Comparative Analysis of Financial Performance of Islamic vs. Conventional Banks Using CAMEL Model: Evidence from Palestine

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Abstract: Evaluating the performance efficiency of banks and monitoring their activity is essential to their survival in light of the rapid growth of risks facing them, since many financial crises were caused by them. Therefore, measuring banks performance by knowing their strengths and weaknesses enable regulators and managements to correct deviations before it is too late. The positive role played by the Islamic banking system cannot be ignored for financing and investment services in various financial, economic and social activities. In recent years Islamic banks were able to impose themselves to become a difficult number in the composition of the financial cycle and economic growth in the world, as evidenced by the rapid growth of these banks in all countries, Muslim and non-Muslim. This transformation is recognition of the success of the Islamic experience. This study aimed to evaluate the financial performance of Islamic and conventional banks in Palestine over the period 2017–2018 prior to the corona virus crisis using CAMEL model. The results show that there are no clear significant differences in performance between Islamic and conventional banks in Palestine during study period. Both conventional and Islamic banks have powerful and satisfactory capital levels comparative to the firm's risk profile and consistent with Palestinian Monetary Authority (PMA) regulations. In terms of asset quality, Islamic banks kind of are better in managing their asset portfolio than conventional banks which considered less risky. However, there were no significant differences in profitability ratios, liquidity ratios and efficiency ratios.

Keywords: CAMEL Model, Efficiency, Asset Quality, Liquidity, Islamic Banks, Conventional Banks, Palestine, Comparative Analysis

1. Introduction

The banking sector has become an important and influential sector in modern economies, contributing to the formation of value-added to the economy [24]. The existence of strong and effective financial institutions capable of facing challenges is necessary for sustainable economic development. The banking sector in Palestine is considered a mainstay in the financial system, the leading liquidity provider for the public and private sectors, due to the weakness and limitation of the Palestinian capital market and the inability to provide sufficient sources of financing to investors in the domestic market [9]. This sector operates in a complex, risky, and changing political and economic environment. Therefore, banks managements should be aware of these circumstances and develop solid policies capable of creating a financial institution facing challenges [25].

Today, Islamic financial services has achieved a steady and rapid growth to become one of the most growing categories of global financial services over the past 10 years, valued at $2.4 trillion in 2017 and expected to grow at growth rate of 6% to reach $3.8 trillion by 2023 [28]. The rapid growth in Islamic banking has generated debates among policy makers and economists about the sustainability and performance of these banks. In the literature, evaluation the performance of Islamic banks across countries has attracted the interest and the attention of many researchers and scholars in recent years

as Berger et al, [3]; Ledhem and Mekidiche [17]; Kassim [14]; Khan et al, [13]. In the case of Palestine, there is limited research in the subject matter.

The most important thing that distinguishes Islamic banks from Conventional is their reliance on the principle of profit and loss sharing approved by Islamic Sharia, while avoiding dealing with usury (bank interest). Unlike conventional banks that depend in their work on the system of usurious interest taking and giving [21].

The Islamic banks are newly established in Palestine but they are growing rapidly. Three Islamic out of thirteen banks operate in Palestine which comprised the entire Palestinian banking sector [25]. It is expected that the role of Islamic banks in accumulating deposits and savings will increase in the coming years.

This study aims to evaluate and compare the performance of Islamic and Conventional banks in Palestine using the "CAMELS" model to determine the strengths and weaknesses of their financial performance. This study will help to enrich local literature and fill the gap in the literature on the subject matter because Palestine is a suitable case to study because the banking sector is the main driver and financier of economic development and growth. Therefore, regulators need to ensure the existence of an effective, stable, and profitable sector.

2. Literature Review

2.1. Overview of the Palestinian Banking Sector

The banking system in Palestine was initially characterized by weakness and distortion in its structure and activity due to political factors in Palestine. Therefore, the need for a strong and robust banking system capable of activating the requirements of financial and banking work became apparent, as this would positively affect the Palestinian economy and development. In turn, this would bring positive benefits to citizens, raising their standard of living and improving their economic and social conditions. Palestinian Monetary Authority (PMA) operates as the central bank of Palestine, which was created in 1994 after the Oslo Accords. In Palestine there is no national currency; there are three main currencies in circulation, the Israeli shekel, Jordanian dinar and the US dollar. The Palestinian banking sector comprised of thirteen banks including ten conventional banks and three Islamic. Seven banks are local, and six are foreign with a total of 379 branches and offices. There are seven local banks; four of them are conventional and the other three are Islamic. The total assets reach USD 20 billion, deposits of USD 15.1 billion, credit facilities of USD 9.8 billion with total equity reaching USD 1.9 billion at the end of year 2020. Islamic banks have a market share of 18% and 21% of deposits and loans respectively [25].

