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Financial Performance of Islamic and Conventional Banks in Qatar: A Comparative Analysis

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Abstract

The goal of bank performance evaluation is to guarantee that they efficiently utilize resources. Financial performance analysis is a critical tool for recognizing the bank's weaknesses and strengths across its numerous activities. The CAMELS technique is regarded as a supervisory tool to evaluate bank performance based on several aspects, according to the literature review. Regulators use on-site and off-site monitoring tools to assess a bank's financial stability. The CAMELS rating system encourages transparency, evolution, and change in all financial institutions. Furthermore, this method identifies the structural strengths and weaknesses of financial organizations. This study conducts a comparative analysis of Islamic and conventional banks in Qatar using the CAMELS rating scale from 2015 to 2020. We used a sample of 14 banks in Qatar, four of which were Islamic while the others were conventional. The findings indicate that Islamic banks showcase superior performance in Qatar while outperforming their conventional counterparts in many variables. However, none of the banks in Qatar could obtain a rating of 1, indicating areas of weaknesses that need to be worked on, particularly in the area of liquidity, which was a critical factor for all banks. According to this study, the Qatar Central Bank should improve the monitoring and screening of all Islamic banks in Qatar. Furthermore, it is suggested that the Qatar central bank employs the CAMELS system to track operations and field offices for banks functioning to facilitate regular access to a stable banking sector. Banks can use CAMELS to track their performance, and the necessary actions must be undertaken.

Keywords: Financial stability, Qatar central bank, CAMELS rating system, Bank performance evaluation.

Introduction

The banking sector is an integral part of the economy and plays a significant role in the nation's economic performance. The economic growth relies heavily on the performance of its financial sectors, particularly the banking industry (Kakakhel, Raheem, and Tariq, 2013). A sound and robust banking sector are essential for economies and their safety, contributing to the financial system's stability. Moreover,

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an efficient and competitive banking system helps financially dependent industries to grow faster (Mirzaei and Moore, 2016).

Due to its immense contribution to the economy, all stakeholders, such as owners, debtors, investors, depositors, bank managers, regulators, and the government, are deeply concerned about the financial performance of banks. Banks play a role in different sectors of the economy. It is an intermediary linking surplus and deficit units, facilitates funds for productive purposes, trade, and business activities, and contributes to economic growth and development. They pool the funds from the public and convert these savings into investments that can produce new capital assets, helping the growth process. More importantly, it allows customers to save their money safely while still earning interest, in the case of conventional banks. Finally, they also help facilitate international and internal trade by providing references and guarantees for their clients. Moreover, they act as agents, advisers, and counselors of businesses and organizations (Hawaldar, Rahman and Meero, 2017). Therefore, there is a growing interest in identifying the most efficient banking system that best complements a nation.

Many studies have been conducted using a different methodology to test and compare the banks' financial performance, especially comparing the Islamic and conventional banks across the world. Limited studies are also available in GCC (see literature review). However, no case study is available concerning Qatar, especially comparing Islamic and conventional banks' performance. This study is conducted to fill the gap. The rest of the paper is organized as follows. Section 2 will cover the literature review. Section 3 is devoted to methodology and data, Section 4 is specific to discussing the results, and the last section, 5 is devoted to the conclusion and policy recommendations.

Literature Review

Several studies have been conducted to evaluate the performance of banks. Factors that reflect a bank's performance include growth, profitability, efficiency, solvency, credit risk performance, and liquidity. Research indicates that different methods have been used to compare the financial performance of Islamic and conventional banks, with ratio analysis being popular. For instance, a study by Bilal, Durrah, and Atiya (2016) compared the success of two Islamic banks and seven conventional banks in Oman between 2013 to 2015 using ratios. The results showed that conventional banks were more profitable than Islamic banks regarding return on assets, equity, and net profit margin. However, Islamic banks had higher efficiency than conventional banks when considering debt-to-asset ratio, total credit-to-total debt ratio, debt-to-equity ratio, and credit-to-deposit ratio. Similarly Fayed and Esam (2013) found that when it came to profitability, liquidity, credit risk management and solvency conventional

banks in Egypt outperformed Islamic institutions after analyzing seven financial ratios for three Islamic banks and six conventional banks from 2008 to 2010.

Kakakhel, Raheem, and Tariq (2013) found that Islamic banks in Pakistan were more successful in the same year by utilizing various financial indicators such as liquidity, profitability, solvency, and activity analysis. Although the study only focused on two Islamic and conventional banks over a span of two years (2008-2010), which may not reflect the performance of both types accurately, it concluded that Islamic banks in Pakistan had higher ratios for current rate, cash rate, debt-to-asset and asset turnover when compared to conventional banks; suggesting superior overall performance.

