

The Perceptions of Closing Islamic Windows within the Conventional Banks in Qatar and its influence on the Bank Performance

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Abstract

This study explored the perceptions of customers and bankers in Qatar regarding the impact of closing Islamic windows on banks performance. Furthermore the study objective expands to analyze what changes happened to the Qatari banking system (both Islamic and conventional) after the decree, and whether the anticipated goals by QCB are compliant with the reality. The study conducted the qualitative and quantitative approaches. The analysis used the questionnaire to examine the impact of the closing decree on the banks' operations from the perspective of customers and bankers. This study also examined the operational and financial performance of conventional and Islamic banks before and after the closing of Islamic window. As a conclusion, the number of customers is the main factor that effects the bank performance followed by bank profit. The descriptive analysis from the bankers and customers perceptions shows that the Islamic banks provide the variety of benefits for customers in Qatar. The main three benefits of Islamic banking system are; (1) reduce the risks, (2) contribute in removing society inequality, and (3) improving general standard of living. In addition, results concluded that the size of Islamic banking system in Qatar between 20 -30% of the Qatari customers. The respondents mentioned that the purification of the Islamic financial transaction from any activities, which may not comply with SHAREEA, is the main reason for closing the Islamic Banking windows. This study help customers and bankers in Qatar to understand and comprehend more about the banking systems in Qatar, specifically how closing Islamic windows affect banks' performance.

keywords: Finance and Banking; Customers perceptions; Islamic banking, Performance analysis; Islamic finance; Qatar

ملخص البحث

تناولت هذه الدراسة تصورات العملاء والمصرفيين في قطر فيما يتعلق بتأثير إغلاق النوافذ الإسلامية على أداء البنوك. علاوة على ذلك ، يتسع هدف الدراسة لتحليل التغييرات التي طرأت على النظام المصرفي القطري (الإسلامي والتقليدي) بعد صدور القرار ، وما إذا كانت الأهداف المتوقعة من قبل مصرف قطر المركزي متوافقة مع الواقع. أجريت الدراسة المنهجين النوعي والكمي. استخدم التحليل الاستبيان لفحص تأثير قرار الإغلاق على عمليات البنوك من وجهة نظر العملاء والمصرفيين. كما تناولت هذه الدراسة الأداء التشغيلي والمالي للمصارف التقليدية والإسلامية قبل وبعد إغلاق النافذة الإسلامية. في الختام ، فإن عدد العملاء هو العامل الرئيسي الذي يؤثر على أداء البنك يليه ربح البنك. يُظهر التحليل الوصفي من تصورات المصرفيين والعملاء أن البنوك الإسلامية توفر مجموعة متنوعة من الفوائد للعملاء في قطر. الفوائد الثلاث الرئيسية للنظام المصرفي الإسلامي هي: (1) تقليل المخاطر ، (2) المساهمة في إزالة عدم المساواة في المجتمع ، (3) تحسين المستوى العام للمعيشة. بالإضافة إلى ذلك ، خلصت النتائج إلى أن حجم النظام المصرفي الإسلامي في قطر يتراوح بين 20 - 30٪ من العملاء القطريين. ذكر المجيبون أن تنقية المعاملات المالية الإسلامية من أي أنشطة قد لا تتوافق مع نظام SHAREEA هو السبب الرئيسي لإغلاق نوافذ الخدمات المصرفية الإسلامية. تساعد هذه الدراسة العملاء والمصرفيين في قطر على فهم وفهم المزيد حول الأنظمة المصرفية في قطر ، وعلى وجه التحديد كيف يؤثر إغلاق النوافذ الإسلامية على أداء البنوك.

الكلمات المفتاحية : المالية والمصرفية؛ تصورات العملاء المصرفية الإسلامية ، تحليل الأداء، التمويل الإسلامي؛ دولة قطر.

1. Introduction and Background of the Study

Although Islamic banks have been started in the GCC market just forty years ago, they have been performing very well compared to conventional banks. [Samad, 2004](#), shows that there is no significant difference between Islamic and conventional banks' performances in Bahrain for the period 1991-2001. It looks that there is a growing interest in Islamic Banks around the world. [Gait and Worthington, 2008](#) argue that financial institutions around the world are trying to apply and offer Shariah products/services to their customers, but the concept of sharing of risk is acting as the important barrier in offering these services. However, this does not prevent, according to [Alharbi \(2017\)](#), the wide spread of New Islamic banks Islamic windows throughout the world.

The financial regulations are introduced to develop a healthy environment that increases competition and improves banking sector efficiency. There is a controversial debate in the literature about the impact of regulations on the performance of banks [see for example, [Brissimis et al., 2008](#); [Chang et al., 2010](#); [Zhao et al., \(2010\)](#); [Hsiao et al., \(2010\)](#) and [Casu and Ferrari \(2010\)](#)] among others find that deregulation develops the performance of the banks. On the other hand, [Halkos and Salamouris, \(2004\)](#); [Park and Weber, \(2006\)](#); and [Fu and Heffernan, \(2009\)](#) argue a decline in banks efficiency in the financial reforms period. These controversial results motivate us to examine the relationship between a recent regulation and banks' performance in Qatar.

Qatar is one of the fastest growing economies in the world in the last decade the GDP almost tripling in size since 2005. In 2011, the Qatari economy grew by 18.8% in real terms (IMF, 2012). Qatari economy embraces conventional and Islamic platforms in the banking business. Both Islamic and Conventional banking systems grow rapidly and play an important role in the Qatar development (QCB, 2011). The banking sector in Qatar growth is powered by the FIFA 2022 World Cup and the huge investment in infrastructure ([Hossain and Leo, 2009](#); [Meed, 2012](#)). A significant part of these investments has been financed by Qatari Islamic Conventional banks, which is powering the growth of Qatari economy ([Scharfenort, 2012](#)). Moreover, the banking system plays an essential role in achieving Qatar 2030 vision including the short and long-term socio-economic prosperity of Qatar ([Qatar.gsdp, 2011](#)). To ensure the soundness and the transparency of the sector, the Qatari authority frequently issues decrees and new regulations, of which one was the closure of the Islamic windows in conventional banks. These windows were used by conventional bank to attract customers who would like to invest their money according to Shariah.

This study examines the implication of this decree on the banking sector in terms of profitability, loan growth, asset growth, efficiency, market share expansion, risk, and stock returns before and after the decree.

Throughout the past thirty years, conventional banks in Qatar used to have Islamic windows to satisfy the demand of most Qatari citizens' Islamic and religious orientation (Hossain & Leo, 2009). In February 2010, QCB issued a decree enforcing all conventional banks to close their Islamic windows by the end 2010 (Latham & Watkins, 2011). The decree came to be very controversial, some arguments claim that the decree was passed to purify Islamic services from interest bearing misplacement as it is religiously prohibited, others claim that, the main purpose is to create fair competitive platform for the banking system in Qatar. Statistics indicates that Islamic bank's assets represented 31% of the total Qatari banking sector , 21% were managed by Islamic banks, after the decree those assets increased roughly to 35% (IMF, 2012). The Islamic banks are focusing on enhancing their performance by expanding geographically, as the long-term economic factors seem to be very stable, which provide them with a chance to lead the Islamic banking/finance industry in the region (Hossain and Leo, 2009).

