Empirical Findings on the Profitability of Banks in Qatar: Islamic Vs Conventional

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Abstract

The study aims at providing an empirical analysis of the profitability of Islamic and conventional banks in Qatar within the period of 2010-2014 by looking at how capital adequacy, liquidity and bank size impact profitability for the two bank types.

A total of 8 banks are studied within a 5-year period with five conventional and three islamic banks respectively. Descriptive statistics were used to compute and understand the differences in characteristics of the two bank types. A t-test on each variable was carried out with the objective of determining if there was a significant difference among the two bank types and finally, a correlation and regression analyses is carried out to assess the effect of the variables on the profitability of banks.

It is found that the ROA, Liquidity, capital adequacy values are higher for Islamic banks compared to conventional banks. With bank size, conventional banks showed greater values than Islamic banks. According to the regression output, bank size and liquidity were found to be significant in affecting profitability of both bank types.

Keywords words- Islamic bank, Conventional bank, Profitability, Qatar, Banks

1. INTRODUCTION

Several factors contribute to a country's economic growth and the banking sector is among the prominent sectors in this regard. The stability and growth of any economy to a larger extent depends on how stable the banking sector is (Siraj and Pillai (2012). Itserves as an intermediary providing a link between surplus and deficit units, facilitates funds for productive usage and in that way contributes to economic development of the country (Kahf, 2015).

Islamic commercial banking assets continue to see a significant growth over the years with almost 10% growth in 2014 over 2013 to USD1.3trillion in global assets and are forecasted to reach $3.25 trillion by 2020(State of the Global Islamic Economy, 2015).This mega trends in Islamic finance is recognised by many stakeholders in the global finance industry and some describe it as shifting from "a very esoteric asset class to one that's more… global" (Economist, 2014). This shows the acceptability of Islamic banking model in the world especially in the Middle East, North Africa and Asia.

In Qatar, Islamic banking assets registered a cumulative growth of 26% between 2009 and 2013. The share of Islamic banking assets in the market as at 2013 was 24%. In 2014, assets, loans and deposits declined in conventional and foreign banks but the same accelerated in Islamic banks. This led to the increase in the market share of Islamic banks to almost 25% whilst conventional banks share reduced (Central Bank of Qatar, 2014). There has been some developments in the Islamic banking space in Qatar. In 2011, the central bank of Qatar directed that all Islamic banking windows must be closed stating that banks interested to provide Islamic banking products should operate full fledge Islamic banking model. There were divergent views from industry players and observers on this move my the Regulator.(Dinnar Standard, 2011).

The banking sector is expected to play a critical role in fuelling the Qatar's vision 2030 agenda which is specifically couched as "the development of a diversified economic base to secure and maintain a high standard of living in the future" among other objectives. In achieving this, the sustainability of the banking sector which hinges on profitability is key. The profitability of banks plays a major role to the sustainability of not just conventional banks but Islamic banks alike. Sayed and Hayes (2012) assert that the continuous assessment of bank performance is fundamental in order to protect the banking operations against its inherent risks or poor management that can threaten the entire financial system of any country.

The broad aim of this research is to carry out a comparative study empirically to find out the profitability of Islamic and conventional banks in Qatar within the period of 2010-2014. This broad aim has the following specific dual objectives. Firstly, to compare the profitability of Islamic and conventional banks profitability and secondly, to ascertain what drives profitability among the two bank types.

A study of the literature reveals that, there has not been a comparative study of Islamic and conventional banks in Qatar in an empirical approach. Elsiefy (2013) did a comparative study of Islamic and conventional banks in Qatar but the study adopted ratio analyses approach. This research is therefore seeking to contribute in filling this gap.

The scope of the work is limited to a study of the banks in Qatar with focus on profitability and captures only listed banks. There are about 18 banks in Qatar and only half are listed. It means that non-listed banks will not be captured and this is seen as a limitation on the research.