2.2. CAMELS Model

CAMELS system is one of the most important controls and evaluation tools used to assess the general condition of the bank and identify its strengths and weaknesses. This form includes six basic dimensions, Capital Adequacy (C), Asset Quality (A), Management Efficiency (M), Earnings (E), and Liquidity (L) [32]. The CAMELS system is based on a quinquennial classification, ranging from one to five, whereas classification (1) is considered the best rating which reflects the soundness of risk management processes and strong performance practices in place. While rating (5) considered the worst rating for the bank because it reflects that the bank's performance is unsatisfactory which indicates a high probability of failure. Banks whose classification is (5, 4) indicates that there are problems in it which require serious supervision and remedial action of its own. As for banks whose classification (3) generally faces some weaknesses, measures must be taken to correct them and provide the necessary instructions to avoid their weaknesses. As for banks whose composite rating (2, 1) is essentially sound in most respects and considered to be well-established management and that it requires supervisory supervision to ensure the continuity of its work and banking safety [32]. When the analysis and evaluation process is completed, the results are disclosed to senior management and board of directors to take the necessary actions and corrective measures need it in order to avoid the bank falling into crises [1].

2.3. CAMEL Model Components

The model is one of the effective methods for evaluating and assessing the soundness and performance of banks and determining to what extent the strength and durability of their positions [30]. CAMEL's strength lies in its ability to determine which financial institutions will survive and which will fail [32]. These components are used to reflect financial performance, operating soundness and regulatory compliance of financial institutions. They are defined as follows [6].

1. *Capital Adequacy:* Capital adequacy refers to the sufficiency of the amount of equity to absorb any shocks that the bank may be exposed to [16]. Capital adequacy is a measure of a bank's financial strength: reflects the willingness of banks' capital to absorb some expected and unexpected losses that may arise, or risks that may face the banking industry at large [8, 23]. Therefore, to prevent the bank from failing, it is necessary to maintain a high level of capital adequacy.

2. *Asset Quality:* Asset quality is one of the most important components of the CAMELS framework for evaluating a financial institution/bank [12]. The quality of assets indicates future losses for the bank and its ability to overcome these unexpected losses [5]. Assessment of asset quality mainly depends on the assessment of the bank's portfolio and the credit risks associated with it. The Bank's ability to identify, measure, monitor, control and judge credit risk as a provision against both bad and bad risks [11].

3. *Management Efficiency:* It is difficult to determine the proper performance of the bank's management. For the individual enterprise, it is not a quantitative factor but a

qualitative factor in the first place [26]. How do you measure the safety of management? However, there are quite a few indicators for assessing the soundness of management, namely: earning per employee, cost per loan, cost per unit of funds lent and average loan size, expense ratio, and these indicators can be used to measure the quality of management [19].

4. *Earnings:* To survive and stay in the market for long time, banks are entirely dependent on generating adequate profits, bonuses to be paid to their shareholders, and protecting and improving their capital. Your admission is entirely publicly dependent on sufficient profits if there are losses that reduce capital and liquidity [22].

5. Liquidity: Evaluating the liquidity position of the financial institution is necessary to know the liquid assets and the expected sources of liquidity. One of the liquidity requirement is for the financial institution to preserve a sufficient level of liquidity to meet current and future financial obligations in a timely manner and to support daily business operations and needs [11].

2.4. Previous Research

As Islamic banking is an emerging industry, various studies have scrutinized the functioning of Islamic banks. Despite, the growing literature about the subject matter, particularly after the latest global credit crisis in 2007, these studies did not provide clear results and produced mixed results.

Jaffar [15] used CAMEL Model to evaluate the performance of Islamic and conventional banks in Pakistan during 2005 to 2009. The study found that Islamic banks perform better in owning sufficient capital and better Liquidity levels, while management efficiency and profitability are better positions in conventional banks than Islamic. As for the quality of assets, there is no difference between conventional and Islamic banks.

