

Measuring the Financial Performance of Islamic Banks

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Abstract

The aim of this paper is to measure the financial performance of two Islamic banks in United Arab Emirates for the period of 2003 to 2007. Different groups of ratios have been used to measure the performance and make a comparison between these two banks. The ratios which are used are going to measure liquidity, profitability, management capacity, capital structure and share performance ratios. The research goes further step to measure the financial stability of the two banks. Descriptive statistical analysis was used to rank the performance, measuring the dispersion and the stability of performance. The finding revealed that the both banks did well for the above period. Moreover, the liquidity level is lower in Dubai Islamic bank than its rival, while the profitability level is much higher in Dubai Islamic bank than in Abu Dhabi bank. Dubai Islamic bank, has managed by and large its operation more successfully than Abu Dhabi Islamic bank, but the later bank is not far off with a similar capital structure. The four ratios of share performance indicted that Abu Dhabi Islamic bank is better off than Dubai Islamic bank. Finally, Abu Dhabi bank had a high level of stability than Dubai Islamic bank.

JEL classification numbers: E44, G21, M40

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1 Introduction

A commercial bank's performance is examined for various reasons. Bank regulators identify banks that are experiencing severe problems so that they can remedy them. Shareholders need to determine whether they should buy or sell the stock of various banks. Investment analysts must be able to advise prospective investors on which banks to invest in. Furthermore, commercial banks evaluate their own performance over time to determine the outcomes of previous management decisions so that changes can be made

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where appropriate. Without persistent monitoring of performance, existing problems can remain unnoticed and lead to financial failure in the future.

2 Research Objectives

The overall objectives of this research is to measure the performance of two leading private sector Islamic banks using five groups of financial ratios that will indicates the performance developments over the period 2003-2007. Moreover, the study will make comparative assessment of the performance between the two banks.

3 Research Methodology

To measure the financial performance and make a comparison between Dubai Islamic bank and Abu Dhabi Islamic bank, the researcher is going to use five main groups of parameters. In each group, different ratios are going to employee to measure the performance. These ratios are going to be ranked for comparison purpose. The data for this research was obtained from Abu Dhabi financial service company. The descriptive measurements are going to be used to measure the performance and the stability of these ratios over the years 2003-2007. Z-score measurement is going to be used to measure the stability level of the two banks.

4 Literature Review

Ahmed (2010) investigated the performance of Islamic banks in Pakistan. In this study, Ahmed applied non-financial measures based on an eight item scale to sasses the performance of the Islamic banks. He selected six full-fledged Islamic banks and measured their performance by using modified version of an eight-item research instrument developed by Quinn &Rohrbaugh (1983). The responses were recorded regarding bank performance by considering different aspects. Every respondent was asked to rank a number of aspects regarding his/her bank. These responses were recorded from 432 bankers through simple random sampling technique. The results show that bankers consider product quality, profitability, and productivity as more important indicators of performance with increasing evolution towards these items. The personnel voluntary rotation and personnel absenteeism are ranked low due to decreasing evolution among bankers.

Abduh, Hasan and Pananjung (2013) investigated the efficiency and performance of five Islamic banks in Bangladesh. Their data were collected through the published annual reports of the five banks from the year of 2006 to 2010. To measure the efficiency and performance, the researchers used ratio analysis for measuring the performance and data envelopment analysis with Malmquist Index to measure the efficiency of the Islamic bank. The result concludes that Shajalal Islamic bank has performed better than other Islamic banks in terms of ratio analyzed. The result of Data envelopment analysis reveals that the trend of all Islamic banks was on the rising stage during year 2006 to year 2010, suggesting that the Islamic banks have improved their efficiency over the study period.

Ibrahim *et. al.*(2014) have used financial data obtained from the annual reports of the sample banks the study has evaluated the performance of six Islamic banks listed at both Dhaka Stock Exchange & Chittagong Stock Exchange. Their objectives were to evaluate the performance of these banks, and to make a comparison among different Islamic banks from different variables. The results show that some banks are better off than others using different ratios. The overall performance of all Islamic banks is satisfactory. The researchers believe that the future of Islamic banking system in Bangladesh is very bright. But for exploring the market opportunity the Islamic banks must develop market driven strategy.

