Impact of Accounting Conservatism on Improving and Evaluating The efficiency of the financial performance of Islamic banks

(An analytical study on Faisal Islamic Bank during 2011 - 2015)

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Abstract: The importance theory of the research: The research is considered an addition to the Arab library in the field of accounting conservatism. As for the importance of the research from the practical side, the research is additional evidence of the importance of using accounting conservatism in financial statements, especially in debt-intensive institutions such as Islamic banks. Where the research aims to shed light on the relationship of accounting conservatism to improving the efficiency of the financial performance of the bank, comparing these indicators with the criteria of the Basel Committee and the criteria of early warning, and evaluating the financial performance in the level of optimism and pessimism. The research used the descriptive analytical approach of data for the period from (2011-2015) for the financial statements of Faisal Islamic Bank, and to achieve the objectives of the research, finding an important statistical relationship between the level of accounting conservatism and improving and evaluating the efficiency of the financial performance of the bank according to (CAEL) standards (capitaladeguacy capital adequacy, asset quality, ASSETGUALTIY, and profitability EARNINGS, LIGUIDITY). The research reached a set of results, including: that the Faisal Islamic Bank uses accounting conservatism in the published financial statements due to its awareness of the importance of accounting conservatism, and it was found that the use of accounting conservatism in debt-intensive institutions has an impact on improving financial performance Which led to the evaluation of the bank and its classification in the strong degree, i.e. the first degree, and the research recommended a set of recommendations, including: Accounting conservatism should be used in financial institutions with heavy indebtedness because it is important in improving and evaluating the financial performance of the bank, and also has importance in achieving financial indicators such as the indicators of the Committee Basal.

Keywords: accounting conservatism, Faisal Islamic Bank, capital adequacy, profitability, liquidity.

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أثر التحفظ المحاسبي على تحسين وتقويم كفاءة الأداء المالي للمصارف الإسلامية

دراسة تحليلية على بنك فيصل الإسلامي خلال الفترة (2015 – 2011)

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المستخلص: أهمية البحث النظرية: يعتبر البحث أضافة للمكتبة العربية في مجال التحفظ المحاسبي، أما اهمية البحث من الجانب التطبيقي يعتبر البحث دليلاً إضافيا على أهمية استخدام التحفظ المحاسبي في القوائم المالية وخاصة في المؤسسات كثيفة المديونية مثل المصارف الإسلامية، حيث يهدف البحث لتسليط الضوء على علاقة التحفظ المحاسبي بتحسين كفاءة الأداء المالي للمصرف، مع مقارن تلك المؤشرات مع معايير لجنة بازال ومعايير الإنذار المبكر، وتقييم الأداء المالي في مستوى درجة التفاؤل والتشاؤم. استخدم البحث المنهج الوصفي التحليلي للبيانات للفترة من (2011-2015م) للقوائم المالية لبنك فيصل الإسلامي، ولتحقيق أهداف البحث، إيجاد علاقة إحصائية مهمة بين مستوى التحفظ المحاسبي وتحسين وتقييم كفاءة الأداء المالي للمصرف وفقًا لمعايير (CAEL) (كفاية رأس CAPITALADEGUACY وجودة الموجودات ASSETGUALTIY، والربحية EARNINGS، والسيولة LIGUIDITY). توصل البحث لمجموعة من النتائج منها: أن مصرف فيصل الإسلامي يستخدم التحفظ المحاسبي في القوائم المالية المنشورة لإدراكه لأهمية التحفظ المحاسبي، كما تبين أن استخدام التحفظ المحاسبي في المؤسسات كثيفة المديونية له أثر على تحسين الأداء المالي، ومما أدى لتقييم المصرف وتصنيفه في الدرجة القوية أي الدرجة الأولى، وأوصى البحث بمجموعة من التوصيات منها: يجب استخدام التحفظ المحاسبي في المؤسسات المالية ذات المديونية الكثيفة لأن له اهمية في تحسين وتقييم الأداء المالي للمصرف، و أيضا له اهمية في تحقيق المؤشرات المالية مثل مؤشرات لجنة بازال.

الكلمات المفتاحية: التحفظ المحاسبي، مصرف فيصل الإسلامي، كفاية رأس المال، الربحية، السيولة.

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Introduction:

The financial performance of debt-intensive institutions is one of the most important issues that these institutions looking to improve and work on evaluating from period to period so that these institutions are avoiding default and bankruptcy, and accounting conservatism is one of the oldest accounting principles used in financial statements especially in the item of commodity inventory (market or cost, whichever is lower), but in a remarkable development, accounting conservatism is an appropriate tool to be used in improving and evaluating financial performance, especially with comparing its performance with the financial indicators of the Basel Committee and early warning indicators. Many studies have dealt with accounting conservatism from various aspects, such as the study (Hala, 2019)   dealing with the effectiveness of the impact of accounting conservatism on debt financing, while (Hammad, 2017) is study dealt with the role of conditional accounting conservatism in limiting the practice of profit manipulation. As for (Hamdan, 2011) is study, it dealt with the impact of accounting conservatism in improving the quality of financial reports, and among those studies there are opponents and supporters of the use of accounting conservatism in the financial statements. Which leads to making investment decisions that are not exaggerated, according to the theory of optimism and pessimism. As for the opponents, they believe that accounting conservatism works to hide future profits while showing losses, and this may lead to making improper investment decisions, so this research deals with the impact of the use of accounting conservatism on improving and evaluating financial performance of financial institutions.