Khan et al [13] analyzed the financial performance of Islamic and conventional banks in Pakistan by using financial ratios covering the period of 2007-2014. The study revealed that Islamic banks are relatively better in profitability, efficiency, risk and liquidity management, while conventional banks are superior in asset quality. Masood et al [18] evaluate how Islamic banks are faring compared to their conventional peers in Pakistan, using financial ratio analysis (FRA) during the period 2008-2019. The study revealed that Islamic banks are better capitalized, less risky and have higher liquidity. In contrast, the profit of Islamic banks is found lower than Conventional banks. Aziz et al [2] compare the financial performance of Islamic and conventional banks operating in Pakistan for the year 2006-2014. The findings revealed that Islamic banks are less profitable, more solvent and less efficient comparing to Conventional banks. In terms of liquidity, no major difference is seen between the two sets of banks.

Rizwan [29] investigated and analyzed the performance of Islamic and conventional banks in Pakistan during the period of 2015-2019. The study found that Islamic banks have better performance in terms of asset quality and earnings than conventional, whereas the conventional banks had a better performance in terms of liquidity, management efficiency and capital.

Ramlan and Adnan [27] analyzed the profitability in Islamic banks and conventional banks in Malaysia covering the perio2006 - 2011. The study found that ROA, ROE as profitability measures and Total Loan to Total Asset in Islamic banks are higher than conventional. Kassim [14] concludes that total assets have a favorable effect on the profitability of Islamic banks but have a unfavorable effect on the profitability of Traditional banks. It was set that total equity has an unfavorable effect on the profitability of traditional banks while it tends to have a favorable effect on the profitability of Islamic banks. It was set that the total loan for both types of banks has a favorable effect on profitability.

3. Research Methodology

3.1. Research Approach

This study aims to undertake a comparative analysis of the financial performance of Islamic and conventional banks in Palestine using CAMEL. The study utilizes the accompanying proportions to assess capital adequacy, asset quality, management efficiency, earnings quality and liquidity.

Capital Adequacy Ratio: This ratio ensures the bank's capacity and ability to bear and ingest the damages that can occur during operational banking operations, as the bank is wanted to look after an enough capital ratio to ensure its continued existence and protect the interests of investors [11]. Higher capital levels enhance the public confidence in the institution and strengthen business activities, which positively affect profitability (Bermpei et al., 2018).

$$\text{Capital Adequacy Ratio} = (\text{Tier I} + \text{Tier II}) / \text{risk weighted assets}$$

Tier I: Forms the basic capital (Core Capital) which consists of capital tools such as common stocks, convertible bonds, retained earnings and sometimes preferred shares, and includes the rights of permanent shareholders and is considered to be the bank's least risk.

Tier II: Supplemental Capital, and reserve for losses in general that has the ability to absorb losses as a maximum only in the happening of a bank liquidation, and supply a minimize level of security for depositors and borrower.

Asset Quality Ratio: The credit portfolio is the most significant investment in banks and represents the primary source of operating income and the leading source of bank failure [7, 24]. Therefore, credit risk has always been a crucial issue in the banking industry. The failure of a few bank borrowers may generate huge losses for the bank, threatening its solvency and survival [31]. For this reason, after the 2008-2009 global financial crises, most banks around the world focused on credit risk [4]. One of the most important ratios in

banking business is the nonperforming loan ratio (NPLR). This ratio is commonly used by researchers and scholars to proxy asset quality used to measure the level of the bank's credit risk.

Thus, the greater financial institutions' exposure to high-risk loans, the greater the accumulation of unpaid loans, negatively affecting profits.

$$\text{Asset Quality Ratio (NPLR)} = \text{Total non-performing loans / total loans}$$

Management Efficiency Ratio: A bank's efficiency ratio allows you to calculate how profitable a bank is. That provides insight into the institution's financial stability (Dang, 2011).

$$\text{Management Efficiency Ratio} = \text{Non - interest expense / total revenue}$$

This shows how well the bank's managers control their overhead expenses. A lower efficiency ratio is preferable: it indicates that a bank is spending less to generate every dollar of income. In theory, an optimal efficiency ratio is 50%, which would mean $1 of expenses results in $2 of revenue.

