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BANKING SECTOR PERFORMANCE: ISLAMIC AND CONVENTIONAL BANKS IN THE UAE

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Abstract

The purpose of this empirical study is to analyze and compare the performance of Islamic and conventional banking in United Arab of Emirates using financial ratio analysis (FRA), to find out which of the banking streams performs better than the other. We used panel data for both Islamic and conventional banks in the UAE during the period (2008-2014), to statistically test the performance of 11 conventional banks and 5 Islamic banks. Financial ratios are estimated from annual reports and financial statements, to measure performance represented by profitability, liquidity, solvency and credit risk. Findings of the study indicate the superiority of conventional banks over Islamic ones in profitability, credit risk management as well as solvency.

Keywords

Banking sector, Islamic banks, conventional banks, Performance evaluation, Financial ratios, UAE, GCC, profitability, liquidity, solvency and credit risk.

INTRODUCTION

Like Conventional bank, Islamic bank is an intermediary and trustee of money of people. Conventional banking follows Conventional interest-based principle, whereas, Islamic banking is based on interest free principle and principle of Profit-and-Loss (PLS) sharing in performing their businesses as intermediaries (Muhamed and Manarvi, 2011). In theory, Islamic finance differs significantly from conventional finance. Specifically, Sharia-compliant finance does not allow for the charging of interest payments (riba), as only goods and services are allowed to carry a price, does not allow for speculation, and prohibits financing of specific activities. This would suggest clear differences in funding and activity structures of Islamic and conventional banks. In practice, however, Islamic scholars have developed products that resemble conventional banking products, replacing interest rate payments and discounting with fees and contingent payment structures (Beck et. al, 2013).

Many countries, all over the world, experience what became known as dual banking system, where interest-free banks operate side by side with conventional banks. The first country that enjoyed a dual banking system is the United Arab Emirates (UAE) where the Dubai Islamic Bank was established in 1973 with a paid-up capital of US$14 million. This bank conducts normal business like any conventional bank but does not pay or receive interest. It operates on profit/loss sharing principles following the Islamic law (known as Shariah), which prohibits interest on any type of transaction. The creation of the Dubai Islamic Bank was followed by the establishment of a large number of banks operating, in various parts of the world, on the same principles (Metwally, 1997). The study is motivated by the fact that the competition between Islamic and conventional banks has recently increased in light of increasing globalization, and the growing attraction of Islamic finance worldwide. The choice of UAE, as a heart of the GCC zone is justified by the fact that these countries are experiencing a significant increase in numbers of banks, a high growth rate of Shariah-compliant global financial assets, and sound financial health. Currently, UAE has 23 national banks, 6 of them are Islamic and 28 foreign banks (Central Bank of the UAE, 2014). The rapid technological change and increased competition, which characterized the banking industry in the UAE, have placed tremendous pressure to improve performance. The study analyzes the performance of 16 national bank, 5 of them Islamic to investigate the effectiveness of the UAE banks. This study examines the internal[1] financial performance of Islamic versus conventional banks using Financial Ratio Analysis (FRA) in

[1] External performance of banking sector could be measured by evaluating the bank's market share, regulatory compliance, and the public confidence.

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terms of profitability, liquidity, solvency, and credit risk. The paper is structured as follows; the next section covers the literature review, sections 3 explains the methodology, then results are deliberated in section 4, and finally conclusion presented in section 5.

LITERATURE REVIEW

The literature review starts by explaining general Islamic financial principles to the non-Muslim reader (e.g. Bashier, 1983; Khan, 1986). Later, studies try to investigate whether Islamic banking practices are better off in terms of performance, financial position, and risk level than conventional banking practices during economic crises. Whereas most concluded higher stability in Islamic banking represented by less fluctuation in rates of returns, inflation, and other economic considerations (e.g. Karim and Ali, 1989; Turen, 1996; Cihak and Hesse, 2010). Efficiency studies have used various indexes and concentrates to measure and compare the performance of banks across countries and over time, where financial ratios were used extensively to measure such performance. One stream of Studies investigates the performance of the banking sector in general, without any comparison between Islamic and conventional institutions (Mazhar, 2003; Al-Tamimi and Charif, 2011; Sufian and Nour 2012). Whereas Mazher analyzed the internal performance of domestic and foreign banks in 3 GCC countries by estimating their financial ratios Commercial banks in these countries are well capitalized and have adopted modern banking services, mostly are financially sound by international standards. Additionally, their operations characterized by satisfactory asset quality, more than minimum required capital/asset ratio, and high level of profitability. External performance measured by banks' market shares, regulatory compliance and public confidence has shown progress over time. Overall, findings proved improving the banks' performance over the period (1990-2000). Another study by Al-Tamimi & Charif used multiple approaches to assess the performance factors of UAE commercial banks along with considering the effect of bank's size. Data of 15 large and 23 small banks were used for the period from 1996 to 2005. The study found out that generally large banks perform significantly better than small banks. The results revealed also that the ratio of total equity to total assets, which reflect the importance of capital adequacy to commercial banks, is the most important performance indicator taking into account the bank size. (Sufian and Nour, 2012) examined the internal (bank specific) factors and external (macroeconomic) factors that influence the profitability of banks in a developing economy by focusing on the Indian banking sector during the period (2000–2008. Findings suggest that all the explanatory variables have statistically significant impact on banks' profitability. However, results indicated positive impact of size on profitability of domestic banks and negative impact on the profitability of foreign banks[2]. Additionally the study concludes a positive relationship between credit risk and bank's profitability, though such relation appeared to be negative for foreign banks from the North America. In general, the impact of overhead expenses is positive on bank profitability, but is negative on the foreign banks from the European countries.

