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# Financial Performance Assessment of Islamic Banking: The Case Study of Dubai Islamic & Emirates Islamic Banks.

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## ABSTRACT

This research focuses on how Islamic banks work stressing on the shari'ah qualification and prohibitions on the controversial conventional banking products. It provides an overview on the history of Islamic finance and its evolution throughout years. Islamic financial industry has shown tremendous growth over the past decade, the study undertakes this growth in details, as well as the engagement of Islamic banks in corporate social responsibility by way of "Zakat". The ultimate purpose of this paper is to prove profitability and solvency of Islamic banking by assessing the financial performance of two large Islamic banks located in the United Arab Emirates: Dubai Islamic Bank & Emirates Islamic Bank. This study may also serve as a reference for comparing equity investments in both banks.

**Keywords:** Islamic banking, financial performance, profitability, interest, conventional banks, prohibited products, risk, comparative study, United Arab Emirates, Dubai Islamic bank "DIB", Emirates Islamic bank "EIB".

## Introduction

While Interest is the cogwheel of the modern banking, have you ever heard about an economy that strictly prohibits interest and hence the banking system is "interest-free"? Well, this is the notable Islamic banking system, also referred to as Shariah-compliant finance that refers to financial activities adjusted to the principles of Islamic law. Islamic finance has always been an interesting observation for many scholars and a point of interest for they who believe that Interest though seemingly a lucrative proposition for commercial banks, is the main reason for Bank Failures and Systemic Crisis. Think of Islamic banking as an alternative for conventional banking, originally established as a substitute of conventional banking, aimed at satisfying the needs of Muslim clients, and serves today almost millions of clients worldwide regardless of their religious beliefs (Amin, 2019). The basis of Islamic finance is Islamic law, which is also known as the Shari'ah.

Shari'ah Defines man-to-God and man-to-man relationships, it is by definition the Devine prescriptions in the form of faith and belief, laws and moral norms broadly classified into two strands: Worship & civil transactions. Worship and devotional practices (Ibadah) includes the five pillars of Islam {Testimony in god and prophet hood / five daily prayers / compulsory aims / Fasting / pilgrimage to Mecca (Hajj)}. Civil transactions (Muamalat) includes man-to-man relationships in political, social, and most important of all economic activities encompassing both Banking & financial activities and other non-banking financial activities. Muslims take after the Shari'ah (Islamic Law) from two essential sources: Al-Qur'an & Sunnah. Al-Quran is the first source of shari'ah that provides general and specific rules on religious, commercial, political, economic, legal and social norms. It Emphasises on mutual consent and consensus among consenting parties, prohibits exploitative measures such as excessive risk or uncertainty (gharar) and interest (riba), prohibits cheating and corrupt practices in the management of funds, and does not allow dealings in prohibited products such as gambling, Alcoholic beverages and porcine food products. Sunnah is the second primary source of the Shari'ah. It comprises the sayings, practices and tacit approvals of the Prophet Muhammad (PBUH) and it is meant to further explain the injunctions of the Qur'an (ex. There are many prophetic traditions that deal with riba that highlight the affirmative evidence of the prohibition of riba already mentioned in the Qur'an).
The central ruling body of Islamic finance worldwide is the International Islamic Fiqh Academy (IIFA) created in 1981. Located in Jeddah (KSA), IIFA is a subsidiary of the Organization of Islamic Cooperation - the largest organization representing the Muslim world with a membership of 57 states spread over four continents. The IIFA seeks to advance knowledge in the realms of culture, science, and economics based on both traditional Islamic sciences and modern fields of knowledge. The underlying principles of the modern Islamic banking and finance industry include: The prohibition of interest and excessive risk. The permissibility of lawful sales. Islamic entrepreneurship.

## 1. Literature review

While elimination of interest in all its forms is an important feature of the Islamic financial system, Islamic banking is much more. For example, Islamic funds would never knowingly invest in companies involved in gambling, alcoholic beverages, or porcine food products. In this way, Islamic banking can be considered a culturally distinct form of ethical investing. Prohibition of some products and elimination of interest in all its forms get people confused about the strategy Islamic banks might follow to make money and revitalize the economy; following is a brief description of the key operating mechanisms of Islamic banking through which it achieves its profits.

### 1.1. The key operating mechanisms of Islamic banking

"One must work for profits". Hence, the act of simply lending money to someone in need does not count as work. In short, money cannot be used to create more money because Islamic finance emphasizes the need to perform a service in order to receive a return (Amin, 2019). There are two major sources of funds in Islamic banks: Transaction deposits and investment deposits. Transaction deposits are risk-free funds, which do not yield return (e.g. current accounts based on the wadi'ah concept). Investment deposits are profit-making deposits but have risk of capital loss, depending on amount invested by bank (Merciful souls, 2021). Other sources of funds exist and they include: Current accounts opened by individuals, companies and firms by depositing cash and/or cheques, saving accounts which consist of deposited funds that yield some returns depending on bank financial results and Investment accounts where the customer and the bank enter into a joint-venture agreement, based on Mudarabah concept. While in Islamic finance it is not allowed to pay and receive interest, the system is entirely based on profit sharing. To earn money without the typical practice of charging interest, Islamic banks use equity participation systems. Equity participation means if a bank loans money to a business, the business will pay back the loan without interest and instead give the bank a share in its profits. If the business defaults or does not earn a profit, then the bank also does not benefit. The same concept applies for deposits made by costumers, especially investment deposits – the most important source of funds for Islamic banks where the bank invest a capital and share the profit/loss with the costumer. Islamic banks apply funds to raise profits in different ways, the main channels for the outflow of Islamic funds are: Cost plus financing (Musharakah / Mudarabah / Murabahah*), Lease (Ijarah) and deferred sale contract models (Bay mu'ajjal) (Islamic markets, 2020). *Murabahah is derived from the root word Ribah which means profit. It is a cost-plus financing contract where a sale is made at a specified profit margin. Murabahah contract establishes a form of mutual contract between two parties where they agree to the mark-up. The specific conditions for a valid Murabahah transaction are: goods subject to Murabahah, an original cost price of the goods with any addition procurement costs and a margin of profit**.**

Hence, the key operating mechanisms of Islamic banking and finance industry are: Fund mobilization and Fund utilization. Fund mobilization is the process of raising funds to establish a viable financial institution through the sale of shares to investors and receiving funds from depositors. Features may include an ethical manner, net equities owned by shareholders, investment deposits, and demand deposits. Fund utilization is the process of using the funds realized in Shari'ah-compliant business: Sharing modes / Sale modes (The bank purchases an item on behalf the client and resells it to them on a deferred basis or immediately) / leasing modes (The rent of an asset or hire purchase where a rental fee is paid for a stipulated period of time mutually agreed by the parties). Islamic banking is primarily based on trading, therefore banks can achieve profits from the buying and selling of Shari'ah-compliant products. When customers deposit money, Islamic banks select Shari'ah-compliant investments, then profits and risks are shared with the bank equally; Islamic banks use the funds under Islamic modes of financing and investment contracts (such as Musharakah, Wakala, etc.) to create profit.

