International Journal of Economics and Financial Issues

ISSN: 2146-4138

available at http: www.econjournals.com

International Journal of Economics and Financial Issues, 2016, 6(3), 1123-1131.

Islamic Finance: Is it a Time to be Considered as an Alternative during Financial Crisis Times? A Comparative Study in Gulf Cooperation Council

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ABSTRACT

This paper investigates the difficulties facing Islamic finance performance during the financial crisis times and to what extent whether the time has now come to considered it as suitable alternative in such situations as there is general believe that it is the time now for Islamic finance to be considered as a suitable alternative to the existing conventional system particularly during the crisis times. The study examined the financial performance of three Islamic banks (IBs) in the Middle East alongside with other three conventional ones operating in the same region. The study used the ratio analysis technique for evaluating sample banks performance during the crisis times. The study suggested that although IBs have shown some positive indicators, they were actually facing some difficulties which are seems to be relevant to integral parts of the system itself, and those drawbacks may need to be systematically handled before reaching any such conclusion.

Keywords: Islamic Finance, Conventional Banks, Financial Performance, Challenges, Financial Crisis
JEL Classifications: E44, G01

1. INTRODUCTION

Islamic finance is related to offering financial services in accordance to Islamic regulations. The main tool adopted by Islamic financial intuitions (including banks) is to offer related services all over the world. The size and share of this type of finance has grown rapidly to shape significant share of international economy (IMF, 2010). According to the World Islamic Banking Competitiveness report published by Ernst and Young (2012), "Islamic banking assets with commercial banks globally grew to $1.3 trillion in 2011, suggesting an average annual growth of 19% over past 4 years. The Islamic banking growth story continues to be positive, growing 50% faster than the overall banking sector." Furthermore, according to the Global Islamic Finance Report (2012), "Islamic finance is expected to account for 50% of all banking assets within next 10 years in Islamic counties" (Al-Gazzar, 2014). Islamic finance is believed to have a better performance compared with conventional one during the financial crisis time according to relevant literature (Parshar and Venkatesh, 2010). Others have gone far and concluded that Islamic finance is better than its counterparts conventional system particularly during the time the crisis, and that is because the former one has convenient regulatory frame work which is capital adequacy standard of the Islamic Financial Service Board (IFSB). Even more scholars have suggested that global financial crisis can be tackled if conventional systems follow the Islamic financial principles and guidance of Shariah (Kayed and Hassan, 2011). Shafique et al. (2012) suggested that no Islamic banks (IBs) fail during the financial crisis and they were safe because their financing derived from deposits not by the borrowing. This was supported by Ahmed (2010) who concluded that today's world is facing excess leverage and speculative risks, and that Islamic financial system is safe from all these threats.

But it looks that Islamic finance is facing many difficulties and challenges that need to be addressed probably before ascertaining that financial institutions could follow this type of finance especially during the time of financial crisis, since this type may has its own difficulties that linked with its special nature (Khan and Ahmed, 2001). This suggests that a close neutral

evaluation may shed a light on the believe that although Islamic finance institutions may appear to be capable of facing financial instability times compared with conventional one, Islamic fiancé institutions have faced some litigation which may hurdle their performance especially in the long run (Ausaf et al., 1998), (Wilson, 2000), (Al Maraj, 2008) and (Shamim, 2013). Not only this but also conventional finance institutions may have shown better performance in some aspects compared to Islamic one during the time of the crisis. Having stressed that, this study is trying to identify the difficulties that may affect Islamic financial institutions performance in order to initiate a scientific investigation of how to address these difficulties, in sake of seeing Islamic finance with a strong relevant regulatory framework that offers a convenient solution not only during financial instability times but during all times as a reliable financial system worldwide.

2. LITERATURE REVIEW

2.1. Islamic Finance in Gulf Cooperation Council (GCC)

The GCC is at the heart of the Islamic world, with the two holiest shrines under the guardianship of Saudi Arabia, a kingdom that prides itself on being governed under shariah law. It might therefore be expected that the GCC states would be at the centre of the rapidly expanding Islamic finance industry, which encompasses retail and investment banking, insurance, fund management and the issuance and trading of shariah-compliant securities known as Sukuk (Wilson, 2009). The author also indicates that Islamic financial institutions in the GCC are significant sources of capital and are contributing to the development of Islamic finance worldwide, especially in Asia. Also, the study concluded that the preference for Islamic banking in the GCC indicates that it is more of a bottom-up than a top-down movement.