Yudistira (2004) used data envelopment analysis technique to create a frontier set by efficient banks and compare it with inefficient banks to produce efficiency scores. The researcher found that the overall efficiency across 18 Islamic banks is small at just over 10 percent, which is quite low compared to many conventional rivals. Islamic banks in the sample suffered from the global crisis in 1998-1999, but performed very well after the difficult periods. Moreover, the findings indicate that there are diseconomies of scale for small-to-medium Islamic banks.

Sanwari and Zakaria (2013) studied the Islamic bank performance in relation to the effect of both internal conditions and the external factors on Islamic banks performance. Global Islamic banks' data were obtained from the annual report on Islamic banking from Bank Scope database. Panel data of 74 Islamic banks from around the world was examined for the period 2000 to 2009. Their findings revealed that the performance of these banks depends more on bank specific characteristics such as capital, assets quality and liquidity, while macroeconomic factors do not significantly influence Islamic banks' profit.

Akhter *et. al.*, (2011) measured the efficiency of Islamic bank in relation to two conventional banks in Pakistan. They used the financial ratios to measure profitability, liquidity risk and credit risk for the years 2006 to 2010. Trend analysis was also used to check the trends of the balance sheet and income statement numbers. Their findings conclude that no significant difference is observed between the two types of banks in respect of profitability and a divergence in liquidity and credit performance. The trend analysis showed a good trend of balance sheet of the Islamic bank while in income statement, there was no meaningful difference.

Miniaoui and Gohou (2011) examined the performance of the main Islamic banks. They used the balance sheets data for 37 banks of the UAE. Their main purpose was to assess the magnitude of the gap between the conventional and the Islamic banking systems using conditional and unconditional methodology. They analyzed two sets of indicators related to profitability and productivity. They found that conventional banks in the UAE performed better than the Islamic one.

Cihak and Hesse (2010) assessed the relative financial strength of Islamic banks. Using Z-score as a measure of stability on individual Islamic and commercial banks in 19 banking systems, their findings were as follows:

1. Small Islamic banks tend to be financially stronger than small commercial banks.
2. Large commercial banks tend to be financially stronger than large Islamic banks.
3. Small Islamic banks tend to be stronger than large Islamic banks.

Husein (2014) analyzed the data of 102 individual Islamic banks in Indonesia over the period 2010 to 2012. His objective was to investigate whether the bank size has significant effect on risk using the z-score as a measure of stability. The research findings were as follows:

1. The banks size has significant difference in terms of its stability.

2. Overall, Islamic bank stability is affected by the assets and income diversity.
3. Large Islamic banks tend to be financially stronger than small Islamic banks.
4. Small banks tend to be more stable than medium Islamic banks.

5 Liquidity Analysis

5.1 Murabaha and Mudarabha Revenuesto Total Assets Ratio

Based on mean measure, the below tables 1 and 2, show that Abu Dhabi Islamic bank has generated more money in terms of murabaha and mudarabha with a mean percentage of 105.8 than Dubai Islamic bankwith a mean percentage of 61 over the years of study, of their total assets. The mean measurement also indicates that the Abu Dhabi Islamic bank has higher liquidity level than Dubai Islamic bank. In addition, the standard deviation and the coefficient of variation indicate the higher instability level of this ratio over the time in Abu Dhabi Islamic bank than in its rival.

5.2 Murabaha and MudarabhaRevenues to Customers Deposits

This ratio shows the ability of a bank to payback the customers deposit from murabaha and mudarabha revenues. Based on the mean measure, tables 1 and 2 Abu Dhabi Islamic bank is able to cover the liabilities of customer's deposits by 1.5 times than Dubai Islamic bank with 0.772 times. Again, a high ratio reflects a higher level of liquidity. On the other hand, and based on standard deviation and coefficient of variation, these tables indicate a high dispersion and instability levels of this ratio in both bank.

5.3 Shareholders' Equity to Total Assets

This ratio shows bank money as a percentage of total assets. The high ratio shows the ability of a bank to use its own money and indicates more liquidity. Based on the mean measurement, tables 1 and 2 demonstrate that both banks have similar level of owners' contribution to finance their assets. Based on both standard deviation and the coefficient of variation, it appears that Dubai Islamic bank is more stable than its rival.