Alexakis, Izzeldin, and Johnes (2019) conducted an analysis of the performance and productivity of Islamic and conventional banks in the GCC region between 2006 and 2012, utilizing financial ratios and the Malmquist Productivity Index (MPI). The study results showed that Islamic banks have lower cost and profit performance, however their revenue performance is comparable to that of traditional banks. Olson and Zoubi (2008) conducted a similar evaluation for 2000-2005, using 26 financial ratios to compare Islamic and conventional banks in the GCC countries; their conclusion was that Islamic banks operated with a higher level of risk and were less efficient than conventional banks. Other analyzes in this area focused on the MENA region were carried out by Kumar and Sayani (2015), Merchant (2012), and Hadriche (2015).

The CAMELS rating system, developed in the United States back in 1979, has been a go-to tool used in various studies to evaluate the overall state of a bank. It's only accessible to top management to stop a bank run and is not made public (Babu and Kumar, 2017). Over time, the CAMELS grading system has become an important and straightforward resource for authorities, regulators, and examiners (Barr et al. 2002). Researchers have also adopted it to assess and rank the performance of both traditional and Islamic banks.

Supervisory bodies worldwide use the CAMELS analysis to evaluate the financial health of banking institutions. Kumar and Sayani (2015) noted that the CAMELS ratings were among the most reliable predictors of bank failures in the 1985-1992 financial crisis. This rating system helps banks become transparent, adaptive, and innovative; it also aids in pinpointing a bank's strengths and weaknesses in terms of finance and management (Babu and Kumar, 2017).

Regulatory bodies and researchers such as Khouaja and Lotfi Boumediene (2014) and Jaffar and Manarvi (2011) make use of the CAMELS ratings to evaluate the performance of both conventional and Islamic banks. This system provides an opportunity to identify banks which require additional capital or alternative plans in order to remain operational. The utilization of the CAMEL metrics in literature has been widespread, and it is seen as a valuable instrument for gaging the safety of banking systems and helping to limit probable dangers that can lead to financial

institution collapses. Dang's (2011) investigation was a part of an American International Assurance Vietnam (AIA) case study, with the purpose of determining if CAMEL is necessary in banking oversight and assessing its benefits/drawbacks for AIA. The outcome suggests that CAMEL is instrumental in supervisory processes in the United States, because it is an internationally accepted process that enables flexibility between on-site/off-site evaluations, which makes it the primary method for assessing bank performance in AIA. Nevertheless, there are certain drawbacks such as not closely supervising Vietnamese financial institutions, disregarding interactions with top management and overlooking loan loss allowance ratios (Dang, 2011).

Jaffar and Manarvi (2011) used the CAMELS technique to compare five Islamic and five conventional banks in Pakistan between 2005 to 2009. Their research showed that Islamic banks had greater capital and liquidity, while conventional banks had better management quality and higher earnings potential. Asset quality was similar for both.

The following year, Merchant (2012) deployed the CAMEL model to assess the performance of Islamic and conventional banks in the GCC, as well as the effects of the global crisis. The study found that after this crisis, Islamic banks in the Gulf Cooperation Council (GCC) increased their loan loss provisions. Saba and Kouser (2012) used the rating system to evaluate full-fledged Islamic banks, mixed banks, and traditional banks. ANOVA testing was done on these ratios defined by CAMEL, with SPSS utilized for data analysis. The study discovered that Islamic banks had enough capital, great asset quality, and remarkable managerial competence when compared with traditional ones - including Islamic branches of regular banks as well as regular banking systems. Full-fledged Islamic Banks and conventional ones earned more than Islamic branches of traditional banking systems.

Recently, several studies have focused on the GCC region, with Kumar and Sayani (2015) utilizing the CAMEL framework to study 11 Islamic banks between 2008 and 2014. To ensure accuracy, they also used a Multivariate Z-Score model. The results showed that despite sufficient capital, asset quality and earning power of Islamic banks in the GCC decreased during this period. Stakeholders should be particularly mindful of this as it may have wide-ranging implications for their countries' financial systems. Additionally, Venkatesh & Suresh (2014) examined the financial health of Bahrain's commercial banks by using the CAMELS approach to assess four conventional retail banks out of Bahrain's 28 conventional and Islamic retail banks. The study revealed that National Bank of Bahrain-the country's government-owned bank-outperformed its rivals in the market.