El-Ghattis (2014) discussed the concern of the futures of Islamic banking in the GCC. The Futures Triangle method is employed to provide insights into existing social dynamics affecting Islamic Banking. He indicates that the promotion of Islamic banking required more economic growth and strong private sector.

IFSB Stability Report (2015) reveals that the global Islamic finance industry has been in an upward trajectory, evidenced by its assets' double-digit compound annual growth rate of 17% between 2009 and 2013. The industry's assets are estimated to be worth USD1.87 trillion as at 1H2014, having grown from USD1.79 trillion as at end-2013.

The GCC region accounts for the largest proportion of Islamic financial assets as the sector sets to gain mainstream relevance in most of its jurisdictions; the region represents 37.6% of the total global Islamic financial assets. The Middle East and North Africa (MENA) region (excluding GCC) ranks a close second, with a 34.4% share, buoyed by Iran's fully Sharia-compliant banking sector. Asia ranks third, representing a 22.4% share in the global total, largely spearheaded by the Malaysian Islamic finance marketplace.

2.2. Challenges and Difficulties Affect IBs Performance

The discussion of Islamic banking and finance has a long history in the world and GCC. The Islamic finance and banking literature shows that many scholars have tackled the subject matter of the Islamic finance challenges. And according to relevant literature these studies concentrate on some main challenges that thought to be having marked impact on hurdling Islamic finance institutions, these challenges could be explained as following.

2.2.1. Profitability

Although some studies state that there was no difference regarding profitability between Islamic banking and conventional one before the occurrence of financial crisis. However, many studies indicate different conclusion later. Bashir (2001) shed some light on the relationship between IBs characteristics and profitability measures which he founds respond positively to the increases in capital and loan ratios, In addition to short-term funding, non-interest earning assets, and overhead in promoting banks' profits. 2 years later, the same author (Bashir, 2003) confirmed in a cross-country analysis study that profitability indicators in IBs positively react to boost in loan ratios and capital. Al-Tamimi (2005) studied the determinants of UAE commercial banks through a contrast between National and Foreign banks, his study suggests that the bank portfolio combination and bank size were found to have highly significant relation with return on assets (ROA) and return on equity (ROE) for the National banks performance. Hassan and Bashir (2003) studied the effects of controlled and uncontrolled variables on IBs profitability during 1994-2001. They show that some economics variables such; capital, gross domestic product and conventional interest rates were positively related to profitability. Haron (2004) investigates the determinants of profitability of IBs and he found strong linkage factors include liquidity, total expenditures, funds invested in Islamic securities, and the percentage of the profit-sharing ratio between the bank and the borrower of funds, also identified other less strong determinants such as funds deposited into current accounts, total capital and reserves, and money supply. Alkassim (2005) assured that higher capital ratios support IBs profitability. However, while total loans support positively the two systems profitability, deposits affect positively only the profitability of conventional banks. The above literature addressed the factors that affect IBs profitability that in general affected by capital and bank size which may be week if compared with their counterparts' conventional one. This initially means an advantage to conventional banks to make more profits than Islamic one (Kearney, 2012).

Moreover many studies during and after financial crisis suggest that IBs were not doing better regarding profitability compared with conventional banks. Parshar and Venkatesh (2010) used key performance ratios; argue that during the global crisis IBs in GCC region suffered in terms of capital ratio, leverage and return on average equity (ROAE). Jaffar and Manarvi (2011) used CAMEL approach during 2005-2009, examined performance of 5 IBs against performance 5 conventional banks in Pakistan. They conclude that IBs earned less on their assets, while conventional banks made more profit. Akhtar et al. (2011) indicate that conventional banks were better than IBs in regards to profitability and risk management practices. Kearney (2012)

indicate that despite the fact that IBs are small size compared with conventional ones, and to make it even worse, conventional banks opened Islamic windows to compete with them, and that despite the strong growth; most IBs have not been consistently profitable, particularly since the global financial crisis. Moreover it was argued by Čihák and Hess (2008) that small size of IBs are more stable than small conventional bank while larger conventional banks are more stable than larger IBs.