Moreover, there are different opinions regarding Islamic windows opened by the conventional banks from the Shariah point of view. The first opinion argues that the conventional banks should not be permissible to open Islamic windows as their sources for fund is unlawful. Hence, they are not complying with Shariah at first place exploiting the Muslim investors and unfairly competing with Islamic institutions (supported view by: Shaikh Abdulla Bin Beyyah among others). On the other hand, Shaikh Yusuf Al Qaradawi among others supports the Islamic windows if they fulfill certain required conditions such as complete segregation of funds, existence of Shariah supervisory board, etc. (For more detail about this controversial debate, see Yaquby, 2005).

The decree of complete segregation between Islamic and conventional banking operation had its effects in the Qatari platform in February 2010, it is very appealing to study the pros and cons, the implication on both Islamic and conventional banks. One of the important aims of the study is to examine whether the Islamic banks outperform the conventional banks. This study is the first to discuss the bankers and customers' perceptions about the regulation of closing Islamic window in the conventional banks in Qatar. Our study added to the literature of both Islamic banking and banking regulations by investigating a hot issue using unique Qatari data. Our study also is important for banks and investors to understand the reasons behind closing Islamic windows and the consequence of this decision on the banks 'performance.

We start by questioning banker and banks' costumers about how they see the impact of closing Islamic Windows on banks 'performance in Qatar. Furthermore, we compare the performance of Islamic and conventional banks in Qatar before and after the closing Islamic using different financial and operational ratios. In the current study, we will investigate the advantages and disadvantage of having Islamic windows in conventional banks. Furthermore, we examine how the closing Islamic windows affects the performance of both conventional banks and Islamic banks. Finally, this study explain the impact of closing Islamic windows on the perceptions of bankers and banks 'customers towards banking business in Qatar and how this closing influences banks customers' satisfaction.

Understanding the effects of decisions that cause changes in performance of Islamic and conventional banks becomes crucial to determine the best setting for the Shariah compliant banking system, which is proposed to be applied in many western markets (Khalid, 2011). The results of the current study are important to other economies who use dual banking system to help them to understand how this particular law affect the performance of banking sector (Khan and Bhatti, 2008). Furthermore, the current study is the first study, which utilizes qualitative and quantitative approaches to study the impact of regulation on the Qatari bank performance. Therefor our work may offer an opportunity for policy makers, investors, banks management, and researchers to understand the impact of closing the Islamic windows and open the door for researchers to conduct further research in the area.

2. Literature Review

2.1 Islamic Windows Supporters and Opponents

Since the commencement of Islamic institutions, in the past three decades they have risen drastically across the globe. Moreover, in Sudan and Iran the banking sector is entirely dominated by the Islamic system. However, In the GCC region, none of the countries possesses complete Islamic banking system, but they have a dual banking system. That means they have conventional as well as Islamic banks working together in the country. Furthermore, some conventional banks have also introduced Islamic windows within their institutions to attract the customers/investors interested in investing in Sharia compliance products and services (Loghod, 2010).¹

¹ Grais and Pellegrini (2006) define Sharia as "Islamic law extracted from the Qur'an and Sunna (saying and deeds of the prophet)".

There are several researchers pointing the benefits of Islamic banks over the conventional banks. However, there are a few researchers determining the advantages of Islamic windows operating in the conventional banks. According to Sole (2007), an Islamic window within the conventional bank brings about a wide expansion of economies due to its built-in expertise of banking. Moreover, the bank already possesses the ability to provide various Islamic banking products, which will enable them to grab large number of customers who prefer Islamic banking. The conventional banks can function and serve the Islamic financial products through Islamic window with complete separation from its parent bank (Sole, 2007). In contrast, this form of establishment is criticized by the Sharia's scholars due to the mixing of funds that will be further used by the Islamic windows to finance its customers, merely, losing its object of establishment (Yaquby, 2005). Thus, despite the functional benefits of Islamic windows in the conventional banks, the absence of the foundation of its creation (i.e. Sharia compliance) nullifies the importance of its existence. The ongoing controversial debate about Islamic windows can be summarized in three opinions; supporters, opponents, and conservators.

The Islamic windows supporters believe that the interest of conventional banks in running Islamic windows reflects a practical recognition of the success of the Islamic banking system and the Islamic banks in practice. These Islamic branches are considered as a propaganda for Islamic banks and for the importance of the establishment of banking units operating according to the Islamic methods (See; Al-Murtan, 1999; Shehata, 2001; Mohieldin, 2001; Al-Sharif, 2016). Therefore, this part of the literature support the Islamic branches of conventional banks, provided that those branches comply with the provisions of Islamic law in all transactions. The Islamic branches are considered a means of combating usury, and raising the burden of "Riba" on Islamic societies is one of the most important purposes of Sharia. Islamic branches are the possible alternative in some countries where it is difficult to establish Islamic banks because of local regulations. Furthermore, the success of these branches may persuade conventional banks to convert to Islamic banking system. The Islamic branches are considered a step towards the gradual application of the Islamic banking system. This is in line with the approach of Islam in the gradual application of some provisions such as the prohibition of alcohol and the imposition of fasting and so on. Islamic branches will contribute to the acquisition and transferring of advanced technical methods and accumulated experiences in conventional banks to Islamic banking system leading to increase its success opportunities (for more discussion about the justifications of Islamic Windows see, Hafez, 1996 ; Al-Murtan, 1999; Zaatari, 2001; Al-Sharif, 2016).

On the other hands, the opponents of Islamic windows claim that the Islamic branches is a just way from the conventional banks to take a share from the growing Islamic financing market without fully applying the Islamic methods in Finance (Arafa, 1987; Hafez, 1996 ; Zaatari, 2001; Al-Sharif, 2016). It is not acceptable for banks to apply the rule of Allaah (the Creator) on the side of the Islamic branches and ignore it in conventional branches. Al-Sharif, 2016 states that an Islamic branch is subordinate to the riba (interest)-based bank and according to the jurisprudential rule; the subordinate is branch is governed by the ruling on the original. So if the original activities is Haram (Forbidden) the branch activities is polluted by Riba. The dealing with Islamic windows may lead to the mixing of halal funds with “Haraam”, since the separation between the funds of the Islamic branches and the bank's main funds is often difficult, especially in the uses of current account funds. Moreover, the excess liquidity of the Islamic branch is transferred to the main bank that mixes it with its money and uses it in none-Islamic investments.

The third group of scholars suggest that dealing with Islamic branches should be for necessity only.² They admit that dealing with the Islamic windows lead to the support and subsidy of conventional banks, in addition to supporting and subsidizing the falsehood and its continuation. However, if there is no legal alternative, dealing with these branches is necessary. If a Muslim needs banking services, such as depositing money to preserve them from loss, theft or other services, and does not find an Islamic bank that deals with him, then S/he is in the rule of the oppressor. In this case, dealing with the Islamic branches is much better than dealing with conventional branches and may be even the increasing in the demand on Islamic windows services motivates banks to turn to a complete Islamic banking system.

We believe that the third opinion looks reasonable in non- Islamic countries where there are legal and market obstacles face establishing Islamic banks. However, In Islamic countries, the justification behind the existence of Islamic windows is due the huge experiences, human capital, and infrastructure, which can be transferred from conventional banks to Islamic finance markets through Islamic Windows. However, this dual system should work under a complete segregation between Conventional branches and Islamic branches in terms of Financing, investments, other operations and financial reporting.

² Al-Sharif, 2016 have cited many scholars who support this opinion like Sheikh Ahmad Al Mazroua, Chairman of the Islamic Courts in Makkah, Dr. Mohammed Ali Al-Marsafi, and Dr. Sabri Abdul Raouf.