The second stream of research focused on the performance of Islamic banks without any comparison between Islamic and conventional institutions (Nour and Ahmed, 2012; Masood and Ashraf, 2012; Eljelly and Elobeed, 2013; Al-Kayed et. al., 2014 and Zarrouk, 2014). Whereas, Nour and Ahmed study investigates the efficiency of 78 Islamic banks in 25 countries during the period 1992–2009. Where efficiency estimates are evaluated using non-parametric Data Envelopment Analysis (DEA) method. The results concluded that pure technical efficiency outweighs scale efficiency in the World Islamic banking sector implying that the Islamic banks have been managerially efficient. Technical efficiency is positively and significantly associated with loan intensity, size and capitalization. Moreover, banks with higher market share and low non-performing loans ratio are more technically efficient banks. Furthermore positive correlation between bank profitability and technical efficiency levels indicates that the more efficient banks tend to be more profitable (Nour and Ahmed, 2012). Another study by Masood and Ashraf inspect the role of bank-specific and macro-economic determinants on Islamic banks' profitability, by using panel data of 25 banks elected from 12 countries in four regions during the period 2006-2010. Findings refer that assets size has positive and significant impact on the profitability of Islamic banks, whereas banks of larger assets obtain higher profitability. Likewise, capital adequacy, loans to assets and assets management appear to have significantly positive effect on return on assets (ROA) and return on equity (ROE) that plays a vital role in the profitability of banks (Masood and Ashraf, 2012). Eljelly and Elobeed work on diagnosis the common performance features of Islamic banking in Sudan[3]. The study applied factor analysis to a large set of financial ratios to find out that six factors are able to explain most of the variation of the financial namely; liquidity risk, coverage, efficiency (utilization), profitability, capital adequacy, and control (Eljelly and Elobeed, 2013). Within

[2] From other Asian countries
[3] Nine banks represent the most active large banks.

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the same stream of studies, Al-Kayed and others examine the effect of capital structure on Islamic banks' performance by using a sample of 85 Islamic banks and after controlling for macroeconomic environment, financial market structure and taxation. Findings indicate that Islamic banks performance/profitability measures[4] respond positively to increase in capital. Furthermore, capital structure positively affects Islamic banks' profitability as well (Al-Kayed et al., 2014). Another study conducted in 2014 by Zarrouk examines the effect of financial crisis on 43 Islamic banks performance[5] in 10 MENA countries over the period (2005-2010). The findings show that Islamic financial institutions are not immune from the effects of the global crises/recession. However, results indicate profitability and liquidity of Islamic banks in Gulf Cooperation Council (GCC) countries decreased drastically after the crisis. Islamic banks in non-GCC countries were efficient and more profitable compared to GCC countries. However, they took excessive risk during and after the financial crisis. (Zarrouk, 2014).

