

Evaluating the Efficiency and Profitability of Islamic and Conventional Banks: Case Study of the GCC Region

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Evaluating the Efficiency and Profitability of Islamic and Conventional Banks: Case Study of the GCC Region

تقييم كفاءة المصارف الإسلامية والتجارية إلى جانب ربحيتها: دراسة حالة إفرادية لمنطقة مجلس التعاون الخليجي

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Abstract:

This study aims to discuss the concept of both Islamic and commercial banks, in order to illustrate the similarities and differences between Islamic and commercial banking systems. Additionally, this research evaluates the profitability of the Islamic and commercial banks in the GCC region and examines the impact of the subprime global financial crisis on both banking sectors during the period 2005-2013. The analysis of the financial information revealed significant findings in the profitability levels of the Islamic and commercial banks. The findings indicate that the Islamic banking system is more efficient in using its assets to generate profit; while commercial banks are more efficient than Islamic banks in terms of controlling their operating costs, conventional banks suffered significant losses in the financial market instruments, which led to reduce the profitability levels.

Keywords: *Islamic banks; Conventional Banks; GCC region.*

المخلص:

تهدف هذه الدراسة إلى مناقشة مفهوم المصارف الإسلامية والتجارية على حد سواء، لتوضيح أوجه التشابه والاختلاف بين النظم المصرفية الإسلامية والتجارية. بالإضافة إلى ذلك، تقيم هذه الدراسة ربحية المصارف الإسلامية والتجارية في منطقة مجلس التعاون الخليجي ويبحث تأثير الأزمة المالية العالمية عالية المخاطر على كلا القطاعين المصرفي خلال الفترة الزمنية 2005-2013. وكشف تحليل المعلومات المالية عن نتائج هامة على مستويات ربحية المصارف الإسلامية والتجارية. كما تشير النتائج إلى أن النظام المصرفي الإسلامي أكثر كفاءة في استخدام أصوله لتحقيق الأرباح، في حين أن البنوك التجارية أكثر كفاءة من البنوك الإسلامية من حيث التحكم في تكاليف تشغيلها، ولكن البنوك غير الإسلامية تكبدت خسائر كبيرة داخل السوق المالية، مما أدى إلى تقليل مستويات الربح بها.

الكلمات المفتاحية: *البنوك الإسلامية؛ البنوك التقليدية؛ منطقة التعاون الخليجي.*

Introduction:

The Islamic banking sector experienced a substantial growth over the last four decades. The recent statistic shows that the total assets of Islamic banks are assessed to be around \$1.8 trillion with an annual growth of around 18% (Earnest and Young, 2014). Several conventional banks have started offering Islamic financial products and services to their customers. The financial transactions of Islamic banks are based on profit and loss sharing between the bank and the investors while the financial transactions of conventional banks are based on interest charges.

Bank profitability is considered to be one of the vital issues for the banking sector, whether Islamic or conventional banks. The banking sector aims to increase its profitability level and also increase the shareholder earnings. Banks' profitability represents the capacity of the bank to generate a high level of revenue gained from the investment transactions and exceeding the taxes, costs and expenses needed to sustain the bank transactions.

The banking sector has a major impact on the stability of a financial market. Financial institutions bring together businesses and their stakeholders for the purpose of establishing stock markets.

The Islamic banking system differs from the conventional banking system on the basis of interest-free revenue, as interest is considered to be a kind of exploitation under the Islamic Sharia law. Islamic banks tend to comply with Sharia laws and adopt other turnover sources such as profit and loss sharing transactions (Khan & Khan, 2015).

Rahman (2015) defines the Islamic bank as a financial institution that falls in line with the Islamic laws. Islamic law prohibits investments that involve interest and encourages transactions based on profit and loss sharing between the investors and bank, which in turn allows investors to gain possession of physical goods alongside contributing to investment processes.

Islamic banks have witnessed significant growth and development in the last four decades. The first Islamic saving bank was established in Egypt in 1963 (Brown and Skully, 2009) and then in Dubai in 1973, to be followed by several others including; Islamic Development Bank, Jordan Islamic Bank and Kuwait Finance (Helmy, 2012).

Islamic and conventional banks are two main types of banking systems and their difference and priorities to one over the second must be studied well. The study gap shows that the difference between Islamic and conventional banks in terms of how inefficient they have narrowed a lot and that Islamic banks have been able to close the gap with conventional banks over the study period.

Islamic scholars stood up for the establishment of a financial system that was free of interest and other elements in the system found to be against Islamic beliefs. In accordance with PLS banking introduced for the welfare of Muslims, a number of elements are prohibited from being part of the Islamic banking system, for example, 'Riba' (interest fee), 'Gharar' (uncertainty) and 'Haram' (certain bans) (Razak, 2015)

The exclusion of these elements constitutes the banking framework, which is based on PLS (Biancone & Radwan, 2015). Therefore, Islamic banks use a number of financial transactions that are in line with the requirements of Islamic Sharia laws. For example; 'Mudarabah' (speculation), 'Murabaha' (mark-up on sales), 'Ijara' (lease) and 'Musharaka' (complete partnership in investment) (Farooq & Ahmed, 2013).