Hadriche (2015) conducted an extensive study which compared success factors of Islamic and conventional banks operating in GCC nations from 2005 to 2012 using the CAMELS test. The data indicated that Islamic banks were more profitable than

conventional ones on average; it also suggested that bank size was a significant factor in determining performance for both types of banks and that operating costs had a positive effect on performance for both types.

The usefulness of an early warning tool is crucial in minimizing the risks that credit institutions may face. Studies by Jordan et al. (2010) and L'opez-Iturriaga et al. (2010) have demonstrated that the CAMELS method had a high level of predictability when it came to US bank runs during the global economic crisis. Jordan used CAMELS proxies and multiple discriminant analysis approaches to forecast bank failures in the US during the global recession, while Lopez-Iturriaga used CAMELS proxies and an artificial neural network to achieve the same. Khouaja and Lotfi Boumediene (2014) used the CAMELS model to evaluate the financial health of 150 commercial banks in six European countries. According to the authors, the incentives linked to increased bank profitability are significantly greater than those associated with risk management and measures aimed at ensuring bank stability.

Dash and Das (2013) conducted a study using the CAMELS framework to analyze and compare the performance of state-owned banks and private/foreign banks in India. They noted that private/foreign banks outperformed public sector banks in most CAMELS variables over the three-year period, attributed largely to their Management Soundness and Earnings and Profitability. In a similar study, Wasiuzzaman and Gunasegavan (2013) observed Islamic banks outperforming conventional banks on multiple indicators of the CAMEL framework over the 2005-2009 period - though conventional banks did have bigger average assets size, bank size, and board size. Rozzani and Rahman (2013) also conducted a CAMELS evaluation of 19 conventional and 16 Islamic banks in Malaysia between 2008-2011; they found overall performance of both types was fairly similar.

Majumder, Hossain, and Rahman (2017) sought to evaluate the financial performance of fifteen Bangladeshi banks from 2009 to 2013 and whether any significant differences were evident. The CAMELS Model was employed to assess the financial strength of the chosen banks. During their comparative examination of distinct CAMELS factors, Composite rankings, averages and ANOVA-test were used via SPSS. It was found that EBL was the top bank based on the CAMEL Model when compared with the other banks in this study, due to their high performance in Capital Adequacy, Asset Quality, Management and Earnings Ability. Additionally, it was discovered that through the ANOVA Test there were significant differences in the performance of chosen Banks in Bangladesh as measured by the CAMEL model. As a result policymakers of lower-ranking banks should take necessary steps to tackle their deficiencies.

Many central banks around the world utilize the CAMELS system for supervision, but some opt not to use it. For instance, the FDIC uses the SCOR Model to identify

bank performance issues and the Fed Bank applies Probit Regression in their Risk Bank SEER Model to assess the possibility of failure or lack of capitalization. In nations with developed economies in Europe, supervisors use other methods for evaluating performance. In France, SAABA (early warning system), SIGAL (support system for on-site inspections), and ORAP (on-site rating system) are employed, Germany has BAKIS, and Italy makes use of PATROL (Nicolae & Maria, 2014).

Cole and Gunther (1995) have highlighted some limitations of the CAMELS system. They argued that annual on-site evaluations may not always identify rapid changes in a bank's financial status. Their research found that the ability of CAMELS ratings to anticipate bank failures decreased within two quarters. They suggested that regular off-site monitoring should complement the yearly on-site assessments to identify bank failures. Meanwhile, Rojas-Suarez (2001) suggested that the traditional CAMELS system has several drawbacks in predicting bankruptcy and should be supplemented with other indicators.

A study by Ghazavi and Bayraktar (2018) compared the CAMELS ratings of Turkish banks with institutional ratings and found that the latter may not accurately reflect a company's current financial position and lag behind financial indicators. However, the study also revealed that the trends in financial indicators and CAMELS ratings remained consistent over time. Despite some limitations, the CAMELS framework remains a popular tool for evaluating a bank's performance.

There have been limited studies on the performance of banks in Qatar, as many studies that evaluated the performance of the wider Gulf Cooperation Council (GCC) region did not include Qatar, or the data only went up to 2015. However, it is essential to have up-to-date information as banking performance can change over time. Thus, this study aims to contribute by providing the latest data on the performance of Qatar's banks using the CAMELS framework, which is a widely accepted technique for banking evaluation. To the best of our knowledge, this will be the first study to use the latest data and CAMELS analysis to evaluate the performance of Qatar's banks, including a comparison between Islamic and conventional banks.

Data and Research Methodology

This study uses the CAMELS framework to conduct a descriptive study on commercial and Islamic banks' financial performance in Qatar. The paper will primarily address the following questions.