The third stream of research have used financial ratios to measure and compare Islamic and conventional banks' performances (Metwally, 1997; Karim and Ali, 1989; Rosly and Abu Baker, 2003; Olson and Zoubi, 2008; Kader and Asarpota, 2007; Moin, 2008; Parashar and Venkatesh, 2010; Hasan and Dridi, 2010; Beck et al., 2010; Jaffar and Manarvi, 2011; Sadaqat, et.al. 2011; Iqbal, 2012; Hani fey.al, 2012; Al-Hares, et.al, 2013; Beck et. al, 2013; Wasiuzzaman et. al, 2013; Fayed, 2013; Erol et. al., 2014). A study by Metwally on 15 interest-free banks and 15 conventional banks, suggests that the two groups of banks may be differentiated in terms of liquidity, leverage and credit risk, but not in terms of profitability and efficiency (Metwally, 1997). Furthermore, Karim and Ali found out Islamic banks are more profitable than conventional banks in the GCC (Karim and Ali, 1989). Rosly and Abu Baker assess six financial ratios in Malaysian banking sector for the years 1996-1999. The results indicate that Islamic banks' returns on assets, profit margins and net operating margins are significantly higher than for conventional banks, while liquidity, operating efficiency and asset utilization ratios are statistically lower (Rosly and Abu Baker, 2003). In 2007 Kader and Asarpota utilize bank-level data to evaluate the performance of Islamic versus conventional banks in the United Arab Emirates (UAE) during the period 2000-2004. The results indicate that Islamic banks are relatively more profitable, less liquid, less risky, and more efficient (Kader and Asarpota, 2007). Olson and Zoubi investigate whether financial ratios will differ significantly between the two categories of banks by examining 16 financial ratios commonly used in the banking industry. The results reveal that characteristics such as profitability ratios, efficiency ratios, asset quality indicators, and cash/liability ratios are good discriminators in the GCC region. They also denote that Islamic banks are, on average, more profitable than conventional banks though less efficient (Olson and Zoubi, 2008). Another study by Moin examines the performance of the first Islamic bank in Pakistan, Meezan Bank Limited (MBL), in comparison with a group of five conventional Pakistani banks with respect to profitability, liquidity, risk, and efficiency for the period of 2003-2007. The results reveal that MBL is less profitable, more solvent (less risky), and less efficient compared to the average of the five conventional banks. However, Moin points that Islamic banks improve and perform far better over time by making good returns on assets, managing their operating expenses, and satisfying their shareholders by offering competitive or even better returns, which indicate convergence with the performance of conventional banks. In terms of liquidity, the results indicate that there is no significant difference between the two sets of banks (Moin, 2008). Parashar and Venkatesh compare conventional and Islamic bank performance in the GCC before and during the global financial crisis using ratio analysis. The sample covers six Islamic banks and six conventional banks during the period 2006-2009 using six ratios, namely the return on average assets ratio, the return on average equity ratio, the capital adequacy ratio, the cost to income ratio, the equity to total assets ratio, and the liquid assets to total assets ratio. These ratios are spread across five bank performance parameters, namely capital, efficiency, profitability, liquidity, and leverage. The results indicate that Islamic banks have suffered more than conventional banks during the recent global financial crisis in terms of capital ratio, leverage, and return on average equity, while conventional banks have suffered more in terms of return on average assets and liquidity (Parashar and Venkatesh, 2010). On a similar track Hasan and Dridi observe the impact of the recent global financial crisis on banking sector performance represented by profitability, credit, and asset growth, as well as external ratings in a group of countries namely, Bahrain, Jordan, Kuwait, Malaysia, Qatar, Saudi Arabia, Turkey, and the UAE. The results reveal that factors related to the Islamic business model helped limit the negative impact on profitability in 2008, while weaknesses in risk management practices in some Islamic banks led to a larger decline in profitability in 2009 compared to conventional banks. The

[4] Return on Equity (ROE), Return on Assets and Profit Margin (BTP/TA).

[5] Liquidity, efficiency, profitability, risk and solvency.

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results also indicate that Islamic banks maintained stronger credit and asset growth compared to conventional banks in almost all countries inn the sample (Hasan and Dridi, 2010). A study by Jaffar and Manarvi uses a sample of 5 Islamic banks and 5 conventional banks in Pakistan to compare their performance during the period 2005 to 2009, by analyzing CAMEL test standard factors, including capital adequacy, asset quality, management quality, earning ability and liquidity position. Results show Islamic banks to perform better in possessing adequate capital and better liquidity position, while conventional banks are pioneer in management quality and earning ability, however, both modes of banking perform almost the same in asset quality (Jaffar and Manarvi, 2011). Sadaqat and others perform a study on Pakistani banking sector using secondary data of four years (2006-2009), to investigate the effect of Size, Networking Capital, Return on Equity, Capital Adequacy and Return on Assets (ROA) on liquidity Risk Management. The study finds out positive but insignificant relationship between bank's size and networking capital/net assets with liquidity risk in both Islamic and conventional banks. While significantly positive relation between liquidity risk management and adequacy ratio in conventional banks, and return on assets in Islamic banks at 10% significance level (Sadaqat, et.al, 2011). Another study on Pakistani banking sector during the period 2007-2010 used secondary data of 22 conventional banks and 5 Islamic Banks, finds out that Islamic banks are superior to conventional banks non-performing loan ratio (NPL), capital adequacy ratio (CAR). Whereas, The NPL ratio shows that the Islamic banks have the low ratio of NPL than the conventional banks. Also Islamic banks had high CAR that indicates abundant capital to manage any shock to the balance sheet, and denotes ability to maintain confidence in the Islamic banking system to protect their customers. On contrary, the ROE for conventional banks appears higher than for Islamic banks, and the ROA of the Islamic banks shows more rapid decreasing trend from 2007 to 2008 compared to conventional banks, indicating the lack of management in Islamic banks (Iqbal, 2012). Hanif and others use a sample of 22 conventional banks and 5 Islamic banks in Pakistan, to find out that conventional banking are significantly better in terms of profitability and liquidity compared to conventional banks. However, Islamic banks dominate in credit risk management and solvency maintenance by using "Bank-o-meter" model (Hanif et.al, 2011). In 2013 Al-Hares and others focused on the financial performance and quality capital of Islamic versus conventional banks operating in the Gulf Cooperation Council (GCC) region. The study uses financial ratios for 55 conventional and 20 Islamic banks in Kuwait, United Arab Emirates, Kingdom of Saudi Arabia, Oman, Qatar and Bahrain, from 2003 to 2011. The results reveal that Islamic banks are, on average, less efficient but more profitable, more liquid, more solvent (less risky), and with higher internal growth rates than conventional banks. The results indicate that there are statistically significant differences between the two types of banks, as far as profitability, solvency, and internal growth rate ratios are concerned; however, there are no statistically significant differences in liquidity and efficiency (Al-Hares, et.al, 2013). Another study by Beck and others uses a sample of Islamic and conventional banks across 22 countries over the period 1995 to 2009 to compare efficiency, asset quality and stability. Findings refer that Islamic banks are less cost-effective than conventional banks, but have a higher intermediation ratio, higher asset quality and higher capital-asset ratios. Moreover, the differences between Islamic and conventional banks are more prominent for smaller Islamic banks (Beck et. al, 2013). With a focus on Malaysian banking sector, Wasiuzzaman and others analyze the differences between 5 Islamic and 9 conventional banks over the period of 2005-2009. Results show that the return on average assets (ROAA), bank size and board size values of conventional banks are higher compared to Islamic banks. The other variables - net interest margin (NIM) ratio, loan loss reserves to gross loans (LLRL) ratio, liquid assets over customer's short-term funding (LASTF) ratio, equity over net loans (ENL) ratio and board independence- are all higher for Islamic banks (Wasiuzzaman et. al, 2013). In 2013 Fayed study evaluates inter-bank performance of 3 Islamic and 6 conventional banks working in Egypt during the period from 2008 to 2010, in term of profitability, liquidity, credit risk and solvency. Findings of the study refers that conventional banks are superior over Islamic ones in profitability, liquidity, credit risk management as well as solvency (Fayed, 2013). Recently Erol and others attempt to compare the performance of Islamic banks against conventional banks in Turkey using means of logistic regression method during the period of 2001-2009. The results signify that Islamic banks perform better in profitability and asset management ratios compared to conventional banks but lag in sensitivity to market risk criterion. These findings might mainly be explained by the fact that these banks allow lower provisional losses compared to conventional banks and have some tax advantages (Erol et. al., 2014).