Research Methodology:

Research Problem:

The research problem was to see the impact of the use of accounting conservatism in the extent of improving and evaluating financial performance in financial institutions in order to increase the efficiency of financial performance, especially in institutions that use indebtedness heavily, such as Islamic banks. Therefore, the problem can be formulated in the following question: Does the use of accounting conservatism in debt-intensive financial institutions have an impact on improving and evaluating the financial performance of those institutions by avoiding pessimistic events and mediating optimistic events?

Hypotheses:

In order to answer the research question, the research tested the following hypotheses:

Are Islamic banks use accounting conservatism in the published financial statements?

There is an impact of accounting conservatism in improving and evaluating the efficiency of financial performance in Islamic banks according to the indicators of the (CAELS) model: capital adequacy (C), asset quality (A), profitability (E), liquidity (L), sensitivity to market risk (S).

Research Methods:

Use the descriptive analytical approach to the data, to find a relationship between the accounting conservatism and the indicators of the Basel Committee in improving and evaluating the financial

performance of Faisal Islamic Bank, in period (2011-2015) and the historical approach of the previous studies was used.

Research Tools:

The research utilizeses the descriptive analytical approach to the data for the period from (2011-2015) for Faisal Islamic Bank statements.

Research Goals:

The research aims to achieve the following goals:

- A statement of other uses of the accounting reservation.
- Highlighting the impact of using accounting conservatism in the financial statements.
- The impact of accounting conservatism and considering it one of the important tools in debt-intensive financial institutions and on the value of the stock and the classification of the degree of the bank

Research Pleas:

The pleas research Statements of Faisal Islamic Bank − Khartoum-Sudan in the period (2011-2015).

Firstly: Theoretical framework of the research:

in recent years the principle of accounting conservative, has appeared and taken up space in accounting studies, especially after the emergence of large companies that rely on indebtedness to finance projects that do not wish to exaggerate profits or minimize losses, And from studies such as the study (Hala, 2019) on the effectiveness of the impact of accounting conservatism in debt financing, and the study (Hammad, 2017), which dealt with the role of conditional accounting conservatism in reducing the practice of profit manipulation, and the study (Hamdan, 2011) that dealt with the impact of accounting conservatism in improve the quality of financial reports,And there are opponents and supporters of the usein the financial statements accounting conservatism, as many supporting literature believes that accounting conservatism works not to exaggerate future revenues and not reduce the size of expected losses, which leads to making investment decisions that are not exaggerated, according to the theory of optimism and pessimism. As for the opponents, they believe that Accounting conservatism works to hide future profits while showing losses, and this may lead to not making sound investment decisions.

Secondly: The concept:

Definition and importance of the use of accounting conservatism: One of the authors believes that despite the multiplicity of concepts of accounting conservatism during the long period of time in the study of accounting conservatism, it was characterized in the majority of it by generalization and extreme simplification of an important concept affecting the utility of financial reports for decision makers.He added that more accurate concepts and more in-depth studies of the methods of measuring accounting conservatism and its types and the study of its benefits and costs (Hammad, 2017, p. 11) prevailed about that stage. United States (D.L., 2010, p. 3) It is also noted that the accounting conservatism is one of the

accounting principles that have been applied (500) years ago, in the items of financial statements, especially the commodity stock and the diminishing of long-term assets and intangible assets such as goodwill, financial instruments and others (Hammad, 2017, p. 2) This indicates that accounting conservatism is used in the financial statements, and the writer mentioned that as a result of the controversy over the use or non-use of accounting conservatism in the financial statements. (34) Studies during the period (2014-1997) and the studies came out with different opinions. Some of them believe that accounting conservatism reduces the asymmetry of information and leads to a reduction in the cost of capital Which prompts managers to make efficient investment decisions to maximize the financial performance of the company, while the study found that some studies see accounting conservatism reduces the continuity of profits and limits the predictive ability of accounting information and facilitates the process of profit management and reduces the accuracy of financial forecasts for analysts, which reduces the appropriate value of profits (Hammad, 2017, p. 3) and another study showed that accounting conservatism has an impact on the profits of profit-oriented companies (Elis Asi, 2020, p. 264) and another study showed that not using accounting conservatism leads to an increase in optimism in financial reports (Elis Asi, 2020, p. 266).While another study sees companies that use accounting conservatism to have high cash flow in the future and total profit margin, a decrease in the special elements charged is better than companies that do not have accounting conservatism (Duellman, 2007, p. 1) while another study sees increased levels of accounting conservatism Within reasonable levels, it would increase the reliability of the information presented and available to users of the financial statements (Hammad, 2017, p. 94) This differing opinions in the use of accounting conservatism in the financial statements indicates that the principle of accounting conservatism is not to reduce the profits achieved and increase the expected expenses.

