T.C
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SOSYAL BİLİMLER ENSTİTÜSÜ

İŞLETME ANABİLİM DALI
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YÜKSEK LİSANS TEZİ

HAZIRLAYAN

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KABUL VE ONAY SAYFASI

ISLETME Anabilim Dalı **MUHASEBE FINANSMAN** Tezli Yüksek Lisans Programı çerçevesinde **MUKHTAR MOHAMED YOUSUF** tarafından hazırlanan bu çalışma, aşağıdaki jüri tarafından Yüksek Lisans Tezi olarak kabul edilmiştir.

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Tez Jüri Üyeleri (Unvanı, Adı - Soyadı, Kurumu)	**İmza**
Jüri Üyesi: Doç.Dr. SONER GÖKTEN, (DANIŞMAN), Baskent Universitesi	.....
Jüri Üyesi: Prof. Dr. GÜRAY KÜÇÜKKOCAOĞLU, Baskent Universitesi	.....
Jüri Üyesi: Doç. Dr. EMINE ÖNER KAYA, Ankara Haci Bayram Universitesi	.....

ONAY
Prof. Dr. İpek KALEMCİ TÜZÜN
Sosyal Bilimler Enstitüsü Müdürü
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.....

ÖZET

İslami Bankacılık ve bu süreçleri destekleyen kurumlar, geçtiğimiz on yılda sürekli artmaktadır. Bu da, İslami bankaların geleneksel meslektaşları üzerinde sahip olduğu benzersiz özellikleri ortaya çıkarmak isteyen bankacılık sektöründeki akademisyenlerin ve uygulayıcıların dikkatini çekti. Bu nedenle mevcut çalışmalar, İslami bankacılığa dahil olan doğa ve süreçlere odaklanmıştır ve bankalarının dünyanın farklı bölgelerindeki performansının karşılaştırmalı çalışmalarına çok az önem verilmiştir. Bu çalısma, 2016-2018 yılları arasında Katar, Pakistan, Suudi Arabistan, Türkiye ve Bahreyn'deki bankaların performanslarını karşılaştırmakatadir. Çalıma vaka çalışması ülkelerinden seçilen beş İslam bankası ile beş konvansiyonel bankanın performansındaki benzerlik ve farklılıkları (her ulke icin bir konvansiyonel banka ve bir İslam Bankası). incelemek için Finansal Oran Analizi yaklaşımını icermektedir. Bu kurumların her birinin karşılaştığı likidite, karlılık, ödeme gücü ve riski ölçmek ve karşılaştırmak için yedi gösterge kullanarak, bir performans göstergesi elde edilir. Bulguların önemini test etmek için, süreçte bir T testi uygulanır. Çalışma, geleneksel ve İslami bankalardaki performansın seçilen eyaletlerde farklılık gösterdiğini ortaya koymaktadır. Özellikle, bulgular İslami bankalarda geleneksel finans kurumlarına göre daha az kar, daha fazla çözücü, daha az risk ve daha likittir.

Anahtar Kelimeler: Karlılık, Ödeme Gücü, Geleneksel Bankalar, Risk, İslami Bankalar, Karşılaştırmalı Analiz, Likidite.

ABSTRACT

Islamic Banking and institutions that support comparison on banking systems have been on the constant rise in the previous decades. This has, in turn, attracted the attention of scholars and practitioners in the banking sector who seek to establish the unique features Islamic banks have over the conventional counterparts. Existing studies have therefore focused on nature and processes involved in Islamic banking and little attention has been given to comparative studies of the bank's performance in different parts of the world. This research undertakes a comparative study of the banks' performance in Qatar, Pakistan, Saudi Arabia, Turkey and Bahrain between 2016 and 2018.It adopts the Financial Ratio Analysis approach to examine the similarity and difference in the performance of five Islamic banks and five conventional banks selected from the case study countries (One conventional bank and one Islamic Bank per country). Using seven indicators to measure and compare the liquidity, profitability, solvency and risk each of these institutions face, a performance indicator is then derived. To test the significance of the findings, a T-test is adopted in the process. The study finds that performance in conventional and Islamic banks vary in the selected nations. In particular, the findings indicate less profit, more solvent, lower risk and more liquid in Islamic banks than the conventional financial institutions.

Keywords: Profitability, Solvency, Conventional Banks, Risk, Islamic Banks, Comparative Analysis, Liquidity.

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LIST OF TABLES

ABBREVIATIONS

IB: Islamic Bank

CB: Conventional Bank

ROA: Return on Asset

ROE: Return on Equity

NIM: Net Margin

TD/TA: Debt to Total Asset

D/E: Debt to Total Equity

IFRS: International Financial Reporting Standards

AAOIFI: Accounting and Auditing Organization for Islamic Financial Institutions.

INTRODUCTION

A banking system is a group or network that provides financial services. The banking system is categorized into two major systems which are the Conventional banking system and the Islamic banking system. These two banking system has its own similarities and their differences. Back in history, the conventional banking system was the only system that was existing in the whole world. The origin of Islamic banks can be traced to several countries in the Middle East before it adopted in other parts of the world. The main differences between these two systems are conventional banking system uses interest and the Islamic banking system is the interest-free banking system.

Islamic banking spread to the whole world, and large numbered of banks have applied and implemented the Islamic banking system. The core principles guiding the Islamic banking model are derived from the Shari'ah and Islamic laws, as well as principles of Islamic economics that have been practiced for centuries. What makes this system stand out as a unique practice in the financial sector is the fact that it does not permit lenders and investors to charge interest on their capital/lending also referred to as "riba" in Islamic law. Another unique feature is how losses and profits are allocated.

These Islamic banks and financial institutions they used to work under conventional system laws and services since they have switched it to Islamic banks and practicing the bank system under Sharia law they suppose to change the practices that are opposing the Islamic law. Islamic Banking and institutions that support such processes have been on the constant rise in the previous decades. This has, in turn, attracted the attention of scholars and practitioners in the banking sector who seek to establish the unique features Islamic banks have over the conventional counterparts. The increase of Islamic financial institutions in the world had caused the institutions to join and form an Institution called AAOIFI which is institutions came together to create an Islamic accounting standard that is derived from the IFRS and based on Sharia law. These Islamic accounting standards that are created by AAOIFI had implemented in many Islamic countries around the world.

Due to that reason several studies have been undertaken in both developed and developing countries, and the main objective of such studies was to investigate and analyze the performance of the liquidity and profitability between Islamic and conventional systems of

banking. Also, the outcome of such studies could differ from one country to another and from one period to another. The importance of comparing these two systems is to find out which system is more profitable, liquid, solvent and efficient than the other so that the newly opened banking systems will follow the system with a good performance.

The researches that are being done by many researchers were only focusing on comparing the profitability and liquidity in two different banking system locating the same scope or location. This research is a comparative study of performance in the Islamic and Conventional banks by taking different banks landing in different countries but lying the same level when it comes to the performance to find out which country is possessing the most profitable, liquid and risk and solvent Islamic bank so that it will host the Islamic Accounting Standards formed by AAOIFI and can easily implement it without facing more challenges.

This research intends to compare two models of banking that are predominantly being used today among conventional and Islamic financial systems. It selects case studies from five different countries (Turkey, Qatar, Pakistan, Bahrain and Saudi Arabia) based on their financial performance. Financial ratios are adopted and used to gauge the similarity and difference in performance among these different banks. It looks at variables such as risk, profitability, solvency and liquidity.

Despite the existence of so many researches about comparing Islamic and conventional banking performance in one country, this study will focus on comparing Islamic banks vs. conventional banks in different countries. This study will use different banks with different countries with the same levels and compare their financial statements by using financial ratios and T-test.

CHAPTER I. RESEARCH FRAME WORK

This chapter will be explained the background of the study why this chapter is being chosen the objectives that this study will be also enlighten by this chapter and lastly it will be explained the importance, scope and the significance of the study.

1.1 Background

A system called a banking system is a group or network that provides financial services. The banking system is categorized into two major systems which are the Conventional banking system and the Islamic banking system. These two banking system has its own similarities and their differences. Back in history, the conventional banking system was the only system that was existing in the whole world. The origin of Islamic banks can be traced to several countries in the Middle East before it adopted in other parts of the world. The main differences between these two systems are conventional banking system uses interest and the Islamic banking system is the interest-free banking system.

The core principles guiding the Islamic banking model are derived from both the Shari'ah and Islamic laws, as well as principles of Islamic economics that have been practiced for centuries. What makes this system stand out as a unique practice in the financial sector is the fact that it does not permit lenders and investors to charge interest on their capital/lending also referred to as "riba" in Islamic law. Another unique feature is how losses and profits are allocated.

Historically, the earliest practices of Islamic Banking can be traced to the activities of Prophet Muhammad (PBUH) in the seventh century who at the time, worked as an agent in the commercial enterprise of his wife Khadija, a renowned businesswoman. Prophet Muhammad (PBUH) had shaped commercial activities in line with the principles of Islam and successfully laid the foundation of an ideology that would transcend borders beyond the Muslim world and time. In the earliest years of the classical Islamic bank practice, the ideology had spread far into the Mediterranean, Europe (Spain) as well as the Baltic region. This explains why traces of Islamic banking values can be found in some of the principles practiced in the western banks. The contemporary boom in the spread of Islamic banking can be traced to its resurgence in the early 1990s and 200s. However, some studies have traced the practice of Islamic banks to Egypt as early as 1973. Islamic conference held in Jeddah in 1973 has supported that banking system

this made easier for many banks to be set up including Dubai Islamic bank in 1975, Philippine Amanah bank in 1973, Sudan's Faisal Islamic bank, Islamic bank in Bahrain (1979) and Faisal Islamic bank Egypt in 1977. In 1983, an act named Islamic bank Act, was applied in Malaysia; this act is saying that the conventional banking system should be changed to the Islamic banking system. (Abdul et. Al, 2011)

Over the years, Islamic Scholars established several challenges and constraints with the conventional economic systems and how Islam's principles of economics can overcome these problems by writing an alternative. The 1960s, the end colonialism point gets started and most of the Islamic countries went out of colonialization and got their independence to think freely and solve their problems in their way. As it continues since most of the Middle East countries are full of petrol. The countries come up of selling the Oil and getting revenues (Perto-$) create demand for banking without interest later on 1st Islamic bank in Dubai is established the 1990s was the time that Islamic funds and investment banking get emerged and shined where in 2000s Capital markets and Globalization has shined in the Islamic countries and all over world.

Islamic banking spread to the whole world, and large numbered of banks have applied and implemented the Islamic banking system. These Islamic banks and financial institutions they used to work under conventional system laws and services since they have switched it to Islamic banks and practicing the bank system under Sharia law they suppose to change the practices that are opposing the Islamic law.

Islamic banks and Islamic financial institutions should not implement the same rules and financial system that was being used in conventional banks and institutions. One of the well-known practices that should be changed the auditing and accounting standards that are used by conventional banks.

The increase of Islamic financial institutions in the world had caused the institutions to join and form an Institution called AAOIFI which is institutions came together to create an Islamic accounting standard that is derived from the IFRS and based on Sharia law. These Islamic accounting standards that are created by AAOIFI had implemented in many Islamic countries around the world. The theoretical difference between the Islamic accounting standards and IFRS are Islamic accounting standards and international financial reporting standards we are focusing on two points. First, a clear distinction is that IFRS and conventional accounting is

based capitalism idea which is an economic system where the goods and items are owned by an individual or privately not as a society or publicly. Conventional banks are guided by a structure that focuses on profit when making decisions.