2. 2 *Islamic Banking System in Qatar*

Although, the first Islamic Bank (Qatar Islamic Bank) established in Qatar in 1983, the conventional banks was allowed to enter the Islamic finance market only in 2005 when the Qatar Central Bank (QCB) authorized conventional banks to offer Shariah-compliant finance products through Islamic windows. A significant number of conventional banks working in Qatar utilized this opportunity and introduced Islamic products to their customers. Vermeulen, Randow, and Anani, 2011 report that the Islamic finance market was growing with a market share of around 20 per cent under this dual-regime.

This system has been vanished by directives issued by the QCB in Feb 2010 to close Islamic windows in conventional banks. Although the instructions ban conventional banks from accepting new Islamic deposits and conducting new Islamic finance operations, the QCB allow to them to manage their outstanding Islamic finance assets and liabilities up to December 31, 2011.

2. 3 *Rational behind closing Islamic windows*

QCB justified the decision of closing Islamic windows based on supervisory and monetary-policy grounds (see QCB, 2011; Vermeulen et al., 2011, and Al-Shamari, 2015). The following line critically discuss the justifications of closing Islamic windows. QCB argues that the “*overlapping nature of non-Islamic and Islamic activities of conventional banks*” and the “*comingling of their activities and services*”, (QCB) leading to difficulties for conventional banks to properly manage bank risks, financial reporting, Capital adequacy, and financial stability. These difficulties create supervisory issues. This argument has been refuted by Al-Shamari, 2015 who claim that the segregation between Islamic and non-Islamic activities does not need to close Islamic windows but this segregation can be done through effective regulation system, which impose banks to keep such activities segregated in practical management of assets and liabilities and in financial reporting. This segregation in activities already has succeeded in many other markets since Islamic windows are started in Egypt in 1980 (see, Metwally, 1984, Al-Shamari, 2015; and Al-Sharif, 2016).

QCB argue that Islamic windows create four supervisory issues, bank risk, financial reporting, capital adequacy and financial stability (QCB, 2011). QCB claims that the complicated nature of Islamic finance, in terms of returns, liquidity, credit and market risks, creates a challenge when these operations funded by conventional fixed-income deposits.

Therefore applying “oversight instruments and prudential ratios and indexes used for risk management” for both Islamic and conventional operations for the same financial entity is multifarious. This argument has been refuted by Al-Shamari, 2015 who point that although the Islamic operations have different kinds of risks as they use different financing tools (such as Mudaraba, Musharaka, Istinaa and Ijara) but this doesn’t mean that Islamic operations are riskier than conventional operations. For example, the Murabaha product has much lower risk than the conventional loan because the Murabaha contract requires the existence of a commodity and the Islamic Bank has the right to pledge the sold commodity until he fulfills his debt from the client. This is also applicable on

Dwindling participation (Musharaka) which requires a commodity which bought by the customer and the bank and then the bank sells its share to the customer or rents them (Ijarah ending with ownership). The lease contract ending with ownership is almost has no risk, because the commodity is owned by the bank until the end of the debt period (Qaleiji, 2002). Finally, Istinaa product usually done through two parallel contracts. The first contract between the bank as a manufacturer and the customer as a buyer for the commodity. The second contract called Istisna'a parallel is between another manufacturer (Third party) and the bank as a client. The risk of this process lies in the regularity of the Bank’s client in payment and this is a common risk in all contract, including debt contracts.³

Considering the discussion above, we agree with Al-Shamari, 2015 that Islamic financing products is not riskier than conventional products, the Islamic products has less risk in many cases. Moreover, the risk products (Mudaraba) do not exist in practice, and can be prevented by the Central Bank instructions. Therefore, the Central Bank can eliminate the problem of multifarious risks in the same financial position by setting a ceiling of accepted risk for any product, whether Islamic or non- Islamic.

The second supervisory justification for closing Islamic windows is the difficulty of preparing consistent financial reports according the international standards because of the overlapping between Islamic and conventional activities (QCB, 2011; Vermeulen et al., 2011). Furthermore, the QCB highlights that the capital adequacy requirements in accordance to the standards of the Islamic Financial Services Board (IFSB) are different significantly from capital adequacy instructions relating to conventional banks” (Basel II and Basel III). The QCB claims that it is difficult for conventional banks to combine these two types of regimes in one financial position. Moreover, the QCB is of the view that Islamic branch capital cannot be separated from the bank’s capital for independent risk weighting. Actually, the successful financial reporting of dual system banks in many other counties (e.g US, UK, and Egypt) can challenge this justification.

³ According to Al-Shamari, 2015, there is no banks offer Mudaraba products in Qatar.

Moreover, the difficulty of preparing financial reports under one international standard does not affect the harmonization of financial reports; because two international standards can be applied each in its own right. In other words, the conventional bank that exercises Islamic transactions is required to prepare separate internal financial statements related to Islamic banking activities. It is true that this requires a bigger effort but this is better than closing Islamic branches. Furthermore, the QCB claims that the combination of Islamic and non-Islamic activities in a single financial position would complicate the functions of the regulatory instruments through which Qatar Qualitative Central Bank exercises its monetary policy. This argument also can defatted the regulatory controlling qualitative and quantitative instruments do not differ from conventional and Islamic banks (Al-Shamari, 2015). For example: Central Bank cash reserve policy does not differentiate between Islamic banks and conventional banks although the differences between Islamic and conventional deposits. E.g. the conventional deposits are secured from the conventional banks while the Islamic deposits are not secured and are subjects to profit or loss, which assume lower required reserves for Islamic banks; however, the QCB apply the same required reserves policy for both Islamic and conventional banks. Therefore, what is the problem if QCB deal with the Islamic Window with the same logic?

The QCB has also raised concerns that offering conventional banks both Islamic and conventional products poses “*a difficult challenge for Islamic banks to maintain their stability and growth rate*” and affects competitive neutrality. This argument discussed by Al-Shamari, 2015 who suggests that breach of the rules of free competition cannot be treated by the closure of Islamic branches, as this will solve problem by creating another. The closure of Islamic branches will reduce the number of Islamic financial providers from nine options to became only four. That may results in poor service provided by Islamic banks to the client and reduce competition.

2.4 Banks Performance

Siraj and Pillai (2012) argue that measurement of banking performance differs significantly from other sectors. Comparing banking performance covers not only profitability but also criteria’s such as quality of assets, risk and liquidity management etc. Therefore, previous literature has used many factors to evaluate banking performance. For example, Yudistira (2004) uses non-parametric techniques to measure the efficiency of Islamic banks inside and outside the Middle East. He highlights years 1997-2000 as the most efficient years for Islamic banks. He also reports that Islamic banks outside the Middle East faced more challenges compared to the Middle East Islamic banks. Hassan (2006) on the other hand utilizes parametric techniques to calculate the operational behaviour of Islamic banks.

His findings indicate that the average technical efficiency of Islamic banks is higher than allocative efficiency whereas the scale inefficiency is higher than pure technical inefficiency.

Moreover, Mokhtar, Abdullah, and Al-Habshi (2006) use a stochastic approach to measure the efficiency of Islamic banks in Malaysia. Their findings argue that the average technical cost efficiencies of the conventional banks are higher than those of the Islamic banking banks and those fully-fledged Islamic banks have outperformed the conventional banks with Islamic windows. Furthermore, Cihak and Hesse (2008) used z-score and regression analysis to calculate the financial constancy of banks. Their findings indicate that small Islamic banks are financially stronger than small and large conventional banks, where large conventional banks outperform the large Islamic banks.

