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### INVESTIGATING THE PROFITABILITY DETERMINANTS OF ISLAMIC BANKS IN SAUDI ARABIA

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#### ABSTRACT

The banking related division assumes a major job in the development of an economy. The steady managing an account framework factor for the banking related development of a nation is an essential factor. In the course of recent years, Islamic banking industry of Saudi Arabia has developed considerably, be that as it may, it faces numerous difficulties with respect to its monetary security. This investigation endeavors to survey factors that influence the productivity of Islamic managing an account industry over the time of 2011 to 2015. To Investigating the benefit past inquiries about were audits. The information was gathered from banking related explanation of Islamic and business banks in Saudi Arabia throughout the previous five years. Discoveries of the examination demonstrate that proportions of Islamic managing account productivity against business banks gainfulness are essentially influenced by the interior and the outer factor.

#### INTRODUCTION

With a framework that navigates more than 60 countries and preference base of more than \$166 billion, Islamic banks are directly expecting a relentlessly enormous activity in their specific economies [1]. In perspective of their agreements, Islamic banks have the versatility of getting the opportunity to be financial specialists and advance supervisors of firms, and also the upside of giving endeavor dealing with a record organization. In such manner, Islamic banks are rapidly grabbing bits of the general business in their family unit economies [2]. Everything considered, the proximity of Islamic banks typifies the correct accomplishment and the sensibility of forgoing settled premium portions from keeping money related trades [3].

To be sure, union among banks, rising rivalry and nonstop advancement to give banking related administrations, all add to a developing enthusiasm for a point-by-point basic assessment of Islamic banks. Actually, assessing the execution of Islamic banks is fundamental for administrative and additionally administrative purposes [4]. While administrators are quick to decide the results of past administration choices, bank controllers worried about the wellbeing and soundness of the saving banking framework and with protecting open certainty, screen banks' execution to distinguish banks that are encountering serious issues [5]. Without industrious checking of execution, existing issues can stay unnoticed and could prompt monetary disappointment later on. Contributors may likewise be keen on portraying the execution of their bank(s) since they are not qualified for settled returns and the ostensible estimations of their stores are not ensured. In particular, execution assessment is expected to give answers to key approach addresses, for example, should Islamic banks be held to indistinguishable arrangement of directions from traditional banks [6].

Wasiuzzaman and Tarmizi [7] in their paper looked at the impact of bank trademark and macroeconomic determinants on the productivity Islamic banks in Malaysia and results expressed that the capital and the advantage quality have a contrary association with bank gainfulness anyway liquidity and operational proficiency have a decent effect. Another investigation on the gainfulness of Malaysian Islamic banks was finished by Idris, Asari, Taufik, Salim, Mustafa, and Jusoff, [8], they concentrated on the impact of the interior proportions on the execution of Malaysian Islamic banks and found that a bank's size is the most ground-breaking impact on the execution of banks. Thus, bigger bank size will have a superior access to capital markets, bring down expense of acquiring and have the capacity to have a higher salary. Alkassim [9] inspected the determinants of benefit of Islamic and ordinary managing an account in the GCC Countries somewhere in the range of 1997 and 2004 and expressed that stores are found to positively affect productivity for regular however have a negative effect for Islamic banking. Hassoune [10] inspected Islamic bank benefit in a loan fee cycle and revealed that that Islamic banks work on a benefit and misfortune sharing premise contrasted with regular banks tasks which depend on premium. Thus, Haron [11] inspected the impacts of the elements that contribute in the productivity of Islamic banks and announced that there is an interior variable like liquidity, add up to uses, reserves put resources into Islamic banks, and the level of the benefit sharing proportion between the bank and the account holder of assets are exceptionally associated with the level of aggregate wage earned by the Islamic banks. Another investigation on the gainfulness of Jordanian Islamic banks was composed by Ramadan, Kilani and Kaddumi [12] about connection between the productivity of Jordanian business banks and the idea of bank particular and macroeconomic factors and found that the Jordanian bank's attributes have a great on the bank gainfulness. Akhtar, Ali, and Sadaqat [13] having an examination about researching the impact of how the bank-particular variables of gainfulness influences the execution of Islamic banks of Pakistan.