On the other hand, it focuses on the values and principles of Islam thereby being guided by the desire to show accountability. The importance of the Sharia is that it seeks to ensure that parties involved in the transaction are fully protected and that their duties and rights are upheld in line with the understanding and practice of justice, business values and aid in Islam. Important to note, Islamic banks also adhere to monetary principles such as providing sufficient and valuable information to potential consumers in order to help them come up with the best decision. Therefore, banks practicing Islamic principles are not supposed to withhold information to make profit from consumers.

Another distinction between conventional and Islamic banks that set these two institutions apart from each other is in the agreements and the purpose of their existence. The curve stone provides a better explanation as it shows that conventional banks rely mostly on interest charged on credits to make profits. This is not the case with Islamic banks which strictly prohibit any profiteering from credit. Therefore, other means are established to allow the bank to make profits and sustain its operations. This is achieved through a contract the bank can be involved in.

Worth mentioning is that the IFRS is to develop a unique framework for accounting reporting, this set of standards must be understandable, transparent, applicable, and wholly accepted; these characteristics will help investors in their decision-making process but The major tasks of AAOIFI are the sameness and coordination of international Islamic finance practices, the promise that shariah principles and rules are appreciated in Islamic financial foundations, the shore up of the enlargement of the industry by training, tutorials, and publication of periodical newssheet.

1.2 Problem Statement

For the last two decades, the comparison between the banking system and principles in conventional and Islamic banks has been given more attention in the financial and economic literature. In general, the Islamic banking system is following and practicing Sharia principles or Islamic law thus in this context, their objectives, operations and practices are different from the conventional financial institutions (AbdulRasid et al., 2011).

Several other studies have been undertaken in both developed and developing countries, and the main objective of such studies was to investigate and analyze the performance of the liquidity and profitability between Islamic and conventional systems of banking. Also, the outcome of such studies could differ from one country to another and from one period to another. The importance of comparing these two systems is to find out which system is more profitable, liquid, solvent and efficient than the other so that the newly opened banking systems will follow the system with a good performance.

The researches that are being done by many researchers were only focusing on comparing the profitability and liquidity in two different banking system locating the same scope or location. This research is a comparative study of performance in the Islamic and Conventional banks by taking different banks landing in different countries but lying the same level when it comes to the performance to find out which country is possessing the most profitable, liquid and risk and solvent Islamic bank so that it will host the Islamic Accounting Standards formed by AAOIFI and can easily implement it without facing more challenges.

1.3 Gap Analysis

A study investigated by Ansuri(2011) was comparing financial statements of conventional and Islamic banks in Pakistan between the years 2006 and 2009. Ansari's study included a comparison of six banks three being Islamic and the other three conventional financial institutions. The author’s findings identified Islamic banks as having less risk but higher liquidity. The efficiency in operations of the Islamic banks was also higher. According to Ramlan (2013), Islamic banks were able to generate more profits, but its Total loan to Total assets is higher compared with conventional banks. This study was used in Malaysia, where the financial data was directed from the Bursa Malaysia and bank website in Malaysia from 2006 to 2011.

Faiza and Siddiqui (2019) investigated a comparative analysis between conventional and Islamic banks in Pakistan between the year 2007 and 2017. This research compared 18 banks (13 conventional and 5 Islamic) and used 12 financial ratios for analyzing the profitability, liquidity, risk and efficiency performance between Conventional financial institutions and those that follow Islamicprinciples. The findings of this study were unique since they indicated that profitability ratios for both conventional and Islamic institutions were similar. However, a big

difference was observed on different indicators such as the ratio of risk, liquidity and solvency in the two types of banking systems.

Another similar study comparing the two types of banking systems was conducted by Bilal, Turah&Atiyah (2016). Their study covered the period between 2013 and 2015. T-test analysis and financial ratios were used in the study for analysis. This study found out that the Conventional banks are significantly different and more profitable in some ratios like assets and equity returns as well as net profit margin, whereas the Islamic banks are achieving better in some other parts of ratios like efficiency ratio, debt to assets ratio. This study concluded the comparison by saying the difference is statistically significant. Another study by Maryam, Tahira& Yasir (2011) investigated a comparative study that was stating the performance of conventional and Islamic banks in Pakistan from 2008 up to 2011. Their findings revealed that in Pakistan, Islamic banks were performing better than their conventional counterparts. For instance, the profitability recital of Islamic banks is higher than the conventional banks while they also risk lower. This means their financial stability is good since their profit is high, and they have a low level of risk.

A countless number of studies about Comparison between Islamic banks and Conventional banks were evaluated and examined. All these studies were focusing and scoping in one country or other words; it was evaluating and comparing banks lying in the same country. This research will compare the banks within the country and comparing these banks with other selected countries. This study aims to look at how Islamic and conventional banks compare in performance within and amongst different countries. The study will use financial ratios to analyze the goodness and worseness of a certain business. Ratios are used to find out the current situation and predict the financial position of one bank or business or company will be. This study will adopt contemporary data which can portray the more recent status of how the two banking models are applying these current data to financial ratios will help the investors and other users to get an updated, reliable and truth worthy results that they can path their progress towards their own goals and expectations.

1.4 General Objective

This research intends to compare two models of banking that are predominantly being used today among conventional and Islamic financial systems. It selects case studies from five different countries (Turkey, Qatar, Pakistan, Bahrain and Saudi Arabia) based on their financial performance. Financial ratios are adopted and used to gauge the similarity and difference in performance among these different banks. It looks at variables such as risk, profitability, solvency and liquidity. The T-test is applied to determine the significance. This thesis covers two years of data from 2016 to 2018 with a total of 10 banks (5 Islamic and 5 Conventional) Taking these large and updated data will help us to produce an updated result that is useful and helpful.

1.5 Specific Objectives

This study aims to:

1. To investigate the level of profitability for the Conventional and Islamic banks within these countries.

2. To assess and evaluate the performance of liquidity of Islamic as well as conventional banks among these selected countries.

3. To find out the performance of risky, efficiency, and capitalization between the two banking models among these five selected countries.

1.6 Research Questions

There are three research questions and they are,

1. Do the Islamic banks and Conventional banks of these selected countries perform the same in terms of profitability?

2. Do the Islamic banks and Conventional banks of these selected countries perform the same in terms of Liquidity?

3. Do the Islamic banks and Conventional banks of these selected countries perform the same in terms of risky and solvency?

1.7 Significance of the Study.

This study aids the investors in finding out which banks are performing well so that they can invest in their money. Moreover, the study is of paramount importance as it will also add to the existing body of literature on the comparison among the Islamic banks with conventional banks performance and which country will host these accounting standards.

1.8 Scope of the Study

Despite the existence of so many researches about comparing Islamic and conventional banking performance in one country, this study will focus on comparing Islamic banks vs. conventional banks in different countries. This study will use different banks with different countries with the same levels and compare their financial statements by using financial ratios and T-test.

1.9 Study Organization

Five chapters make up this study. The first chapter is the introduction part constituting the study background, problem statement and study rationale, objectives, research questions guiding the study, the study hypothesizes, the scope of the study, its organization and limitations. Theoretical and empirical literature review on how Islamic and Conventional banks perform in the second chapter. Chapter three centers on sources of data, variable selection description and methodology used. Study results and findings are presented in Chapter four and finally, in chapter five concluding words and recommendations are provided.

1.10 Limitations of the Study

The study did not take long-range of periods so that the data variable can make reliable and trustful results. Moreover, the number of banks taken was small because each country should have to be taken a minimum five banks, but the data is not available in every bank.

CHAPTER II. LITERATURE REVIEW

In the Islamic religion Allah permits trading and forbids Riba\interest and Allah clearly stated this in the Holy Quran by saying;

> "*Those who consume interest cannot stand [on the Day of Resurrection] except as one stand which is being beaten by Satan into insanity. That is because they say, Trade is [just] like interest. But Allah has permitted trade and has forbidden interest. So, whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in interest or usury] those are the companions of the Fire; they will abide eternally therein"* (al-Baqara: 2:275).

To desist from interest\Riba is obligatory to every Muslim in the world. The number of Muslims in the world is approximately 1.2 billion, which is almost one-fourth of the world population (Masood and Tahir, 2008). According to Sarea and Adel (2013), since Muslims are so many, they have the right to build up their economic system to match their needs and obey the order from Allah. In the same study, Sarea and Adel(2013) also stated that the only system that can keep away Muslims from Riba\interest when making financial investments and daily transactions is the Islamic banking system.

In another study,Harahap (2003) suggested that the fast-growing the Islamic financial institutions can speed up the need for new accounting standards to satisfy Muslims who are using its services. Therefore, the Islamic institutions and Islamic banks need to get standards that are compatible with the Sharia and Islamic principles when it comes to the preparation of financial statements in their accounting system and the only system that possesses such potential can only be the Islamic accounting standards (Farizal, Elmiza and Mohd, 2016). To match the need of the Muslims, some of the Islamic countries got together and agreed to build up new institutions that had accounting and auditing standards that were based on the Sharia law. According to Ahmed (2002), Muslim countries are using different accounting standards. Some the countries like Jordan, UAE and Qatar are officially using the normal International Accounting Standards (IAS), while some other countries like Malaysia are using standards made by themselves and countries like Saudi Arabia are using an amalgam of International Accounting Standards and locally made

Standards. This diversity is not good for the Muslim society as they believe in one religion and it is unfair for them to use different accounting standards.

Salimi (2012) put it that the usage of the conventional accounting standards blindly is not good for the Muslims as it has some transactions that are not allowed in Sharia. The conventional banks that are using the conventional accounting standards are practicing a system called the capitalism system which is opposing the Islamic economic system and not allowed in the Sharia principles. The key feature of the capitalist system is the interest which is prohibited in the Islamic economic system. Furthermore, Islam believes that everything is under the power of Allah, and Allah has possessed all the things in the earth, and humans have very restricted possession, while capitalism believes the opposite completely. Under capitalism is common for people to gain money through gambling, bribery, interest, speculation, usurpation of the wealth of orphans and other weaker persons, singing and dancing, monopoly,sale of wine and narcotics and prostitution which is prohibited in the Islamic economy or Islamic Sharia.

The deficiency of standardized auditing and accounting standards and following the conventional accounting standards blindly and practicing the capitalism system without verification are the major obstacles that are facing the Islamic financial institutions till now (Pomeranz, 1997; and Hameed, 2001). Practicing an International Accounting Standards which are not based on Sharia law is something which is not in line with the needs of Islam and Muslim nations hence the only solution to overcome this obstacle is the development and enlargement of accounting standards that satisfy the need of the Muslims, in this case, Islamic accounting standards (Shadia Rahman, 2007).

Ariss and Sarieddine (2008) suggested that the practicing of conventional accounting standards by the Islamic financial institutions can handicap the growth of Islamic banks globally but creating their own new Islamic accounting standards can boost the wealth of the Islamic banks which can cause their dignity to be enlarged and respected in the world. In addition Hararhap (2003) documented that the creation and formation of these accounting standards not only boosts up the wealth of Islamic banks but it also develops the value of the Islamic religion Choi and meek (2005) suggested that for the effective adoption of the Islamic accounting standards by the Islamic banks or financial institutions, the new standards should consider different systems

existing in different Islamic countries of the world, be it political, legal, educational and financial system.

Sarea and Hanifah (2013) also document that the different systems existing in different Islamic countries lead these countries to come up with financial reports that show a low level of earnings caused by the usage of diversity accounting standards. On the contrary, the application of the same accounting standards by all Islamic countries will lead to these countries coming up with financial reports that show a good level of income and earnings. Adopting new accounting standards by different countries will be difficult because of the dissimilarity of systems each country has, and this will order an accounting practice that satisfies its respective system. This makes the accounting standards to be numerous (Lovett, 2002). Lovett (2002) proposed that to solve this problem, countries should eliminate some of their systems and agree upon one major system among them all so that the number of standards that will be produced will be universal and few.