2.OVERVIEW OF THE BANKING SECTOR IN QATAR

As a host to 13% of the world proven natural gas reserves and 25 billion barrels of Proven oil reserve, Oil and gas have seen Qatar to the envious position of the world's highest per-capita income country and the country that has the lowest unemployment rate in the world (CIA, 2014). The country has embarked on massive infrastructure development to position itself as a world class country in the very near future. The banking sector has leveraged on this remarkable resources to grow exponentially over years with total banking assets of over QR 85 billion (USD25 billion) in 2014. Figure 1 shows the growth in assets over 2009 through to 2014. From figure 1, Islamic banks consistently grew above the national average and the highest growth was experienced in 2011 of about 35% for Islamic banks and although this fell to about 18% in 2014 it was still higher than the national average.
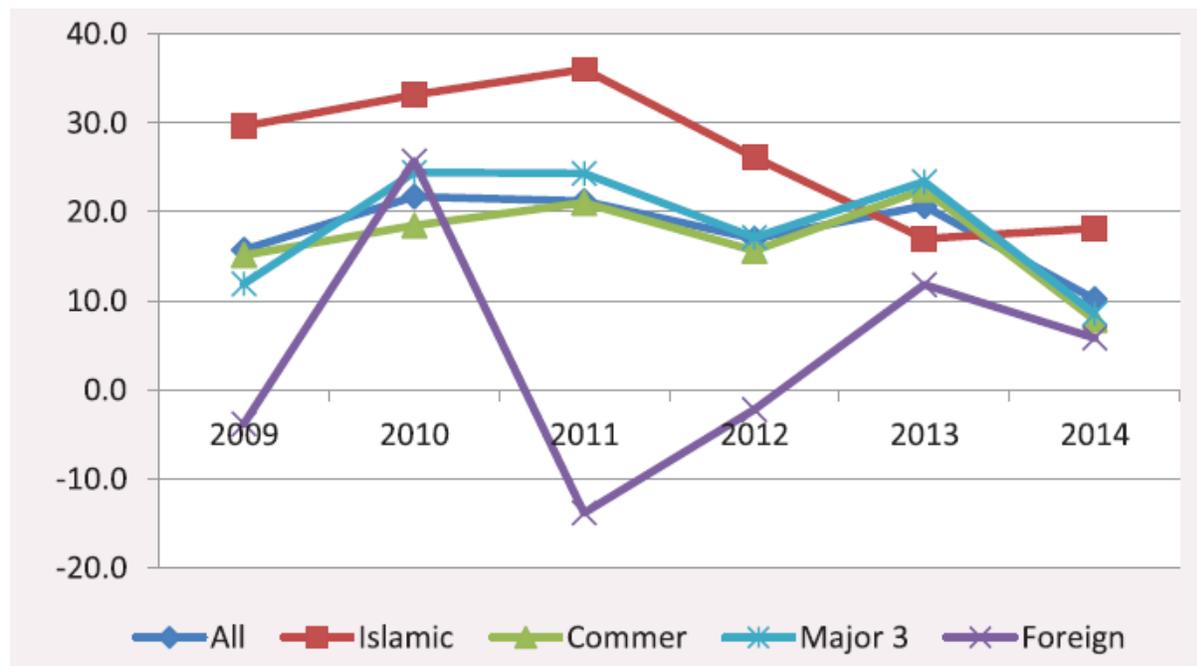
Qatar has a total of 18 banks with 7 national banks, 4 Islamic banks and 7 foreign banks. Qatari banks are enjoying remarkable financial performance, sufficient capitalization, as well as good asset quality. Additionally, banks benefit from government support, which is endlessly working on regulating and improving the efficiency of the financial services sector (Blominvest report, 2011). For the past years, financial performance has been boosted despite the squeeze on net margins, due to increasing price war as a result of competition. In the global Islamic banking space, Qatar plays a major role in the development of the Islamic finance sector as it contributes to 7.7% and 23.5% of global and national shares of Islamic banking assets respectively (Ernst and Young, 2014).

Many ongoing projects such as petrochemicals, Qatar's metro system, light rail system, the construction of a new port, roads, stadiums and related sporting infrastructure and housing present a huge opportunity for Islamic banks as sharia compliant instruments may be requested to finance some of these projects. Qatar Islamic Bank (QIB) is the biggest Islamic Bank in the country with an international outreach. They have an arrangement with the Arab Finance House in Lebanon and the Asian Finance Bank in Malaysia. The bank is looking to investing other markets in Egypt, Turkey and Kazakhstan for potential expansion of its Shariah-compliant banking operation (Tabash and Dhankar, 2014). Other

Islamic banks are doing well, for example World Islamic Banking Conference (WIBC) Leaderboard announced that Qatar-based Masraf Al Rayan and Qatar International Islamic Bank led the global cost-to-income ratio rankings with a ratio of 20.6 per cent 24.4 per cent respectively (tradearabia.com).

