



Lease Contracts Ending In Ownership And Their Effect On The Performance Of Credit Portfolio In Islamic Banks. An Applied Study On Dubai Islamic Bank And Alhilal Islamic Bank In The United Arab Emirates

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Abstract:

This research aimed to identify the lease contracts ending in ownership, and their effect on the performance of credit portfolio in Islamic banks, an Applied Study on Dubai Islamic Bank and Alhilal Islamic Bank in the United Arab Emirates. The research problem is represented in lease contracts ending in ownership, and their effect on the performance of credit portfolio in Islamic banks. In this respect, the research develops the following three hypotheses: there is a correlation that is statistically significant between the compliance with the provisions of Islamic Sharia for lease contracts ending in ownership, and the performance of credit portfolio in Islamic banks at a significance level of .05. There is a correlation that is statistically significant between the raising of the return on investment ratios by using the lease contracts ending in ownership, and the performance of credit portfolio in Islamic banks at a significance level of .05. There is a significant effect of accounting treatment used in lease contracts ending in ownership on the performance of credit portfolio in Islamic banks at a significance level of .05. The research used the Statistical Package for the Social Sciences program (SPSS) to analyze the data and effect the field study. Based on said account, the research has reached the following findings: the bank has complied with the provisions of Islamic Sharia for lease contracts ending in ownership. The attention of credit portfolio to lease contracts ending in ownership raises the return on investment ratio in the bank. The bank has disclosed in its financial statements the total assets of lease ending in ownership. The research, on the other hand, recommended the management of the bank to work diligently to raise higher the performance of credit portfolio by using financial leasing. The bank management should work to raise the volume of investment in lease ending in ownership mode, in comparison with other finance modes. The research finally recommended the bank management to establish an accounting system that consolidates the lease contracts ending in ownership in the bank.

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Keywords: Contracts ending in ownership, Credit portfolio, Islamic banks.

DOI Number: 10.4704/nq.2022.20.14.NQ88004

NeuroQuantology 2022; 20(14):17-31

Introduction:

Islamic banks provide a prolific and motivating environment for the innovation of investment and financing solutions of maximizing value, and are capable to meet the increasing needs of the individuals. This is often performed in accordance with easy terms and qualitative advantages in programs, which are in agreement with the provisions of Islamic Sharia, and

through different financial contracts that contribute to reduce the existing gap in the rates of Supply and demand. Those banks have enabled the society to satisfy the demand for legal financial assets that aim to develop the programs by providing the needs of the individuals, in easy terms to own commodities and real estates, by using lease contracts ending in ownership.

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Relevant conflicts of interest/financial disclosures: The authors declare that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

Received:

Accepted:



Some managements of Islamic banks are very interested in the modes of acquisition and improvement of the performance of credit portfolios, and do not pay more attention to the provisions of Islamic Sharia in contracts conclusion. This includes as well, the inputs and outputs of acquisition, which may produce such banking transactions that do not differ significantly from those usurious ones. Such position maybe the result of the ignorance of the provisions of Islamic Sharia in transactions, or otherwise, as a result of negligence, and lack of attention to such provisions, with a view to achieving profit and gain in any way.

Research Problem:

The research problem is to identify lease contracts ending in ownership, and their effect on the performance of credit portfolio in Islamic Banks. In light of said facts, the research attempts to answer the following questions:

1. Is there any effect of the compliance with the provisions of Islamic Sharia for lease contracts ending in ownership on the performance of credit portfolio in Islamic Banks?
2. Is there any correlation that is statistically significant between the raising of the return on investment ratios using lease contracts ending in ownership, and the performance of credit portfolio in Islamic banks?
3. Is there any effect of accounting treatment used in lease contracts ending in ownership on the performance of credit portfolio in Islamic Banks?

Research Objectives:

The research objectives are to identify the extent to which Islamic banks are complied to apply lease contracts ending in ownership, and the extent of the effect of the same on the quality of the performance of credit portfolio, particularly, regarding the following issues:

1. The extent of compliance with the provisions of Islamic Sharia for lease contracts ending in ownership in the Islamic banks in research question.
2. The experience of Islamic banks in question in the application of lease contracts ending in ownership in the Islamic banks in finance market.
3. The extent of the effect of accounting

treatment for lease contracts ending in ownership, and their role in the performance of credit portfolio in Islamic banks.

Research Significance:

The research significances arises from those additions expected to be provided at both scientific and practical levels, where, the findings are expected to provide the scientific background of the research in question. This is by identifying how lease contracts ending in ownership, and the the provisions of Islamic Sharia of the same are applied, in a mannaer that contributes to increase the quality of the performance of credit portfolio in banking transactions in Islamic banks.

Research Hypotheses:

To achieve the rsearch objectives, the following hypotheses have been developed:

1. There is a correlation that is statistically significant between the compliance with the the provisions of Islamic Sharia for lease contracts ending in ownership, and the performance of credit portfolio in Islamic banks at a significance level of .0.5.
2. There is a correlation that is statistically significant between the raising of the return on investment ratios using the lease contracts ending in ownership, and the performance of credit portfolio in Islamic banks ,at a significance level of .0.5.
3. There is an effect of accounting treatment for lease contracts ending in ownership on the performance of credit portfolio in Islamic banks, at a significance level of .0.5.