The major reason for the creation of the Islamic accounting standards is to be loyal to the orders of Allah and fill the things permitted in Islam and keep away from the prohibited things that can be found in conventional accounting standards (Napier, 2009). According to Archer and Karim (2007) obeying the rules ordered by Allah, and practicing a standard that is based on Sharia makes the Muslim community to trust the Islamic financial institutions. In turn, this has resulted in a rise in the number of transactions occurring in Islamic financial institutions. An increase in transactions in the IFIs increases the activities of the banks. Hence financial institutions will be boosted and the reports that will be produced by the financial institutions will be positive (Archer and Abid, 1996).However, Napier (2009) and Khan (2010) noted that the implementation of Islamic accounting standards has some challenges and one being competition from the western banking industry as a result of the global financial market. This is in the sense that even those banks following Islamic principles are pressured to imitate the traditional Western banking transactions due to globalization.

Mohammed et al. (2006) suggested that the adoption of the Islamic accounting standards cannot help not only the Islamic financial institutions but also accountants who are Muslims and working under the conventional accounting standards and again those ordinary Muslims who are eager to invest their money in Halal way (in a way permitted in the Islamic religion). According

to Lovett (2002), the Islamic accounting standards are not eliminating the international accounting standards existing in the conventional banks but they are there to change some parts of the international financial reporting standards that are not allowed in Islam like the interest. The difference between the conventional accounting standards and the Islamic accounting standards is not only about interest. Even the way of reporting the daily transactions taking place in the Islamic banks is different. For example, when a customer deposits a fund to the bank, the deposit is not allowed to be reported as liabilities in the balance sheet of Islamic banks (Maali& Napier, 2010).Thus differences in such transition are what make many Islamic banks adopting the AAOIFI accounting standards because they are compatible with their system.

Mohamed et al. (2006) put it that to guard any problem that will face the Islamic financial institutions as a result of switching from the conventional accounting standards some researchers are advising the concerned institutions first to take Islamic accounting standards as a guideline to follow and not directly implement these standards to their financial policy. To the contrary according to Karim (2001), some researchers believe that the implementation of these standards to the financial policy of the Islamic financial institutions will not create a challenge but will increase foreign investment and will increase the confidence of the local investors because these standards are formed in a very clear way and their financial statements will be read and understood easily by the users.

In another study Maurer(2010) reports that the Islamic accounting standards were already tested and investigated and that the Islamic financial institutions can implement these standards without testing them. He further reports that due to the growing demand for financial services by Muslims, Muslim countries came together and formed an institution called "Accounting and Auditing Organization for Islamic Financial Institutions" (AAOIFI) which created the Islamic standards that were based on upon the Sharia. This institution is a non-profit private institution which was established in 1990 and it is based in Bahrain. It brought about 100 standards which included standards composed of accounting, auditing standards and ethics that are all based on Sharia law. These standards were adopted by some countries like Bahrain, Jordan, and others.

According to Siraj &Pillai (2012), they are comparing the performance of financial institutions following Islamic values to those that are conventional during the period (2005-2010) in (GCC) region using based on ratios such as ROE,ROA,NPR,OER,EOA ,profit, operating, expense and

total equity. The study resulted that the Islamic banks were doing better in his year. Islamic banks are more equity finance.

Karim (2001) tried to explain the need for Islamic accounting standards. He put it that the main aim of AAOIFI is to form transparent standards that will help the financial institutions that adopt these standards to produce fair and true financial reports as well as reports which can be easily interpreted by the users. This AAOIFI extracted these Islamic standards from the IAS by focusing on what is permitted and what is prohibited under the Sharia law. This implied that concepts not in line with Sharia law in the IAS were eliminated and those consistent with it were taken on board(Maurer, 2010). Adoption of the standards of Accounting set by AAOIFI by the Islamic financial institutions in different countries of the world will not only help in bettering these institutions but also speed up, in turn, processes (Karim, 2001; Hussain, Islam, Gunasekaran, Maskooki, 2002).

Mohammed et al. (2016) also stated the Islamic accounting standards were produced by the (AAOIFI) were tested and investigated but the only problem existing is the lack of implementation empowerment to all Islamic financial institutions in the world. He concluded that to serve well the Muslims and also make profits following Sharia, it is our responsibility to adopt and implement these standards in our institutions.

2.1 Theoretical Frame

The Islamic banking system can usually be considered an equity-based system, rather than an interest-based system. In this process, we named on the Islamic banking system, stunning to asset positions, are punctually fascinated by changes in the bank's share nominal values (deposits) that are in the hands of the customers/ the public. Consequently, this means those at all times, the real asset will be equal to the liability. Nonetheless, in the traditional banking system, since the nominal value of deposits, such as crises, will trigger a discrepancy between real assets and liabilities, and it is not clear how this vulnerability will improve and how long it would take to use adjustment. The major difference between financial institutions following Islamic values to those that are conventional systems is not just interest about whether interest is being paid or not. The most significant difference is that the Islamic system behaves deposits as shares and consequently does not assess their nominal value, whereas deposits are either insured by the banks or by the state in the traditional system.

A bank's monetary transactions are usually split into two sides;

The right side of the transactions of a bank shows the financing chance that the banks were carrying out to their clients. First, a conventional bank offers its customers capitalization by offering interest-based loans where, as an Islamic bank, it provides its customers with funding bearing on benefit financing such as Salam, Istisna Murabaha, Ijarah, etc.

The left side of the transactions of a bank displays the bank's suggested deposit and investment chance to its customers. A conventional bank is receiving deposits from its customers and distributing them to other clients involved in financing. The interest resulting from such a transaction is the allocation between the depositors and the bank. While Islamic banks, on the other hand, make deposits based onMusharakah or Mudarabah and provide this money in an obedient aspect of Shariah. The bank consequently shares the income gained from such an action and the depositors depending on the ratio of profit share.

The focal difference stops from the fact that, even if the customer receives nothing, a conventional bank jumps to get their customers honored interest rates. It is, therefore as if there is no connection between the depositor's connection with the bank and the bank's connection with the customers who receive funding from it. Opposing, based on Mudarabah or Musharakah, the assets that an Islamic bank admits in account making earnings are known. The Islamic Bank also transports such funds as a belief. On the other hand, if these funds or some of them were lost because of events not accused by the banks and the bank will not be credited with repaying the money. Second, an Islamic Bank establishes its deposit cohorts in its investment mission in whom the' depositors' are the capital shareholder of RabbulMaal (sleeping partners) or the Mudhar is the Islamic bank. The bank provides its depositors with a comparative share of the income from its different investment structures such as Ijarah, Murabaha and Musharakah etc. This percentage of profit sharing is predetermined. It is appropriate, for instance, that whatever benefit the bank receives is shared on an equal basis between the bank and the depositors. Because the bank constructs the percentage share cohorts of the depositors in the income it earns, a sequence is made among the depositors, banks, and customers who receive finance. The profit

that the bank receives from its customers would ruin this string directly convince the profit that the depositors obtain. Consequently, if the Islamic bank offers to finance at a higher rate, their depositors will make a bigger profit, while if they provide financing at a lower rate, their depositors will earn a little benefit, which is in accordance with the Shariah principles.

2.2 Ratio Analysis

In this study, three kinds of ratios are used: Profitability ratios, Liquidity ratios and solvency and risk ratios.

2.2.1 Profitability Ratios

Managerial efficiency is measured by the Profitability ratios, which often adopt margin analysis to show the trend in return of deposits, equity, assets and investments. Therefore, better performance will be declared if the profitability ratio is high. These ratios to be used will be Return on average equity (ROAE), Return on average assets (ROA), and Net Margin (NIM).

1. ROA = Net profit/Total asset

2. ROAE = Net Profit/Total equity

3. NIM = Net Profit/Revenues

2.2.2 Liquidity Ratios

Liquidity ratios measure the ability of a bank to uphold its obligations in the short -term fully. In the event that there are excessive withdrawals from savings and current accounts in a bank, then there will be a liquidity ratio problem. In addition, liquidity ration can be measured in several ways; the Ratio of loans divided by total assets as a proxy of evaluating liquidity. Banks in this selected countries liquidity status is calculated using two ratios below

1. Cash & Cash Equivalent to Total Assets

2. Investment to Total Assets

2.2.3 Solvency and Risk Ratios

The solvency ratios summaries a bank's ability to fulfill its obligations in the long -run as well as have the capacity to generate sufficient cash flow. A bank will, therefore, be declared solvent if its assets exceed the bank's equity. A research conducted by Samad & Hassan (1999) adopts two solvency and risk ratios. These ratios included the ratio of debt-equity (D/E) and the ratio of debt to total assets (D/E). This research will be using two ratios for evaluating the liquidity of the banks.

1. Total Debt To Total asset
2. Debt to Equity

2.3 Hypothesis

The following hypotheses are formulated to test the validity of our findings:

HO1: Conventional financial institutions/banks make more profit than their Islamic counterparts

HO2: Conventional financial institutions/banks have higher liquidity than Islamic banks.

HO3: Conventional financial institutions/banks are more solvent and have higher risks than Islamic banks.

CHAPTER III. METHODOLOGY

In this chapter, the methodology and design adopted for this study will be discussed. It will provide more insight into the population used in the study, the technique and methods of sampling, how data was collected, the design of the research as well as process of data collection and instruments used in the analysis.

3.1. Research Design and Sample

A descriptive research design study has been adopted in this research. This approach is useful when the study involves collecting information on the status of current phenomena and uses the information to generate the meaning of the existing trend of the condition or variables involved in the situation.

The study will be used five different countries Qatar, Pakistan, Turkey, Bahrain and Saudi Arabia. It takes two banks one Islamic and one Conventional in every country. The Banks used is as following: for the Islamic bank's category: Kuveyt Bank, Gulf International Bank, Bank Islamic Limited, Qatar International Islamic Bank and Alinma Bank.And conventional include Iş Bank, Samba Bank, National Bank of Bahrain, Doha Bank and Arab Bank Group, are selected as Conventional banks.

3.2 Data Sources, Data collection procedure, and Data presentation method

In this research, the type of data that the researcher will be using is Secondary data. The researcher will take the financial statements that are audited i.e. Balance Sheet and Income Statement from the selected bank in each country. The data in these documents will be analyzed for ratio analysis and will cover the years from 2016-2018.

Ratio formulae were used to calculate the ratio. Mean while, Inter-bank comparison, data analysis and cross-sectional analysis were adopted to measure each of the bank's performance.

The researcher used the SPSS program for analyzing the data. Independent Sample t-test was adopted to compare the difference and significance of the ratios that emerged in each bank. P- value is used for decision criterion meaning is the result shows the P-value is superior to 0.05,then the null hypothesis will be accepted and the research hypothesis rejected.

CHAPTER IV. FINDINGS AND RESULTS

In this chapter the data taken from the audited financial statements of all the banks in the all countries was shown in tables. Moreover, the calculated financial ratios was also illustrated in tables in order to analyze and compare the performance of the bank's profitability liquidity and solvency between the banks and among the countries.

