Examining Performance Disparities in Palestinian Banks: A Comparative Analysis of Islamic and Conventional Banks

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ABSTRACT

The study investigates the performance differentials between Islamic and conventional banks operating in Palestine across a number of dimensions. **Research Problem:** The study addresses the lack of comparative analysis between Islamic and conventional banks in Palestine, specifically examining performance disparities using the CAMEL approach. This is critical due to the recent trend of conventional banks acquiring Islamic banks, raising questions about the underlying performance differences. **Purpose:** The main purpose of this study is to analyze and compare the performance of Islamic and conventional banks in Palestine from 2011 to 2021, focusing on key performance dimensions such as capital adequacy, asset quality, management quality, earning ability, and liquidity. **Methodology:** The main purpose of this study is to analyze and compare the performance of Islamic and conventional banks in Palestine from 2011 to 2021, focusing on key performance dimensions such as capital adequacy, asset quality, management quality, earning ability, and liquidity. **Results:** The main purpose of this study is to analyze and compare the performance of Islamic and conventional banks in Palestine from 2011 to 2021, focusing on key performance dimensions such as capital adequacy, asset quality, management quality, earning ability, and liquidity. **Recommendations:** Islamic banks should refine their business models to adopt higher-risk, higher-profitability strategies and diversify their financing beyond Murabaha. Conventional banks should continue strengthening their liquidity positions and capital management to maintain their competitive edge.

Keywords: Conventional banks, Islamic banks, CAMEL, Financial Performance, Palestine.

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فحص تفاوتات الأداء في البنوك الفلسطينية: تحليل مقارن للمصارف الإسلامية والتقليدية

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الملخص

تبحث الدراسة في الفروقات في الأداء بين البنوك الإسلامية والبنوك التقليدية العاملة في فلسطين عبر عدد من الأبعاد. **مشكلة البحث:** تتناول الدراسة نقص التحليل المقارن بين البنوك الإسلامية والتقليدية في فلسطين، حيث تُفحص الفروقات في الأداء باستخدام منهجية CAMEL. تُعد هذه القضية مهمة نظراً للاتجاه الحديث للبنوك التقليدية نحو الاستحواذ على البنوك الإسلامية، مما يثير تساؤلات حول الفروقات الجوهرية في الأداء. **الهدف:** الهدف الرئيسي من هذه الدراسة هو تحليل ومقارنة أداء البنوك الإسلامية والبنوك التقليدية في فلسطين خلال الفترة من 2011 إلى 2021، مع التركيز على الأبعاد الرئيسية للأداء مثل كفاية رأس المال، جودة الأصول، جودة الإدارة، القدرة على الكسب، والسيولة. **المنهجية:** تعتمد الدراسة على منهجية CAMEL لتحليل الأداء ومقارنة الأداء بين البنوك الإسلامية والتقليدية. **النتائج:** أظهرت النتائج فروقات واضحة بين البنوك الإسلامية والتقليدية في الأبعاد المختلفة للأداء، حيث تحتاج البنوك الإسلامية إلى تحسين نماذج أعمالها لتبني استراتيجيات ذات مخاطر وربحية أعلى، وتوسيع نطاق التمويل ليشمل أدوات تمويلية متنوعة بخلاف المرابحة. في المقابل، يجب على البنوك التقليدية الاستمرار في تعزيز مراكز السيولة وإدارة رأس المال للحفاظ على ميزتها التنافسية. **التوصيات:** يُوصى بأن تُعدِّل البنوك الإسلامية نماذج أعمالها لتبني استراتيجيات ذات مخاطر وربحية أعلى وتنوُّع تمويلها بما يتجاوز المرابحة. وينبغي للبنوك التقليدية مواصلة تعزيز مراكز السيولة وإدارة رأس المال للحفاظ على تفوقها التنافسي.

الكلمات المفتاحية: البنوك التقليدية، البنوك الإسلامية، CAMEL، الأداء المالي، فلسطين.

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Introduction

The emergence of Islamic financial services during the latter half of the previous century, accompanied by subsequent advancements in Islamic financial institutions, markets, and instruments, has garnered considerable global interest, especially in nations predominantly inhabited by Muslims. Islamic banking institutions have introduced a novel financial intermediation business model grounded in Shari'ah principles, which

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govern all financial transactions performed by the banks with their depositors and clients. These principles include rules against interest, excessive uncertainty, and Maysir (gambling). Instead, Islamic banking emphasizes profit and loss sharing (PLS) arrangements (Habib, 2018). The Islamic finance industry's assets reached US$2.88 trillion in 2019, growing by 14%, and are projected to reach US$3.69 trillion by 2024. Islamic banking assets alone amount to US$1.99 trillion, accounting for 69% of the industry (ICD-REFINITIV, 2020).

Since 1990, Islamic banking in Palestine has experienced a comparable development path. The recent trend of conventional banks acquiring Islamic banks has sparked inquiries into the motivations driving these acquisitions. This study aims to investigate the specific performance dimensions where Islamic banks diverge from their conventional counterparts. By analyzing significant performance differences and identifying the contributing dimensions, this research aims to address this overarching question.

While extensive research has been conducted on this topic in various countries including the Gulf Cooperation Council (GCC) countries, Egypt, Pakistan, Indonesia, and Malaysia, there is a notable lack of studies addressing this area in Palestine. The first category encompasses studies that utilize the CAMEL model to identify performance variations (Jaffar & Manarvi, 2011; Youssef & Samir, 2015). In contrast, the second category consists of studies that employ author-defined approaches to determine performance dimensions (Al-Deehani, El-Sadi, & Al-Deehani, 2015; Chiahti et al., 2021; Habib, 2018; Hamedian, 2013; Kakakhel, Raheem, & Tariq, 2013; Latif, Abbas, Akram, Manzoor, & Ahmad, 2016; Siraj & Pillai, 2012). However, these studies yield inconclusive results and present contradictory findings. As a result, this study holds both practical and theoretical significance.

In terms of practical implications, the study's findings will offer bankers from both Islamic and conventional banks valuable empirical evidence regarding performance differences. This will assist them in identifying specific areas that require improvement. On a theoretical level,

the study's results aim to address and reconcile the inconsistencies observed in prior research concerning the performance of Islamic banks.

Literature Review

Researchers, bankers, regulators, supervisors, investors, and analysts use key performance indicators (KPIs) to assess the financial performance of banks. The CAMEL standard test, as discussed by Padmalatha and Justin (2017), is a well-known assessment tool used to measure the health and performance of financial institutions. It evaluates various factors including Capital Adequacy, Asset Quality, Management Quality, Earning Ability, Liquidity Position, and Sensitivity to market risk. The CAMEL framework has performance dimensions that include both objective and subjective factors. These parameters aid in assigning ratings to individual components and an overall rating to the bank (Padmalatha & Justin, 2017). The five performance components of CAMEL, when considered together, provide a thorough assessment of a bank's performance and act as a guide for pinpointing areas in need of improvement.

The CAMEL framework encompasses five performance dimensions that offer a comprehensive assessment of a bank's overall performance and provide guidance for identifying areas requiring improvement. These dimensions are as follows:

1. Capital Adequacy: This metric assesses the correlation between a bank's capital and assets that are assigned different levels of risk, indicating its capacity to protect depositors and lenders from probable insolvency. Efficiently managing capital adequacy improves the financial stability and effectiveness of the bank's operations (Padmalatha & Justin, 2017).

2. Asset Quality: Asset quality refers to the overall quality of a bank's assets, which is determined by the level of risk associated with the asset portfolio. A more superior portfolio signifies enhanced long-term production for the bank. This dimension pertains to the credit risk linked to the bank's assets, including loans, advances, investments, and off-balance sheet operations (Padmalatha & Justin, 2017).