Research sample:

The objective of the research sample is to disclose the correlation between the lease contracts ending in ownership, and the quality of the performance of credit portfolio, through independent variables, and dependent variable, as follows:

Table No (1) Research sample

Dependent Variable	Independent Variables
Quality of credit portfolio.	Compliance with the provisions of Islamic Sharia for lease contracts ending in ownership.
	Raising of return on investment ratios using lease contracts ending in ownership.
	Accounting treatment for lease contracts ending in ownership, and used by Islamoc banks.



Research Methodology

The following research methods have been used:

1. The historical approach to review the prior literature in relation to the research subject.
2. The deductive approach to determine the dimensions of the research problem.
3. The inductive approach to test the research hypotheses.
4. The descriptive analytical approach to effect the procedures of the field study.

Research Tool:

The research obtained data and information from primary sources using a questionnaire form, which has been distributed to a sample of Islamic banks in the United Arab Emirates. This is in addition to the second sources, which are represented in books, references, periodicals, data, regulations and rules applied within the research community.

Research limitations:

The research limitations are represented in the following:

1. Research Spacial limitations are: Dubai Islamic Bank and Alhilar Islamic Bank in the United Arab Emirates.
2. Research temporal Limitation: December, 2021- 2022.

Research Plan:

To achieve the research objectives, the research has been divided into the following:

1. Previous Studies.
2. Research Conceptual framework.
3. Applied Study.

Firstly: Previous Studies:

Study of Fatah Elmihdar, (2015).

Entitled: Accounting of Lease Contracts, an applied study on Yamania Aviation Company. This research aimed to clarify the lease systems in general, by illustrating the different types of lease contracts, with a focus on financial lease contracts. This is in addition to the study, and analysis of accounting treatment for financial lease contracts in accordance with the international and American accounting standards. (Fatah Elmihdar,2015).

Most significant research findings:

The research has reached a number of findings, the most significant of which, are the following:

Yemeni companies have the desire to use lease contracts. In this respect, there is a correlation of statistical significance between the desires of these companies to use such contracts, and their knowledge of the system of financial lease.

Research recommendations:

The research most significant recommendations, including the encouragement of the investment in Yemen by allowing banks to establish financial lease companies pursuant to the provisions of the investment law. The research also encourage the attraction of international companies working in this field to introduce advanced technology to the country, and to benefit from their expertise in establishing and managing such activity.

Study of Rihab (2017):

This research investigated both modes of manufacturing and lease ending in ownership in the banking investment. The research aimed to identify the extent to which Islamic banks have succeed in the application of both modes of manufacturing and lease ending in ownership, in addition to the benefits of the application of such modes, which banks and national economy and clients might gain. The research also aimed to identify the difficulties encountering the application of those modes. The research has been effected by testing a research sample comprised of (33) employees of Albaraka Sudanese Bank, who are working in the bank's most active branches in the Khartoum State. An indepth analysis was carried out using the percentage method to prove the validity of the hypotheses.

Most significant research findings:

The both modes of manufacturing and lease ending in ownership have not had the sufficient application and utilization in the finance modes in commorcal banks, since they need a great volume of capital, as well as long financing terms. In this respect, banks tend to concentrate on the application of Murabaha and partnership modes, which do not need long financing terms. This is in addition to their applicability.

Most significant research recommdnedations:

1. To observe the guidelines of the Central Bank of Sudan in respect of the employment of the tow modes, as well as to disseminate

awareness among the clients of the benefits of those modes.

2. To activate the application of both modes of manufacturing and lease ending in ownership, since they have much benefits to obtain.
3. To prepare a draft contract for the both modes of manufacturing and lease ending in ownership to be added to the guide of the banking investment services.

Study of Faiz (2019):

This research investigated the tax treatment of financial and operating lease contracts, with a focus to test the following hypotheses, (Faiz,2019):

1. Accounting problems of financial lease contract are more complicated than those of operating lease.
2. There are specific conditions to discern whether, it is a financial or operating contract.
3. Sudanese tax legislation does not specify a clear cut treatment for the incomes of financial and operating lease contracts.
4. Seeking guidance of the international accounting standards to treat the shortcoming in the legislation, in order to determine the tax treatment for financial and operating lease.

Most significant research findings:

The following is the most significant of research findings:

1. There is a correlation that is statistically significant between the variables of said hypotheses, which proved the validity of the hypotheses.

Most significant research recommendations:

1. Work to issue an enactment that permits to practice the activity of financial lease, and establishes a clear and effective legal framework, in order to organize the relationship between the parties of the contract.
2. The research recommended amending the systems, and financial and accounting regulations, already being in force, to be more flexible, in order to meet the potential requirements of change and innovation.
3. To seek guidance of the best international practices of financial lease.

Study of Makram Mohamed Salah Eldeen,(2020)

This research entitled: "lease ending in ownership in accordance with the Islamic accounting standard, No 8, compared with the international accounting standard, No 17" an applied study on Islamic banks. This research problem is represented in the following research questions (Makram Mohamed Salah Eldeen,2020):

1. Is there any difference in the accounting treatment of the financial information of the operating lease contracts, with respect to lessor, in the Islamic accounting standard, No 8, and the international accounting standard, No 17 ?
2. Is there any difference in the accounting treatment of the financial information of the operating lease contracts, with respect to lessee, in the Islamic accounting standard, No 8, and the international accounting standard, No 17 ?
3. Is there any difference in the accounting treatment for the financial information of the lease contracts ending in ownership, (financing), with respect to lessor, in the Islamic accounting standard, No 8, and the international accounting standard, No 17 ?
4. Is there any difference in the accounting treatment for the financial information of the lease contracts ending in ownership, (financing), with respect to lessee, in the Islamic accounting standard, No 8, and the international accounting standard, No 17 ?
5. Are Islamic banks comply with the application of the Islamic accounting standard, No 8, issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

Most significant research findings:

1. Both standards have agreed to far extent with the accounting treatment for Lease operating contracts.
2. Disagreement between the two standards was limited to the accounting treatment for prime direct costs of the contract.
3. The Islamic accounting standard has dealt with the accounting treatment for maintenance and rehabilitation expenses, whereas, the international accounting standard did not mention it.
4. Neither of the two standards has referred to the accounting treatment for tax and insurance expenses.