Thirdly: Applied Research Procedures:

The applied research procedures consisted in finding a relationship between the accounting conservatism and the application of banking performance indicators (CAEL) in the Faisal Islamic Bank of Sudan, extent improvement, and the evaluation of financial performance, as follows. Summarizing the data: The research data are as follows:A- The budgets of Faisal Islamic Bank from the year (2011 - 2015) with the following conditions being met: 1. Audited and published financial data were available during the research period from (2011) to (2015), 2. The bank did not participate in any merger with other banks during the period search.B- Table of results and cash flows for five years from the year (2011 to 2015), C-Tools: In order to answer the research problems and test its hypotheses, a set of indicators and ratios were used, represented in:

i. Financial and accounting indicators, for use in analysis and discussion. ii.Arithmetic average, in order to calculate the average capital adequacy, asset quality, profitability, and liquidity.

Fourthly:The method of measuring research variables:

The method of research variables can be clarified as follows: CAEL Indicators: This indicator consists of the following elements: A- Capital Adequacy.When calculating the capital component index, the quality of assets and profits must be taken into account. A bank with good assets with profit problems needs a higher level of capital., the adequacy of the capital is the decisive element in facing the risks of the banking business, which has become a continuous increase as a result of the rapid developments in the fields of technological work of banks, such as electronic banking in general and via internet networks in particular, which requires an adjustment in the minimum sufficiency of the capital to face the risks arising from the practice of this work. Through good channels and means that have their own risks and therefore must have their own coverage as well. Therefore, the Basel Committee made during the year (1999) some proposals that contain good ideas. It is represented in expanding the base of the company's capital adequacy framework for the purpose of achieving increased rates of safety, security and the robustness of the financial system, in addition to the inclusion of many risks that have emerged from recent developments in the work of business companies. It is correct for him and contributes to supporting the inspections, which include([1]):

i. The level of quality of capital and financial condition. ii. The amount of non-performing assets in relation to the total capital.iii. Paths and developments of multiple local and regional activities. iv. The development of the business network and branches. v. Earnings performance and its role in capital growth. iv. Entering the capital markets.vii. Adequacy of the provisions made to meet loan losses.viii. The extent of the concentration of risks and their relation to non-traditional activities.

1- Asset Quality:

Asset quality is of particular importance in the evaluation system because it represents the backbone of banking activity, which leads its operations towards achieving revenues, as the bank's possession of good assets means generating more income and a better assessment of liquidity, management and capital. Assets quality is evaluated based on Study the following issues:

i. The size and severity of non-performing assets in relation to total capital. ii. The volume and trends of loan repayment terms that exceeded their repayment dates and the measures taken to reschedule them.iii. Significant credit concentration and related borrower risk. iv. Volume and management transactions for employee loans.v. The effectiveness of the loan portfolio tool in view of the strategies, policies, procedures, controls and instructions in force.vi. Legal activities related to credit (claims, supplements to borrowers).vii. The level of provisions made to meet the losses of bad loans and credits.viii. Other asset management methods such as (investment in securities, fixed assets, and Bills of exchange).

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[1]()The new proposed framework for the Basel Committee on Capital Standards, Economic Bulletin of the National Bank of Egypt, Issue One, Volume IV and V, p. 25

2- Earnings The bank's:

management considers profits as one of the important elements to ensure the continuity of the bank's performance, as it is directly affected by the quality of assets, and its effectiveness is measured by determining the rate of return on average assets as the starting point for evaluating profits, in addition to studying and analyzing the following factors:

i. The adequacy of profits to counter losses.ii. Strengthening capital adequacy and paying reasonable dividends.iii. The quality and composition of the components of net income, including the impact of taxes. iv. The magnitude and trends of the various components of net income.v. Extent of reliance on exceptional items, securities operations, high-risk activities, or non-traditional sources of income.vi. Effective budget preparation and control over items, income and expenditures. vii. Adequacy of provisions and reserves for loan losses. Profitability ratios are usually determined for the purposes of classification based on the performance of inferior banks with similar characteristics, but focusing on them in isolation from other factors will lead to misleading results. For example, the bank may reflect very high profits, but the source of profits may come from a one-time event or from an unconventional (high-risk) activity, and despite the high profitability ratio, the retention of profits remains insufficient to allow capital growth and maintain the asset growth line (Rahim, 2014, pp. 42-45).

3- Liquidity:

Asset quality problems lead to losses and thus affect the efficiency of capital benefit. As for the liquidity component, it is not strongly intertwined with the quality of those assets, profits or capital, but it is considered important from a practical point of view in dealing with depositors, so it is necessary to study the issues that deal with this The element is as follows:

i. The volume and sources of liquid funds (assets quickly converting into cash) that are available to meet the daily obligations of banks, provided that the minimum liquidity ratio is not less than 30%.ii. Volatility of deposits and demand for loans.iii. The appropriateness of the distribution of benefits for assets and liabilities. iv. The extent of reliance on interbank borrowing to meet liquidity needs. v. The suitability of management processes for planning, control and supervision (management information systems).