At present, world's top 20 Islamic banks are operating in the GCC region and these banks collectively possess 57% of the existing Islamic banking assets (Earnest & Young, 2014). In the same regard, there are a number of factors that have led to increase the importance of the banking industry in the Arabic region. For example, the banking sectors in these regions take into consideration elements of consumer loans, construction and real estate. In addition, both the conventional and Islamic banking sectors depend greatly on the oil industry. Furthermore, the sectors are government-controlled and made free of foreign competition and banking and in the GCC region banking remains the largest sector to be traded in in the stock market, in comparison to other financial companies working within this region (Olson & Zoubi, 2008).

This research aims to discuss the concept of both Islamic and conventional banks, in order to illustrate the main similarities and differences between these banking systems. In addition, this research will evaluate the profitability and the efficiency of the Islamic and commercial banks in the GCC region and will examine the impact of the subprime global financial crisis on both banking systems during the period 2005-2013.

Many questions are included in this study:

- What are the differences between Islamic and commercial banks?
- What is the influence of the subprime global financial crisis on Islamic and commercial banks?

The Objectives of the Study to determine the main differences between Islamic and commercial banks, assess the impact of the subprime global financial crisis on Islamic and commercial banks, and evaluate the profitability and efficiency of Islamic and conventional banks.

Islamic banking has flourished in response to the growing number of Muslims who adhere to the shariah, or Islamic law.

Other Islamic financial institutions were founded around the world after the Nasser Social Bank in Egypt, the Dubai Islamic Bank in the United Arab Emirates (Abdul-Majid et al., 2010), and the Islamic Development Bank (IDB) in 1975 paved the way (Central Bank of Malaysia 1999). There are at least 70 nations where Muslims can access Islamic financial services, according to Husain (2005).

Bank's profitability represents the ability of the bank to generate a high level of revenue gained from the investment transactions and exceeding the cost and expenses needed to sustain the bank's transactions. Evaluating the profitability and efficiency in the Islamic and conventional banks is considered to be a vital issue, due to the importance of the bank's profitability in enhancing the financial performance and maintaining the growth of financial institutions.

The Development and the Concept of Islamic Banking System:

Venardos (2005) argues that conventional banks work under the concept of interest charges, this type of transaction is prohibited in the Islamic religion. Therefore, it was quite important to establish a financial system compatible with the requirements of the Islamic religion.

Khan and Ahmed (2001) demonstrated that the Islamic banking system works under the concept of sharing profit and loss with the customers. In contrast, the commercial banking system works under the concept of charging interest to borrowers and then pay interest to depositors; the difference between the interest rates is considered to be the profit of conventional banks. As such, interest charges are considered to be the main source of revenue to the conventional banking system. On the other hand, Islamic laws oblige the Islamic banks to share the risk and profit with the investors. Therefore, the Islamic banking system does not pay or charge interest in their financial transactions. In fact, they implement the concept of profit and loss sharing transaction (PLS) with their customers (Cocheo, 2007).

Consequently, Gait and Worthington (2008) indicated that conventional banks generate their profit from the concept of charging interest, whereas Islamic banks create its profit from the participation in the investment decision and trading process.

By the end of 2008, Islamic banks had expanded their financial transactions into more than 50 countries and their combined assets reached \$951 Billion. The United Kingdom is now considered to be the capital of Islamic finance in the non-Muslims countries. Recently, however, the total assets of Islamic banks reached \$1.4 trillion in 2012 (Cameron, 2013).

The Islamic bank employs several non-interest tools, for instance, speculation contracts or 'Mudarabah', which are employed to provide the required amount of money to the borrower. However, in this type of contract, the Islamic bank provides the capital and the borrower will provide the business skills while the average of returns will be shared according to a pre-agreed ration between the Islamic bank and the borrower under the concept of profit and loss sharing account (PLS).

In contrast, Islamic banking system employs full partnership contracts, or 'Musharaka', with their investors. This type of contract is considered to be as an agreement between the investor and the bank, where both parties participate in the management of the project and in providing the required capital to run the business. However, the average of returns will still be shared according to an agreed ratio (Fasih, 2012).

Hassan, Kayed & Oseni (2013) state that the Islamic banks buy the required property under the concept of mark up on sale then the sells the real estate to the customer with an instalment mark-up profit.

Islamic Versus commercial banks:

The Islamic banking system contributes to the economy by introducing all the required services and financial transactions whereas the difference appears in the process of funding their transactions (Hanif, 2011).

Deposits:

Islamic and commercial banks collect deposits from savers and offer a reward of money to their depositors. The difference between the two banking systems appears in the terms of that reward. While the conventional banking system provides a predetermined and fixed reward to their customers, the Islamic banking system collects the deposits under the concept of speculation or 'Mudarabah' and full-partnership or 'Musharaka', where the reward is not fixed.

