COMPARISON BETWEEN ISLAMIC BANKS AND CONVENTIONAL BANKS PROFITABILITY RATIOS DURING THE PERIOD 2006-2015 (APPLIED STUDY ON UAE BANKS)

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ABSTRACT

For the purpose of this paper and to reach on a solid conclusion, we studied all 21 locally incorporated conventional and Islamic banks in UAE. To assess and compare their performance, we referred to their financial data available on their official websites in the form of audited financial statements. Return on Equity (ROE) and Return on Assets (ROA) have been computed for these banks for the past 10 years, from 2006 to 2015 as indicators of their financial performances.

We conclude that conventional banks have been earning higher returns on their assets and equities overall during the period between 2006 and 2015 except in pre-crisis period of 2006 and 2007. Also, we conclude that despite the higher growth rate in assets and size of Islamic banks globally, conventional banks in UAE have better financial performance than their Islamic counterparts during the last 10 years.

Keywords:. Islamic Banks, Conventional Banks, Profitability, Financial Performance, ROA, ROE

INTRODUCTION

Research Methodology & Design

This research is based on Quantitative and Qualitative research. The primary data is collected through interviews with banks officers and the secondary data is the information that is available and taken from the audited financial statements published on the bank's website.

Why Islamic Banking?

Islamic banking and financial industry is a relatively new and alternative platform for financing needs of deficit spending units. Deficit spending units (DSUs) may be households, business firms and governments (Kidwell, Blackwell, & Whidbee, 2012). Islamic banks and financial institutions follow unique *Sharia* principles based on justice, morality, mutual existence, fair pricing and interest-free financial transactions. Important distinctive and positive feature of Islamic financing tools is that Islamic banks assume the risk of their investments and don't shift entire risk to the borrowers as against the practices of conventional financial institutions. Before we establish the positive aspects and advantages of Islamic financial institutions, we will have to look at critically the role and position of financial institutions in the modern history of financial markets and institutions. Looking at the last 100 years history of financial and economic system of our world, several minor and major shocks and depressions can be seen with one main and common reason behind all and that main reason is practices and regulations of commercial banks. Beginning with the Great Depression of 1930s to the most recent crunch of 2007-09, experts have raised their fingers on the system of credit allocation as the main reason of undue credit expansion and market collapse. Commercial banks in pursuance of maximum profits extend sub-prime loans and investments, failures or defaults of those loans lead to banks' failures and record shows that collaterals could not safeguard against failure of financial institutions and financial markets. Moreover, banks have always lobbied for and successfully marched towards less regulation and more products in their menus. Few of these products such as insurance add more risk to the profile of institutions and ultimately lead to the insolvency (Rose, 2001). Financial futures and other derivatives are favorite playgrounds for conventional banks which add significant risk level to the operations of these banks. On the other hand, Islamic financial institutions are not simply money lenders and loan creators instead they deal in trading of assets and invest money in joint ventures based on profit and loss sharing. By doing so, Islamic institutions assume complete or partial risk of their investments, therefore take into account all risk calculations and soundness of projects. Islamic institutions invest money or funds carefully on sound and feasible products and projects unlike conventional banks and stay more stable and sound than their conventional counterparts. Governments, experts and strategist have realized these facts, so are trying hard to allow space for Islamic banking industry parallel to conventional banking industry, as said by David Cameron on the eve of 9th World Islamic Economic Forum(World Islamic Economic Forum: British Prime Minister's speech, 2013). Most important thing is that conventional banks lend funds on fixed or fluctuating interest rates regardless to the outcomes of the funding or project. Much of these loans is spent on non-productive assets and just creates more money out of thin year hence causing inflation in the economies. This inflation ultimately impact living standards of individuals and competitiveness of the economies. Islamic instructions disallow the flow of money and concentration of money in few hands. Interest-based financing allow earning of money from money without any productive activity or risk-taking. These positive characteristics of Islamic banking philosophy are very appealing and arguably contributing towards the stability of national and global financial markets and economic systems.