3. The dimension of management quality assesses the capability and expertise of a bank's board of directors and top managers in efficiently handling the risks associated with banking operations (Padmalatha & Justin, 2017).

4. The earnings record is an indicator that assesses the amount and trajectory of a bank's profits, offering valuable information about its financial performance. Additionally, it takes into account the projected increase in profits, providing insight into the bank's prospective profitability and stability (Padmalatha & Justin, 2017).

5. Liquidity: The liquidity evaluation evaluates the sufficiency of a bank's existing and projected sources of funding. The evaluation of the bank's capacity to manage its money involves reviewing its liabilities and measuring the availability of funds to satisfy credit needs and cash flow requirements (Babar & Zeb, 2011; Padmalatha & Justin, 2017).

Prior studies examining the performance of Islamic and conventional banks may be classified into two distinct categories. The first category entails the comparison of mean financial ratios pertaining to performance, whilst the subsequent category employs regression models to elucidate the factors influencing performance.

Abusharbeh (2011) conducts a comparative analysis of the profitability of Islamic and conventional banks in Palestine in the first category of research. The research demonstrates a noteworthy disparity, demonstrating that Islamic banks exhibit lower profit rates in comparison to overseas conventional banks. Aziz, Husin, and Hashmi (2016) examine different financial ratios in Islamic and conventional banks in Pakistan in a similar manner. Their research reveals that Islamic banks surpass conventional banks in terms of efficiency, return, and asset quality. Nevertheless, they encounter obstacles in domains such as advancements, investments, liquidity, deposits, and capital. In addition, the study conducted by Usman and Khan (2012) examines the financial performance of banks in Pakistan and reveals that Islamic banks have superior liquidity and profitability compared to conventional banks. Tabash, Yahya, and Akhtar (2017) highlight that Islamic banks in the UAE have superior

performance in terms of operational efficiency, bank size, and liquidity compared to conventional banks. Conversely, traditional banks have superior capital adequacy ratios. In his study, Samad (2004) does a thorough comparison of Islamic and conventional banks in Bahrain. The results indicate that there is no statistically significant disparity between the two types of banks in terms of liquidity and profitability. Islamic banks demonstrate a reduced level of credit risk in comparison to regular banks. Aljahdali and Faleel (2021) conducted research on banks in Saudi Arabia and discovered that Islamic banks have lower levels of profitability. Nevertheless, they exhibit superior levels of liquidity, reduced risk, and enhanced efficiency in comparison to traditional banks. Regarding Indonesia, Ika and Abdullah (2011) examine the banking sector in the nation and find that Islamic banks do not exhibit any notable variations in financial performance compared to conventional banks, save for Islamic banks having notably greater levels of liquidity. Zeitun (2012) conducts a comprehensive examination of GCC nations and finds that equity and bank size are significant determinants in determining profitability for conventional and Islamic banks, respectively. Moreover, macroeconomic factors also have influence on bank performance. Chiahti et al. (2021) conduct a study on banks in Pakistan and observe that the profitability of Islamic and conventional banks is impacted in distinct ways by characteristics such as bank size, age, GDP growth, and inflation. Youssef & Samir (2015) conduct research to examine the differences in performance between Islamic and conventional banks in Egypt. The research encompasses a total of two Islamic banks and three conventional banks. It examines data from the period of 2010 to 2013, using panel regression analysis as the analytical method. The research analyzes many characteristics, such as capital sufficiency, managerial quality, asset quality, liquidity, and bank size, to evaluate their influence on bank profitability, as evaluated by ROA and ROE. The results suggest that the performance of both kinds of banks is not substantially influenced by the type of bank. Nevertheless, the caliber of management and the scale of the bank have a favorable and noteworthy impact on profitability as assessed by Return on Equity (ROE). Conversely, the sufficiency of capital has a positive but inconsequential influence on profitability as evaluated by

Return on Assets (ROA). Furthermore, the quality of assets has a negligible effect on profitability according to both criteria. Moreover, liquidity has a detrimental and substantial impact on profitability as assessed by return on equity (ROE), but its impact on profitability as measured by return on assets (ROA) is negative but not statistically significant. Al-Deehani et al. (2015) examine the differences in performance between Islamic and conventional banks, as well as the influence of economic circumstances on their performance. The analysis examines data from 13 Islamic banks and 12 conventional banks that are operational in the Gulf Council Countries (GCC) for the period of 2001 to 2013. The analysis focuses on six performance indicators: investment to total assets, loans to total assets, deposits to total assets, return on assets, return on equity, and payout ratio. The research used a multivariate general linear model (GLM) to investigate the impacts of bank type and economic circumstances on these variables. The results suggest that there are no substantial disparities between Islamic and conventional banks in relation to all the factors examined. These findings indicate that the performance metrics examined did not reveal a significant difference between the two kinds of banks in the GCC area. Furthermore, Latif et al. (2016) conduct a comparative analysis of banks in Pakistan. According to their study, Islamic banks exhibit lower levels of risk, better solvency, and improved efficiency in comparison to traditional banks. Nevertheless, there is no discernible difference in terms of profitability between the two categories of banks. (Awad, 2020; Raee et al., 2019) study the efficiency of Palestinian banks. Their results show a remarkable difference between banks in their efficiency.

Within the second category, Zeitun (2012) undertakes a study to examine the determinants of profitability in Gulf Cooperation Council (GCC) nations. The analysis reveals that both equity and bank size have substantial influences on profitability, but other internal variables do not have significant significance. Moreover, the research establishes a direct relationship between GDP and profitability, while inflation exhibits an inverse relationship. Chiahti et al. (2021) examine the influence of bank size, age, GDP growth, and inflation on profitability in Pakistan. Their

results illustrate the diverse impact on profitability between Islamic and conventional banks, indicating that these variables have unique effects on each kind of bank. Latif et al. (2016) conducted research where they compared the performance of five Islamic banks with five conventional banks in Pakistan, namely from 2006 to 2010. The research aims to do a trend analysis of financial statistics in the areas of profitability, risk, liquidity, and efficiency. Islamic banks provide reduced risk levels, increased solvency, and enhanced efficiency in comparison to conventional banks, as shown by the study. Nevertheless, there is no discernible disparity in profitability between the two categories of banks.

In their study, Jaffar and Manarvi (2011) analyze and compare the performance of five Islamic banks and five conventional banks in Pakistan during the period of 2005 to 2009. The research used the CAMEL parameters, which include capital sufficiency, asset quality, management quality, earnings ability, and liquidity situation, as dimensions to assess success. Financial ratios are used to evaluate performance in several domains. The research demonstrates that Islamic banks have superior levels of performance in terms of capital adequacy and liquidity when compared to conventional banks. Conversely, traditional banks have superior performance in terms of managerial excellence and earning capacity. Islamic and conventional banks have comparable levels of performance with regards to asset quality. Kakakhel et al. (2013) conducted a distinct study to examine the comparative performance of Islamic and conventional banks in Pakistan from 2008 to 2010. The research encompasses a selection of two Islamic banks and two conventional banks, with the primary objective of assessing liquidity, profitability, solvency, and activity by means of financial ratio analysis. The results suggest that conventional banks exhibit higher profitability and activity levels compared to Islamic banks, however Islamic banks display stronger performance in terms of liquidity and solvency. In the same manner, Siraj and Pillai (2012) conduct a comparative examination of six Islamic banks and six conventional banks that are active in the Gulf Cooperation Council (GCC) nations over the period of 2005 to 2010. The research examines many performance variables, such as profitability,