5. The method on which the research standard relied upon, is in respect to the accounting treatment for lease contracts ending in ownership.
6. The Islamic accounting standard No 8 has carefully observed the religious, moral and social aspects, by achieving justice, in case of lack of ownership for a reason, which did not returned to leaseholder. In such a case, the increase in the lease paid by the leaseholder in consideration of the promise of ownership will be returned.

Most significant research recommendations:

1. In light of the restricted requirements of the presentation and disclosure for the lease operating contracts referred to by the Islamic accounting standard No 8, the research recommended the expansion of such disclosures in the notes on the financial statements, in order to satisfy the needs of the users.
2. The research recommended the application of the accounting treatment for the prime direct costs of lease operating contracts, which is endorsed by the Islamic accounting standard, and the amendment of the international accounting standard to that effect.
3. Accounting treatment for the expenses of the maintenance and rehabilitation, recognized by the Islamic accounting standard, shall be added to the international accounting standard.

Study of Omer Miftah Elseadi (2021):

This research title is: “ the extent of the application and success of financial lease in Libyan banks, the case study of Development Bank” the research problem is represnetded in the neglegance and marginalization of some types of financing modes, key among which, is the financial lease. Dispite the adherence to some Islamic finance systems in Libya, the Libyan banks do not adhere to financial lease mode. To put the research problem into effect, the following research questions have been raised, (Omer Miftah Elseadi, 2021):

1. Are banks capable to deal with financial lease as one of the Islamic financing modes?.
2. Is the financial lease accepted in case of dealing with it.

3. Is there any enactment for financial lease that guarantees the integrity of the treatment of all parties?.

Most significant research findings:

1. There is a complete knowledge among the employees of the bank in the significance of dealing with financial lease, as a lucrative financing mode.
2. The bank will not incur any lack of liquidity upon the purchase of capital asset.
3. Economic environment of Libya is highly conducive to use the financial lease, in the light of the problem of projects financing.
4. The cost of finance lease deemed less than the cost of loan, therefor, the use of financial lease may result in financial leverage, and increase in the profitability of the bank.

Most significant research recommendations:

1. The bank should establish a unit specialized in financial lease, in order to provide the economic and fiduciary studies for the parties of the financial lease contract.
2. Work to expand the application of financial lease as one of the significant modes of fund investment, which is applicable in contemporary economies.
3. To benefit from the expericneces of advanced Islamic banks, in the field of financial lease, and work to provide financing services in a best manner.

The researcher agrees with the previous studies, in the independent variable, that is the lease contracts ending in ownership, and disagrees with them in the dependent variable, which is the performance of credit portfolio and the applying body, as well as the type of banks. The research focus is to identify the lease contracts ending in ownership, and their effect on the performance of credit of portfolio in isalamic banks, an applied study on Dubai Islamic Bank and Alhilar Islamic bank in the United Arab Emirates.

Secondly: Conceptual framework:

Concept of Islamic bank:

Islamic bank is defined as “a financial institution complied with the provisions of Islamic Sharia in its overall investment and service activities, through its role as a financial mediator between savers and investors. This is in addition to



render banking services in a framework of legal contracts". (Adil Abdu elfadil ied, 2020).

Lease contract ending in onwership in Islamic banks:

The lease contract ending in ownership is a modern contract. Therefore, It was not defined in the books of preceding jurists, however, it has been defined by some contemporaries as: " possessing of the usufruct, and finally possessing of the property itself, at the end of the lease term. (Abdalla Elgifeli, 2009).

This definition has been criticized as making generalization, in respect of clarifying the reality of the contract. Subsequently, many definitions succeeded and multiplied. One of the most clear contemporary definitions, maybe, the definition of the owner of the book; " lease ending in ownership in light of Islamic jurisprudence". In which he said; " it is a contract between tow parties, in which one party leases to the other specific commodity, in consideration of specific rent, paid by the leaseholder in installment within specific time, after which, the ownership of the commodity transferred to the leaseholder, upon paying up his last installment by establishing a new contract.(Khalid Elhafi,2002).

It has also been defined by Mohamed Elfatih Elmagrabi, in his book:" lease ending in ownership between theory and practices" where, he said: "possessing of usufruct of a specified property to a specified period of time, followed by the possessing of the property in a particular characteristic in a determined consideration".(Mohamed Elfatih Mahmoud Garaib, 2019). It was also defied by the owner of the book:" Mishap, "New Juristics Issues" of Zakat", by saying: it is a contract of a lease of a particular property, its lease will be paid by installment in a sepcifi period of time, ensued by the possessing of the same property, By virtue of the first contract, or by a new contract in retun for a known compensation or without compensation. (Abdallah Elgifaili,2009).

However, all said definitions cast in one melting pot, that clarifies the essence of these two contracts. Definitely, they are contracts of possessing of a usufruct of known property for a specified period of time. This is the lease, followed by the possessing of the property in a

particular characteristic, in a determined consideration, and this the sale itself.