Islamic financing products are also very helpful in delivering social and economic justice in the societies by giving access to the funds based on the merit of the plans not on the financial position of borrowers. That's why Islamic banking industry is growing at a double digit annually and at a higher rate than conventional banking industry. Despite of the issues such as people's perception, absence of Islamic financial industry benchmarks and much-needed unique regulations; Islamic banking industry has a promising future especially in the wake of frequent failures of our conventional markets. Islamic way of financing can contribute towards social and economic justice, end of exploitation and stability of our economic systems. Sharia based *Sukuk* can be a very reliable alternative to conventional long-term financing tools.

Comparison of Islamic Banking Regulation with Conventional Banking Regulation:

Islamic banking industry comprises of more than $2 trillion at the moment and is till just a fraction of global financial industry(wikipedia.org) but has been growing in double digit in last few years. Organized, matured and evolved regulators for conventional banks are in place nearly in all modern states to regulate financial activities in the interest of individuals, businesses and governments but Islamic banking industry, being relatively new one and deserving special institutions and regulations, are still either regulated by conventional regulators or special sections established within these regulators. For an Islamic bank, first and fundamental regulator is its *Sharia Supervisory Board or council.* Sharia supervisory boards are independent bodies of Muslim scholars and jurists who direct, advise and ensure the activities are complying with the Sharia instructions and given *fatwas.* These *fatwas* or rulings are binding on the management of Islamic banks. Rulings not only address the nature but also delivery of products. There are some other organizations which make guidelines and standards such as Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) based in Bahrain, Fiqh Academy of OIC and Islamic Financial Services Board (IFSB). These rulings and guidelines are not binding on Islamic financial institutions but are widely followed by Islamic banks worldwide except Iran.

However financial accounting standards issued by AAOIFI are mandatory for banking institutions in Bahrain, Sudan, Jordan and Saudi Arabia. An appropriate regulatory framework is not only necessary for conventional banks but also for Islamic banks. Islamic banks face special issues that need to be understood and recognized to help make effective regulatory framework. First is the provision of funds on profit and loss-sharing. In this, banks don't recognize the default losses until the Musharakah contracts expire limiting proved negligence or mismanagement of agent or working partner in the arrangement. Second, disclosure of information in Islamic banks is more significant than in conventional banks because depositors are left unprotected (Errico & Farahbaksh, 1998). The nature of regulatory framework for the Islamic financial institutions varies across the countries; some have proper laws and other don't e.g. Pakistan and Saudi Arabia. There are various and differing views on the necessities of regulation in conventional banking, they range from no to maximum regulation(El-Hawary , Grais, & Iqbal, 2004). On the other hand, nature and types of risks are widely different in conventional banks as compared to Islamic banks so the need and level of regulation is definitely varying. Some experts such as El Sheikh (2000) opines on no need of having any supervisory body for Islamic financial institutions. Conventional view on regulation is based on *public good, protection of public resources and integrity of fiduciary contracts*. In the eyes of Chapra and Khan (2004), there exists four reasons for the regulation of Islamic financial institutions namely as; systemic considerations, protecting the interest of demand depositors ensuring compliance with *sharia* supporting the integration of Islamic financial institutions in the international financial system. This important concept is elaborated in next part of this section.

In conventional finance, regulation allows public good that market cannot provide at its own. This view succeeds from two ways; first is the regulation is supposed to mitigate the risks assumed by stakeholders and all of them are not able to assess the quality of their contracts with the financial institutions. Second objective is the mitigation of risks of normal business failure due to any issue with banking or payment system in an economy. Governments provide a kind of safety net for the stakeholders of financial system mainly in the form of deposit insurance, which is infect a contingent liability for the authorities. To protect authorities from any risk of liable for these liabilities, regulation is essential in conventional finance view. Lastly, all stakeholders especially depositors have fiduciary contracts with the Islamic financial institutions. Regulation is essential to upheld the trust of stakeholders and mitigate the risk of intermediary failures.