liquidity, risk, and efficiency, by applying different ratios. The results indicate that Islamic banks exhibit superior profitability and liquidity in comparison to conventional banks. Nevertheless, it is noted that Islamic banks place a greater emphasis on equity as a means of financing their assets, leading to increased provisions for credit losses in order to effectively mitigate risk. There is no noticeable disparity in efficiency between the two kinds of banks. Mailindra et al. (2023) conducted a comparative analysis of the financial performance of Islamic and conventional banks in Indonesia between 2016 and 2020. The study employs a quantitative methodology and a comparative research approach. The researchers use descriptive and comparative methods, specifically using independent sample t-tests and Mann-Whitney tests for their study. The study's findings demonstrate that Islamic banks had superior performance compared to conventional banks in relation to the Capital Adequacy Ratio (CAR). Conventional banks outperform Islamic banks in terms of Non-Performing Loans/Non-Performing Financing (NPL/NPF), Return on Assets (ROA), Net Interest Margin/Net Operating Margin (NIM/NOM), Cost to Operating Income (BOPO), and Loan to Deposit Ratio/Financing to Deposit Ratio (LDR/FDR). The statistical tests indicate that there is no statistically significant difference in performance between Islamic and conventional banks in terms of the CAR ratio. When evaluating indicators such as non-performing loans/non-performing financing, return on assets, net interest margin/net operating margin, cost to income ratio, and loan-to-deposit ratio, significant differences may be seen in the financial performance of Islamic and conventional banks. In this study, Suriyati et. al (2023) assess the influence of firm-specific risk, including credit risk, liquidity risk, and operational risk, as well as macroeconomic variables such as inflation, GDP, and unemployment, on the performance of Islamic commercial banks and conventional banks in Indonesia, specifically measured by return on assets (ROA). The study employs quantitative research methodologies using secondary data on Islamic and conventional banking over the period spanning 2017 to 2021. The findings of Islamic banking demonstrate that only the credit risk factor and the operational risk factor have substantial adverse impacts on their return on assets (ROA). The other four factors do not impact the success

of Islamic banks. Operational risk, inflation, and GDP have a substantial impact on the return on assets (ROA) of traditional banks. Neifar & Gharbi (2023) analyze the degree of differentiation between Islamic banks (IBs) and conventional banks (CBs) in Tunisia based on their financial characteristics from 2005 to 2014, encompassing the 2008 global financial crisis (GFC) and the 2011 Tunisian revolution. The study utilizes both univariate and multivariate analysis. The univariate analysis is performed by examining multidimensional figures, while the multivariate analysis employs the robust OLS technique for panel linear regression with mixed effects. The results indicate that there are discrepancies in the practices of Islamic and conventional banks. Both techniques indicate that investment banks (IBs) have elevated levels of liquidity, profitability, and risk in comparison to commercial banks (CBs). Subsequent to the Tunisian revolution in 2011, smaller commercial banks (CBs) have shown more financial soundness, but bigger investment banks (IBs) have exhibited heightened stability. Furthermore, both types of banks have shown enhanced liquidity. The Tunisian government has depended on the banking industry to tackle budget deficits due to these issues. Following the 2011 revolution. Shirazi & Vahab (2022) conduct a comparative study of Islamic and conventional banks in Qatar using CAMELS analysis from 2015 to 2020. The sample comprises 14 banks in Qatar, with four classified as Islamic and the remaining as conventional. The analytical results demonstrate that Islamic banks in Qatar have outstanding performance, consistently outperforming conventional banks in several dimensions. The findings suggest that there is a need to strengthen liquidity management protocols in order to boost the overall efficiency of both Islamic and conventional banks in Qatar. The study conducted by Suriyati et al. (2023) extensively examines the impact of distinct risks related to individual firms, such as credit risk, liquidity risk, and operational risk, along with macroeconomic factors such as inflation, GDP, and unemployment, on the performance of Islamic commercial banks and conventional banks. Their primary emphasis is on quantifying the Return on Assets (ROA) within the Indonesian banking industry. This study employs quantitative research approaches and examines secondary data from the period spanning 2017 to 2021 for both the Islamic and conventional banking sectors. The

findings suggest that of the parameters examined in Islamic banking, only credit risk and operational risk significantly affected the Return on Assets (ROA) in a negative manner. The performance of Islamic banks is not significantly affected by the other four factors. Conversely, conventional banks have emphasized operational risk, inflation, and GDP as crucial factors that influence the Return on Assets (ROA). The study provides valuable insights into the distinct aspects that impact the performance of Islamic and conventional banks in the Indonesian financial system throughout the specified timeframe.

Hypothesis Development

This study seeks to examine the variations in performance between Islamic and conventional banks by formulating hypotheses that will direct the research and provide a coherent framework for analysis. The hypotheses are formed by drawing upon the current literature and aligning them with the particular aims of the investigation. Table 1 provides a thorough overview of the results obtained in prior research, with a special emphasis on the assessment of the five elements of CAMEL. These studies have investigated and evaluated the performance aspects of Islamic and conventional banks, offering significant insights into their individual performance in terms of capital sufficiency, asset quality, management quality, earnings capacity, and liquidity situation. The condensed results shown in Table 1 provide a succinct summary of the study findings, adding to the current information base on the comparative effectiveness of Islamic and conventional banks.

Table (1): Literature Review- Summary.

Dimension	Result	Studies	Results
Capital Adequacy	Mixed	(Tabash et al., 2017)	CBs outshine
		(Youssef & Samir, 2015)	Capital adequacy's effect on profitability IBs: + / significant CBs: +/insignificant

Dimension	Result	Studies	Results
		(Jaffar & Manarvi, 2011)	IB outshine
Asset Quality	Conclusive	(Youssef & Samir, 2015)	IBs & CBs: +/ Insignificant
		(Jaffar & Manarvi, 2011)	No difference
Management Quality	Mixed	(Youssef & Samir, 2015)	IBs & CBs: +/ significant
		(Jaffar & Manarvi, 2011)	CBs outshine
Earnings	Mixed	(Usman & Khan, 2012)	IBs outshine
		(Tabash et al., 2017)	Insignificant difference
		(Samad, 2004)	Insignificant difference
		(Aljahdali & Faleel, 2021)	IBs lag behind
		(Ika & Abdullah, 2011)	Insignificant difference
Liquidity	Mixed	(Usman & Khan, 2012)	IBs outshine
		(Tabash et al., 2017)	IBs outshine
		(Samad, 2004)	Insignificant difference
		(Aljahdali & Faleel, 2021)	IBs outshine
		(Ika & Abdullah, 2011)	IBs outshine
		(Latif et al., 2016)	IBs outshine

Dimension	Result	Studies	Results
		(Jaffar & Manarvi, 2011)	IBs outshine
		(Kakakhel et al., 2013)	IBs outshine

CBs: Conventional Banks; IBs: Islamic Banks

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Table (shows that except of asset quality and liquidity, the results of the studies are contradictory. Therefore, the development of the hypotheses goes as follows:

H1: The capital adequacy of Islamic banks does not significantly differ from that of conventional banks.

H2: The asset quality of Islamic banks does not significantly differ from that of conventional banks.

H3: The management quality of Islamic banks does not significantly differ from that of conventional banks.

H4: The earning ability of Islamic banks does not significantly differ from that of conventional banks.

H5: The liquidity of Islamic banks does not significantly differ from that of conventional banks.

