

Financial Disintermediation and Profitability of Global Islamic Banks

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1. INTRODUCTION

Islamic banks are experiencing global growth of 10-15% annually and it is being introduced in new conventional financial systems such that there are about 51 countries where this system is operational [1]. In the 1970s the market share of Islamic banks was increasing at mere 2%, while today it is about 15% [2]. The ample growth of the Islamic banking industry is the consequence of realizing that interest based banking is not permissible.

Almost in all the economies where the Islamic banking is introduced, it is working parallel to the conventional banking system. Because of this dual banking system, Islamic banks are facing challenges in attracting the deposits, a study indicates that Islamic banks have to push their return on deposits in order to attract higher deposits as people consider Islamic and conventional banks as substitutes [3]. This substitutability becomes problematic when conventional bank guarantees the returns, whereas the Islamic bank has to share the outcome which can be negative. Similarly, one indicated that since there is a parallel system, the Islamic banks tend to opt less risky financing options as compared to profit and loss sharing asset-based investment options in order to avoid discouraging the investors by transferring losses to them [4]. This infers that Islamic banks have to be competent in choosing investment options which can enable them to forward competitive returns on deposits. This pressure of investment observed by a study who compared conventional and Islamic banks across 13 countries for the years of 2000 to 2006 and deducted that Islamic banks are better capitalized and they finance a bigger share of their assets as compared to conventional banks [5].

Abstract-- Recently Islamic banks are experiencing rapid growth in Islamic countries as well as non-Islamic countries. The profitability of the Islamic banks is based on the different instruments as a share of total financing. Mainly there are two categories of financing instruments are available, first is the trade based and the second is finance based. Modes of trade are instruments having low risk and fixed returns, whereas the modes of finance are instruments having high risk and possibly high returns. This study started with the proposition that both modes have different effects on the profitability as both have different roots in Islamic finance. For the analysis the data is collected which comprises of 19 full-fledged Islamic banks from 7 countries, the study used SEM framework controlling for macroeconomic effects and country effect. The results indicated that modes of finance have positive and modes of trade have a negative effect on the growth of assets and equity of Islamic banks. These results reiterate the faith-based model of Islamic finance and propose Islamic banks to promote the partnership based mode of finance, which is more socially beneficial to the banks and to the economy.

Keywords: Musharaka, Mudaraba, Ijarah, Murabaha, SEM, Islamic Banking, JEL
Classification: G21

Currently, Islamic banks have two major types of investment options, first is the modes of finance and other is modes of trade. The modes of finance are those instruments where the financial services are taken and paid back by the same person, these instruments are profit sharing based where the returns are variable. Most popular financial instruments in Islamic banking are Musharaka and Mudaraba. The modes of trade are those instruments where the borrower of financial service and the person who pays for it can be different, these instruments are fixed return, based on rentals or markup. Most popular instruments are Ijarah and Murabaha.

The modes of finance are instruments which are purely designed for the Islamic banking, where the capital owners (which is a bank when we are studying the investment options) can use the services of the bank and participate in the business. If there is a positive outcome of the investment the capital owners receive their share, and if there is a loss, then capital owner bears the loss according to pre-decided ratio. Contrary to this the modes of trade/sale are adopted by Islamic banks as instruments of investment with appropriate modification as per Shariah. These modes are regularly used by conventional banks and other private businesses. These modes are rental markup based where the returns are fixed and predetermine-able. Since it is practiced by conventional banks and non-financial institutions, Islamic banks face competition, forcing them to reduce their rents or markups.

Examining Bank Islam Malaysia and Bahrain Islamic Bank, here the partnership based financing (Musharaka and Mudaraba) is about 4% of total finance and the markup based financing (Murabaha and Ijarah) is about 54% of total financing [6]. Table - 1 below highlights the skewed nature of the investment preferences of the Islamic banks, collected data 19 banks reveal that only 3 Islamic Banks of Iran invest 51% of their financing in the mode of finance while all other banks invest predominantly in modes of trade.