Now looking at the need of regulation of Islamic financial institutions, first and foremost is the consideration of economy and system. Objectives of regulation may be promotion of orderly payments and economic development by more intervention and failure of IFIs in performing that role. In case of Islamic financial institution, the argument for the protection of interest of demand depositors is not that compelling due to change in the nature of contracts compared with conventional banking deposits. Because in a theoretical IFI model, depositor perceive the risks associated with their investments in profit and loss sharing. Conventional banks are regulated, as one of the many reasons, for the protection of national economic interests, Islamic financial institutions are also regulated to ensure that they comply with *Sharia* principles in letter and spirit. In case where civil laws are not in line with the religious instructions, separate set of regulations will have to be made. The last objective of regulating IFIs is to make its able to stand firm in international trade and payments systems and conventional counterparts are confident on their abilities to honor their obligations. So with reasonable level of regulation will ensure smooth functioning of IFIs in international financial industry. Now coming on the apparatus of implementing these regulations, in most of the Islamic countries, Islamic financial institutions

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are regulated by conventional regulators such as central or federal banks or central monetary authorities. We are still a bit far from the separate set of regulators to supervise the functions of Islamic financial institutions.

Comparison of Customer Accounts in Conventional and Islamic Banking

For the purpose of this paper, we underwent the study and analysis of all locally incorporated conventional and Islamic banks within UAE. All conventional banks offer variety of accounts with different features and rewards for the account holders ranging from pure current accounts/salary accounts to savings and investment accounts offering mark-up usually at fixed rates. Similarly Islamic banks offer demand deposits to investment accounts based on profit & loss sharing. Some UAE banks are offering duel banking services; both conventional and Islamic banking services which is allowed as per UAE law to cater the growing needs of clients. However, considering limitations of this report, we will compare the accounts of one largest conventional bank, Emirates NBD and one largest Islamic Bank, Dubai Islamic Bank.Below given table summarizes the various accounts offered by these two largest UAE conventional and Islamic banks:

Name of the bank	Account Type	Features
Emirates NBD Bank	Standard current account	Non-interest bearing account with check book facility. May be opened in a foreign currency with international ATM card. Overdraft facility is also available
	Special current account	Interest bearing account, may be opened in USD and AED
	Call Deposit account	Suitable for non-individual customers, opened in various major currencies and no restriction on transactions. Attractive interest rates are offered. No fixed tenure
	Islamic current account	Sharia based current account with a minimum balance available to individual and non-individual customers. Available in both USD and AED
	Mudaraba call account	Available to non-individual customers with minimum investment of AED.100,000 or equivalent. Profits are

		calculated on average monthly balance and paid out quarterly
	Standard savings account	Available in UAE dirhams only and offer 0.25% per annum on balance
	Tiered savings account	High interest rates depending on the balances maintained. Available in various gulf and international currencies
	Smart saver account	A unique account offering more interest rates on use of electronic transactions and use of less paper
	Shake n save account	Account suitable for small savings offering interest rates upto 2%
	Fitness account	A unique fitness based savings account offer upto 2% interest rate on balances
	Currency passport savings account	Offered in all major currencies. Interest rate of 0.25% per annum. Inter currency transfer is permitted
	Mudaraba savings account	Attractive profit rates in two denominations AED and USD on minimum balance of 3,000. Available to individuals only
	Manchester United savings account	A unique account that increases the interest each time this soccer team scores a goal. Account also offers few unique features such as free trip to Old Trafford
	FlexiDeposits account	Offer market lending interest rate on a minimum 10,000 AED or equivalent in other currencies. Premature withdrawals are permitted
	RegulaReturn Fixed Deposits	Time deposits for 3 months to 3 years. Offers competitive interest rates and pay out options on minimum deposit of AED.10,000
	Fixed deposit accounts	Time deposits for 7 days to 5 years. Offers market leading interest rates