### 1.2. History of Islamic banking

While reading about Islamic banking, one can find himself asking; Islamic injunction against riba is very ancient whereas Islamic banks have been founded in the middle of 1970s, why did the Islamic world took so long to come with an alternative to interest-based banking? The answer is necessarily based on historical factors.

With the industrial revolution, there was a tremendous expansion in the number of traders who wanted to expand their businesses but their own financial resources were not enough for it. Hence, there was a need for financial intermediation, which allow the traders to access the funds of other people. This gave birth to conventional banking that became the backbone of modem financial system. Because of western imperialism, the Muslim world encountered the associated institutions of capitalism including the commercial banking system. They had one of two choices: The first one accept the institution of commercial banking as it is and argue that interest charged by the commercial banks does not contain the elements of riba prohibited by Islam. The second one accept the verdict that interest charged by commercial banks is riba and make an attempt to develop an alternative system of banking which would not violate any tenets of the Islamic law. During the middle of the 19th century, several religious scholars in Islamic lands attempted to take the first position. Hence, there was some attempts, albeit unsuccessful, to dilute the strong in- junctions against riba: It was argued that riba condemned and prohibited by the Qur'an is really usury and not the interest, which is the basis of functioning of modem banks. It was also held that its prohibition is mainly aimed at eliminating the excesses and exploitation involved in the consumption loans when given on interest, and since commercial banks give loans mostly for productive purposes, prohibition of riba may not cover the bank loans. The advocates of these views neglected the fact that Islam does not make any distinction between the consumption loans and productive loans that is why the prohibition of riba has to apply irrespective of the purpose for which loans have been raised. A minuscule minority in the Muslim countries held these views. Therefore, modem commercial banking could not make much headway in the Muslim countries the way it did in the western world. The other approach of evolving a banking system consistent with the requirements of Shari'ah has become more important over time (although the idea to establish an interest-free bank dates back to as early as 1940s) when in 1975 Dubai Islamic Bank (DIB) created history as it has become the first modern commercial Islamic bank in the world. Since then, Islamic banking became more and more globally prominent. The first fully-fledged Islamic world commercial bank in 1975 operates in five main business groups: Retail banking, corporate banking, Real estate, Investment banking, and Proprietary trading investments.

### 1.3. Evolution of Islamic banking

Islamic banking began originally in the Middle East and reached other markets like North Africa, South-East Asia, central Asia, and Western Europe. Islamic finance, which prohibits interest payments and pure monetary speculation, has been on the rise in these markets for many years. Today more than 191 leading conventional banks in Europe and America have opened Islamic

banking windows or subsidiaries such as Standard Chartered Bank, Citibank, HSBC, ABN AMRO, and UBS. The Growth and expansion of Islamic finance industry has continued even at the time of global financial crisis in 2008 and the Corona virus pandemic in 2019. According to Moody's expectations of March 2022, Islamic finance assets reached $3.6 trillion in 2021 and are expected to grow 8% in 2022. Moreover, a rapid growth was experienced in the Gulf Cooperation Council (GCC) countries over the last decade as investments in Qatar for the 2022 soccer World Cup and the Expo event in Dubai have supported growth. In Saudi Arabia, where mortgages and corporate lending are expected to rise as the country moves forward with plans to diversify its economy, the Islamic banking industry is expected to receive some support in the next two years.

### 1.4. Corporate social responsibility

People used to conventional banking system might think that Islamic banking does not generate money (nor profit) and impoverishes countries by letting go opportunities for growth. Fortunately, this is not true; Islamic banks create profits and are committed to corporate social responsibility through helping the least privileged in the society, which is one of the most important provisions in Islamic finance. This initiative is called "Zakat". Zakat is neither a part of a marketing strategy, nor a choice for Islamic banks. It is an obligation that all institutions have to donate a certain proportion of their wealth annually to charitable causes. The process of donation is a form of worship for Muslims. Giving away money to the poor is said to purify yearly earnings that are over and above what is required to provide the essential needs of a person or family. Zakat is based on income and the value of possessions; the common minimum amount for those who qualify is 2.5%, or 1/40 of a Muslim's total savings and wealth (My money souq, 2022). According to Islamic financial analysts, between $200 billion and $1 trillion are spent in mandatory alms and voluntary charity each year across the Muslim world. Since their inception, Islamic banks have contributed to noble causes with the distribution of the banks' zakat and other funds to help create a better society as guided by shari'ah. Thus, Islamic Corporate Social Responsibility (ICSR) derives itself from core principles in the holy Qur'an. Sustainability means a lot for Islamic banks too, as many of these banks insist on creating eco-friendly saving accounts, promoting the purchase of electric cars, and so on…

## 2. General description of the case study

As this paper is a case study of two Islamic banks, below is the vision, organizational structure, and customer behavior of each bank separately (section II.1), followed by a financial performance assessment of each bank over the last 3 years and a comparison of the findings (section II.2).

### 2.1. Vision

### 2.1.1. Dubai Islamic bank

Simple words define the vision of pioneering Dubai Islamic bank "To be the most progressive Islamic financial institution in the world", this vision is strongly linked to what DIB has become today "Dubai Islamic Bank has been awarded as the best Islamic bank in the region" (Dubai Islamic Bank, 2020). Over years, DIB considered many values to drive its success including ; To be accessible to all customers without bias (Inclusiveness), connect together towards a common vision (Collaboration), adapt quickly to internal and external market changes (Agility), make fair and transparent decisions (Responsible), and maintain everlasting passion & commitment for fulfilling happy customers' journeys (Engaged). Dubai Islamic bank's vision and values are aligned with its purpose "To instill simplicity and convenience in all our offerings through a personal and engaging experience aligned to global sustainable practices for a better future." Hence, quality service along with a unique customer experience is all what DIB works for, in the aim of providing a better future for the upcoming generations (Dubai Islamic Bank, 2020).

### 2.1.2. Emirates Islamic bank

Founded in 2004, Emirates Islamic bank was established to provide the highest standards of banking services in accordance with the highest standards of Shari'ah principles (Emirates Islamic bank, 2020). Emirates Islamic is the right choice for those seeking excellence in managing their finances, the bank offers a wide range of products designed for individuals and small businesses as well as large corporations. Its vision reflects how the bank is moving into the future; "To be the most innovative Shariah-compliant bank for our customers, people, and communities." This vision stands for justifying the bank's purpose: creating opportunities to prosper (Emirates Islamic bank, 2021).

## 2.2. Organizational structure

Organizational structure provides guidance to all workers by laying out the official reporting relationships that govern the workflow of the company. Islamic banks such as conventional banks must have a clear organizational structure to remain flexible and ready for growth. However, one of the most important preconditions for a commercial bank turning into or entering Islamic banking is the existence of a Sharia supervisory board. Two boards govern Islamic Financial Institutions (IFIs): the Board of Directors and the Shari'ah Supervisory Board (SSB) which is an independent body of specialized jurists in fiqh al-mu'amalat (Islamic commercial jurisprudence) entrusted with the duty of directing, reviewing and supervising the activities of the institution. The ruling of the Board shall be binding with fatwas (legal opinions), otherwise the Islamic financial institution is deviating from its basic principles. Some of the responsibilities assigned to Shariah supervisory board are certifying financial instruments for their compliance with the Shariah, verifying transactions for compliance with the Shariah, calculating zakat payable by Islamic financial

institutions, disposing of non-shari'ah-compliant income, advising on the distribution of income among investors and shareholders.