- How are banks in Qatar performing in terms of the six indicators of the CAMELS framework?
- Do Islamic banks outperform Conventional banks in Qatar?

Sampling Design

Qatar is a small country. It has 18 banks, including seven state banks, four Islamic banks, and seven foreign banks as of January 2021. We took all the Islamic and conventional banks within the state of Qatar in the first place. However, due to insufficient data for some banks, the study ends with 14 of these institutions. This research will focus on 4 Islamic banks: Masraf Al Rayan, Dukhan Bank, Qatar Islamic Bank, and Qatar International Islamic Bank. The rest are conventional banks such as Al Khaliji Commercial Bank, Commercial Bank of Qatar, Doha Bank, Qatar National Bank, Arab Bank, Mashreq Bank, BNP Paribas Bank, HSBC, United Bank Ltd, and Standard Chartered Bank.

CAMELS Components

CAMELS rating is used to measure and compare the performance of Islamic and Conventional banks. The CAMEL framework is a set of variables that include:

1. Capital Adequacy
2. Asset Quality
3. Management Quality
4. Earnings Quality
5. Liquidity
6. Sensitivity

Data Variables and Source of Data

The data were extracted from the 'Thomson Reuters Eikon database and the banks' annual reports (2015 to 2020). The following data were extracted for the years 2015-2020 for all 14 banks to calculate the required ratios:

Table 1: Data Extracted.

Component	Data Extracted
Capital Adequacy	CAR
Asset Quality	Non-performing loans
	Total Loans
Management Quality	Administrative Expenses
	Total Earning
Earnings Quality	ROA
	ROE
Liquidity	Advances
	Total deposits
Sensitivity	Total Securities
	Total Assets

Method

This study aims to utilize the method used by Hadriche (2015). Initially, the different ratios representing the 6 CAMELS variable are calculated for each bank from 2015 to 2020. Depending on the results achieved, each variable is given a rating between 1 and 5. Next, the various rankings are added to find an average for the 6 years to get an overall ranking for the bank's performance during our study period. The evaluation of the CAMELS rating system will be as follows: each bank will be evaluated based on the following (Table 2). Each bank will be given a score based on its performance. Table 3 shows how to use the CAMELS grading approach to assess each bank. If a bank receives a CAMELS rating range of (1.0–1.4), the bank rating will be 1, signifying that the bank is sound and balanced in all respects. External financial and economic disruptions do not represent a threat. There is no need for supervisors to be concerned. The institution ranking will be 2 if the rating range is (1.6 - 2.4), suggesting that the bank is satisfactory. The bank is mostly fine, but there are a few flaws to be aware of. The foundation is solid. It's also dependable and immune to market swings. If the bank receives a rating level of (2.5–3.4), the bank score will be 3, indicating that the bank is fair with some areas to watch.

Table 2: Explains the ratios used in each CAMEL variable and how it is rated.

Component		Ratios	Weight	1	2	3	4	5
1	Capital Adequacy	Equity Capital/Total Assets	20%	>11%	8%-11%	4%-8%	1%-4%	<1%
2	Asset Quality	Non-performing Loans/Total Loans	20%	<1.5%	1.5% -3.5%	3.5%-7%	7%-9.5%	>9.5%
3	Management Quality	Administrative expenses/ total earning	25%	<25%	30%-26%	38%-31%	45%-39%	>46%
4	Earnings Quality	Return on Assets	15%	>1.5%	1.25%-1.5%	1.01%-1.24%	0.75%-1%	<0.75%
		Return on Equity		>22%	17%-21.99%	10%-16.99%	7%-9.99%	<6.99%
5	Liquidity		10%	<60%	60%-65%	65%-70%	70%-80%	>80%
6	Sensitivity	Total Securities /Total assets	10%	<60%	60%-64%	65%-70%	71%-80%	>80%

Table 3: CAMELS rating evaluation scale.

Rating	Rating Range	Rating Analysis	Interpretation
1	1.0-1.4	Strong	The bank is excellent in every way.
2	1.6-2.4	Satisfactory	The bank is mostly good, although a few flaws have been detected.
3	2.5-3.4	Fair, with some categories to be watched.	Bank has financial, operational, or compliance flaws that should be monitored and cause supervisory concern.
4	3.5-4.4	Marginal, with some risk of failure	The bank has significant financial weaknesses that could jeopardize its capacity to maintain normal growth and development in the future.
5	4.5-5.0	Unsatisfactory, with a high degree of failure	The bank has serious financial problems, indicating that the risk of failure is quite high soon.