	Goal Recurring Deposit	Gives a choice of upto 5 goals such as marriage, retirement. Individual accounts only with minimum contribution of AED 500
	Gold Savings certificates	Account offering investment in gold certificates at competitive prices
	Islamic term deposits	Islamic term deposits are offered in two accounts; Mudaraba General Investments and Wakala deposits
Dubai Islamic Bank	Al Islami Current account	A replica of conventional current account
	Al Islami Current account Plus	Another current account type with extra features
	Al Islami 2-in-1 Account	Account that offers benefits of current account plus Sharia based profits
	Al Islami Savings account	Savings account offering attractive profit rates with quarterly distribution of profits in either AED or $
	Al Islami E-savings Account	Savings account with three tiers of investment amounts and higher profit rates but available in dirhams only
	Al Islami Investment Deposit account	Flexible tenures of 1 month to 1 year with automatic roll-over facility on minimum of AED 10,000. Profit rates are higher
	Shaatir Savings Account	A unique account for the children with no minimum balance or maintenance fee. Higher profits are expected

(dib.ae)(emiratesnbd.com)

So we can analyze the difference between sample of conventional bank accounts and Islamic banks. Conventional banks have developed a variety of the accounts with unique features wider menu of accounts types compared to Islamic banks. Islamic banks in many cases just create replicas of conventional services but based on *Sharia* principles.

Risk Management in Islamic Banks

Islamic banks face risks that are similar to conventional banks and also unique those arise due to *Sharia* compliance (Ahmed & Khan). Moreover Islamic banks are barred to use some of the risk mitigation instruments used by conventional banks because they are not allowed as per *Sharia* instructions. Some of the main risks faced by Islamic banks are as follows:

i. Credit risk
ii. Market risk
iii. Mark-up risk: Risk of the changes in bench mark rate used by IFIs such as LIBOR
iv. Commodity/asset price risk
v. Liquidity risk
vi. Operational risk
vii. Legal risk: especially risk arising in the absence of Islamic laws and courts and standardized contracts.
viii. Withdrawal risk
ix. Fiduciary risk: caused by the breach of contracts by Islamic banks or clients or caused by the banks not being able to comply with *Sharia.*
x. Displaced commercial risk: when banks pay profit to the depositors though not in profit under commercial pressure
xi. Bundled risk: when more than one risk coexists

Risks faced by Islamic banks are complex and different and difficult to hedge. There can be more than one type of risk in one particular transaction e.g. leasing is subject to both credit and market risk. Some techniques for risk management are consistent with *Sharia* such as internal and external audit, risk reporting, PAROC and GAP analysis but others need to be made consistent with *Sharia.*

Following ways are used to reduce or curb some risks in IFIs:

- To control counterparty risk in *Murabaha*, banks receive upfront fee or payment to make sure that the client order for the requested goods upon purchase by the banks. Contracts are also made binding on customers. To curb this risk further, banks meet the condition of holding asset for sometimes at least theoretically by appointing client as an agent to buy on bank's behalf
- The counterparty risk in *Istisna* is curbed by adding penalty clause and linking payment with the stages of completion of the contract. The enforceability of the contract terms particularly relating to quality becomes a challenge(Ahmed & Khan).

- Repayment is expedited by giving a rebate or an incentive on the payment of outstanding amounts. This will help minimize credit risks.
- In case of no Islamic laws or courts, enforceability of the contract is another challenge. In this case contracts are now included with dispute settlements clauses where law is not that supportive.
- Guarantees either personal or corporate are also useful to curb few kind of risks.
- Dishonesty or misreporting specially in Musharakah and Mudaraba is quiet common and risky for the banks. There are several ways to control inherent risks in this case. Banks usually finance projects of public limited companies with good reporting and internal control in place. Second, banks also include the right of continuous monitoring and intervention to avoid any loss of capital especially in Mudaraba.