Definition of financial lease:

The definitions of financial lease contract, by scholars and learned, are multiplied, but they have all united in the meaning and common characteristics of this contract. To clarify this notion, it is worth noting to mention some definitions of economist and lawyers as follows:

A. Defined by economists as:

Contractual commitment to lease equipment and productive tools from an owner institution to a productive institution, used for a specific time in return for specific lease installments.(Ayam Abdalla,2017).

A. Other economists have defiended it as:

Contractual agreement between tow parties, in which one party entitled the other to benefit from assets owned by other party, in consideration of periodical payments for a sepecified time. (O'gil Elsa'di,2019).

Financial lease:

Financial lease is a finance activity to purachse equipment or capital assets for lease purposes, in which the lessor is usually one of the financial institutions- provides finance for the purchase of required and specified assets, by the knowledge of the firm or the instsitution of the leaseholder. The lease contract effected here, is a long term and irrevocable lease contract. in a manner that, the lease payemts cover the funds as assets, within the contractual period. It may also cover the period, benefits and a profit margin that is nearly to reach what has been termed as full coverage of assets values.(Mirag Hawari, 2013).

Financial lease significance:

The significance of financial lease lies in its closed relevance to economic activities, such as industry, agriculture as well as other service sectors. As a result, the significance of this mode appears, when it has been dealt with in the Islamci banks, where, both lessor and leaseholder, as well as the economy will benefit from its budget. Legal characteristics of lease contracts ending in ownership:(Ayamn Abdalla. 2017).



Characteristics of lease contracts ending in ownership, include Arab and international laws, which can be summarised as per the following points:

1. Characteristics of lease contracts ending in ownership according to some Arab laws:

According to United Arab Emirates:

The legislator defined financial lease as: “a financial leasing transaction according to which, a financial lease firm owns, based on the request of the leaseholder, moveble property or immovable property, and leases it to the leaseholder, and gives him at the end of the contract, the right to own such a property in less than its marketing value.

- A. The Emirates law protects the financial lease firms from legal liability, in case that the property in respect to which, a request and negotiation had been concluded by the leaseholder.
- B. The law also compensates the leaseholder for damage caused to him, as a result of an action or negligence carried out, by the financial lease firm, in case of no property having been delivered to the leaseholder, because the financial lease firm has failed to conclude a contract with the contractor or the supplier of the property, or the due payments were not settled in due time, or for any other reasons as a result of negligence or default of the financial lease firm, according to section 7 of the draft law, which includes 25 sections.
- C. The law placed equal responsibility on both the leasehold and lessor, where, the leaseholder bears the responsibility arising from damages caused by property. The financial lease firm, on the other hand, bears the the responsibility for the depreciation of the property, whenever, this has been caused by a reason, the leaseholder has nothing to do with it. This is in accordance with section 13 of the draft law.
- D. The law provides protection for financial lease firms, by allowing them to terminate the contract, in case the leaseholder failed to pay the allowances of the lease in its due time, despite being notified in writing, and the notice remained without effect for 30 days from the date of notifying the leaseholder, in case of movable property. The period of the notice shall be 60 days in case of immovable property.

E. In case of the contract has been arbitrarily rescinded by the financial lease firm, and without justifiable reasons, the lessor firm must compensate the leaseholder for any damages inflicted upon him. In this case he shall secur the right of the leaseholder.

Effect of financial lease contracts on fiancial statements and financial analysis ratios:

1. Effect of financial lease contract on financial statements of leaseholder:

A. Effect of financial lease contract on income statement:

There shall be established simultaneously, an expense of interest and an expense of depreciation, which will be unified together in the first years of the contract, to compose a higher expense than that which is fixed pursuant to the operating method. Nevertheless, and throughout the period of the lease contract, the expense of interest will decrease, which leads to the decrease of total expense. This will further lead to the increase of the revenues. In the latest years, the revenues will be higher, pursuant to the financial lease mode, more than that which are gained according the operating lease mode.

B. Effect of financial lease contract on blance sheet:

C. There shall be established a leased asset and a leasing commitment, when the registration of the leasing contract is effected, and through the period of contract both of them shall be canceled. In this respect, the value of the asset will be reduced, in a quick manner than the time of its establishment.

D. Effect of financial lease contract on cash flow statement:

The cash outflow from leasing payments, part of which will be distributed to financing cash outflow, (interest expense). The other part will br distributed to financing cash outflow, (payments of principal amount of leasing commitment). However, the depreciation of the leased asset is not deemed to be cash expenditure, therefore, it is not considered to be an item of cash flow. (Heini Fan Gerung, 2019).

Effect of financial lease contract on financial analysis of leaseholder:

A. Effect of financial lease contract on Profit margin:



In accordance with financial lease contracts, the profit margin will be lower in the first years. This is due to the fact that, the total fixed expenditure is often higher than the leasing payment. Nevertheless, the profit margin will increase over time.

B. Effect of financial lease contract on asset turnover ratio:

In accordance with financial lease contracts, the asset turnover ratio will be lower, because of the leased asset, and the ratio will increase by the time, with the depreciation of the leased asset.

C. Effect of financial lease contract on current ratio:

In accordance with financial lease contracts, the current ratio will be lower, because the current part of the leasing-based commitment, is a current commitment. The current ratio will be more decreased over time, while, the current part of the leasing commitment will be rising.