4.1 Financial statements of each Bank per Country

The number of countries that is used in the research is 5 countries and within these countries it had been taken 2 banks per country. In total there are 10 banks used and in every bank it showed its balance sheet and it's statement of income

4.1.2 Financial Ratios of Qatar Banks

QATAR INTERNATIONAL ISLAMIC BANK CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at 31 December 2018	2018 QAR'000	2017 QAR'000
ASSETS		
Cash and balances with central banks	**2,735,524**	2,432,223
Due from banks	**12,800,681**	3,274,025
Financial assets	**27,463,353**	32,500,027
Investment securities	**4,889,644**	6,179,784
Investment in an associate	**387,642**	364,965
Investment properties	**882,142**	426,540
Fixed assets	**279,507**	756,501
Intangible assets	**24,993**	18,177
Other assets	**796,469**	666,738
TOTAL ASSETS	**50,259,955**	46,618,980
LIABILITIES		
Due to banks	**11,553,732**	6,605,745
Customer deposits	**6,911,572**	6,894,433
Other liabilities	**746,209**	718,022
TOTAL LIABILITIES	**19,211,513**	14,218,200

EQUITY		
Share capital	**1,513,687**	1,513,687
Legal reserve	**2,452,360**	2,452,360
Risk reserve	**623,455**	622,454
Fair value reserve	**14**	1,643
Foreign currency translation reserve	**79,947**	82,352
Retained earnings	**1,160,624**	1,144,069
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	**5,830,087**	5,816,565
TOTAL EQUITY	**6,830,087**	6,816,565
TOTAL LIABILITIES AND EQUITY	50,259,955	46,618,980

TABLE 1. QIIB FINANCIAL STATEMENT

QATAR INTERNATIONAL ISLAMIC BANK INCOME STATEMENT	2018	2017
	QAR'000	QAR'000
Interest income	**1,586,158**	1,418,995
Interest expense	**370,181**	294,874
Net interest income	**1,956,339**	1,713,869
Fee and commission income	**194,169**	169,491
Fee and commission expense	**(65,345)**	(50,010)
Net fee and commission income	**128,824**	119,481
Gross written premium	**44,578**	62,315
Premium ceded	**(11,323)**	(21,925)
Net claims paid	**(39,978)**	(46,823)
Net loss from insurance activities	**(6,723)**	(6,433)
Net foreign exchange gain	**11,313**	40,821
Net (loss) / Income from investment securities	**(18,890)**	(18,211)
Other operating income	**2,077,586**	1,855,960
Operating income	**2,077,586**	1,855,960
Staff costs	**(161,572)**	(161,448)
Depreciation	**(31,865)**	(24,932)
Finance expenses	**(201,817)**	(161,978
Net Impairment loss on investment securities	**(6,127)**	(35,497)
Net impairment loss on loans and advances to customers	**(2,796)**	-
Net impairment reversal on other financial assets	**(71,135)**	(28,000)
Other expenses	**(132,058)**	(139,288)
TOTAL EXPENSES	**(527,312)**	(487,646

exposures subject to credit risk	**(17,261)**	
Net profit for the year before return to investment account	**1,452,955**	1,304,817
Holders	**(570,811)**	(472,608)
Profit	**882,144**	832,209
Earnings per share: Basic and diluted earnings per share (QAR)	5.46	5.35

Table 2. QIIB Income Statement

DOHA BANK Q.P.S.C. CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at 31 December 2018	2018 QAR'000	2017 QAR'000
ASSETS		
Cash and balances with central banks	**7,586,122**	6,669,609
Due from banks	**6,230,018**	7,821,983
Loans and advances to customers	**59,798,337**	59,804,174
Investment securities	**20,551,883**	17,512,610
Investment in an associate	**10,510**	11,126
Property, furniture and equipment	**621,469**	708,580
Other assets	**1,334,072**	967,199
TOTAL ASSETS	**96,132,411**	93,495,281
LIABILITIES		
Due to banks	**19,462,917**	11,005,061
Customer deposits	**55,459,891**	59,468,326
Debt securities	**745,997**	657,669
Other borrowings	**4,831,161**	5,432,936
Other liabilities	**2,899,216**	2,124,29
TOTAL LIABILITIES	**83,399,182**	78,688,284
EQUITY		

Share capital	**3,100,467**	3,100,467
Legal reserve	**5,092,948**	5,092,762
Risk reserve	**137,200**	1,372,000
Fair value reserve	**(227,271)**	(67,555)
Foreign currency translation reserve	**(56,180)**	(13,451)
Retained earnings	**686,065**	1,322,774
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	**8,733,229**	10,806,997
Instruments eligible as additional capital	**4,000,000**	
TOTAL EQUITY	**12,733,229**	
TOTAL LIABILITIES AND EQUITY	96,132,411	

Table 3. DOHA BANK Q.P.S.C CONSOLIDATED STATEMENT OF FINANCIAL POSITION.

QATAR DOHA	2018	2017
	QAR'000	QAR'000
Interest income	**3,920,755**	3,630,853
Interest expense	**(1,839,809)**	(1,375,382)
Net interest income	**2,080,946**	2,255,471
Fee and commission income	**489,682**	516,313
Fee and commission expense	**(102,050)**	(95,909)
Net fee and commission income	**387,632**	420,404
Gross written premium	**44,578**	62,315
Premium ceded	**(11,323)**	(21,925)
Net claims paid	**(39,978)**	(46,823)
Net loss from insurance activities	**(6,723)**	(6,433)
Net foreign exchange gain	**115,392**	106,544
Net (loss) / Income from investment securities	**(9,843)**	49,822
Other operating income	**67,194**	62,276
Operating income	**2,634,598**	2,888,084
Staff costs	**(496,325)**	(531,109)
Depreciation	**(90,059)**	(98,820)
Net Impairment loss on investment securities	**(16,207)**	(142,067)
Net impairment loss on loans and advances to customers	**(951,683)**	(592,541)
Net impairment reversal on other financial assets	**103,699**	-
Other expenses	**(350,327)**	(414,908)
	(1,800,902)	(1,779,445)
Profit before share of results of associate and tax	**833,696**	1,108,639
Share of results of the associate	**340**	158

Profit before tax	**834,036**	1,108,797
Income tax (expense) / reversal	**(3,814)**	1,277
Profit	**830,222**	1,110,074
Earnings per share: Basic and diluted earnings per share (QAR)	1.97	3.02

Table 4. QATAR DOHA BANK INCOME STATEMENT

FINANCIAL RATIOS OF THE QATAR BANKS

	QATAR INTERNATIONAL ISLAMIC BANK				DOHA BANK		
RATIOS	**FORMULA**	**2017**	**2018**	**AVERAGE**	**2017**	**2018**	**AVERAGE**
ROA	**Net profit/Total asset**	**1.1%**	**1.75%**	**1.76%**	**1.1%**	**0.8%**	**0.9%**
ROE	**Net profit/Total equity**	**12.2%**	**12.9%**	**12.5%**	**7.4%**	**6.5%**	**6.95%**
NIM	**Net profit/Revenues**	**0.448**	**0.425**	**0.436**	**0.384**	**0.315**	**0.349**
D/E	**Total debt/Total asset**	**0.30**	**0.38**	**0.34**	**0.842**	**0.867**	**0.854**
D/E	**Total debt/Total equity**	**2.08**	**2.81**	**2.445**	**5.31**	**6.55**	**5.93**
CATA	**Cash &Cash eq/total asset**	**5.2%**	**5.4%**	**5.3%**	**8.0%**	**7.0%**	**7.5%**
I/A	**Investments/total asset**	**9.7%**	**13.2%**	**11.5%**	**21.4%**	**18.7 %**	**20.1%**

TABLE 5. FINANCIAL RATIOS OF THE QATAR BANKS

Financial ratios were applied in order to compare Islamic bank of QATAR INTERNATIONAL ISLAMIC BANK with conventional bank of Doha Bank. The results in the stable shows that in the profitability performance we used ROA , ROE, AND NET MARGIN as the table shows the Islamic bank is possessing good performance in the profitability ratios and it has higher profitable than the Conventional one. This means the income it generates QIIB per $ from the asset is higher than the income generated Doha bank per $ from their assets.

Moreover we also used Liquidity ratios of CASH and cash equivalent to total asset ratio and investment to total asset ratios in order to know which bank is more liquid. As the table above shows the Doha bank is showing higher ratios than the QIIB because it has more running cost and their liquidity is higher than the Islamic bank. In addition to that a solvency ratios of D/A and D/E is also used in order to find out which bank is more solvent and also risk. As the result indicates the Doha bank is showing more solvent this can happen because since these banks are more liquid there are also solvent but this can cause some risk it has it is also disadvantage.

After we see the results we had indicated that QIIB the Islamic ban k is more profitable but less liquid and solvent than the Doha bank.

4.1.2 Financial Ratios of Bahrain Banks

GULF INTERNATIONAL BANK	**31.12.18**		31.12.17
	US$ millions		US$ millions
Consolidated statement of financial position			
ASSETS			
Cash and other liquid assets	**5,114.2**		3,768.5
Securities purchased under agreements to resell	**1,015.9**		855.0
Placements	**6,770.8**		6,033.2
Trading securities	**177.7**		191.8
Investment securities	**3,897.2**		3,993.8
Loans and advances	**9,817.8**		10,043.1
Other assets	**752.5**		585.9
Total assets	**27,546.1**		25,471.3
LIABILITIES			
Deposits from banks	**2,372.2**		2,129.1
Deposits from customers	**18,322.4**		15,989.8
Securities sold under agreements to repurchase	**735.4**		1,130.5
Other liabilities	**581.9**		547.4
Senior term financing	**3,338.0**		3,263.6
Total liabilities	**25,349.9**		23,060.4
EQUITY			
Share capital	**2,500.0**		2,500.0
Reserves	**361.4**		352.5
Retained earnings	**(665.2)**		(441.6)
Total equity	**2,196.2**		2,410.9
Total liabilities & equity	**27,546.1**		25,471.3

Table 6. GULF INTERNATIONAL BANK STATEMENT OF FINANCIAL POSTION

GULF INTERNATIONAL BANK INCOME STATEMENT	2018	2017
Net interest income	**273.7**	**253.1**
Fee and commission income	**61.2**	**72.6**
Foreign exchange income	**18.6**	**14.1**
Trading income	**9.5**	**13.0**
Other income	**35.5**	**7.5**
Total income	**398.5**	**360.3**
Staff expenses	**156.8**	**142.6**
Premises expenses	**23.0**	**19.6**
Other operating expenses	**85.6**	**77.8**
Total operating expenses	**265.4**	**240.0**
Net income before provisions and tax	**133.1**	**120.3**
Provision charge for loans and advances	**(353.1)**	**(43.7)**
Provision charge for other assets	**(0.2)**	**-**
Net (loss) / income before tax	**(220.2)**	**76.6**
Taxation charge	**(6.8)**	**(6.6)**
Net (loss) / income	(227.0)	**70.0**

TABLE 7. GULF INTERNATIONAL BANK INCOME STATEMENT

		2018		2017	
		BHD millions	USD millions	BHD millions	USD millions
NATIONAL BANK OF BAHRAIN					
Statement of Financial Position As at 31 December					
Assets					
Cash and balances at central banks	*4*	107.3	285.4	107.0	284.7
Treasury bills	*5*	387.1	1,029.5	419.9	1,116.8
Placements with banks and other financial institutions	*6*	259.7	690.6	174.0	462.8
Loans and advances	*7*	1,190.1	3,165.2	1,226.9	3,262.9
Investment securities	*8*	1,132.2	3,011.2	1,067.3	2,838.6
Investment in associates	*9*	51.6	137.2	51.6	137.2
Interest receivable and other assets	*10*	50.9	135.4	41.8	111.1
Property and equipment	19	16.6	44.1	13.0	34.7
Total assets		3,195.5	8,498.6	3,101.5	8,248.8
Liabilities					
Due to banks and other financial institutions	11	381.4	1,014.4	384.0	1,021.3
Borrowings under repurchase agreements	12	103.9	276.3	67.8	180.4
Customer deposits	13	2,190.6	5,826.1	2,165.2	5,758.6
Interest payable and other liabilities	14	43.8	116.5	36.6	97.2
Total liabilities		2,719.7	7,233.3	2,653.6	7,057.5
Equity					