Early in 2011, the Qatar Central Bank (QCB) issued a directive declaring that it was terminating the activities of Islamic finance services offered by conventional banks. Thus, conventional banks were not allowed to operate Islamic windows. This decision was criticized by some industry observers citing that the decision was going to lead to limiting of banks access to capital market, breed inefficiency and limit competition among others. This was refuted by the Regulator with the explanation that it will rather make players to be more sharia-compliant, and also conventional banks could open full fledge Islamic banks if they wanted to operate Islamic banking. On the issue of capital market, the QCB said, the closure of the Islamic banking windows was not targeted on multi-national banks but all banks operating Islamic banking windows in Qatar.

3. WHY COMPARING ISLAMIC AND CONVENTIONAL BANKS?

Comparison of profitability between an Islamic bank and conventional bank is important looking at both firms' characteristics. A conventional bank as adherent of the theory of profit maximization view is that the prime objective of a rational firm is to pursue the maximization of profit and it's only this that the firm will be seen to be behaving rational. This view is not shared by Islamic firm entirely, which rather holds that, parties in the Islamic markets will combine twin objectives: maximization of profits/utility, i.e. welfare in this world and maximization of success in the world hereafter, i.e. achievement of Paradise(Samad, 2008).These views have implication for the profitability, sustainability and investment attraction of each business model.

Imam Al-Ghazali reports (احياءعلومالدين) that rates of profits were generally accepted or set by merchants in the average of 3% in the first Hijri century, but increased gradually after that to probably reach 10% in his time (fifth Hijri century). Muslim scholars and fuqaha were never against profit making as did Plato in his time. They recognized that the profit motive is essential in trade and in other economic activities. Yet they were asserting that profits should be Halal and reasonable. Imam Al-Ghazali in particular was very keen to emphasize this view (Yousri 2013).

Recent and past business crises underscore the fact that in the absence of moral restraints, legal instructions and guidelines are susceptive to violation (Morris 2008).In Islamic thinking, ethics is a key determinant of business conduct and behaviour and economic considerations should be secondary to ethical priorities (Nagvi 1981).Ethics, therefore, takes on a broader domain of influence in the marketplace, including a wide range of issues from interest to monopoly and from pricing to profit margin. This wide governing of business affairs emphasizes the social dimension of organizational activities making it fruitful for business executives to factor social consequences in their decision-making process**.** This explains why in the early days of the Islamic state, in the seventh century, knowledge of religious-based ethics was set as an essential prerequisite formarket actors. The second Caliph, Omer (590–644),declared, ''only he who is a religiously learned person can sell in our market'' (Quoted in Asaf 1987, p. 224).Halal profit can only be achieved through production or trade that is Shariah compliant.

Islam adopts a stakeholder viewpoint that is somewhere between Freeman's approach (1984, 2001) and Goodpaster's (1991). While Freeman considers the claims of all stakeholders (defined as employees, management, owners/financiers, customers, suppliers and the community) as equally valid,

Islam identifies the fact that the owners/ financiers of a firm have the right to make a profit, but not to the disadvantage of the claims of various other stakeholders(Beekun and Badawi, 2005).

Its worthy to mention that mainstream economics does not look beyond the cost profit relationship in assessing the efficiency of productive units and it would be an exercise of naïvity to dispute the relevance of cost efficiency for Islamic Banks. In as much as Islam is able to contain some of the dictum of capitalism, it also aims at building a new social order where the needs of the Muslim society are met (Hasan 2004).The performance of Islamic banks as argued by some scholars must be judged largely with reference to the extent they help in building this sort of society.

In Islamic finance the creation of debt is through selling goods and services on credit but not on just lending as in conventional banks. When debts are created they cannot be rescheduled. Ideal Islamic modes of finance involve money on the one end and goods and services on the other hand and the debts can only be traded at nominal values at maturity(Kahf, 2015 and Al-Jarhi, n.d)

Its therefore plausible to compare the profitability of Islamic banks operating within the constraint of Shariah against the conventional banks who are not subjected to such constraint.