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RESEARCH METHODOLOGY

This study uses panel data for 16 banks[6] (5 Islamic and 11 conventional) in the UAE during the period from 2008 to 2014, to statistically test the differences in financial performance amongst Conventional banks and Islamic counterparts using financial ratio analysis (FRA) in terms of profitability, liquidity, credit risk, and solvency. The study uses a descriptive financial analysis to describe, measure, and compare the financial situations of all banks. We first calculate the average of each ratio in each group, and then use a T-test and p-value to test the significance of the difference in performance. Whereas, profitability ratios assess the ability of the bank to generate earnings as compared to its expenses and other relevant costs. Our study measures profitability using return on assets (ROA), and return on equity (ROE). Liquidity ratios indicate the ability of the bank to meet its short-term financial obligations as they come due. Our study tests liquidity using the total loans to deposits ratio (LDR), total loans to total assets ratio (LAR), and cash and portfolio investment to deposit ratio (CPIDR). Solvency ratios measure a bank's ability to meet its debt and other obligations. It is also referred to as 'financial leverage' ratios. Financial leverage represents the extent to which a bank relies on debt financing as compared to equity financing. Hence, financial leverage could allow banks to make gains (losses) that highly exceed what is allowed to them if they invest their own funds solely and this might eventually result in a higher probability of bankruptcy and financial distress. To estimate solvency, we use the debt-equity ratio (DER), the debt to total assets ratio (DTAR), and an equity multiplier (EM). Credit risk ratios measure the degree of risk of loss that arises from a borrower or counterparty's inability to meet its obligations on time. We use the Common Equity to total Assets, Total Equity to Net loans Ratio, and Impaired Loans to Gross Loans ratio in order to measure the degree to which banks face credit risks.

[6] Source of data: Bankscope: https://bankscope.bvdinfo.com/version-201535/home.serv?product=scope2006
Comprehensive world banking information database. Includes bank and country ratings, annual accounts, shareholders and subsidiaries, ratios and peer group information, and mergers and acquisitions information.

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Table 1
Calculations of Financial Ratios Employed in the Study