TABLE 1. SHARE OF INSTRUMENTS IN FINANCING

Country	Banks	Modes of Trade		Modes of Finance	
		Murabaha	Ijarah	Musharaka	Mudaraba
Bahrain	1	42.70	11.40	9.55	3.60
Iran	3	0.87	1.39	42.05	9.31
Lebanon	1	4.69	0.00	0.00	0.01
Malaysia	2	12.54	1.96	0.01	0.00
Pakistan	5	30.97	35.56	0.73	0.70
Qatar	2	61.56	23.43	0.01	0.00
Saudi Arabia	2	27.94	0.46	2.84	0.00
UAE	3	40.05	29.00	11.47	1.76

Source: Financial Statements (% of Total Finance)

The modes of finance are a pure Islamic financial product as the variability in the returns acquires faith in Allah. As mentioned in Al Quran (2:155) that Allah will surely test his people with the losses, but he provides more to those who are patient. And provided an example, in Al Quran (12:67) to diversify the financing strategy to minimize risk.

Only large banks are willing to increase the share of investment in the variance return based financing. Because of this, smaller Islamic banks tend to be financially stronger as compared to the larger Islamic banks, this is because of the complexity, credit risk and preference of small banks to fixed return or low-risk investments as compared to larger banks which are involved in profit loss sharing based financing [7].

The decision to invest in any particular instrument depends on whether the expected benefits outweigh the potential losses from the banking side. Similarly, this decision can vary, based on the nature of the economy like economic growth, the average rate of return on investments, the development of the stock market and the banking sector. Considering the dilemma of how much one instrument should be utilized, this study will empirically evaluate the impact of four investment instruments on the performance of the Islamic banks while controlling for the macroeconomic effects.

A. Objective of the study

The objective of this study is to compare both modes of finance and mode of trade adopted by the full-fledged Islamic banks working globally. This study will empirically evaluate the effect of share of discussed instruments as a percentage of total finance on the profitability of Islamic banks in expectation to find which one of the mode is more beneficial for the banking industry.

2. MODES OF FINANCE VERSUS MODES OF TRADE

Nowadays Islamic banks are receiving recognition across the globe which is the consequence of expansion and growth. Figure 1 shows the trend of increase in assets and equity of 19 full-fledged Islamic banks. The fast expansion requires profitable financing using appropriate instruments.

The primary model of Islamic banking in asset/investment side is based on the idea of partnership and sharing. Both of these characteristics are present in the modes of finance. The most popular modes of finance are Musharaka and Mudaraba. The concept of Musharaka is based on the word *shirkah* meaning partnership and this instrument is derived from Al Quran (4:112, 38:24). Similarly, the concept of Mudaraba is based on *al-darb fi al-ard* which means make a journey or to effort for some objective, and this instrument is derived from Al Quran (73:20). Both of these instruments involve the combination of resources of poor saving¹ directly into the business as a partner with the Islamic financial institute which provides the financial or non-financial expertise. The advantage of such instruments is that the bank uses its expertise to diversify the risk of loss in such arrangements which help the less fortunate individuals and entrepreneurs in the society to flourish. Since society is blossoming, there will be growth in deposits and on the other side businesses will be acquiring bigger partnerships, hence the intermediation of Islamic banks will lead to increasing returns [8, 9, 10, 11].