4. LITERATURE REVIEW

The Evaluation of bank performance is a daunting process that involves evaluating the interaction between the environment, internal operations and external activities.

Return on assets shows the profitability on the assets deployed by the firm after all expenses and taxes (Van Horne 2005). It is a commonly used to measure of managerial performance (Ross, Westerfield, Jaffe 2005). ROA is a measure of net earnings per unit of a given asset of the firm, additionally, the ability of the bank to convert its assets into earnings (Samad& Hassan 2000). Generally, a higher ratio is an indication of superior better managerial performance and efficient utilization of the assets of the firm and lower ratio is theis the reverse. Many regulators believe return on assets is the best measure of bank efficiency.

Return on equity (ROE) measures the profit entitled to shareholders of the firm after all expenses and taxes (Van Horne 2005). ROE is net earnings indicates per dollar equity capital (Samad& Hassan 2000). Like ROA, It is also used in measuring managerial efficiency [Sabi (1996) and Hassan (1999). In general, higher ROE indicates better managerial performance. But it is worthy to mention that, a higher return on equity may be as a result debt or higher return on assets. Financial leverage produces an important differentiator between ROA and ROE in that financial leverage always magnifies ROE (Ross, Westerfiled, Jaffe 2005).

From previous studies, the factors that affect profitability of banks could be microeconomic or bank-specific factors. Molyneux and Thornton (1992) find a number of macroeconomic factors such as interest rates, bank concentration, and government ownership to be positively related with profitability of banks. Many other studies establish a positive relationship between inflation and banks' performance. Some of these studies include Athanasoglou et al (2005), Heffernan and Fu (2008), Sufian and Habibbullah (2009), Wasiuzzaman and Gunasegavan (2013). Guru et al (2002) in contrast finds a negative relationship between interest rates and profitability of bank.

When proxied by the net loans to total assets, liquidity has a positive relationship with bank's profitability for both conventional and Islamic banks. This conclusion is supported by Bashir (2000),

Athanasoglou et al (2005), Sufian and Habibbullah (2009) and Wasiuzzaman and Tarmizi (2010), Athanasoglou et al (2006), Vong and Hoi (2009). Arguing from the angle of hedging against liquidity risk, Srairi (2009) argued that the less liquid the bank is the more profitable it will be. Kosmidau et al (2005), Chaudhry et al. (1995) and Tanna et al (2005) concur with this conclusion in their studies though the proxy for measuring liquidity was different. Elsiefy (2013) reveals that Liquidity indicators show that Islamic Banks are less liquid than Conventional Banks in Qatar.

Some studies conclude that the size of a bank can influence the profitability of the bank. Larger banks are found to perform superior than small banks (Camilleri ,2005). Similar conclusion was drawn by Yung (2009) and Flamini et al. (2009) . Yung (2009), Beck Demirguc-Kunt and Levine,(2006) and Beck, (2008) explained that larger banks will produce better performance as they may benefit from diversified investment opportunities, better management and deploy better technology and be more efficient due to economies of scale. In contrast, Wasiuzzaman and Tarmizi (2010) and Heffernan and Fu (2008) found that bank size was not significant as better diagnosis of profitability was found when bank size was excluded from the. Also similar studies by Tanna et al. (2005), Pasiouras and Kosmidou (2007) and Sufian and Habibbullah (2009) found that diseconomies of scale to be driving down profitability leading to an inverse relationship between bank size and profitability.

Capital requirements create a buffer against any unforeseen losses and can affect risk taking by banks(Lamoreaux,1994).Using the equity to total assets ratio as an indicator, Bashir (2000), Naceur (2003), Tanna et al (2005), Flamini et al. (2009), Vong and Hoi (2009) and Sufian and Habibbullah (2009) confirmed the positive relationship between capital efficiency and profitability. However, Athanasoglou et al (2005), Pratomo and Ismail (2006) and Wasiuzzaman and Tarmizi (2010) found a significantly negative relationship using the same ratio.

5. METHODOLOGY

Quantitative research method is used in this research. Three stages of analyses are performed. First, descriptive statistics is used to compute and understand the differences in characteristics of the two bank types. Stage two is dedicated to carrying out of t-test on each variable with the objective of determining if there is significant difference among the two bank types. In the final stage, a correlation and regression analyses is carried out to analyse the effect of the variables on the profitability of banks.

