessary to study the performance of these Islamic banks compared with conventional banks; to know the Islamic bank's ability to compete and work under Palestinian economic environment.

So the main problem is “the inability of Islamic banks to compete the conventional banks in Palestine “.

It was necessary to study the factors that might affect the performance of Islamic banks and conventional banks. Therefore, the second part of the study focused on examining

the factors that affect the performance of conventional and Islamic banks during the period 2008-2017.

1.3 Objectives of the study

- The main objective of the study is to assess the performance of the Islamic and conventional banks in Palestine. The comparative analysis was done.
- Conventional and Islamic banks have a different business strategies, rules and regulations. For this reason, some factors that may affect conventional bank's performance, may not affect the Islamic bank's performance, or vice versa. Thus, a clear framework was needed in order to assist bank management and investors in making wise decisions and policymakers in formulating policies.
- Investigate and evaluate the factors affecting the performance of Islamic and conventional banks in Palestine, by examining the factors that significantly influence the return on assets (ROA) of both banking systems.
- Investigate the relationship (positive or negative) between L1, DTAR, BS and ROA of Islamic and conventional banks respectively.
- Providing empirical evidence on the comparative performance of Islamic and conventional banks over the period of 2008-2017, by knowing which banking system perform better, we can make recommendations for improving banking sector performance in Palestine.
- This study could identify new problems in operation and new insights to improve the performance of the Palestinian banking system.

1.4 Research questions

The purpose of this study is to evaluate the financial performance of Islamic and conventional banks by using financial ratios analysis (Profitability ratios, Liquidity ratios and Capital Structure ratios),and by Investigating the factors affecting the performance using ROA as the dependent variable and LAR, DTAR, BS as independent variables. Thereby the study enabled us to answer the following questions:

By using financial ratio analysis, we answered these questions:

- Which of the banking stream (Islamic or conventional) is relatively more profitable?
- Which of the banking stream is relatively more liquid?
- Which of the banking stream is employing correct combination of debt and equity (capital structure)?
- Which system performed better, Islamic or Conventional in the period 2008-2017?

By using the regression analysis, we answered these questions:

- What are the factors (LAR, DTAR, and BS) that affect banks performance (ROA)?
- What are the variables (LAR, DTAR, and BS) that must be taken into account to improve the performance of the banking sector in Palestine?

Finding proper and valid answers to such questions will be useful and crucial for Palestinian banking sector.

1.5 Research Hypothesis

Hypothesis for financial ratio analysis:

- There are no differences in performance among different banks based on profitability ratios.
- There are no differences in performance among different banks based on liquidity ratios.
- There are no differences in performance between Islamic and conventional banks with regards to capital structure ratio.

Hypothesis for regression analysis:

- Liquidity (LAR) has no statistical significant impact on performance (ROA) for Islamic and conventional banks, respectively.
- DTAR has no statistical significant impact on performance (ROA) for Islamic and conventional banks, respectively.
- Bank size (BS) has no statistical significant impact on performance (ROA) for Islamic and conventional banks, respectively.

1.6 Importance of the study

Scientific importance:

- Measuring the performance for the banking system is necessary to detect problems and settle concerns about the safety and soundness of investments for managers, regulators and depositors alike.

- Bank's performance measurements help Supervisory Boards and other regulators to understand the performance of banks and to ensure only transparent and clear information is available and used.
- Lack of study that focused on the comparative performance of the banking sector for countries having the same feature of Palestinian economy and the development of Islamic banking industry represents the motivation of this study.

Practical importance:

- It is highly important for managers
 - To determine the financial position of their institution compared to their competitors or industry benchmarks
 - As well as evaluating how effective previously taken decisions affected the bank.
- It helps investors to identify chances and investment opportunity and ensure that the best decision regarding use of funding is being taken (CIBAFI, 2006)^{*}
¹, (Badreldin, 2009).

The study is important as it can highlight the competitive position of the Islamic bank vis-à-vis conventional bank which could be useful in identifying its strengths and weaknesses.

¹ * General Council for Islamic Banks and Financial Institutions (CIBAFI) (2006). CIBAFI Performance Indicators.

Chapter2:

Theoretical Framework & Literature Review

2.1 Theoretical Framework

2.1.1 Financial performance of conventional and Islamic banks

Bank performance from the point of view of shareholders of a bank is obtaining profitability maximizing the revenue and minimizing the costs. Economic theories show that, in the situation of perfect competition, profit maximization is equal to minimizing costs. In practice, however, can interfere factors such as changes in the regulatory framework that would disturb obtain desired performance (Apătăchioae, 2015).

The global performance of a bank characterizes its overall results, it being given by profitability level correlated with the risks taken by the bank concerned (Olteanu, 2003). In the literature, the banking performance is expressed through indicators of profitability and financial soundness indicators (Stoica, 1999).

Bhunia, Mukhuti and Roy (2011) define the financial performance analysis as the process of determining the operating and financial characteristics of a firm from accounting and financial statements. The goal of such analysis is to determine the performance of firm's management, as reflected in the financial records and reports. The analyst attempts to measure the firm's liquidity, profitability and other indicators that the business is conducted in a rational and normal way; ensuring enough returns to the shareholders to maintain at least its market value.

The ability of an organization to analyze its financial performance is essential for improving its competitive position in the marketplace. Through a careful analysis of its financial performance, the organization can identify opportunities to improve performance of the department, unit or organizational level (Bhunia, Mukhuti and Roy, 2011).

Measuring the performance of financial institutions has gained academic attentions over the years. Various approaches and techniques were developed to evaluate and analyze the banks' performance; the most popular technique is Ratio Analysis, which is used in this research.

2.1.2 Financial ratios analysis

Financial ratios are useful tools that help companies and investors analyze and compare relationships between different pieces of financial information across an individual company's history, an industry, or an entire business sector. Numbers taken from a company's income statement, balance sheet, and cash flow statement allow analysts to calculate several types of financial ratios for different kinds of business intelligence and information (Peavler, 2018).

Performing an accurate financial ratio analysis and comparison helps companies gain insight into their financial position so that they can make necessary financial adjustments to enhance their financial performance (Peavler, 2018).

Financial ratios are a common way to measure financial performance of banks. The use of ratios is relatively extensive and common in literature review, for example but not limited to (e.g., Samad, 2004; Siraj and Pillai, 2012; Wasiuzzaman and Tarmizi, 2010; AL Kilani and Hazzi, 2013; khan, 2012; and Tariq, Tahir, Wajeeh-ul-19, Momeneen and Muhammad Hanif, 2012).

The financial ratios analysis technique includes the process of analysis and interpretation of banks financial performance. Ratios are indicators of financial performance of all banks (Ahmad, Nazam, Maqbool and Adeel, 2017).

The main advantage of FRA is its ability and effectiveness in distinguishing high performance banks from others and the fact that FRA compensates for disparities and controls for any size effect on the financial variables being studied (Samad, 2004).

Financial ratio analysis included the measure of differences in performance of Islamic and conventional banks in terms of

- Return on asset and return on equity as the profitability measure of financial performance.
- Liquid Assets Ratio (LAR), Liquid Assets to deposits ratio (L2) as the liquidity measure of financial performance.
- Debt to assets ratio as the Capital structure measure of financial performance.

2.2 Financial ratios

2.2.1 Profitability ratios

Profitability is a bank's first line of defense against unexpected losses, as it strengthens its capital position and improves future profitability through the investment of retained earnings (Appendix to the report on EU banking structures, 2010).

Profitability ratios are a class of financial measures, used to assess a business's ability to generate earnings during a specific period. Profitability ratios depict banks overall performance. For most of profitability ratios, having a higher value relative to a competitor's ratio is indicative that the business is doing well.

Bank managers and bank analysts generally evaluate overall bank profitability in terms of return on equity (ROE) and return on assets (ROA). When a bank consistently reports a higher than average ROE and ROA, it is designated a high performance bank.

So we use the following profitability ratios:

2.2.1.1 Return on Assets (ROA)

$$\text{Return on Assets (ROA)} = \text{Net Profit/Total Assets}$$

The ROA, defined as net income divided by total assets, reflects how well a bank's management is in using the bank's real investment resources to generate profits (Abduh and Yameen Idrees, 2013). It gives an idea as to how efficient management is at using its assets to generate earnings (Abduh and Alias, 2014).

ROA has been used in many studies to measure the performance of banks (Samad, 2004; AL Kilani and Hazzi, 2013; Muhammad abduh and Alias, 2014; khan, 2012). It's a good indicator of a bank's financial performance.

It shows how competent the management is in allocating asset into net profit. If a firm has higher (ROA) ratio then it indicates efficient utilization of assets and better managerial performance.

So the higher the ROA, the higher is the financial performance or profitability of the banks (samad, 2004).

2.2.1.2 Return on Equity (ROE)

➤ Return on Equity (ROE) = Net Profit/Equity.

ROE tells the return owners earn on their investment in bank. ROE is of great concern to the investors and shareholders. ROE measures the efficiency of banks in making profits from every unit of shareholders equity/bank capital (Hanif, Tariq, Tahir and Wajeeh-ul-Momeneen, 2012).

Potential investors look for ROE before investing in a bank so it is important for a bank to have a higher ROE. Higher the ROE, more efficient the banks performance is (Hanif, 2012). In addition, a higher ratio indicates better use of capital (Siraj and Pillai, 2012).

2.2.2 Liquidity ratios

Liquidity of a bank means the ability of a bank to meet the financial obligations when due. Liquidity tells the capability of a bank to convert its assets into cash and meet the demands of customers, borrowers and depositors at the time they need it (Tariq, Tahir, Wajeeh-ul-Momeneen and Hanif, 2012).

Liquidity is basic for efficient operations of a bank. A bank is said to be liquid when there is enough liquid assets and cash coupled with the ability to raise funds quickly from other sources, to meet its financial obligations on daily basis. Management of bank liquidity is of utmost importance for survival and profitable operations of the

system. It helps sustain depositor's confidence and keeps the industry as a going concern (Duruechi, Ojiegbe,Otiwu, 2016).

So maintaining liquidity in all circumstances is one of the major challenges that banks face.

Liquidity ratios are a key part of fundamental analysis since they help determine a company's ability to service its debts. If a company fails to pay its debts, it could face bankruptcy or restructuring activity that could be detrimental to shareholder value.

Generally, but not always, the higher the value of the liquidity ratio the larger the margin of safety that a bank possesses to cover short-term obligations (hazzi and kilani, 2013).

In order to asses liquidity following ratios were used.

2.2.2.1 Liquid Assets Ratio (LAR) = liquid assets / total Assets

Liquid Assets Ratio indicates what percentage of assets a bank maintains in the form of liquid assets which are available to meet any possible shortage of cash (liquid assets =cash and cash balances with PMA+ balances at banks and financial institutions) .