Share capital	20	140.3	373.1	127.5	339.2
Shares unallocated under share incentive scheme	20	(1.5)	(4.0)	(1.7)	(4.4)
Share premium	21	5.0	13.2	4.0	10.7
Statutory reserve	21	70.1	186.4	63.8	169.6
General reserve	21	32.4	86.2	32.4	86.1
Other reserves and retained earnings	21	229.5	610.4	221.9	590.1
Total equity		475.8	1,265.3	447.9	1,191.3
Total liabilities and equity		3,195.5	8,498.6	3,101.5	8,248.8

TABLE 8. NBB STATEMENT OF FINANCIAL POSITION

Statement of Profit or Loss For the year ended 31 December		2018		2017	
		BHD millions	USD millions	BHD millions	USD millions
Interest income	23	126.8	337.3	102.1	271.5
Interest expense	23	(39.6)	(105.4)	(29.0)	(77.2)
Net interest income		87.2	231.9	73.1	194.3
Other income	24	30.2	80.3	31.4	83.5
Total operating income		117.4	312.2	104.5	277.8
Staff expenses	25	26.0	69.1	21.3	56.6
Other expenses		15.8	42.0	11.7	31.1
Total operating expenses		41.8	111.1	33.0	87.7
Profit before impairment provisions		75.6	201.0	71.5	190.1
Net impairment provisions	15	(5.6)	(14.9)	(10.5)	(27.8)
Profit for the year		70.0	186.1	61.0	162.3
Basic and diluted earnings per share	38	50 fils	13 cents	44 fils	12 cents

TABLE 9. NBB - INCOME STATEMENT

FINANCIAL RATIOS OF THE BAHRAIN BANKS

		GULF INTERNATIONAL BANK			NATIONAL BANK OF BAHRAIN		
RATIOS	FORMULA	2017	2018	AVERAGE	2017	2018	AVERAGE
ROA	Net profit/Total asset	0.2%	(0.8%)	(0.265%)	2%	2.2%	2.1%
ROE	Net profit/Total equity	2%	(10.33 %)	(4.16%)	14.1 %	15.2 %	14.65%
NIM	Net profit/Revenues	0.19 4	(5.9)	(2.85)	1.54	0.15 2	1.53
D/A	Total debt/Total asset	0.9	0.92	0.91	0.86	0.63	0.745
D/E	Total debt/Total equity	9.5	11.54	10.52	5.9	5.72	5.81

CATA	Cash &Cash eq/total asset	14.7 %	18.5%	14.8%	16.9 %	15.5 %	16.2%
I/ A	Investments/total asset	15.6 %	14.1%	14.8%	34.4 %	35.4 %	34.9%

TABLE 10. FINANCIAL RATIO OF BAHRAIN BANKS

Financial ratios were used in order to compare the financial performance between these two banks locating in the same country Bahrain. These two banks one of them is Islamic bank and called Gulf Bahrain the other bank is Conventional Bank and it is called National Bank Bahrain. The researcher used profitability ratios of ROA, ROE AND NIM in order to compare the profitability performance between these two banks. As the table above shows generally the profitability ratios are high in NBB National Bank of Bahrain this is because of the more investments to any projects but the Islamic Bank since it applies the Sharia Law it cannot invest any project it has it is limitations. Due to limitations of projects the profit of the bank can be small and in this bank it is also minus which is it is on loss. Moreover, the researcher also was finding out the liquidity performance of these banks. The researcher used CATA and IA to compare the liquidity performance between these two banking systems. As the result shows National Bank Bahrain is more liquid this is caused because the running cost is high since the profit is high this can let the money in the bank to be more. Hence the bank liquidity is getting high.

In addition to that, the researcher also searching the solvency performance between these two banks in Bahrain. The researcher used these two ratios of D/A and D/E for the comparison between these banks. As the table above shows Gulf Bahrain Bank is showing more solvent in these ratios and possesses more solvent than the National Bank Bahrain. This is good sign for the Gulf Bahrain because the since their investment is low the bank is not getting more riskiness but the National bank Bahrain since they are having more profit and invest a lot their solvency is lower and their risk is higher. The riskiness is getting high because of the countless number of projects that is to be applied some of the projects are not becoming successful and this causes these projects to be in loss the risk is high but in the Islamic banks the risk is low but their solvency liquidity and profitability performance will be lower compared to the conventional bank.

4.1.3 Financial Ratios of Saudi Arabia Banks

ARAB BANK GROUP - CONSOLIDATED STATEMENT OF FINANCIAL POSITION.	Note	2018	2017
Cash and balances with central banks	7	7 974 014	7 607 064
Balances with banks and financial institutions	8	3 197 643	3 992 234
Deposits with banks and financial institutions	9	323 443	150 419
Financial assets at fair value through profit or loss	10	439 829	470 654
Financial derivatives - positive fair value	41	63 963	35 420
Direct credit facilities at amortized cost	12	23 785 542	23 488 575
Financial assets at fair value through other comprehensive income	11	371 010	395 563
Other financial assets at amortized cost	13	8 507 847	7 760 023
Investments in associates	14	3 298 251	3 226 231
Fixed assets	15	455 719	459 141
Other assets	16	613 418	491 174
Deferred tax assets	17	131 946	87 223
Total Assets		49 162 625	48 163 721
Banks' and financial institutions' deposits	18	4 266 590	3 927 288
Customers’ deposits	19	31 430 913	31 080 459
Cash margin	20	2 913 471	2 700 289
Financial derivatives - negative fair value	41	51 523	42 154
Borrowed funds	21	281 479	182 090
Provision for income tax	22	321 490	272 205
Other provisions	23	210 303	326 040
Other liabilities	24	1 014 057	1 220 231
Deferred tax liabilities	25	8 210	3 693
Total Liabilities		40 498 036	39 754 449
Share capital	26	926 615	926 615
Share premium	26	1 225 747	1 225 747
Statutory reserve	27	919 507	841 359
Voluntary reserve	28	977 315	977 315
General reserve	29	1 141 824	1 141 824
General banking risks reserve	30	237 124	395 828
Reserves with associates		1 540 896	1 540 896
Foreign currency translation reserve	31	(264 651)	(350 550)
Investments revaluation reserve	32	(322 831)	(313 438)
Retained earnings	33	2 192 006	1 904 663

Total Equity Attributable to the Shareholders of the Bank		8 573 552	8 290 259
Non-controlling interests	33	91 037	119 013
Total Shareholders' Equity		8 664 589	8 409 272
Total Liabilities and Shareholders' Equity		49 162 625	48 163 721

Table 11.. ARAB BANK GROUP - CONSOLIDATED STATEMENT OF FINANCIAL POSITION.

ARAB BANK GROUP - CONSOLIDATED STATEMENT OF INCOME			
		2018	2017
Interest income	34	2 206 996	1 984 069
Less: interest expense	35	916 059	797 507
Net Interest Income		1 290 937	1 186 562
Net commissions income	36	294 991	301 711
Net Interest and Commissions Income		1 585 928	1 488 273
Foreign exchange differences		115 713	84 665
Gain from financial assets at fair value through profit or loss	37	3 153	5 380
Dividends on financial assets at fair value through other comprehensive income	11	7 515	6 995
Group's share of profits of associates	14	370 903	350 278
Other revenue	38	49 837	48 408
Total Income		2 133 049	1 983 999
Employees' expenses	39	513 166	459 957
Other expenses	40	297 554	267 445
Depreciation and amortization	15/ 16	57 263	56 546
Credit loss expense on financial assets	6	251 331	250 377
Other provisions	23	(5 237)	3 021
Total Expenses		1 114 077	1 037 346
Recovery (expense) of legal provision		325 000	(150 000)
Impairment of investment held for sale	14	(225 000)	-
Profit for the Year Before Income Tax		1 118 972	796 653
Less: Income tax expense	22	298 428	263 690
Profit for the Year		820 544	532 963
Attributable to:			

Bank's shareholders		820 649	521 961
Non-controlling interests	33	(105)	11 002
Total		820 544	532 963
Earnings per share attributable to the Bank's shareholders			
- Basic and diluted (US Dollars)	55	1.28	0.81

Table 12. ARAB BANK GROUP - CONSOLIDATED STATEMENT OF INCOME

ALINMA BANK

CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at December 31				
	Notes	2018		2017
		SAR'000		SAR'000 (Restated)
ASSETS				
Cash and balances with Saudi Arabian Monetary Authority	5	7,359,684		7,299,371
Due from banks and other financial institutions	6	8,292,547		9,788,857
Investments, net	7	18,399,178		15,066,199
Financing, net	8	83,685,166		79,062,597
Property and equipment, net	9	1,896,679		1,876,423
Other assets	10	1,700,073		1,658,229
TOTAL ASSETS		121,333,327		114,751,676
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Due to banks and other financial institutions	11	6,318,336		1,352,887
Customers' deposits	12	90,128,138		89,064,751
Other liabilities	13	3,589,145		3,990,276
TOTAL LIABILITIES		100,035,619		94,407,914

SHAREHOLDERS' EQUITY				
Share capital	14	15,000,000		15,000,000
Statutory reserve	15	2,888,815		2,259,457
Fair value reserve for FVOCI/AFS investments		(22,377)		86,764
Other reserves		54,085		16,484
Retained earnings		1,990,693		1,896,529
Proposed dividend	22	1,489,967		1,191,964
Treasury shares	16	(103,475)		(107,436)
TOTAL SHAREHOLDERS' EQUITY		21,297,708		20,343,762
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		121,333,327		114,751,676

Table 13.AlINMA - CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED STATEMENT OF INCOME - For the year ended December 31				
	Notes	2018		2017
		SAR'000		SAR'000
Income from investments and financing	18	4,893,617		4,254,739
Return on time investments	18	(1,095,785)		(761,715)
Income from investments and financing, net	18	3,797,832		3,493,024
Fees from banking services-income	19	986,755		875,627
Fees from banking services-expense	19	(255,701)		(199,191)
Fees from banking services-net		731,054		676,436
Exchange income, net		176,616		152,857
Gain from FVIS financial instruments, net		131,338		4,553
Gain from FVOCI / AFS investments, net		-		20,241
Dividend income		4,204		22,426
Other operating income		3,878		3,419
Total operating income		4,844,922		4,372,956
Salaries and employee related expenses	20	939,583		876,009
Rent and premises related expenses		159,209		148,563
Depreciation and amortization		178,192		199,601
Other general and administrative expenses		578,719		520,560
Charge for impairment of financing	8.1	392,796		558,482
Charge for impairment of other assets		73,756		52,918

Total operating expenses		2,322,255	2,356,133
Net operating income		2,522,667	2,016,823
Share of loss from an associate and a joint venture	7.4, 7.5	(5,234)	(5,466)
Net income for the year		2,517,433	2,011,357
Basic and diluted earnings per share (SAR)	21	1.69	1.35

Table 14. CONSOLIDATED STATEMENT OF INCOME

		ALINMA BANK			ARAB BANK GROUP		
RATIOS	**FORMULA**	**2017**	**2018**	**AVERAGE**	**2017**	**2018**	**AVERAGE**
ROA	**Net profit/Total asset**	**1.8%**	**2.1%**	**3.9%**	**0.1%**	**1.7%**	**0.9%**
ROE	**Net profit/Total equity**	**1%**	**1.18%**	**6.4%**	**5%**	**12%**	**8.5%**
NIM	**Net profit/Revenues**	**0.46**	**0.52**	**0.49**	**0.2**	**0.4**	**0.3**
D/A	**Total debt/Total asset**	**0.82**	**0.82**	**0.82**	**0.85**	**0.86**	**0.865**
D/E	**Total debt/Total equity**	**4.64**	**4.69**	**4.665**	**5.86**	**5.96**	**5.91**
CATA	**Cash &Cash eq/total asset**	**6.4%**	**6.0%**	**6.2%**	**16.2%**	**15.7%**	**15.9%**
I /A	**Investments/total asset**	**6.7%**	**6.7%**	**6.7%**	**15.2%**	**13.1%**	**14.2%**

Table 15. FINANCIAL RATIOS OF THE SAUDI ARABIA BANKS

In the comparison between Alinma Bank an Islamic bank locates in Saudi Arabia with Arab Bank Group that lies in the same country but it is non Islamic bank. In order to compare the profitability performance between these two banks we applied ROA, ROE AND NIM. After the applying these ratios in to the audited financial statements these banks we had come up with these table.