Financing Activities and Tools in Islamic Banks

Islamic banks have unique ways of financing comparing with conventional banks. Conventional banks are lenders or intermediaries in financial markets against Islamic banks which are traders and investors absorbing the risk of their investments. Investments of Islamic banks are risk-related investments (Ayub, 2007).

Islamic bank's financing techniques can be divided into two categories; debt based and equity based (profit & loss based).

Debt based financing modes are also known as asset based lending because these techniques lead to birth of an asset. These include *Murabaha, Istisna, Salam and Ijara.* Equity based financing modes include *Mudaraba and Musharakah*(Kettell , 2011). They will be discussed in details with their features, mechanism and strengths and weaknesses in next part of this report.

Mechanism, Features, Strengths and Weaknesses of Islamic Financing Tools

In this part we will discuss the mechanism, profitability, nature of collaterals and defaults in each of the Islamic modes of financing in detail one by one.

Murabaha

Murabaha is a mode of financing where the banks purchase an asset identified by the customer and sells to the client against deferred payment plans. Banks add pre-agreed mark-up to the cost of the asset which is generally linked with LIBOR because of no profit benchmark for IFIs. Dubai Islamic bank is charging a mark-up of 2.35% per annum this quarter. According to *Sharia* principles, all direct and indirect costs are disclosed to customers. Most of the banks place mortgages on the assets until the full payments are made by the clients. Penalty clause is also included in the contracts, e.g. Dubai Islamic Bank charges AED.100 on deferment charges. This product is a bit stronger and less risky than the other modes of financing because the banks may mitigate the risks by adding penalty clauses and mortgages.

Ijara

Alternative to conventional financial lease, Islamic Ijara is an arrangement where Islamic banks provide requested assets on medium to long term rental agreement but assets may be purchased by the clients at the end of lease period. The ownership of the asset must be with the bank during the lease period as a fundamental *Sharia* principle in this case. Banks bear all risks in this case and liable for all ownership-related risks and losses. In common, banks finance automobiles, houses, machinery through this mode of financing. Banks acquire security deposits from the lessee which are adjustable if clients wish to buy the assets at the end e.g. Dubai Islamic Bank finances upto 80% of the amount of the asset(dib.ae). In Ijara, banks manage risks by repossessing the asset if clients default in payments. A fixed amount of penalty is also charged in case of a default which is donated to charity.

Istisna

Alternative to project financing in conventional banks, Istisna is a mode of financing where the banks builds or manufactures the identified asset for a client usually through a third party. After finalizing contract with the client, bank orders for that asset from a manufacturer using specifications agreed with the first party. The bank usually charges more prices to that client that it pays to the manufacturer which is profit margin for the banks from this activity. Islamic banks are financing various types of assets through this arrangement. Being a very famous products among Islamic financial institutions, UAE Islamic banks are financing the construction of commercial and residential premises ad towers but banks assume many risks in this kind of contracts particularly performance risk from the manufacturer side and credit risk from the client side.

Salam

Salam is a way of financing where banks make a sale contract with the producer for the supply of a specific quantity of an item e.g. sugar on a specific date against the payment of full amount of money at the spot(Kettell , 2011). Banks make a parallel Salam contract to dispose-off the commodity in the market at usually a higher price. Infact Salam is a forward contract where delivery is made in future against the spot payment. The banks assume significant level of risks in these contracts but take mitigating steps as a counter risk strategy. Dubai Islamic banks have uses Salam contracts in sugar as a mode of personal finance after getting approval from Sharia advisory(Gulfnews.com, 2010). Personal or corporate performance guarantees are usually acquired by the banks.

Mudaraba

Mudaraba is a partnership agreement where the banks invest money in a new or existing venture as investors on pre-agreed ratio. Banks are capital providers and the other entrepreneurs are Mudarib, managing partners. Profit is divided on agreed ratio whereas losses are borne by the banks. This is among riskiest tool of financing in Islamic banks but banks may adopt risk management techniques given in risk management part of this paper. Islamic banks in UAE. Banks now usually use two-tier Mudaraba technique. As these being equity based investments; banks are exposed to higher downside risk and may acquire personal guarantees against fraud, mismanagement and negligence of Mudarib or sleeping partners. But practically, banks hesitate in investing amounts on large scale or retail level for the safety of bank's equity and deposits.