Fifthly: Bank classification:

The bank can be classified according to the following numbers:The bank that is rated (1) means the bank is basically sound in most respects. It is well-managed, and its ability to withstand challenges is good, which requires it to maintain the level of progress, administrative follow-up and oversight at a minimum to ensure the continuity and validity of banking safety As for the bank whose classification is (2), it is sound in most of the evaluation elements, which are marred by some deficiencies to achieve all evaluation criteria and requirements, which requires management responsibility, administrative follow-up and continuous

supervisory supervision to ensure the safety of its financial positions and face challenges. As for the bank whose classification is (3), it faces weaknesses in general, which requires taking the necessary measures to correct them within a reasonable time frame. Their continuation may lead to the emergence of prominent problems in the suitability and liquidity. It also requires the Central Bank to take appropriate administrative measures and provide clear instructions to the administration to identify and avoid points those weaknesses. A bank whose classification is (4) and (5) indicates the existence of serious and important problems, which require strict control and a remedial procedure for them, and if it is not exceeded, it may require the intervention of the Central Bank to dissolve and reorganize the board of directors, stop the bank's activities, merge the bank, or impose legal wills To preserve the rights of depositors and creditors.

Sixthly :Models for measuring accounting conservatism in the financial report:

Contemporary accounting studies in the field of financial markets have relied on many models and methodologies to measure conservatism in the financial statements. Researchers will present the most common and used models in accounting application categorized into three models as follows:

i. **Models that focus on profits and stock returns**:

These models are based on the relationship between accounting profits and stock returns and include two measures: Asymmetric Timing Model for Measurement of Profit Components: (Baus, 1997) the first to present this model that depends on the speed of response of accounting profit to unpleasant news compared to good news empirically, and to test the appropriate timing and asymmetric timing (accounting conservatism) from profits empirically. Experimentally, (Baus, 1997) formulated a regression equation that includes accounting profit as a dependent variable and stock returns as independent variables, considering positive stock returns as a substitute for good news and negative as an alternative to bad news. Market efficiency hypothesis It is assumed that stock prices embody good and unpleasant news and that profits are sensitive and affected by market news, which is assumed to be efficient, which is difficult to apply in research.

ii. **C-score model of conservatism**:

The C-score model is based on overcoming the problem of variance of results when measuring the conditional conservatism of companies for a long time series and in sector analysis. In the context of accounting conservatism, profits will have a higher sensitivity to bad news than to good news, and as a result, it is expected that profits will be more correlated with stock price movements in periods characterized by bad news than in periods characterized by good news. It is concluded that accounting conservatism is measured within Capital Markets according to a certain time series and according to certain sectors and the response of stock prices to good and bad news and its impact on stock profits This requires an efficient capital market.

iii. **Model based on the market value of the property right**:

This model is based on the fact that the cumulative effect of accounting conservatism becomes apparent when the ratio of the market value of the property right to its book value (MTB) is greater than the

correct one. This result was also explained due to the failure to recognize some assets or their valuation at less than their actual value as a result of applying conservative policies, in addition to the bias of accounting recognition of gains and its delay in terms of losses. The upward trend of the market value to book value ratio is an indication of an increase in the degree of conservatism, while a decrease in this ratio indicates a low degree of conservatism in the financial statements. It is noted that this model needs the availability of data on the book value of the property right as well as the market value with the stability of economic conditions unchanged, which is difficult to provide.

iv.   **Accrual-based model: accrual-based**:

Whereby the conservatism leads to a decrease in the accrual accounting profit from the net inflows resulting from operations in the statement of cash flows due to the reduction in the accounting conservatism of the accumulated profits over the financial years. The persistence of negative accruals for a long period of time indicates the adoption of conservative policies that reduce the declared profits, while the cash flows remain due to the presence of unrecognized good profits, to measure the level of accounting conservatism, the ratio of the total receivables to the gross profit was used, and this model is characterized by linking the financial statements in different years, and then the persistence of negative receivables, which reduces profits, is evidence of the practice of accounting conservatism. To measurer level of accounting conservatism   in statements of Faisal Islamic Bank ,researchers to prefer use (Accrual-based)for the following:i. The feasibility of the model for practical application and the availability of data on receivables and profits in the published financial statements.ii. The components of the model reflect the accounting bias in the persistence of negative accruals over a long period of time, which reduces profits.

Seventhly: Measuring the level of accounting conservatism in the accounting policies of Faisal Islamic Bank:

The research depends in its measurement of the level of conservatism in accounting policies on the receivables scale (the ratio of receivables to profits before unusual events and discontinuous operations), where there are two methods for calculating receivable: the cash flow statement method, and the balance sheet method. In line with the research, the total receivables are calculated as follows

$$\text{TOTACit= EBXTit -OCFIT}$$

Where:

TOTACit: total receivables for company (i) year (t)

EBXTit: Profit before unusual items for company (i) in year (t)

OCFIT: Company (i)'s operating cash flow in year (t). Is worth not in that extraordinary items and discontinuous operations have been excluded, in order to exclude the impact of any non-operating item, not related to the main and continuing activity of the bank. As for the calculation of the total receivables according to the budget method, it is as follows:

$$\text{TOTAC it} = (\triangle \text{ CA it} - \triangle \text{Clit} - \triangle \text{Cashit} + \triangle \text{STDEBT it} - \text{DEpIN it})$$

TOTAC it : Total receivables to company (i) in year (t)

△ CAit: change in current assets of company (i) in year (t)

△ Clit: the change in the current liabilities of company (i) in year (t)

△ Cashit: Change in cash and cash equivalents of company (i) in the year (t)