The liquidity asset ratio should give us information about the general liquidity shock absorption capacity of a bank. As a general rule, the higher the share of liquid assets in total assets, the higher the capacity to absorb liquidity shock (Vodova, 2013).

When this ratio is high, bank is not highly at risk, because it has sufficient money (cash assets) to repay to its depositors. Consequently, it is safer in terms of insolvency and bankruptcy (badreldin, 2009).

2.2.2 .2 L2=Liquid assets / Deposits

Liquid assets / Deposits ratio (L2) measures the liquidity of a bank assuming that the bank cannot borrow from other banks in case of liquidity need. The bank is able to meet its obligations in terms of funding (the volume of liquid assets is high enough to cover volatile funding) if the value of this ratio is 100% or more (Vodova, 2013).

A high ratio means that the bank is able to cope with long term liquidity risk (Ferrouhi, 2014).

The higher is the value, the higher is the capacity to absorb liquidity shock (Vodova, 2013).

2.2.3 Capital structure

Capital structure denotes the mode of finance, usually a blend of the loan and equity capital, through which a firm is financed. It has been an interesting issue for many researchers, wherein they attempted to delineate the connection between capital structure and the performance of firms.

The decision of how a firm will be financed is subjected to both the managers of the firms and fund suppliers. If financing is done by employing an incorrect combination of debt and equity, a negative effect is seen in the performance and even endurance of a firm. Thus, in order to maximize the firm value, managers need to carefully consider the capital structure decision, which is a complex task, as the use of leverage varies from one firm to another. Therefore, what managers usually do is try to achieve the best combination of debt and equity in their capital structure (Siddik, Alam, Sajal, and Shanmugan, 2017).

Myers (1977) developed a capital structure theory, known as the pecking order theory,

which believes in no optimal capital structure and suggests that every firm has a preferred hierarchy for the financing decisions and usually prefers the internal financing rather than acquiring funds from outside the organization. However, financing from outside sources is required when all in-house funds employed. According to Muritala (2012), in such a case, firms will prefer debt over equity (Siddik, Sajal and Joghee, Shanmugan, 2017).

Therefore, the concept of capital structure can be defined as the proportional relation between a firm's debt capital and equity capital. The capital structure decision plays an important role in the performance of a firm. Thus, Firms use capital structure usually to fund their business and expand.

Capital structure can be assessed through this ratio:

2.2.3.1 Debt to assets ratio (DTAR) = Total liabilities ÷ Total assets

(Total liabilities= PMA deposits + Banks' and financial institutions' deposits + Customers' deposits + Sundry provisions + Taxes provisions + other).

The debt to assets ratio indicates the proportion of a company's assets that are being financed with debt, rather than equity. The ratio is used to determine the financial risk of a business.

An increasing trend indicates that a business is unwilling or unable to pay down its debt, which could indicate a default at some point in the future (Steven Bragg, 2017).

If a firm has higher debt to assets ratio means that bank as compared to equity financing has financed its most assets through debt and higher debt to assets ratio is also an indication that bank has involved in more risky business (Latif , Abbas ,Akram ,Manzoor and Ahmad,2016).

2.3 Factors affecting banks performance

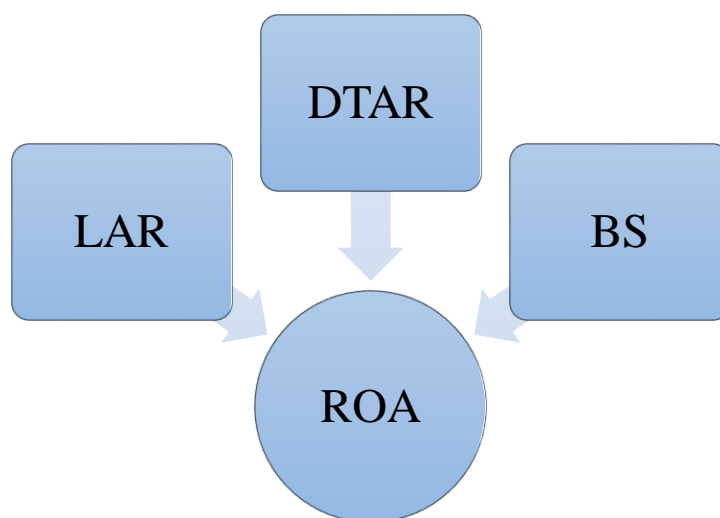
The study also focused on examining the factors that significantly affect the performance of conventional and Islamic banks.

Banking sector acts as the bone of an economy where it plays a vital role in providing source of financing and supporting economic activities (Dawood, 2014).so it is necessary for bank manager, central bank, policy maker, and other financial authorities to have knowledge of the underlying factors that affect the financial sector's performance (Sufian & Chong, 2008).

By knowing the factors that could influence performance of banks, investors could make their investment decision wisely and able to identify which banks, either conventional or Islamic bank, should they invest in at different economic conditions (Sen, Cong, Peng, Chin, 2015).

2.3.1 Model of the study

The model demonstrates the relationship between the dependent variable and the explanatory variables.



2.3.1.1 Dependent variable (ROA-bank performance indicator):

Profit is the important and crucial factor in determining the survival of a bank as well as reflecting how well a bank is performed (Muda et al., 2013). Profit not only an important tool towards the improvement of bank performance but also play a role towards the determination of management planning to help in increasing the chance for banks to sustain in today's increased competitive market (Muda et al., 2013).

For this reason, the formulated model used ROA as the dependent variable, which is proved to be the best measure of bank's performance.

ROA shows the profit earned per dollar of assets and most importantly, reflects the management ability to utilize the bank's financial and real investment resources to generate profits. For any bank, ROA depends on the bank's policy decisions as well as uncontrollable factors relating to the economy and government regulations (Hassan and Bashir, 2005). Rivard and Thomas (1997) in their study suggested that ROA is the best measure of bank profitability because ROA not only better represents the ability of bank's management in generating returns on its portfolio of assets but also it is not distorted by high equity multipliers like ROE.

Therefore, we use only ROA as proxy for bank profitability since ROE is evidenced to be distorted by financial leverage.

2.3.1.2 Independent variables

- Liquid assets ratio (LAR).
- Debt to assets ratio (DTAR).
- Bank size (BS).

Liquid assets ratio (LAR).

The liquid asset ratio give us information about the general liquidity shock absorption capacity of a bank. As a general rule, the higher the share of liquid assets in total assets, the higher the capacity to absorb liquidity shock (Vodova, 2013).

Debt to assets ratio

The debt to assets ratio indicates the proportion of a company's assets that are being financed with debt, rather than equity. The ratio is used to determine the financial risk of a business.

An increasing trend indicates that a business is unwilling or unable to pay down its debt, which could indicate a default at some point in the future (Steven Bragg, 2017).

Bank size (BS)

Bank size is another determinant, which could influence the profitability of conventional and Islamic banks in Palestine.

Bank size is often measures by natural logarithm of total assets (Javaid, Anwar, Zaman & Gafoor, 2011).

The relationship between size of the bank and profitability are mixed. It could be positive relationship or negative relationship.

Bank size proved that statistically significant and positively associated with the profitability level of commercial banks in Ethiopia (Rao & Lakew, 2012). Conversely, Javaid et al. (2011) suggested that bank size have negative impact and significant in

explaining the bank profitability in Pakistan.

Generally, the bigger size of the bank, the higher the profitability. The reason is that large size may result in economies of scale that will reduce the cost of gathering and processing information or in economies of scope that result in greater loan product diversification and accessibility to capital markets, which are not available to small banks. However, for banks that become extremely large, the effect of size could be negative due to bureaucratic and other reasons (Abduh and Idrees, 2013).

In this study, it was expected that there is a positive relationship between bank size and performance, because by increasing the size of banking firm, cost can be reduced and therefore, performance can be improved (Berger et al., 1987 and Shaffer, 1985).

2.3.1.3 Multiple Regression Analysis

The basic application of multiple regressions involves simultaneous use of a set of predictor variables to make the most accurate prediction possible of scores on the dependent variables. The equation is for predicting Y score from scores from X1, X2 and X3. The first regression coefficient; β_0 is called the constant or the intercept. It denotes the predicted value of Y for sample with scores of all X's equal to zero. The regression coefficient β_1 , β_2 and β_3 are the multipliers for X1, X2 and X3 respectively, used in computing the predicted score (Abduh & Alias, 2014).

2.3.1.4 Descriptive analysis

Descriptive analysis includes mean, minimum, maximum and standard deviation (Dawood, 2014). The mean values are to reflect the arithmetical average of the variables for 10-years period 2008-2017. The standard deviation indicates the variation in the data set and check whether it is close to the mean value (Almazari, 2014).

In addition, the variation of dependent variable that explained by the independent variable is explained by using the adjusted R-square. Adjusted R-square is preferable than R-square because adjusted R-square take into account the number of independent variables (Sen, Cong, Peng, Chin, 2015).

In this study, we want to investigate the factors affecting the performance of conventional banks and Islamic banks in Palestine using ROA as a proxy for performance.

Therefore, below is the equation for the whole model

$$ROA_{i,t} = \beta_0 + \beta_1 LAR_{i,t} + \beta_2 DTAR_{i,t} + \beta_3 BS_{i,t} + \varepsilon_{i,t}$$

Where,

Dependent variable (Y)

ROA $_{i,t}$ - the return on average assets for bank i in year t .

β_0 -is a constant (intercept).

Independent variables (X's)

LAR=Liquid assets ratio

DTAR =Debt to assets ratio

BS=Bank size (Ln (total assets)).

$\varepsilon_{i,t}$ is the error term

2.3.1.5 Multicollinearity test

Multicollinearity where more than two Independent variables are highly correlated, this can have damaging effects on multiple regressions. When this condition exists, the estimated regression coefficients can fluctuate widely from sample to sample, making it risky to interpret the coefficients as an indicator of the relative importance of predictor variables. Just how high can acceptable correlations be between independent variables? There is no definitive answer, but, as a rule of thumb, correlations at 0.80 or greater level should be addressed. Because high intercorrelations between predictor variables suggest that, they are measuring the same construct (Cooper & Schindler, 2011).

Testing for Multicollinearity with Variance Inflation Factors (VIF)

VIF measures the effect of the independent variables on a regression coefficient as a result of correlation. Large values, usually 10.0 or more, suggest collinearity or multicollinearity.

2.4 Literature Review

Banks performance can be measured both by using qualitative and quantitative methods and techniques. Different variables and statistical techniques have been used for analysis by different studies and results are drawn from them aiming at performance evaluation (Tariq, Tahir, Wajeeh-ul-Momeneen and Hanif, 2012).

According to the related reviews, several researches were conducted to measure the performance for both of Islamic banks (IB's) and conventional banks (CB's).