Musharakah

Musharakah is also a partnership agreement between bank and a client where both the partners will contribute capital and labor and share profit on agreed ratio but loss on capital ratio. Popular form of Musharaka common in UAE banks is diminishing Musharaka where banks sell their shares gradually to the other partner. Banks face certain kind of risks in Musharaka contracts usually operational risk and market risks which can be minimized by including provisions on fiduciary duties of the other partner.

Performance of Conventional and Islamic Banks

Following conventional banks (mostly operating dual banking) are operating in UAE and being included for analysis:

1.	Mashreq	Mashreq Bank (mashreqbank.com)
2.	CBD	Commercial Bank of Dubai(cbd.ae)
3.	UNB	Union National Bank (unb.com)
4.	UAB	United Arab Bank (uab.ae)
5.	RAK	National Bank of Ras-Al-Khaima(rakbank.ae)
6.	NBQ	National Bank of Um-ul-Quwain(nbq.ae)
7.	NBF	National Bank of Fujaira(nbf.ae)
8.	CBI	Commercial Bank International (cbiuae.com)
9.	Inv	Invest Bank Sharjah (investbank.ae)
10.	FGB	First Gulf Bank (fgb.ae)
11.	BOS	Bank of Sharjah (bankofsharjah.com)

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12. ADCB Abu Dhabi Commercial Bank (adcb.com)
13. ENBD Emirates National Bank of Dubai (emiratesnbd.com)

NBAD National Bank of Abu Dhabi (nbad.com)

Table 1: ROA of Conventional Banks in UAE

All figures are in %

Bank	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	Aver.
Mashreq	2.11	2.35	2.10	1.72	1.09	0.99	1.13	1.86	2.43	2.89	1.87
CBD	1.84	2.56	2.27	2.19	2.15	2.13	2.18	-	-	-	2.19
UNB	1.83	2.16	2.0	1.84	1.82	1.65	1.53	2.21	2.13	2.43	1.96
UAB	-0.70	2.35	2.56	2.62	3.05	3.98	4.01	3.31	3.42	3.31	2.79
RAK	3.47	4.18	4.75	5.15	4.91	4.69	4.24	4.57	3.66	2.93	4.26
NBQ	4.06	2.37	2.94	2.68	2.73	2.65	2.46	2.09	3.96	1.70	2.76
NBF	1.86	2.06	1.83	1.74	1.88	1.32	0.88	-0.39	2.68	2.75	1.66
CBI	-2.56	0.82	1.21	1.97	0.57	0.14	0.48	1.15	2.88	0.12	0.68
Invest	1.69	2.60	2.67	2.85	3.05	2.92	2.98	0.05	3.52	2.64	2.50
FGB	2.65	2.69	2.46	2.38	2.35	2.52	2.64	2.79	2.74	3.22	2.64
BOS	0.91	1.14	1.41	1.21	1.21	1.96	2.64	2.59	3.74	3.83	2.06
ADCB	2.16	2.06	1.98	1.55	1.66	0.22	-0.32	0.92	1.96	2.65	1.48
ENBD	1.75	1.42	0.95	0.83	0.87	0.82	1.19	1.30	1.09	-	1.14
NBAD	1.29	1.48	1.46	1.44	1.45	1.74	1.53	1.83	1.80	2.09	1.61
Average	**1.60**	**2.16**	**2.19**	**2.16**	**2.06**	**1.98**	**1.97**	**1.87**	**2.77**	**2.55**	

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Table 2: ROE of Conventional Banks in UAE