△ STDEBTit: Change in short-term loans of company (i) in year(t)

DEpINit: Company (i)'s depreciation and amortization expense per year (t)

The budget method mainly depends, as is clear from the above equation, on linking the change in the working capital elements in the budget accounts with the income statement elements, and the use of the budget method to extract the total dues results in a measurement error that exceeds (10%) of the profits before the items unusual and discontinuous operations, and this occurs due to the presence of non-operating items such as accounting changes, foreign currencies and acquisitions.Also thinks that the method of monetary audit is better for measurement. The ratio of total accruals to profits before extraordinary events and discontinued operations was also used as a measure of accounting conservatism, as accounting conservatism according to the budgets scale, the use of conservatism leads to the continuity of negative receivables over a long period of time because receivables increase income when they take the positive sign and reduce income when they take the signalnegative with the stability of other factors, the increase in the total negative receivables over a period of time is considered an indication of an increase in the degree of conservatism.After this brief presentation, the level of accounting conservatism at Faisal Islamic Bank is measured according to the following table:

Table (1) The level of accounting conservatism for Faisal Islamic Bank using the ratios of gross receivables to profit

Statement	2011	2012	2013	2014	2015
gross receivables	920,203,288	1,490,766,687	798,842,405	3,243,939,704	3,662,129,434
Profits	146,592,402	186,739,111	223,707,017	188,162,185	222,623,079
ratios of gross receivables to profit%	0.159	0.125	0.280	0.085	0.0608

Total receivables 0.159+0.125+ 0.280+0.085+0.0608/5=0.14196

It is noted from Table(1) that the ratio of total receivables to profits in the year (2011) amounted to (0.159), and this indicates that there is an increase in liabilities and an increase in depreciation expenses, and this indicates the practice of accounting reservation for the bank. That there is an increase in short-term loans, as well as an increase in depreciation expenses, as well as a decrease in current assets by increasing loan provisions. Loans and this also indicates the practice of accounting conservatism in the bank, as the ratio of the total accruals to profits reached (0.125), while in the year (2013) the ratio of the total receivables to profits amounted to (0.280), and there is an increase in current liabilities and there is an increase in short-term loans as well as an increase in provisions Loans, and this also indicates the practice of accounting conservatism. In the year (2014), it is noted that there is an increase in loans and consumption, as the ratio of receivables to profits reached (0.085), as is the case for the year. Where the ratio of the total accruals to profits was (0.0608), and this indicates that the bank takes stricter measures in profits and less in expenses, and this indicates the practice of accounting conservatism. Continuing to the Faisal Islamic Bank of Sudan with a rate of (0.14196). Through this, it is clear that the bank takes the most stringent measure to recognize profits and the least expenses, and to make provisions to meet the risks of loans and according to the ratio

of the total receivables to the profits. We note that this ratio increases and decreases during the study period and that using this increase in the total receivables means reducing the annual profits of the bank. Hence, Faisal Islamic Bank exercises accounting conservatism in its financial statements in a small way and the negative receivables are realized over a long period of time, but the bank is moving in this direction, and it concludes from this that Faisal Islamic Bank uses accounting conservatism in the published financial statements, which leads to the application of financial performance indicators to determine Adequacy of capital, liquidity and profitability.

Eighthly - applied study and results:

Applying the hypotheses, the analysis is done as follows: Capital Adequacy Analysis: The use of capital emerged in the middle of the last century, where the decisions of the Basel Committee share with the assessment system (CAEL) in that they represent one of the aspects of banking supervision, which generally aims to maintain the stability of the financial and banking system. And ensuring the efficiency of the banking system's work as well as protecting the rights of depositors, and the Basel decisions share with the (CAEL) system in the capital adequacy standard, and the most important aspect is that the (CAEL) system is one of the types of preventive control based on field inspection by the control departments in central banks Which focuses on the assessment and classification of the bank according to the four elements (CAEL).The capital adequacy assessment is also important because it allows the bank to grow and develop the necessary plans for any future losses. When evaluating the capital component, the quality of assets and profits must be taken into consideration. A bank with good assets with profit problems needs a higher level of capital, and capital adequacy is the margin of safety that the bank maintains to face potential risks in order to provide protection for depositors and lenders. Capital adequacy by defining the relationship between banking capital and assets, and its percentage (8%) was determined and applied by banks operating in most countries according to the following equation:

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Capital Adequacy Ratio = Bank Capital (Basic and
              Additional) x 100%.
                    Assets
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The use of this equation in determining the capital adequacy indicators for Faisal Islamic Bank can lead to: **A**- The degree of capital resilience in the face of shocks to budget items. **B**- It specifies the minimum required for capital adequacy for Faisal Islamic Bank. **C**- This ratio takes into account the most important financial risks facing the bank; this equation goes beyond calculating the risks within budget items to items outside the budget. Determining the rate of (8%) or more enables the bank to easily absorb potential losses in its credit activity and is more likely to remain in the banking industry (AL-Shiyag, d.n, p. 9). The evaluation included the four components of the system and an application to the general budget of the Faisal Islamic Bank of Sudan for the years (2011, 2012, 2014, 2013, 2015) and to the extent that the necessary data for the evaluation were available. The research also relied on the bank's classification with regard to capital

adequacy according to the components of (CAEL) on the standard of the Basel Committee, which determined the capital (8%).The average capital adequacy ratios are considered the basis for testing the second hypothesis, in the light of which the ratios are extracted, which shows the summary of the capital adequacy assessment for Faisal Islamic Bank for the period from (2011 - 2015) in relation to the capital adequacy equivalent from Table (2) as follows:

Table (2) Assessment of (capital) adequacy of Faisal Islamic Bank

Statement	2011م	2012م	2013م	2014م	2015م
paid Capital	200.000.000	280.000.000	350.000.000	435.000.000	510.000.000
Reserves	43,204.016	58,786,329	76,445,923	95,302,806	120.205.263
Retained earnings	131.923.161	140.336.302	161.438.009	168.241.635	201.625.017
Total (1)	375.137.207	479.122.630	587.883.923	698.544.442	831.830.280
current assets	3.671.161.660	5.381.299.999	6.728.950.440	8.269.026.269	11.851.855.199
fixed assets	151.572.260	208.482.225	299.838.31	413.545.726	602.337.730
Statement	3.822.733.920	5.589.782.224	7.028.788.751	8.682.601.995	12.454.192.929
paid Capital	9.81%	8.57%	8.36%	8.04%	6.67%
Reserves	1	1	1	1	2

Source: Prepared by researchers from the financial statements of Faisal Islamic Bank for the period from 2011-2015.

Average capital adequacy ratio = 9.81% + 8.57% + 8.36% 8.04% + 6.67% ÷ 5 = 8.29%

1- Analysis of (Capital) Adequacy of Faisal Islamic Bank:

It is noted from Table (2) that in (2011) the capital adequacy ratio reached (9.81%), this ratio exceeds the ratio set by the Basel Committee (8%), which is a sufficient ratio that allows the bank to grow and absorb current and future losses, while in (2012) The capital adequacy ratio reached (8.57%), and this is also a percentage greater than the percentage determined by the Basel Committee and indicates that the bank's capital is sufficient and the budget to confront shocks and support the bank's growth. The capital adequacy ratio in (2013) reached (8,36%) a percentage that exceeds the percentage set by the Basel Committee, and this indicates a strong performance of profits and a good growth of assets. In (2014), the bank achieved a strong rating, as the capital adequacy ratio reached (8.04%), which is slightly higher than the percentage specified by Basel Committee. This indicates the management's experience in following up the work streams and determining the risks and their levels on the capital. In (2015) the percentage reached (6.67%) the bank got a rating of (2), as the bank's capital did not reach the legal requirements approved by the Basel Committee, although the profitability of the bank is strong and the capital is well supported. This indicates that the bank's assets face some problems and the bank needs administrative supervision, and through Table (2) and during the study period that Faisal Bank has obtained classification No. (1), meaning that the bank's capital adequacy ratio during the five years reached (8.29%)) That is, the legal percentage set by the Basel Committee slightly exceeded (8%), and therefore it is clear from this that Faisal Islamic Bank

is characterized by the following indicators: i. Strong profit performance ii. Good asset growth iii. The management has good experience in following up the banking business, analyzing the risks related to it and determining the appropriate levels of capital in an acceptable manner. The bank can distribute profits to shareholders without impeding the required capital, this confirms that the bank's capital is sufficient and can absorb the risks inherent in business and banking operations, that the levels of losses in non-performing loans are very low, and that the bank's capital is sufficient to cover all future risks and covers losses of depositors and creditors, investment losses, banking operations and current lending operations and future.

2- **Discussion of the first hypothesis:**

There is a statistically significant relationship between accounting conservatism and capital adequacy assessment according to (CAEL) indicators.

It is also noted from Table (2) that the use of accounting conservatism in the financial statements in evaluating the capital adequacy of Faisal Islamic Bank by using the most stringent procedures for revenue recognition by creating provisions to meet loan and investment losses and all banking operations led to:- Better assessment of bank capital adequacy. -The bank's possession of good assets. -Generate more income in the future. -Enhancing capital adequacy to absorb future losses. -Supporting the ability of capital to face shocks inside and outside the budget. This leads to the bank having strong indicators and being able to obtain an increase in capital at the lowest cost.It is noted that the clear impact of accounting conservatism in evaluating capital adequacy in supporting the assessment of asset quality and profits for Faisal Islamic Bank and then reducing the cost of capital. Verifying the recognition of gains positively affects future cash flows and supports raising the bank's cash reserves, supporting its liquidity and thus avoiding the bank's risks.Based on to structure, it is noted that the accounting conservatism plays a pivotal role in reducing the cost of capital, which facilitates obtaining internal and external sources of financing, increases cash flows from operational, investment and financing operations, reduces disinvestments of funds, and enhances the bank's ability to generate cash flows. from operational operations and reduces the negative claims of information asymmetry by helping investors to monitor and reduce the process of withholding information and reducing accounting profit as a result of following conservative accounting policies that lead to reducing the distribution of profits in accordance with indebtedness contracts, which reduces the conflict of interests between shareholders and creditors and reduces the risks of default or financial lousing, Finally, the researcher sample agreed that accounting conservatism contributes to reducing the cost of capital in two ways: - A direct method by improving the quality of accounting profits that affect stock returns. - An indirect method that ensures limiting the phenomenon of information asymmetry between management and investors, which reduces the cost of financing, and the conservative financial assessment strengthens the strength of capital in the face of future shocks and losses by supporting it with future profits, and this leads to an improvement in evaluating banking financial performance in accordance with international standards. Early warning. The bank's risk management also indicated the requirement of higher standards for

verification of gains and less of losses, which supports the global compatibility of capital adequacy, which confirms the validity of the hypothesis (there is a statistically significant relationship between the accounting conservatism and the improvement and evaluation of capital adequacy according to the CAEL indicators).