Conceptual Model

This model serves as a complete framework for appraising the financial performance of banks via the evaluation of five essential dimensions: Capital Adequacy, Asset Quality, Management Quality, Earnings, and Liquidity. Every measure signifies a crucial facet of a bank's comprehensive well-being and operational effectiveness.
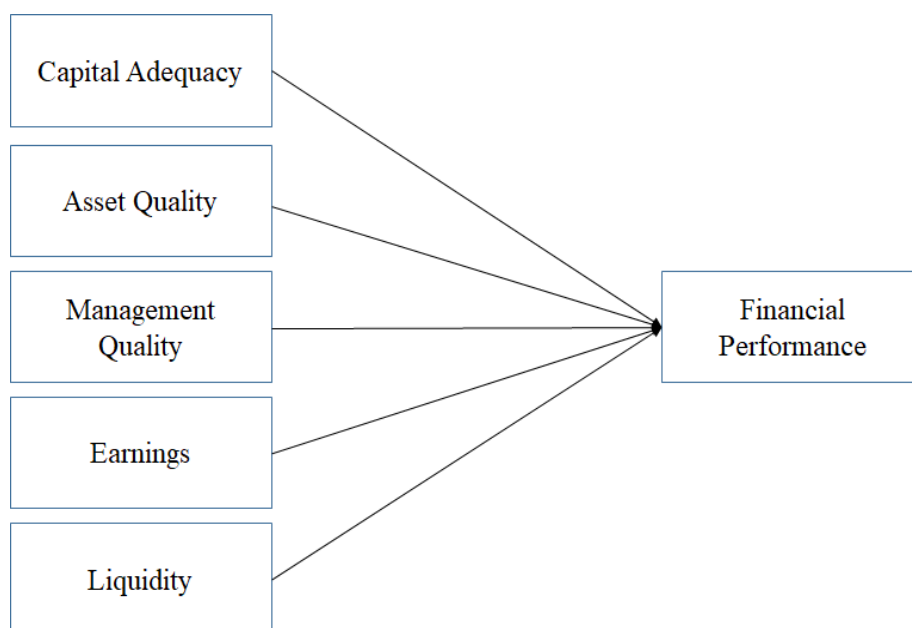

Figure (1): Conceptual Model.

Figure (1 shows the CAMEL model's visual representation in the conceptual framework, which offers a methodical and organized approach to comparing Islamic and Conventional Palestinian Banks. It provides a clear roadmap for understanding the performance differences within Palestine's distinct banking industry.

Methodology

Population and Sample

The methodology of the study involved the following steps:

Population and Sample

The study includes the whole population of 13 financial institutions currently functioning in Palestine. Appendix 1 has a comprehensive description of the study's population. Nevertheless, for the purpose of this investigation, a subset of 10 banks was chosen. The research encompasses two domestic Islamic banks, namely Arab Islamic Bank and Palestinian Islamic Bank, along with four local conventional banks: The National Bank, Bank of Palestine, Al-Quds Bank, and Palestine Investment Bank. Furthermore, the list includes four international traditional banks: Arab Bank, Cairo Amman Bank, Jordan Bank, and Housing Bank. This sample accounts for about 76% of the banking sector in the West Bank. As a result of limited data availability throughout the research period, three banks, consisting of one Islamic bank and two overseas conventional banks, were not included in the analysis.

Data Collection

The research utilizes secondary data obtained from many sources. The main data sources consist of the reports issued by the Palestinian Monetary Authority (PMA), the Association of Banks in Palestine, and the official websites of individual banks. These sites provide extensive and trustworthy information on the banking sector in Palestine. The gathered data span from 2011 to 2021, enabling a thorough comparison of the banks' performance over a decade. The research intends to provide unique insights into the performance and features of chosen banks operating in Palestine by using a sample that covers a substantial percentage of the Palestinian banking sector and relying on credible secondary data sources.

Variables of the Study

The financial ratios chosen for this study are based on their prior inclusion in research and their notable discoveries. Table 2 contains the

meanings of these variables, organized into groups and subgroups. This study's analysis centers on 10 financial measures, categorized based on the five performance criteria of CAMEL (Capital Adequacy, Asset Quality, Management Quality, Earning Record, and Liquidity Position).

Table (2): Variables of the Study.

Dimension	Variable	Measure Used	Reference
Capital Adequacy	Capital to risk assets (CAR)	capital (tire 1 + tire 2) / Risky Assets	(Greenspan, 1998), (Chen, Guo, & Huang, 2009), (Alkassim, 2005), (Siraj, 2012), (Jaffar, 2011)
Asset Quality	Loans quality ratio	Reserves for impaired loans / Gross loans	(Ben, 2014), (Chen, Guo, & Huang, 2009), (Alkassim, 2005), (Zeitun, 2012), (Jaffar, 2011)
Management Quality	non-interest to total revenue ratio	non-interest expense / total revenue ratio	(Girard, 2010), (Jaffar, 2011)
	Asset growth	(T.A at time2 – T.A at time1) / T.A at time1	(Iqbal, 2001)
	Earnings growth	(N.P at time2 – N.P at time1) / N.P at time1	(Iqbal, 2001)
Earning Ability	ROA	Net Profit (Loss) / Total Assets	(Wasiuzzaman, 2013), (Gul et al. 2011), (Zeitun, 2012), (Bilal, 2015), (Jaffar, 2011)

Dimension	Variable	Measure Used	Reference
	ROE	Net Profit (Loss) / Total Equity	(Gul et al. 2011), (Siraj, 2012), (Zeitun, 2012), (Bilal, 2015), (Jaffar, 2011)
Liquidity	cash-to-assets	Liquid Assets / Total Assets	(Apostolos et al, 2011), (Bilal, 2015)
	cash-to-deposits	Liquid Assets / Total Deposit	(Borkpb, 2009), Alkassim (2005), (Bilal, 2015)

Results and Analysis

The data gathered for this paper, which relates to several aspects of performance, is analyzed using the financial ratios outlined in Table 2. These ratios provide a thorough framework for assessing the performance of both Islamic and conventional banks across the parameters being studied. In order to determine whether there are notable disparities in the performance of Islamic and conventional banks across these parameters, a two-way analysis of variance (ANOVA) is used. This statistical study allows the examination of the connection between bank type (Islamic vs. conventional) and the performance characteristics, allowing for the testing of research hypotheses and addressing of research problems.

The Two Sample t-Test is a reliable statistical tool used to determine the significance of differences in the performance of Islamic and conventional banks. It allows for the assessment of whether there are any statistically significant disparities in the performance metrics between the two kinds of banks. This research seeks to provide unbiased and dependable results on the performance differences between Islamic and conventional banks across the characteristics being examined, using the Two Sample t-Test. This statistical methodology enables a thorough assessment of the study hypothesis and permits the interpretation of the findings based on the statistical significance of the observed disparities.

Capital Adequacy

The capital adequacy dimension in this study is evaluated using the capital to risk assets ratio.

Capital-to-Risk Assets

The evaluation of the sufficiency of capital in relation to risk assets, as measured by the capital-to-risk assets ratio, offers valuable information on the financial robustness and stability of banks. A higher ratio signifies a more robust capital foundation in relation to the degree of risk the bank faces, indicating a greater ability to endure future losses. In contrast, a smaller ratio may indicate a less robust capital position and more susceptibility to financial threats. This research aids in assessing if there are any notable disparities in the capital robustness of the two kinds of banks, offering useful insights into their risk mitigation strategies and overall financial durability.

The disparity in capital ratios implies that conventional banks might carry a greater degree of risk in relation to their loan portfolios as compared to Islamic banks. The variation might be ascribed to the disparities in their individual business models and risk mitigation strategies. Traditional banks, operating within a conventional framework, may have a greater vulnerability to riskier assets, necessitating a larger capital foundation.

Moreover, Islamic banks have a greater standard deviation in their capital-to-risk assets ratios compared to conventional banks. This suggests that there is a higher level of variation in the capital ratios among Islamic banks as compared to conventional banks. The greater standard deviation implies that Islamic banks may have a wider range of risk profiles and capital structures, which might indicate differences in their business plans and risk preferences.

Table (3): Capital-to-Risk Assets.