As the table shows the profitability ratios are fluctuating but Alinma Bank is possessing higher ROA and NIM than Arab Bank Group which is also possessing higher ROE than Alinma Bank.

In general Alinma Bank is having higher profitability ratios than the Arab Bank Group. This means Alinma Bank the income generated by this BANK per $ from it is asset and revenues is higher than the Arab bank group which it is income generated per $ from it is asset and revenues

is low. More over in order to find out the and compare the liquidity performance between these two banks the researcher used Cash &cash equivalent to total asset and I/A ratios and as we can see from the table Arab Bank Group is more liquid than Alinma Bank this means the running cost like deposits is high in these bank that is why it is more liquid than the Alinma. In addition to that the researcher also want to compare the riskiness and solvency between these two banks by using D/A and D/E financial ratios.

As the table above indicates though the results are very close to each other but the Arab Bank Group is showing higher number than the Alinma Bank this means it is more solvent but having more risk than the Alinma Bank which is possessing lower number in Solvency and riskiness ratios.

4.1.4 Financial Ratios of Turkey Banks

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES			
CONSOLIDATED STATEMENTOF FINANCIAL POSITION AS AT DECEMBER 31, 2018 (Currency – In thousands of Turkish Lira - TL)			
	Notes	**December 31, 2018**	**December 31, 2017**
Assets			
Cash and balances with the Central Bank	**4**	**3,139,716**	**1,857,063**
Balances with other banks and financial institutions	**4**	**11,986,381**	**4,951,453**
Reserve deposits at the Central Bank	**5**	**6,495,190**	**6,474,434**
Financial assets at fair value through profit or loss	**6**	**134,033**	**88,624**
Derivative financial instruments	***20***	**42,590**	**26,699**
Share Certificates	***6***	**390**	**390**
Sukuk	***6***	**91,053**	**61,535**
Financial assets valued at amortized cost	**6**	**37,156**	**-**
Financial assets at fair value through other comprehensive income	**6**	**6,171,745**	**4,428,672**
Due from financing activities, net	**7**	**39,130,394**	**34,997,542**
Minimum finance lease payments receivable, net	**8**	**2,454,677**	**1,929,863**
Precious metals		**957,110**	**693,239**
Construction projects, net	**10**	**74,614**	**76,234**

Joint venture		**28,815**	**19,699**
Investment properties, net	**11**	**118,574**	**84,992**
Property and equipment, net	**13**	**468,770**	**430,177**
Intangible assets, net	**14**	**202,908**	**169,802**
Deferred tax assets	**17**	**380,683**	**127,072**
Other assets	**9**	**2,836,596**	**938,061**
		74,617,362	**57,266,927**
Assets and a disposal group held for sale	**12**	**174,674**	**53,199**
Total assets		**74,792,036**	**57,320,126**
Liabilities and equity			
Due to other financial institutions and banks	**15**	**2,256,311**	**3,387,127**
Sukuk securities issued	**15**	**7,779,057**	**5,651,841**
Subordinated loans	**15**	**1,901,210**	**1,360,338**
Money market balances		**188,003**	**750,524**
Current and profit / loss sharing investors' accounts	**16**	**54,983,611**	**40,354,741**
Derivative financial instruments	**20**	**170,742**	**151,493**
Employee benefit obligations	**18**	**217,989**	**177,829**
Income taxes payable	**17**	**175,685**	**56,271**
Other liabilities and provisions	**19**	**1,708,535**	**506,615**
Total liabilities		**69,381,143**	**52,396,779**
Share capital	**21**	**3,497,322**	**3,097,322**
Share premium		**22,841**	**22,841**
Investments at fair value through other comprehensive income reserve, net of tax			**(117,150)**
Employee termination benefits reserve, net of tax			**(13,296)**
Legal reserves and retained earnings	**22**	**1,953,675**	**1,838,947**
Currency translation differences		**166,734**	**79,618**
Hedging fund		**(87,494)**	**(60,854)**

Other reserve	**22**	**(24,763)**	**(24,763)**
Non-controlling interest		**13,024**	**7,766**
Total equity attributable to equity holders of the parent		**5,410,893**	**4,923,347**
Total liabilities and equity		**74,792,036**	**57,320,126**

Table 16. KUVEYT BANKCONSOLIDATED STATEMENTOF FINANCIAL POSITION

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FORTHE YEAR ENDED DECEMBER 31, 2018 (Currency – In thousands of Turkish Lira - TL)			
	Notes	**2018**	**2017**
Income from financing activities:			
Profit on originated loans from profit / loss sharing accounts		**2,443,276**	**1,675,258**
Profit on originated loans from current accounts and equity		**2,499,470**	**1,535,513**
Profit on deposits with other banks and financial institutions		**265,622**	**87,447**
Profit on finance leases		**222,373**	**135,232**
Profit on sukuk investments		**420,814**	**280,500**
Total income from financing activities		**5,851,555**	**3,713,950**
Profit shares distributed to participation accounts		**(1,917,147)**	**(1,204,485)**
Profit shares distributed to other banks and financial institutions		**(856,721)**	**(554,850)**
Net financing income		**3,077,687**	**1,954,615**
Provision for impairment of amounts due from financing activities and lease receivables		**(1,978,101)**	**(756,644)**

Net financing income after provision for impairment in due from financing activities and lease receivables		**1,099,586**	**1,197,971**
Foreign exchange gain, net		**468,305**	**179,845**
Net financing income after net foreign exchange gain / (loss)		**1,567,891**	**1,377,816**
Fees and commission income	**25**	**761,415**	**559,589**
Net trading income		**66,714**	**206,736**
Other income		**417,543**	**145,442**
Share of a joint venture income		**7,717**	**5,860**
Total other operating income		**1,253,389**	**917,627**
Fees and commission expense	**25**	**(248,280)**	**(174,571)**
Staff costs	**26**	**(847,510)**	**(712,884)**
Depreciation and amortization expense		**(134,399)**	**(86,351)**
Withholdings and other taxes		**(10,775)**	**(8,616)**
Rent expense		**(142,907)**	**(115,127)**
Other expenses	**27**	**(383,373)**	**(294,250)**
Total other operating expense		**(1,767,244)**	**(1,391,619)**
Income before taxation		**1,054,036**	**903,824**
Current tax charge	**17**	**(442,564)**	**(197,600)**
Deferred tax (charge)/credit	**17**	**210,534**	**9,604**
Net income for the year		**822,006**	**715,828**

Attributable to:			
- Owners of the equity		**816,748**	**710,122**
- Non-controlling interests		**5,258**	**5,706**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
-Exchange differences on translation of the foreign subsidiary(including investment hedging funds)		**20,718**	**(39,427)**
-Cash flow hedge		**39,758**	**2,570**
Investments at fair value through other comprehensive income reserve		**(106,567)**	**24,696**
-Net change in fair value		**(133,209)**	**30,870**
-Deferred tax relating to component of other comprehensive income		**26,642**	**(6,174)**
Items that will not be reclassified to profit or loss			
Employee termination benefits reserve	**18**	**13,651**	**(13,194)**
-Net change in fair value		**17,064**	**(16,492)**
-Deferred tax relating to component of other comprehensive income		**(3,413)**	**3,298**
Other comprehensive income for the year		**(32,440)**	**(25,355)**
Total comprehensive income for the year		**789,566**	**690,473**
Attributable to:			
- Owners of the equity		**784,308**	**684,767**
- Non-controlling interests		**5,258**	**5,706**
Basic and diluted earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share)	**23**	**0.241**	**0.207**

Table 17.KUVEYT BANK - CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated Financial Position IS BANK	2017	2018
Cash and Equivalents	3,395,184	4,931,787
Banks and Receivables from Interbank Money Markets (1)	44,638,342	51,202,701
Securities (Net)	66,218,177	77,942,727
Loans (2)	271,309,818	298,116,100
Associates and Subsidiaries (Net)	7,387,455	9,418,560
Receivables from Finance Lease (Net)	4,411,766	5,379,789
Fixed Assets (Net)	10,342,126	11,975,301
Other Assets (3)	30,054,547	40,940,392
Total Assets	437,757,415	499,907,357
Deposits	207,880,492	248,981,402
Funds Borrowed and Interbank Money Market Placements (4)	130,496,873	137,913,440
Provisions(5)	17,044,695	15,161,685
Other Liabilities	34,210,740	42,235,937
Shareholders' Equity	48,124,615	55,614,893
Total Liabilities + Total equity	437,757,415	499,907,357

TABLE 18. CONSOLIDATED FINANCIAL POSITION IS BANK

Consolidated Income statement IS bank	2017	2018
Interest Income	31,108,967	44,078,656
Interest Expenses	16,277,297	24,492,384
Net Interest Income	14,831,670	19,586,272
Net Trading Income	-946,253	-2,293,686
Net Fees and Commissions Income	2,733,423	3,756,035
Dividend Income	18,258	19,655
Other Operating Income	6,765,642	8,120,963
Total Operating Income	23,402,740	29,189,239
Operating Expenses	12,862,111	14,656,126
NET OPERATING PROFIT/LOSS	10,540,629	14,533,113
Provision for Losses on Loans and Other Receivables	3,016,417	7,012,853
Profit/Loss from subsidiaries Based on Equity Method	842,068	1,569,036

PROFIT/(LOSS) BEFORE TAXES	**8,366,280**	**9,089,296**
Provision for Taxes	**1,660,614**	**1,517,912**

TABLE 19. CONSOLIDATED INCOME STATEMENT IS BANK

FINANCIAL RATIOS OF THE TURKEY BANKS

	ISBANKASI				**KUVEYT BANK**		
RATIOS	**FORMULA**	**2017**	**2018**	**AVERAGE**	**2017**	**2018**	**AVERAGE**
ROA	**Net profit/Total asset**	**1.8%**	**1.7%**	**1.75%**	**1.12%**	**1.1%**	**1.15%**
ROE	**Net profit/Total equity**	**15.4%**	**14.8%**	**15.1%**	**14.5%**	**15.4%**	**14.95**
NIM	**Net profit/Revenues**	**0.221**	**0.185**	**0.203**	**0.112**	**0.154**	**0.133**
D/A	**Total debt/Total asset**	**0.661**	**0.662**	**0.661**	**0.914**	**0.927**	**0.9205**
D/E	**Total debt/Total equity**	**7.43**	**7.37**	**7.4**	**10.64**	**12.8**	**11.72**
CATA	**Cash &Cash eq/total asset**	**9.9%**	**10.6%**	**10.25**	**16.5%**	**13.7%**	**10.9%**
I/ A	**Investments/total asset**	**16.3%**	**32.1%**	**15.8%**	**0.15%**	**0.15%**	**0.15%**

Table 20. FINANCIAL RATIOS OF THE TURKEY BANKS

Financial ratios were used in order to compare the financial performance between two banks locating the same country which are Isbank (Conventional bank) and Kuveyt Bank (Islamic Bank).