### 2.2.1. Dubai Islamic Bank

DIB's board of directors appointed by its shareholders consists of exactly eight individuals along with the chairman of the board 'Mr. Mohamed Saeed Ahmed Abdulla Al Sharif'. Ranking above the Board of Directors, DIB's Shariah supervisory board consists of four members; all of them are scholars with vast experience in Islamic banking (Dubai Islamic Bank, 2021). It is empowered to issue 'Fatwas' on anything proposed before it by the different business units of the Bank. This framework ensures that DIB practices Islamic finance in true letter and spirit. DIB's management team is a professional team hired by the boards and made up of a collection of managers responsible for managing the bank's core business operations. They run the organization together with its top leader by setting the strategy, planning, as well as monitoring the development of financial matters and group business plans. DIB's management team is made up of 12 members including Junaid Ahmed (Chief Executive Officer), Syed Farhan Ahmed (Chief Financial Officer), Wamiq Rizvi (Chief operating officer), and Sajan H. Malik (Chief Risk Office) (Dubai Islamic bank, 2022).

### 2.2.2. Emirates Islamic Bank

The board of Emirates Islamic Bank comprises the chairman "Mr. Hesham Abdulla Al Qassim", a vice president, and five other directors. The Internal Shari'ah Supervision Committee is made up of five members. The management team encompasses 7 members including Salah Amin (Chief Executive Officer), Huda Sabil Abdulla (chief Financial Officer), and Marwan Salem Abunawas AlMheiri (Chief Human Resources Officer). Below is a chart of the hierarchical organizational structure of Islamic institutions (Emirates Islamic bank, 2020).

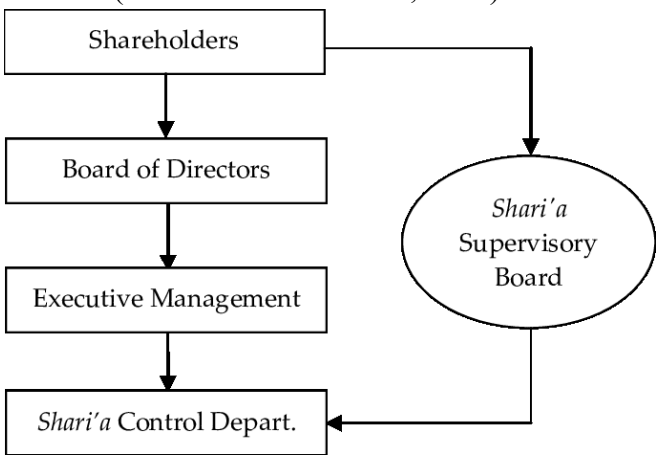


Figure 1: Organizational structure of Islamic financial institutions

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Brief description: Shareholders vote for both; the board of directors and shari'ah supervisory board. The board of directors is the governing body of the company, elected by shareholders to set strategy and oversee management. Management altogether with the shari'ah supervisory board oversee shari'ah department, a primary division in Islamic institutions responsible of over tracking the banking activities' compliance with Islamic law.

### 2.3. Customer Behavior

#### 2.3.1. Dubai Islamic Bank

Throughout its expansion strategy, DIB has established a wholly owned subsidiary in Pakistan, DIB Pakistan, which today has a total of 235 branches and 21 permanent banking booths in 68 cities across Pakistan. DIBPL has a customer base of over 200,000 cities in the country. The bank has also entered other promising markets like Jordan, Turkey, Bosnia and Sudan. Through innovation and excellence, DIB today attains the status of the UAE's largest Islamic bank with a wide network of 90 branches in the UAE and a customer base of over 5 million across the group. Ever since when banks were established and mandated to operate in adherence to Shari'ah rules and principles, Dubai Islamic bank has been one of the fastest growing institutions in the global banking industry, attracting more and more customers.

#### 2.3.2. Emirates Islamic Bank

Customers, who sit at the heart of the Emirates Islamic bank, are from both Muslims and Non-Muslims and they constitute together a large base who can benefit Islamic financing tools and be provided with solutions that are right to them, whether they are individuals or large corporations (Yahoo Finance, 2022). Emirates Islamic bank's customers can visit a wide network of over 41 branches to transfer funds locally or internationally (Emirates Islamic Bank, 2022).

## 3. Theoretical review of the financial Ratios

Financial ratios provide insight into how well management is performing as they measure levels of capital adequacy, liquidity, and solvency, which assist both analysts and investors in making more appropriate decisions. In general, financial ratios fall into five categories: Profitability, Risk and Solvency, Liquidity and capital adequacy, asset quality, and efficiency.

### 3.1. Profitability ratios:

Conventionally, two measures are frequently used to assess the financial performance of institutions; ROE and ROA. Some studies use other ratios like Net interest margin, interest coverage ratio and other interest-related ratios, however all of these ratios are inapplicable to our study as Islamic banks are interest-free (Furhmann, 2021).

**The return-on-assets (ROA) ratio:** The analyst wants to learn how efficient the company is in producing income from its assets. ROA is the percentage that net income bears to total assets. The ROA ratio is a company's net income divided by its total assets (Wilkins, 2022).

**Return on Equity (ROE**) ratio: The analyst wants to learn how well the stockholders will be rewarded for their risk investment. ROE is found by dividing net income by total equity (Wilkins, 2022).

**The earnings per share ratio (EPS):** Earnings per share shows how profitable a company is on a shareholder basis. EPS measures net income earned on each share of a company's common stock. Net income of a company divided by the weighted average number of common shares outstanding during the year (Wilkins, 2022).

**Net profit margin (NPM) ratio:** is a percentage that indicates how many cents of profit has been generated for each dollar of revenue. Investors use NPM to evaluate a company's management's skill and growth potential. Net profit of a company divided by its revenue. Furthermore, analysts assess the financial strength of a company by analyzing its capitalization structure through liquidity and solvency ratios. Understanding the difference between solvency and liquidity: Solvency and liquidity ratios are very similar, as both of these ratios will indicate the financial health of the company, but have some important differences. The main difference is that solvency ratios have a longer-term outlook than liquidity ratios; Solvency ratios look at all assets of a company including long-term debts such as bonds , liquidity ratios on the other hand, look at just the most liquid assets, such as cash and marketable securities (Corporate finance institute, 2022).

### 3.2. Risk & Solvency ratios

**Debt ratio** indicates how much of the company is funded by debt versus assets, and therefore, its ability to pay off its debt with its available assets. Debt ratio is a company's total debt to total assets (Hayes, 2021)**.**

**Debt-to-equity (D/E)** reflects how much of a company is funded by equity as opposed to debt. Higher ratio indicates a higher risk for the business as it indicates that the company is using debt for fueling its growth. Debt-to-equity ratio is a company's total debt to total shareholders' equity. Liquidity refers to the efficiency or ease with which an asset or security can be converted into ready cash without affecting its market price. Liquidity ratios are very useful especially when they are used in comparative form, this analysis may be internal or external. An internal analysis entails comparing a company's liquidity between different accounting periods to track changes, External

analysis, on the other hand, entails comparing the liquidity ratios of one company to another or an entire industry. When comparing businesses of different sizes in different geographical locations, liquidity ratio analysis many not be useful because various businesses require different financing structures (Fernando, 2022).