The ratios of ROA and ROE are used to measure bank profitability and are used as the dependent variables. Three independent variables are considered to represent liquidity, bank size and capital adequacy. Srairi (2009)Wasiuzzaman and Tarmizi (2010), Wasiuzzaman and Gunasegavan(2013) and Erol et al (2014) use similar approach in their studies.

5. 1 Empirical Model

To test the relationship between profitability of banks and variables described, the Ordinary Least Squares (OLS) linear regression model in the following form is used:

$$Y_{it} = \beta_0 + \beta_{1\,Liq_{it}} + \beta_{2\,cap_{it}} + \beta_{3\,bsize_{it}} + \beta_{4\,IBank_{it}} + u$$

Where y represents ROA or ROE for bank i and time period t, β_0 is a constant and liq, cap, bsize and IBank represent independent variables of liquidity, capital adequacy, bank size and an Islamic bank dummy respectively and u represents the error term.

5.2 Data Collection

The data for all banks in the sample was compiled from Qatar Stock Exchange website. The collated secondary data derived from the bank's financial statements was transformed into percentages and ratios so that comparison can be made between the different types of banks. Financial management theories provide various indices for measuring a bank's performance, with the most significant being financial ratio analysis. Financial ratios have been used quite commonly and extensively in previous studies done by Samad (2004), Javaid et al (2011) and Momeneen et al (2012). In total 8 banks were selected as the sample out of the total 18 banks in Qatar with 5 conventional banks and 3 Islamic banks. The rationale behind selecting only listed banks is that the financial data related to the publicly traded institutions are more accurate due to their adherence to more restricted rules in terms of capital, practice, governance and disclosure as previously done by Rashwan (2012). Also data accessibility was considered in selecting the listed banks.

5.3 Data Analysis Techniques

Descriptive Statistics (including mean, standard deviation, kurtosis, skewness, minimum and maximum) are used to compare and analyse the performance of Islamic and conventional banks. One-way ANOVA is used to test for any differences between the financial performance of Islamic and conventional banks using both the dependent and independent model variables. Correlation analysis is done to find out the association between the two-paired variables. Multiple linear regression model is used to determine the significance of each explanatory variables in affecting the profitability of banks (dependent variable). The moderating effect of different banking systems was evaluated by using an Islamic bank dummy. Normality is assumed in the data.

6. EMPIRICAL RESULTS

Table 1 is summary of descriptive statistics of dependent and Independent variables with panels of Islamic and conventional banks, only Islamic banks and only conventional banks over 2010-2014.

Statistic	ROE	ROA	Liquidity	Cap Adq	Banksize
Panel A: Islamic and conventional					
Mean	0.141	0.023	1.762	0.260	92073272.575
Standard Deviation	0.040	0.007	1.453	0.250	112495714.118
Kurtosis	0.067	5.221	5.115	32.735	5.654
Skewness	-0.239	1.519	2.153	5.508	2.509
Minimum	0.036	0.011	0.127	0.157	17923420.000
Maximum	0.230	0.049	7.302	1.731	486356676.000
Count	40	40	40	40	40
Panel B: Islamic banks					
Mean	0.140	0.026	1.994	0.319	55486823.667
Standard Deviation	0.039	0.008	1.364	0.394	24477701.216
Kurtosis	2.790	2.893	1.865	14.284	-1.359
Skewness	-1.244	1.582	1.673	3.746	-0.057
Minimum	0.036	0.017	0.749	0.157	18178941.000
Maximum	0.201	0.049	5.051	1.731	96106464.000
Count	15	15	15	15	15
Panel C: conventional banks					
Mean	0.142	0.142	1.623	0.225	114025141.920
Standard Deviation	0.041	0.037	1.514	0.085	137392730.014
Kurtosis	-0.903	-0.823	7.960	2.025	2.160
Skewness	0.236	-0.212	2.584	1.700	1.814
Minimum	0.081	0.074	0.127	0.157	17923420.000
Maximum	0.230	0.204	7.302	0.469	486356676.000
Count	25	25	25	25	25

Table 1 is a summary of the descriptive statistics for the Islamic and conventional banks and it is categorized into three parts; in Panel A, using data from both Islamic and conventional banking and Panels B and C present the data from Islamic and conventional banks respectively.