Yudistira (2003) examined the efficiency of the Islamic banking system with 18 Islamic banks over the time period 1997 to 2000. The researcher used the DEA (DEA is a linear programming technique for examining how a particular decision making unit (DMU, or bank in this study) operates relative to the other banks in the sample) as a comparative measure of the various banks' efficiency. The study pointed out that banks could be scored between zero and one, "with a completely efficient bank having an efficiency score of one. "In DEA, the most efficient bank (with score of one) does not necessarily generate the maximum level of output from the given inputs".

The data collected from nonconsolidated income and balance sheet statements, which were available from the London-based International Bank Credit Analysis, Ltd. The time period was 1998 to 1999, a time of global financial crisis. Three inputs (staff costs, fixed assets, and total deposits) and three outputs (total loans, other income, and liquid assets) were examined.

Islamic banks in the Middle East were less efficient than Islamic financial institutions in other parts of the world. An important finding for this study suggested that the overall efficiency results suggest that inefficiency across 18 Islamic banks is small at just over 10 percent, which is considerable compared to many conventional

counterparts. Furthermore, the findings further indicate that there are diseconomies of scale for small-to medium Islamic banks which suggests that M&A(mergers and acquisitions) should be encouraged. Finally, the market in the Middle East was not shown to have a significant impact on the efficiency of the Islamic banks examined.

The researcher also found that the Islamic institutions analyzed were found to be less efficient between 1998 and 1999 as compared with 1997and 2000. The inefficiency in 1998 turned out to be more attributable to pure technical inefficiency than scale efficiency.

The study of **Siraj and Pillai (2012)** investigates the presence of similarity in growth of several performance indicators of Conventional Banks and Islamic Banks in GCC region, the study concentrates on the ratios and growth rates to infer on performance of banks.

The researchers found that the operating profit increased at a faster rate in Islamic banks than conventional banks during 2005-2010, and Islamic banks are more equity financed, while conventional banks are more borrowed fund financed.

The paper of **Said (2012)** also tested the efficiency of Islamic banks during economic crisis, the purpose of the study was to show that Islamic banks experience difference in efficiency due the size and region of that bank during a financial crisis. In addition, the objective of the study results was to illustrate that the size of a bank would affect the efficiency during financial troubles. The DEA model was the instrument used to measure efficiency. Large Islamic banks showed an increase in efficiency during 2006 to 2008 and decline during 2009. However, small to medium Islamic bank sample started at a lower level of efficiency. In addition, the results showed that the efficiency

of Islamic banks operates in Middle Eastern and non-Middle Eastern Counties have increased during an economic crisis.

The work of **Wasiuzzaman and Tarmizi (2010)** examined the variables that affect the profitability of Islamic banks in Malaysia. The data used in this study was derived from the financial statements of 16 Islamic banks in Malaysia. By calculating the ratios for these 16 banks, results showed that capital, liquidity, operational efficiency, asset quality, inflation and the gross domestic product (GDP) affect profitability of Islamic banks in Malaysia. The model used (OLS- Ordinary Least Squares method of regression) indicates that the profits made by Islamic banks in Malaysia are positively related with the liquidity and the macroeconomic environment, while it was negatively related with its asset quality and capital.

Samad (2004) measured the performance of the Islamic banking sector compared to conventional banking system in Bahrain. Samad collected data for six Islamic and 15 conventional banks from 1991 to 2001. He examined income statements and balance sheets for these banks by using a set of ratios to measure their respective profitability, liquidity, and credit-risk performance.

The results showed there were no significant differences between the Islamic and the conventional banking systems in Bahrain with regard to profitability and deposit risk. The Islamic banks had higher equity ratios than the conventional banks. The Islamic banks in the study exercised more caution when making loans than conventional banks did. The purpose of the ratios in this study was to indicate that Islamic banks tended to have more liquidity than conventional banks; a finding that suggested the Islamic

financial institutions had lower liquidity risk than the comparison group of conventional banks.

Latif, et al (2016) study investigates the comparative performance evolution of Conventional and Islamic banking systems in Pakistan from 2006 to 2010. Five Islamic banks operating in Pakistan and five conventional banks were selected. Financial ratios were used to measure the performance, Ratios are mainly divided into four main categories include: Profitability ratio, Liquidity ratio, Risk & solvency ratio and Efficiency ratio. The results show that in terms of profitability there is not much difference between the two types of banks, liquidity which includes (Loan to Deposit Ratio, Loan To Asset Ratio, Cash and portfolio investment to deposit ratio) Islamic banks are performing better in two ratios while conventional banks performing better in one ratio. Analysis for risk and solvency reveals that Islamic banks are more solvent and less risky as compare to conventional banks, and finally in efficiency ratios Islamic banks shown superior performance.

Abduh and Idrees (2013) Used panel data regression analysis to investigate the impact of bank-specific as well as industry-specific and macroeconomic indicators upon Islamic banks profitability in Malaysia, the study shows that bank total assets, financial market development, market concentration and inflation are determinants of Islamic banks profitability in Malaysia. This study found a positive and significant relationship between the total assets of the banks and its profitability. This means that the bigger the size of the Islamic banks, the higher the profitability, on the Contrary to Wasiuzzaman and Ahmed Tarmizi (2010) findings; this study indicates that only bank size significantly affecting the Islamic banks profitability. In addition, it shows that

bank ability to predict future inflation has a significant impact on the performance of Islamic banks in terms of profitability.

Duruechi, Ojiegbe & Otiwu (2016) collect Time series data to examine the effectiveness of liquidity management measures on bank performance in Nigeria, The variables examined included reserves, investment in government securities, domestic interbank claims and foreign claims which were regressed against performing loans and advances of banks (as a measure of performance). The E-view 7.1 econometrics tools were used for data analysis indicated the existence of causality and long-run relationship between liquidity management measures and bank performances in Nigeria. The ordinary least square (OLS) estimation found all the measures to be statistically significant and of positive impact except Foreign Claims (FORC) that was, insignificant.

AL Kilani and Hazzi (2013) test whether or not there are differences in the financial performance between Islamic and traditional banks in Malaysia with respect to profitability, liquidity and risk performance, using a group of financial ratios to evaluate the financial performance, they found that the Traditional banks are more profitable than Islamic banks, while the Islamic banks are more liquid and less risky.

Cerović, Nikolaj, Maradin (2017) the study made an overview of conventional banks and Islamic banks operations from the perspective of their financial stability and efficiency before and at the time of the crisis. Then it explains the relationship between the regulation and the financial crisis in the banking sector. The researchers used different techniques in the analysis such as data envelopment analysis (DEA), financial ratios and OLS regression.

Results revealed that IBs show certain advantage over CBs. Greater stability, and even efficiency, On the contrary, in the period after the crisis, CBs show higher financial stability and efficiency in business.

Usman &Khan (2012) also used profitability and liquidity ratios to evaluate the comparative financial performance of Islamic banks and conventional banks, the calculated results revealed that the profitability of the Islamic banks is more worthwhile than conventional banks which contradict with AL Kilani and Hazzi results. The analysis of this paper make it clear that Islamic banks are booming rapidly than conventional banks, except year 2007 the mean profitability of conventional banks was much better than Islamic banks but later on 2008 and 2009 the profitability of Islamic banks was better than conventional banks.

Hussein and Al-Tamimi (2010) investigate some factors that influence performance in UAE's Islamic and conventional national banks during the period 1996-2008. A regression model was used in which ROE and ROA were used alternatively as dependent variables. A set of internal and external factors were considered as independent variables including: GDP per capita, size, financial development indicator (FIR), liquidity, concentration, cost and number of branches. In addition, a dummy variable is used as an independent variable to reflect the bank type (TYPE) of which 0 is allocated to Islamic banks and 1 to conventional banks. The existence of multicollinearity problem among some of the independent variables. Therefore, GDP per capita (ECON) and SIZE in the case of conventional national banks and FIR in the case of Islamic banks were dropped from the regression model.

Finally, the results indicate a positive impact of cost and branch number on Islamic

banks' performance and liquidity and concentration in the case of conventional national banks.

Hanif, et al (2012) analyze and compare the performance of Islamic and conventional banking in Pakistan , their analysis consist of two phases; phase one consist of financial analysis for five years (2005-09) and includes measure of differences in performance of Islamic and conventional banks in terms of profitability, liquidity, credit risk and solvency. Phase two of the study was consisting of customer survey. The results showed that in terms of profitability and liquidity management conventional banking stream is performing better than Islamic banking, however under credit risk management and solvency maintenance, performance of Islamic banking is better than conventional banking sector. Motivating factors for customers of Islamic banking are the location and Shari'a compliance, while in case of conventional banking it is wide range of products and services.

Obeidat, et al (2013) study aimed to recognize the determinants that shape the profitability of Islamic banks in Jordan over the period 1997-2006. They employ various internal and external determinants that were extensively employed in the earlier literature. The dependent variable ROA was regressed on the internal determinants of profitability (these are Total loan ratio, total deposit ratio, cost of deposit ratio, total expenditures ratio, Mudaraba loan ratio and Restricted investment deposits ratio),the results show that all the variables apart from the total loans seem to be statistically significant determinants of Islamic bank. As for the external determinants of profitability of Islamic banks, the findings demonstrate that money supply (M2) and market share have a significant positive impact on the banks

profitability. Other external determinants of profitability are found to have positive but insignificant impact on profitability including the rediscount interest rate and consumer price index (CPI).

Muhamad Abduh and Alias (2014) examined factors that determine Islamic banking performance in Malaysia by comparing between foreign Islamic banks and local Islamic banks, for the period of 2006 to 2010.

The study included fifteen Islamic banks, the multiple regression analysis used as the method of analysis, where ROA and ROE are the dependent variables while Loan loss provision to total assets, net loans to total assets, Total overhead cost to total assets, shareholders equity ratio and Bank size used as internal independent variables and GDP (Gross domestic product) and Inflation as the external independent variables. Results revealed that the significant variables in predicting the ROA was Loan loss provision to total assets and total overhead cost to total assets, while Loan loss provision to total assets and Inflation appear to be the most important variables in predicting the ROE level.

Abusharbeh (2011) examined the performance of profitability of Islamic banks against conventional banks for the period of 2005 to 2010. The study used return on equity (ROE) and return on assets (ROA) measures to examine whether there is any differences of profitability between Islamic, local and foreign conventional banks. The study concluded that Islamic banks generally provide the similar profit rate compared to local banks, and Islamic banks provide lower profit rate compared to foreign banks. The findings suggest that there is no statistical significant difference in mean return between Islamic banks, local and foreign banks in Palestine.