Along these lines, this paper means to describe some banking related and arrangement pointers that effect the general execution of Islamic banks. In particular, the motivation behind the investigation is to nearly look at the connection among productivity and the banking qualities, subsequent to controlling for monetary and budgetary structure markers. The goal is to choose which, among the potential determinants of execution, gives off an impression of being essential. By concentrate the association between Islamic banks' execution and the proficiency markers against the business banks, this paper adds to talk about the impacts of inward and outer factor on the execution of the banking part.

## **METHODOLOGY**

### ***The Measure of Banking Profitability***

Managing an account segment is a standout amongst the most imperative impact factor on economy through response to the budgetary interest of the distinctive monetary performing artists, by following their needs and needs. The great method for working the banking industry will speaks to the solid assurance of security for the budgetary area of the nations, and that will help to on set up another business in the nations. The saving banking division will bolster the assortment sort of business: private and open performing artists to enhance their riches by making other methods for monetary items proper with their requirements.

In the wake of checking on the monetary circumstance in an approach to recognize the best pointer of benefit and execution for banks, that is lead us to close numerous kinds of banking related markers, that clear up by numerous examinations, truth be told, the studiers connected three distinctive approaches to characterize productivity idea, in view of that this mission are hard to done. Along these lines, the markers speaking to gainfulness of banks can be put into three diverse classification. The primary methodology is to investigation the bank adjusts they find this by utilizing budgetary totals expand on the bank working for instance the gross or the networking wage. The second one is about focused on the examination of other information that present the working of the banks, similar to: the working expenses and the yield of the different banking related items provided by the saving banking segment. The third way is the most bringing in, for the reason that it is focus on the examination of other information present the banking structure, similar to, the arrival on resource (ROA) and the arrival on value (ROE), and the last methodology is the most connected in ongoing papers.

### ***Sample and Data Collection***

Data for this work was obtained from financial statements of banks in Saudi Arabia There are two types of banking operations in the Saudi Arabia: Islamic and Conventional. This research will study the profitability of four Islamic Banks in Saudi Arabia which are Aljazira bank, Albilad bank, Alinma bank and Alriyadh bank Against four conventional banks in Saudi Arabia choose randomly they are: National Commercial Bank, Alrajhi bank, Saudi British

bank and Saudi Hollandi Bank in a period from 2011 to 2015 that mean the five-past year.

### *Ratio Analysis*

The econometric demonstrating followed in this paper has this shape:  $ROE = \text{Net Income}/\text{Equity}$ ,  $ROA = \text{Net Income}/\text{Total Asset}$ . For the clarified variable, in this work we utilized two unique pointers, it's ROA and ROE. ROA speaks to the Return on Assets. ROE speaks to the Return on Equity. ROA and ROE Both measures are firmly attached to the key thing in the salary explanation; net wage. ROA and ROE have been utilized in most structure-execution considers and are incorporated here to mirror the bank's capacity to produce salary from nontraditional administrations. ROA demonstrates the benefit earned per dollar of advantages and above all, mirrors the administration capacity to use the bank's budgetary and genuine speculation assets to produce benefits. For any bank, ROA relies upon the bank's strategy choices and wild factors identifying with the economy and government controls. Numerous controllers trust return on resources is the best proportion of bank proficiency. ROE, then again, reflects how adequately a bank administration is utilizing investors reserves. A bank's ROE is influenced by its ROA and in addition by the bank's level of banking related use (value/resource). Since profits for resources have a tendency to be bring down for monetary middle people, most banks use budgetary use vigorously to build return on value to a focused level.

Depending on the way to deal with utilize, the gathered information analyzes productivity somewhere in the range of 2011 and 2015. some execution pointers of the managing an account part are troublesome gather, all together that they incorporate secret and touchy information about the bank acting, this issue expect us to utilize the third kind of methodology measure that focus on the investigation of other information like, the arrival on resource (ROA) and the arrival on value (ROE).