It can be noticed from table 1 that the difference between the maximum and the minimum values of the ROA for Islamic and conventional banks is quite moderate. This shows that the performance of individual banks is not significantly distant from each other. The mean ROE for both Islamic and conventional bank type is almost identical but that of ROA mean for conventional banks is a little lower than that of Islamic banks which means Islamic banks perform better than conventional banks. For the

ROE and ROA, the skewness for Islamic and conventional banks panel showed on the negative and positive sides respectively of the entire sample. The negative skewness is driven by the negative skewness of the Islamic banks sample values. The positive skewness for the ROA is driven marginally by the positive values of the Islamic banks. The kurtosis for the entire sample for ROE and ROA appeared to be moderate although the value for the ROA is higher. Islamic banks sample has a positive kurtosis values for both ROA and ROE but attained higher kurtosis compared to conventional banks. A lower kurtosis means that higher values of this ratio are closer to the average of the normal distribution curve and fewer extremes are either above or below the average. With respect to liquidity and bank size, it's found that conventional banks sample has a higher kurtosis compared to Islamic banks. This again means that there are high values above or below the average for these ratios especially conventional banks. Looking at the mean ratios for liquidity and capital adequacy, Islamic banks are more liquid due to higher liquid assets over customers' short term funding and highly capitalized due to higher equity contribution by shareholders than conventional banks. This means that Islamic banks are sounder as a result of the higher equity over net loans. For bank size, it's observed that conventional banks are twice bigger than Islamic banks with potential for higher performance than Islamic banks.

From the descriptive statistics, it's clear that there are differences between the Islamic and conventional banks but they are not sufficient enough to derive that these differences are statistically significant for both bank types. A summary of independent t-test is presented in table 2.

With reference to the means shown in the descriptive statistics, Islamic banks are more profitable than conventional banks when profitability is proxied by ROA, which could be due to higher net financing. The results of the independent t-tests show that the difference is highly significant with a p-value of 0.00. Regarding liquidity and capital adequacy, Islamic banks appear to perform better than conventional banks but the t-tests show that this difference is not significant. For bank size, conventional banks were found to be bigger than Islamic banks and this difference is found to be significant by the t-tests results with a p-value of 0.06.

Table 2 is a summary of a t-test of two independent variables for both Islamic and conventional banks samples.

t-test for equality of means

variable	t Stat	P(T<=t) one-tail	t Critical one-tail
ROA	4.72	0.00**	1.69
Liquidity	0.778	0.221	1.686
Cap Adq	1.164	0.126	1.686
Bank size	-1.627	0.056*	1.686

Note: *significant at 10 per cent level and **1 per cent level

To pave way for the running of the regressions, the correlations between the variables were checked. The guiding rule of thumb for multicollinearity to pose a problem to a regression analysis is, if the pair-wise correlation coefficient between two regressors exceeds 0.8 (Gujarati and Porter 2009).There was no evidence of such high correlations, the highest being 0.376 between ROE and bank size. Table 3 shows the summary of the correlations between the variables.

The result of the ordinary least squares (OLS) regression with ROA and ROE as the dependent variables are shown in Table 4.

Table 3 summarises the correlations results between the variables ROA, ROE, Liquidity, Capital adequacy and Banksize

	ROE	*ROA*	*Liquidity*	*Cap Adq*	*Banksize*
ROE	1				
ROA	0.126	1			
Liquidity	-0.373*	0.171	1		
Cap Adq	-0.011	0.238	0.475*	1	
Banksize	0.376*	-0.014	-0.341**	-0.164	1

Note: significant at: *1 per cent and ** 5 per cent

Table 4 is a summary of two regression outputs ran on ROE and ROA as dependent variables with independent variables being liquidity, capital adequacy, and bank size with a dummy for Islamic bank over 2010-2014 for Islamic and conventional banks.

Table 4 is a summary of two regression outputs ran on ROE and ROA as dependent variables with independent variables being liquidity, capital adequacy, and bank size with a dummy for Islamic bank over 2010-2014 for Islamic and conventional banks.