Bank	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Mean	S.D
CBs	32.7%	31.6%	29.6%	30.4%	26.8%	23.9%	22.5%	23.4%	21.8%	19.3%	15.9%	**25.3%**	**5.1%**
IBs	32.9%	28.2%	25.8%	20.5%	17.1%	15.2%	16.6%	13.9%	13.4%	11.7%	11.8%	**18.8%**	**6.8%**

Exhibit 1 displays the outcomes of the independent sample t-test. The research refutes the null hypothesis that there is no statistically significant variation in the means of capital to risk assets between Islamic and conventional banks. However, the results strongly support the alternative hypothesis that the average of conventional banks is greater than that of Islamic banks, with a significance level of 0.014.

Exhibit (1): Two Sample t-Test- Capital to Risk Assets.

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 Group  |     Obs      Mean    Std. err.   Std. dev.   [95% conf. interval]
--------+-------------------------------------------------------------------
convent |      11    .2525653   .0162416    .0538671    .2163768    .2887537
Islamic |      11    .1881902   .0215895    .0716043    .1400858    .2362947
--------+-------------------------------------------------------------------
Combined|      22    .2203777   .0149372    .0700616    .1893142    .2514413
--------+-------------------------------------------------------------------
   diff |          .0643751    .0270166                 .0077406    .1210095
-------------------------------------------------------------------------------
    diff = mean(convent) - mean(Islamic)                       t =    2.3828
H0: diff = 0                           Satterthwaite's degrees of freedom =   18.573

    Ha: diff < 0                    Ha: diff != 0                   Ha: diff > 0
  Pr(T < t) = 0.9860        Pr(|T| > |t|) = 0.0280          Pr(T > t) = 0.0140
```

Assets Quality

Credit Risk Reserve- to-Total Loans

Table 4 illustrates that Islamic banks have a lower ratio of credit risk reserves to total loans compared to conventional banks, even when taking into account their reduced volatility. This discovery indicates that traditional banks maintain more measures to alleviate the risk linked to non-performing loans, in contrast to Islamic banks.

Table (4): Credit Risk Reserve to total loan.

Bank	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Mean	S. D
CBs	1.3%	1.4%	1.9%	1.7%	1.8%	1.6%	1.4%	2.5%	2.7%	3.0%	3.7%	2.1%	0.7%
IBs	0.8%	0.6%	0.5%	0.5%	0.4%	0.6%	0.5%	1.2%	1.4%	1.6%	2.1%	0.9%	0.5%

The data shown in Exhibit 2 provide compelling evidence that the average provision-to-total loans ratio of conventional banks is statistically distinct from that of Islamic banks. More precisely, the average provision-to-total loans ratio for conventional banks is determined to be higher than that of Islamic banks with a 5% level of statistical significance.

The evidence indicates that conventional banks, on average, set aside a greater percentage of their overall loans as provisions for probable losses in comparison to Islamic banks. The greater average value for traditional

banks may suggest a more cautious strategy in handling credit risk and guaranteeing enough reserves to address possible loan defaults.

Exhibit (2): Two Sample t-Test- Credit Risk Reserve-to-Total Loans.

Group	Obs	Mean	Std. err.	Std. dev.	[95% conf. interval]	
convent	11	.0209641	.0023675	.007852	.0156891	.0262392
Islamic	11	.0091722	.0017191	.0057017	.0053417	.0130026
Combined	22	.0150681	.0019219	.0090143	.0110714	.0190649
diff		.0117919	.0029258		.0056512	.0179327

```
    diff = mean(convent) - mean(Islamic)                      t =    4.0303
H0: diff = 0                          Satterthwaite's degrees of freedom =   18.2515

    Ha: diff < 0                    Ha: diff != 0                  Ha: diff > 0
Pr(T < t) = 0.9996          Pr(|T| > |t|) = 0.0008          Pr(T > t) = 0.0004
```

Management Quality

Management quality is an important aspect of evaluating the performance of banks. In this study, three ratios are used to assess management quality: non-interest to total revenue ratio, asset growth, and profit growth.

Non-interest Expenses-to-Total Revenues

The non-interest to total income ratio is examined by analyzing data from both Islamic and conventional banks in Palestine from 2011 to 2021. Table 5 displays the average values of the non-interest to total revenue ratio. Islamic banks have a mean ratio of 71.5%, while conventional banks have a mean ratio of 69.8%.

The nearly equal mean values indicate that both Islamic and conventional banks possess equivalent degrees of managerial control over their overhead expenditures. This suggests that both categories of banks have a reasonably high level of efficiency in handling their non-interest expenditures in relation to their overall income.

Moreover, the standard deviations of the non-interest to total revenue ratio for both kinds of banks exhibit a notable degree of similarity. This implies that the level of variation in management quality, as shown by the ratio of non-interest to total income, is comparable across Islamic and conventional banks.

In summary, the examination of the non-interest to total income ratio suggests that there is no notable disparity in the level of managerial competence between Islamic and conventional banks in Palestine. Both kinds of banks exhibit comparable degrees of efficiency in managing their non-interest expenditures in relation to their overall income.

Table (5): Non-interest to total revenue.

Bank	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Mean	S. D
CBs	68.4%	66.9%	64.3%	66.0%	74.0%	69.6%	68.6%	70.3%	71.4%	79.8%	68.3%	**69.8%**	**4.0%**
IBs	81.5%	77.9%	66.1%	69.3%	67.5%	66.3%	68.6%	72.3%	73.7%	74.1%	69.5%	**71.5%**	**4.7%**

The examination of management quality, as measured by the non-interest to total revenue ratio, is shown in Exhibit 3. The findings indicate that there is no statistically significant disparity between the non-interest to total revenue ratio of Islamic banks and conventional banks. This indicates that both kinds of banks exhibit comparable degrees of efficiency in managing their non-interest expenditures in relation to their overall income. The absence of statistical significance suggests that any observed variances in the average values of the ratio between the two kinds of banks

are probably caused by random fluctuations and not significant differences in management quality.

Exhibit (3): Two Sample t-Test- Non-interest Expense to total revenue.

```
   Group       Obs          Mean     Std. err.     Std. dev.    [95% conf. interval]

 convent        11      .6977011     .0127768      .0423759      .6692326     .7261697
 Islamic        11      .7151623     .0148905      .0493862      .6819841     .7483404

Combined        22      .7064317     .0097617      .0457863      .6861312     .7267322

    diff               -.0174611     .0196208                   -.0584499     .0235277

    diff = mean(convent) - mean(Islamic)                                 t =  -0.8899
H0: diff = 0                            Satterthwaite's degrees of freedom =  19.5489