Srairi (2010) applies a stochastic frontier analysis to measure the efficiencies of Islamic and conventional banks in the GCC. Srairi (2010) reports that GCC banks are more efficient at generating profits rather than controlling costs. In contrast with previous studies, Srairi (2010) finds that conventional bank are more efficient than Islamic banks in terms of cost and profit efficiency. Beck, Demircuc-Kunt, and Merrouche (2013) investigates differences in business model, efficiency, asset quality, and stability across Islamic and conventional banks in the MENA region. Beck, et al. (2013) document that Islamic banks have higher loan deposits, lower cost efficiency and lower non-performing loans. According to their finding, the large Islamic banks have higher cost-income ratio, higher capitalization and lower non-depositing funding than conventional banks.

In another vine, Grassa and Gazdar (2014) examine the effects of conventional and Islamic finance on economic growth in the GCC countries. They found that financial development is not relevant for economic growth in the GCC. However, Oil is the main factor that is determining economic growth. In a recent Study Alharbi (2017), using international data, finds that capital ratio, other operating income, GDP per capita, bank size, concentration and oil prices affected Islamic banks positively. Insurance schemes, foreign ownership and real GDP growth affected Islamic banks negatively.

3. Methodology

Berger & Humphrey (1997) classified the methods applied to study the performance evaluation of banks put into parametric and non-parametric methods. Applying only these methods to measure the performance of banks will determine only the efficiency but they will not determine the factors related to non-numeric variables such as the operating plan of the banking sector (Emrouznejad & Anouze, 2010). This motivate us to use conduct a mix of the qualitative and quantitative approaches. The analysis starts by using two different questionnaires to examine the impact of the closing decree on the bank performance from the perspective of bank's customers and employees. The costumers' questionnaire aim to evaluation to the impact of closing Islamic windows on banking services from the point of view of the demand side, while bankers' questionnaire measures how the closing affect the bank performance from the point of view of its expertise (supply side). The two questionnaires should help us to understand the effect of the closing Islamic windows on the real beneficiaries of these financial institutions. Then we turn to investigate the impact of closing Islamic Windows on bank performance using a variety of financial and operational ratios that measure risk, profitability, efficiency, and leverage using t test and pooled regression.

3.1 Hypotheses

Sole (2007) and Loghod (2010), among other, argue that Islamic windows provide various Islamic banking products, which serve large number of customers who prefer Islamic banking. Moreover, Al-Shamari (2015) shows that closing Islamic windows will hinder the competition and limit the alternative providers for the Islamic banking products. Altogether, invite us to expect that closing Islamic windows will reduce the customers' satisfaction. Hence our first hypothesis is:

H1: There is a negative effect for closing Islamic windows in the conventional banks on customers' satisfaction.

This hypothesis has been tested against data collected from banks 'customers.

Sole (2007), Al-Shamari, 2015; and Al-Sharif, 2016 refer that Islamic windows play a vital role in expanding the base of Islamic banking and in establishing infrastructure for Islamic banking industry. Also this windows transfer knowledge and experiences from conventional banks. This invite us to believe that closing such windows will affect banks 'performance. Our second hypothesis is:

H2: There is a negatively effect of closing Islamic windows in the conventional banks on the banks' performance in Qatar

The bank performance has been measured by the following set of hypotheses:

H2a: There is a negative relationship between closing Islamic windows and the size of loans

H2b: There is a negative relationship between closing Islamic windows and bank profit

H2c: There is a negative relationship between closing Islamic windows and operational efficiency of the bank

H2d: There is a negative relationship between closing Islamic windows and operational cost

H2e: There is a negative relationship between closing Islamic windows and the number of customers

H2f: There is a negative relationship between closing Islamic windows and size of deposits

H2g: There is a negative relationship between closing Islamic windows and financial costs.

These hypotheses has been tested against data collected from banks 'employees.

3.2 Data

The data collection process can be classified to two phases, first stage data collection from banks' customers and the second stage data collection from banks'. Two different surveys has been prepared for each phase. Most of the survey questions were adopted from the literature and all had a five-point scale ranging from 1 (strongly disagree) to 5 (strongly agree). The customers' surveys ask bank customers about their perception for the benefits and risks of closing Islamic windows. The bankers 'survey investigate the bankers perception for the impact of closing Islamic windows on bank performance. Linguistics expertise and 4 academic staff and 15 bankers and 15 costumers have validated the surveys. The costumers' surveys has been delivered by hand as a convenient sample. The number of costumer-distributed surveys were 350. 196 questionnaires were returned to give response rate 56%. After the data cleaning and removing questionnaires with incomplete answers, the number of questioners ends up by 161 fully answered questionnaires (46%). To make sure that all of the questions are read in the same way, The Alpha for each question. I found that all of the reliability statistics are over 60%, which means that all of the questions are reliable. Then, I checked all of the questions together to get a 69%, which means that all of questions are reliable, and validity.

The data for bankers' survey were collected from employee, head of departments, branch managers worked in three Islamic banks, and eight conventional banks working in Qatar through a hand delivered survey. Only one criteria was considered when selecting potential respondents, the respondent should be a worker for an Islamic and conventional banking sector in Qatar. A total of 280 questionnaires were returned out of 350 with a response rate 80%. 264 (75.4%) of which had been fully answered. 90 of 264 (34%) questionnaires worked in Islamic banks. 174 (66%) of 264 questionnaires worked in the conventional banks in Qatar. To make sure that all of the questions are read in the same way, the Cronbach Alpha test has been done. The reliability statistics are over 60%, which means that all of the questions are reliable. Testing all questions together to produces an Alpha of 77.8 %. The appraisal meeting variable has the best reliable, at 86.8%, while employee evaluation has the lowest, at 66.3%.

4. Findings and Discussion

4.1 Customers' Perceptions

First, we ask the banks 'costumers about reason which may invite them to be a client in Islamic banks or Islamic Windows rather than to be a client in conventional banks. Table 1 summaries the most important reasons for preferring Islamic banks or windows:

Table (1) Reasons to choose Islamic bank or/Islamic Window

No.	Perceived benefits	Mean	Standard deviation	Item if importance	Level of importance
1	Lower risk	4.29	0.717	2	High
2	New product	4.72	0.737	1	High
3	Good prospects of Islamic economic future	4.05	0.940	5	High
4	Confidence problem	4.24	0.799	4	High
5	Diversification	4.27	0.810	3	High
General Arithmetic mean and Standard deviation		4.18	0.831		

Table (1) above shows that the arithmetic means for reasons range between (4.72 – 4.05) compared to General Arithmetic mean amount of (4.18). It is observed that the high mean was to item “new products” with arithmetic mean of (4.72) and standard deviation of (0.737) while the lowest arithmetic mean was to item “Good prospects of Islamic economic future” with arithmetic mean of (4.05) and Standard deviation of (0.940).

The results indicates that customers prefer Islamic banks or Islamic windows because they offer new products, which is not available in conventional banks. In addition, bank customers believe that Islamic banks have lower risks, more diversified products and higher confidence level compared to conventional banks. Finally, the good expectation for the future of Good of Islamic economy encourage customers to prefer Islamic banks or Islamic windows.