Imtiaz (2012) using CAMEL testing factors, analyze the performance of IBs and conventional banks in (GCC) during and after the crisis; he found that during the period of 2008-2011, IBs possessed adequate capital structure but have recorded lower ROAE and poor management efficiency. Weak management performance itself was ascertained as factor which affects negatively IBs profitability when Al-Gazzar (2014) explained that in addition to capital adequacy and asset quality one of significant determinants of bank profitability is management.

2.2.2. Efficiency

Although some studies such as Al-Gamal and Inanoglu (2005) analyze and compare the efficiency of Islamic and conventional banks and find no significant difference in some countries. Again some studies such as Shamsher et al. (2008) suggest that there is a substantial room for improvement in cost reduction and profit maximization in both banking systems. Furthermore some other studies conclude different result such as Iqbal (2007) who discusses the challenges facing the Islamic financial services industry in addition to some difficulties he addressed about weak risk management and governance framework, disparity in theory and practice. Mokhtar et al. (2008) while studying Malaysia banks for the period 1997-2003 discovered that, even though the fully functional IBs were more efficient and well-organized in contrast to the Islamic windows, still they were less efficient than the conventional banks.

SunGard (2008) provided a list of future challenges facing IBs. These challenges indicate performance inefficiency. Ghayad (2008) shows that there were managerial variables that affect IBs performance. He believed that the members of Sharia board may hurdle the performance of directors because they lack knowledge in other relevant fields. Olson and Zoubi (2008) studied and compared the Islamic and conventional banks in the GCC. They found that profitability between Islamic and conventional banks is not much different. However, IBs are found to be less efficient and are operating with higher risk.

Although some studies such as Manzoor (2013) indicate that IBs were efficient during the crisis and may help to increase the efficiency of banking sector and economy as a whole economy in some areas, and even some studies conducted in GCC during the crisis such as Ftiti et al. (2013) which targeted efficiency using the data envelopment approach. Their study indicated that IB remains efficient during the crisis. Other studies that discussed the same period such as Hassan and Dridi (2010) reached different conclusion while discussing the performance of IBs and conventional banks (CBs) during the global crisis. They realized that two system performance affected differently by the crisis, it was true that IBs approach limited the negative impact on profitability at the beginning of the crisis, but at a later stage the situation changed in favor of conventional banks as a result of weaknesses in risk management regarding IBs which may be an indication of inefficiency.

2.2.3. Liquidity

In the banking sector, the transformation of short-term liabilities to long-term assets on the balance sheet is one of the most crucial characteristics in banking that may lead to a liquidity risk for banks (Berger and Bouwman, 2009; Diamond and Dybvig, 1983 and Bryant, 1980). The anxiety over liquidity risk is more severe with regard to IBs on account of the specific nature of Islamic financial products and activities and also due to the restricted accessibility of Shari'ah compatible money market instruments and "lender-of-last-resort" facilities (Dusuki, 2007). Accordingly, IBs may face a more critical and wider mismatch between its assets and liabilities. Hence, it is a key challenge for IBs to ensure their ability to obtain adequate funds to offset such mismatch on their balance sheets. However, looking at the issue from another perspective, attaining or upholding a massive sum of liquid funds to evade liquidity risk, would positively increase the costs and negatively affect the effectiveness of the bank to enhance their profitability (Dusuki, 2007). By considering such consequences, the principal challenges towards maintaining an equilibrium consists of key factors such as the safety and profitability of transactions, as well as the compliance with Shari'ah concepts in banking operations. The latter represents the core concern of the liquidity risk management in Islamic banking sector.