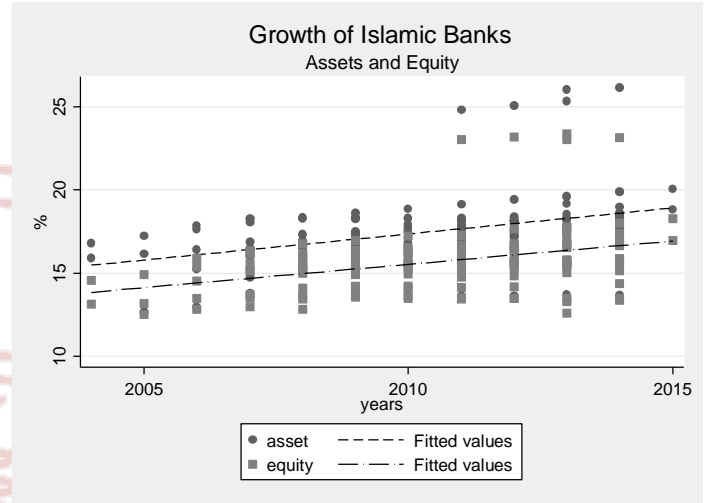


FIGURE 1. GROWTH OF ISLAMIC BANKS

On the other side, the popular modes of trade are Ijarah and Murabaha [8, p.65, 110]. These instruments are not originally the part of the model of an Islamic bank, they are appropriately modified to comply with Shariah rules. The evolution of Murabaha is linked to Al Quran (2:275, 4:29) and Ijarah is linked to Al Quran (28:26-27, 65:6). In both cases, banks provide an intermediary role to deliver products from the seller to the customer. In this case, Islamic bank works as an agent or owner of the product which is acquired from the seller and facilitate the sale and purchase (trade) process. So these instruments are only acquired by the well-off buyers and sellers. Moreover, these products are used by the banks in efforts to stabilize the returns as these products have fixed returns with minimal risk of loss. The issue with these instruments is that Islamic banks will face competition with all conventional banks and non-bank financiers, which will put downward pressure on their rents and profit [8, 10, 11, 12].

TABLE 2. COMPARISON OF FINANCING OPTIONS

Musharaka & Mudaraba	Ijarah & Murabaha
Partnership based	Rental or Markup based
Pure Finance based	Trade based financing
Variable returns	Fixed Returns
Returns based on value creation	Returns based on market rate
Chance of loss	No loss

¹ financings available for investment

Islamic bank facilitates business	Islamic bank facilitates trade
Competitors conventional banks	Competitors everyone

Table 2 summarizes the both types of asset side investment options which Islamic bank commonly utilizes. We can see here that the mode of finance are inheritably creating social benefit² as well as private benefit. Below figure 2 and figure 3 trace the historical association between the different investment modes with the assets and equity of Islamic banks. Here it can be seen that mode of trade are negatively associated and mode of finance are positively associated with the assets. In the case of equity model of finance have positive association whereas mode of trade has almost no association.

on the growth of assets and equity of Islamic banks on the basis of empirical data.

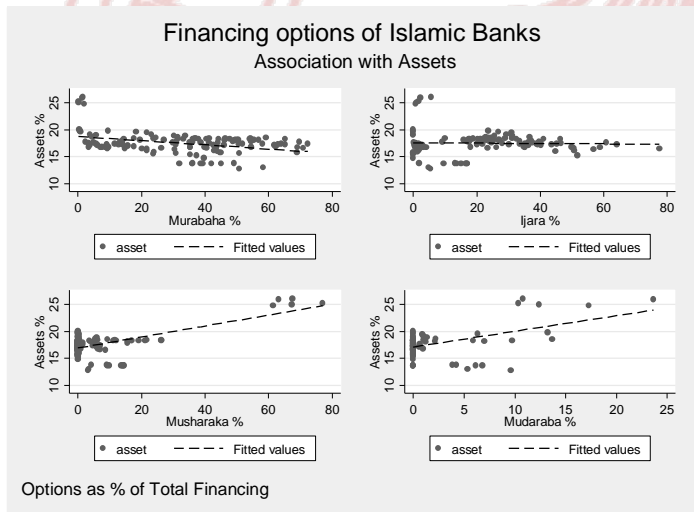


FIGURE 2. FINANCING OPTIONS AND ASSETS OF ISLAMIC BANKS

Since both types of instruments are permissible as per Shariah, Islamic banks make a portfolio of their assets invested mostly within these instruments to ensure their stable returns and profitability. There is a tradeoff here that the mode of finance is riskier with higher returns, whereas mode of trade has fixed returns but with higher competition. There is a need to identify that which one of these modes have a promoting effect

