

Comparison of conventional and islamic bank structures

[Finance](#), [Banks](#)



Section 1: Conventional Bank

ROA Ratio has been decrease from 2007 to 2009 because the bank has decrease on net profit. After that the ratio has been increase from 2009 to 2011. In ROA it means each \$1 invested in assets get \$0. 0184 profit. ROE ratio has decrease from 2008 to 2010 by 2. 73% because the bank has decrease on net profit. After that the bank's return on equity increases from 2010 to 2011 by 1. 04%. ROE ratio means each \$1 invested in equity can get profit \$0. 1621. PER Ratio has been decrease from 2007 to 2011 by 0. 092. This is because the banks in Bahrain has decreased in profit and increasing on operating expense.

Section 2: Islamic Bank

ROA has been decrease from 2007 to 2008 by 0. 2% and changing to (0. 625%) because Ithmour has Net Loss in 2009 after that ROA increse from 2010 to 2011 by 0. 19%. That is effect from financial crises. ROE has been decrease from 2007 to 2008 by 4. 68% after that changing to (2. 36%) in 2009 and (0. 91%) in 2010 because ithmaar bank has Net Loss which coming from Financial Crisis. PER has been decrease from 2007 to 2011 by 0. 82 because some of Islamic Bank has Net Loss and other has increse in operating expence.

This study is aimed to investigate the impact of the changes in internal bank-specific variables and external macroeconomics variables towards Islamic banks' financial performance in Bahrain during and after the global financial crisis. Comparatively, conventional bank and Islamic bank's ratio is not

equal. In order to investigate the impact of financial crisis towards the banking performance, it is very important to understand the determinants of banking financial performance. Literatures reveal that banking financial performance is influenced by internal and external determinants. ROA and ROE are very important indicators of banking financial performance (profitability) and normally used as the dependent variables. Conventional bank's return on assets, return on equity and profit expense ratios are higher than Islamic bank. Islamic bank given best financial performance from 2007 and 2008 than Conventional banking. Due to financial crisis, Islamic banks could not manage accurately financial performance. From 2007 to 2011, Conventional bank provides best results of ROA, ROE and PER for periodically. The performance of Islamic banks (IBs) and conventional banks (CBs) during the recent global crisis by looking at the impact of the crisis on profitability, credit and asset growth, and external ratings in a group of countries where the two types of banks have significant market share.

Section 1: Conventional Bank

(LDR) ratio has been decrease from 2007 to 2011 by 21. 01%. It means all banks in Bahrain try to decrease loans and accepted deposits from customers. LDR ratio has been increase from 2007 to 2009 by 22. 91% it means Islamic Bank increase Loans to customer after the LDR Ratio decreasing from 2010 to 2011 by 6. 19% that is effects from financial crises because the Islamic bank decreased Loans to customer. (CPIDR) has been decrease from 2007 to 2009 by 11. 67%. It means banks reduce the cash liquidity because the banks give loans to the customer. But CPIDR increases

from 2009 to 2011. (LAR) has been increase from 2007 to 2008 by 15. 34%. It means that banks try to gives the customer loans to get interest income. But the ratio has decreases from 2009 to 2011 by 5. 39%.

Section 2: Islamic Bank

(LDR) ratio has been decrease from 2007 to 2011 by 21. 01%. It means all banks in Bahrain try to decrease loans and accepted deposits from customers. CPIDR Ratio has been increasing from 2007 to 2009 by 9. 52% it means the Islamic Bank keep Liquidity Cash to Cover Deposits Requirements after that decreased by 12. 4%. LAR has been decreasing from 2007 to 2011 by 5. 67% that means in 2007 the bank gave loans to customer by 40. 46% from Assets but after financial crises decreased the Loans to customer.

Conventional bank and Islamic bank provides better financial performance. Conventional bank results from 2007 to 2011, LDR results increased to decreased periodic year and almost similar financial position of CPIDR and LAR. In this analysis, financial performance of both banks are better and the same time some ratio results are differ from both banks. Managing liquidity is more challenging in IBs, given the limited capacity of many IBs to attract PSIAs since the return on these accounts is uncertain and the infrastructure and tools for liquidity risk management by IBs is still in its infancy in many jurisdictions. Similarly, the dependence on bank deposits is limited due to a less active market and the absence of an interbank rate, except under the limited reverse Murabahah. While IBs usually maintain higher liquidity buffers to address this risk, limited tools (e. g. sovereign sukuks) for making

use of this liquidity prevent IBs from operating at a level playing field with CBs. In addition, the liquidity support in the form of government deposits is easier to be directed to CBs given the easiness of auctioning government deposits to CBs. This could be due to large liquidity support that was extended to the banking system during the crisis, which limited the impact of this factor. The importance of liquidity risk, making the strengthening of liquidity management a key part of the global reform agenda.