In order to compare the profitability performance we used ROA, ROE and NET MARGIN.As table shows the Isbank has higher ROA, ROE and NETMARGIN this means that it has higher profitable than Bank Islamic ltd. This true because since the Kuveyt Bank is Islamic bank it is forbidden to invest many projects which is not allowed by Sharia but Isbank is great bank can invest any project since there is no limitations in the projects this can cause these bank to more profit from their investment projects compared to Kuveyt Bank. Moreover as we can see we used Cash &cash equivalent to total asset and I/A in order to see the liquidity performance between these two banks and the result shows that Isbank is also more liquid this can be happen because since their investments are high and their profits are high the running cost is high and the bank can be more liquid than the other low investment banks. In addition to that we were also

finding out the solvency and the risk and as the result shows Kuveyt bank is more solvent but less risk than the other bank this is because the bank investments more the riskiness can be more and the solvency is becoming low.

After checking out the results in the table the Kuveyt bank performs lower profit and liquid but more solvent and less risk than the IsBank which is conventional bank but lies in the same countries with Kuveyt bank.

4.1.5 Financial Ratios of Pakistan Banks

Pakistan banks financial statement Bank Islam Consolidated Statement of Financial Position AS AT DECEMBER 31, 2018				
			Restated	Restated
	Note	2018	2017	2016
			Rupees in '000	
ASSETS				
Cash and balances with treasury banks	7	14,292,752	11,784,180	8,921,433
Balances with other banks	8	832,621	801,807	1,140,150
Due from financial institutions - net	9	18,173,504	21,371,787	27,218,665
Investments - net	10	38,832,093	42,092,166	46,316,927
Islamic financing, related assets and advances - net	11	118,570,811	119,155,039	77,816,802
Fixed assets	12	6,663,467	5,944,358	6,186,259
Intangible assets	13	3,121,906	3,128,129	3,161,266
Deferred tax assets	14	7,530,221	7,701,906	5,918,460
Other assets - net	15	7,725,881	5,813,026	5,793,461
Total Assets		215,743,256	217,792,398	182,473,423
LIABILITIES				
Bills payable	16	3,242,180	3,928,469	2,937,746
Due to financial institutions	17	7,819,532	15,570,390	6,066,307
Deposits and other accounts	18	184,693,363	178,309,817	153,735,845
Subordinated debt		-	-	-
Deferred tax liabilities		-	-	-
Other liabilities	19	5,473,366	6,307,253	7,288,859
				170,028,757
		201,228,441	204,115,929	
NET ASSETS		14,514,815	13,676,469	12,444,666
Share capital - net	20	10,000,079	10,000,079	10,000,079
Reserves	21	968,799	926,266	613,636
Surplus on revaluation of assets - net of tax	22	1,850,647	1,276,340	1,618,398

Inappropriate profit				212,553
		1,695,29	1,473,78	
		14,514,815	13,676,469	12,444,666

Table 21. Pakistan banks financial statement Bank Islam Consolidated Statement of Financial Position

Consolidated Profit and Loss Account		2018	2017
Profit /return earned	24	12,204,238	10,353,849
Profit /return expensed	25	6,170,275	5,249,882
Net Profit /return		6,033,963	5,103,967
OTHER INCOME Fee and commission income	26	842,235	648,067
Dividend income		61,858	31,985
Foreign exchange income		92,182	71,652
Income from shariah compliant forward and future contracts		138,673	15,724
Gain on securities	27	46,818	119,414
Other income	28	82,246	77,853
Total other income		1,264,012	964,695
Total Income		7,297,975	6,068,662
OTHER EXPENSES			
Operating expenses	29	6,795,997	6,281,537
Workers' Welfare Fund		8,216	-
Other charges	30	54,359	21,733
Total other expenses		6,858,572	6,303,270
Profit / (Loss) before provisions		439,403	(234,608)
Provisions/ (reversal of provisions) and writeoffs - net Extraordinary /unusual items	31	36,835 -	(391,970) -
PROFIT BEFORE TAXATION		402,568	157,362
Taxation	32	189,904	(1,405,787)
PROFIT AFTER TAXATION		212,664	1,563,149
			Rupees
Basic earnings per share	33	0.2110	1.5509

TABLE 22. CONSOLIDATED PROFIT AND LOSS ACCOUNT

SAMBA FINANCIAL GROUP **CONSOLIDATED FINANCIAL POSITIONS** **As at 31 December 2018**	**2018** **SAR'000**	2017 SAR'000
ASSETS		
Cash and balances with central banks	**25,419,504**	25,195,066
Due from banks	**17,622,026**	11,031,430
Loans and advances to customers	**113,708,562**	117,684,729
Investment securities	**66,350,256**	63,912,410
Derivatives	**3,445,772**	6,514,708
Property, furniture and equipment	**2,693,443**	2,638,884
Other assets	**698,639**	568,885
TOTAL ASSETS	**229,938,300**	227,546,162
LIABILITIES		
Due to banks	**7,871,574**	6,551,464
Customer deposits	**170,170,562**	167,922,654
Derivatives	**2,355,100**	3,976,298
Other liabilities	**7,233,049**	4,413,594
TOTAL LIABILITIES	**187,629,769**	182,864,010
EQUITY		
Share capital	**20,000,000**	20,000,000
Statutory reserve	**17,193,239**	15,811,044
General reserve	**130,000**	130,000
Other reserve	**277,992**	98,514
Proposed dividends	**1,998,000**	-
Retained earnings	**3,672,591**	9,564,853
Treasury Stocks	**(996,093)**	(1,021,743)

TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	**42,215,729**	44,582,668
Non-controlling interest	**92,802**	99,484
TOTAL EQUITY	**42,308,531**	44,682,152
TOTAL LIABILITIES AND EQUITY	**229,938,300**	227,546,162

Table 23. SAMBA FINANCIAL GROUP - CONSOLIDATED FINANCIAL POSITION

FINANCIAL RATIOS OF THE PAKISTAN BANKS

	BANK ISLAMIC LIMITED				**SAMBA FINANCIAL GROUP**		
RATIOS	**FORMULA**	**2017**	**2018**	**AVERAGE**	**2017**	**2018**	**AVERAGE**
ROA	**Net profit/Total asset**	**0.1%**	**0.1%**	**0.1%**	**2%**	**2.2%**	**2.1%**
ROE	**Net profit/Total equity**	**1.14%**	**1.5%**	**6.45%**	**11.0%**	**13%**	**12.0%**
NIM	**Net profit/Revenues**	**0.25**	**0.03**	**0.14**	**0.637**	**0.677**	**0.657**
D/A	**Total debt/Total asset**	**0.94**	**0.93**	**0.935**	**0.80**	**0.82**	**0.808**
D/E	**Total debt/Total equity**	**13.9**	**14.9**	**14.4**	**4.43**	**4.09**	**4.26**
CATA	**Cash &Cash eq/total asset**	**5.0%**	**6.0%**	**5.5%**	**11.0%**	**11.1%**	**11.1%**
I /A	**Investments/total asset**	**17.0%**	**19.0%**	**18.0%**	**28.0%**	**28.0%**	**28.0%**

Table 24. FINANCIAL RATIOS OF THE PAKISTAN BANKS

Financial ratios were used in order to compare the financial performance between two banks locating the same country which are Bank Islamic Limited (Islamic bank) and Samba Financial Group (Conventional bank).

In order to compare the profitability performance we used ROA, ROE and NET MARGIN.As table shows the Samba Financial Group has higher ROA, ROE and NETMARGIN this means that it has higher profitable than Bank Islamic ltd. This true because since the Bank

Islamic ltd is Islamic bank it is forbidden to invest many projects which is not allowed by Sharia but Samba Financial Group can invest any project since there is no limitations in the projects this can cause these bank to more profit from their investment projects compared to Bank Islamic Ltd.

Moreover as we can see we used Cash &cash equivalent to total asset and I/A in order to see the liquidity performance between these two banks and the result shows that Samba Financial Group is also more liquid this can be happen because since their investments are high and their profits are high the running cost is high and the bank can be more liquid than the other low investment banks. In addition to that we were also finding out the solvency and the risk and as the result shows Bank Islamic is more solvent but less risk than the other bank this is because the bank investments more the riskiness can be more and the solvency is becoming low After checking out the results in the table the Bank Islamic performs lower profitable and liquid but more solvent and less risk than the Samba Financial Group which is conventional bank but lies in the same countries with Bank Islamic ltd.

4.2 Findings

	Program	N	Mean	Std. Deviation	Std. Error Mean
ROA	Islamic	5	.013400	.0164829	.0073714
	Conventional	5	.015460	.0058359	.0026099
ROE	Islamic	5	.071470	.0728464	.0325779
	Conventional	5	.090600	.0552714	.0247181
NET MARGIN	Islamic	5	-.324300	1.3943568	.6235753
	Conventional	5	.607900	.5427237	.2427134

Table 25. Profitability Performance

As we see the above table, we are comparing the profitability ratios between conventional and Islamic banks though their results are not significant and we will see the significant later on this book. As we can see from the Mean, the ROA of Conventional banks are a bit higher than Islamic banks. This indicates that net income generated per $ of an asset in Islamic banks is lower than conventional ones. Moreover, the ROE of Islamic banks is lower than their

conventional counterparts. This indicates that the latter is generating more profitable and growth than Islamic banks since the rate of return of the shareholders is high. Also, the NET MARGIN as we can see from the table it is in Minus in Islamic banks this is because in the data we had taken the Bahrain banks Gulf bank has loss in their profit in the income statement and this NM shows how much of each dollar earned by the company is translated into profit and as we see from the net table margin of the Conventional is higher compared to the Islamic banks, this means the profit to revenues of Conventional banks are better than the Islamic banks.

	Program	N	Mean	Std. Deviation	Std. Error Mean
Cash &equivalent	Islamic	5	.093600	.0466133	.0208461
	Conventional	5	.117000	.0319785	.0143012
Investment to total asset	Islamic	5	.219320	.1370369	.0612848
	Conventional	5	.333700	.1396628	.0624591

Table 26. Liquidity Performance

As this above table is showing the comparison of the liquidity ratios of two models of banking used by the selected banks in our research but these figures do not show the significant results, and we will the significant results in the upcoming pages. As we can see from the table, the Cash &cash equivalent to total asset ratio of the Islamic financial institutions is lower than Conventional ones with the same risk level. This shows that the liquidity of conventional financial institutions is higher compared to the liquidity of the Islamic ones. In addition to that, the other ratio of investment to total asset is showing that I/A of the Conventional financial institutions are better than the Islamic ones however when it comes to risks the former is very high because the more investment you made the more risk you acquired so the Islamic banks are having lower I/A than the conventional financial institutions this means that their risk of losing their asset is lower than the conventional banks which are investing their assets.