The total risk in the conventional banking system is borne by the bank and the return on deposits belong to the bank after returning the fixed amount to the depositors. In contrast, banks within the Islamic system share with the depositors both the risk of not making any returns and any positive outcomes of the investment (Hanif, 2011).

Investments:

Importantly, conventional banks deposit a mandatory amount of money with the central bank in the form of interest. In addition, the conventional banks provide liquidity to other banks in the form of interest, and the conventional banking system is able to generate liquidity through issuing bonds against their receivables. Interbank deposits are also considered another type of generating liquidity in the form of interest. On the other hand, the prohibition of interest charges restricts Islamic banks' opportunities to create several avenues for generating a sufficient level of liquidity on a short-term and long-term basi. (Hanif, 2011).

Financing and Investments:

Conventional banks provide loans under the concept of fixed interest, whereas Islamic banks cannot charge interest to their customers. There are three types of loans that are available in the conventional banking system, namely; overdrafts loans, short-term loans and long-term loans. In contrast, Islamic banks provide loans to their customers, but they share the risk and the profit on the investment. Recent Subprime Financial Crisis

The term 'financial crisis' in the banking industry and financial institutions refer to a significant decrease in the market value of financial assets and an unpredicted demand on cash withdrawal from the banks, due to a reduction in customer confidence in the bank's performance.

Islamic banks do not invest in conventional securities due to the prohibition of interest charges. In addition, the limited number of Islamic financial instruments reduced the influence of the recent global financial crisis on the Islamic banking industry.

The Impact of the Credit Crunch on the Islamic banks:

The terms 'financial crisis' or 'credit crunch', refer to a sudden collapse in the real values of banks' assets, significant increase in selling investors' assets and a dramatic withdrawal of cash from the banks due to decline in the banks' financial performance and financial stability (Jarboe & Furow, 2008).

Conventional banking system offers the depositors' money as loans to the borrower in order to cover the borrower's requirements, as such any sudden demand on the depositors' money will influence on the ability of the conventional banks to pay this money at the required time, which will increase the insolvency problems in the banks and may lead to bankruptcy problems (Jarboe & Furrow, 2008). In contrast, the Islamic banking system works under the concept of profit and loss sharing transactions with the bank's customers, and this type of financial transaction gives the depositors the opportunity to participate in the investment decisions and trading process. These significant problems in the conventional banking system increased the importance of the Islamic banking system and increased research interest into the concept of profit and loss sharing transactions.

Hassan and Dridi (2010) analysed the effect of the subprime recession on the Islamic and commercial banking system in the MENA countries. The empirical outcomes showed that the Islamic banking system revealed better performance in terms of credit management and growth and better performance in terms of asset growth. In contrast, the results revealed that the Islamic banking systems are not efficient in managing their risk due to the fact that the Islamic banks have limited tools for the risk management tools compared with commercial banks, which influenced their profitability levels negatively. Najjar (2013) investigated that the subprime recession showed a negative influence on the Islamic and conventional banks' profitability. Hidayat and Abduh (2012) found that the global credit crunch influenced the profitability of Islamic banks negatively.

Jaffar and Manarvi (2011) employed the CAMEL model to evaluate the financial performance of 10 banks (5 Islamic and 5 commercial banks). The results emphasise that Islamic banks have better financial performance than commercial banks, also that Islamic banks outperform commercial banks in terms of capital balance whereas commercial banks are more efficient in terms of profit generation and management decision.

Hasan and Dridi (2011) examined the influence of the financial crisis on 120 Islamic and commercial banks in the MEAN countries and the North Asia region during 2005-2010. The researchers found that the recent credit crunch affected the efficiency of Islamic and commercial banks in generating profit.

In contrast, Almazari and Almumani (2010) examined the financial performance of Islamic banks in Saudi Arabia (KSA) by employing regression analysis and financial ratio analysis and found that the profitability indicators showed that the credit crunch affected the efficiency of Islamic banks to generate profit, and also that Islamic banks are efficient in using their assets to generate revenue. Abdelrahim (2013) revealed insignificant differences between Islamic and commercial banks, and asset quality, capital adequacy, banks size, earnings and management soundness were found to have a significant influence on the management of credit risk in both Islamic and conventional banks.

Almazari (2014) examined the impact of the financial crisis on 23 conventional and Islamic banks in Jordan and Saudi Arabia over the period 2005-11, by using regression techniques. In fact, liquidity risk ratio, total investment to total assets ratio and total equity to total assets ratio revealed a significant positive influence on the profitability and financial performance of Islamic banks. On the other hand, cash income ratio, bank size and net credit facilities to total assets ratio revealed significant negative influence on both Islamic and conventional banks.

Empirical Literature Review:

Abedifar, Molyneux and Tarazi (2013) showed that small Islamic banks have better financial stability and are less exposed to credit risk compared to the commercial banks. Furthermore, the loan quality of Islamic banks is considered to be less responsive to the interest rate compared to the commercial banks. Moreover, the empirical findings regarding profitability ratios show a comparable performance between both banking sectors.