All figures are in %

Bank	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	**Aver.**
Mashreq	13.17	14.70	12.45	9.50	6.72	6.75	8.99	16.21	20.28	20.67	
CBD	12.96	15.39	14.0	12.61	13.0	13.96	15.02	-	-	-	13.85
UNB	10.42	11.94	11.39	11.35	11.48	11.32	10.85	18.73	17.59	16.75	13.18
UAB	-6.42	20.79	22.26	18.23	16.25	16.67	16.89	18.65	16.47	14.47	15.43
RAK	19.74	20.40	21.96	24.63	25.62	26.98	25.96	30.60	25.45	20.75	24.21
NBQ	13.59	8.24	9.94	9.61	9.64	10.98	11.32	10.20	19.37	6.22	10.91
NBF	13.06	15.02	12.98	13.48	13.63	9.25	6.25	-3.22	18.28	15.07	11.38
CBI	-18.7	7.04	8.06	12.50	3.75	1.0	3.11	7.98	20.32	0.78	4.58
Invest	8.93	12.93	12.64	13.84	14.95	14.97	15.37	0.30	17	11.60	12.25
FGB	16.58	16.42	15.11	13.97	13.84	14.39	14.47	18.03	19.84	17.09	15.97
BOS	5.41	6.48	8.11	6.63	6.04	9.19	11.62	10.67	17.58	15.27	9.7
ADCB	17.15	15.90	14.58	11.37	13.79	2.0	-2.69	8.54	18.27	20.02	11.89
ENBD	14.04	10.99	7.81	7.0	7.10	6.93	10.46	14.29	11.01	-	9.96
NBAD	12.11	14.70	13.65	13.92	14.05	15.27	14.77	21.03	22.34	23.39	16.52
Average	**9.43**	**13.64**	**13.21**	**12.76**	**12.13**	**11.40**	**11.60**	**13.23**	**18.75**	**15.17**	

Following locally incorporated Islamic banks are included:

1. Noor bank (noorbank.com)

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2. Al Hilal Bank (alhilalbank.ae)
3. Emirates Islamic (emiratesislamic.ae)
4. Dubai Islamic (dib.ae)
5. Ajman Bank (ajmanbank.ae)
6. Sharjah Islamic Bank (sib.ae)
7. Abu Dhabi Islamic Bank (adib.ae)

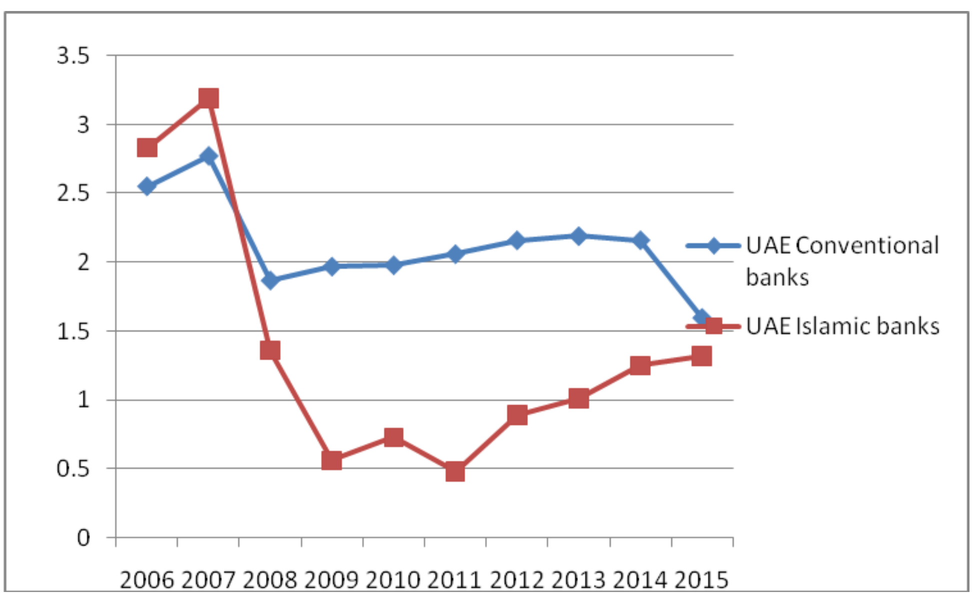
Table 3: ROA of Islamic Banks in UAE
All figures are in %