	Program	N	Mean	Std. Deviation	Std. Error Mean
D/A	Islamic	5	.783800	.2519964	.1126962
	Conventional	5	.853540	.0272683	.0121947
D/E	Islamic	5	8.539400	4.8644097	2.1754302
	Conventional	5	5.872000	1.1122365	.4974073

TABLE 27. RISK AND SOLVENCY RATIOS

As we can see from the above table, we are comparing the risk and solvency ratios of Islamic and Conventional banks (CB) through this not the real comparison because these results are not significant and do not show the exact difference. As the above table shows the Debt to asset ratio is used and as we can see from the table, the D/A of Islamic banks is lower than the conventional banks this shows that the liabilities that Islamic banks (IB) have is very low compared to total asset and the Islamic banks and it pays off it is obligations to sell its assets if it is needed and that Islamic banks are more be trustable and less risky by the investors than CB. Moreover the debt to equity ratio is also used to compare the liquidity and as the table illustrates the CBs are having lower ratio than IBs, this means that the debt to equity ratio the banks with lower ratio is possessing good performance than the banks with high ratios so the Islamic banks are higher risky in D/E RATIO.

4.3 Results

In this section, the results of this study will be analyzed. The information is presented in the tables, and figures have been acquired through the independent sample T-test and financial ratios. In the methodology chapter, as mentioned above, financial ratios were used to analyze the comparison between and among the Islamic banks and Conventional banks. The study was comparing the profitability, liquidity, solvency and risk of IBs and CBs located in purposely chosen states. In the profitability, the ratios that are being used to evaluate were Return on Equity and Asset and Net margin. In the liquidity, there also two ratios that are used by research which Cash and cash equivalent ratios and Investment to the total asset. The researcher is also comparing the bank's solvency and risk so these ratios were used in the comparison of Debt to asset and Debt to equity. The research used an Independent sample T-test to check and find out the significance mean the difference between and among the Islamic and conventional banks of these selected countries in the period 2016-2018.

As enlighten above, analysis of the profitability has been conducted through the three ratios (ROE, ROA, and NIM). These figures and tables below are showing that the trends of these ratios are fluctuating in that period it goes up and down but to sum up their means the

ROA, ROE and Net Margin average of Islamic banks are .013400, .071470 and -.324300 and 015460, 090600, .607900 in Conventional banks. The independent sample T-test measures the difference in significance between these two banks and among these two banks.

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
ROA	Equal variances	2.562	.148	-.263	8	.799	-	.0078198	-	.015972
	assumed						.0020600		.0200924	4
	Equal variances			-.263	4.987	.803	-	.0078198	-	.018056
	not assumed						.0020600		.0221767	7
ROE	Equal variances	.137	.721	-.468	8	.652	-	.0408938	-	.075171
	assumed						.0191300		.1134314	4
	Equal variances			-.468	7.459	.653	-	.0408938	-	.076375
	not assumed						.0191300		.1146351	1
NET	Equal variances	2.197	.177	-	8	.201	-	.6691457	-	.610852
MARGI	assumed			1.393			.9322000		2.475252	8
N									8	
	Equal variances			-	5.185	.220	-	.6691457	-	.769616
	not assumed			1.393			.9322000		2.634016	3
									3	

TABLE 28. PROFITABILITY RATIO T-TEST

As the result above shows that the overall result of the performance on profitability between IBs and the CBs is not significantly different so this means it accepts our hypothesis 1 by saying that IBs are less profitable than the CBs. This study conducts the same as Ansari 2011 which says the profitability performance of CBs is higher than the IBs.

In the comparison of liquidity performance between CBs and IBs is analyzed by using cash and cash equivalent to total asset which is showing Cash that the bank is having in the current moment compared with its total asset. If the current cash of the company is high, that means the company is more liquid which means the bank can easily pay the obligations or loans of the depositors. In this research, we also used another liquidity ratio called Investment to total asset. This ratio indicates the percentage of investment of the bank compared with the total asset

of the bank. The high of these two ratios means the company is dependent on the borrowing of the fund.

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference e	Std. Error Difference e	Lower	Upper
Cash &equivalent	Equal variances assumed	.724	.419	-.926	8	.382	-.0234000	.0252801	-.0816961	.0348961
	Equal variances not assumed			-.926	7.082	.385	-.0234000	.0252801	-.0830373	.0362373
Investment to total asset	Equal variances assumed	.013	.912	-1.307	8	.227	-.1143800	.0875041	-.3161647	.0874047
	Equal variances not assumed			-1.307	7.997	.227	-.1143800	.0875041	-.3161774	.0874174

TABLE 29. LIQUIDITY RATIOS T-TEST

The tables above are illustrating the two liquidity ratios of Cash and Cash equivalent and Investment to the total assets. The result of these two ratios as we can see from the tables it is going down and changing year by year. The conventional banks mean of Cash &cash equivalent to total asset and I/A is showing higher figure than the Islamic banks and their average mean like in the Islamic bank's average ratios of Cash &cash equivalent to total asset and I/A are .093600 and .219320 while the average mean of Conventional banks in Cash &cash equivalent to total asset and I/A ratios are .117000 and .333700. The independent sample T-test shows that the results are not significantly differenced at the %5 level of significance. This means that our H02 of saying the IBs possess lower liquidity than the CBs is true. The possession of the higher liquid assets in the conventional banks is also risked, so in the Islamic banks that lower liquidity is good to sing for them. In the Islamic banks due to limitations of Sharia low their investment rate is lesser compared to the conventional banks; this is one of the reasons it is possessing lower liquid. Moreover, Islamic banks do not hesitate to lend more money to their depositors so that the money comes in and goes and the running of costs is not there and the liquidity of the banks is getting decreased.

In this study, we were also focusing on the comparison of risks and solvency between the IBs and CB. To analyze this riskiness and solvency, the researchers used two different ratios which are D/A (Debt to total asset) which measures how much asset the company is borrowing to creditors compared to how much assets it gets from the investors. The researcher also used D/E (Debt to total equity) which indicates the amount and the percentage of money and budget of financing that comes from the creditors and investors.

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
DAR	Equal variances assumed	5.192	.052	-.615	8	.555	-.0697400	.1133541	-.3311350	.1916550
	Equal variances not assumed			-.615	4.094	.571	-.0697400	.1133541	-.3816419	.2421619
DER	Equal variances assumed	11.990	.009	1.195	8	.266	2.6674000	2.2315713	-2.4786126	7.8134126
	Equal variances not assumed			1.195	4.417	.292	2.6674000	2.2315713	-3.3043810	8.6391810

TABLE 30. SOLVENCY RISK RATIO T-TEST

As the tables above are showing, the result of D/A and D/E and in D/A in Islamic banks are in minus because of the Gulf bank caused loss in the financial statement but these two ratios are changing per ratios but the average mean D/A and D/E of Islamic banks are .783800 and 8.539400 while the average mean of D/A and D/E of conventional banks are .853540 and 5.872000 in the conventional banks. The independent sample does not support it shows that there is no significant difference between the two variables since the significance is more than %5. This means our H03 is accepted and the IBs are less risk and more solvent than the CBs. That means the level of risk in IBs is lower and in the CBs is high. Islamic banks the ability of their financial strength to pay bank its depositors is very high compared to the conventional banks. The studies that areshowing the same criteria with this study are Moin (2008), Sammad (2004), Hassan (1999) and Saddiqui, Khalili (2018).

4.4 Discussion

The result is the same as the result that is found by Moin (2008), Sammad (2004), Hassan (1999) and Saddiqui, Khalili (2019). The CBs are performing better in the profitability ratios especially the Return on Asset it means that the conventional bank's percentage of generating income or profit from their assets is high that means their profitability performance is getting better and better compared to the Islamic banks which the percentage of generating income from their assets are lower. In other ratios of profitability like ratios of Return on equity and Net margin also the CBs are performing better than the Islamic banks. The reason for the lower performance of profitability in the IBs are the level of investment in the Islamic banks are very limited and small because the IBs are implementing and applying the Sharia Law which doesn't allow the Islamic banks to invest any projects that can increase the income so that their profitability performance can be in a good manner.

The non-Islamic banks are investing in any project, this can let them absorb more money and income and when applying these ratios, the profitability performance is becoming peak. This can cause the Conventional banks since their assets and their profitability performance is better to invest more and their liquidity and the risk is to get higher compared to Islamic banks. The Conventional banks' liquidity is a bit higher because of running cost and investments are the ones that can higher up the level of cash and liquid assets to increase but in the Islamic banks, their asset is locked in fixed asset since they are investing a lot and their running costs are not in a good manner. The results are showing that in terms of the managing of the assets, the Islamic banks are good since their investment level is low, the risk is getting lower and their management of assets is evaluated to be fine compared to the non-Islamic banks. The good performance of profitability in Conventional banks is good to sign but it has its own risk like investing type of projects that are not working and losing money that cannot be lost if it was Islamic banks.

CHAPTER V. CONCLUSION AND RECOMMENDATIONS

A comparative study between the IBs and CBs in these selected countries (Qatar, Saudi Arabia, Turkey, Pakistan, and Bahrain) in the period of 2016-2018 found that the profitability performance that was checking out by using the financial ratios ROA, ROE and NET MARGIN is not significantly differenced so this accepts our HO1 hypothesis which is saying the Islamic banks are performing less than the conventional banks. Our findings are matching with our hypothesis in profitability performance.

The study was also focusing on the performance of liquidity between the Islamic banks and Conventional banks locating in the selected countries by using the ratios of Cash and Cash Equivalent and Investment to Total Assets. After checking out the financial ratios and the independent sample T-test which shows there is no significant difference between the variables our hypothesis HO2 is also accepted and it shows that the IBs are less liquid than the CBs because of the limitations of the Sharia law in investment projects in Islamic banks.

Moreover, the study was focusing on finding out and compare the risks and solvency between these selected Islamic banks and conventional banks that locating in the different countries by using the financial ratios of DEBT TO TOTAL ASSET and DEBT TO TOTAL EQUITY. After applying the ratios and independent sample T-test, the study found that the variables are not significantly differenced this accepted by our HO3 which was mentioning that Islamic banks are less risky and more solvent than Conventional banks. Due to the more investment in different projects, the risk is getting higher and solvency is also getting lower. This can cause these Conventional banks to get high risk and solvent but the Islamic banks have lower risk and solvency because of their lower investment.

The study was taken in 5 different Muslim countries which are (Qatar, Saudi Arabia, Turkey, Pakistan, and Bahrain) and as we have seen in the conclusions and result parts, the overall result Conventional banks are performing better than the Islamic banks. In logical manner the Islamic banks lying in Muslim countries were suppose to perform way better than the Conventional banks in the same country but this did not happen. As the personal view of the researcher, the reason behind the low performance of Islamic banks in Muslim countries is

mixing the Sharia law and International Financial reporting standards. These banks are taking part in IFRS and also eliminating some points because Sharia law is not allowing this can limit their performance.

In these reasons, the Muslim countries have to implement some Accounting, auditing standards that were based on Sharia law and invented by an Islamic institution called AAOIFI. If all the Islamic financial institutions and Islamic banks able to apply and implement these standards and throw out the IFRS or accounting standards that these conventional banks are using, the level of performance of IBs and Islamic financial institutions will get better.

Secondly, the Islamic financial institutions and IBs since they are competing with conventional banks they supposed to make more effort and deeply understand the financial techniques to beat the conventional banks by training the workers give more motivation lessons to the staffs give and equip the managers and administrations more techniques to higher up their profitability, liquidity, solvency and capitalizations performance. This study will enlighten the low performance of Islamic banks in Muslim countries so that the investors should focus and check out their investment and not blindly investment their capital to these banks. This study also highlighted the same as Sarea and Adel (2013). The Islamic banks and institutions need to apply the Islamic accounting standards so that their performance will be good and at the same time, they will obey and fulfill the Sharia and obligations of ALLAH.

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