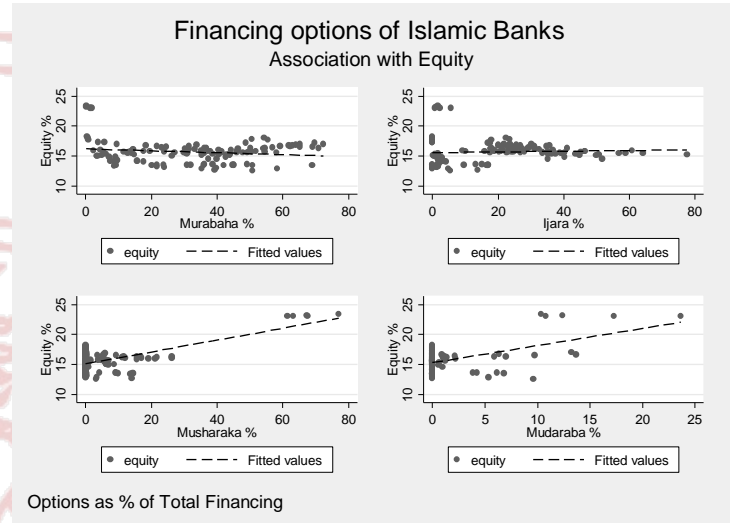


FIGURE 3. FINANCING OPTIONS AND EQUITY OF ISLAMIC BANKS

3. LITERATURE REVIEW

There are few studies which empirically tested the macroeconomic environment on the banking profitability and further very studies compared the different instruments and their impact on the profitability. This study intends to summarize the empirical studies which have worked relevant to the scope of this study.

Reference [13] used OLS approach and reference [14] used co-integration approach to check the effects of internal and external factors on the profitability of Islamic Banks. This study used three proxies for profitability i.e. total income to total asset ratio (TITA), bank's income to total asset ratio (BITA) and net profit to capital and reserve ratio (ATCR). This study used a discount rate as an external factor as a proxy for interest rate, and according to the long-run estimates of Johansson approach, discount rates have a positive impact on the profitability of Islamic banks. The reason is that higher interest rate represents a higher demand of financing in the economy, this

² There will be a bigger and more stable business as an outcome which lead to higher production and higher employment in the society.

provides opportunities for the Islamic banks to earn a profit. Later a study showed that interest rates significantly increases the income of the Islamic banks as, they benchmark the interest rate, and with its increase banks increase their charges [15].

Reference [16] used deposit returns as a proxy for interest rate and showed that increase in the deposit returns in the conventional banks which represent a major share of banking sector indicate that the majority of banks are earning higher profits, this increase leads to increase in the profitability and deposit returns of Islamic banks. There are possibly two reasons for it, first, Islamic banks have to increase returns in order to compete secondly, these higher deposit returns do represent higher financial returns in the economy.

Reference [17, 18] used 14 Islamic banks from 8 economies for the year of 1993-1998. This study has used GDP to incorporate the effect of an increase in demand and supply of loans and deposits and market capitalization to incorporate the effect of stock market development. According to this study, GDP growth has an insignificant effect and market capitalization has a positive significant effect on the performance, the case of the insignificance of GDP is also confirmed by the study on all banks in Turkey [19]. Later reference [20] used a bigger sample of 43 Islamic banks (full fledge bank and Islamic windows) for the year of 1994-2001 and revealed that GDP growth has a positive impact on the returns on assets. Reference [21] evaluated the effect of GDP on performance in terms of ROA and ROE of an overall banking sector of Pakistan. The results show that irrespective of the type of bank (i.e. Private, Public or Islamic), GDP has a positive impact on profitability. Similarly [22] showed that GDP has a positive impact on ROAA of Islamic banks of Malaysia.

Reference [23] used market capitalization as an instrument of economic and financial structure and checked its effect on the profitability of 10 Tunisian conventional banks for the years 1980 to 2000. The results showed that market capitalization leads to increase return on asset significantly. The development of stock market increases the potential customers and increases the banking activity. As the

stock market develops firms and businesses tend to rely more on the debt as compared to equity and they have easier access to financing to improve information and market functioning hence it provides an opportunity for the banking sector to extend the finances to these firms [24].

Reference [25] studied 131 banks, including, conventional and Islamic banks from 10 Islamic countries to evaluate the impact of banking sector development on the banks' risk-taking behaviour. The results indicated that development of the banking sector will increase the profitability by decreasing the percentage of non-performing loans and decrease in risk to insolvency.