Table (2) Benefits of Islamic windows in the conventional banks by customers' perceptions

No.	Benefits	Mean	Standard deviation	Item if importance	Level of importance
1	Economic benefits	4.24	0.822	2	High
2	Social benefits	4.25	0.850	1	High
3	Refining existing banking system	4.18	0.802	3	High
4	Enhancing the status of financial center	4.03	0.867	4	High
5	Controlling the unemployment rate	3.92	0.843	6	High
6	Enhancing the Financial Risks diversification	4.00	0.824	5	High
General Arithmetic mean and Standard deviation		4.10	0.714		

Table (2) above shows that the means calculation for perceived benefits range between (4.25 – 3.92) compared to General Arithmetic mean amount of (4.10). It is observed that the high mean was to item “Social benefits.” with arithmetic mean of (4.25) and standard deviation of (0.850) while the lowest arithmetic mean was to item “Controlling the unemployment rate.” with arithmetic mean of (3.92) and Standard deviation of (0.843). In general, the level of perceived benefits is high.

Table (3) level of **Risks** after Degree (Act) by customers' perceptions

No	Trading partner	Mean	Standard deviation	Item if importance	Level of importance
1	Cost inefficiency	3.83	0.966	5	High
2	Increasing social conflicts	3.66	0.951	6	Medium
3	Confusion in banking system	3.85	0.898	4	High
4	Disinvesting by original potential investors	4.00	0.868	2	High
5	Time consuming for the implementation	3.88	0.924	3	High
6	Rising of financial risks	4.11	0.839	1	High
General Arithmetic mean and Standard deviation		3.57	1.026		

The table (3) above shows that the arithmetic means for risks range between (4.96 – 3.66) compared to General Arithmetic mean amount of (3.57). It is observed that the high mean was to item “Rising of financial risks” with arithmetic mean of (4.11) and standard deviation of (.839) while the lowest arithmetic mean was to item “Increasing social conflicts” with arithmetic mean of (3.66) and Standard deviation of (0.951). In general, the level of risks is medium.

4.1 Level of Customers Satisfaction

Coefficient of determination for perceived benefits

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.478 ^a	.228	.214	.83642

a. Predictors: (Constant), customers' satisfaction

From the above table, the R coefficient between customer satisfaction and closing Islamic window is 0.478, which indicates a significant effect of the predicting variable (customer satisfaction) on the dependent variable closing Islamic window). The R2 value is 0.228, which means part of the variance of closing Islamic window was explained by customer satisfaction.

4.2 Hypothesis Test

H1: There is a significant statistical effect of closing Islamic windows in the conventional banks on customers' satisfaction at level ($\alpha \leq 0.05$). To answer this hypothesis the researcher used the one way ANOVA to ensure if there are any differences between closing window" and customer satisfaction as shown in the below Table.

Table (4): *The results of the differences between closing window and customer satisfaction by ANOVA*

	Model	Sum of Squares	DF	Mean Square	F	Sig.
1	Regression	17.910	1	17.910	31.852	.000 ^a
	Residual	29.239	52	.562		
	Total	47.148	53			

A. Predictors: (Constant), closing window"

B. Dependent Variable: customer satisfaction

* The impact is significant at level ($\alpha \leq 0.05$)

From the above Table (4), it is clear that the absolute value of F calculated (31.852) is more than F tabulated at level ($\alpha \leq 0.05$). This indicates that the first hypothesis:

There is a significant statistical effect of closing window" **on** Customer satisfaction at level ($\alpha \leq 0.05$).

Therefore, the hypothesis was accepted.

5.0 Findings and Discussion Managers Perceptions

As mentioned before, 280 questionnaires were returned. After we cleaned up all of the data, by deleting incomplete answers, only 264 of them had been fully answered. Then, we coded them to fit with SPSS software; for example, we gave number 1 to the answer Strongly Disagree and number 5 to the answer Strongly Agree. Finally, we analysed the data using SPSS software to check if they are reliable, strong, correlated and to find the model (regression analysis).

5.1 Cronbach Alpha

To make sure that all of the questions are read in the same way, we calculated the Alpha for each factors. We found that all of the reliability statistics are over 60%, which means that all of the questions are reliable. Then, we checked all of the questions together to get an Alpha of 77.8 %. As shown in the table below, we find that the **number of customers** factor has the best reliable, at 86.8%, while **operational efficiency** has the lowest, at 66.3% (see table 5).

Table 5: Cronbach Alpha:

	Factor	Cronbach Alpha
1	Impact on financial risks	72.5 %
2	Impact on bank liquidity	81.4 %
3	Impact on operational cost	76 %
4	Impact on number of customers	86.8 %
5	Impact on operational efficiency	66.3 %
6	Impact on size of loans	73.2 %
7	Impact on size of deposits	77.8 %
8	Impact on bank profit	82.3%

5.2 Descriptive Statistics

The following table shows the mean and standard deviation. we found that the data are perfect, as most of the means are located in the middle between 2.97 and 3.67 of the 5 point scale, except relation with **number of customers** factor which is above the average, which reflect agree choose more than disagree choose. Additionally, the standard deviation is around (0.69 – 0.99), which means that there is no significant gap between the data (see table 6).

Table 6: Mean and Standard Deviation:

	Factor	Mean	Std. Deviation	N
1	Impact on financial risks	3.40	0.76	264
2	Impact on bank liquidity	3.20	0.88	264
3	Impact on number of customers	4.07	0.69	264
4	Impact on operational cost	2.97	0.99	264
5	Impact on operational efficiency	3.31	0.70	264
6	Impact on size of loans	3.67	0.77	264
7	Impact on size of deposits	3.65	0.74	264
8	Impact on bank profit	3.79	0.71	264

5.3 Correlations

Correlation measures two things about the relationship between two variables: the direction of the relationship (Positive or Negative) and the strength of the relationship (Strong or Weak).

The below Table 7 illustrated that almost half of the correlations are in the positives direction, and others are negatives direction, and most of them are weak to strength (0.1 - 0.5). The best correlation is 55%, between **number of customers** and **bank profit**, and the worst is 8%, between relation with **operational cost** and **operational efficiency**.

Table 7: The Correlation between factors

Factors	financial risks	bank liquidity	number of customers	operational cost	operational efficiency	size of loans	size of deposits	bank profit
financial risks	1	-0.2	-0.1	0.46	0.45	0.36	0.37	0.47
bank liquidity	-0.2	1	0.36	-0.32	-0.25	-0.09	0.51	0.48
number of customers	-0.1	0.36	1	-0.2	-0.3	0.02	0.54	0.55
operational cost	0.46	-0.32	-0.2	1	-0.08	0.27	0.09	0.26
operational efficiency	0.45	-0.25	-0.3	-0.08	1	0.55	-0.04	0.29
size of loans	0.36	-0.09	0.02	0.27	0.35	1	0.53	0.51
size of deposits	0.37	0.51	0.54	0.09	-0.04	0.53	1	0.37
bank profit	0.47	0.48	0.55	0.26	0.29	0.51	0.37	1

5.4 Bank Performance Model:

To find bank performance model, the study used the regression analysis (the statistical process for estimating the relationships among variables $x = a + by$). Also, we depend on R^2 , which represents how the data are close to the fitted regression line. The study come up with five model to see which one is the best with α no more that 0.1 (90% confidence), and which one has the best R^2 . (see table 8):

Model1: (x)= (Constant), **bank performance**

Model 2: (x)= (Constant), **bank performance, operational efficiency**

Model 3: (x)= (Constant), **bank performance, bank profit, bank liquidity, financial risk**

Model 4: (x) = (Constant), **bank performance, bank profit, size of loans, operational efficiency**

Model 5: (x) = (Constant), **bank performance, number of customers, bank liquidity, operational cost, size of deposits**