Ratios	Calculation	Remarks	What does it mean?
Profitability Ratios	ROA=Earnings available for common stockholders/Total Assets	The higher the ratio, the better the performance and assets utilization of the bank.	Measures the overall effectiveness of management in generating profits with its available assets
	ROE= Earnings available for common stockholders/ Common stock equity	The higher the ratio, the better the performance. However, high ROE may be due to high financial leverage.	Measures the return earned on the common stockholder's investment in the firm
Liquidity Ratios	Total Loans to Deposits= Loans / Deposits	Banks with higher LD are considered to have less liquidity and more financial stress (risk).	It is a ratio that is used to assess bank's liquidity by dividing the banks total loans by its total deposits
	Total Loans to Total Assets= Loans (or financings) / Total Assets	The higher the ratio, the less liquid the bank.	Total debt to total assets is a leverage ratio that defines the total amount of debt relative to assets
	Cash and Portfolio Investment to Deposits=Cash and Portfolio Investments / Total Deposits	The higher the ratio, the better the liquidity of the bank.	This ratio works on two motives. First, it raises the trust and faith of depositors in certain bank when they realize that the bank don't only maintain enough cash that immunize it against financial stress but also did investments in some portfolios that maintain positive earnings. Secondly, they are highly confident that whenever they need money, these portfolio will be sold in the secondary market to satisfy the needed liquidity to meet short term obligations.
Credit risk Ratios	Common Equity to total Assets= Common Equity/Assets	The superior the ratio of EQTA, the larger is the capacity for a bank to soak up the assets losses.	A ratio used to help determine how much shareholders would receive in the event of a company-wide liquidation.
	Total Equity to Net loans= Total Equity/Net Loans.	The higher the ratio of EQL, the higher is the	This ratio shows the total equity capital as a percentage of total net loans, whereby equity acts as a cushion for the bank's loan losses.

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		capacity for a bank in absorbing loan losses.	
	Impaired Loans to Gross Loans= Impaired Loans/Gross Loans	The lower the ratio of IMLGL, the better is the asset/credit performance of the bank.	This ratio indicates the percentage of nonperforming loans or doubtful loans to gross loans that a bank has on its books
Solvency Ratios	Debt-Equity Ratio= Total Debt / Owners' Equity	A bank with lower debt to equity ratio is considered less risky than a bank with higher ratio.	This ratio is used in measuring the ability of the bank's capital to absorb financial shocks.
	Debt to Total Assets=Total Debt / Total Assets	A higher DTAR means bank has financed a greater percentage of its assets through debt financing as compared to the equity financing.	Debt to total assets ratio is a measure of the financial strength of the bank.
	Equity Multiplier= Total Assets / Owners' Equity	High EM means that the bank has more debt to convert into assets (and hence, greater risk).	EM is the ratio of a company's total assets to its stockholder's equity. Companies have two alternatives to finance its assets; either through equity or debt, a high equity multiplier indicates that a larger portion of asset is financed through debt

Source: (Moin, 2008)

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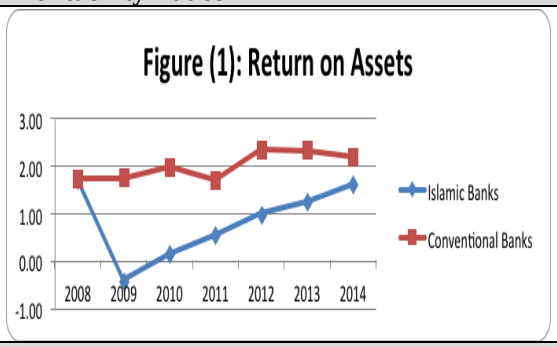
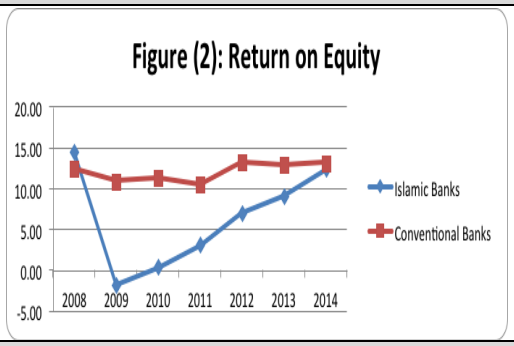
RESULTS AND DISCUSSION

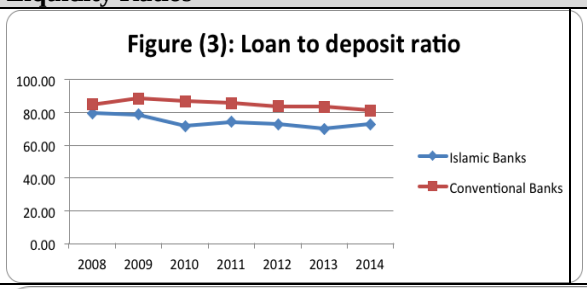
Financial ratios that represent profitability, liquidity, solvency and credit risk are analyzed for Islamic and conventional banks working in the UAE over the period 2008-2014. The figures (1-11) present the trend of ratios for both groups of banks to indicate convergence in some ratios (ROE, ROE, Loan to deposit, Loan to Asset and cash & portfolio to deposit) while non-convergence in the other ratios. However ratio differences/gap between Islamic and conventional banks over the period requires deeper analysis.