i-Assets quality measurement: The quality of assets is of particular importance in the American banking evaluation system because it is the critical part of the bank's activity that leads its operations towards achieving revenues, because the bank's possession of good assets means generating more income and a better prizing of liquidity, management and capital, and the small percentage represents Bad or doubtful debts are an indicator of the quality of assets, the soundness of the credit policies followed, and the solvency of borrowers, and this ratio is usually high in times of depression and economic stagnation, when the central bank's supervisory grip on the banking system is loosened, as well as in cases of sudden and sharp changes in interest rates. Assets under the CAEL assessment system in the following ratios:

Rating Ratio = Provisions (Provision for Doubtful Debt) 100%

Shareholders Equity + Provisions

This ratio measures the volume of provisions for doubtful debts from equity and provisions. The lower this ratio gives an indication of:A- The minimum amount of doubtful debts with the bank. B - Regular dynamics in the collection of loan installments and interest due on them.C- Good credit management performance, better profitability, and strong growth opportunities for the bank.

Total Rating Percentage=   Bad Debt

Shareholder Rights + Allotments

This ratio measures the volume of doubtful and bad debts and it is among the transformational expenses to shareholders' equity and allocations (provision for doubtful debts). As I said, this ratio was better because it gives the following indicators:A- The size of the provision for doubtful debts to the shareholders' equity at its minimum. B- Capital adequacy is at its highest. C- Provisions for doubtful debts are sufficient to meet these risks. D- The possibility of writing off one of the debtors' accounts from the debit balances. E- A rational credit policy.

Better profitability, which provides a greater opportunity for the bank to grow and achieve the objectives of capital adequacy, profitability and asset quality,the classification of the asset quality of Faisal Islamic Bank according to the classification and the total classification shows the size of the current and future risks related to lending, investment portfolio and off-balance sheet activities. It also shows the ability of management to identify, measure, monitor and control risks. The rating ratio and the total rating take into account the adequacy of debt provisions and risks that affect the value of the assets. Investment for Faisal Islamic Bank.

Table (3) Assessment of Asset Quality of Faisal Islamic Bank

Statement	2011	2012	2013	2014	2015

(1) Shareholders' Equity	375,137,207	479,122,630	587,883,932	698,544,442	831,830,280
(2) Provisions for financing and investment risks	13,000,000	28,000,000	22,000,000	984,424	14,000,000
(3) Bad debts	12,382,129	12,341,333	13,894,786	12,117,833	14,335,840
(4) Shareholders' equity + provisions	388,137,201	507,122,630	609,883,932	699,528,866	845,830,280
Asset quality rating ratio(2/4)	3,34%	5,52%	3,60%	0,14%	1,65%
Percentage of total asset quality rating (3/4)	3,19%	2,43%	2,27%	1,73%	1,69%

Source: Researchers' numbers from the financial statements of Faisal Islamic Bank in the period from2011 to 2015

Average Rating Ratio=3,34% + 5,52% + 3,60% +0,14% +1,65%÷5= 2,85%

From Table (3) we note that in (2011), the rating ratio, which measures the ratio of doubtful Debts to Equity, was (3.34%), this percentage is naught, and this is an indication of the quality of assets. In (2012), the rating ratio reached (5.52%), meaning there is an increase (i)the ratio of doubtful debts to equity compared to the previous year.Previously, this may have been due to laxity in collecting loans. In (2013) and according to Table (3), it is noted that the rating ratio reached (3.60%) It indicates that the percentage of doubtful debts is minimal. In (2014) and through Table (3), the rating ratio was (0.14%). It is a ratio that indicates the minimum amount of doubtful debts with the bank, a regular dynamic in the collection of loan installments and interest due on them, good credit management performance, better profitability, and strong growth opportunities for the bank in this year. As for (2015) Through Table (3), it is noted that the rating ratio reached (1.65%), which is an indication that the percentage of doubtful debts is small, the collection of loans and interest due on them is good, and that the bank's growth imposition is excellent. As for the average rating ratio of the bank during the study period (2011 - 2015), according to Table (3), it amounted to (2.85%), which indicates that the percentage of doubtful debts is minimal and the bank has strong growth opportunities and has a strong credit management that can collect The loans are receivable with high efficiency.