Table 8: Five models

Mode I		B	Coefficients Sign	R ²
1	(Constant)	2.458	.000	0.121
	Bank performance	0.355	.000	
2	(Constant)	2.543	.000	0.116
	Bank performance	0.35	.000	
	Operational efficiency	-0.024	0.744	
3	(Constant)	2.266	.000	0.116
	Bank performance	0.353	.000	
	bank profit	-0.051	0.521	
	bank liquidity	0.075	0.332	
	Financial risks	0.078	0.331	
4	(Constant)	1.996	.000	0.125
	Bank performance	0.294	.000	
	bank profit	-0.021	0.790	
	size of loans	0.088	0.258	
	Operational efficiency	0.142	0.093	
5	(Constant)	1.062	0.022	0.299
	Bank performance	0.156	0.041	
	size of deposits	0.026	0.722	
	operational cost	0.06	0.390	
	bank liquidity	-0.048	0.554	
	Number of customers	0.51	0.000	

* Sign $\alpha = 0.1$ (90% confidence)

** Sign $\alpha = 0.05$ (95% confidence)

*** Sign $\alpha = 0.01$ (99% confidence)

Unfortunately, the table above shows that all models have R² less than 30% which represent that the data are not close to the fitted regression line. Overall, only **bank performance** and **number of customers** factors have α less than 0.05, when others factors (**bank liquidity**, **operational cost**, **operational efficiency**, **size of loans**, **size of deposits**, **financial risks** and **bank profit**) have α more than 0.1 which means these factor are not confidence to the study model. A model 5 has the highest R² than others model, so that been selected to be bank performance model.

Risk Ratios:

Tier 1 capital ratio (TCR) is the ratio of Tier 1 capital to risk-weighted assets. Tier 1 capital is composed of core capital, which consists primarily of common stock and disclosed reserves (or retained earnings), but may also include non-redeemable non-cumulative preferred stock.

Total risk based capital ratio (also known as Capital Adequacy Ratio, or (CAR). The ratio of total risk-based capital to risk-weighted assets. The total risk-based capital ratio is the total of the core capital ratio and the supplementary capital ratio. Supplementary ratio for commercial banks is perpetual preferred stock ineligible for Tier 1, perpetual debt and mandatory convertible securities, Qualifying senior and subordinated debt, Limited life preferred stock, qualifying allowance for credit losses. The total risk-based capital ratio is the sum of the core capital and supplementary capital ratios. Risk-Weighted Assets (RWA) is calculated by weighing each type of asset relative to its risk.

Profitability Ratios

Return on equity (ROE) is a measure of a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested, (in percentage).

Return on invested capital (ROI) Indicates how effectively a company uses the sources of capital (equity and debt) invested in its operations

Operation Ratios

Loan growth (LG) is the growth of loan of the banks given to the customers per quarter compared to the previous quarter.

Asset Growth (AG): The growth of total Assets in every quarter.

Efficiency ratio: it is the expenses divided by the revenue of the firm Expenses include non-interest operating expenses such as salaries, employee benefits, occupancy expenses, depreciation and amortization, marketing, FDIC insurance and all other operating expenses. While the revenues are the income from normal operations of the firm.

Operating Expenses

Revenue

Asset turnover ratio is the Amount of sales or revenues generated per dollar of assets. The ratio is an indicator of the efficiency with which a company is deploying its assets.

"Leverage ratio Measures the average assets to average equity.

Asset turnover

Price to book ratio

Market capitalization: Current market capitalization accounts for the total current market value of all outstanding shares of a company, stated in the pricing currency. Market Capitalization is a measure of corporate size.

Total assets growth Return on Investment ROE PX_VOLUME

Total short and long assets: total of short-term and long-term assets as reported on the balance sheet

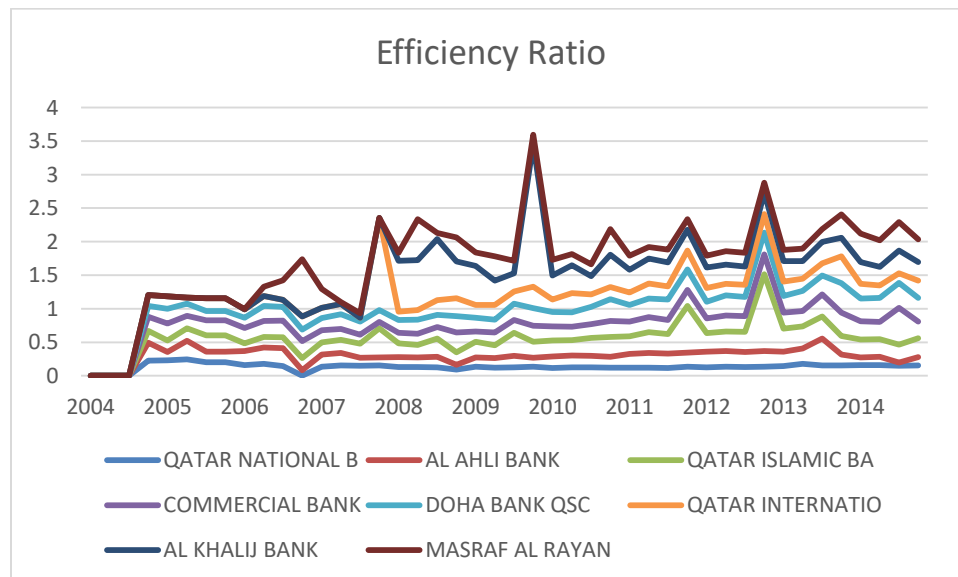
ROA CF_FREE_CASH_FLOW:

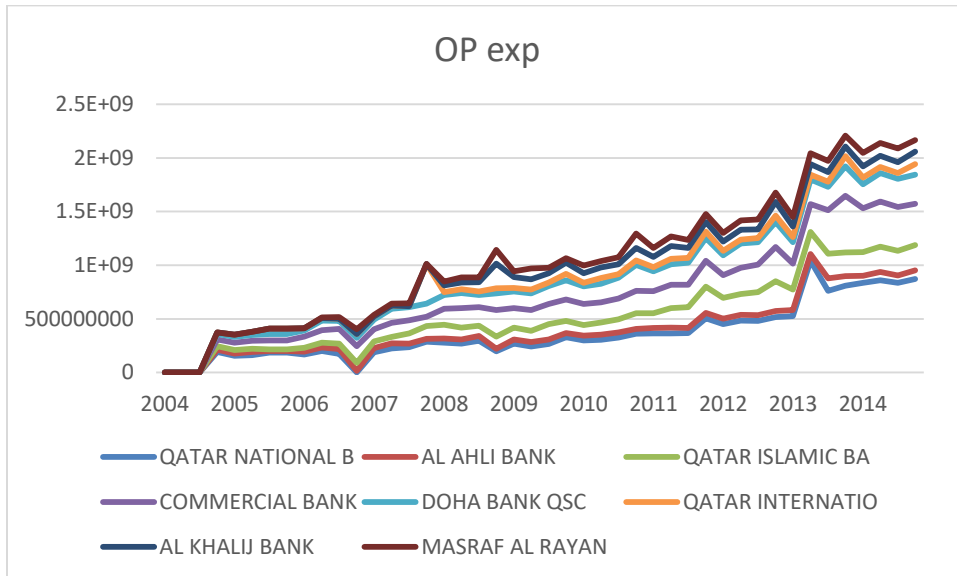
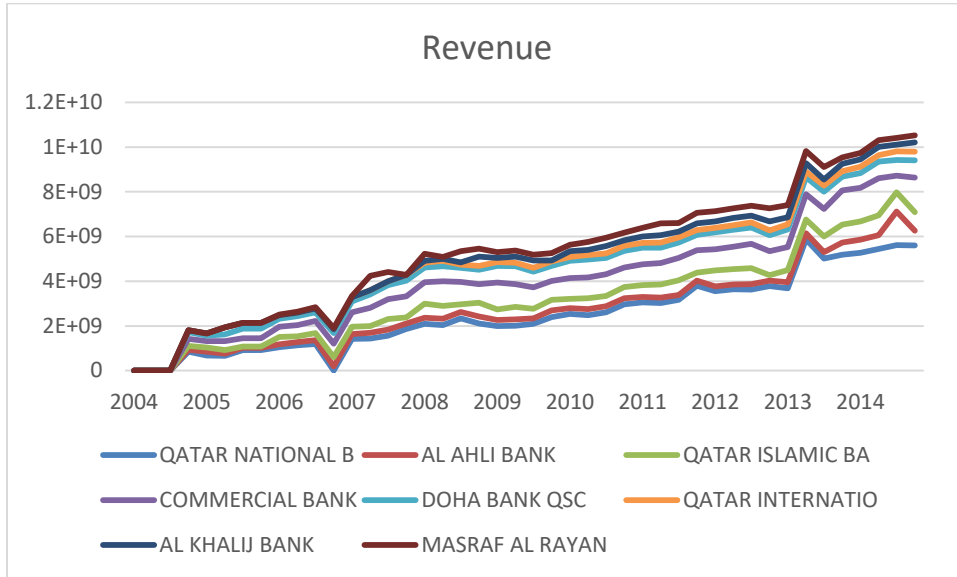
Free Cash Flow is calculated as the cash flow from operating activities less total capital expenditure, where capital expenditure is the amount spent on purchases of tangible fixed assets

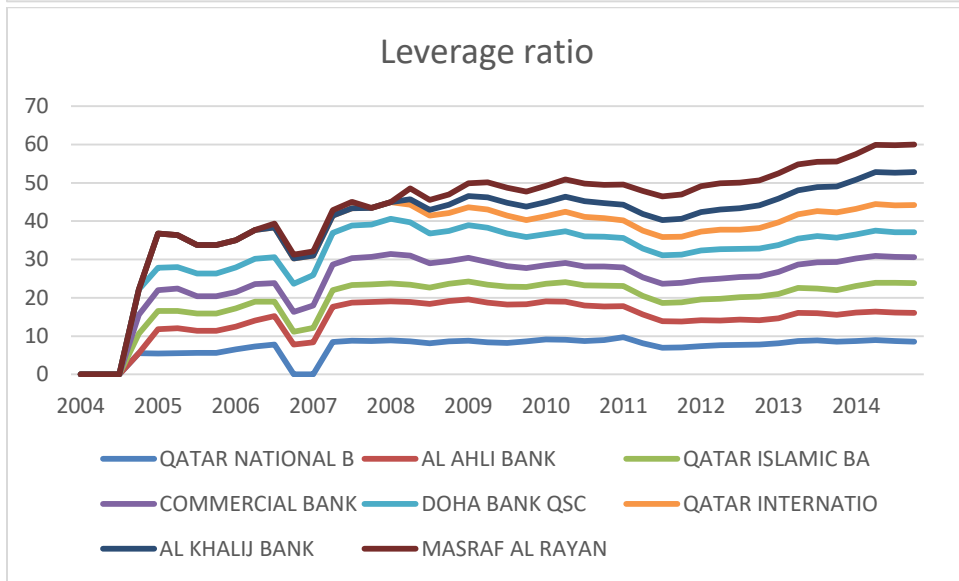
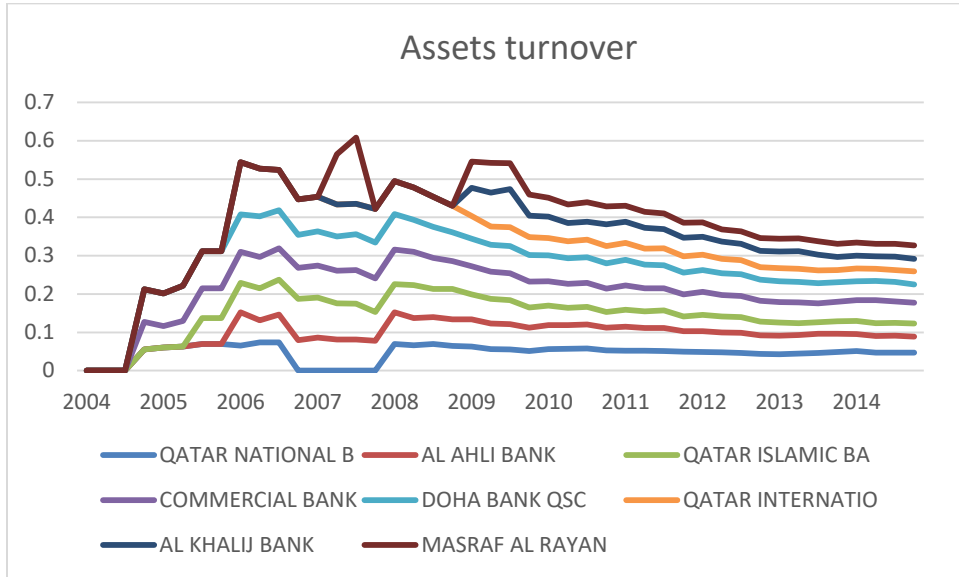
**BETA_RAW_OVERRIDABLE VOLATILITY_30D FNCL_LVRG
NET_DEBT BS_MKT_SEC_OTHER_ST_INVEST BS_ST_BORROW
ARD_INCOME_BEFORE_INCOME_TAXES ASSET_CVRG_RATIO
ASSET_TURNOVER**