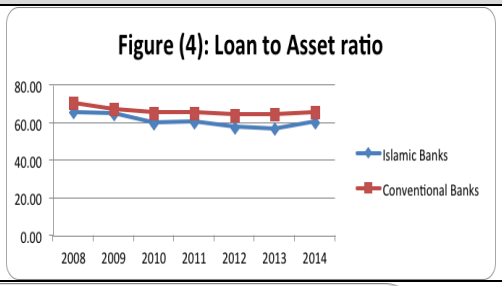
Profitability Ratios

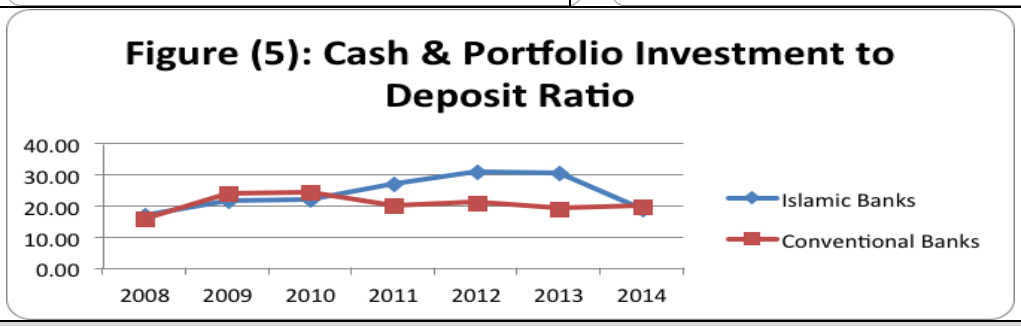




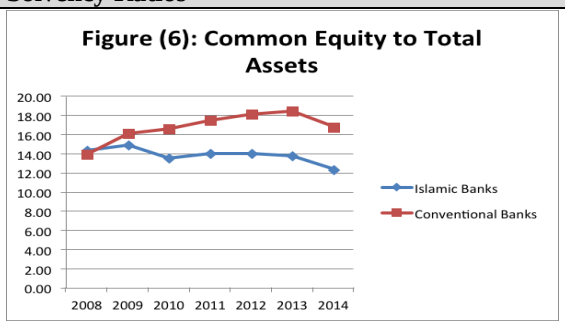
Liquidity Ratios

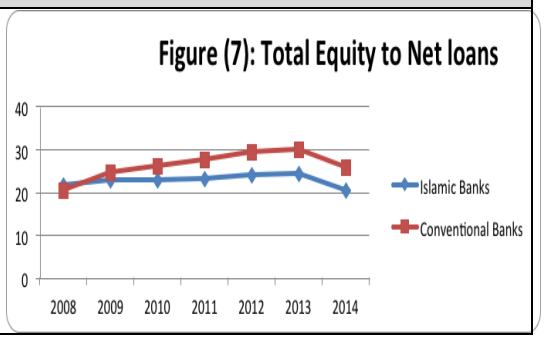






Solvency Ratios





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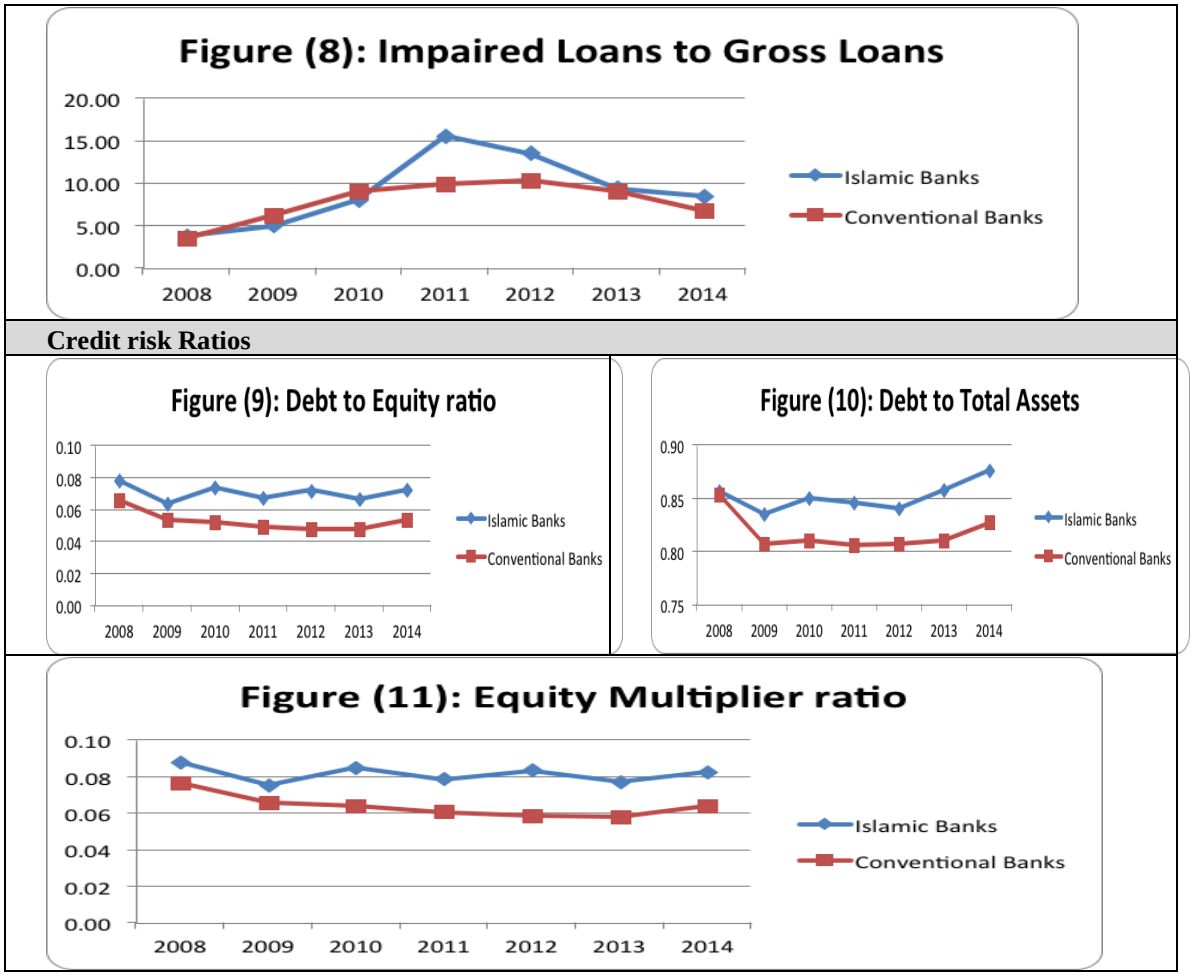