	ROE				ROA			
Variable	*Coefficients*	*SE*	*t Stat*	*P-value*	*Coefficients*	*SE*	*t Stat*	*P-value*
Liquidity	-0.010	0.005	-2.161	0.038	0.005	0.007	0.732	0.469
Cap Adq	0.032	0.027	1.212	0.234	0.027	0.039	0.689	0.496
Banksize	0.000	0.000	1.864	0.071	0.000	0.000	1.429	0.162
Islamic Bank	-0.006	0.012	-0.454	0.653	-0.083	0.018	-4.651	0.000
Observations	40.000				40.000			
R²	0.250				0.421			
Adj R²	0.164				0.355			
Significance			0.04				0.01	

7. DISCUSSION OF RESULTS

The regression model with ROE as the dependent variable suggested that that 16% of the change in ROE is attributable to liquidity, capital adequacy, bank size and the bank type. This is lower when compared with ROA as the dependent variable which has an adjusted R square of 0.355 meaning that 36% of the variability of ROA can be attributed to the independent variables. Both ROE and ROA are significant at 95% with ROA being highly significant at as high as 99%. With ROE as a dependent variable, liquidity was found to have a negative relationship with profitability as the coefficient is negative and significant. This is similar to the findings of Srairi, 2009 which concluded that the less liquid a bank is the more profitable it is as higher liquidity reduces profitability. This is also found in this result since the amount of liquid assets is taken as the numerator for the variable used to measure liquidity. Looking at the results of the descriptive statistics and the independent tests, Islamic banks were found to have higher liquidity than conventional banks though insignificant. Hence, based on the argument above, higher liquidity will mean lower profitability, showing that Islamic banks are less profitable than conventional banks when liquidity is. For ROA, liquidity contributes positively to profitability even though it's insignificant at 99%.

Capital adequacy contributes positively to profitability when ROA and ROE are used as proxies for profitability from the regression output. Whilst capital adequacy is insignificant with ROA it's significantly high for ROE. A higher ratio indicates the ability to cover loan losses and to handle risk exposure, hence a sounder bank. This finding is similar to Akhtar et al. (2011) who discovered that the ratio of equity over net loans is significant and positively related with the bank's profitability. Conversely, in Adrian and Hyun (2006), they discovered that the ratio was negatively related to the banks profit. From the independent t-test Islamic banks were found to be more capitalised compared to conventional banks though it was found to be insignificant. Islamic banks will be more profitable than conventional banks when capital adequacy is referenced even though it's not significant.

Bank size also contributes positive to the profitability of banks for both ROA and ROE but its only significant for ROE at 90% level of significance. The relationship was found to be positive, which supports the results of Wasiuzzaman and Gunasegavan (2013) and Yung (2009). In the independent t-test results, conventional banks were found to be significantly bigger than Islamic banks. Hence, from the results of both the independent t-test and the regression, it can be concluded that conventional banks would be more profitable if bank size is the determining variable.

For bank type dummy, Islamic banks was given the value 0 and 1 for conventional banks. The regression results show a negative relationship for Islamic bank type and profitability for both ROA and ROE proxies though it is only ROA which is significant. In this case, this means that Islamic banks are less profitable than conventional banks when the type of bank is considered. The result is curious because it is different from what was found in the descriptive statistics, which showed that for ROA, Islamic banks achieved higher. The regression results agree with the independent t-test results which showed a significant difference between the ROA of Islamic and conventional banks. The regression results would indicate that given the factors considered in the model and if profitability is based on these factors, conventional bank will perform better.

8. CONCLUSION

The aim of this study was to do a comparative analysis of the differences between Islamic and conventional banks in Qatar with focus on profitability, using ROA and ROE as proxies. A total of 8 banks (5 conventional and 3 Islamic) were considered spanning 2010-2014.Three stages of analysis were performed. First, the descriptive statistics showed that, ROA, Liquidity, capital adequacy values are higher for Islamic banks compared to conventional banks. With bank size, conventional banks showed higher values than Islamic banks. To determine whether these differences were significant, independent t-tests were carried out on each variable. ROA and bank size were significant whilst liquidity and capital adequacy were not.

Finally, regression analysis was carried out to analyse the effect of the variables on bank profitability. Capital adequacy and bank type were found to be insignificant whilst bank size and liquidity were found to be significant in affecting profitability when ROE is used as a proxy for profitability. A conflicting result was found for type of bank dummy. While the descriptive statistics showed that Islamic banks were more profitable the regression analysis indicated the opposite. This could be due to some factors not taken into consideration in this study and this may be investigated further as it is highly significant.

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