Chapter3

Methodology

3.1 Population

Banking system in Palestine

3.1.1 Palestinian Monetary Authority (PMA)

The Palestinian Monetary Authority (PMA) is an independent public institution responsible for the formulation and implementation of monetary and banking policies to maintain price stability and low inflation, foster financial stability, safeguard the banking sector, and promote sustainable growth of the national economy. PMA works to achieve these goals through:

- Development and execution of monetary policy designed to ensure low inflation and achieve price stability.
- Effective and transparent regulation and supervision of banks • specialized lending institutions and moneychangers operating in Palestine.

- Overseeing the development, implementation and operation of modern efficient payment system.

PMA vision to be a full-fledged and modern central bank for Palestine, capable of achieving monetary stability by keeping inflation under control, and maintaining financial stability. PMA also works to achieve sustainable economic growth, and promote integration into the regional and global economy (PMA factsheet, 2018).

3.1.2 Components of Palestinian Banking System

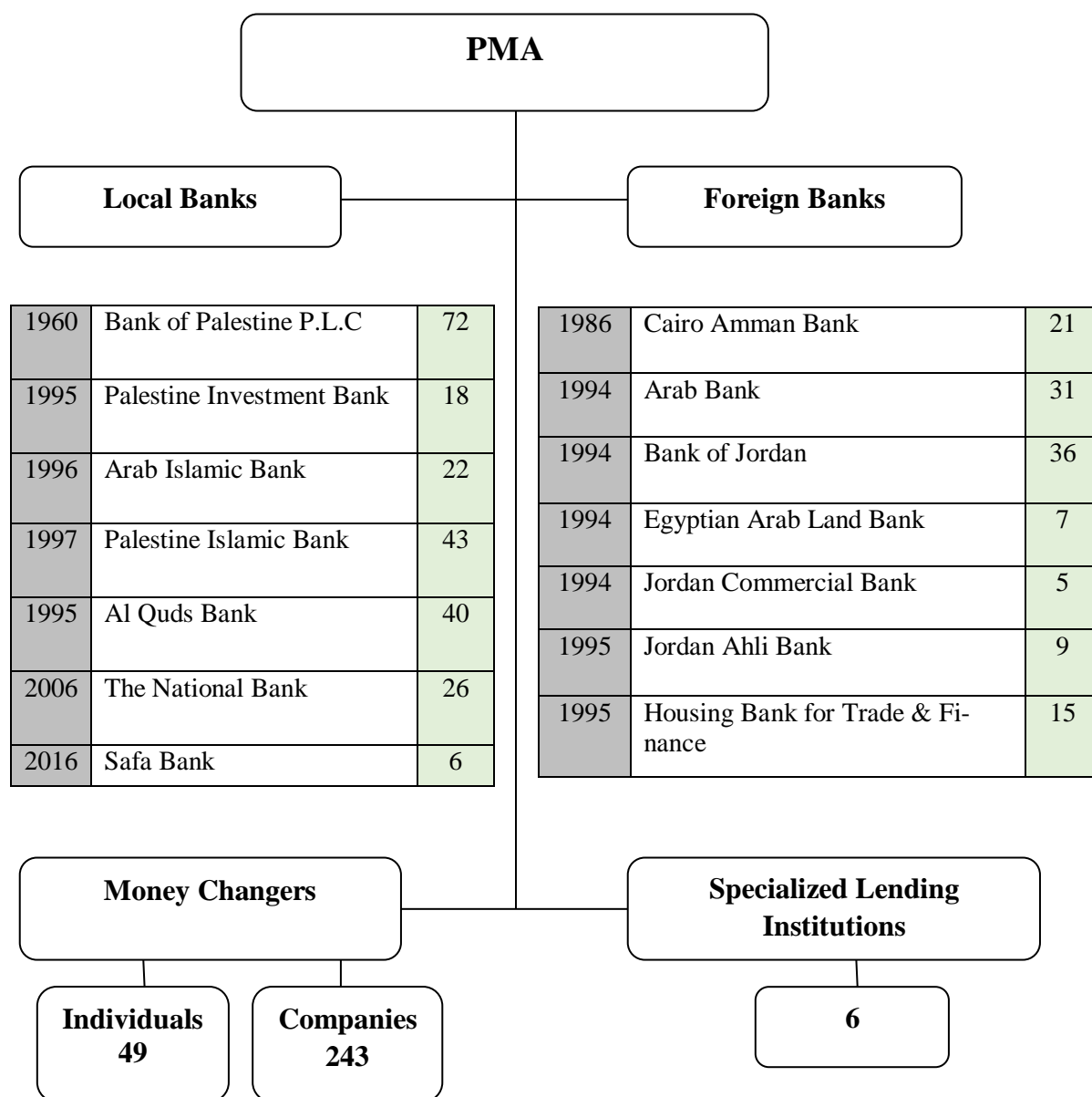
The Banking sector is key part of the Palestinian economic system, which it influences and can be influenced by its developments and changes. Many economic writings agree on the important role of financial intermediary in economic development in general. Therefore, the more safe, sound and healthy the banking sector is, the more it is capable of affecting and stimulating economic activity in general and investment in specific, which would assist the development process. The Palestinian banking sector has managed throughout the years to strengthen itself and build its capacity to endure risks and political and economic fluctuations and adapt to them thanks to the measures taken by PMA in close cooperation with the banking sector. Consequently, there has been continuous improvement in the vital indicators of the sector and in its securing good performance in spite of the difficult political and economic situations (PMA, 2017).

The Palestinian banking system includes: Palestinian Monetary Authority (PMA) which supervises banking sector contains (7) local banks, which are headquartered in Palestine, including commercial banks and three Islamic banks, in addition it includes (7) foreign banks, which are the banks whose their headquarters are outside of

Palestine.

It also includes exchange Institutions contain (292) companies and individuals, and (6) specialized lending institutions (PMA, 2018).

Palestinian banking system institutions 2018



Year of establishment for local banks, or re-opening of the first branch for foreign banks.

Number of branches and representative offices (PMA, annual report, 2018).

3.1.3 Islamic banking in Palestine

In the last two decades, banking sector emerges significantly in Palestine and playing an important role in the economic development through enhanced investments in infrastructure projects (Meqdad and Hiless, 2005). The emergence of Islamic banks in financial system increases the importance of banking industry in the environment in which it operates. This is the case that had been happening in the early of 1990 when Beit-Elmal Al-Philistini Company was established as the first Islamic financial institution. It complies with the Principles of Islamic Shari'a in which interest rate is prohibited from financial operations (Jaber, 2003).

Nowadays there are three Islamic banks operating in palestine: Palestine Islamic Bank, Arab Islamic Bank, Safa Bank.

Palestine Islamic Bank

Palestine Islamic Bank founded in 1995 commencing its banking activities in early 1997 with an authorized capital of 100 million shares and a nominal value of USD \$1 per share. In 2017 the paid capital was increased to USD \$69 million. In addition, in 2018 the paid capital was increased to USD \$74 million.

The Bank conducts its banking, financial, commercial and investment business according to Islamic Sharia, with a network of 43 branches and offices and 79 ATMs throughout Palestine, thus confirming its identity as the largest Islamic banking network in Palestine. The Bank realizes its vision as the leading Palestinian Islamic bank providing the utmost in excellence and quality in Islamic banking services to meet customer needs and requirements.

Arab Islamic Bank

The Arab Islamic Bank (AIB) registered as a limited liabilities company in 1995, and started its activities in Gaza city in 1996, its main branch in Ramallah city. Recently AIB has 22 branches. At the end of 2017, AIB net assets account \$1,041,103,696.

Safa Bank

Safa Bank was established as a public shareholding company by a group of companies, large organizations, and legal and natural persons in the year 2016. The Bank initiated its operations on September 2016 and offers banking services that comply with Islamic Sharia regulations. The Bank's capital is 75,000,000 US Dollars. Safa Bank's main objective is to meet the needs of the Palestinian market through its Islamic banking services and products, which eliminates the use of interest of any type and form. In addition, the Bank offers financing and investment services, in develops new methods for attracting funds and savings, in an effort to contribute to productive investment using banking methods and tools that do not contradict with the regulations of Islamic Sharia.

In our study, we will take two conventional banks (Quds bank, Palestine investment bank) and two Islamic banks (Palestine Islamic bank, Arab Islamic bank).

The analysis of the financial data of the Palestinian banking sector at the end of 2017, showed an 11.6 percent increase in the total assets to USD 15,850.2 million. Direct credit facilities portfolio experienced an increase of approximately 16.8 percent to reach around USD 8,026.0 million, which was 50.6 percent of the total assets indicating more use of financial intermediary among surplus and deficit units in

economy and creating more financing opportunities and contributing to the economic development process. Customer deposits reached USD 13,117.8 million, which was an increase of 11.7 percent compared to 2016. Banks equity rose by 12.4 percent to USD 1,891.2 million (PMA, annual report, 2017).

3.2 Sample

To make an appropriate comparative study two conventional banks (Quds bank, Palestine Investment Bank) and two Islamic banks (Palestine Islamic Bank, Arab Islamic Bank) were selected on the basis of almost having equal weight of invested capital, number of branches, and are almost equal according to the amount of net assets.

3.3 Data

The data used in this study were financial information, extracted and analyzed from the statement of balance sheet and income statement, which are available in the annual reports of the banks. This section deals with presentation of data, analysis and interpretation of data collected for this study. Information gathered through secondary data mainly the financial statements of the selected banks.

Data used from Secondary sources:

- Annual Financial reports (Balance sheet and income statement).
- National Statistics issued by PMA.
- Books and scientific references dealing with subject of the study.
- Researches in specialized journals and scientific journals.
- Master and doctoral theses relevant to the subject of study.

To get substantiated results, the financial statements of both Islamic and conventional banks during the period of 2008 to 2017 were used.

3.4 Methodology

Evaluating bank performance is a complex process that involves assessing interaction between the environment, internal operations and external activities.

Measuring the performance of financial institutions has gained academic attention over the years. Various approaches have been used to determine the performance. These approaches broadly fall under two types: nonparametric approaches, such as Data Envelopment Analysis (DEA), and parametric approaches, such as Financial Ratios Analysis (FRA).

Compared to extant literature we favor FRA because it is effective in distinguishing high performing banks from others, tends to compensate for disparities and controls for any size effect on the financial variables being studied (Samad, 2004). Additionally, financial ratios enable us to identify unique bank strengths and weaknesses.

Chapter 4:

Results and Discussion

4.1 Financial ratios analysis

This section will discuss the financial performance results of Islamic banks and conventional banks in Palestine.

The financial performance has been evaluated using financial ratios (profitability ratios, liquidity ratios and capital structure ratio), which were analyzed for Islamic and conventional banks over the period 2008-2017.