4. METHODOLOGY

A. Sample

Following table shows the country-wise breakdown of Islamic banks with the sample size mentioned for each bank

TABLE 3. SAMPLE BANKS

Country	Banks	Sample
Pakistan	Meezan Bank	2004-2014
Pakistan	Dubai Islamic Bank	2008-2014
Pakistan	Burj Bank	2008-2014
Pakistan	Bank Islami	2006-2014
Pakistan	Al Baraka Bank	2007-2014
Malaysia	Bank Islam Malaysia Berhad	2008-2014
Malaysia	Bank Muamalat Malaysia Berhad	2004-2014
Qatar	Qatar International Islamic Bank	2009-2014
Qatar	Qatar Islamic Bank	2007-2014
Saudi Arabia	Bank Albilad	2008-2013
Saudi Arabia	Al Rajhi bank	2007-2014
Iran	Bank of Pasargad	2013-2015
Iran	Karabarin Bank	2011-2013
Iran	Saman Bank	2013-2014
UAE	Dubai Islamic Bank	2007-2015
UAE	Al Islamic Commercial Bank	2010-2014
UAE	Mashreq Bank	2006-2014
Bahrain	Bahrain Islamic Bank	2005-2014
Lebanon	Al Baraka Bank	2013-2014

TABLE 4. DESCRIPTIVE STATISTICS

	Murabaha	Ijarah	Musharaka	Mudaraba	Asset	Equity	GDP	DCPS	ST	Interest
Mean	31.63	20.27	5.81	1.38	17.52	15.68	29.30	3.77	23.88	5.24
Standard Deviation	19.84	17.40	13.71	3.74	2.16	1.98	3.09	0.53	2.00	4.18
Skewness	0.07	0.62	3.64	3.39	1.46	1.83	0.54	-0.57	0.52	0.90
Prob.(Skewness)	0.69	0.00	0.00	0.00	0.00	0.00	0.00	0.72	0.00	0.00
Kurtosis	1.97	2.86	16.71	15.56	8.48	8.48	3.16	2.39	2.93	2.87
Prob.(Kurtosis)	0.00	0.95	0.00	0.00	0.00	0.00	0.48	0.02	0.98	0.86
Prob.(Normality)	0.00	0.02	0.00	0.00	0.00	0.00	0.01	0.06	0.01	0.00

B. Dependent variables

The dependent variables used in this study are following.

- i. Total Assets (natural log, proxy for ROA)
- ii. Total Equity (natural log, proxy for ROE)

C. Independent variables

Independent variables include 4 most popular financing options of Islamic banks. These financing options are controlled using the economic environment (instrumented via Real GDP), banking sector development (instrumented via domestic credit to private sector) and stock market development (instrumented via value of stock traded).

- i. Murabaha (% of total finance)
- ii. Ijarah (% of total finance)
- iii. Musharaka (% of total finance)
- iv. Mudaraba (% of total finance)
- v. Real GDP (natural log)
- vi. Domestic Credit to Private Sector (natural log)
- vii. Value of Stock Traded (natural log)
- viii. Interest rate (per annum)

D. Descriptive statistics

In table 4 of descriptive statistics, we can observe that at, all of the variables are non – normal, though

central limit theorem makes variable normal asymptotically when the sample is above 30. The data like Musharaka and Mudaraba their standard deviation is higher than their mean values, showing that these variables are over-dispersed across the banks, secondly most of the variables have kurtosis > 3 showing that there are more than standard outliers in the data; both of these statistics indicate the use of panel data models as compared to the pooled OLS model.

E. Estimation Equation

Following two equations are representing the estimation model, these two equations will be estimated simultaneously.

$$\begin{aligned}
 &asset_{it} \\
 &= \alpha_i + \beta_1 Financing\ options_{it} \\
 &+ \beta_2 economic\ growth_{it} \\
 &+ \beta_3 stock\ market\ development_{it} \\
 &+ \beta_4 banking\ sector\ development_{it} \\
 &+ \beta_5 Interest\ rate_{it} + \beta_6 Country\ Fixed\ Effects_{it} \\
 &+ \mu_t
 \end{aligned}$$

$$\begin{aligned}
 &equity_{it} \\
 &= \gamma_i + \theta_1 Financing\ options_{it} \\
 &+ \theta_2 economic\ growth_{it} \\
 &+ \theta_3 stock\ market\ development_{it} \\
 &+ \theta_4 banking\ sector\ development_{it} \\
 &+ \theta_5 Interest\ Rate_{it} + \theta_6 Country\ Fixed\ Effects_{it} \\
 &+ \varepsilon_t
 \end{aligned}$$

5. ESTIMATION

A. Detecting Simultaneity

Below table 4, firstly shows the correlation between assets and equity of banks, we can see that there is very high and significant correlation between these variables, suggesting that models constructed for both variables might be related to each other. This interrelation is confirmed by the significance of correlation of the residuals generated from individual Fixed Effect models of both variables. Both of these significant correlations indicate that there is a need of estimating both models simultaneously.