D. Effect of financial lease contract on debt to equity ratio:

In accordance with financial lease contracts, the debt to equity ratio will be higher, since, the financial lease contract makes a leasing commitment, (it is higher than the leased asset in the early years). Notwithstanding, the debt to equity ratio will decrease as time lapses, together with the decrease of the leasing commitment.

E. Effect of financial lease contract on return on assets:

In accordance with financial lease contracts, the return on assets will decrease in the early years, since the revenues are lower and assets are higher. Nevertheless, the return on assets ratio will increase as time lapses, as far as the trend of revenues is positive, and the assets decrease in depreciation.

F. Effect of financial lease contract on return on equity:

In accordance with financial lease contracts, the return on equity will decrease in the early years, because revenues are decreased.

However, the return on equity will increase as time lapses, as a result of the positivity of revenues trend.

G. Effect of financial lease contract on interest coverage ratio:

In accordance with financial lease contracts, the interest coverage ratio will increase, because the interest expense arises according to the financial lease contract. Despite this fact, the interest coverage ratio will increase as time lapses because the interest expense will also decrease as time lapses.

Accounting treatment for financial lease contracts in the accounting books of the lessor:

Accounting for financial lease contracts requires in accounting books of lessor, to take the following steps:

1. To ensure the validity of lease contract that it represents direct financial lease contract.
2. To check for capitalization conditions.
3. To undertake the process of capitalization, if its conditions are satisfied. In this case the values will be determined:
 - Gross investment.
 - Cost of asset.
 - Remaining asset value at the end of financial lease contract, (Mesay Sata Shanka,2012).

The lessor substitutes the leased asset account with (financial lease contracts debtors account). This is when the contract includes, the finance of purchasing the asset provided by the lessor. In this case the following information must be provided, in order to effect the accounting for financial lease contract in the accounting books of the lessor:

1. Gross investment:

This includes the minimum value of contract, in addition to the remaining and unwarranted asset value, which might be achieved by the lessor at the end of the lease period. The gross investment, in fact, represents the total of financial lease contracts debtors.

2. Unrealized gains revenues:

It is equal to the difference between the gross investment, and the book value of the asset in the accounting records of the lessor.

3. Net investment:

It is equal to the difference between the gross investment, and the unrealized gains revenues. (Samir Mohamed Abdelaziz, 2017). As regards the asset acquired according to financial lease

contract, it will be presented as debit account, it is accounted for as follows:

1. The debit account is recorded within the amount of net investment.
2. Recognition of finance income on the basis of the manner that reflects the periodical fixed price for the return on net investment.
3. Initial costs are deducted from debit accounts.(Farirs Paul, 2010).
4. In this case the financial lease contract, produces such a revenue that acquired by the lessor, since the sale and cost prices are equal. Based on this account, no profit is recorded in the actual lease transaction. This is, however, the most significant characteristic that distinguishes the lease contract with direct finance. The reason is that, the lessor in the direct financial lease, obtains only income without profit, as a result of the case of the consumer in financing the purchase of asset. Since, the consumer is not able to obtain normal finance, therefore, he turns to the bank to purchase the asset, which is required by the leaseholder, and then lease it to him. Consequently, the lessor (Islamic bank) obtains a revenue without profit.

Financial lease contracts provide some advantages to lessor, key of which, are the following: (Khalid Waheeb Elrawi, 2020).

1. The leaseholder obtains full credit as much as the value of the assets.
2. Lessors have benefitted from tax advantages prescribed for investment in new assets.
3. The lessor obtains a revenue, since ,the financial lease contract is not other than a process of finance provided by the lessor to the leaseholder, in consideration of a relatively higher rate revenue. This is, in addition to obtaining the remaining value of the asset at the end of lease contract.
4. Benefitting from the value of the asset after the end of the contract period. This value is often estimated with very low amount, upon the conclusion of the contract. in this case, the real value of these assets after the end of the contract period, is much greater than the value which has been estimated upon the signing of the contract. (Mohamed Samir Elsaban and others,2017). Usually, it is the lessor who determines the value of the lease,

based on the rate of the desired return on investment. (implicit rate of return).

Evolution of concept and methods of performance of credit portfolio in islamic bank:

Undoubtedly, the variety of the needs and desires of the individuals, and its development and promotion ,as well as the increase of the need for credit, have led to the development of the performance of credit portfolios in Islamic banks. Accordingly, productive institutions, borrow funds to continue their activity, and increase its expansion, whether, those which are facing a deficit in the liquidity, or those who desire only to expand.

Definition of credit in the opinion of law jurist.

Legal scholars defined credit as any deferred fulfillment of an amount of money. (Adil Abdulfafil leed, 2020).

Definition of credit in the opinion of bankers:

They defined it, as a loan or an open account granted by the bank to a person. (Daiva & Viktorija,2009).

Based on said account, the researcher is in the opinion that, these definitions, despite the difference in phrases, indicate that credit is an exchange of instantaneous fund for a deferred fund.

Effect of the decision of lease ending in ownership on the performance of credit portfolio in Islamic banks:

The activity of finance and lending is the main activity of the banks. This is, however, can be proved by the fact that, the operations of finance, and lending constitute a significant percentage of the gross investments of banks, which is reflected in the expected revenues of the bank. In light of such a significance, the finance and lending are the most risks that endanger the integrity of the strength of banks. Taking this in account, it is our duty to predict the effect of the lease contract ending in ownership on the quality of credit portfolio in Islamic banks.