4.1.1 Profitability ratios

➤ **Return on Assets (ROA) = Net Profit/Total Assets**

Table 4. 1: **ROA**

Year	Quds Bank	Palestine Investment Bank	Arab Islamic Bank	Palestine Islamic Bank
2017	1.0%	0.9%	0.6%	1.4%
2016	1.1	1.0	0.79	1.6
2015	1.0	0.5	0.80	1.5
2014	1.1	0.9	0.73	1.27
2013	0.9	0.7	0.75	1.30
2012	0.7	0.7	0.2	1.4
2011	1.0	1.0	0.3	1.0
2010	1.0	0.6	(0.8)	0.4
2009	0.8	1.2	0.3	0.1
2008	(2.30)	1.37	1.67	(0.83)
Avg.	% 0.63	%0.887	%0.534	%0.914

*Source of data: Data from annual reports-calculated by the researcher.

Avg. ROA for conventional banks **0.7585%**

Avg. ROA for Islamic banks 0.724%

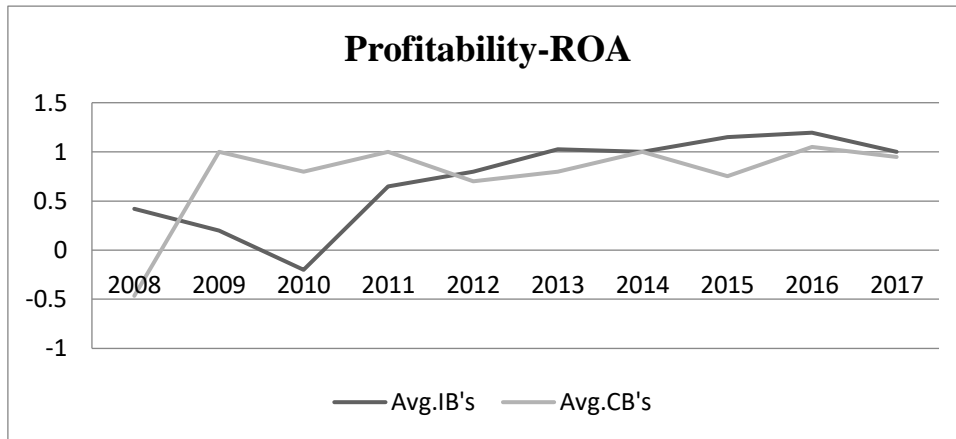


Figure 4. 1: Profitability Performance-ROA

Table(4.1) and Figure(4. 2) show that within the period from 2008 to 2017, the average ROA for Islamic banks was 0.724% with maximum value of 1.67% and minimum value of -0.8%.and the average ROA for conventional banks 0.7585% with maximum value of 1.37% and minimum value of -2.3%.

We noticed that conventional banks have a higher ROA during 2008-2017, such the higher ROA; the higher is the financial performance of profitability of a bank.

This result means that conventional banks management was more efficient at using its assets to generate earnings during 2008-2017. The result is consistent with Siraj and Pilli (2012), Usman & Khan (2012) and Samad (2004) studies results.

➤ **Return on Equity (ROE) = Net Profit/Equity.**

Table 4. 2: **ROE**

Year	Quds Bank	Palestine Investment Bank	Arab Islamic Bank	Palestine Islamic Bank
2017	10.9%	4.3%	6.0%	13.3%
2016	11.8	4.2	8.3	13.2
2015	10.4	2.3	7.5	13.7
2014	10.3	4.1	6.1	11.2
2013	7.3	2.9	5.6	10.3
2012	5.6	2.8	1.1	10.1
2011	8.4	4.0	1.6	7.7
2010	8.7	2.5	(4.7)	3.3
2009	5.7	4.8	2.0	1.0
2008	(13.59)	4.78	10.66	(11.60)
Avg.	%6.551	%3.668	%4.416	%7.22

*Source of data: Data from annual reports-calculated by the researcher.

Avg. ROE for conventional banks 5.1095%

Avg. ROE for Islamic banks **5.818%**

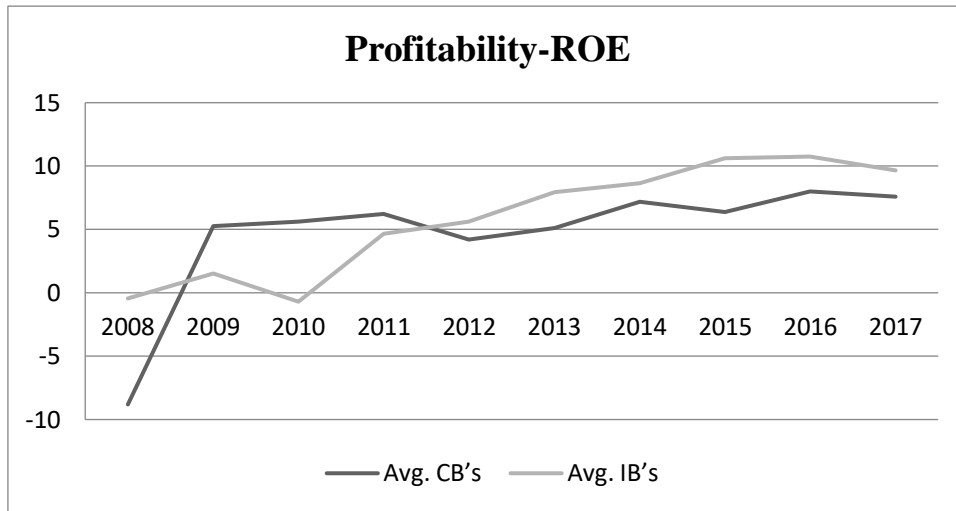


Figure 4. 3: Profitability Performance –ROE

Table (4.2) and Figure (4. 2) show that the average ROE for Islamic banks is 5.818% with maximum value of 13.7% and minimum value of -11.60%. And the average ROE for conventional banks is 5.1095% with maximum value of 11.8% and minimum value of -13.59%.

The analysis observed that Islamic banks carry a higher ROE compared to conventional banks during the time 2008 to 2017. Which means that Islamic banks are performing better in allocating equity into net profits.

This result indicated that Islamic banks were more capable to generate profits with the money, which shareholders have invested; such a higher return on equity ratio means that the bank has better management efficiency.

4.1.2 Liquidity ratios

➤ **Liquid Assets Ratio (LAR) = liquid assets / total Assets**

Table 4. 3: **liquid assets / total Assets ratio**

Year	Quds Bank	Palestine Investment Bank	Arab Islamic Bank	Palestine Islamic Bank
2017	0.3063	0.4015	0.3305	0.3110
2016	0.2643	0.3314	0.3314	0.2644
2015	0.3625	0.4163	0.4162	0.2643
2014	0.3738	0.5660	0.4622	0.3378
2013	0.3564	0.5039	0.3160	0.3898
2012	0.2949	0.4512	0.3119	0.4435
2011	0.2998	0.5049	0.2142	0.4492
2010	0.4274	0.5187	0.3297	0.4560
2009	0.5298	0.5753	0.5173	0.4724
2008	0.4023	0.6574	0.4848	0.4675
Avg.	0.36175	0.49266	0.37142	0.38559

*Source of data: Data from annual reports -calculated by the researcher.

Avg.LAR for conventional banks **42.72%**

Avg.LAR for Islamic banks 37.85%

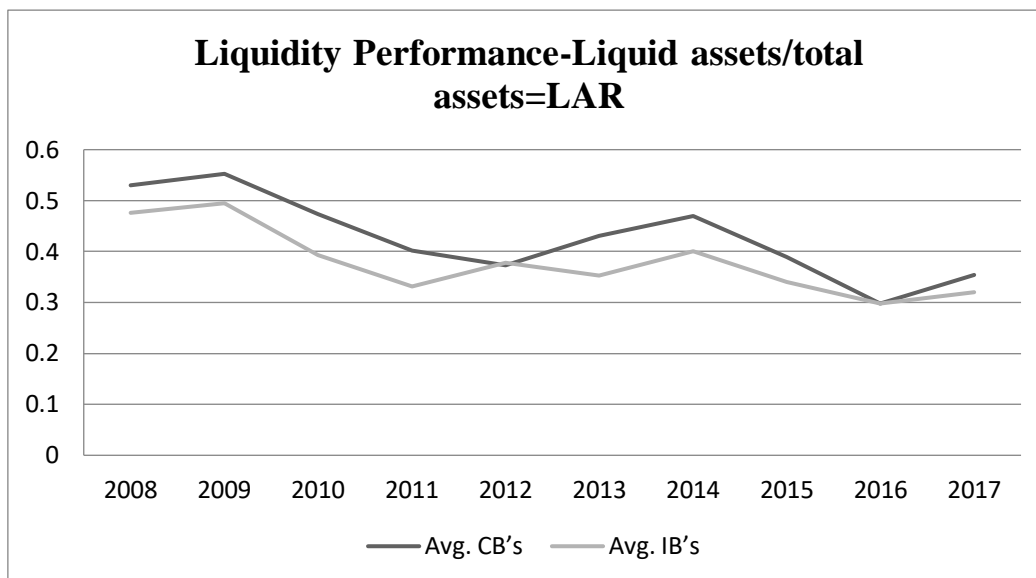


Figure 4. 4: Liquidity Performance-Liquid assets/total assets=LAR

Table (4. 4) and Figure (4. 3) show that the average liquid assets / total Assets ratio for Islamic banks is 37.85% with maximum value of 51.73% and minimum value of 26.43%. And the average liquid assets / total Assets ratio for conventional banks is 42.72% with maximum value of 65.74% and minimum value of 26.43%.

From the analysis, we notice that conventional banks carry a higher liquid assets / total assets ratio compared to Islamic banks during the period 2008-2017.

Liquidity performance measures the ability to meet financial obligations as they become due and is crucial to the sustained viability of banking institutions.

➤ **L2=Liquid assets / Deposits**

Table 4. 5: Liquid assets / Deposits ratio

Year	Quds Bank	Palestine Investment Bank	Arab Islamic Bank	Palestine Islamic Bank
2017	0.351	0.519	0.385	0.359
2016	0.301	0.441	0.377	0.311
2015	0.411	0.558	0.476	0.305
2014	0.428	0.747	0.537	0.393
2013	0.403	0.683	0.376	0.466
2012	0.344	0.629	0.381	0.532
2011	0.346	0.709	0.272	0.537
2010	0.498	0.694	0.406	0.547
2009	0.668	0.873	1.678	2.775
2008	0.523	1.094	1.246	2.747
Avg.	0.4273	0.6947	0.6134	0.8972

*Source of data: Data from annual reports -calculated by the researcher.