According to Siddiqi (2006), who reported on this topic, the field of Islamic economics and finance theory is in its infancy. Therefore, our research suggests confirming the theoretical underpinnings from a productivity standpoint with actual data. The firm's productivity is a key indicator of its success. As a broad idea, financial

performance incorporates productivity, profitability, and expansion. The ability of a business to turn a profit is measured by the extent to which it operates efficiently. Protecting the financial interests of stockholders through maximising earnings and return on investment is a top priority for financial institutions. The bank's productivity is essential if it is to earn a healthy profit. But some research has shown that poorer productivity can reduce banks' profits. This is now the primary concern. In light of the fact that changes in productivity can have significant effects on profitability; it has emerged as a fundamental problem. Therefore, if financial institutions wish to boost their bottom lines, they must prioritise productivity.

Loghod (2013) showed that there are insignificant differences between Islamic and commercial banks with respect to profitability indicators. On the other hand, the results of the liquidity ratio showed that conventional banks are more exposed to liquidity risk compared to Islamic banks. Importantly, the results revealed that customers in the GCC region are more attracted to Islamic financial products.

Ouerghi (2014) indicated that commercial banks are more profitable and more efficient than Islamic banks. In addition, Islamic banks are more exposed to credit risk and the financial crisis affected Islamic banks more than commercial banks. Marie, et al. (2013) indicated that there are insignificant differences between each banking sector in terms of profitability indicators. However, the quality performance indicators showed that conventional banks are less efficient than Islamic banks.

Kamarudin et al. (2014) analysed the GCC region's 74 banking institutions' (47 conventional banks and 27 Islamic banks) 2007–2011 profit, revenue, and cost efficiency. In this case, efficiency was measured using the DEA technique's intermediary method. According to the study's authors, traditional banks were more efficient across all three metrics (income, profit, and expenditures). Furthermore, they imply that the efficiency level connected with revenue was the key factor with respect to the efficiency level associated with profits.

Johnes, Izzeldin and Pappas (2010) suggested that the implementation of profit and loss sharing accounts makes Islamic banks more profitable and less susceptible to risk than commercial banks. Moreover, the findings of efficiency ratio emphasise that Islamic banks are more cost efficient than commercial banks. Amba and Almukharreq (2013) revealed that Islamic banks are less profitable and more exposed to liquidity risk compared to the commercial banking sector. In addition, financial ratio analysis revealed that the subprime financial crisis affected negatively the profitability of Islamic as well as commercial banks.

Siraj and Pilla (2012) showed that Islamic banks are less profitable than commercial banks, due to the implementation of profit and loss sharing transactions in the Islamic banking system. Moreover, conventional banks are more efficient in controlling their costs than Islamic banks. However, conventional banks revealed more asset growth compared to Islamic banks. In addition, Abdelrahim (2013) showed that both types of banks showed comparable performance, and suggest that bank size and bank liquidity have positive impact on the bank efficiency. In addition, management soundness, capital adequacy and asset management have a positive influence on bank efficiency and credit risk management.

Alexakis et al. (2018) revealed that conventional banks' productivity dropped just as much as Islamic banks', with the latter taking a hit even more. Supported by Maredza and Ikhida [45], this fall in the GCC banking sector may be related to the worldwide financial crisis. This research found that the technology and technical efficiency of Islamic banks varied, which may have historical roots among GCC-based Islamic financial institutions. While this industry is still in its infancy, the GCC is home to a number of established Islamic banks that offer a wide range of financial services to a diverse clientele.

Bashir (2000) suggests that controlling macroeconomic factors contribute to improving the profitability of the Islamic banking system. Moreover, a high loan to assets and gearing ratios contribute to improve the profitability of Islamic banks. Importantly, financial market structure, Islamic financial instruments, and taxation level have a positive significant influence on the profitability of Islamic banks. Hasan and Dridi (2011) showed that commercial banks are more profitable than Islamic banks and more efficient in controlling their costs.

Method:

Research Philosophy:

This research is based on secondary data, this research takes an epistemological approach, and in particular, that of scientific realism.

Research Method:

This research is based on the quantitative method, since the subject of this research requires an explanation of social phenomena.

Sample Size and Data collection:

The Gulf Cooperation Council consists of six countries; this research will evaluate the top one Islamic bank in each country and will compare it to the top one conventional bank in each country in terms of their total assets during the period 2005-2013. Importantly, this research will exclude Oman from the sample of the study because of the lack of Islamic banks in this country. This research will collect the annual report of the top five Islamic banks and top five commercial banks in the GCC over the period 2005-2013. The following table shows the name of banks that will be analysed in this research.

Table (1): Sample of Study

Country	Conventional Banks	Islamic Bank
Saudi Arabia	Riyad bank	Al-Rajhi Bank
Kuwait	National Bank of Kuwait	Kuwait Finance House
United Arab Emirates	National Bank of Abu Dhabi	Dubai Islamic Bank
Qatar	Qatar National Bank	Qatar Islamic Bank
Bahrain	Ahli United Bank	Al Baraka Bank

The secondary data that will be employed in this research includes articles and journals relevant to the Islamic and commercial banks. In addition, the study will employ the annual reports of the Islamic and commercial banks, which will be collected from the websites of these banks.