Source: By researchers based on Banks' annual data, Bankscope: https://bankscope.bvdinfo.com/version-201535/home.serv?product=scope2006

Tables (2) presents descriptive statistics of performance indicators, for the pooled samples of Islamic banks and conventional in the UAE, using financial ratios in terms of profitability, liquidity, credit risk and solvency. The value of each ratio represents the mean value over the 2008-2014-study period for each group of banks (Islamic versus Conventional).

Table (2) Financial Ratios (2008-2014): Islamic and Conventional Banks

Ratio	Mean		Std. Dev.		Min		Max	
	Islamic	Conven.	Islamic	Conven.	Islamic	Conven.	Islamic	Conven.
Profitability Ratios								
Return on Assets (%)	**0.84**	**2.03**	**0.72**	**0.27**	**-0.41**	**1.70**	**1.71**	**2.37**
Return on Equity (%)	**6.43**	**12.07**	**5.68**	**1.04**	**-1.80**	**10.51**	**14.63**	**13.21**
Liquidity Ratios								
Loan to deposit ratio	**74.**	**85.27**	**3.39**	**2.19**	**69.9**	**81.65**	**79.8**	**89.00**

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(%)	47				8		5	
Total Loans to Total Assets (%)	60.69	0.82	3.10	0.02	56.69	64.31	65.44	70.47
Cash and Portfolio Investment to Deposits (%)	24.21	20.74	5.16	2.75	17.22	15.82	31.15	24.42
Solvency Ratios								
Debt/Equity Ratio (%)	0.07	0.05	0.00	0.01	0.06	0.05	0.08	0.07
Debt/Total Assets (%)	0.85	0.82	0.01	0.02	0.84	0.81	0.88	0.85
Equity Multiplier A/E	0.08	0.07	0.00	0.01	0.08	0.06	0.09	0.08
Credit risk Ratios								
Common Equity/Total Assets (%)	13.85	16.79	0.72	1.39	12.39	13.96	14.89	18.43
Equity/Net Loans (%)	22.96	26.41	1.24	3.04	20.59	20.48	24.55	30.15
ImpLoans/GrossLoans (%)	9.13	7.85	3.96	2.26	3.74	3.52	15.66	10.36

Source: By researchers based on Banks' annual data, Bankscope: https://bankscope.bvdinfo.com/version-201535/home.serv?product=scope2006

The results show differences in the ratios' mean over the study period (2008-2014). The significance of these differences is tested using t-test; Table (3) shows the results.

Table (3): Financial ratios' mean differences (2008-2014) – "t-test"

Ratios	Islamic Banks (Mean)	Conventional Banks (Mean)	t-test	P-value
Profitability Ratios				
Return on Assets (%)	0.84	2.03	-4.06	0.00
Return on Equity (%)	6.43	12.07	-2.58	0.02
Liquidity Ratios				
Loan to deposit ratio (%)	74.47	85.27	-7.08	0.00
Total Loans to Total Assets (%)	60.69	66.11	-3.89	0.00
Cash and Portfolio Investment to Deposits (%)	24.21	20.74	1.57	0.14
Solvency Ratios				
Debt-Equity Ratio (%)	0.07	0.05	6.40	0.00
Debt to Total Assets (%)	0.85	0.82	4.41	0.00
Equity Multiplier A/E	0.08	0.07	3.24	0.01
Credit risk Ratios				
Common Equity to Total Assets (%)	13.85	16.79	-4.96	0.00
Total Equity to Net Loans (%)	22.96	26.41	-	0.01

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Impaired Loans to Gross Loans (%)	9.13	7.85	2.78 0. 75	0.47

Source: Calculated by researchers.