Section 1: Conventional Bank

(DER) has been increase from 2007 to 2008 after that the ratio decreases from 2008 to 2010 by 1.75% after than increase by 0.82% from 2010 to 2011. (DTAR) has been increase from 2007 to 2011 by 0.01. It means the banks take deposit from customer equal 0.905 from Assets in 2011.

(EM) Ratio has been increase 1% from 2007 to 2011. It means in 2011 each \$1 invested in Assets financial from equity by \$0.11.

Section 2: Islamic Bank

DER has been increasing from 2007 to 2011 by 1.88 because the Islamic Bank depends on deposits from customer and other banks. But that Ratio it is very risky to banks because liability equal 5 times of equality. DTAR has been decreasing from 2007 to 2011 by 0.04 but the Ratio it very high and risky because Liability equal over 50% of Assets. EM Ratio has increasing from 2007 to 2011 by 3.28 it means the Islamic Bank depend on Liability instead of equity that is very risky for the banks.

Compare the performance of Islamic banks (IBs) and conventional banks (CBs) during the recent global crisis by looking at the impact of the crisis on profitability, credit and asset growth, and external ratings in a group of countries where the two types of banks have significant market share. The study suggests that IBs have been affected differently than CBs. Factors related to IBs' business model helped limit the adverse impact on profitability in 2008, while weaknesses in risk management practices in some IBs led to a larger decline in profitability in 2009 compared to CBs. IBs' credit and asset growth performed better than did that of CBs in 2008-09, contributing to financial and economic stability. External rating agencies re-assessment of Islamic Banks risk was generally more favorable.

SUMMARY AND CONCLUSION:

This study is aimed to investigate the impact of the changes in internal bank-specific variables and external macroeconomics variables towards Islamic banks' financial performance in Bahrain during and after the global financial crisis. This shows that Islamic banking industry is not totally crisis proof. Financial crisis does give an impact upon the Islamic banking performance, particularly in Bahrain, but the effect comes after the crisis period.

As one of the fastest growing segments in global financial services, Islamic finance has become systematically important in many markets and too big to ignore in others. While conventional intermediation is largely debt-based and allows for risk transfer, Islamic intermediation, in contrast, is asset based and centers on risk sharing. In addition to providing IBs (Islamic Banks) with

additional buffers, these features make their activities more closely related to the real economy and tend to reduce their contribution to excesses and bubbles.

Our analysis suggests that International Banks (IBs) fared differently than did Conventional Banks (CBs) during the global financial crisis. Factors related to IBs business model helped contain the adverse impact on profitability in 2008, while weakness in risk management practices in some IBs led to larger decline in profitability compared to CBs in 2009. In particular, adherence to Shariah principles precluded IBs from financing or investing in the kind of instruments that have adversely affected their conventional competitors and triggered the global financial crisis. The weak performance in some countries was associated with name concentration and in some cases, was facilitated by exemptions from concentration limits, highlighting the importance of a neutral regulatory framework for IBs and CBs and strengthening risk management in some banks.

IBs credit and asset growth were at least twice higher than that of CBs during the crisis, suggesting a growing market share going forward and larger supervisory responsibility. External rating agencies re-assessment of IBs risk was generally more favorable or similar to that of CBs. Higher solvency has facilitated meeting the relatively more robust demand for Islamic banking finance and maintaining stable external ratings. Lending to the less affected consumer sector has helped support strong credit and asset growth.

While the global crisis gave IBs an opportunity to prove their resilience, it also highlighted the need to address important challenges. The crisis has led to greater recognition of the importance of liquidity risks, and the need for efficient bank resolution framework. Hence, building a well-functioning liquidity management infrastructure is a key priority. Moreover, regulators and standard setters for IBs should ensure that the supervisory and legal infrastructure, including for bank resolution, remain relevant to the rapidly changing Islamic financial landscape and global developments. Reform efforts in this regard should interface with the global reform agenda. Greater convergence and harmonization of regulations and products is needed to facilitate an efficient and sustainable growth of the industry. Addressing the above challenges will require that Islamic Banks and supervisors work together to develop the needed human capital.