There is a wide range of economic, organizational, and enforcement shortcomings, ranging from minor to major. If efforts to correct the bank's flaws are inadequate, things will often rapidly worsen. Supervisory attention and routine oversight are required to fix the bank's deficiencies. Suppose the bank obtains a rating of (3.5–4.4). In that instance, the bank's rating will be a 4, signaling that the bank is on the verge of failing. The bank has considerable financial difficulties that put it at risk of losing its ability to maintain average growth and development in the future. There may be hazardous or undesirable circumstances. Failure is a distinct possibility. Continuous supervision and inspection, as well as a defined plan for correcting flaws, are required. Finally, if the bank receives a score range of (4.5–5.0), it will acquire a rating of 5, implying that it is inadequate and has a significant probability of failure. The bank has serious financial vulnerabilities that indicate a high risk of failure and loss shortly (Masood, Ghauri, and Aktan, 2016). Finally, we use each bank's composite score to compare with each other to identify which bank is performing better than the other.

Results

Table 4 showcases the composite rating for each bank and their ratings for each component, enabling us to compare the different banks.

Capital Adequacy Ratio (CAR)

Capital adequacy helps protect depositors with guarantees against possible losses and contributes to the financial and economic stability of the bank. Based on our results, all banks' capital adequacy complies with the standards. A higher ratio means higher capital adequacy, and the bank has enough capital to cover all the risks it may face. However, it is reflected that Masraf Al Rayan (19.42%), Qatar Islamic Bank (17.59%), Qatar International Islamic Bank (17.63%), and Qatar national bank (17.63%) have the highest ratios, 3 of 4 which are Islamic banks. Considering this, it implies that Islamic banks generally seem to perform better in capital adequacy. Previous studies have backed up those Islamic banks are better capitalized. Islamic banking products are asset-backed, which should help to maintain stability during market downturns. Debt contracts are generally prohibited, limiting Islamic banks' options for obtaining liquidity. On the other hand, Islamic banks are subject to the same market conditions as traditional banks. As a result, Islamic banks naturally store additional liquidity, maintain profit-equalization buffers, and safeguard depositors by moving losses to owners to mitigate these risks.

Table 4: Applying CAMELS rating system to sample banks. Financial years 2015 – 2020.

Bank	Bank Type	Capital Adequacy Ratio		Assets Quality		Management Quality		Earnings Quality				Liquidity		Sensitivity		Composite Rating
		CAR	Rating (R)	AQR	R	MQR	R	ROA	R	ROE	R	LR	R	Sens	R	
Masraf Al Rayan	Islamic	19.42%	1	2.65%	2	11.39%	1	2.19%	1	16.28%	3	94.19%	5	18.71%	1	2.00
Dukhan Bank	Islamic	15.97%	1	0.17%	1	25.62%	1	1.57%	1	10.16%	3	268.66%	5	30.51%	1	1.86
Qatar International Islamic Bank	Islamic	17.59%	1	1.96%	2	15.38%	1	1.82%	1	11.78%	3	115.51%	5	13.02%	1	2.00
Qatar Islamic Bank	Islamic	17.63%	1	1.96%	2	40.39%	4	1.75%	1	16.27%	3	106.67%	5	18.23%	1	2.43
Al Khaliji Commercial Bank	Conventional	16.32%	1	4.34%	3	56.60%	5	1.07%	3	8.76%	4	86.50%	5	6.71%	1	3.14
Commercial Bank of Qatar	Conventional	15.75%	1	7.54%	4	46.50%	4	0.93%	4	5.24%	5	102.54%	5	15.25%	1	3.43
Doha Bank	Conventional	17.10%	1	13.37%	5	41.39%	4	1.07%	3	5.75%	5	84.45%	5	19.93%	1	3.43

Qatar National Bank	Conventional	17.63%	1	2.26%	2	17.96%	1	1.73%	1	16.65%	3	92.23%	5	20.02%	1	2.00
Arab Bank	Conventional	14.82%	1	8.82%	4	69.34%	5	1.18%	3	6.82%	5	68.17%	5	0.61%	1	3.43
Mashreq Bank	Conventional	15.94%	1	4.25%	3	32.88%	2	1.28%	2	8.17%	4	81.88%	5	0.80%	1	2.57
BNP Paribas Bank	Conventional	13.16%	1	5.40%	3	31.40%	2	0.39%	5	7.21%	4	74.35%	5	2.58%	1	3.00
HSBC	Conventional	16.79%	1	2.38%	2	32.70%	2	0.97%	4	7.50%	4	73.65%	5	7.53%	1	2.71
United Bank	Conventional	12.30%	1	1.94%	2	40.74%	4	1.21%	2	7.46%	4	96.32%	5	0.47%	1	2.71
Standard Chartered Bank	Conventional	16.70%	1	3.64%	3	24.45%	1	0.16%	5	1.31%	5	58.99%	5	39.08%	1	3.00