Data analysis method:

This research employs horizontal analysis and financial ratio analysis.

According to Banker Cooper et al., an approximation [assumption] is made in selecting the number of inputs and outputs in that the size of the sample needs to meet this assumption prior to progressing with the measurement of DEA as shown:

$$n \geq \max\{m \times s, 3(m+s)\}$$

where n

= number of decision-making unit (DMUs), m = number of inputs, s = number of outputs.

• Specification of banks input and outputs

In this study, data envelopment analysis (DEA) is used as the main tool to study productivity. This is because DEA is widely used and is still a good way to measure productivity after 40 years and more than a thousand papers published each year have shown it to be stable.

In this study, the inputs and outputs of banks were categorised using the "intermediation" method, which has been used in many other studies. Given the important role that banks play in providing financial intermediation, this approach has been widely used as the first stage of DEA.

• Horizontal analysis

Khan et al. (2012) stated that trend analysis or horizontal analysis contribute to evaluating the fluctuation in components of financial statements over a particular time.

• Financial ratios analysis

Following the empirical literature, this study will use a set of financial ratios to analyse the profitability and efficiency of Islamic and conventional banks, for example; return on assets, asset utilisation, return on deposits, and debt to total asset ratio. The higher the result of each ratio, the more efficient and stable the financial performance.

Measuring Bank Profitability

This research will assess the profitability levels of Islamic and commercial banks by using a set of financial ratio indicators.

• Return on Assets

This indicator shows the ability of the bank to generate profit from investing the total assets. In other words, it shows the generated income as a percentage of total assets. Return on assets can be measured as follows:

$$ROA = \frac{\text{Net profit}}{\text{Total assets}}$$

• Return on Equity

This indicator measures the bank's profitability by revealing the earnings generated from the money that shareholders have invested (Atrill & McLaney, 2012). Return on equity can be measured as follows:

$$ROE = \frac{\text{Net profit}}{\text{Total equity}}$$

• Net Profit Margin

This indicator shows how much the bank generates earnings from revenues. Net profit margin can be measured as follows:

$$NPM = \frac{\text{Net profit}}{\text{Total revenues}}$$

Measuring Bank Efficiency:

Efficiency indicators aim to measure the efficiency of the bank in using its liabilities or assets. This type of ratios concentrates on the bank's internal activities, and a sustained decrease in the efficiency ratios indicates an increase of the Islamic and commercial banks profitability and performance. Additionally, Islamic and commercial banks differ in the process of funding their financial transactions. The following efficiency ratio will contribute to

showing the main difference between both banking systems in terms of their efficiency in managing their cost, in order to increase their profit. Therefore, the efficiency indicators include total expense to total assets and interest expenses to total assets.

- **Total Expense to Total Assets**

This indicator shows how much the Islamic and conventional banks employ money compared to their total assets. Therefore, lower average of this ratio indicates to better efficiency. This ratio can be measured as follows;

$$\frac{\text{Total expenses}}{\text{Total assets}}$$

- **Interest Expenses to Total Assets**

This indicator takes into consideration the interest expenses of the Islamic and conventional banks compared to the total assets. Therefore, a lower average of this ratio indicates to better efficiency. This ratio can be measured as follows:

$$\frac{\text{Total expenses from interest paid}}{\text{Total assets}}$$

Results:

Horizontal Analysis

Table (2): Horizontal Analysis

Million US \$		Total Assets	Total Equity	Total Liabilities	Total Interest Expenses	Non-Interest Expense	Net Income After Taxes	EPS
Commercial	2005	\$18,670.4	\$2,258.9	\$16,411.5	\$377.3	\$220.0	\$555.3	\$0.361
	2006	\$24,074.8	\$2,635.6	\$21,439.2	\$706.3	\$267.0	\$606.8	\$0.428
	2007	\$33,407.8	\$3,771.6	\$29,636.2	\$993.9	\$310.6	\$708.2	\$0.429
	2008	\$39,218.0	\$4,593.3	\$34,624.7	\$932.1	\$446.2	\$754.2	\$0.473
	2009	\$43,693.7	\$5,416.0	\$38,277.7	\$562.5	\$473.8	\$786.6	\$0.518
	2010	\$47,506.9	\$6,259.4	\$41,247.6	\$556.1	\$492.0	\$938.4	\$0.672
	2011	\$55,618.3	\$7,532.3	\$48,086.1	\$477.7	\$558.8	\$1,070.3	\$0.772
	2012	\$64,334.5	\$8,269.2	\$56,065.2	\$511.6	\$625.1	\$1,174.5	\$0.817
	2013	\$72,713.4	\$9,003.1	\$63,710.3	\$588.9	\$780.7	\$1,292.7	\$0.917
Islamic	2005	\$12,403.6	\$1,560.4	\$10,843.1	\$203.8	\$248.0	\$497.3	\$0.408
	2006	\$15,831.9	\$2,456.7	\$13,375.2	\$349.4	\$316.2	\$690.9	\$0.654
	2007	\$20,888.9	\$3,195.2	\$17,693.7	\$472.2	\$380.5	\$798.3	\$0.702
	2008	\$24,992.1	\$3,434.7	\$21,557.4	\$470.2	\$457.9	\$692.8	\$0.750
	2009	\$26,358.8	\$3,625.0	\$22,733.8	\$422.5	\$494.8	\$581.6	\$0.629
	2010	\$29,703.3	\$3,784.5	\$25,918.7	\$364.5	\$518.0	\$552.1	\$0.590
	2011	\$33,194.3	\$4,041.1	\$29,153.2	\$372.2	\$669.4	\$587.0	\$0.615
	2012	\$37,930.6	\$4,274.5	\$33,656.1	\$403.9	\$680.5	\$685.6	\$0.613
	2013	\$40,367.5	\$4,920.7	\$35,446.8	\$393.4	\$770.3	\$720.2	\$0.622