TABLE 4. PAIRWISE CORRELATION COEFFICIENT

Pairwise Correlation Coefficient			
	Equity		Equity (Residuals)
Assets	0.92 (0.00)	Asset (Residuals)	0.72 (0.00)

B. Estimation Results

Following is the table 5 of the SEM model with country effects, in this model only effect of stock

market development and the banking sector development came out to be insignificant on the assets and equity of Islamic Banks globally, maybe, because the major part of assets are utilized in credit loans and mode of trade which can be seen from the table 1 that mode of trade constitute 40% overall and mode of finance only constitute only 10.2%.

First interesting aspect of these results is that for Islamic banks, trade based modes like Murabaha and Ijarah financing instruments have a negative impact and the finance based modes like Musharaka and Mudaraba investment instruments have a positive impact on the assets and equity of Islamic banks. It was expected earlier that the trade based investment support Islamic banks to maintain their profitability because of having lower losses to risk, but here the higher returns of modes of finance overweigh the risks of losses that are attached to them. Here 1% increase in the financing through Murabaha leads to decrease assets and equity by 0.01% and 0.01% respectively, similarly, 1% increase in the financing through Ijarah has a negative impact of 0.02 % on assets and 0.01% on equity. On the other side if the banks increase 1% financing through Musharaka it will lead to increase the assets and equity by 0.05% and 0.05% respectively, similarly, if 1% financing is increased using Mudaraba then the assets and equity grow by 0.11% and 0.10% respectively.

The effect of economic growth has a profound effect on all Islamic banks such that 1% increase in GDP leads to 2.16% increase in assets and 2.31% increase in the equity, this shows that performance of Islamic banks is highly elastic to the size of the economy. Here the increase in GDP is because of the increase in production and consumption, which provides an opportunity to be channelled through Islamic banks.

Interest rate being the proxy for the investment market returns, higher interest rate indicates higher expected returns on investment in the economy. If there are higher returns in the economy, businesses will increase demand for financing which may supersede the supply of financing. Hence, businesses will be willing to acquire the finance at a higher price to ensure they can proceed with the investment in time.

This pushing the interest rates upward. Here 1% increase in the interest rate does lead to 0.06% increase in assets and 0.06% increase of equity of Islamic banks.

The negative value of intercept shows that if all the included variables are constant, then the net effect of other non-included variables on assets and equity will be negative in the case of Pakistan which is being benchmarked country placed in the intercept. This negative value shows that do face challenge in the world as they have to compete with conventional banks. The other country dummies are interpreted as compared to the base country of Pakistan since all are negative, it means that the markets are less favorable to Islamic banks in these countries as compared to Pakistan.

Individually the independent variables are explaining the assets and equity by 95% and 96% respectively. And the significance of Wald test and the LR test shows that this SEM model is significantly explaining the changes in assets and equity and the results simultaneous model is superior to the individual equation model.

TABLE 5. ESTIMATION RESULTS

	Asset	Equity
	Coef. (prob.)	Coef. (prob.)
Murabaha	-0.01 (0.00)	-0.01 (0.00)
Ijarah	-0.02 (0.00)	-0.01 (0.09)
Musharaka	0.05 (0.00)	0.05 (0.00)
Mudaraba	0.11 (0.00)	0.10 (0.00)
GDP	2.46 (0.00)	2.31 (0.00)
ST	-0.01 (0.88)	0.05 (0.21)
DCPS	-0.14 (0.71)	0.03 (0.93)
Interest rate	0.06 (0.08)	0.06 (0.04)
Country Effects		
Malaysia	-24.40 (0.00)	-24.14 (0.00)
Qatar	-15.44 (0.00)	-15.49 (0.00)
Saudi Arabia	-7.29 (0.00)	-9.45 (0.00)
Iran	-12.04 (0.00)	-13.29 (0.00)
UAE	-5.02 (0.00)	-4.99 (0.00)
Bahrain	-10.22 (0.00)	-11.45 (0.00)
Lebanon	-6.35 (0.00)	-7.93 (0.00)
Intercept	-42.61 (0.00)	-41.26 (0.00)
Regression Diagnostics		
Individual R squared	0.95	0.96
Wald Test	2555.4 (0.00)	3385.8 (0.00)
LR test	91.09 (0.00)	

C. Post regression diagnostics

1) Multicollinearity test

The presence of multicollinearity in the model is assessed using the Eigenvalue, Condition index, VIF index, Tolerance index and auxiliary R square. All of these indicators are below the threshold values indicating that there is not significant evidence for the presence of multicollinearity in the model, so the results are unbiased.