Data Analysis and Interpretation

Asset Quality Ratio (AQR)

Asset Quality is one of the most critical areas in determining a bank's overall condition. The ratings reflect the management's ability to identify and manage credit risk. One of the most significant hazards banks confront is asset quality ratios. Because loans are the most vulnerable to default, an increase in non-performing loans indicates a decline in asset quality. Ultimately, having acceptable assets in the bank means generating more revenue and a better assessment of liquidity, management, and capital. Referring to our Table, Dukhan Bank, Masraf Al Rayan, QIB, and QIIB have the best ratings, while Doha bank and Commercial bank have the lowest, indicating an area that the banks should work on rectifying. Dukhan Bank has a rating of 1 in this segment, reflecting the strength and vision of the bank's credit risk department. Overall, our results suggest that Islamic banks portray better asset quality over our sample period. Fitch ratings report in 2019 backs up our results. They found that Qatari Islamic banks displayed much stronger asset-quality metrics than their conventional counterparts at the end of the year. Moreover, they have far less foreign funding and, on average, higher retail deposits, making them less vulnerable to deposit flights.

Management Quality Ratio (MQR)

In the case of our research, we have used the administrative expenses/total earnings ratio to reflect the banks' management quality. The lower the ratio, the better for the bank, as it indicates strong management capable of handling its activities. According to the results, a mix of Islamic and conventional banks, such as Dukhan bank, MAR, QIIB, QNB, and SCB, have a rating of 1. Meanwhile, Al Khaliji Bank and Arab bank had abysmal ratings of 5, with much room for improvement. The other banks get a rating of 2 and 4, which again signals a severe area of weakness that should be addressed.

Earnings Quality Ratios (ROA and ROE)

Investors can use the return on asset ratio to evaluate a company's financial soundness and resource efficiency; hence, it is crucial. The four Islamic banks in our sample and QNB had the best rating of 1 within our evaluation period. The higher the ratio, the better. With the highest ratio of 2.19%, the MAR is the best bank to utilize its assets to generate a profit. Arab and Al khaliji bank showcase poor performance with a rating of 5.

In terms of Return on Equity, none of the banks in our sample has shown remarkable performance. Although, when comparing both types of banking, Islamic banks did have better ROE ratios, except for QNB, which was on the same level. Standard

Chartered Bank had a meager value of 1.31%, suggesting that it is highly insufficient in utilizing its equity.

Liquidity Ratios (LR)

A bank's liquidity is an essential metric that all clients use to compare banks. For this investigation, we use the Loan to Deposit Ratio to assess a bank's liquidity. All banks have a rating of 5. Therefore, liquidity has been a critical weakness for all the banks in our sample. That suggests the bank does not have enough liquidity to cover any unforeseen financial liability for all high ratios. As per the Table, Dukhan bank has the worst advances-to-deposit ratio. Despite the more common opinion expressed in previous literature that Islamic banks are superior in liquidity, our findings show the contrary. All the liquidity has been below an acceptable standard for all banks; relatively, it has demonstrated better values for traditional banks.

Sensitivity to Market Risk

Global financial and banking developments have made banking institutions more susceptible to economic crises. It is necessary to focus on various problems in this regard, including the sensitivity of a bank's net earnings to interest rate changes, fluctuations in foreign exchange centers, stock prices, and various other risks. Bank assets are subject to risk coupled with their investment in marketable securities if they are sensitive to market risk. Based on our sample, all the banks are performing well in this segment, with a rating of 1. Given the sensitive period we are going through and the global economic fluctuations, this is a positive sign for the Qatari financial market.

The composite rating of the banks

This study aims to answer the second research question based on the CAMELS rating, which banking system, whether Islamic or conventional, has been performing better in Qatar. The last column of table 15.5 is reproduced in the following Table.

Table 5: The composite rating of the banks.