Earnings Quality Ratio: Profitability ratios are one of the elements for the continuation and success of the financial institution's business, through its ability to achieve profits and continuity in achieving it in a balanced manner. Return

on Assets (ROA) is an indicator of banks' management efficiency in converting investments into net earnings. Many studies and researches have used these ratios as an indicator and measurement of the bank's profitability such Khalil & Siddiqui [12] and Nguyen and Nguyen [20]. On the other hand, Return on Equity (ROE) which is also widely used as a profitability indicator, measures banks' ability to generate income for shareholders, which means the net benefits shareholders receive on their funds invested in the firm [20].

$$\text{Earning Quality Ratios: Return on Assets (ROA) + Return on Equity (ROE)}$$

Liquidity: The issue of liquidity has increased in importance to banks due to changes in economic conditions and their impact on banks' solvency and survival in most countries [10]. In 2008 banks fell into the credit crunch despite all the strict controls and standards by Basel Accord and central banks on liquidity management.

The most liquid asset is a sign of the capacity of the receiving bank to collect funds in a short period. because liquidity means the bank's ability to obtain the necessary funds when needed. This study employs two liquidity ratios:

L1: Total loans / Total deposits, L2: Liquid assets / Total assets.

The higher the proportion the greater the bank's capacity to provide new financing but at the same time indicates the grater the banks insolvency. According to the second ratio (L2), high ratio indicates the banks inefficiency in employing its funds, negatively affecting profits.

3.2. Sample and Data Collection

The whole local Palestinian banks have been chosen as study sample; however, Al-safa Islamic bank was excluded from this study due to opening in 2017. In other words, six

Palestinian banks include the research sample. The data were collected from each bank's annual audited financial statements and from Palestinian monetary authority (PMA)'s annual reports during the period 2017 – 2018. In order for the study to be realistic and credible, the study period was chosen before the Corona virus crisis.

3.3. (CAMEL) System Mechanism

The CAMEL principle creates a digital banking system for each bank based on the five criteria. Each of the elements has an evaluation of (1 to 5) where (1) is the strongest and (5) is the weakest, the banks whose classification is (5, 4) It indicates that there are problems in it which require serious supervision and remedial action of its own. As for banks whose classification (3) generally faces some weaknesses, measures must be taken to correct them, and provide the necessary instructions to avoid their weaknesses. As for banks whose composite rating (2, 1) is essentially sound in most respects and considered to be well-established management and that it requires supervisory supervision to ensure the continuity of its work and banking safety.

Table 1. Rating base of CAMEL components.

Components	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5
Capital Adequacy					
CAR	≥ 13%	11-11.99%	8-8.99%	7-7.99%	≤ 6.99%
Assets quality					
NPLR	≤ 1.5%	1.51-2.5%	2.6-3.5%	3.6-5.5%	≥ 5.6%
Management Efficiency (NER)	40-49.99%	50-59.99%	60-69.99%	70-75	≥ 75
Earnings (ROA)	≥ 1%	0.9%-0.8	0.35-0.7	0.25-0.34	≤ 0.24%
(ROE)	≥ 22%	17-21.99%	10-16.99%	7-9.99%	≤ 6.99%
Liquidity Ratio 1	≤ 55%	56-62.99%	63-68.99%	69-74.99%	≥ 75%
Liquidity Ratio 2	≥ 50%	45- 49.99%	38 -44.99%	33 – 37.99%	≤ 32%

3.4. CAMELS Rating Base

All five components of CAMEL rating model (Capital

Quality, Asset Quality, Earnings Ability, Management Efficiency and Liquidity Management) are estimated on the basis of next standard as shown in table 1, on the scale of 1 to

5. Dimensions that have classification (1) are considered the best rating and reflect the soundness of risk management processes and robust performance practices and the ability to resist any influential external conditions. While rating (5) considered the worst rating which reflects unsafe, unstable practices, suffer from a significant weakness in performance, significant weakness in risk management in relation to its size and performance is unsatisfactory which indicates a high probability of failure [6].

4. Results and Discussion

4.1. Components Rating Analysis

4.1.1. Capital Adequacy Rating (CAR)

According to capital adequacy both conventional and Islamic banks have powerful and satisfying capital levels comparative to the firm's risk profile and consistent with Palestinian Monetary Authority (PMA) regulations and Basel II recommendations that banks must have minimum capital adequacy ratio (Risk-adjusted capital ratio) equal or exceeds 13%. The banking sector continue to improve its capital base as shown in tables 2 and 3 below except for Palestine Islamic bank its capital base lower than required but the ratio improving.