Table 1: Liquidity Indicators: Dubai Islamic Bank

| Indicators % | 2003 | 2004 | 2005 | 2006 | 2007 | Mean | Standard Deviation | Coefficient of Variation |
|---|------|------|------|-------|-------|--------|--------------------|--------------------------|
| Murabaha and mudarabha to Total Assets | 52 | 50 | 46 | 82 | 75 | 61 | 16.3 | 26.7 |
| Murabaha and mudarabha to Customers' Deposits | 59 | 62 | 59 | 110 | 96 | 77.2 | 24.1 | 31.2 |
| Shareholder's equity to Total Assets | 7.46 | 9.76 | 8.93 | 13.25 | 12.44 | 10.348 | 2.454 | 23.7 |

Table 2: Liquidity Indicators: Abu Dhabi Islamic Bank

| Indicators % | 2003 | 2004 | 2005 | 2006 | 2007 | Mean | Standard Deviation | Coefficient of Variation |
|---|-------|-------|------|------|-------|--------|--------------------|--------------------------|
| Murabaha and mudarabha to Total Assets | 59 | 38 | 134 | 145 | 153 | 105.8 | 53.3 | 50.4 |
| Murabaha and mudarabha to Customers' Deposits | 88 | 50 | 165 | 221 | 227 | 150.2 | 79.1 | 52.7 |
| Shareholder's equity to Total Assets | 15.19 | 11.87 | 9.08 | 7.63 | 12.30 | 11.214 | 2.950 | 26.3 |

6 Profitability Analysis

6.1 Return on Total Income

Profit margin ratio shows the profitability percentage from a bank operation. It is calculated by dividing net profit by total income. The comparison between the two means reveals that Dubai Islamic bank enjoys high profitability with mean of 34.188 than Abu Dhabi Islamic bank with a mean of 27.314. This has been associated with similar level of variability based on the coefficient of variation in tables 3 and 4.

6.2 Return on Assets

Return on assets ratio shows the profitability of using the assets. The high ratio indicates the efficient use of assets to generate more profit. The low ratio might indicate that a bank has invested too much money in its assets. Based on the analysis in tables 3 and 4, Dubai Islamic bank uses its assets to generate more profit with the mean of 2.112 comparing with Abu Dhabi Islamic bank with mean measurement 1.388. This ratio is more stable in case of Abu Dhabi Islamic bank with coefficient of variation 24.4% than Dubai Islamic bank 38.5%.

6.3 Return on Shareholders' Equity

This ratio shows the profitability in relation to the shareholders equity. The high ratio indicates an increase in the profitability of shareholders. Dubai Islamic bank captures the highest ratio and should attract more investors to invest their money in this bank with a mean of 20.138 comparing with its rival with a mean of 13.456. This high profitability ratio has associate with low level of dispersion and more instability in this ratio, based on the standard deviation and the mean figures as it shown in tables 3 and 4.

Table 3: Profitability Indicators: Dubai Islamic Bank

| Indicators % | 2003 | 2004 | 2005 | 2006 | 2007 | Mean | Standard Deviation | Coefficient of Variation |
|--------------------------------|-------|-------|-------|-------|-------|--------|--------------------|--------------------------|
| Return on Total Income | 22.88 | 31.36 | 40.40 | 34.48 | 41.82 | 34.188 | 7.629 | 22.3 |
| Return on Total Assets | 1.03 | 1.51 | 2.57 | 2.45 | 3.00 | 2.112 | 0.813 | 38.55 |
| Return on Shareholders' equity | 13.81 | 15.44 | 28.83 | 18.48 | 24.13 | 20.138 | 6.252 | 31 |

Table 4: Profitability Indicators: Abu Dhabi Islamic Bank

| Indicators % | 2003 | 2004 | 2005 | 2006 | 2007 | Mean | Standard Deviation | Coefficient of Variation |
|--------------------------------|-------|-------|-------|-------|-------|--------|--------------------|--------------------------|
| Return on Total Income | 36.92 | 25.06 | 23.75 | 24.21 | 26.63 | 27.314 | 5.480 | 20 |
| Return on Total Assets | 1.09 | 0.97 | 1.55 | 1.58 | 1.75 | 1.388 | 0.338 | 24.4 |
| Return on Shareholders' equity | 7.18 | 8.16 | 17.10 | 20.65 | 14.19 | 13.456 | 5.766 | 42.9 |

7 Capital Structure Indicators

7.1 Customers' Deposits to Total Assets

This ratio shows the contribution percentage of customers' deposits to total assets. The high percentage indicates the high ability of a bank in financing its assets. Tables 5 and 6 clearly show that Dubai Islamic bank has financed its assets with more money from the customers' deposits with a mean of 79.628 than its rival bank with a mean of 71.20. The variability level as based on the coefficient of variation is higher for the Abu Dhabi Islamic bank than Dubai Islamic bank.