Evaluating Profitability Levels:

The following profitability indicators contribute to evaluating the bank's ability to make a profit from investing their available financial resources.

Return on Assets:

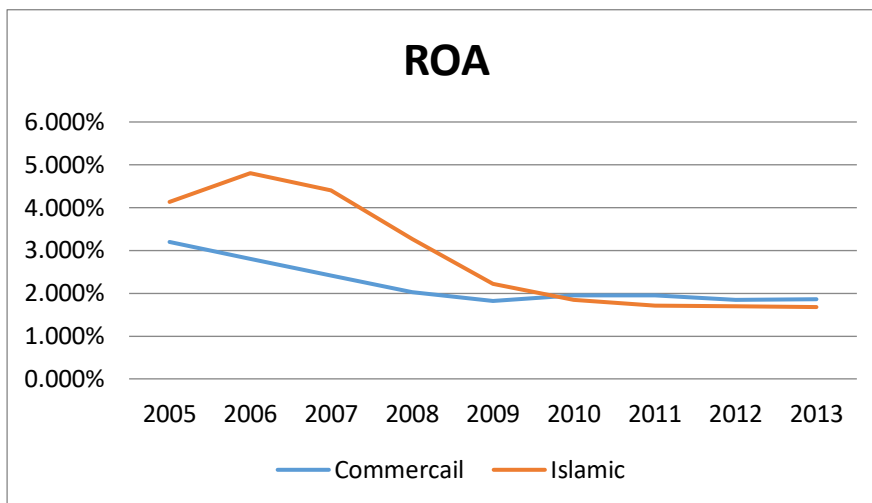


Figure (1): Return on Assets

Return on Equity:

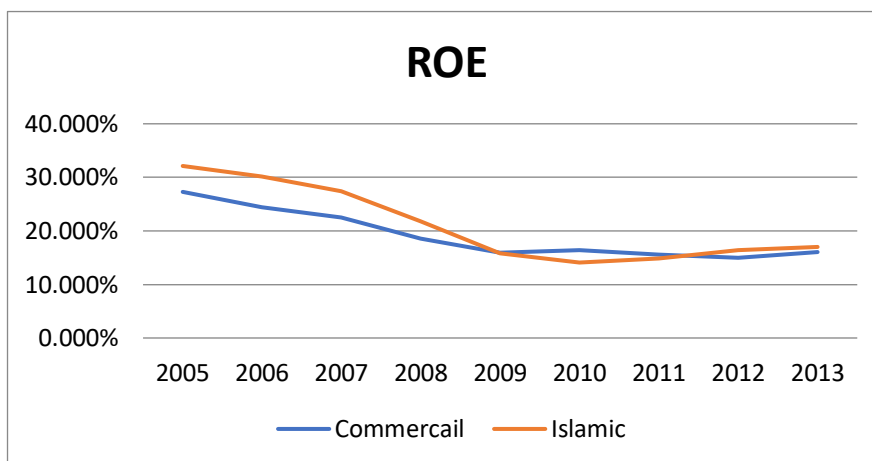


Figure (2): Return on Equity

Net Profit Margin:

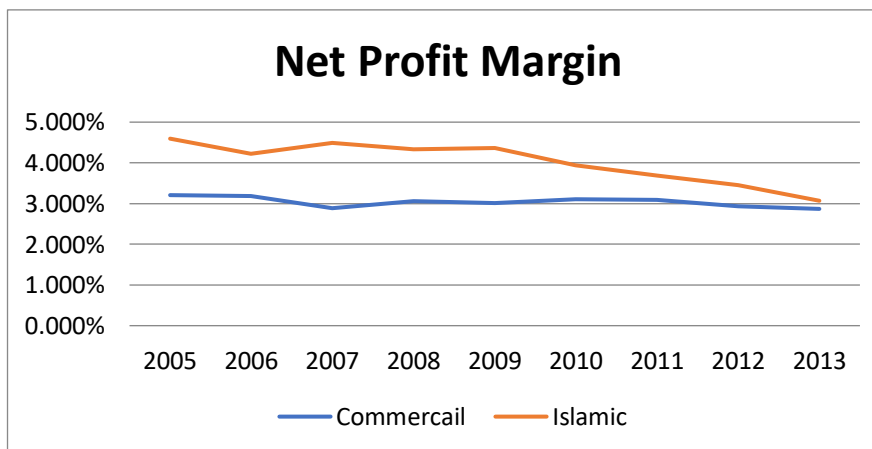


Figure (3): Net Profit Margin

The above indicator reports that the Islamic banking system was more profitable than commercial banks during the period 2005-2013, which is identical with the findings of return on assets (ROA) and return on equity (ROE).