Bank	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	**Aver.**
Noor	1.42	2.34	1.10	0.42	-	-	-	-	-	-	1.32
Al Hilal	0.24	0.2	1.14	0.83	0.64	0.51	-0.42	--	--	--	0.45
Emirates	1.20	0.90	0.35	0.22	-2.09	0.18	0.52	1.52	3.79	3.40	0.99
Dubai	2.56	2.26	1.52	1.23	1.17	0.62	1.44	1.83	3.0	2.45	1.81
Ajman	0.85	0.06	0.15	0.61	0.17	0.12	0.06	0.31	-	-	0.29
Sharjah	1.37	1.45	1.41	1.49	1.42	1.60	1.63	1.49	2.77	2.63	1.73
ADIB	1.63	1.56	1.41	1.40	1.55	1.36	0.12	1.66	-	-	1.34
Average	**1.32**	**1.25**	**1.01**	**0.89**	**0.48**	**0.73**	**0.56**	**1.36**	**3.19**	**2.83**	

Table 4: ROE of Islamic Banks in UAE
All figures are in %

Bank	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	Aver.
Noor	15.97	20.72	10.45	3.46	-	-	-	-	-	-	12.65
Al Hilal	1.93	1.48	11.23	7.60	6.61	6.66	-3.98	-	-	-	4.51
Emirates	12.58	8.53	3.36	3.09	-18.1	2.03	4.55	23.93	48.22	36.83	12.50
Dubai	16.84	15.83	10.51	10.38	10.38	5.44	13.50	17.76	23.56	17.88	14.21
Ajman	9.92	6.47	1.02	3.18	0.70	0.40	0.11	0.30	-	-	2.76
Sharjah	8.71	8.22	6.77	6.12	5.70	6.13	6.1	5.56	13.56	9.51	7.64
ADIB	12.83	12.79	11.09	9.49	13.48	12.62	1.09	15.10	-	-	11.06
Average	**11.25**	**10.58**	**7.78**	**6.19**	**3.13**	**5.55**	**3.56**	**12.53**	**28.45**	**21.41**	

Graph 1: Average Annual ROA of Conventional and Islamic Banks in UAE



Above tables and diagrams show that the conventional banks have been earning higher returns on their assets and equities overall during the period between 2006 and 2015 except in pre-crisis period of 2006 and 2007. The financial performance of conventional banks is better than their Islamic counterparts particularly after the years following economic and liquidity crisis of 2008-09. But the important thing to note in this analysis is that the gap between their average annual ROAs and ROEs is closing in the last few years of our analysis period. There may be many reasons of these performance trends in a reasonably longer period we selected for this analysis. Looking at the graphs and tables, we note that Islamic banks have higher profitability rates than conventional banks during the years 2006 and 2007, before great crisis but then have declining with a peak in 2011. A similar kind of pattern may also be noted for conventional banks whose profitability dented after the crisis but comparatively lesser down fall than their Islamic counter parts. It may be inferred that due to their stronger positions and maturity level of conventional banking industry, conventional banks remained more resilient and performed better than the Islamic banks in post-crisis period. On the other hand, Islamic banks perhaps had to counter such crisis and panic first time after their regular and commercial launch in last two decades of previous century, so they dwindled more than the conventional commercial banks. Another reason of this wider gap in performance might be the fact that Islamic banks deal in assets and partnerships which are subject to higher level of market and credit risks in crisis. However, Islamic banks in UAE started recovering after 2011 and the gap between their profitability and that of conventional banks in UAE started getting closer. So we conclude that despite the higher growth rate in assets and size of Islamic banks globally, conventional banks in UAE have better financial performance than their Islamic counterparts during the last 10 years.

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