Many studies discuss the issue of liquidity before the crisis those either indicated that there are some differences regarding performance between IBs and conventional banks include liquidly such as Samad and Hassan (2000) or other studies such as (Samad, 2004), which indicate that the only difference in favor of IBs is liquidity. After the financial crisis, some studies discussed this issue. Turk and Sarieddine (2007) concluded that although IBs are meeting their capital requirements, however, they have faced some other difficulties, liquidity is on the top of them. Ismal (2008a) tackled Shariah issues relevant to liquidity risk management; in this regard. He called for developing a practice based on modern banking standards considering the variety of methods and approaches offered by Shariah in this regard. In practice, he called for organizational approach and Islamic liquidity instruments and a regulatory framework to meet liquidity needs. Ahmed (2010) indicted that one of the challenges that may face Islamic banking industry in short-term is liquidity management. Faizulayev (2011) tried to specify changes needed to be done in two systems regarding IBs the internal challenges need to be considered was lack of products for liquidity risk management. Shafique et al. (2012) conclude that liquidity was one of the main factors that gave IBs performance advantage over traditional banks during the crisis. Moreover Shafique et al. (2012) argue that during the period of 2008-2010, although many banks bankrupted as a result of liquidity risk, IBs so far stayed safe and this was a result of their high liquidity. However opposite to this trend Al-Gazzar (2014) argue that although IBs outperformed conventional banks in some aspects during the

crisis, however they had a weaker liquidity position in comparison to conventional banks.

3. RESEARCH METHODOLOGY

3.1. Hypothesis

H1: In the financial crisis times, the IBs' earnings to assets are considered weak compared to conventional one.
H2: IBs' net profitability to shareholders is low than those of conventional one during financial crisis times.
H3: During the crisis, the efficiency (cost to income) of Conventional Banks is stronger than those of Islamic one.
H4: In the financial crisis times, the IBs' probability of default on debt contracts is higher than those of conventional one.
H5: During the crisis times, the conventional banks' ability of meeting recurring financial obligations and avoiding defaulting on financial obligations is lower than those of Islamic one.

3.2. Significance of the Study

Financial institutions are very important for every economy because they are the most contributing factor to keep economies on the bath of economic growth and development.

The purpose of this study is to investigate the difficulties facing Islamic finance during the financial crisis times with regard to financial performance such as profitability, efficiency and liquidity and to what extent whether the time has now come to considered it as suitable alternative in such situations as there is a general believe that the time has now come for the Islamic Finance to be considered as a suitable alternative to the existing Conventional system particularly during the crisis times. So, this paper is trying to contribute to the existing literature of Islamic finance and enhancing the awareness of the position of it and filling the literature gap of considering the option that it is the time for Islamic Finance to be a suitable alternative or still there are more issues and challenges have to be addresses first before reaching any such conclusion.

3.3. Data Collection

This paper has adopted multiple research techniques for data collection such as: Comparative analysis technique and ratio analysis techniques, ratios reflect key areas of performance were used. They are reliable source in predicting potential bankruptcies to measure the profitability, efficiency, and liquidity of Islamic and conventional banks, so the study compares the (ROAA) ratio, (ROAE) ratio, (cost to income ratio [CTI]) ratio Gearing ratio; and (LA/TA) ratio.

3.4. Sample

A sample of three IBs has been selected along side with an average of another three conventional banks operating in the same targeted area of GCC was used to represent the two financial systems. An average performance for conventional banks has been used instead of individual banks due to a sharp fluctuation in performance of the selected sample Whereas this is not the case for IBs where the average performance was showing normal fluctuations in performance of selected IBs and as well as it is an objective of this study to clearly concentrate on the individual performance of each selected IBs against average performance of a conventional banks which helps to give more real results.

Relevant data obtained from both primary and secondary sources so as to attain objectives of the study.

3.5. Data Analysis

The study used EXCEL 2007 and SPSS for Windows version 12. To process and analyze data. T-test, One way analysis of variance was used to test differences regarding performance of individual IBs and the average performance of conventional banks. A $P < 0.05$ was considered significant in all statistical tests.

3.6. Findings

In order to reach true and real conclusion on the IBs performance and the average conventional banks performance during the financial crisis time (2008-2009), the study examined the indicators of performance in each type separately. The study examined the individual performance of the three IBs against the average performance of individual conventional banks at time of the study.