Islamic banks are specialized institutions in funds and credit trade for short terms. The participation of banks in finance using the

leasing mode, helps in the development of short term credit, with a view to turning it into a long term credit, taking into account, the liquidity generated from the lease, or the installments and guarantees obtained by enjoying the right to keep the ownership. To that effect, banks may use mediate or long terms deposited savings, as well as deposits that favour the partnership mode. Banks may also seek lending or deduction of securities related to such finance.

Thirdly: Applied study:

The researcher has depended in the procedures of the applied study on the questionnaire information, where, a questionnaire form comprised of three pivotes was distributed to a sample of Dubai Islamic Bank and Alhilal Islamic Bank. To effect the applied study, the Statistical Package for the Social Sciences program, has been used, in order to reach key findings, and recommendations on the lease contracts ending in ownership and their effect on the performance of credit portfolio in Islamic banks.

Hereinafter are the details of the procedures of the field study:

1. Definitional profile on the research community and the research sample and tool :

1.1 Research community: the research community is represented in the Dubai Islamic Bank and Alhilal Islamic Bank.

Hereinafter is a definitional profile on the two banks.:

Firstly: Dubai Islamic Bank: the Dubai Islamic Bank is a public share company (parent company), founded in accordance with an Amiri Decree, issued by his highness the Dubai Governor in 19, Safar, 1359, of the Hijri Calendar. corresponding to 12. March 1975, for the purpose of providing banking services and other services related thereto, in accordance with the provisions of Islamic Sharia. Subsequently, it has been registered as a public share company, in accordance with the Federal Commercial Companies Law No 8 for the year 1984 and its amendements. This bank is the first ever Islamic banking institution in the Arab Gulf Region. The Dubai Islamic Bank, provides numerous Islamic banking services and products, which are Islamic alternatives for

the traditional banking services, (<http://www.dib.ae/ar>), review date December, 2021).

Secondly: Alhilal Islamic Bank: Alhilal Islamic Bank was founded in June 2008, in the United Arab Emirates. The banking business of Alhilal Islamic Bank is consistent with the provisions of Islamic Sharia. The bank proceeds with a network of 22 branches throughout the Emirates. This is in addition to other three branches working in the main cities of Kazakhstan. The bank aims to become the first financial institution in the region, and is committed to enhancing the the growth of Islamic banking services sector, with a move towards modern technologies and private services. In may 2019, Abu Dabi Commercial Bank, after the conclusion of the process of merger between it and the Union National Bank, took possession of the bank, to form a banking group, the the value of its assets amounts to 423 Billion of Emirate dirham, and its marketing quota has reached 21% of the total loans of individual clients, in 31 December, 2018. (<https://www.alhilalbank.ae>, review date, (30.04.2012).

1.2. Size of research sample: the research sample size was determined to include 80 employees of the two banks. The research sample size deemed appropriate for most scientific research, if it is greater than (30), and less than (500), (Ayman Abdalla, and others,2017,P, 112).

1.3. Research tool: to effect the research data collection, a questionnaire form comprising the following sections, has been used:

First section: this includes the following necessary demographic information of the respondent:(gender,age category, education level).

Second section: represents the variable of compliance with the provisions of Islamic Sharia for lease contracts ending in ownership.

Third section: represents the variable of raising the return on investment ratio using the lease contracts ending in ownership.

Fourth section: represents the accounting treatment variable used in lease contracts ending in ownership.

Fifth section: represents the dependent variable of the quality of the performance of credit portfolio in Islamic bank.

Reliability of research tool: to test internal consistency, the reliability coefficient was calculated according to (Cronbach's α) for the questionnaire statements, and for overall dimensions of the variable, as explained in table No (1) as follows:

Table No (1) Results of research tool reliability test (internal consistency of questionnaire statements).

Variables and dimenstions.	Number of statements	Reliability coefficient (Cronbach's α):
Compliance with the provisions of Islamic Sharia for lease contracts ending in ownership.	15	0.93
Raising of return on investment using lease contracts ending in ownership.	12	0.90
Accounting treatment used for lease contracts ending in ownership.	13	0.89
Performance of credit portfolio in isalmic banks.	10	0.88
Overall tool.	50	0.95

The results of table No (1) show that, all reliability and validity coefficients of the answers of the respondents of the sample survey on the research variables and dimensions deemed high, which are acceptable validity ratios for the purposes of scientific research and statistical analysis.

2. Statistical treatment methods:

To answer research questions, and test the hypotheses a number of descriptive and analytical statistics' methods were used. To effect this, the Statistical Package for the Social Sciences, (SPSS), program was employed, as hereinafter explained: (Roscoe 2009, p,112,).

1. Multiple linear regression analysis to test the effect of independent variables on the dependent variable.

3. Research hypotheses testing:

1. There is a correation that is statistically significant between the compliance with the provisions of Islamic Sharia for the lease contracts ending in ownership, and the performance of credit portfolio in Islamic banks, at a significance level of .0.5.

Table No (2) Result of simple linear regression analysis to measure the correlation between the compliance with the provisions of Islamic Sharia for lease contracts ending in ownership, and the performance of credit portfolio in Islamic banks.