### 3.3. Capital & Liquidity ratios:

**Capital adequacy ratio (CAR)** is a bank's available capital expressed as a percentage of a bank's risk weighted-credit exposures. The purpose is to ensure that banks have sufficient capital reserves to absorb certain losses before they risk default. Banks with a high capital adequacy ratio exceed the minimum requirements required to suggest solvency. CAR= (Tier 1 capital + tier 2 capital)/ risk-weighted assets (Hayes, 2022).

**Liquidity coverage ratio (LCR)** refers to the percentage of highly liquid assets held by banks to meet short term obligations. LCR = High quality liquid asset amount / total net cash flow amount The finance-to-deposit ratio is used to assess a bank's liquidity by comparing a bank's total loans to its total deposits for the same period. If the ratio is too high, it means that the bank may not have enough liquidity to cover any unforeseen fund requirements. Finance to deposit = Total Loans / Total Deposits (Murphy, 2021).

### 3.4. Asset-quality ratio

**Loan-to-Assets** is a bank related ratio, banks that have a relatively higher loan-to-assets ratio derive more of their income from loans and investments, while banks with lower levels of loans-to-assets ratios derive a relatively larger portion of their total incomes from more-diversified, noninterest-earning sources, such trading. Banks with lower loan-to-assets ratios may fare better when interest rates are low or credit is tight. They may also fare better during economic downturns. Loans to assets = Total loans/total assets

### 3.5. Efficiency ratio

The **cost-to-income ratio** is used by analysts to measure the performance of a company's short-term or current performance, it measures a company's ability to use its assets to generate income. Cost to income ratio = Expenses (not including interest)/ Revenue (Indeed editorial team, 2021).

**Table 1: Ratios and Notions.**

| Ratio | Notion |
|---|---|
| Return on assets | ROA |
| Return on equity | ROE |
| Earnings per share | EPS |
| Net profit margin | NPM |

| | |
|---|---|
| Debt | Debt |
| Debt-to-equity | D/E |
| Capital Adequacy ratio | CAR |
| Liquidity coverage ratio | LCR |
| Finance-to-deposits | Finance-to-deposits |
| Loan-to-asset | LAR |
| Cost-to-income | Cost-to-income |

**Table 2: Financial performance assessment of DIB and EIB from 2020 until the 1st quarter of 2022.**

| Ratios | | 2020 | 2021 | 3-month period ended 31 March 2022 |
|---|---|---|---|---|
| Profitability | | | | |
| ROA | DIB<br>EIB | 1.09%<br>(0.68%) | 1.58%<br>1.27% | 0.47%<br>0.49% |
| | | | | |
| ROE<br><br>EPS<br><br>Net profit margin | DIB<br>EIB<br>DIB<br>EIB<br>DIB | 7.33%<br>(6.14%)<br>0.38<br>(0.089)<br>2.61% | 10.63%<br>9.63%<br>0.53<br>0.152<br>2.59% | 3.29%<br>3.95%<br>0.17<br>0.063<br>2.69% |
| | EIB | 2.7% | 2.6% | - |
| Risk & Solvency | | | | |
| Debt | DIB | 85.10% | 85.14% | 85.78% |
| | | | | |
| | EIB | 88.87% | 86.83% | 87.63% |
| | | | | |
| D/E | DIB<br>EIB | 5.71<br>7.99 | 5.73<br>6.59 | 6.03<br>7.09 |
| Capital & Liquidity | | | | |
| CAR | DIB | 18.5% | 17.1% | 17.5% |
| | | | | |
| | EIB | 19.2% | 19.7% | - |
| LCR | DIB | 129% | 136% | 123% |
| | | | | |
| | EIB | 79.1% | 85.5% | - |
| | | | | |

| | | | | |
|---|---|---|---|---|
| Net financing to customer deposit | DIB<br>EIB | 95.51%<br>87.05% | 90.69%<br>90.15% | 93.27%<br>88.10% |
| Asset quality | | | | |
| LAR | DIB | 67.93% | 66.89% | 66.40% |
| | | | | |
| | EIB | 57.83% | 65.66% | 64.57% |
| | | | | |
| Efficiency | | | | |
| Cost to income | DIB<br>EIB | 29.4%<br>51.91% | 26.85%<br>49.7% | 28.29%<br>43.03% |

2020 was undoubtedly a unique year. Almost everyone, individuals or businesses, across the world experienced a difficult year as a result of the disruption of a novel Coronavirus (covid-19), which has disturbed the global business and economic activity. The economic dynamics have changed. There has been a significant shift in the landscape on both a regional and global scale. To survive the pandemic, institutions had to evolve and adapt to keep up with these shifts.

Dubai Islamic and Emirates Islamic banks aren't any exception. Both banks hold until now preventing in opposition to the virus. As those banks are living inside the United Arab Emirates, they draw suggestion from leader`s ahead wondering and far-sighted vision “to serve today, but plan for tomorrow”, aligning their targets with the UAE authorities’ Strategy for the future. During those remarkable times, the UAE`s authorities ensured that the economic system remains unblemished that`s why they insisted on providing support to multiple economic sectors. The central bank of UAE has been proactive as traditional in supplying aid toward the economic system with liquidity and capital relief measures delivered via “the Targeted Economic Support Scheme” (TESS) aimed at supporting both; customers and institutions.

**Table 3: DIB's financial performance assessment from 2020 to 2022.**

| Ratios | 2020 | 2021 | 3-month period ended 31 March 2022 |
|---|---|---|---|
| ROA | 1.09% | 1.58% | 0.47% |
| ROE | 7.33% | 10.63% | 3.29% |
| EPS | 0.38 | 0.53 | 0.17 |
| NPM | 2.61% | 2.59% | 2.69% |
| Debt | 85.10% | 85.14% | 85.78% |
| D/E | 5.71 | 5.73 | 6.03 |
| CAR | 18.5% | 17.1% | 17.5% |
| LCR | 129% | 136% | 123% |
| Net financing to customer deposits | 95.51% | 90.69% | 93.27% |
| LAR | 67.93% | 66.89% | 66.40% |
| Cost-to-income | 29.4% | 26.85% | 28.29% |