3.7. The First Hypothesis

Akhtar et al. (2011) argue that profitability is important to the shareholders of the banks on one side and on the other dish up as spine adjacent to unfavorable conditions which includes: Losses on loans, or losses that originated due to unforeseen and sudden changes in economic conditions.

ROA and ROE are the largely pertained ratios used to measure financial performance (Berger, 1995; Naceur and Goaied, 2001; Williams, 2003; Kosmidou, 2008; Siddiqui, 2008; Sufian and Habibullah, 2009).

The first hypothesis has examined performance using return on average assets (ROAA) ratio to compare performance of the two systems:

ROAA is the most important single ratio in comparing performance of banks. ROAA shows the net earnings of the banks in relation to its total assets. ROAA is a profitability ratio; a study of volatility of earning is helpful in evaluating performance. This is done through studying the mean and standard deviation of ROAA. An ideal situation when a bank has a higher mean and a lower standard deviation of ROAA. A higher standard deviation represents higher volatility and higher risk.

Therefore, the study examines the following hypotheses:
H01: Islamic ROAA ≤ Conventional ROAA
HA1: Islamic ROAA > Conventional ROAA.

Table 1 shows that the mean of ROAA is declining for conventional banks and increasing for IBs. However, the conventional banks display a higher mean of ROAA during the 2 years of study, the highest being 3.6% in 2008. On the other hand, the highest mean for IBs is 1.5% in 2009.

The standard deviation of ROAA for IBs increases from 0.8 in 2008 to 1.4 in 2009. The standard deviation for conventional banks is almost the same during the 2 years of the study. But generally the values of standard deviation for the two systems of banking are very similar.

Although IBs show lower ratios compared to the average of conventional banks. But these observed differences were not statistically significant as Table 2 shows.

When looking at the performance of the individual banks, Table 3 gives clearer picture. It appear that ROAA (average) ratio for individual conventional banks are slightly higher than for individual IBs, with no statistically significant differences found between the two systems of banks. Also there were no statistical significant differences in ROAA (average) ratios between individual conventional banks or between Islamic Individual banks. From the above analyses it could be concluded that, although there are differences in performance in favor of conventional banks in term of ROAA ratios, however these differences were not significant.

3.8. The Second Hypothesis

The second hypothesis used ROAE to compare performance of the two systems:

ROAE indicates the profitability to shareholders of the firm after all expenses and taxes. It measures how much the firm is earning after tax for each dollar invested in the firm; a higher ROAE means better managerial performance. Again an ideal situation when a bank has a higher mean and a lower standard deviation of ROAE. A higher standard deviation represents higher volatility and higher risk. The mean and standard deviation are calculated to explain both the return on investment and also the riskiness of these returns.

Therefore, the study examines the following hypotheses:
H02: Islamic ROAE ≤ Conventional ROAE
HA2: Islamic ROAE > Conventional ROAE.

Table 4 reveals that the mean of ROAE is declining for conventional banks and increasing for IBs. However, the conventional banks display a higher mean of ROAA during the 2 years of study. The mean ROAE for conventional banks declined from 40.6% in 2008 to 20.5% in 2009. On the other hand, the mean ROAE for IBs increases from 7.4% in 2008 to about 10% in 2009. It was clear that, ROAE of IBs is lagging behind the conventional in the 2 years.

In spite of that the standard deviation of ROAE for both systems of banks increases in 2009, the overall, IBs has less variability than conventional banks. Table 5 reveals that, differences in ROAE ratios between IBs and conventional banks were statistically significant

3.9. The Third Hypothesis

The third hypothesis used gearing ratio to compare performance of the two systems:

This ratio measures the risk and solvency of the firm. This ratio determines the probability that the firm default on its debt contracts. Higher levels of debt can lead to higher probability of bankruptcy and financial distress. If the amount of bank assets is greater than the amount of its all types of liabilities, the bank is considered to be solvent.

Gearing ratio was calculated as:
Gearing ratio=Non-current liabilities/
(Equity+Non-current liabilities)
H03: Islamic gearing ratio ≤ Conventional gearing ratio
HA3: Islamic gearing ratio > Conventional gearing ratio.