   Ha: diff < 0                    Ha: diff != 0                     Ha: diff > 0
Pr(T < t) = 0.1922        Pr(|T| > |t|) = 0.3843             Pr(T > t) = 0.8078
```

Asset Growth

Table 6 displays the increase in assets for both Islamic banks (IBs) and conventional banks (CBs) in Palestine throughout the specified time frame. The table presents the yearly growth rates for each category of banks from 2011 to 2021, along with the average and variability of their growth rates.

Table 6 data reveals that Islamic banks have achieved a superior average asset growth rate of 16.6%, surpassing the average growth rate of 9.5% for conventional banks. During the research period, it is evident that Islamic banks have achieved a more rapid growth in their assets compared to conventional banks. Moreover, the broader dispersion of asset growth rates for Islamic banks in comparison to conventional banks indicates a higher level of unpredictability in the development trends of Islamic banks.

Table (6): Asset Growth.

Bank	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Mean	S. D
CBs	-1.4%	10.7%	14.7%	8.4%	7.6%	14.7%	11.7%	14.8%	9.1%	11.7%	2.8%	**9.5%**	**4.9%**
IBs	7.5%	16.4%	21.8%	19.3%	14.6%	20.9%	28.0%	5.6%	19.7%	18.5%	10.6%	**16.6%**	**6.3%**

Exhibit 4 provides a Two Sample t-Test that gives useful insights into the statistical disparities in asset growth between Islamic banks and conventional banks. The objective of this research is to evaluate and contrast the rate of increase in assets between the two kinds of banks, and determine whether there are any notable discrepancies.

The findings of the Two Sample t-Test indicate a statistically significant disparity in asset growth between Islamic banks and conventional banks. More precisely, the results suggest that Islamic banks see more expansion in their assets in comparison to conventional banks.

Exhibit (4): Two Sample t-Test- Asset Growth.

Group	Obs	Mean	Std. err.	Std. dev.	[95% conf. interval]	
convent	11	.0952207	.0154016	.0510815	.0609037	.1295377
Islamic	11	.1661163	.0200117	.0663713	.1215274	.2107051
Combined	22	.1306685	.0145487	.0682393	.1004129	.1609241
diff		-.0708956	.0252523		-.1237932	-.017998

diff = mean(convent) - mean(Islamic)　　　　　　　　　　　t = -2.8075
H0: diff = 0　　　　　　　　Satterthwaite's degrees of freedom = 18.7697

Ha: diff < 0　　　　　　　Ha: diff != 0　　　　　　　Ha: diff > 0
Pr(T < t) = 0.0057　　　Pr(|T| > |t|) = 0.0113　　　Pr(T > t) = 0.9943

Profit Growth

The data presented in Table 7 demonstrates that Islamic banks have a superior average profit growth rate (32%) in comparison to conventional banks (-4%) for the specified time frame. These findings indicate that Islamic banks often have a superior rate of profit expansion in comparison to conventional banks.

Moreover, the profit growth of Islamic banks demonstrates less volatility in comparison to traditional banks. The decreased standard deviation (S.D.) figure of 6% for Islamic banks, in comparison to regular banks, indicates this. The reduced volatility suggests that the profit growth

of Islamic banks exhibits more stability and consistency over time in comparison to conventional banks.

Table (7): Profit Growth.

Bank	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Mean	S. D
CBs	42.3%	28.8%	20.6%	19.6%	-19%	-12%	23.2%	13.4%	1.6%	-44%	-254%	-16%	78%
IBs	7.0%	8.8%	225.9%	16.7%	29.5%	22.6%	9.1%	7.5%	11.4%	-17%	34%	32%	62%

Exhibit 5's Two Sample t-Test indicates that there is no statistically significant disparity in profit growth between Islamic banks (IBs) and conventional banks (CBs) at a 5% level of significance. The absence of statistical significance implies that any observed disparities in profit growth between the two categories of banks may be ascribed to stochastic fluctuations rather than a continuous and significant trend. The evidence suggests that the profitability development of Islamic banks and conventional banks in Palestine is similar. Both categories of banks have comparable levels of profitability during the observed timeframe, as shown by the absence of any statistical disparity.

Exhibit (5): Two Sample t-Test-Profit Growth.

```
   Group        Obs        Mean     Std. err.    Std. dev.    [95% conf. interval]

 convent         11    -.1647056     .249295     .8268179    -.7201694    .3907582
 Islamic         11     .3233401    .1978264     .6561158    -.1174445    .7641247

Combined         22     .0793172    .1641665     .7700091    -.2620857    .4207202

    diff               -.4880457    .3182503                 -1.154108    .1780168

    diff = mean(convent) - mean(Islamic)                          t =   -1.5335
H0: diff = 0                      Satterthwaite's degrees of freedom =   19.0182

    Ha: diff < 0                   Ha: diff != 0                   Ha: diff > 0
 Pr(T < t) = 0.0708          Pr(|T| > |t|) = 0.1416          Pr(T > t) = 0.9292
```

Earning Ability

Table 8 presents the Return on Assets (ROA) of Islamic banks and conventional banks. The data suggests that conventional banks have a

slightly higher average Return on Assets (ROA) of 1.00% compared to Islamic banks with an average ROA of 0.92%. Additionally, conventional banks also exhibit greater volatility. Conventional banks, on average, exhibit somewhat superior earning performance by producing more profit from their total assets. Nevertheless, both categories of banks exhibit equal levels of instability in their profits, indicating comparable variations in profitability.

Table (8): Return-on-Assets.

Bank	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Mean	S. D
CBs	1.17%	1.08%	1.10%	1.16%	0.88%	0.98%	1.06%	1.06%	1.02%	0.54%	0.94%	**1.00%**	**0.2%**
IBs	0.66%	0.77%	1.02%	1.00%	1.14%	1.17%	1.03%	1.02%	0.91%	0.63%	0.75%	**0.92%**	**0.2%**

The findings of the Two Sample t-Test in Exhibit 6 demonstrate that there is no significant statistical difference in the Return on Assets (ROA) between Islamic banks and conventional banks at a 5% level of significance. This suggests that there is no substantial disparity in the mean return on assets between the two categories of banks. Furthermore, the study indicates that the temporal difference, or the variation across various years, does not have a statistically significant influence on the return on assets (ROA).

Exhibit (6): Two Sample t-Test- ROA

```
     Group       Obs        Mean    Std. err.   Std. dev.   [95% conf. interval]

   convent        11    .0099875    .0005316    .0017631     .008803      .011172
   Islamic        11    .0091841    .0005674    .0018818    .0079198    .0104483

  Combined        22    .0095858    .0003894    .0018264     .008776    .0103956

      diff              .0008035    .0007775               -.0008188    .0024258

    diff = mean(convent) - mean(Islamic)                          t =     1.0334
H0: diff = 0                        Satterthwaite's degrees of freedom =   19.9157

    Ha: diff < 0                Ha: diff != 0                      Ha: diff > 0
 Pr(T < t) = 0.8431        Pr(|T| > |t|) = 0.3138          Pr(T > t) = 0.1569
```

Table 9 displays the Return on Equity (ROE) figures for both Islamic banks and conventional banks. The data exhibits a similar pattern in relation to the ROA findings. Islamic banks have a slightly lower average

return on equity (ROE) of 8.8% in comparison to conventional banks, which have an average ROE of 9.1%. This suggests that traditional banks provide a little greater profit on the investment made by shareholders. Furthermore, the reduced fluctuation in the return on equity (ROE) figures of traditional banks indicates a greater level of stability and reliability in their profit's performance during the observed timeframe. These results emphasize the disparities in the financial performance of Islamic and conventional banks. Conventional banks have a somewhat greater average Return on Assets (ROA) and Return on Equity (ROE), whereas Islamic banks show similar fluctuations in their profitability.

Table (9): Return -on-Equity.

Bank	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Mean	S. D
CBs	10.7%	9.5%	10.0%	10.1%	8.2%	9.2%	9.8%	9.6%	9.1%	4.9%	9.1%	9.1%	1.5%
IBs	4.7%	5.6%	8.0%	8.6%	10.6%	12.0%	9.6%	10.3%	10.1%	7.9%	9.4%	8.8%	2.1%

The statistical distinction in Return on Equity (ROE) between Islamic banks and conventional banks is examined using a formal evaluation utilizing the two-sample t-test. The findings shown in Exhibit 7 demonstrate that there is no statistically significant disparity in the mean Return on Equity (ROE) between Islamic banks and conventional banks. These findings indicate that both kinds of banks have comparable earning performance in terms of creating returns on equity.

Exhibit (7): Two Sample t-Test- ROE

```
   Group │     Obs        Mean    Std. err.    Std. dev.   [95% conf. interval]
─────────┼──────────────────────────────────────────────────────────────────────
 convent │      11    .0909073    .0046735     .0155004      .080494    .1013206
 Islamic │      11    .0879171    .0065759      .02181       .073265    .1025692
─────────┼──────────────────────────────────────────────────────────────────────
Combined │      22    .0894122     .00395      .0185274     .0811976    .0976268
─────────┼──────────────────────────────────────────────────────────────────────
    diff │            .0029902    .0080675                 -.0139558    .0199362
─────────┴──────────────────────────────────────────────────────────────────────
    diff = mean(convent) - mean(Islamic)                           t =   0.3706
H0: diff = 0                          Satterthwaite's degrees of freedom =  18.0486