Despite the challenges of the extraordinary year of 2020, DIB persisted to force the boom of the Islamic banking enterprise and remained one of the most powerful banks in the UAE with its new position #Readyforthenew. **In 2020**, DIB's market share was over 9% with a balance sheet at nearly 290 billion AED and a sustained profitability of AED 13billion total income and AED 3.16 billion net profit. Driven by a unique strategy and crisis management plans, DIB efficaciously treated the disaster of covid-19 and the year has also seen the successful integration of Noor bank into DIB, one of the quickest acquisitions in the banking sector, demonstrating the strong infrastructure of DIB and the dedication of its employees as well as reinforcing its fame as a main participant in the worldwide Islamic banking sector. DIB did an incredible performance in 2021 that has delivered a 39% growth in net profits, from AED 3.1 Billion in 2020 to AED 4.3 billion. Despite the low-rate environment, returns continue to improve with ROA and ROE at a healthy 1.5% and 10.6% respectively. The bank approximately maintained the same risk & solvency level of 2020 but had improved its liquidity position with a finance to deposits ratio of nearly 91% (vs 95% in 2020) due to customer deposits that reached AED 206 billion demonstrating customers' ultimate trust in the bank .Capitalization levels remained robust with CAR at 17.1% and CET1 at 12.4%, both well above the minimum regulatory requirement. Total equity reached AED 41.5 billion with an EPS of AED 0.53 (higher than 0.38 in 2020). The operating revenues remained stable at AED 9,422 million vs AED 9,471 million in 2020 and the operating expenses declined by 7% from AED 2,728 million to AED 2,529 , together they lead the cost to income ratio to stand at 26.8% vs 29.4% in 2020 , positioning DIB as a clear market leader on this metric. Due to its strong well diversified strategy which involves investments in multiple sectors (like healthcare, education, cultural preservation) all of which promoting the betterment of the living standards and because of the incredible cost management skills of its leaders, DIB was able in 2021 to enhance its profitability although tough times while increasing its liquidity level and maintaining its level

of solvency and capital adequacy above requirements. These improvements are continuous, the financial ratios of DIB during the 1st quarter of **2022** allow us to predict that the bank will succeed another year at maintaining its leading position in the UAE market.

**Table 4: EIB's financial performance assessment from 2020 to 2022.**

| Ratios | 2020 | 2021 | 3-month period ended 31 March 2022 |
|---|---|---|---|
| ROA | (0.68%) | 1.27% | 0.49% |
| ROE | (6.14%) | 9.63% | 3.95% |
| EPS | (0.089) | 0.152 | 0.063 |
| NPM | 2.7% | 2.6% | - |
| Debt | 88.87% | 86.83% | 87.63% |
| D/E | 7.99 | 6.59 | 7.09 |
| CAR | 19.2% | 19.7% | - |
| LCR | 79.1% | 85.5% | - |
| Net financing to customers deposit | 87.05% | 90.15% | 88.10% |
| LAR | 67.93% | 66.89% | 66.40% |
| Cost-to-income | 51.91% | 7.97% | 43.03% |

In 2020, the group reported a consolidated loss of AED 482 million. Despite challenging market condition due to low profit rate environment and global pandemic, Emirates Islamic maintained healthy liquidity and capital, demonstrating its resiliency in navigating through the crisis. At the end of 2020, Equity holders' funds were equal to AED 7, 852 million. The group leveraged that strength while remaining true to its core Sharia principles, and successfully exhibited a $500 million, 5-year sukuk from its $2.5 billion program of certificates issued in September. **In 2021**, Emirates Islamic has again reaffirmed its position as a leading financial institution in the UAE as evidenced by its strong financial performance; a net profit of AED 823 million for the year , which represents an increase of 271 per cent over 2020, mainly from higher non-funded income coupled with a reduction in cost of risk. ROA ratio increased from (0.68) % in 2020 to 1.27%, ROE ratio as well from (6.14%) in 2020 to 9.63%. EPS reached 0.152 vs (0.089) in 2020. Emirates Islamic maintained healthy liquidity and strong capital ratios. D/E declined from 7.99 to 6.59, which refers to a better solvency level. The bank's efficiency also increased throughout 2021. Emirates Islamic had the opportunity to be the official Islamic banking partner of Expo 2020 that took place in Dubai during 2021, where the bank was able to showcase the ethical values of Islamic Banking. Total Equity holders' funds were AED 8,551 million (2020: AED 7,852 million), the bank was also able to fulfill its commitment to society through its contribution with over AED 51 million in 2021 to the Emirates Islamic Charity Fund for a range of humanitarian causes across the UAE. Emirates Islamic bank's financial ratios of the 1st quarter in 2022 promotes a promising

performance in the upcoming period, demonstrating the high flexibility and efficiency levels of the bank.

**Charts enable stakeholders to visually evaluate and compare data, below is a set of charts demonstrating the most basic financial ratios used in the financial performance assessment of DIB & EIB.**