Examining Banks' Efficiency:

Islamic and conventional banks are different in their processes of funding their financial transactions. Therefore, this part of the data analysis evaluates the efficiency of both conventional and Islamic banks, in terms of their ability to control their cost levels.

- **Total Expenses to Total Assets**

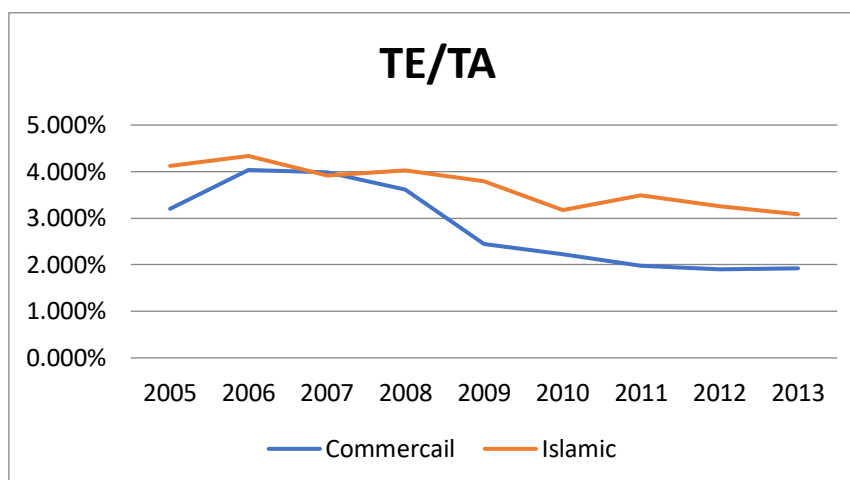


Figure (4): Total Expenses to Total Assets

- **Interest Expenses to Total Assets**

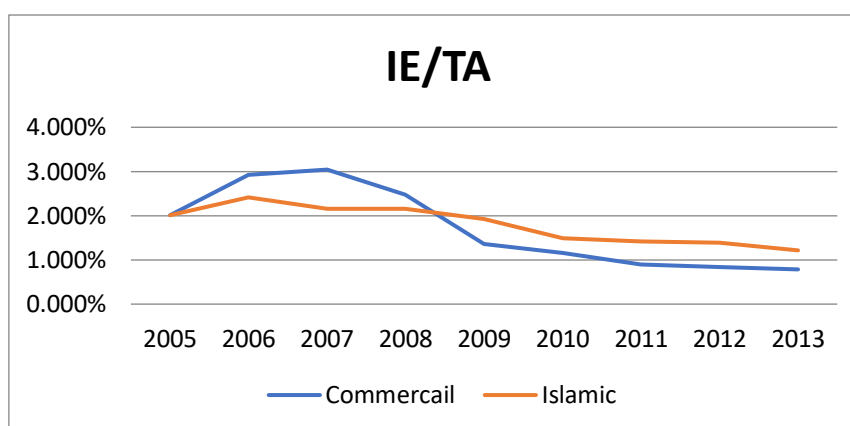


Figure (5): Interest Expenses to Total Assets

Discussion:

The results showed stable growth in the conventional banking system; whereby the total assets, total equity and total liability have grown by (289%, 299%, 288%) respectively over the period of the study. In the same regard, the components of the conventional banks' income statements have revealed significant growth during the subprime credit crunch. Notably, this gradual increase in the main components shows that conventional banks in the GCC region were efficient enough to pay their financial obligations over the course of the subprime credit crunch.

It was noted that the conventional banking system was efficient enough to reduce their costs after the crisis. However, the subprime credit crunch influenced negatively on the growth of net income compared to the growth of the conventional banks total assets, which shows the unstable relationship between the main components of the financial statements of the conventional banking system during the period 2005-2013.

The empirical findings on the Islamic banking system reported a comparable performance with the conventional banking system during the period 2005-2013, whereby the total assets, total equity and total liability have grown by (225%, 215%, 227%) respectively. Moreover, the significant increase in the bank reserve is considered to be the main reason for the dramatic increase in the Islamic banks' equity. Importantly, the recent subprime credit crunch had an insignificant impact on the growth levels in the Islamic banking system, whereas there was unstable growth in the main components of the balance sheet.

Importantly, another chart shows that the fluctuation in the growth levels in the total assets and net profit in both Islamic and commercial banks has led to a decrease in the percentage of return on assets ratio over the period 2005-2013.