TABLE 6. MULTICOLLINEARITY DIAGNOSTICS

Multicollinearity Diagnostics					
Variable	Eigen Val.	C Index	VIF	TOL.	R ² _{xi,x}
Murabaha	2.75	1.00	1.62	0.62	0.38
Ijarah	2.00	1.17	1.52	0.66	0.34
Musharaka	1.23	1.49	2.42	0.41	0.59
Mudaraba	0.88	1.77	2.20	0.45	0.55
GDP	0.47	2.41	4.50	0.22	0.77
DCPS	0.30	3.04	2.36	0.42	0.58
ST	0.24	3.37	1.77	0.56	0.43
Interest	0.12	4.75	4.25	0.23	0.76

2) Heteroskedasticity test

To check the presence of heteroskedasticity, this study has used the manual approach to Breusch Pagan Godfrey test [26, 27]. It compares the calculated sample size multiplied by an R-squared value to be compared with the chi-square critical value. The calculated test values for the asset model is 23.04 and equity model is 21.76 which are lower than the critical value of 24.99 at 14 degrees of freedom. There is no statistical evidence that there is heteroskedasticity in the individual models.

TABLE 7. MODEL HETEROSKEDASTICITY TEST

Model	Sample	R square	Chi Square	Critical Value
Assets	128	0.18	23.04	24.99
Equity	128	0.17	21.76	24.99

3) Autocorrelation Test

The residuals of both models are tested for stationarity using the ADF test which is based on fisher critical values [28]. According to the results, it can be said that

both of the residuals are stationary hence there is no evidence of the presence of autocorrelation in the model.

TABLE 8. RESIDUAL STATIONARITY TEST

Model Residuals	Fisher-ADF test	P value
Assets	128.96	0.00
Equity	60.24	0.00

6. CONCLUSION

Islamic banks recently are experiencing fast growth. The increasing recognition and better performance are expected to be the main sources of the growth of Islamic banks in Islamic as well as non-Islamic countries. This study compares two competing modes where banks can finance. First one is the mode of finance (Musharaka and Mudaraba) which are originally designed for the Islamic banks, based on profit and loss sharing. The second one is the mode of trade (Ijarah and Murabaha) which are adopted by the Islamic banks because they are less risky and provide constant returns.

The Islamic bank earns from the mode of finance by participating in value creation while in the mode of trade Islamic bank only facilitate the transferring of goods from seller to buyer. The banks make a portfolio of both modes to ensure stable returns. Here the tradeoff is that mode of finance is high risk, high return and the mode of trade are constant return having high competition.

This study used the data of 19 full-fledged Islamic banks, from 8 countries. This data included the share of financing instruments to total financing, the performance of banks and macroeconomic variables to control the economic environment. This study used a SEM model to estimate the effects of banking instruments to the performance.

The results indicated that an increase in the mode of finance is performance promoting and the mode of trade has a negative effect on the performance. Also, increase in GDP and interest rate has a positive effect on the performance of Islamic banks, while the effect of the stock market and banking sector development is insignificant.

The results reiterate the faith model of Islamic finance that the Islamic bank should focus on using partnership based mode, which is a mode of finance (Musharaka and Mudaraba). This mode eventually creates social benefit. Whereas the mode of trade (Ijarah and Murabaha) which are apparently less risky and earn fixed income are not beneficial for the asset growth and equity growth of the banks. Islamic banks everywhere should promote the mode of finance as they designed to create social value, secondly, they are growth promoting for Islamic banks and most importantly the use of these instruments will eventually eradicate the usurious practices of the conventional banking system. An increase in the share of the mode of finance will eventually promote the benevolence in relationships and increase welfare as Al Quran (2:276) state that God destroys the earning of usury and supports the charity.

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