### **RESULT AND DISCUSSION**

The data from the sample of four Islamic banks and four commercial banks are pooled for all five years (2011-2015) and used to replicate and extend earlier research. The estimation technique used is by finding the ROE and ROA and get the average for each bank in the last five years and compare between the Islamic bank and the other bank. The results will be appearing as a schedule shown all the ROE and ROA for each year. Them, the figure will show you the different between the Islamic and commercial bank in Saudi Arabia by using the average from 2011 to 2015.

First, the return of equity (ROE) as shown in Figure 1 in the four Islamic banks during the five-past year (2011-2015) the study find that the averages is about 11.51%, 11.25, 5.63% and 15.62%. So, the average will be 11%. On the other hand, the return of equity for the four commercial banks in Saudi Arabia are 19.12% 16.74% 19.73% and 17.28%. Therefore, the average for those banks are 18.35%.

Second, based on Figure 2 the result and the average return of asset (ROA) as from 2011 until 2015 for the four Islamic banks in Saudi Arabia are 1.20%, 1.91% 2.57% and 2.10%. So, the average will be 1.95%. On the other side the average for the selected commercial banks in Saudi Arabia are 1.99%, 1.91%, 2.84% and 2.26%. So, the average will be 2.25%.

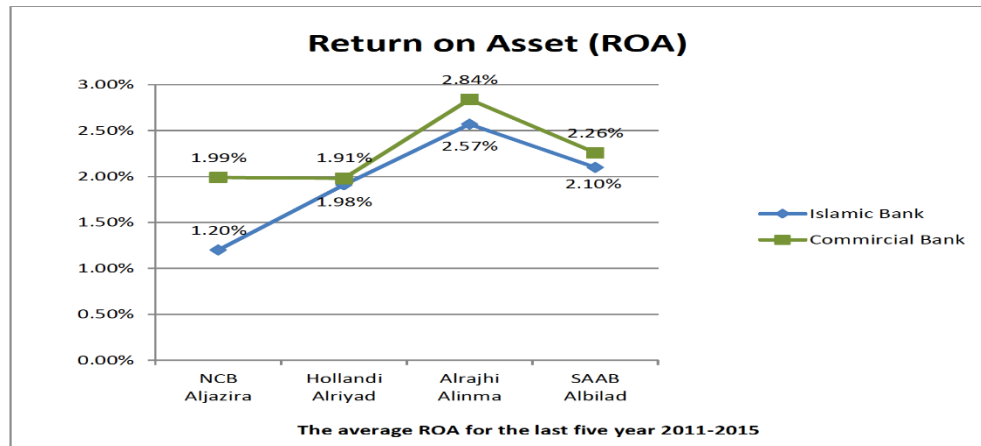


Figure 1. Return on Asset (ROA)

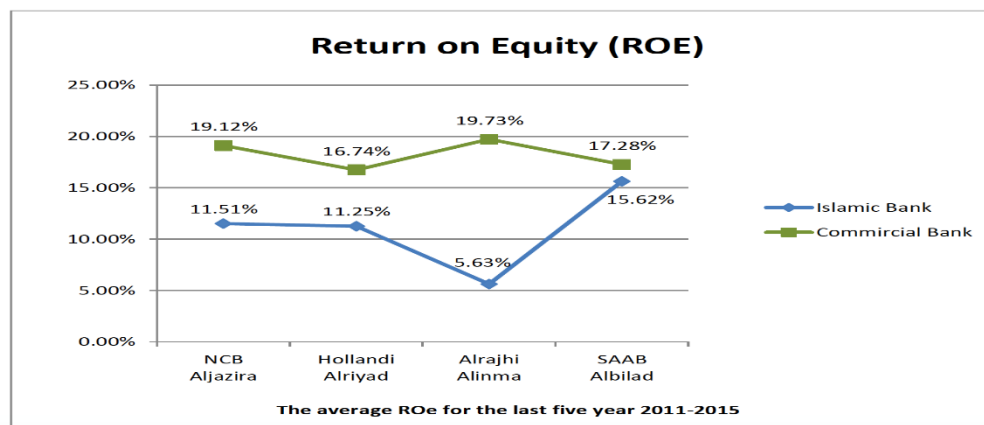


Figure 2. Return on Equity (ROE)

The literature review has provided some basis in determining the significant dependent and independent variables. The proportion of ROA and ROE is utilized to gauge bank benefit. Five free factors are considered to speak to the advantage quality, liquidity, activities, capital and size of the banks. For full scale condition factors, the GDP and swelling rate are utilized.