Statement.	Regression coefficients	(T) test	Probability value.(Sig)	Interpretation
(\hat{B}_0)	1.8995	9.123	0.000	Significance.
(\hat{B}_1)	0.477	9.156	0.000	Significance.
Compliance with the provisions of Islamic Sharia for lease contracts ending in onwership.	0.426	6.426	0.000	Significance.
Performance of credit portfolio in Islamic banks	0.420	5.315	0.000	Significance.
Correlation Coefficient) R (.	0.72			
Coefficient of determination) R^2 (.	0.49			
) F (test	89.571			Sample is Significant

The results of table No (2) show the following:

1. The results of the estimation have shown the existence of a strong direct correlation between the compliance with the provisions of Islamic Sharia for lease contracts ending in ownership, as an independent variable, and the performance of credit portfolio in Islamic banks, as a dependent variable, where, the value of the simple correlation coefficient has reached (0.72).
2. The value of the coefficient of determination has reached (R^2) (0.49). This value indicates that the compliance with the provisions of Islamic Sharia for lease contracts ending in ownership, as an independent variable, contributes (49%) in the performance of credit portfolio in Islamic banks, (dependent variable).
3. The simple regression sample is significant, where, the value of (F) test is (89.571), which is at a significance level of (0.000).
4. (1.8995): the average of the compliance with the provisions of Islamic Sharia for lease contracts ending in ownership in the performance of the credit portfolio in Islamic banks equals zero.
5. (0.477): means: the compliance with the provisions of Islamic Sharia for lease contracts ending in ownership, as one unit, in the performance of the credit portfolio in Islamic banks at 49%.

Taking into account said facts, the research hypothesis, (null hypothesis: H_0), which provides for: " there is a correlation that is statistically significant between the compliance with the provisions of Islamic Sharia for lease contracts ending in ownership, and the performance of credit portfolio in Islamic



banks, at a significance level of 0.05, has been proved.

1. There is a correlation that is statistically significant between the raising of return on investment ratios using lease contracts ending in ownership, and the performance of credit portfolio in Islamic banks, at a significance level of .0.5.

Table No (3) Results of simple linear regression analysis to measure the correlation between the raising of return on investment ratios using lease contracts ending in ownership, and the performance of credit portfolio in Islamic banks.

Statement.	Regression coefficients.	(T) test.	Probability value.(Sig)	Interpretation
\hat{B}_0	1.7964	9.189	0.000	Significance.
\hat{B}_1	0.464	9.299	0.000	Significance.
Raising of return on investment ratios using lease contracts ending in ownership.	0.326	5.426	0.000	Significance.
performance of credit portfolio in Islamic banks.	0.320	4.315	0.000	Significance.
Correlation coefficient R	0.62			
coefficient of determination R^2 .	0.39			
(F) test.	86.571			Sample is Significant

The results of table No (3) show the following:

- The results of the estimation have shown the existence of a strong direct correlation between the raising of the return on investment ratios using lease contracts ending in ownership as an independent variable, and the performance of credit portfolio in Islamic banks, as a dependent variable, where, the value of the simple correlation coefficient has reached (0.62).
- The value of the coefficient of determination has reached (R^2) (0.39). This value indicates that, the raising of return on investment using lease contracts ending in ownership, as an independent variable contributes (39%) in the performance of credit portfolio in Islamic banks, (dependent variable).
- The sample of the simple regression is significant, where, the value of (F) test is (86.571), which is at a significance level of (0.000).
- (1.7964): the average of raising the return on investment ratios using lease contracts ending in ownership in the performance of credit portfolio in Islamic banks equals zero.

- (0.464): means: the raising of the return on investment ratios using lease contracts ending in ownership, as one unit, in the performance of credit portfolio in Islamic banks at 39%.

Based on the referred to above results, it is obvious that, the research hypothesis, (null hypothesis: H0), which provided for: "there is correlation that is statistically significant between the raising of the return on investment ratios using lease contracts ending in ownership, and the performance of credit portfolio in Islamic banks, at a significance level of 0.05, has been proved.

2. There is an effect of accounting treatment used for lease contracts ending in ownership on the performance of credit portfolio in Islamic banks, at a significance level of .0.5.

Table No (4) Results of simple linear regression analysis to measure the correlation between the accounting treatment used for lease contracts ending in ownership, and the performance of credit portfolio in Islamic banks.

Statement.	Regression coefficients.	(T) test..	Probability value.(Sig).	Interpretation.
\hat{B}_0	1.9887	10.101	10.000	significance.
\hat{B}_1	0.512	10.211	0.000	significance.
Accounting treatment used for lease contracts ending in ownership.	0.460	6.005	0.000	significance.
Performance of credit portfolio in Islamic banks.	0.460	4.315	0.000	significance.
Correlation coefficient R	0.82			
Coefficient of determination R^2 .	0.59			
(F) test.	90.311			Sample is Significant.

The results of table No (3) show the following:

- The results of the estimation have shown the existence of a strong direct correlation between the raising of the return on investment ratios using lease contracts ending in ownership as an independent variable, and the performance of credit portfolio in Islamic banks, as a dependent variable, where, the value of the simple correlation coefficient has reached (0.82).
- The value of the coefficient of determination has reached (R^2) (0.59). This value indicates that, the raising of return on investment using lease contracts ending in ownership as an independent variable, contributes (59%) in the performance of credit portfolio in Islamic banks, (dependent variable).



3. The simple regression sample is significant, where, the value of (F) test is ((90.311)), which is at a significance level of (0.000).
4. (1.9887): the average of raising the return on investment ratios using lease contracts ending in ownership in the performance of credit portfolio in Islamic banks equals zero.
5. (0.512): means: the raising of the return on investment ratios using lease contracts ending in ownership, as one unit, in the performance of credit portfolio in Islamic banks at 59%.