The analysis of the financial information showed that the available financial tools for Islamic banks have contributed to better financial performance than conventional banks. On the other hand, the above indicator showed that the return on assets of conventional banks had decreased from 2.5% in 2007 to 2% in 2008. However, the analysis of the financial information showed that an unforeseen increase in expenses led to a reduction of the net profit of conventional banks.

Importantly, the empirical results of the financial information showed that the Islamic banking system is more efficient in using their assets to generate profit. On the contrary, commercial banks are efficient in managing their expenses. Their empirical findings revealed that Islamic banks are more efficient than their counterparts in using their assets to generate profit. On the other hand, conventional banks are more efficient in managing and controlling their bank expenses. This is due to the limited number of financial tools available for Islamic banks to manage their costs. In addition, Islamic Sharia laws oblige Islamic banks to implement their financial transaction on the long-term basis under the concept of PLS.

Both the Islamic and conventional banks revealed comparable performances, which support the previous argument that the subprime credit crunch negatively influenced the banks' profitability of both banks. The analysis of the financial information showed that the Islamic banks suffered from the unstable growth in the net profit and total shareholders' equity, whereby, the net profit of Islamic banks declined by 32% over the period 2007-2010.

On the contrary, the total capital of Islamic banks raised by 26% over the period 2007-2010. This fluctuation is considered to be the main reason for the reduction of the return on assets over the period 2007-2010.

Recently, however, the Islamic banking system has developed effective financial tools to manage their resources and reduce the effect of the subprime recession. As a result, the percentage of return on equity has been raised from 14% to 18%. This slight increase reflects the effectiveness of Islamic banks in using their equity to generate profit. The recent subprime credit crunch has been shown to have had a negative influence on the conventional banking system, this reveals that conventional banks have difficulties managing their equity to generate profit, compared to Islamic banks.

Importantly, the findings of the above charts show that the Islamic banking system is more efficient in using their equity and assets to generate profit compared to the commercial banking system.

Notably, the study's indicator shows that the Islamic banks' NPM decreased from 4.5% in 2005 to 3% in 2013, which is due to the fact that there was a dramatic decrease in the net profit because Islamic banks had difficulty managing their operating expense levels. This demonstrates that commercial banks were able to manage their costs despite the recent financial crisis' influence on their profitability levels.

The above indicators report a gradual decrease in both conventional and Islamic banks during 2005-2013. However, commercial banks showed better efficiency than Islamic banks over the period 2005-13 since the percentage of TE/TA decreased from 3.2% in 2005 to 1.9% in 2013. In fact, the analysis of the financial information showed that the available financial tools for Islamic banks were considered to be quite costly and had an influence on the Islamic banks' ability to manage and control their cost levels. Importantly, Islamic banking system implements their financial transactions under the concept of PLS. Importantly, the findings show that the commercial banking system is more efficient in managing its costs.

Another reveals different values for both Islamic and commercial banks, showing a higher percentage for conventional banks compared to the Islamic banks during the period 2005-2008. This is mainly due to the fact that the Islamic banking system is based on the concept of profit and loss sharing transactions, whereas the conventional banking system is based on interest charges. Therefore, it is quite logical to find a higher rate of IE/TA for commercial banks compared to Islamic banks.

Conclusions:

There is widespread worry in the banking and financial industries about the performance of banks. The implications of this study extend far beyond the realm of money, touching on policymakers, corporate practises, and even international relations. Policymakers can use information about the overall productivity level of Islamic and other commercial banks to improve managerial performance while investors and clients can use the information to make decisions about the quality of their investments and services. It is anticipated that the commercial and Islamic banks' profitability will increase as a result of their increasing productivity in delivering premium service at low overhead. The banking and financial sectors would need to find the mechanism, including policy matter, workforce trainings, and supports, to skyrocket productivity levels in order to make such a commitment possible. This research's results are consistent with what's already known about how money works in developed countries.

The empirical findings of the horizontal analysis showed that both Islamic and conventional banks experienced stable growth during the period 2005-2013. In the same regard, the recent subprime credit crunch was revealed to have had an insignificant influence on the growth levels of the main components of the financial statements in both the Islamic and commercial banks in the GCC region. On the contrary, the recent subprime credit crunch showed a negative impact on the net profit of conventional banks and Islamic banks, which influenced negatively on the banks' profitability levels and efficiency.

In the same regard, the findings of the main financial indicators showed that the financial crisis influenced negatively on both Islamic and conventional banks while Islamic banks showed better profitability levels than conventional banks. However, Islamic banking system is more efficient in using their assets to generate profit whereas the limited number of financial instruments available influences the ability of Islamic banks to manage their costs, which in turn has a negative influence on their profitability levels.

On the other hand, the empirical investigation revealed that conventional banks are more efficient than Islamic banks in terms of controlling their operating cost whereas conventional banks suffered from significant losses in the financial market instruments, which led to a reduction in the profitability levels. Therefore, both Islamic and conventional banks revealed comparable performance in the GCC.

Recommendations:

- Improvement and development of Islamic banks are a must as they assured that they are efficient enough to lead the financial market.
- Much more solutions must be put to overcome the profitability reduction among conventional banks.

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