7.2 Total Liabilities to Total Assets

This ratio shows the portion of money financed the total assets by outsources. The higher the ratio, the more of a firm's assets are provided by creditors relative to owners. Creditors prefer a low or moderate ratio, because it provides more protection in case a firm experience financial problems. The high ratio indicates the weak financial structure. The mean measurement in tales 7 and 8 indicates a similarity between the two banks. The mean percentage of Dubai Islamic bank is 89.632. Customers' deposits form 88.84% of the total liabilities. For Abu Dhabi Islamic bank, the mean percentage is 88.75. Customers' deposits form 80.22% of the total liabilities. It is apparent that both banks depend on customers' deposits in financing most of their activities. Dubai Islamic bank has managed to control its liabilities over the years as it has less standard deviation and coefficient of variation.

7.3 Shareholders' Equity to Total Assets

This ratio shows the portion of money financed by the shareholders as a percentage of total assets. The higher the ratio, the more of a firm's assets is provided by the shareholders and indicates a strong financial structure. The mean measurement in tables 5 and 6 show a similar level of financing the total assets by both banks. The percentage of shareholders' equity to total assets is very low. This indicates that both banks are depending on outsources finance, mainly the customers' deposits in financing their assets. The coefficient of variation for Dubai Islamic bank is 23.37, while it is 26.32 for Abu Dhabi Islamic bank which indicates a better level of stability of this ratio for Dubai bank.

Table 5: Capital Structure Indicators: Dubai Islamic Bank

| Indicators% | 2003 | 2004 | 2005 | 2006 | 2007 | Mean | Standard Deviation | Coefficient of Variation |
|---------------------------------------|-------|-------|-------|-------|-------|--------|--------------------|--------------------------|
| Customers' Deposits To Total Assets % | 87.29 | 81.47 | 77.66 | 74.08 | 77.64 | 79.628 | 5.017 | 6.49 % |
| Total Liabilities to Total Assets | 92.54 | 90.24 | 91.07 | 86.75 | 87.56 | 89.632 | 2.423 | 2.70% |
| Shareholder's equity to Total Assets | 7.46 | 9.76 | 8.93 | 13.25 | 12.44 | 10.368 | 2.423 | 23.37 % |

Table 6: Capital Structure Indicators: Abu Dhabi Islamic Bank

| Indicators% | 2003 | 2004 | 2005 | 2006 | 2007 | Mean | Standard Deviation | Coefficient of Variation |
|--------------------------------------|-------|-------|-------|-------|-------|-------|--------------------|--------------------------|
| Customers' Deposits To Total Assets | 66.41 | 75.42 | 81.26 | 65.64 | 67.27 | 71.20 | 6.86 | 9.63 |
| Total Liabilities to Total Assets | 84.81 | 88.13 | 90.92 | 92.36 | 87.70 | 88.75 | 2.95 | 3.32 |
| Shareholder's equity to Total Assets | 15.19 | 11.87 | 9.08 | 7.64 | 12.30 | 11.21 | 2.95 | 26.32 |

8 Management Capacity Indicators

8.1 Total Expenses to Total Revenues

This ratio relates the expenses incurred to generate the revenues. This ratio shows the endeavor of the management to generate its revenues with minimum cost. The mean percentage of expenses to revenues for Dubai Islamic bank is 27.98 while it is 32.09 for Abu Dhabi Islamic bank. This ratio is very unstable since it has 40.23% coefficient of variation comparing with 7.23% for Dubai Islamic bank.

8.2 Investment to Total Assets

This ratio shows the ability of bank management to allocate the appropriate amounts for investment. It is calculated by dividing the total amount invested by total assets. The high ratio will presumably lead to generate high income. The analysis in table 7 and 8 shows that Dubai Islamic bank enjoy high investment as a percentage of the total assets, with meant percentage 8.206 comparing with 6.946 for Abu Dhabi Islamic bank. The standard deviation and the coefficient of variance clearly indicate that this high investment is associated with high risk level and variability in this ratio comparing the commercial bank of Dubai.

8.3 Murabaha and Financial Activities to Total Assets

This ratio shows the allocation of murabaha and financial activities as a percentage of the total assets. The tables below show that the money allocated to these activities by Abu Dhabi Islamic bank forms 86.67% of total assets comparing with 80.386% for Dubai Islamic bank. The both banks have good level of stability based on the coefficient of variation, but this level is high in Abu Dhabi Islamic bank.