The results indicate that the six-year average profitability ratios for conventional banks are significantly higher compared to Islamic banks. Whereas on average, conventional banks recorded higher ROA (2.03% > 0.84%) and ROE (12.07% > 6.43%) and this difference is significant at 95% confidence levels. The annual profitability ratios (un-tabulated) in figures (1 and 2) indicate declining both ROA, ROE for conventional banks are nearly with constant rate, while with increasing trend for Islamic banks. Better liquidity performance reported in our results could be explained by the shortage of Islamic money markets instruments available for Islamic banks for short run investments, as well as the limited finance they can provide compared to conventional banks (i.e. from a Sharia'h compliance perspective). Therefore, customer deposits generate little or no income for Islamic banks (e.g. Haron, 2004).

These results are consistent with earlier findings in literature (Metwally, 1997; Moin, 2008; Jaffar and Manarvi, 2011; Hanif et.al, 2011; Al-Hares, et.al, 2013; Fayed, 2013). But the results are inconsistent with findings in other literature that found out profitability ratios higher for Islamic banks (e.g. Karim and Ali, 1989; Rosly and Abu Baker, 2003; Kader at al., 2007; Olson and Zoubi, 2008; Iqbal, 2012).

Regarding liquidity ratios, the results in Table (3) reveal significant superior performance of Islamic banks at 95% confidence. Whereas, on average, Islamic banks recorded lower LDR (74.47% < 85.27%), lower LAR (60.69% < 66.11%) and higher CPIDR (24.21> 20.74). Figures (3, 4 and 5) indicate smooth with little fluctuations liquidity ratios movements over the study period for both bank groups.

Such result is consistent with some studies' outcomes (e.g. Parashar and Venkatesh, 2010; Jaffar and Manarvi, 2011; Iqbal, 2012; Al-Hares, et.al, 2013 and Wasiuzzaman et. al, 2013). On the other hand, however our findings contradict with results reported by other studies (e.g. Rosly and Abu Baker, 2003; Kader et al., 2007; Hanif et.al, 2011 and Fayed, 2013). While another stream of literature indicates no significant difference between the two sets of banks in terms of liquidity performance (e.g. Metwally, 1997 and Moin, 2008).

Figures (9, 10, and 11) record that conventional banks perform lower debt to equity, debt to Assets and also lower Equity Multiplier over the six ears (2008-2014). Whereas, on average, conventional banks perform lower debt to equity ratio (0.05<0.07), reflecting ability of the bank's capital to absorb financial shocks. Also lower debt to asset ratio (0.82<0.85), which indicates more dependence on equity financing and higher financial leverage. Likewise, conventional banks experienced lower equity multiplier (0.07<0.08) that denotes that a smaller portion of asset is financed through debt. The tested difference of average solvency ratios presented in Table (3) indicates that conventional banks are significantly more solvent (less risky) than Islamic banks at 95% confidence. This result proofs that Islamic banks are generally more risky than conventional banks, where the second are superior in managing credit risk. Such results are similar to previous studies findings (e.g. Hasan and Dridi, 2010 and Fayed, 2013); however vary from other studies results (e.g. Kader et al., 2007 and Hanif et. al, 2011).

Three different ratios are used to measure credit risk namely; common equity to total asset, total equity to net loans and impaired loans to gross loans. Over the six-year study period figures (6, 7 and 8) show that conventional banks are more proficient than Islamic banks in absorbing loan losses. This depicts the fact that the quality of assets or loans of the Islamic banks are worse than of conventional banks. Superiority of conventional banks appear significant for all credit risk ratios except for the Impaired Loans to Gross Loans, That is reported to be insignificant in Table (3). Similar finding was reported other studies (e.g. Kader et al. 2007; Olson and Zoubi, 2008; Moin, 2008 and Fayed, 2013). However, contradicts with others (e.g. Hassan and Dridi, 2010 and Hanif et. al, 2011). However this difference is not statistically significant.

CONCLUSION

The main objective of this study is to assess the financial performance of banking sector in the UAE using financial ratio analysis (FRA). With a focus to compare between Islamic and conventional banks performance over the period (2008-2014). Aiming to answer the question as to which group of banks, Islamic or conventional, is pioneer in performance. The study used panel data of 16 banks in the UAE, 5 of them are Islamic and the remaining 11 are conventional during the period (2008 – 2014). Both Islamic banks and conventional banks are placed on an equal footing

under ratio measures, irrespective of the bank's size and the study did not include any foreign banks in the analysis.

The results indicate that there are statistically significant differences between the two types of banks in profitability, liquidity, credit risk and solvency performance indicators. Whereas, Islamic banks are, on average, less solvent (more risky), less profitable and have a higher credit risk though more liquid. While the conventional banks are, on average, pioneer in profitability and solvency. Such findings indicate the superiority of conventional banks over Islamic ones in profitability, credit risk management as well as solvency (less risk).

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