Bank	Bank Type	Rating
Dukhan Bank	Islamic	1.86
Masraf Al Rayan	Islamic	2
Qatar International Islamic Bank	Islamic	2
Qatar National Bank	Conventional	2
Qatar Islamic Bank	Islamic	2.43
Mashreq Bank	Conventional	2.57
HSBC	Conventional	2.71
United Bank	Conventional	2.71

BNP Paribas Bank	Conventional	3
Standard Chartered Bank	Conventional	3
Al Khaliji Commercial Bank	Conventional	3.14
Commercial Bank of Qatar	Conventional	3.43
Doha Bank	Conventional	3.43
Arab Bank	Conventional	3.43

The calculated CAMELS composite ratings for each bank in table X help us compare the overall performance of each bank and identify the ones that showcase superior performance. Table 5.15 above analyzes each bank's performance level from 2015 to 2020 using the CAMELS model. Our findings show that none of the banks within our sample has obtained a rating of 1, suggesting that a bank is strong, excellent, and well-balanced in all aspects. Although Qatar has a sound financial sector, this indicates that there is room for improvement and areas such as liquidity that the bank management should focus on to bring these banks to new heights. Meanwhile, Dukhan Bank Dukhan Bank has a rating of 1.86, while Masraf Al Rayan, Qatar International Islamic Bank, and Qatar national bank have a rating of 2. A rating of 2 reflects satisfactory performance and risk management practices that consistently promote safe and sound operations. Most risks are detected by management and addressed appropriately.

Generally, they can withstand challenges except for severe economic changes. Although these banks have an overall satisfactory rating, there are still areas of weaknesses present in other segments that need to be addressed, such as liquidity. Moreover, it is important to note that based on our investigation, 4 of the 5 banks that portray the highest ratings are Islamic banks, except for Qatar National Bank. Within our sample, Islamic banks have performed significantly better. Overall, Dukhan bank had the best rating of 1.86, which may be a result of the successful merger of Barwa Bank and International Bank of Qatar; the institution can combine the knowledge and synergies of two prominent financial actors under one roof. The other 10 banks within our sample obtained a rating of 3. Unfortunately, this indicates performance may have some shortcomings and is raising concern among supervisors. Strategies may be insufficient compared to the bank or credit union's size, complexities, and risk profile. Significant hazards may not be recognized or mitigated by management. All the banks that fall in this category were conventional. If efforts to correct the bank's flaws are inadequate, things will often soon deteriorate. Supervisory consideration and more than routine oversight are required to rectify the bank's faults. This necessitates the central bank taking necessary administrative procedures and providing clear instructions to management to identify and avoid flaws.

Although different banks have various shortcomings in various segments, based on an overall rating, it is safe to say that based on their performance in Qatar, Islamic banks

seem to outperform their conventional counterparts. However, all banks still need improvement, as none obtained a rating of 1. The banks in Qatar are performing exceptionally well in terms of capital adequacy and have consistently improved over the years, despite regional difficulties and the economic shocks of the pandemic. On the other hand, a consensus is that banks in the country seem to face considerable weaknesses in the liquidity segment and require much effort from banking supervisors before it is up to par.

Conclusion

Due to the apparent importance of banks to the economy, all stakeholders are concerned about their financial performance, including owners, debtors, investors, depositors, bank managers, regulators, and the government. The financial performance evaluation is a useful tool for identifying weaknesses and strengths in the bank's performance and various operations and providing the necessary information to take appropriate corrective action to ensure that the bank achieves sales and profits to remain competitive. One method that has become increasingly popular for financial performance evaluation is the CAMELS rating system, which helps assess the strengths and weaknesses of a bank through six categories.

By utilizing the CAMELS framework, this research aims to evaluate and compare the performance of Islamic and Conventional banks in Qatar from 2015 to 2020. The sample for this study consists of 14 banks, four of which are Islamic (Masraf Al Rayan, Dukhan bank, Qatar Islamic Bank, and Qatar International Islamic Bank). The rest ten are conventional banks (Al Khaliji Commercial Bank, Commercial Bank of Qatar, Doha Bank, Qatar National Bank, Arab Bank, Mashreq Bank, BNP Paribas, HSBC, United Bank, and Standard Chartered Bank).

The first question this study focused on is "What is the banking efficiency and performance of banks in Qatar using the CAMELS model?". Our use of the CAMELS framework covers this question and found that although banks in Qatar are performing well in general with several areas of strength, they also showcase various weaknesses that should be rectified immediately. The liquidity component of all the banks within the state is subpar. Moreover, ROE is improving over the year but is still below the target for many banks in the state.

The second question this research aims to answer is "Do Islamic banks outperform Conventional banks in Qatar?". The Table below summarizes the composite ratings received for each bank. Our results indicated that Islamic banks do outperform conventional banks in Qatar. Based on our study, the 5 highest ranking banks in the country based on the CAMELS composite rating are Dukhan Bank, Masraf Al Rayan, Qatar Islamic Bank, Qatar International Islamic Bank, and Qatar National Bank, four

of five of which are Islamic banks. Moreover, the best-rated bank within our sample is Dukhan bank, with a rating of 1.86, which is the closest to an 'excellent' performing bank within our sample. Dukhan bank is a well-known Islamic entity within the state.