    Ha: diff < 0                    Ha: diff != 0                    Ha: diff > 0
 Pr(T < t) = 0.6424          Pr(|T| > |t|) = 0.7152           Pr(T > t) = 0.3576
```

Liquidity

The cash-to-assets ratio is used as a metric in the assessment of liquidity. Table 10 presents the cash-to-assets ratio for both Islamic banks and conventional banks. The data indicates that conventional banks exhibit a greater average liquidity (20.5%) over the observed time frame in comparison to Islamic banks (19.1%). The liquidity volatility is generally similar across the two kinds of banks. Conventional banks often have a larger ratio of cash reserves to total assets, suggesting more liquidity compared to Islamic banks.

Table (10): Cash-to-Assets Ratio

Bank	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Mean	S. D
CBs	47.6%	44.3%	46.2%	46.8%	43.5%	40.0%	37.4%	36.6%	37.3%	37.9%	39.6%	**41.6%**	**4.0%**
IBs	33.2%	37.7%	43.2%	40.0%	34.0%	29.7%	32.1%	27.7%	32.1%	32.9%	36.9%	**34.5%**	**4.3%**

The findings of the two-sample t-test on liquidity suggest a statistically significant disparity between Islamic banks and conventional banks at a significance level of 5%. Exhibit 8 demonstrates that conventional banks possess more liquidity, as shown by the cash to assets ratio, in comparison to Islamic banks.

Conventional banks tend to have a greater proportion of cash reserves in relation to their overall assets compared to Islamic banks, as shown by this discovery. The greater liquidity of traditional banks may be linked to a range of reasons, such as their business structures, risk management strategies, and regulatory obligations.

Exhibit (8): Two Sample t-Test- Cash-to-Assets Ratioز

```
    Group      Obs        Mean    Std. err.   Std. dev.   [95% conf. interval]

  convent       11    .4156787    .0126526    .0419639    .387487     .4438704
  Islamic       11    .3449642    .0137532    .0456144    .3143201    .3756084

 Combined       22    .3803214    .011945     .0560269    .3554805    .4051624

     diff             .0707145    .018688                 .0317147    .1097142

     diff = mean(convent) - mean(Islamic)                      t =    3.7840
 H0: diff = 0                    Satterthwaite's degrees of freedom =   19.8624