### 3.6. Operating performance

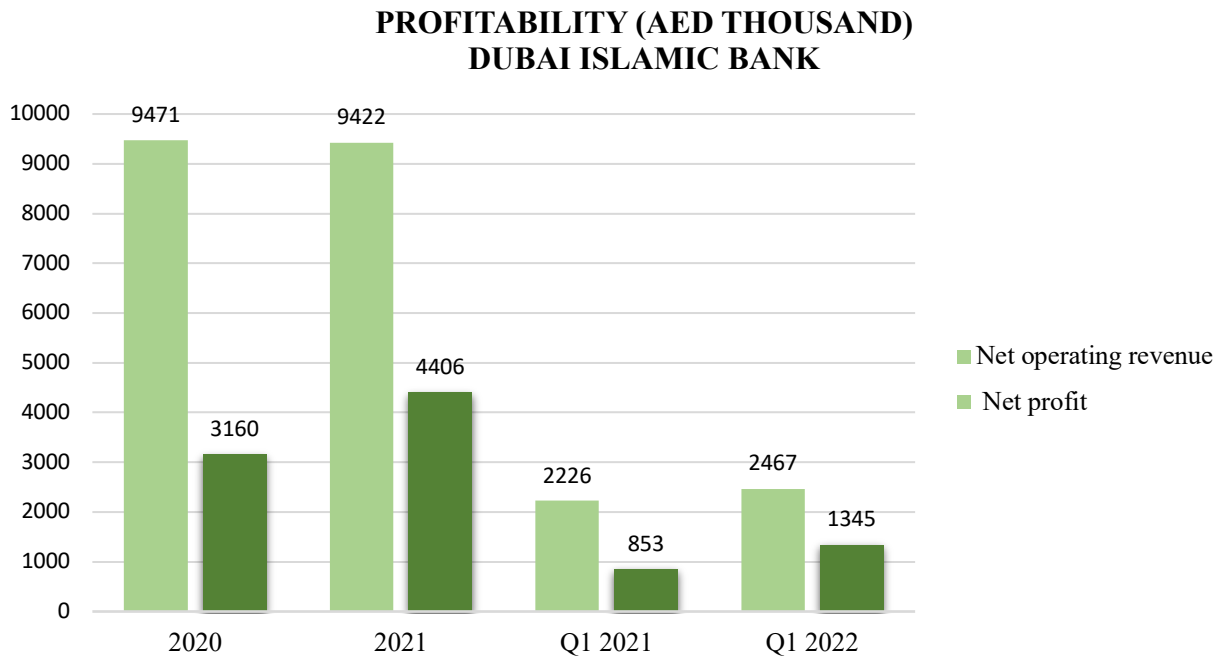



Figure 2: Profitability (AED Thousand) Dubai Islamic Bank

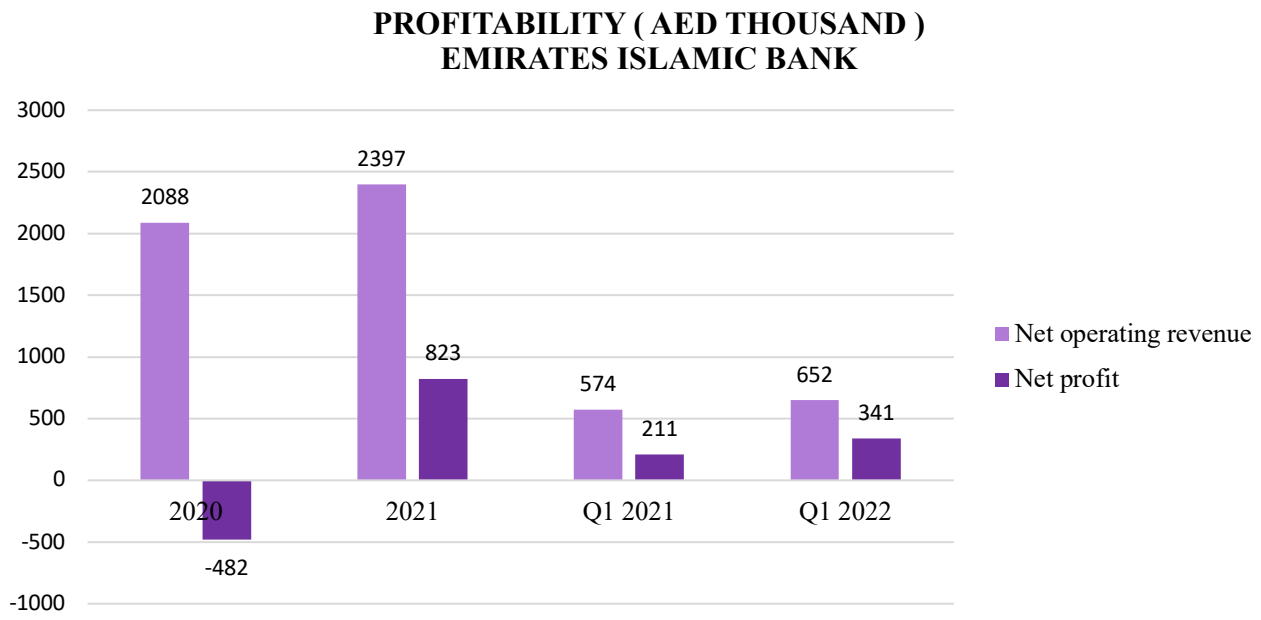
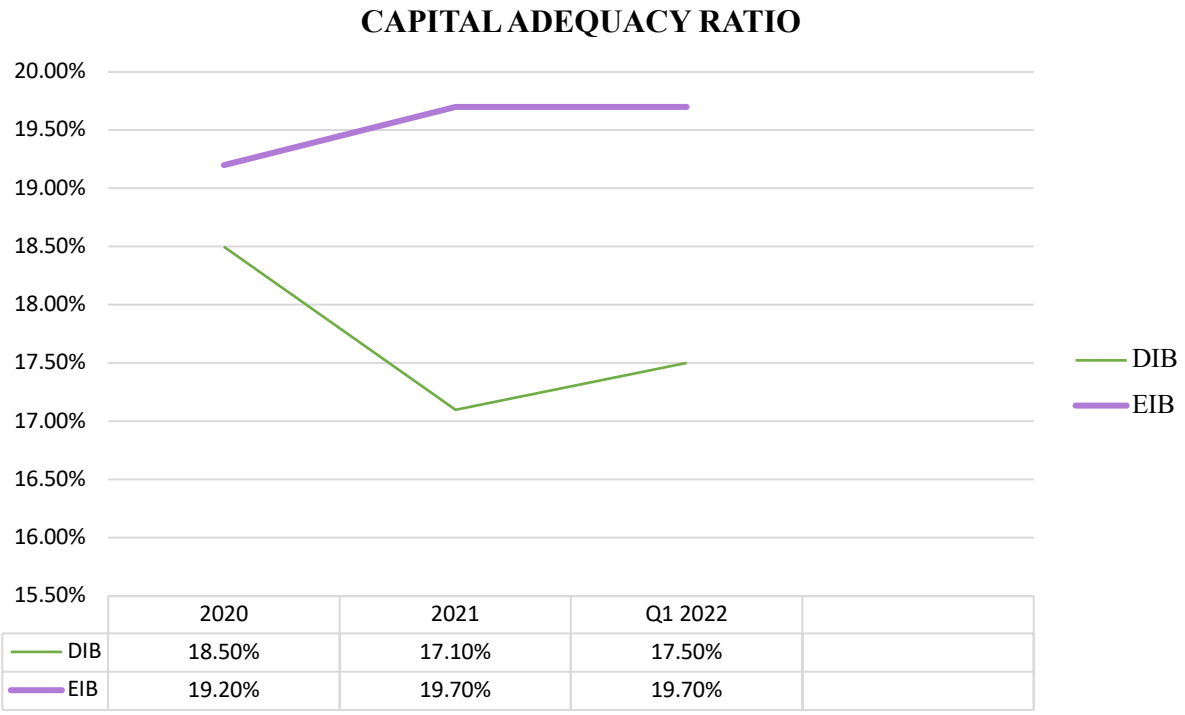



Figure 3: Profitability (AED Thousand) Emirates Islamic Bank

### 3.7. Capitalization overview




| | 2020 | 2021 | Q1 2022 | |
|---|---|---|---|---|
| DIB | 18.50% | 17.10% | 17.50% | |
| EIB | 19.20% | 19.70% | 19.70% | |