Table 1: ROAA

Bank system	Year	Mean±SD	Minimum	Maximum
Conventional banks	2008	3.59±1.36	2.4	5.07
	2009	1.78±1.47	0.11	2.89
IBs	2008	0.96±0.8	0.25	1.83
	2009	1.46±1.38	0.09	2.85

ROAA: Return on average asset ratio, SD: Standard deviation, IBs: Islamic banks

Table 2: Differences in ROAA ratios of the groups of banks during the whole period

Ratios	Mean±SD* (%)	Minimum	Maximum	P value**
Conventional banks	2.69±1.6	0.11	5.07	0.09
IBs	1.21±1.04	0.09	2.85	

*SD: Standard deviation, **P-value from t-test, a P<0.05 is considered significant. IBs: Islamic banks. ROAA: Return on average asset ratio

Table 3: Differences in ROAA ratios of the individual's banks during the whole period

Bank system	Name of bank	Mean±SD	P value	P value***
Conventional bank	Average	2.69±1.29	0.937*	0.669
IB	D	1.64±0.28	0.559**	
	E	0.45±0.5		
	F	1.54±1.84		

*P value for conventional banks only, P value from the analysis of variance, **P value for IBs only, P value from the analysis of variance, ***P-value for all banks, P value from the analysis of variance. ROAA: Return on average asset ratio, IBs: Islamic banks

Table 4: ROE ratio

Bank system	Year	Mean±SD	Minimum	Maximum
Conventional banks	2008	40.61±14.89	27.23	56.65
	2009	20.49±17.55	1.22	35.56
IBs	2008	7.45±7.85	1.35	16.31
	2009	9.98±8.43	0.59	16.9

SD: Standard deviation, IBs: Islamic banks

Table 5: Differences in ROAE ratios of the groups of banks during the whole period

Ratios	Mean±SD* (%)	Minimum	Maximum	P value**
Conventional banks	30.55±18.26	1.22	56.65	0.02
IBs	8.72±7.42	0.59	16.9	

*SD: Standard deviation, **P value from t-test, a P<0.05 is considered significant, IBs: Islamic banks, ROAE: Return on average equity

Table 6 shows that regarding gearing ratio IBs were found to be far lagging behind conventional banks. The highest gearing ratio of 36.6% recorded by IBs was less than the lowest gearing ratio of 59.4% recorded by conventional banks.

On the other hands, differences in gearing ratios of conventional banks compared to IBs were statistically significant as appear in Table 7.

The analysis of gearing ratio for individual IBs included in the study compared to the average of conventional banks as shown in Table 8 explain that, IBs again show lower values of gearing ratio as compared to average of conventional banks. These differences in gearing ratios between Islamic and conventional banks were found to be statistically significant (P = 0.001).

3.10. The Fourth Hypothesis

The fourth hypothesis used CTI ratio to compare performance of the two systems. This ratio measures efficiency of a bank since it compare cost to income, so using this ratio explain which extent IBs performance was efficient compared to conventional one.

Therefore, the study tests the following hypothesis regarding the cost to income ratio:
H04: Conventional CTI ≤ Islamic CTI
HA4: Islamic CTI > Conventional CTI.

The minimum and maximum columns of Table 9 favor the performance of conventional banks in comparison with the IBs, since conventional banks show decreasing CTI ratio from 48.5 in 2008, to 44.15 in 2009, while IBs show increasing CTI ratio from 38.4 in 2008 to 43.5 in 2009.

Also the lower ratios of IBs compared to conventional one show not statistically significant observed differences as shown in Table 10.

3.11. The Fifth Hypothesis

The fifth hypothesis has been examined using Liquidity ratio to compare performance of the two systems. Liquidity ratio indicates the ability of the bank to meet recurring financial obligations and avoid experiencing financial distress. This ratio indicates the amount of liquid assets a bank has to meet its liabilities. The higher liquidity ratio mean bank has larger margins of safety and ability to cover its short term obligations. The liquid ratio is calculated as liquid assets divided by total assets (LA/TA).