   Ha: diff < 0               Ha: diff != 0               Ha: diff > 0
 Pr(T < t) = 0.9994        Pr(|T| > |t|) = 0.0012       Pr(T > t) = 0.0006
```

Table 11 displays the comparison of liquidity between Islamic and conventional banks by using the cash to deposits ratio. The data shows that conventional banks have a much greater average liquidity percentage (54.7%) compared to Islamic banks (43.9%). This suggests that traditional banks maintain a higher percentage of cash in comparison to their overall deposits. Moreover, traditional banks have greater variability in liquidity, as indicated by a standard deviation of 7.2%. In contrast, Islamic banks display lesser variability, with a standard deviation of 6.1%.

Table (1): Cash-to-deposit.

Bank	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Mean	S. D
CBs	67.3%	60.6%	63.0%	62.9%	56.7%	51.8%	48.4%	46.8%	47.5%	46.9%	50.2%	**54.7%**	**7.2%**
IBs	42.9%	48.0%	56.0%	52.6%	42.8%	37.4%	41.2%	34.1%	40.0%	41.2%	46.3%	**43.9%**	**6.1%**

The findings of the Two Sample t-Test in Exhibit 9 demonstrate a statistically significant disparity in liquidity between Islamic and conventional banks, specifically in relation to the cash to deposit ratio. This suggests that there is a significant difference in the liquidity levels between these two categories of institutions.

Exhibit (9): Two Sample t-Test- Cash-to-deposit Ratio.

Group	Obs	Mean	Std. err.	Std. dev.	[95% conf. interval]	
convent	11	.5474127	.02288	.0758844	.4964329	.5983925
Islamic	11	.4385834	.0193749	.0642593	.3954134	.4817534
Combined	22	.492998	.0188419	.0883763	.4538142	.5321819
diff		.1088293	.0299813		.0461803	.1714783

diff = mean(convent) - mean(Islamic)   t =   3.6299
H0: diff = 0   Satterthwaite's degrees of freedom = 19.4714

   Ha: diff < 0   Ha: diff != 0   Ha: diff > 0
Pr(T < t) = 0.9991   Pr(|T| > |t|) = 0.0017   Pr(T > t) = 0.0009

The findings of the two-sample t-test done on the different ratios associated with the five CAMEL components are summarized in Table 12. Out of the five hypotheses examined, two of them are disproven, suggesting that there is variation in the performance of the two groups of

banks in relation to asset quality and liquidity aspects. These findings indicate that Islamic and conventional banks have significant differences in terms of their features and performance in these specific domains.

Table (2): Summary of Hypotheses Testing Results.

Hypothesis	Result
H1: The **capital adequacy** of Islamic banks does not significantly differ from that of conventional banks.	Reject
H2: The **asset quality** of Islamic banks does not significantly differ from that of conventional banks.	Reject
H3: The **management quality** of Islamic banks does not significantly differ from that of conventional banks.	Mixed
H4: The **earning ability** of Islamic banks does not significantly differ from that of conventional banks.	Do not Reject
H5: The **liquidity** of Islamic banks does not significantly differ from that of conventional banks.	Reject

The analytical findings corroborate the initial premise, demonstrating a notable disparity between Islamic banks and conventional banks in relation to the capital to risk assets. Islamic banks have a lower mean value of the capital to risk assets compared to conventional banks. The divergence in their business strategies and risk management approaches may be ascribed to this discovery.

This result contradicts the conclusions drawn in earlier research conducted by Ika and Abdullah (2011) and Tabash et al. (2017), but it is consistent with the findings published by Jaffar and Manarvi (2011) and Latif et al. (2016). Although both conventional and Islamic banks in Palestine must adhere to the same regulatory capital requirements, conventional banks, which operate on an interest-based business model, inherently possess greater risk compared to Islamic banks that utilize profit and loss sharing methods of finance and asset-based financing. Traditional banks function according to a more precarious business model that need a greater buffer to safeguard against unforeseen negative occurrences. Islamic banks, in contrast, have a more cautious approach to capital management due to their emphasis on risk-sharing and asset-backed

financing. The elevated average capital to risk assets ratio seen in traditional banks might be interpreted as a manifestation of their need for a greater capital reserve to alleviate the risks linked to their lending activities.

The second hypothesis, which investigates the comparison of asset quality between Islamic and conventional banks, has been disproven. The discovery challenges the outcomes of prior investigations carried out by Jaffar & Manarvi (2011) and Youssef & Samir (2015), which indicate that there is no notable disparity in the quality of assets between Islamic banks and conventional banks. The superior performance of Islamic banks highlights the underlying differences in the business structures of Islamic banks and conventional banks. Islamic banks function by providing funding for tangible assets via several Shari'ah-compliant methods, including buy and sales transactions, lease (Ijarah), and partnership (Musharaka). In contrast, traditional banks depend on debt-based funding, which does not have a clear correlation with the actual assets being funded. Within the traditional financial system, assets largely function as collateral. Consequently, the loans provided by conventional banks are often considered to have a worse quality in comparison to the financings supplied by Islamic banks. This suggests that traditional banks encounter a greater level of risk in their pursuit of generating more profits. The study's results provide valuable insights into the unique attributes of Islamic and conventional banking systems, hence enhancing our comprehension of their individual asset quality performance.

There is no notable disparity between Islamic banks and conventional banks when it comes to evaluating management quality based on the ratio of non-interest costs to total revenues. Consequently, both kinds of banks use comparable tactics and methods to manage their operating expenses and optimize their income generating. The results of this study align with other studies undertaken by Ika and Abdullah (2011) and Zeitun (2012), which also concluded that there is no notable disparity in the quality of management between the two banking groups. In contrast to the studies conducted by Aljahdali and Faleel (2021), Jaffar and Manarvi (2011), Latif et al. (2016), and Tabash et al. (2017), our data indicate that there are no

significant variations in management quality between Islamic banks and conventional banks. These inconsistencies might be ascribed to differences in the size of the samples, the time frame, or other contextual circumstances. The management quality in the banking business is impacted by many elements, such as leadership, knowledge, governance standards, risk management frameworks, and operational efficiency. The Palestinian banking industry works under a comprehensive regulatory and supervisory structure enforced by the Palestine Monetary Authority (PMA), which is worth mentioning. The purpose of this regulatory monitoring is to guarantee the compliance with robust management practices and standards in all banks, irrespective of whether they are Islamic or conventional in origin.

Regarding the expansion of assets, the findings demonstrate that Islamic banks have a greater average growth rate in assets in comparison to conventional banks. The findings indicate that Islamic banks have seen a more significant surge in their overall assets throughout the selected timeframe, as compared to conventional banks. It indicates that Islamic banks may have employed effective strategies to increase their assets, possibly through activities like expanding their loan portfolio, diversifying their investments, or managing their capital efficiently. These strategies have resulted in different growth patterns and performance outcomes compared to other types of banks. The findings provide empirical evidence of the divergent patterns of asset growth across Islamic banks and conventional banks. The findings suggest that there is no significant disparity in profit growth between Islamic and conventional banks. Islamic banks are increasing their total assets without necessarily achieving superior profitability in comparison to regular banks. Islamic banks are seeing an increase in consumer demand and are allocating their funds into a diverse range of projects and assets, resulting in a gradual expansion of their overall asset portfolio. Conversely, the absence of a significant disparity in profit growth implies that Islamic banks, despite expanding their assets, may encounter obstacles in transforming those assets into greater profits. These challenges may arise from various factors, including

the nature of financing contracts employed (e.g., profit-sharing versus interest-based), prevailing market conditions, or operational effectiveness.

The examination of earnings quality and records between Islamic banks and conventional banks indicates that there is no statistically significant disparity in performance. Although Islamic banks have a lower average return on equity (ROE) in comparison to conventional banks, this disparity is not considered statistically significant. This conclusion is consistent with other research conducted by Al-Deehani et al. (2015), Ika & Abdullah (2011), Latif et al. (2016), Samad (2004), and Tabash et al. (2017), which similarly found no significant difference in the quality of earnings between the two banking groups. Nevertheless, it is in opposition to the results of research undertaken by Jaffar & Manarvi (2011), Kakakhel et al. (2013), Usman & Khan (2012), and Zeitun (2012), which indicated a significant disparity in earnings performance. The return on equity (ROE) is impacted by many variables, such as a bank's efficiency, margin, and leverage. The findings suggest that the collective impact of these variables has counteracted one another, leading to an absence of notable discrepancy in return on equity (ROE) between Islamic and conventional banks. More precisely, whereas traditional banks have shown better performance in terms of the quality of their assets, Islamic banks have compensated for this by using larger levels of leverage compared to normal banks. Although conventional banks may possess superior asset quality, the increased leverage of Islamic banks might have played a role in achieving a comparable total return on equity.

Statistical research indicates a notable disparity in liquidity between conventional banks and Islamic banks, with conventional banks demonstrating more liquidity than Islamic banks. The present discovery aligns with prior research undertaken by Samad (2004) and Zeitun (2012), which also documented more liquidity in conventional banks as opposed to Islamic institutions. Nevertheless, it is in opposition to the conclusions drawn by Aljahdali & Faleel (2021), Ika & Abdullah (2011), Jaffar & Manarvi (2011), Kakakhel et al. (2013), Latif et al. (2016), and Tabash et al. (2017), who indicated either no notable disparity or even more liquidity in Islamic banks. A reason for this outcome may be attributed to the

elevated financial risk linked to traditional banks. Traditional banks often participate in transactions that include interest, which increases their exposure to risk. Consequently, they may need increased amounts of liquidity as a safeguard against unexpected occurrences or financial disturbances. Conversely, the composition of deposits in Islamic banks primarily relies on the Mudarabah agreement, which involves sharing profits and losses. This characteristic grants more leeway in determining their maturity. Islamic banks have more flexibility in managing their liquidity balances compared to traditional banks.

Conclusion and Implications

The objective of the research is to assess the efficacy of Islamic and conventional banks that are functioning in Palestine for a span of 10 years, from 2011 to 2021. The investigation yielded intriguing insights regarding the banks' performance across several dimensions.

Initially, Islamic banks had a higher level of asset quality in comparison to mainstream banks. The distinctive features of Islamic banking, such as the prohibition of interest and adherence to Sharia rules, account for this phenomenon. The characteristic of Islamic banks' deposits and their asset portfolios, which are organized according to profit and loss sharing modes and asset-based financing, are expected to enhance their asset quality.

Nevertheless, Islamic banks had comparatively worse performance in regards to capital adequacy and liquidity when compared to regular banks. This suggests that Islamic banks may have difficulties in preserving enough capital and liquidity reserves to sustain their financial intermediation endeavors. These results emphasize the need for Islamic banks to bolster their capital and liquidity management policies in order to improve their financial stability and resilience.

The research yielded inconclusive findings about the quality of management. Although some dimensions of management quality did not exhibit any notable disparity between Islamic and conventional banks, more examination is necessary to get a more profound comprehension of

the fundamental variables that influence management practices in these institutions.

Significantly, the analysis revealed no significant disparity in profits quality between Islamic and conventional banks. This indicates that both kinds of banks use comparable tactics to generate profits and manage their operating expenses in relation to their overall income.

Policy Implications

1. Refining Business Models: Islamic banks in Palestine should focus on refining their business models to maximize returns for their depositors, particularly investment account holders. This can be achieved by increasing their financings in modes of finance that generate higher profitability, such as Musharaka (partnership), Ijara Muntahia Bitamleek (capital lease), Mudaraba, Salam (forward sale), and others. Diversifying the modes of finance will help uplift their profitability and reduce reliance on a single mode, such as Murabaha.

2. Aggressive Risk-Taking: Islamic banks' management needs to adopt a more proactive approach to risk-taking that aligns with their developmental role. This involves carefully managing and mitigating risks while pursuing opportunities that comply with Sharia principles. Balancing risk and reward is crucial for Islamic banks to achieve their objectives and enhance their performance.

3. New Objective Function: Islamic banks should consider replacing the objective of maximizing shareholders' wealth with a new objective function that prioritizes the interests of investment account holders. This shift would align with the principles of Islamic finance, where stakeholders' interests are emphasized. By focusing on the well-being and returns of investment account holders, Islamic banks can strengthen their value proposition and enhance customer satisfaction.

4. Addressing Liquidity Challenges: Islamic banks need to address their lower liquidity compared to conventional banks. This can be achieved through the development of liquidity management strategies that balance the requirements of Sharia compliance and the need for

sufficient liquidity buffers. Enhancing liquidity management practices will help mitigate risks associated with liquidity shortfalls and support the stability of Islamic banks.

5. Lean Organizations: Islamic banks should strive to create lean organizations that can generate higher profits with lower levels of investment. This involves optimizing operational efficiency, reducing costs, and streamlining processes. By operating efficiently, Islamic banks can improve their profitability and enhance their competitiveness in the banking sector.

Disclosure Statements:

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