Figure 4: Capital Adequacy Ration

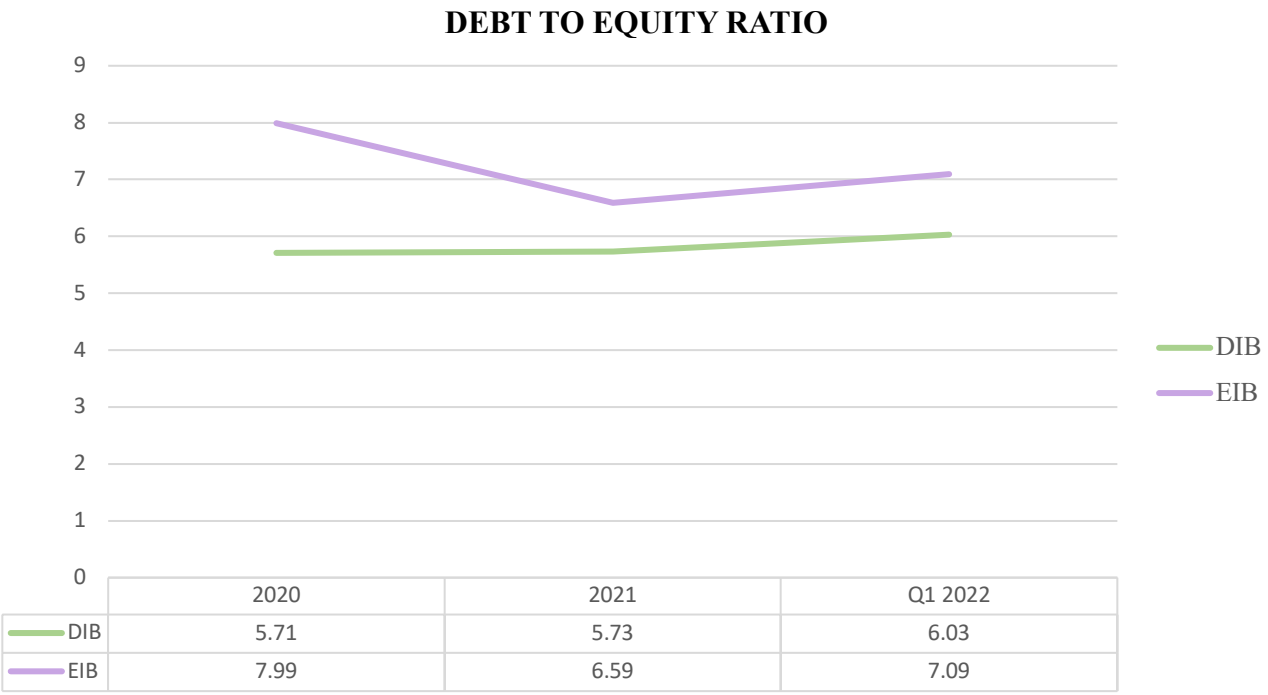



Figure 5: Debt to Equity Ratio

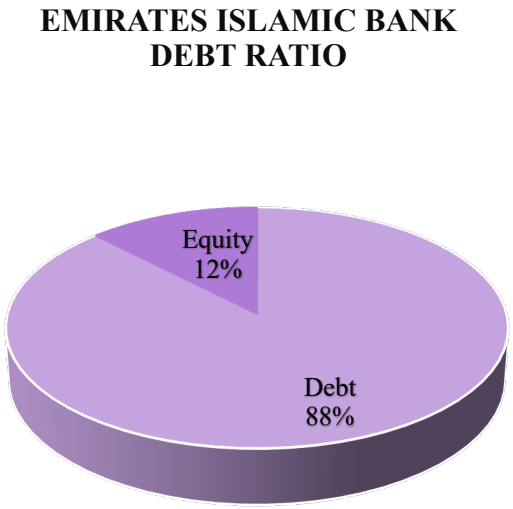



Figure 6: Islamic Bank Debt Ratio

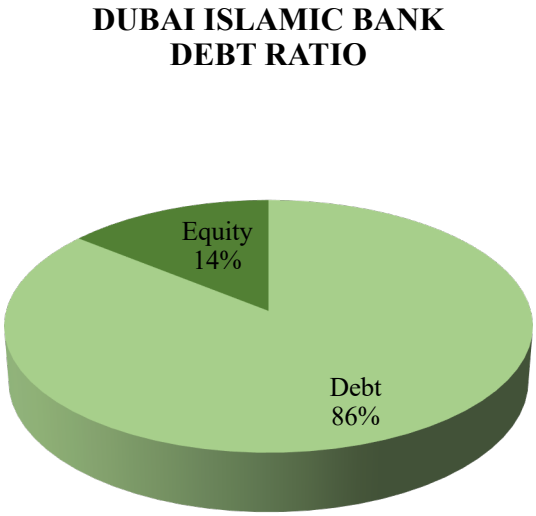



Figure 7: Dubai Bank Debt Ratio

### 3.8. Funding sources & liquidity

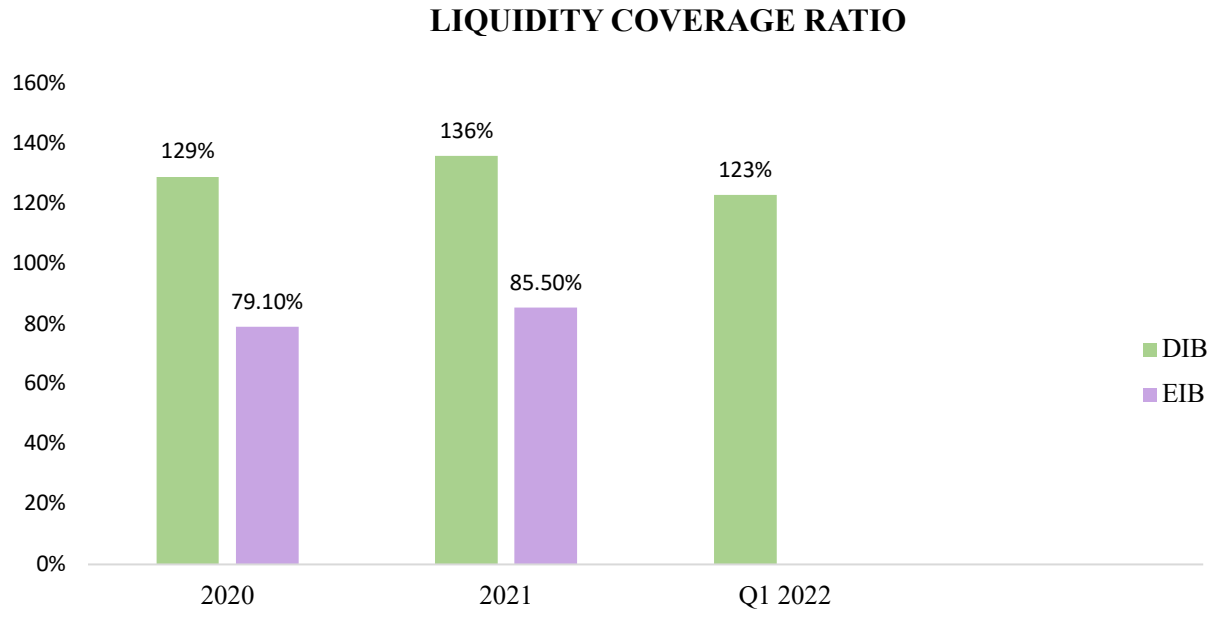
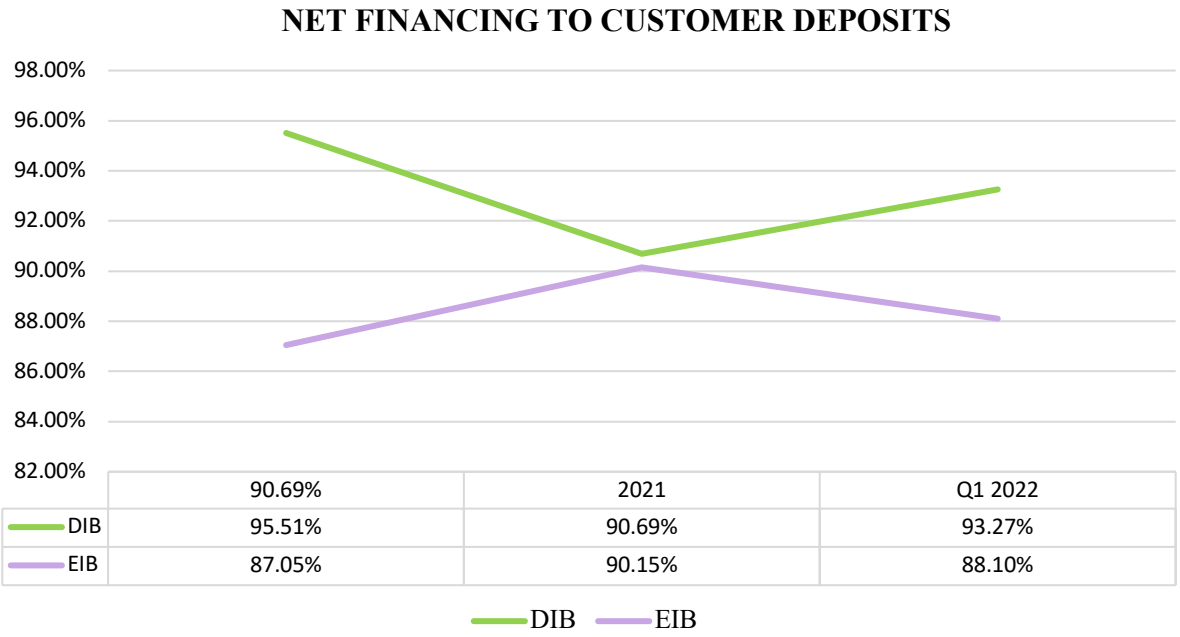