Therefore, the study tests the following hypothesis regarding liquidity ratio:
H05: Conventional (LA/TA) ≤ Islamic (LA/TA)
HA5: Islamic (LA/TA) > Conventional (LA/TA).

As shown in Table 11, the liquidity ratio of IBs in general is higher than that of conventional one and was increasing from 74.5% in 2008 to 76.7% in 2009. Regarding conventional banks they show a stable trend in liquidity ratio from 55.1 in 2008 to 55.6 in 2009. The increase in liquidity ratio for IBs has been accompanied by a decrease in the standard deviation from 30.6 in 2008 to 26.2 in 2009; which is a good sign, while the standard deviation regarding conventional banks remains the same during this period.

Table 12 shows that IBs' liquidity ratio was higher at 75% compared to conventional banks' liquidity ratio at 55%. But

Table 6: Gearing ratio

Bank system	Year	Mean±SD	Minimum	Maximum
Conventional banks	2008	68.46±4.27	64.38	72.91
	2009	64.13±6.69	59.43	71.79
IBs	2008	19.57±10.47	7.8	27.82
	2009	25±11.3	14	36.57

SD: Standard deviation, IBs: Islamic banks

Table 7: Differences in gearing ratios of the groups of banks during the whole period

Conventional banks	66.3	5.55	59.43	72.91	0.0001
IBs	22.3	10.19	7.8	36.57	

AQ5 *SD: Standard deviation. **P value from t-test, a P<0.05 is considered significant. IBs: Islamic banks

Table 8: Differences in gearing ratios of the individual's banks during the whole period

Bank system	Name of bank	Mean±SD	P value	P value***
Conventional bank	Average	66.3±3.46	0.149*	0.001
IB	D	20.91±9.77	0.496**	
	E	29.84±9.52		
	F	16.13±11.79		

*P value for conventional banks only, P value from the analysis of variance, **P value for IBs only, P value from the analysis of variance, ***P value for all banks, P value from the analysis of variance. SD: Standard deviation, IBs: Islamic banks

Table 9: Cost to income ratio

Bank system	Year	Mean±SD	Minimum	Maximum
Conventional banks (average)	2008	48.5±44.2	11.86	97.65
	2009	44.15±41.28	11.89	90.67
IBs	2008	38.41±0.75	37.88	39.26
	2009	43.54±13.27	29.25	55.48

SD: Standard deviation, IBs: Islamic banks

Table 10: Differences in (CTI) ratios of the groups of banks during the whole period

Conventional banks	46.32	38.34	11,86	97.65	0.751
IBs	40.98	8.86	29.25	55.48	

*SD: Standard deviation, **P value from t-test, a P<0.05 is considered significant. AQ5
IBs: Islamic banks, CTI: Cost to income ratio

Table 11: Liquidity ratio

Bank system	Year	Mean±SD	Minimum	Maximum
Conventional banks	2008	55.13±30.6	23.3	84.4
	2009	55.56±30.6	23.6	84.65
IBs	2008	74.48±30.61	39.32	95.2
	2009	76.66±26.17	46.66	94.84

SD: Standard deviation, IBs: Islamic banks

the appeared difference in liquidity ratio was not statistically significant (P > 0.05).

It was shown also from Table 13 that differences in liquidity ratios are statistically significant between the average of conventional banks (P < 0.0001) and also between selected Islamic indvidual banks (P = 0.001).

Comparisons of the trends in liquidity ratio are depicted in figure.

To show a general picture of the performance of the two banking systems. From Tables 1-13 it could be concluded that conventional banks in face of IBs show better profitability and more efficiency. IBs in face of conventional banks show a better liquidity and stronger solvency condition.

4. DISSCUSION

The first result (the conventional banks display a higher mean of ROAA during the 2 years of study although the mean of ROAA is declining for conventional banks and increasing for IBs and), goes in line with the conclusion of (Abu Loghod, 2010) and (Ghafoor, 2009) and it is relatively similar to the conclusion of (Hassan and Dridi, 2010). However, it is different from the conclusion of (Moin, 2008). This result also consistent with the conclusion of Jaffar and Manarvi (2011) who conclude that IBs earned less on their assets, while conventional banks made more profit. This result also supported the study of Sadaqat et al. (2011) who indicate that conventional banks were better than IBs in regards to profitability and risk management practices. This result is consistent with Kearney (2012) who indicate that despite the strong growth; most IBs have not been consistently profitable, particularly since the global financial crisis.