Avg.L2 for conventional banks=56.1%

Avg.L2 for Islamic banks=75.53%

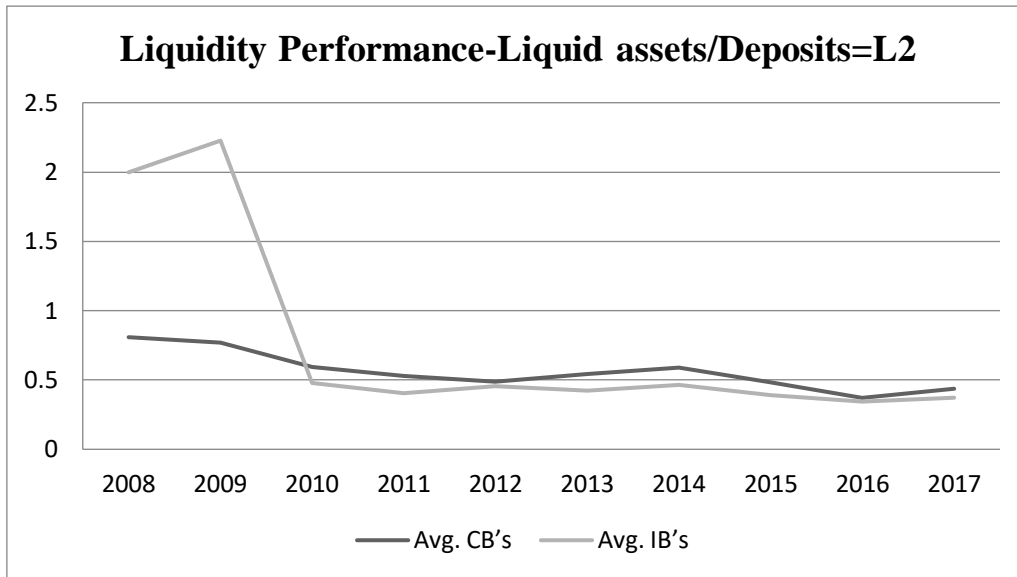


Figure 4. 5: Liquidity Performance-Liquid assets/Deposits=L2

Table (4. 6) and Figure (4. 4) show that the average liquid assets / deposits ratio for Islamic banks is 75.53% with maximum value of 277.5% and minimum value of 27.2%. And the average liquid assets / Deposits ratio for conventional banks is 56.1% with maximum value of 109.4% and minimum value of 30.1%.

We notice that Islamic banks carry a higher liquid assets / Deposits ratio compared to conventional banks during the time 2008-2017.

However, on the other side, Islamic banks have more liquidity performance in terms of liquid assets to deposits ratio, which indicates that they are more able to cope with long-term liquidity risk. Depositors show more confidence and trust if a bank have higher ratio because it indicate better liquidity condition of bank.

As we can see, Islamic banks were having less deposit compared to conventional banks this reflected in years 2008 and 2009 that leads to high liquid assets to deposits ratio, which increase the average for the entire period for Islamic banks.

Results of liquidity ratios (LAR, L2) reveal greater financial performance of conventional banks in terms of liquid asset to total asset ratio (LAR), which means that conventional banks having more liquid assets as compared to Islamic banks in time

period 2008-2017. Therefore, they have a higher capacity to absorb liquidity shock. Banks tend to hold liquid assets to absorb liquidity risk and raise the readiness status to meet any withdrawals by depositors.

Besides, PMA indicated that it had established the Palestinian Deposit Insurance Corporation to protect small depositors in the event of bank liquidation or bankruptcy, explaining that the institution covered 92% of the total deposits of depositors (Web). This in turn may have reduced banks' interest in holding liquidity.

4.1.3 Capital structure

➤ **Debt to assets ratio (DTAR) = Total liabilities ÷ Total assets**

Table 4. 7: **Debt to Assets Ratio (DTAR)**

Year	Quds Bank	Palestine Investment Bank	Arab Islamic Bank	Palestine Islamic Bank
2017	90.4%	79.5%	89.7%	89.1%
2016	90.7	77.3	90.5	88.2
2015	90.4	77.6	89.4	89.1
2014	89.5	78.6	87.9	88.7
2013	87.8	76.4	86.7	87.4
2012	87.9	74.5	84.6	86.3
2011	88.3	73.5	81.1	86.7
2010	88.2	76.4	83.2	86.6
2009	85.8	75.1	83.0	87.8
2008	83.06	71.28	84.31	92.84
Average	88.206%	76.018%	86.041%	88.274%

*Source of data: Data from annual reports - calculated by the researcher.

Avg. debt to assets ratio for conventional banks is 82.112%

Avg. debt to assets ratio for Islamic banks is **87.158%**

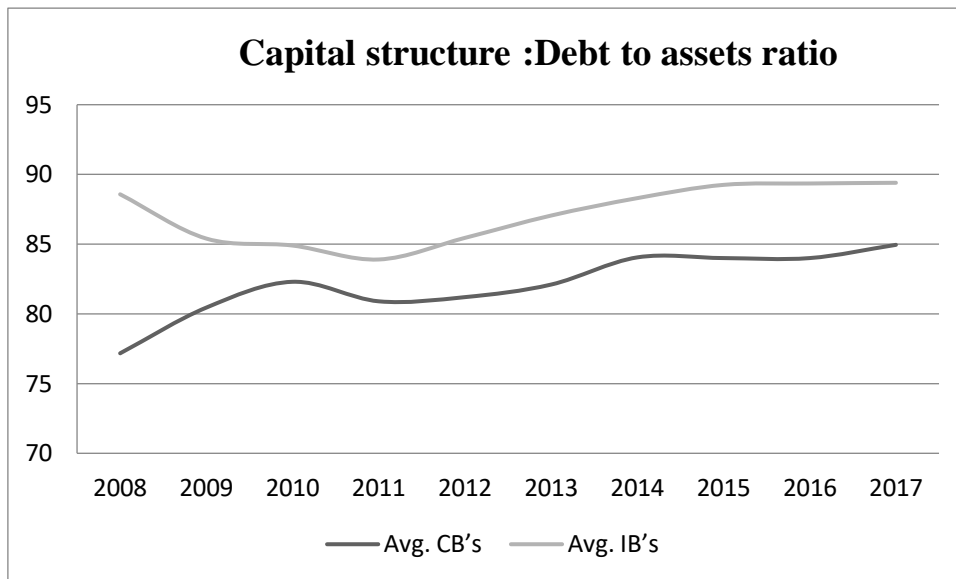


Figure 4. 6: Capital structure: Debt to assets ratio (DTAR)

From Table (4. 8) and Figure (4. 5) We notice that the debt to assets ratio for Islamic banks is higher than the debt ratio for conventional banks, which indicates that Islamic banks proportion of assets are being funded with debt.

Debt to Asset ratio (DTAR) shows debt financing, using debt to finance bank total assets. It provides solvency information of bank and the capability of the bank to get further financing for productive opportunities of investment. Higher Debt to Asset ratio threatens to solvency of bank and higher ratio means bank financed its assets through debt (Ahmad, Nazam, Maqbool and Adeel, 2017).

The analysis showed that Islamic banks have a higher debt to asset ratio (87.158%) which is not favorable to the banks because it means more risk. Therefore, in terms of Debt to Asset ratio conventional banks (82.112%) were better, compared to Islamic banks.

Higher Debt to Asset ratio means more debt financing and less equity financing so equity for Islamic banks are less, which leads to higher ROE. This is consistent with higher risk higher return law. As a result, Islamic banks exposed to higher risk.

4.2 Regression analysis

4.2.1 Descriptive analysis

Table 4.6-a: Descriptive Statistic for CB's for the Period of 2008 – 2017

	Mean	Std. Deviation	N
ROA	.00759	.007494	20
LAR	.427205	.1083612	20
DTAR	.821120	.0668053	20
BS	19.802992	.4766724	20

Table 4.6-b: Descriptive Statistic for IB's for the Period of 2008 – 2017

	Mean	Std. Deviation	N
ROA	.007240	.0071733	20
LAR	.378505	.0875398	20
DTAR	.871575	.0283536	20
BS	19.981257	.4316589	20

Table (4.6-a) and Table (4.6-b) show the mean and std. of the variables and No. of samples.

Tables (4.6-a) and (4.6-b) above summarize all the dependent variable (ROA) and independent variable's (LAR, DTAR, BS) descriptive statistics for conventional and Islamic banks. On average, the mean value of ROA for the tow studied conventional banks is 0.00759, whereas the mean value of ROA for two selected Islamic banks is 0.007240. It shows that conventional banks profitability (ROA) is relatively higher than the profitability of Islamic banks as the mean value of ROA for conventional banks is greater than Islamic banks. The standard deviation of ROA for conventional banks is 0.007494, which is higher than the standard deviation of 0.0071733 for Islamic banks. This indicates that the variation of profitability between conventional banks is greater than the variation of Islamic banks profitability. In other words, the

profitability for conventional banks is highly fluctuated than Islamic banks.

The results from the descriptive statistics for conventional and Islamic banks are consistent with the financial ratio analysis results done in this chapter.

Bank size shows the highest mean value for both of the conventional and Islamic banks, which are 19.802992 and 19.981257 respectively with the highest standard deviation of 0.4766724 and 0.4316589.

4.2.2 Correlation Analysis

Table 4.7-a: Correlation analysis for CB's for the Period of 2008 – 2017

		LAR	DTAR	BS
Pearson	ROA	1.000	.084	-.009
Correlation				.247
Sig. (1-tailed)		.	.363	.485
N		20	20	20

Table 4.7-b: Correlation analysis for IB's for the Period of 2008 – 2017

		LAR	DTAR	BS
Pearson	ROA	1.000	-.154	.104
Correlation				.544
Sig. (1-tailed)		.	.259	.331
N		20	20	20

Table (4.7-a) and table (4.7-b) show the Correlation Analysis between dependent and independent variables.

Table (4.7-a) and table (4.7-b) show the correlation analysis between ROA and LAR, DTAR, BS for CB's and IB's. The results show that there is no correlation between

ROA and the Independent variables (LAR, DTAR, and BS) for conventional Banks and Islamic banks, as the Pearson Correlation values are (0.084,-0.009,0.247) and (-0.154, 0.104, 0.544) for CB's and IB's respectively. Thus DTAR is negatively correlated with CB's ROA , and LAR is negatively correlated with IB's ROA .but the significance for all independent variables is greater than 0.05 which confirms that there is no correlation between ROA and (LAR, DTAR, and BS).

4.2.3 Regression Analysis

Table 4.8- a: Model Summary for CB's

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig
ROA	.604(a)	.365	.246	.006507	3.067	.058(a)

Table 4.8-b: Model Summary for IB's

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig
ROA	.654(a)	.428	.321	.0059114	3.993	.027(a)

Table (4.8-a) and Table (4.8-b) summarize ROA model for CB's and IB's. R-square is the percentage of the variance from the dependent variable explained by the independent variables. In this case, the predictors explain the variances of ROA at 36.5% for CB's and 42.8% for IB's. From these findings, it is clear that there is a better relationship between dependent and independent variables for Islamic banks.