Table 2. *Capital Adequacy Ratio (CAR) for the year 2017.*

Bank \ 2017	CAR%	Rating
Palestine Investment Bank	27.61	1
Bank of Palestine	14.44	1
Al-Quds Bank	13.01	1
The National Bank	14.47	1
Palestine Islamic Bank	12.70	2
Arab Islamic Bank	15.94	1

Table 3. *Capital Adequacy Ratio (CAR) for the year 2018.*

Bank \ 2018	CAR%	Rating
Palestine Investment Bank	27.38	1
Bank of Palestine	14.42	1
Al-Quds Bank	13.02	1
The National Bank	14.19	1
Palestine Islamic Bank	12.81	2
Arab Islamic Bank	14.48	1

4.1.2. Assets Quality Rating

According to asset quality, Islamic banks kind of are better in managing their asset portfolio than Traditional banks. Nonperforming loans in Islamic banks particularly Arab Islamic bank are lower than conventional banks and signals fair asset quality and credit administration practices. These results may be attributed to the nature of Islamic banking investments, which have lower risks than conventional banks. However, loan quality affected by the nature of Islamic banking of non-interest base, in other words, (implicit) interest income and (implicit) interest cost of Islamic banks are less sensitive to changes in interest rates contrast to Traditional banks.

Table 4. *Asset Quality Ratios (NPLR) for the year 2017.*

Bank \ 2017	NPLR (%)	Rating
Palestine Investment Bank	2.61	3
Bank of Palestine	2.66	3
Al-Quds Bank	2.48	2
The National Bank	10.01	5
Palestine Islamic Bank	2.19	2
Arab Islamic Bank	0.59	1

Table 5. *Asset Quality Ratio (NPLR) for the year 2018.*

Bank \ 2018	NPLR (%)	Rating
Palestine Investment Bank	3.38	3
Bank of Palestine	3.58	3
Al-Quds Bank	6.26	5
The National Bank	15.05	5
Palestine Islamic Bank	3.05	3
Arab Islamic Bank	0.69	1

4.1.3. Management Quality Rating

The analysis revealed as shown in table 6 that there is no significant difference among Islamic and Traditional banks. Both kinds of banks have deficient management related to expense control, since the percentage of operational expenses as a percentage from total operating revenue reached almost 70% which is higher than the international industry average. Management practices and management performance need improvement and strengthening may be necessary. since its less than satisfying given the nature of the firm's vigour.

Table 6. *Management Quality Ratio for the year 2017.*

Bank \ 2017	NER%	Rating
Palestine Investment Bank	68.4	3
Bank of Palestine	65.7	3
Al-Quds Bank	71.6	4
The National Bank	67.5	3
Palestine Islamic Bank	62.7	3
Arab Islamic Bank	72.7	4
Bank \ 2018	NER%	Rating
Palestine Investment Bank	71.4	4
Bank of Palestine	68.9	3
Al-Quds Bank	76.1	5
The National Bank	71.7	4
Palestine Islamic Bank	70	4
Arab Islamic Bank	76.3	5

4.1.4. Earning Quality

Based on the CAMEL system, a bank's earnings can be estimated according to the next standard income quality and comparison elements, historical earnings trend, peer group comparisons, and the capacity to ingest financial impact [11].

Both Conventional and Islamic banks need to get better management practices and policies and decrease their operational expenses in seek to improve management productivity. Return on Equity (ROE) in Palestine Investment bank and Arab Islamic bank were the worst among the study sample were rated 4 and 5 which indicates insufficient earnings to backing operations and look after suitable capital and allowance levels. The rest of banks whether Islamic or Traditional rated 3 which signals earnings that need to be amelioration. Earnings may not well backing operations and supply for the intention of capital and allowance levels in

connection to the firm's total case, except for bank of Palestine rated 1 which marks earnings that are powerful. Earnings are more than enough to backing operations and maintain adequate capital and allowance levels. However, both Islamic and Traditional banks have better position in the earnings quality index of Return on Assets (ROA).

Table 7. Earning Quality Ratios for the year 2017.

Bank \ 2017	ROA	ROE	Rating ROA	Rating ROE
Palestine Investment Bank	0.88	4.31	2	5
Bank of Palestine	1.11	12	1	3
Al-Quds Bank	1.04	10.88	1	3
The National Bank	0.85	9.43	2	4
Palestine Islamic Bank	1.44	13.26	1	3
Arab Islamic Bank	0.62	5.98	3	5

Table 8. Earning Quality Ratios for the year 2018.