Figure 8: Liquidity Coverage Ratio




| | 90.69% | 2021 | Q1 2022 |
|---|---|---|---|
| DIB | 95.51% | 90.69% | 93.27% |
| EIB | 87.05% | 90.15% | 88.10% |

Figure 9: Net Financing to Customer Deposits

### 3.9. Stock variations chart and valuation of DIB & EIB

To learn more about the two banks involved in this study, it is helpful to conduct a stock market analysis by examining and evaluating past and current data on stock market fluctuations. Stock analysis helps investors gain an advantage in the markets by making informed decisions. By stock market fluctuations, we mean that the stock price changes. Consequently, so do the market values of stocks and companies. This happens mainly as a result of changes in supply and demand for the stock, but other factors such as major financial news, natural disasters, and investor reaction to company finances can also cause large price swings. These fluctuations can impact retirement savings and other investments on a daily basis and cause concern.


Figure 9: DIB.AE" fluctuations from May 2020 to May 2022

Earnings per share (EPS) = 0.53
Price-Earnings (P/E) = 12.17
Yield = 3.11%
Market cap (the total value of all a company's shares of stock) =46.62 B
Beta (a measure of the systematic risk of a security relative to the market) =0.69

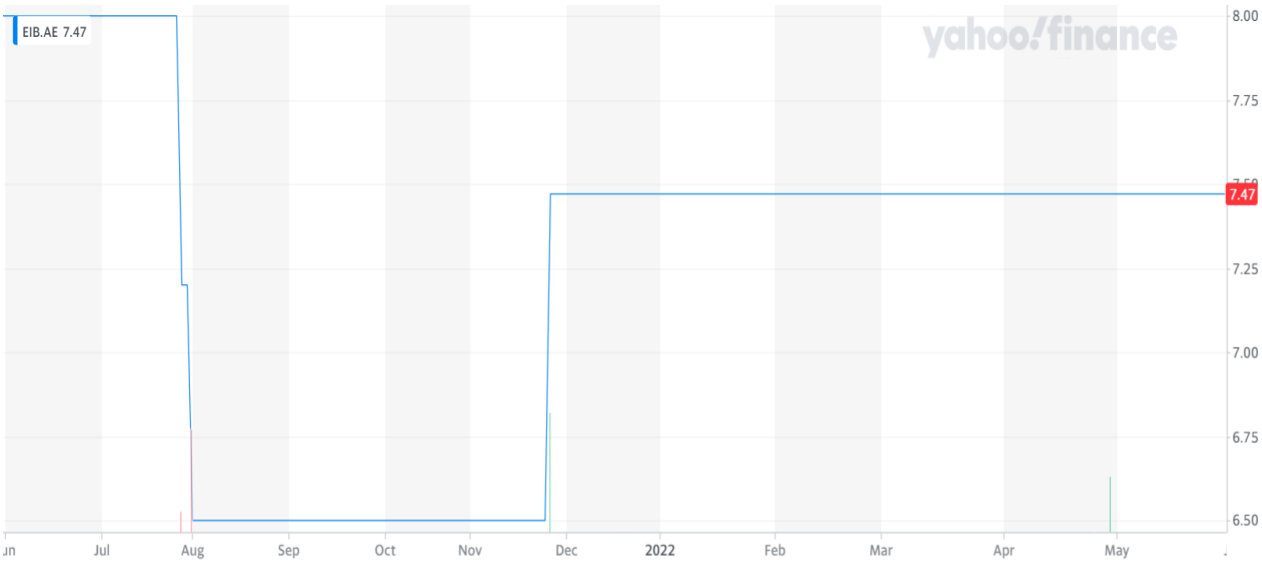



Figure 10: "EIB.AE" fluctuations from May 2020 to May 2022

EPS= 0.15
P/E= 49.14
Market capitalization = 40.57B
Beta = 0.08

## 4. Conclusions and Recommendations

The purpose of this study is to prove that there can be banking without interest, one governed by a resilient code of ethics in all its practices, an "Islamic banking system" that can generate profit while maintaining a great level of risk & solvency. Using financial ratio analysis, the study consists of financial performance assessment of two Islamic banks established in the United Arab Emirates and spread over the world though a large number of branches; Dubai Islamic bank and Emirates Islamic bank. 11 financial ratios were estimated to measure profitability, capital & liquidity, risk & solvency, and operational efficiency levels of the banks.

The findings show that both Islamic banks were able to survive the covid-19 pandemic in 2020 thanks to their risk management strategies, which included digitalization of operations. Despite the difficulties, the banks continued to provide a continuous banking service to its customers through its digital banking channels, which helped the banks to maintain certain level of profitability and recover quickly enough to get back on track post the lockdown. Despite the low-interest-rate environment, DIB and EIB were able to achieve a high net profit in 2021 and the period ended 31 March 2022 while maintaining a good solvency level and capital adequacy ratio above market requirements. Objectively, DIB and EIB demonstrated consistency and solvency during difficult times, demonstrating proper bank management and effective governance. These banks are always backed and supported by the strong emirate government, which owns equity in both banks and is always concerned with the UAE economy's overall health. Equity investment in

each of Dubai Islamic bank and Emirates Islamic bank would be a great investing decision; however, deciding which stock to invest in would be a relative decision that depends on many personal factors, most notably the investor's risk tolerance level. DIB and EIB stocks, like any other two investments, yield different returns and have different levels of risk. The expected return rises as the rate of return rises. DIB stock provides a higher EPS at a higher risk level, whereas EIB provides a lower return at a lower risk. Every investor will be drawn to one investment over another, so he must select the stock that best fits his expectations and the level of risk the investor is willing to take. "What drives the trader, banker, farmer or research scientist to do his job as well as possible? In capitalist economies, it is the concept of competition. But in an economy based on Islamic standards, the idea of the local man speaking to God gives entrepreneurs a sense of working together with others for the benefit of society as a whole who count themselves". Agree or not, "Islamic banking has been praised for turning a "theory" into a trillion dollar "reality" and for creating an ethical, sustainable, environmentally-and socially-responsible system"-Abayomi A.Aawode. Islamic finance is set to continue significant growth path although legal and regulatory challenges still face the emerging Islamic financial industry, because Islamic finance has the great potential of being an alternative mode of finance. Moreover, the pandemic of covid-19 has focused attention on major global issues such as climate change and global wealth distribution. As the world's attention turns to these challenges, we have an once-in-a-lifetime opportunity to position the Islamic banking sector as part of the solution.

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