Based on the referred to above results, it is obvious that, the research hypothesis, (null hypothesis: H0), which provided for:” there is an effect of accounting treatment used for lease contracts ending in ownership on the performance of credit portfolio in Islamic banks, at a significance level of .0.05, has been proved.

Research findings and recommendations:

Firstly: Reaearch findings:

This research paper aimed to identify the lease contracts ending in ownership, and their effect on the performance of credit portfolio in Islamic banks. It is an applied study on a sample of Islamic banks operating in the United Arab Emirates. To achieve this objective, a questionnaire form was designed to collect and analyze the data, and the following findings have been reached accorifng to each pivote.

First hypothesis: (there is a correlation that is statistically significant between the compliance with the provisions of Islamic Sharia for lease contracts ending in ownership, and the performance of credit portfolio of Islamic banks at a signficance level of .0.5.

The research findings have shown the possibility of the application of the lease contracts ending in ownership in the bank.

1. The research findings have shown that, lease contracts ending in ownership, represent a significant finance resource in the bank.
2. The research findings have shown that, lease contracts ending in ownership, are significant resources for the credit portfolio in the bank.
3. The research findings have shown that, the bank is complied with the provisions of Islamic Sharia in the lease contracts ending in ownership.

4. The research findings have shown that, there is a commitment from the part of the clients to meet the payments of the lease contracts ending in ownership.
5. The research findings have shown that, the bank is committed to enabling the leaseholder to possess the leased property at the end of the period of the lease contract.

Second hypothesis: “ There is a correlation that is statistically significant between the raising of the return on investment ratios using lease contracts ending in ownership, and the performance of credit portfolio in isalmic banks at a significance level of .0.5.

1. The research findings have proved that, the bank accredited the lease ending in ownership as one of the finance modes.
2. The research findings have shown that, the bank does not find any difficulty in the marketing of the lease system to its clients.
3. The research findings have confirmed that, the bank will achieve a return for its funds invested in the lease activity, with availability of a good guarantee, that is the ownership of the asset.
4. The research findings have revealed that, the lease mode provides the bank with a continuous cash flow through the period of the lease contract.
5. The research findings have shown that, the quality of the performance of the credit portfolio in the bank, depends largely on continuous cash flow.
6. The research findings have confirmed that, the attention of the credit portfolio to the lease contracts ending in ownership raises the rate of the investment in the bank.

Third hypothesis: “There is an effect of accounting treatment used for lease contracts ending in ownership on the quality of the performance of credit portfolio in Islamic banks, at a significance level of .0.5.

1. The research findings have shown that, the limitation of the provided guarantees for the leased asset, increases the investment risks in the financial lease mode.
2. The research findings have revealed that, the bank used the historical cost to measure the assets acquired for the purpose of lease ending in ownership.

3. The research findings have confirmed that, the bank obtained a sufficient system of leased assets liquidation.
4. The research findings have shown that, the bank establishes financial appropriations to cover the doubtful lease installments.
5. The research findings have confirmed that, the banks applies the international accounting for contracts.
6. The research findings have shown that, the bank discloses in its financial statements the total assets of lease ending in ownership.

Secondly; Research recommendations:

Based on said research findings, the research recommends, the following:

First hypothesis: (There is a correlation that is statistically significant between the compliance with the provisions of Islamic Sharia for lease contracts ending in ownership, and the performance of credit portfolio of Islamic banks at a significance level of .0.5.

1. The bank management should work to maintain a high performance level of credit portfolio, through the financial lease contracts.
2. The bank management should work diligently to introduce and train the employees in the provisions of Islamic Sharia for lease contracts ending in ownership.
3. The bank management should work to reduce the influence of the the quality of the performance of credit portfolio by the provisions of Islamic Sharia.
4. The bank management should work to find appropriate methods to obligate the clients to secur the leased property, upon the signing of the financial lease contract ending in ownership.

Second hypothesis:“ There is a correlation that is statistically significant between the raising of the return on investment ratios using lease contracts ending in ownership, and the performance of credit portfolio in Islamic banks at a significance level of .0.5.

1. The bank management should work diligently to reduce the cost of finance lease to become less than the cost of credit finance.
2. The management of the bank should consider the lease ending in ownership as an ideal alternative to medium and short terms finance.

3. The management of the bank should work to increase the volume of investment in the lease ending in ownership mode, as compared to other modes.
4. The management of the bank should work diligently to raise the return on investment ratios in the lease contracts ending in ownership, in order to positively affect the quality of the performance of credit portfolio.
5. The management of the bank should recognize the income of the lease, in a manner that achieves fixed periodical ratio for the return on net investment in the lease contract.

Third hypothesis: “There is an effect of accounting treatment used for the lease contracts ending in ownership on the quality of the performance of credit portfolio in Islamic banks, at a significance level of .0.5”.

1. The management of the bank should establish an accounting system to prove the validity of the lease contracts ending in ownership.
2. The management of the bank should disclose the lease revenues in the income statement for the financial period in which, installments are due.
3. The management of the bank should find a means to overcome the difficulties of the accounting proof for the lease contracts ending in ownership in the banking system.
4. The management of the bank should disclose the assets of the lease ending in ownership in the financial position statement, by deducing the accumulated consumption, if any.
5. The management of the bank should take into account, the impact of the accounting treatment for lease contracts ending in ownership on the quality of the performance of credit portfolio.
6. The management of the banks in the United Arab Emirates should pay attention to the financial lease contracts, and give them priority as a first alternative for small investors, since they have a positive effect on this category, and on the performance of credit portfolio in banks.

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