Bank \ 2018	ROA	ROE	Rating ROA	Rating ROE
Palestine Investment Bank	0.95	4.45	2	5
Bank of Palestine	1.16	13	1	3
Al-Quds Bank	0.96	10.41	2	3
The National Bank	0.87	10.25	2	3
Palestine Islamic Bank	1.37	13.78	1	3
Arab Islamic Bank	0.67	6.49	3	5

4.1.5. Liquidity Management

Tables 9 and 10 below showed that there is no significant difference between Islamic and Traditional banks. Both banking systems rated 4 and 5 which indicates risky and unstable performance. In other words, according to the criteria employed in the study, the results indicate insufficient liquidity levels or unsuitable funds management practices and may not have or be able to gain an enough volume of funds on rational terms to meet liquidity needs in both kinds of banks whether Islamic or Traditional.

Table 9. Liquidity Ratios for the year 2017.

Bank \ 2017	L1%	L2%	Rating L1	Rating L2
Palestine Investment Bank	70.7	41.7	4	3
Bank of Palestine	66.8	38.8	3	3
Al-Quds Bank	77	30.7	5	5
The National Bank	80.8	27.7	5	5
Palestine Islamic Bank	76.5	31.3	5	5
Arab Islamic Bank	70.9	33.6	4	4

Table 10. Liquidity Ratios for the year 2018.

Bank \ 2018	L1%	L2%	Rating L1	Rating L2
Palestine Investment Bank	71.6	39.2	4	3
Bank of Palestine	71.9	32.1	4	4
Al-Quds Bank	72.8	34.3	4	4
The National Bank	77.3	29.7	5	5
Palestine Islamic Bank	75.2	30.3	5	5
Arab Islamic Bank	80.4	29.3	5	5

4.2. Banks Ranking on the Basis of CAMELS Rating System

Table 11 showed that all sample banks have been graded

on the basis of the overall ingredient mark obtained by each bank. The lower the score is the better is the ranking of the bank. It is clear, that despite the pursuit of Islamic banks from rival conventional banks there is no clear variation in performance, since Islamic and Conventional banks operate in the same environment. It should be mentioned that many chiefs executive officers (CEOs) in the Palestinian banking sector have been managed both Islamic and Conventional banks, so they apply the same management mentality which results in no sharp differences in the performance.

Table 11. Banks Ranking on the Basis of CAMELS Rating System.

	Composite Rating	Ranking
Bank \ 2017		
Bank of Palestine	17	1
Palestine Investment Bank	21	2
Al-Quds Bank	21	2
Palestine Islamic Bank	21	2
Arab Islamic Bank	22	3
The National Bank	25	4
Bank \ 2018		
Bank of Palestine	19	1
Palestine Investment Bank	22	2
Palestine Islamic Bank	23	3
Al-Quds Bank	24	4
The National Bank	25	5
Arab Islamic Bank	25	5

We can conclude that both Islamic and Conventional banks are doing their role at their best. According to the CAMEL rating model, banks are act pretty good if they meet 3 of its standard, but banks will be looked at an excellent level if they meet whole the standard.

5. Conclusion

A comparative study conducted to examine the performance of Islamic and Conventional banks in Palestine during the period 2017- 2018 using CAMEL rating model. The study found that capital adequacy in both conventional and Islamic banks have powerful and satisfactory capital levels comparative to the firm's risk profile and consistent with Palestinian Monetary Authority (PMA) regulations which should exceed 12 percent and Basel II recommendations. According to asset quality, Islamic banks kind of are better in managing their asset portfolio than conventional banks and this could be due to the risk appetite which is lower in the Islamic banking bossiness.

Both Conventional and Islamic banks need to get better their management practices and policies and decrease their operational expenses in seek to excess management productivity. Return on Equity (ROE) in Palestine Investment bank and Arab Islamic bank were the worst among the study sample were rated 4 and 5 which indicates insufficient earnings to backing operations and look after suitable capital and allowance levels. The rest of banks whether Islamic or Conventional rated 3 which signals earnings that need to be amelioration. Earnings may not well backing operations and supply for the intention of capital and

allowance levels in connection to the firm's total case, except for bank of Palestine rated 1 which marks earnings that are powerful. Earnings are more than enough to backing operations and maintain adequate capital and allowance levels. However, both Islamic and Conventional banks have better position in the earnings quality index of Return on Assets (ROA). Finally, there is no significant difference among Islamic and Conventional banks related to liquidity levels. Both banking systems rated 4 and 5 which indicates risky and unstable performance.

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