The information utilized for this investigation is gotten from the banking related articulations of 4 Islamic banks in Saudi Arabia. The information was taken from the Bank scope database, which had banking related articulation information for these banks just from 2011 to 2015. In this paper, the normal profit for resource (ROA) proportion and the normal profit for value (ROE) proportion are utilized to intermediary for benefit. The ROA is figured by separating the net wage of the save banking with its aggregate resources. The ROA is ascertained by separating likewise the net pay of the save banking

with its aggregate value. It reflects how a bank deals with its genuine speculation assets to create benefits.

As indicated by Flamini [14], ROA is a superior key intermediary than ROE on the grounds that an examination on ROE dismisses banking related use. Proportions for resource quality are typically founded on the credits and the leases. It is likewise a technique for assessment in surveying the acknowledge hazard related for a specific resource. Precedents of advantage quality proportions are advance misfortune hold to net advances, credit misfortune arrangement to net intrigue income and advance misfortune save to hindered advances. this outcome will assist us with knowing and understand the gainfulness of the Islamic banks in Saudi Arabia amid the multiyear back and that will give us the huge picture of these banks. After this outcome the financial expert would perceive obviously how the diverse between Islamic banks and other business banks.

### CONCLUSION

Islamic managing an account is one of the quickest developing fragments in the banking industry. It's around thirty years of age, existing in major Islamic nations and pulling in customers that look to keep away from intrigue. Besides, Islamic banks need to stay away from enthusiasm for any frame since it is restricted in Islam. In this way, the main answer for keep away from premium is to make a benefit and misfortune sharing managing an account framework. The benefit and misfortune framework enables the bank to impart the hazard to the customer. In addition, Islamic banks are required to work as indicated by Islamic tenets and standards. In contrast to Islamic banks, traditional banks work based on premium. The wage of regular banks is the distinction between the premium paid to contributors and premium paid by borrowers. This is the basic banking framework around the globe.

Be that as it may, Islamic banking does not permit this sort of exchange since it incorporates premium. The goal of this paper is to consider the factors that influence the productivity of Islamic banks in Saudi Arabia. By taking the proportions from eight banks, four of them are Islamic banks and the other are business banks. We intermediary the benefits by taking the proportion of a bank's ROA and ROE. The tests demonstrated that, the business banks have a higher rate in the both ROE and the ROA then the Islamic banks of Saudi Arabia. The model shows that the benefits made by Islamic banks in Saudi Arabia are emphatically related with the liquidity and the macroeconomic condition, while it was adversely related with its advantage quality and capital. Be that as it may, the measure of Islamic banks in Saudi Arabia had immaterial commitment to its productivity subsequently it was dropped from the investigation. That is the benefits of Saudi Arabia's Islamic managing an account area are not affected by the measure of the banks. This outcome is steady with the discoveries of some different examinations led on both ordinary and Islamic banks.

It can likewise be inferred that the macroeconomic approaches are essential factors in adding to the benefits of the banks. Along these lines, strategies went for controlling the swelling rate and the GDP development ought to be given need in cultivating banking related intermediation. To wrap things up,

the control level in the supervision of speculation of Islamic banks should be observed intently as it has huge commitment to the benefit of this industry. Truth be told the motivation behind the investigation to contrast Islamic banks and its ordinary partners working in Saudi Arabia. It helpful to see the contrast between the benefit among these two sorts of managing an account framework. Since these banks have quite recently begun to distribute the yearly reports on their Islamic managing an account portion, it would likely take a couple of more years to direct a significant inside and out examination between these two sorts of banking framework.

The consequences of this examination show that banks in a focused market were preferred overseen over their partners. In this way, clearly protectionist arrangements received by some Muslim governments is unseemly and can contort future improvement of Islamic saving banking. Foundation of more Islamic banks will give more advantages to the investors. For the future investigations, it is prescribed to have a more extensive degree where other Malaysian Islamic monetary foundations, for example, Islamic protection (takaful) and more determinant components can be considered.

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