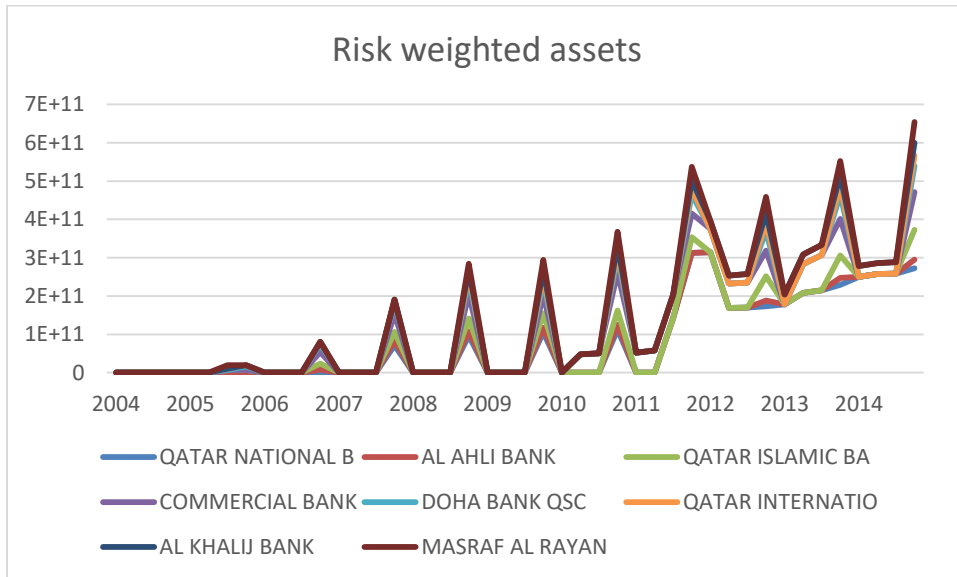
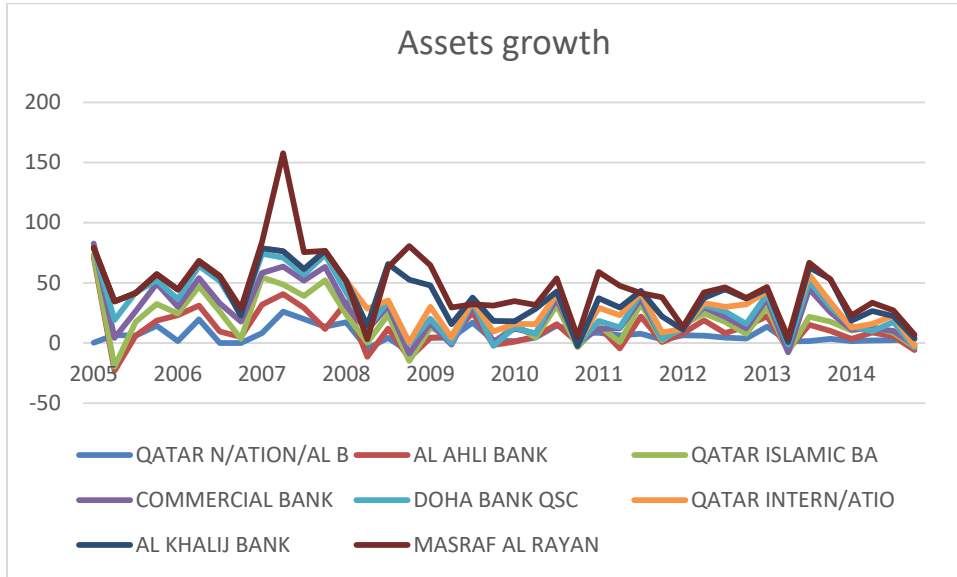
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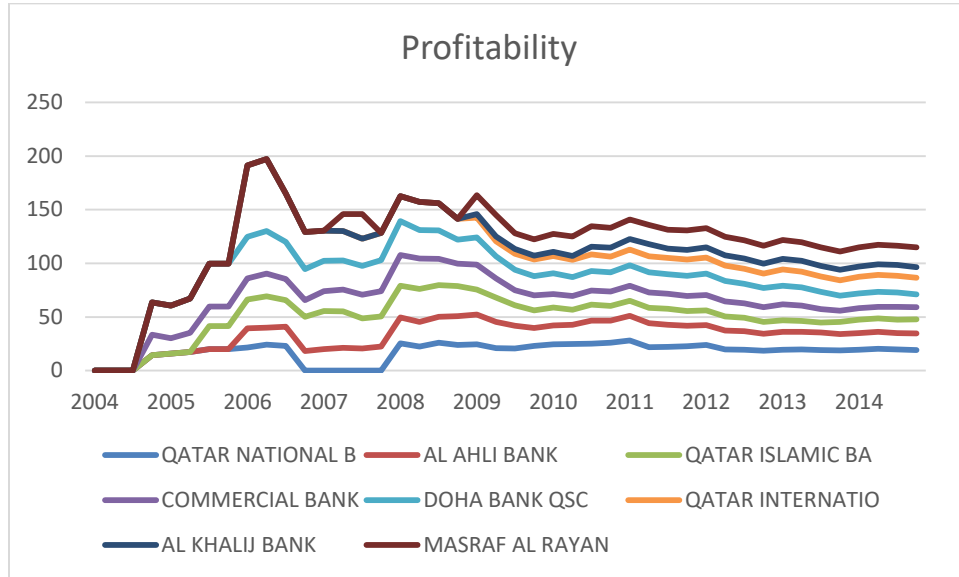
Items Shares Outstanding From The Front Cover RDR_SHARE **risk based**











6.0 Conclusions and Recommendations

First, we do not believe that my results are valid, according to the number of employees in banking sector in Qatar. Therefore, the results only represent the opinions expressed by those who send back the survey. In addition, we cannot conclude that the opinions of the sample represent the opinions of those who are in the banking sector in Qatar. Even though there are three factors (operational efficiency, operational cost, and financial risks) represent less than 6% of employee performance in model which we choose with α more than 0.1, model 5 been chosen to measure the bank performance after closing Islamic windows within conventional banks in Qatar. Model 5 shows that number of customers is the main factor that effects on the bank performance, at 51% when $\alpha = 0.01$, followed by bank profit, at 16%. The study agreed with the following:

- **The bank performance** after closing the Islamic windows within the conventional banks in Qatar **been affected negatively by decreased the size of loans** .
- **The bank performance** after closing the Islamic windows within the conventional banks in Qatar **been affected negatively by bank profit** .
- **The bank performance** after closing the Islamic windows within the conventional banks in Qatar **been affected negatively by operational efficiency**
- **The bank performance** after closing the Islamic windows within the conventional banks in Qatar **been affected negatively by operational cost** .
- **The bank performance** after closing the Islamic windows within the conventional banks in Qatar **been affected negatively by decreased the number of customers** .

- **The bank performance** after closing the Islamic windows within the conventional banks in Qatar **been affected negatively by decreased the size of loans .**
- **The bank performance** after closing the Islamic windows within the conventional banks in Qatar **been affected negatively by decreased the size of deposits.**
- **The bank performance** after closing the Islamic windows within the conventional banks in Qatar **been affected negatively by financial costs.**

In conclusion, the eight factors are really effect on the bank performance in Qatar, so this study should be enhancement by change some factors and organize more with bankers in banking sector to assist me to publish the survey in their financial institutions. Until that happen, and as the current result, the financial institutions in Qatar should focus more on financial Islamic tools and Shariah compliance in order to increase the bank performance.

Indeed, the descriptive analysis from the bankers and customers perceptions shows that the Islamic banks provide the variety of benefits for customers in Qatar. The main three benefits of Islamic banking system are; (1) reduce the risks, (2) contribute in removing society inequality, and (3) improving general standard of living. In addition, results concluded that the size of Islamic banking system in Qatar between 20 -30% of the Qatari customers. The respondents mentioned that the purification of the Islamic financial transaction from any activities, which may not comply with SHAREEA, is the main reason for closing the Islamic Banking windows.

This research benefited all researchers interested in Qatari economy in the future, as it help them to understand more and get a beneficial insight into the differences between Islamic and conventional banks, as well it will show the importance of both kind of banks through the effects of the decision announced by QCB.

As Islamic banking is becoming the headline of several finance conferences, this kind of decisions that cause changes in performance of both banks will attract international researchers to invest in understanding more about banking system in Qatar, especially the Shariah compliant banking, which is proposed to be applied in many western nations (Khalid, 2011). This research also help to promote the Qatari research prospects, as the international banking and finance firms are focusing on the Shariah products to perform well, and this research provided them with an insight on the difference between the conventional and Shariah system, and how this particular law has enhanced their performance and would similar laws effect the other banks around the world who are using the dual banking system (Khan and Bhatti, 2008).

This study is a good source for customers in Qatar, as it will help them to understand and comprehend more about the banking systems in Qatar, and how a decree can affect the business. It helps them to realize the benefit of Islamic banking and its role in the Qatari economy.

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