Table 7: Management Capacity Indicators: Dubai Islamic Bank

| Indicators % | 2003 | 2004 | 2005 | 2006 | 2007 | Mean | Standard Deviation | Coefficient of Variation |
|---|-------|-------|-------|-------|-------|--------|--------------------|--------------------------|
| Total expenses to Total revenues | 26.32 | 30.76 | 26.07 | 27.11 | 29.23 | 27.98 | 2.025 | 7.23 |
| Investment to Total Assets | 6.60 | 8.19 | 6.63 | 8.32 | 11.29 | 8.206 | 1.909 | 23.26 |
| Murabaha & Financial Activities to Total Assets | 85.51 | 81.63 | 78.99 | 77.98 | 77.82 | 80.386 | 3.245 | 4.03 |

Table 8: Management Capacity Indicators: Abu Dhabi Islamic Bank

| Indicators % | 2003 | 2004 | 2005 | 2006 | 2007 | Mean | Standard Deviation | Coefficient of Variation |
|---|-------|-------|-------|-------|-------|--------|--------------------|--------------------------|
| Total expenses to Total revenues | 46.17 | 45.60 | 26.56 | 18.59 | 23.53 | 32.090 | 12.911 | 40.23 |
| Investment to Total Assets | 6.80 | 6.24 | 6.17 | 9.06 | 6.45 | 6.946 | 1.207 | 17.37 |
| Murabaha & Financial Activities to Total Assets | 87.11 | 88.10 | 87.36 | 85.32 | 85.50 | 86.67 | 1.215 | 1.40 |

9 Share Performance Indicators

9.1 Market Value

Tables 9 and 10 below show the developments of share prices over the years 2003-2007. The mean of the prices is AED 53.16 in Abu Dhabi Islamic bank, while it is AED 37.586 for Dubai Islamic bank which. This means that the public were more willing to invest in Abu Dhabi Islamic bank. Moreover, the stock prices of both banks were moving randomly over the years of study as reflected in high standard deviation and high coefficient of variation. There are two reasons behind this random walk of the prices. The first one is the shift of investments to other high profitability sectors based on new available information to the investors. The second reason is the economic crises of 2007.

9.2 Price Earnings Ratios

This ratio relates the share price to the earnings per share. This ratio expresses the multiple that the market places on a firm's earnings per share. A high P/E multiple often reflects the market's perception of the firm's growth prospects. Thus, if investors believe that a firm's future earnings potential is good, they may be willing to pay a higher price for the stock and thus boost its P/E multiple. The mean measurement in tables 9 and 10 is slightly different between the two banks. On average, investors are willing to buy a share of Dubai Islamic bank at price of 23 times more the its earnings per share, while the case of Abu Dhabi Islamic bank is 25 times. The standard deviation and the coefficient of variation show high dispersion and more instability of this ratio in relation to both banks. The mean reason for this high instability is the high volatility of the prices especially in the year of 2007.

9.3 Market Value to Book Value

This ratio structures the relation of share price to book value. This ratio is a blend of historical accounting and market indicators. It expresses the differential between the book value of the net assets of a firm and the market value of it. A high ratio means an increase in the stock price over the book value per share, and the company is doing well, since the market is willing to pay more than the equity per share. Tables 9 and 10 show that the mean of this ratio for the Dubai Islamic bank is 4.924 times, which is higher than the mean percentage of Abu Dhabi Islamic bank is 3.216 times. Both banks have very high coefficient of variation which reflect high instability in this ratio. This ratio is affected by both inside and outside finance and economic factors.

9.4 Earnings per Share

This ratio measures the profitability of the shareholder's equity. The ratio provides a measure of overall performance and is an indicator of the possible amount of dividends that may be expected. The analysis in tables 9 and 10, shows that Abu Dhabi Islamic bank enjoys high profitability per share of AED 2 comparing with AED 1.510 for Dubai Islamic bank. Both banks have high coefficient of variation ratio which reflect the high instability of this indicator.