The adjusted R-square value of 0.321 for IB's indicates that 32.1% of the variation in the dependent variable explained by the variation in the independent variables after the

degree of freedom taken into account. The higher adjusted R-square value for IB's denotes that the variation in the dependent variable that remains unexplained by the variation in independent variable is lower for IB's as compared to CB's.

The significance for the overall regression model for IB's is 0.027, which is statistical significant deference at 5% level of significance.

Table 4.9-a: coefficients for CB's regression equation

Model		Coefficient Beta	t	Sig.
ROA	(Constant)	-.339	-2.916	.010
	LAR	.037	1.669	.114
	DTAR	-.079	-1.745	.100
	BS	.020	2.978	.009

Table 4.9-b: coefficients for IB's regression equation

Model		Coefficient Beta	t	Sig.
ROA	(Constant)	-.216	-2.910	.010
	LAR	.025	1.297	.213
	DTAR	-.123	-1.852	.083
	BS	.016	3.310	.004

From Table (4.9-a) and (4.9-b) we can determine the coefficients for CB's and IB'S regression equation,

$$\text{ROA (CB's)} = -0.339 + 0.037 \text{ LAR} - 0.079 \text{ DTAR} + 0.020 \text{ BS}$$

$$\text{ROA (IB's)} = -0.216 + 0.025 \text{ LAR} - 0.123 \text{ DTAR} + 0.016 \text{ BS}$$

From the tables (4.9-a) and (4.9-b) it can be seen that

- The variable DTAR is negatively related with ROA for CB's and IB's with a coefficients (-0.079,-0.123) respectively.

- There is an insignificant relationship between ROA and (LAR, DTAR) for both IB's and CB's.
- On the other hand, both LAR and BS positively influence bank performance (ROA) for CB's and IB's.

There is a significant relationship between ROA and bank size for CB's and IB's with a significant value of (0.009, 0.004) which is less than 0.05 level of significance.

4.2.4 Bank size (BS)

As anticipated, the result suggested that BS positively related to ROA of both CB and IB, which is in line with the findings of Dawood (2014), Chua (2013) and Ali (2018). Based on Tables 6.4a and 6.4b, the coefficient of (0.020, 0.016) for CB's and IB's respectively. This result indicates that with a one percent increase in the bank size, there is (2.0, 1.6) percent increase in ROA. This positive impact is highly significant at the level of significance of 5%, which means that BS brings additional profitability to CB's and IB's. This implies that large banks tend to have greater ability to diversify and make use of the economies of scale than those of smaller size (Muda et al., 2013). Thus, large banks are expected to gain higher profits than small banks, because large banks tend to be provided with the opportunity to enjoy lower and cheaper processing cost (Chua, 2013).

Chapter 5:

5.1 Conclusions & Recommendations

Table 5. 1: Results

PPERFORMANCE MEASURES	CONVENTIONAL BANKS	ISLAMIC BANKS	COMMENTS
Profitability			CB's ROA is higher than IB's ROA, while IB's are performing better than CB's with respect to ROE.
ROA	0.7585%	0.724%	
ROE	5.1095%	5.818%	
Liquidity			CB's have a higher LAR but Islamic banks are doing better in L2 ratio.
Liquid assets /Total assets=LAR	42.72%	37.85%	
Liquid assets/ Deposits ratio=L2	56.1%	75.53%	
Capital structure			
Debt to assets ratio (DTAR)	82.112%	87.158%	Islamic banks are more debt financing (more borrowed financing) which is not favorable.

Although Islamic banks have been in existence from decades in Palestine, there were limited studies on banks performance.

Thus In this study we examine the financial performances of Islamic and conventional banks over the period 2008-2017.

In this study financial ratio analysis approach was used; data collected from financial annual reports (income statement and balance sheet).

The results revealed that conventional bank's are performing better with respect to ROA ratio while Islamic banks are performing better in profitability (ROE ratio) as they have a higher ROE ratio, which indicates that they are better in utilizing Equity to generate profit.

In terms of liquidity, mix findings were revealed in the financial analysis. Islamic banks are showing better results in liquid assets/deposits ratio while conventional banks are better in terms of liquid assets/total assets.

There is a major difference in debt to total assets ratio, so Islamic banks should be more careful in terms of financing.

According to the results from the regression analysis, it was concluded that profitability (ROA) for Conventional banks is higher and is more fluctuated than Islamic banks. This is supported by the results of standard deviation and mean value of ROA. The results show that standard deviation of Conventional banks is higher than standard deviation of Islamic banks, which indicates that the variation of profitability between Conventional banks is higher than Islamic banks. The mean value of ROA for Conventional banks (0.00759) is higher than Islamic banks (0.007240).

These results are consistent with the financial ratios analysis results done in chapters 4.

CB's have a higher liquid assets ratio (LAR), the coefficients of LAR variable are (0.037, 0.025) for CB's and IB's respectively, this indicates that LAR has more effect on ROA in CB's. This confirms the result we got in the financial ratios analysis done previously, hence, when LAR is high, bank is not highly at risk, because it has sufficient money (cash assets) to repay to its depositors. Consequently, it is safer in terms of insolvency and bankruptcy (badreldin, 2009).

The results showed that there is insignificant effect for the variable LAR on ROA. This result is contrary to the theoretical argument of trade-off relation between liquidity and profitability of banks. Sayedahmed (2018) thinks that the reason of the absence of a statistically significant relationship between liquidity and profits of banks because of the increase of banks operational costs. This is also consistent with Aborahma (2009) study results, which found that there is an insignificant relationship between liquidity of banks working in Palestine and their profitability.

In addition, we notice that Debt to assets ratio has a negative impact on the performance (ROA) of CB's and IB's, well-capitalized banks are generally perceived to be safer and less risky.

This result is in line with the results of the financial ratio analysis results where DTAR found to be higher for IB's, such Islamic banks are more debt financing (more borrowed financing), which is not favorable.

Besides that, it was found that bank size is the only independent variable that is significant in influencing the ROA of CB's and IB's. However, liquid assets ratio and debt to assets ratio are insignificant in affecting ROA. Therefore, bank size appeared to be the only significant positive determinant of ROA for both CB's and IB's.

5.2 Recommendations

- 1.** Islamic banks should design a comprehensive plan for identifying objectives, goals and strategies to decrease depending on debt financing.
- 2.** For future research, it is recommended to have a longer time periods. With longer data coverage, it might be interesting to carry out the same research over different time period as different result may be observed.
- 3.** It is suggested to cover more factors that could influence the bank's performance.
- 4.** Finally, for future studies when more Islamic and conventional banks to be investigated, research would produce improve understanding on the question of performance comparison and determinants of bank's performance.
- 5.** Conduct comparable studies with similar countries (Jordan).

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Appendices

Appendix 1: Data for Quds Bank

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total Assets	1,075,629,534	960,070,324	804,160,135	669,362,172	531,873,355	480,906,793	467,680,177	426,533,834	330,132,209	259,549,161
Total Owner's Equity	102,730,674	89,067,289	76,952,451	70,547,283	64,991,920	57,985,686	54,578,746	50,433,196	46,759,478	43,955,427
Net Profit (Loss)	11,180,462	10,470,704	8,018,747	7,232,904	4,739,649	3,267,925	4,581,794	4,404,155	2,677,253	-5,971,848
Customers' Deposits	855,348,926	777,663,613	647,009,472	516,980,571	420,455,870	353,607,111	288,376,020	307,525,537	217,074,277	145,703,493
Total Liabilities	972,898,860	871,003,035	727,207,684	598,814,889	467,590,455	422,921,107	413,101,431	376,100,638	283,372,731	215,593,734
Total income	53,678,398	44,098,831	38,741,517	33,872,396	27,121,925	25,250,183	25,216,512	18,689,158	16,224,222	8,993,828
Total expenses	38,597,936	31,651,549	26,940,582	23,639,492	19,837,276	20,739,492	18,684,718	12,335,003	11,942,309	14,146,206
Liquid assets	329,461,257	253,740,519	291,500,373	250,178,102	183,137,017	141,805,114	140,190,489	182,300,001	174,893,734	104,414,926
Total deposits	938,245,081	843,114,683	708,943,288	584,431,005	454,663,662	412,822,008	404,857,486	366,084,513	261,799,666	199,477,886

Appendix 2: Data for Palestine investment Bank

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total Assets	443,291,111	352,712,692	327,770,241	320,813,772	288,414,977	258,689,765	243,475,131	265,367,906	245,620,515	214,612,000
Total Owner's Equity	90,899,358	80,038,999	73,475,471	68,610,388	67,943,137	65,934,527	64,405,029	62,580,849	61,081,333	61,638,163
Net Profit (Loss)	3,919,258	3,388,202	1,721,150	2,829,494	1,958,574	1,826,277	2,552,984	1,569,530	2,928,340	2,949,311
Customers' Deposits	297,663,960	244,792,787	208,551,635	199,141,992	182,120,791	152,194,273	136,345,859	156,588,110	131,202,196	104,713,597
Total Liabilities	352,391,753	272,673,693	254,294,770	252,203,384	220,471,840	192,755,238	179,070,102	202,787,057	184,539,182	152,973,837
Total income	19,253,947	16,553,663	14,299,477	14,371,901	14,261,973	12,609,970	12,891,071	12,174,779	10,341,681	10,757,978
Total expenses	13,730,076	11,783,961	11,313,327	2,829,494	1,958,574	10,069,382	9,864,808	9,835,714	5,525,883	6,664,888
Liquid assets	177,978,975	116,871,722	136,445,600	181,570,898	145,341,122	116,710,017	122,929,791	137,641,607	141,296,374	141,077,816
Total deposits	343,010,990	264,823,222	244,491,861	242,920,988	212,742,331	185,438,018	173,309,318	198,288,288	161,910,568	128,946,867

Appendix 3: Data for Palestine Islamic Bank

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total Assets	1,010,369,417	809,082,569	675,211,338	595,259,913	502,251,830	423,109,279	392,675,894	357,481,026	299,134,104	301,749,490
Total Owner's Equity	109,625,653	95,308,839	73,305,904	67,539,672	63,463,651	57,906,492	52,080,504	48,046,357	36,371,337	21,613,890
Net Profit (Loss)	14,531,138	12,603,598	10,033,817	7,537,607	6,526,862	5,825,988	4,034,147	1,594,453	370,738	-2,507,887
Customers' Deposits	809,630,033	651,702,781	536,786,499	455,926,491	399,044,257	335,745,977	301,336,786	287,656,690	249,512,687	67,746,116
Total Liabilities	900,743,764	713,773,730	601,905,434	527,720,241	438,788,179	365,202,787	340,595,390	309,434,669	262,762,767	280,135,600
Total income	51,483,551	46,424,030	36,031,696	28,772,172	23,767,905	19,540,182	18,787,641	13,824,283	10,211,404	8,132,644
Total expenses	32,775,319	29,660,860	23,567,492	19,345,508	14,806,264	12,357,722	13,763,824	11,332,757	9,840,666	10,640,531
Liquid assets	314,183,246	213,946,146	178,427,844	201,099,481	195,768,415	187,658,508	176,399,252	163,023,949	190,411,285	186,098,007
Total deposits	875,589,989	688,367,926	584,084,288	511,119,809	420,492,257	352,567,545	328,790,076	298,035,440	68,614,859	67,746,116