Overall, this research serves its purpose and maybe a point of reference for stakeholders. The findings allow bank managers to identify their drawbacks and work towards rectifying their weaknesses. Meanwhile, it highlights to consumers which banks are offering high-grade services and which banks to invest in, for instance, Dukhan bank. And thirdly, it brings to light that Islamic banks seem to perform best in Qatar in general, and hence policymakers may promote and build on this as this is the system that best compliments Qatar's financial market.

Recommendations

Our findings indicate that one area that needs to be addressed critically is the liquidity component for all banks. Furthermore, the significance of liquidity extends beyond the individual bank since a liquidity shortage at one institution can have system-wide consequences. It is recommended that each bank develops a plan in place for managing liquidity on a day-to-day basis. Banks should frequently set and review limitations on the amount of their liquidity positions over specific time frames. This should be conveyed to everyone in the company. The board of directors of a bank should endorse the bank's liquidity management strategy and major policies. The management should regularly update the board on the bank's liquidity status, existing or anticipated, immediately. The board should also ensure that senior management monitors and controls liquidity risk.

Moreover, it is suggested that in the future, all banks should focus on implementing adequate information systems for measuring, evaluating, controlling, and reporting liquidity risk. Reports should be provided timely to the bank's board of directors, senior management, and other appropriate personnel. Furthermore, banks should be encouraged to have contingency plans that address the strategy for dealing with liquidity problems and include methods for compensating for cash flow deficiencies in emergencies.

Given the results of this study, it is evident that conventional banks need to work towards finding a competitive edge in a market where Islamic banks are currently dominating. One way to do this may be to shift their focus toward technology. The banking industry has understood that investing in innovation is the only way to keep up with digitally enabled businesses. Banks worldwide are investing in emerging technologies such as machine learning, artificial intelligence, robots, and virtual and augmented reality to usher in a new era of productivity and scale up rapidly and effectively without compromising profitability. Their capacity to collaborate with

market utilities, e-commerce firms, fintech, and managed service providers to develop a comprehensive and strong ecosystem will determine their success. They can earn a considerable market share in the four fast-growing business categories of retail banking, wealth management, SME lending, and transaction banking by focusing more on innovation. As the business grows, banks should concentrate on increasing their return on investment (ROI) by implementing clear technology-driven processes and rules that allow them to innovate and stay one step ahead of client expectations consistently. Furthermore, with the new online culture motivated by COVID-19 and the need for consumers to social distance, now would be the best time to launch any digital services, products, or initiatives, as even old-school customers are open to these new circumstances.

Furthermore, it is recommended that Qatar's central bank use the CAMELS framework consistently to monitor bank operations and field offices regularly to maintain access to a stable banking sector. Qatar's 2030 vision states to incorporate 'the development of a diversified economic base to secure and maintain a high standard of living in the future''. Therefore, the central bank should play an active role in assessing banking performance. It is essential to protect banking operations against any inherent risks or mismanagement that can eventually threaten the nation's financial system. Hence, regularly monitoring the banks in Qatar using the rating scale helps identify major areas of weaknesses that may otherwise be overlooked. Qatar Central Bank does currently carry out evaluations of bank performance indicators; however, CAMELS is suggested as an alternative as it will also give them an indication of the overall performance of each bank by looking at its composite rating.

Moreover, about each component, the rating from 1 to 5 will highlight the level of weakness in that area, meaning that Qatar's central bank prioritizes the weaknesses depending on their level of urgency. For instance, for Masraf Al Rayan, the liquidity component has a rating of five, whereas Asset quality has a rating of two. Although improvement is necessary for both categories, it is clear that the liquidity component is at a more critical stage and needs to be dealt with immediately. The results of CAMELS testing can assist regulators in directing impacted banks' management to develop policies and strategic efforts to improve their financial performance.

Finally, it is advised that each bank in Qatar do a CAMELS study every year with full transparency. As a result, there will be more competition among banks while also helping to protect and develop the most vital component of the economy. When consumers can identify the strengths and weaknesses of each bank in the country, banking institutions are motivated to improve their services and performance to remain competitive in this growing market. Banks should also be up to date with worldwide innovations in banking financial analysis, particularly specialist systems like CAMELS, and learn from the experiences of governments and banks worldwide.

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