Table 9: Share Performance Indicators: Dubai Islamic Bank

| Indicators | 2003 | 2004 | 2005 | 2006 | 2007 | Mean | Standard Deviation | Coefficient of Variation |
|------------------------------------|-------|-------|-------|-------|-------|--------|--------------------|--------------------------|
| Market value | 46.75 | 93.05 | 29.15 | 8.08 | 11.00 | 37.586 | 34.678 | 92.26 |
| Price Earnings Ratio (Times) | 19.94 | 30.27 | 39.51 | 14.34 | 13.12 | 23.436 | 11.252 | 48.01 |
| Market value to book value (Times) | 2.75 | 4.67 | 11.39 | 2.65 | 3.16 | 4.924 | 3.704 | 75.22 |
| Earnings Per Share | 2.34 | 3.07 | 0.74 | 0.56 | 0.84 | 1.510 | 1.125 | 74.50 |

Table 10: Share Performance Indicators: Abu Dhabi Islamic Bank

| Indicators | 2003 | 2004 | 2005 | 2006 | 2007 | Mean | Standard Deviation | Coefficient of Variation |
|------------------------------------|-------|-------|--------|-------|-------|-------|--------------------|--------------------------|
| Market value | 24.20 | 42.00 | 142.10 | 51.20 | 6.30 | 53.16 | 52.61 | 98.96 |
| Price Earnings Ratio (Times) | 24.07 | 34.17 | 41.25 | 13.43 | 12.29 | 25.04 | 12.69 | 50.67 |
| Market value to book value (Times) | 1.73 | 2.79 | 7.05 | 2.77 | 1.74 | 3.216 | 2.206 | 68.59 |
| Earnings Per Share | 1.01 | 1.23 | 3.44 | 3.81 | 0.51 | 2.00 | 1.511 | 75.55 |

10 Bank Stability

This research focuses on measuring the financial performance of two Islamic banks using five types of parameters. However, it is possible to conduct a deeper investigation and measure the stability of the two banks by using the Z-Score measurement. Z-Score is the inverse of the probability of insolvency. It actually indicates the number of standard deviation that a bank's return on assets has to drop its expected value before equity is depleted and the bank is insolvent (Boyd *et al.*, 1993). Thus a higher z-score indicates that a bank incurs fewer risks and is more stable. The z-score can be computed as follows:

$$\text{Z-Score} = \frac{\text{ROA} + \text{CAR}}{\text{SDROA}}$$

Where ROA is the return on assets and Car is the ratio of total equity over total assets of the bank. SDROA is each bank's standard deviation of the ROA.

Z-score in table 11 below indicates that the level of stability is much higher in Abu Dhabi Islamic bank than Dubai Islamic bank for individual years and for the whole period 2003-2007.

Table 11: Z-Score measurement

| Year | Dubai Islamic Bank | Abu Dhabi Islamic Bank |
|--------------------|--------------------|------------------------|
| 2003 | 1.012 | 4.657 |
| 2004 | 1.345 | 3.685 |
| 2005 | 3.478 | 3.057 |
| 2006 | 1.880 | 2.629 |
| 2007 | 1.833 | 4.029 |
| Z-Score: 2003-2007 | 1.488 | 3.611 |

11 Conclusion

The central concern of the paper has been to conduct a comparative performance of two Islamic banks in United Arab Emirates for the period of 2003-2007. Five groups of parameters have been used to measure liquidity level, profitability level, management capacity, capital structure and share performance. The research went further to measure the financial stability of the two banks. The findings show that both banks are financially viable as both have used the appropriate financial tools and policies to manage their organization and to adapt with their environment, to become more competitive and maximizing their profits. The liquidity level in Dubai Islamic bank is less than in its competitive bank. The research also shows that Dubai Islamic bank possesses high profitability and instability levels than Abu Dhabi Islamic bank. The analysis of capital structure indicators reveals the similarities of the structures between the two banks. As far as management capacity ratios, the analysis declared that Dubai Islamic bank managed to generate its revenues with less level of expenses. Moreover, Dubai Islamic bank allocated more money for investment, and less for murabaha and financial activities comparing with Abu Dhabi Islamic bank. The overall analysis of the share performance stated that Abu Dhabi Islamic bank is better off in relation to the most important ratios, than its competitor bank. Finally, the analysis of Z-score states that Abu Dhabi Islamic bank enjoys high level of stability than Dubai Islamic bank. Most of the indicators in this research have high level of variability. There are mainly two reasons behind this high variability levels. First, over the years 2003 to 2007, many investors moved their investments to the more profitable sectors as the economy was booming. Second, the year of 2007 is the started year of financial crisis and had negative effect on the performance of the banking sector.

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