Appendix 4: Data for Arab Islamic Bank

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total Assets	1,041,103,696	791,442,161	650,593,114	561,908,064	469,814,701	373,898,769	300,088,560	285,727,916	293,661,399	304,498,068
Total Owner's Equity	106,995,915	75,209,854	69,005,125	67,729,769	62,321,764	57,632,968	56,853,438	48,036,063	49,980,388	47,768,326
Net Profit (Loss)	6,402,924	6,220,821	5,201,692	4,129,844	3,500,463	648,513	887,058	(2,270,207)	1,002,050	5,094,275
Customers' Deposits	790,906,601	624,153,200	517,141,614	425,823,500	351,626,620	290,233,742	235,906,304	231,828,353	232,815,019	78,599,498
Total Liabilities	934,107,781	716,232,307	581,587,989	494,178,295	405,945,732	316,265,801	243,235,122	237,691,853	243,681,011	256,729,742
Total income	33,905,595	26,769,377	22,348,949	19,970,307	16,491,787	14,359,583	13,363,108	12,076,450	14,021,332	16,298,728
Total expenses	24,905,765	18,307,595	15,538,257	14,241,677	11,529,324	13,317,107	11,985,433	14,259,763	11,396,300	9,374,453
Liquid assets	344,083,263	262,322,518	270,783,591	259,736,845	148,469,308	116,605,413	64,292,867	94,207,450	151,898,774	147,606,387
Total deposits	893,400,540	696,366,849	568,424,990	483,606,096	395,255,808	306,389,449	236,128,944	231,965,735	90,515,062	118,437,512

Appendix5: Regression- Conventional Banks

Descriptive Statistics

	Mean	Std. Deviation	N
TradBY	.00759	.007494	20
TradX1	.427205	.1083612	20
TradBX2	.821120	.0668053	20
TradBLnX 3	19.80299	.4766724	20

Correlations

		TradBY	TradX1	TradBX2	TradBLnX 3
Pearson Correlation	TradBY	1.000	.084	-.009	.247
	TradX1	.084	1.000	-.741	-.769
	TradBX2	-.009	-.741	1.000	.863
	TradBLnX 3	.247	-.769	.863	1.000
Sig. (1-tailed)	TradBY	.	.363	.485	.147
	TradX1	.363	.	.000	.000
	TradBX2	.485	.000	.	.000
	TradBLnX 3	.147	.000	.000	.
N	TradBY	20	20	20	20
	TradX1	20	20	20	20
	TradBX2	20	20	20	20
	TradBLnX 3	20	20	20	20

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.604(a)	.365	.246	.006507

a Predictors: (Constant), TradBLnX3, TradX1, TradBX2

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.000	3	.000	3.067	.058(a)
	Residual	.001	16	.000		
	Total	.001	19			

a Predictors: (Constant), TradBLnX3, TradX1, TradBX2

b Dependent Variable: TradBY

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity statistics VIF
		B	Std. Error	Beta			
1	(Constant)	-.339	.116		-2.916	.010	
	TradX1	.037	.022	.536	1.669	.114	2.594
	TradBX2	-.079	.046	-.709	-1.745	.100	4.155
	TradBLnX3	.020	.007	1.271	2.978	.009	4.587

a Dependent Variable: TradBY

Appendix6: Regression – Islamic Banks

Descriptive Statistics

	Mean	Std. Deviation	N
IslamBY	.007240	.0071733	20
IslamX1	.378505	.0875398	20
IslamX2	.871575	.0283536	20
IslamlnX3	19.9812	.4316589	20

Correlations

		IslamBY	IslamX1	IslamX2	IslamlnX3
Pearson Correlation	IslamBY	1.000	-.154	.104	.544
	IslamX1	-.154	1.000	.059	-.446
	IslamX2	.104	.059	1.000	.591
	IslamlnX3	.544	-.446	.591	1.000
Sig. (1-tailed)	IslamBY	.	.259	.331	.007
	IslamX1	.259	.	.403	.024
	IslamX2	.331	.403	.	.003
	IslamlnX3	.007	.024	.003	.
N	IslamBY	20	20	20	20
	IslamX1	20	20	20	20
	IslamX2	20	20	20	20
	IslamlnX3	20	20	20	20

Model Summary

Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.654(a)	.428	.321	.0059114

a Predictors: (Constant), IslamlnX3, IslamX1, IslamX2

ANOVA(b)

Mode 1		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.000	3	.000	3.993	.027(a)
	Residual	.001	16	.000		
	Total	.001	19			

a Predictors: (Constant), IslamlnX3, IslamX1, IslamX2

b Dependent Variable: IslamBY

Coefficients(a)

Mode 1		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity statistics VIF
		B	Std. Error	Beta			
1	(Constant)	-.216	.074		-2.910	.010	
	IslamX1	.025	.019	.306	1.297	.213	1.559
	IslamX2	-.123	.066	-.485	-1.852	.083	1.920
	IslamlnX3	.016	.005	.967	3.310	.004	2.388

a Dependent Variable: IslamBY

Appendix 7: Bank size (BS) = total assets

Table 3.6 Bank size (BS)

Bank size (BS) = total assets	Quds Bank	Palestine In- vestment Bank	Arab Islamic Bank	Palestine Islam- ic Bank
2017	1,075,629,534	443,291,111	1,041,103,696	1,010,369,417
2016	960,070,324	352,712,692	791,442,161	809,082,569
2015	804,160,135	327,770,241	650,593,114	675,211,338
2014	669,362,172	320,813,772	561,908,064	595,259,913
2013	531,873,355	288,414,977	469,814,701	502,251,830
2012	480,906,793	258,689,765	373,898,769	423,109,279
2011	467,680,177	243,475,131	300,088,560	392,675,894
2010	426,533,834	265,367,906	285,727,916	357,481,026
2009	330,132,209	245,620,515	293,661,399	299,134,104
2008	259,549,161	214,612,000	304,498,068	301,749,490

الأداء المالي للبنوك الإسلامية مقابل البنوك التقليدية في فلسطين

اعداد : مروة سميح اسماعيل قراقع.

إشراف :الدكتور عفيف حمد.

ملخص:

ان للبنوك دوراً حيوياً في اقتصاد جميع البلدان. حيث يعتمد استقرار أي اقتصاد على الأداء الجيد للبنوك داخل البلد. لذا تهدف هذه الدراسة إلى دراسة الأداء المالي للبنوك الإسلامية مقارنة بالأداء المالي للبنوك التقليدية. هناك هدفان رئيسيان لهذه الدراسة ، أولاً " مقارنة أداء البنوك في فلسطين خلال الفترة من 2008 إلى 2017 م ثانياً ، تحديد العوامل التي تؤثر على أداء البنوك.

ولتحقيق مقارنة منصفة بين هذين النظامين المصرفيين ، تم اختيار مصرفين إسلاميين ومصرفين تقليديين من القطاع المصرفي الفلسطيني. حيث تم جمع البيانات من القوائم المالية المنشورة (قوائم الميزانية العمومية ،قوائم الدخل المالي).

لقد تم استخدام تحليل النسب المالية لتحليل البيانات تحت ثلاث فئات رئيسية وهي: أداء الربحية (العائد على الأصول ، العائد على حقوق الملكية) ، أداء السيولة (نسبة الأصول السائلة إلى إجمالي الأصول ، نسبة الأصول إلى الودائع) وهيكلية رأس المال (نسبة الديون إلى الأصول).

من خلال تحليل النسب المالية تم الحصول عن نتائج مختلفة في كل فئة من هذه الفئات ، حيث كان أداء الربحية للبنوك التقليدية أعلى من حيث العائد على الأصول ، في حين كانت البنوك الإسلامية تعمل بشكل أفضل في تخصيص الأسهم في الأرباح ، مما يعني أن البنوك الإسلامية لديها نسبة أعلى من العائد على حقوق الملكية. أما بالنسبة لأداء البنوك من حيث السيولة ، فقد أظهر تحليل الأصول السائلة إلى إجمالي الأصول أن البنوك التقليدية تحقق أداءً أفضل من البنوك الإسلامية ، و أيضاً كان هناك اختلاف كبير بين البنوك الإسلامية والبنوك التقليدية من حيث الأصول السائلة إلى الودائع ، مع سيطرة البنوك الإسلامية.

أما بالنسبة لهيكلية رأس المال الذي يعنى بنوع التمويل المستخدم في البنوك، فقد أظهر التحليل أن البنوك التقليدية لا تعتمد على تمويل رأس المال لديها باستخدام الديون بالقدر الذي تستخدمه البنوك الإسلامية. حيث أن البنوك الإسلامية لديها نسبة أعلى من الدين إلى إجمالي الأصول،لذا فهي تتعرض لنسبة مخاطرة أعلى ، فهي أكثر اعتماداً" على الديون في تمويلها لرأس المال لديها .

أما الجزء الثاني من الدراسة فقد ركز على دراسة العوامل التي تؤثر بشكل كبير على أداء البنوك التقليدية والإسلامية. حيث تم استخدام تحليل الانحدار المتعدد لتحديد تأثير المتغيرات المستقلة (العوامل) (و التي تتكون من:نسبة الأصول السائلة إلى إجمالي الأصول (LAR) ، نسبة الدين إلى الموجودات (DTAR) ، حجم البنك (BS))، على العائد على الأصول (ROA) (كمتغير تابع. لقد أظهرت النتائج أن نسبة الأصول السائلة إلى إجمالي الأصول (LAR) ونسبة الديون إلى الأصول (DTAR) لها تأثير ضئيل على العائد على الأصول (ROA) لكلا النظامين المصرفيين . من ناحية أخرى ، كان حجم البنك (BS) أهم المحددات الإيجابية للعائد على الأصول (ROA) و الأكثر تأثيراً" على أداء البنوك التقليدية والبنوك الإسلامية.

بناءً على نتائج الدراسة فقد توصلت الدراسة الى عدد من التوصيات و أهمها: على المصارف الإسلامية ان تضع خطة شاملة لتحديد الأهداف والاستراتيجيات التي يجب اتباعها لتقليل اعتمادها على الديون في تمويل رأس المال. وعلاوة على ذلك، يقترح تغطية المزيد من العوامل التي من الممكن أن يكون لها تأثير على أداء البنوك. بالإضافة الى ذلك، يوصى باجراء نفس البحث باستخدام فترة زمنية مختلفة وأطول، حيث بالامكان الحصول على نتائج مختلفة.