The second result (The mean of ROAE is declining for conventional banks and increasing for IBs. However, the conventional banks display a higher mean of ROAA during the 2 years of study). This result is consistent with the Ansari and Rehman (2011) who conclude that Profitability measures of performance of ROAA, ROAE and PEM do not show (statistically) significant difference between the performances of Islamic and Conventional banks and reject the hypothesis that IBs are more profitable than conventional banks.

The third result (the Gearing ratio of conventional banks is higher than that of IBs. IBs were found to be far lagging behind conventional banks when gearing ratio is concerned), goes in line with (Moin, 2008) who argue that IBs to be less profitable than its counterparts, their findings of profitability and risk and solvency perfectly fit in this risk-return profile and allow to conclude that conventional banks are more profitable, also more risky and less solvent than IBs.

The fourth result (there is a slight difference in the mean CTI ratio between the two systems of banking in 2008. But in 2009 the two systems of bank display similar CTI ratios), goes in line with (Ghafoor, 2009) and (Kader and Asarpota, 2007). However, it is different from the conclusion made by (Moin, 2008).

The fifth result (the liquidity ratio of IBs in general is higher than that of conventional ones), goes in line with (Demirgüç et al. 2010), (Abu Loghod, 2010) and (Čihák and Hesse, 2008) and Boumediene and Caby, 2009) conclusion. However, this result differs from the results of (Gamaginta and Rokhim, 2011), and from the cross-country study of (Čihák and Hesse, 2008), which concludes that the level of stability among groups of banks has different tendency of comparison.

Table 12: Differences in (LA/TA) ratios of the groups of banks during the whole period

Ratios	Mean±SD* (%)	Minimum	Maximum	P value**
Conventional banks	55.34±27.39	23.3	84.65	0.21
IBs	75.57±25.5	39.32	95.22	

*SD: Standard deviation, LA/TA: Liquid assets divided by total assets. **P value from t-test, a P<0.05 is considered significant, IBs: Islamic banks

Table 13: Differences in (LA/TA) ratios of the individual's banks during the whole period

Bank system	Name of bank	Mean±SD	P-value	P-value***
Conventional bank	Average	55.34±0.30	0.0001*	0.0001
Islamic bank	D	88.68±0.29	0.001**	
	E	95.03±0.27		
	F	42.99±5.2		

*P value for conventional banks only, P value from the analysis of variance, **P value for IBs only, P value from the analysis of variance, ***P value for all banks, P value from the analysis of variance. LA/TA: Liquid assets divided by total assets, SD: Standard deviation, IBs: Islamic banks

5. STUDY LIMITATION

This study is limited firstly due to of small sample size, which contained only three IBs against an average of conventional banks in specific area which is GCC. Another limitation is the length of the study which was 2 years. However, this is justified with nature of the study as the purpose was to examine the financial performance only during the financial crisis times. So, the study concentrated on the peak of the crisis which was the period of 2008-2009. A third limitation is that the researches were obliged according to high fluctuation to use average performance of conventional banks rather than sample of three individual conventional banks as the case of IBs, this limited the chances of comparing individual banks performance in the two systems.

6. CONCLUSION

From the above analysis it can be observed that liquidity ratios for IBs are higher compared to the conventional banks'. However, IBs pose the lowers ratios compared to conventional average regarding CTI, ROAA, ROAE, and Gearing ratio. Although some differences were not statistically significant as explained earlier (liquidity ratio, CTI and ROAA), we can conclude that although the results show that IBs appear to be better capitalized, more liquid, and at a stronger solvency condition compared to conventional banks.

However, this study suggests that IBs are not delivering better in profitability and are not more efficient than Conventional banks during the crisis times offering important indicators of the type of Challenges and difficulties that are faced by IBs that need to be addressed systematically before reaching any conclusion that it is an alternative to the existing financial system during the financial crisis times.

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