Average overall rating percentage÷ 3,19% + 2,43% + 2,27% +1,73% +1,69% 5= 2,26%

During Table (3) it is noted that in (2011) the total rating ratio was (3.19%), and this indicates that the percentage of doubtful debts is at its minimum and the bank's capital is sufficient. and in (2012) total rating ratio amounted to (2.43%) of shareholders' equity, which is a low percentage and indicates that the provision for doubtful debts is sufficient in facing risks and thus achieving better profitability. And in(2013) the total rating ratio reached (2.27%), which is a small percentage and indicates the provision for doubtful debts at its lowest level and capitaladequacy at its highest level. As for the year (2014), it is noted the percentage of the total liquidation amounted to (1.73%), which is less than (2%) of the shareholders' equity, and this indicates that the bank has better profitability and achieves greater growth in the future. The year

(2015) and the percentage of the total rating equals (1.69%). This indicates that the provision for doubtful debts is at its minimum and the capital at its highest level and is sufficient to face risks. As for the average ratio of the total rating during the period from (2011- 2015) it amounted to (2.26%), less than (3%) of Shareholders' equity, and this is an indication that the accounts of civilians may be written off or be low, and that the bank has good assets that can achieve better profitability and provide it with greater growth opportunities in the future, and that the provisions are sufficient to face risks and capital adequacy at its best, and doubtful debts are low.The average rating ratios and the total rating ratio (2,85% and 2.26%),respectively, are considered the basis for the bank's classification according to the components of the CAEL Banking Assessment System). Assets and developed by the American Evaluation Corporation.

Table (4) Asset Quality Classes

Total rating percentage	rating ratio	Classification type	Rating score
20% Less Than	5%Less Than	Strong	1
20% - 50%	15% To 5%From	Unsatisfying	2
50% - 80%	35% To15%From	Good	3
80% - 100%	60% To35% From	Border	4
100% MoreThan	60% More Than	Unsatisfying	5

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Thus, it is clear that the rating of Faisal Islamic Bank according to the asset quality index falls in a strong rating degree (2.85%), and that the bank's rating for the overall rating ratio indicator falls in a strong rating degree. By reviewing the average ratios for each of the provisions, bad debts and shareholders' equity amounting to (2,85% and 2.26%), respectively, which measures the strength or weakness of the assets' quality, and by comparing them with the estimated ratios according to the compound evaluation policy, we find that they are in the first level, meaning they are strong.

ii-Analysis of the asset quality of Faisal Islamic Bank:

From Table (3), it can be seen that Faisal Islamic Bank is characterized by the

following indicators: i. The size of the non-performing assets does not exceed the specified percentage of the capital (25% of the total capital).ii. There is a positive and consistent trend in the repayments of loans that have been overdue or that have been extended.iii. Well-adjusted credit concentrations and employee loans so as to give minimum risk.iv. Good control of the loan portfolio, effective control over its operations, and follow-up of compliance with the standards and controls set by the administration in this regard.v. Maintaining sufficient and necessary provisions to meet the expected losses in risky loans.

i. Other non-credit banking assets that contain normal banking risks and do not raise any threat of losses. ii. There are strengths in credit standards and procedures for follow-up and collection. iii. High return on non-credit assets.iv. Providing protection to depositors and creditors.

3- **Discussing the second hypothesis: (there is a statistically significant relationship between the accounting conservatism and the evaluation of the efficiency of the bank's assets according to the CAEL indicators):**

From Table (4) it is noted that the use of accounting conservatism in the financial statements of Faisal Islamic Bank led to:i. Low valuation of assets and revenue.ii. The highest assessment of liabilities and obligations.iii. Creating high provisions to meet doubtful debts. iv. Creating high provisions against loan risks. v. Taking the lower book value of the assets instead of the higher market value of the fixed assets. iiv. The valuation of the merchandise inventory at cost or market price, whichever is lower. iiiv. And taking the expected losses below the expected profits, and this supports the assessment of the asset quality of Faisal Islamic Bank according to CAEL indicators. It is also noted through the clarifications to the financial statements that provisions are made for doubtful debts after studying the circumstances surrounding the client for each debt separately in accordance with the policies of the Bank and the Central Bank of Sudan, as well as for fixed assets, through table (3), we note that the bank has sufficient provisions to cover the risks of assets and the volume of bad debts at a minimum, and that capital adequacy is at its highest, and that the bank has a dynamic movement in the collection of loans with their interests, and that the provisions are sufficient to face losses and that the possibility of writing off the accounts of one of the debtors is low. Therefore, it can be said that the bank has good assets capable of achieving future profits, and this confirms that the assets are conservative, which confirms the validity of the second hypothesis (there is a statistically significant relationship between the accounting reservations evaluating the efficiency of banking assets according to the CAEL indicators.

i- The profitability of Faisal Islamic Bank:

The bank's management considers profits as one of the important elements to ensure the continuity of the bank's performance, as it is directly affected by the quality of assets, and its effectiveness is measured by determining the rate of return on average assets as the starting point for evaluating profits. The change in net profit is related to the change in revenues and expenses, and the increase in revenues is related to an increase in the bank's activity in investing the funds available to it through investment increases, and the decrease in revenues indicates an increase in the volume of expenses or a decrease in the bank's investment activities. Therefore, the senior management is interested in coordinating between its internal and external sources of funds to draw up a policy of investing funds that aims to direct investment in the most profitable areas in order to achieve the highest possible return to match between liquidity and profitability. Therefore, it is necessary to know the reasons for the change in net profit by increase or decrease and the factors that led to this change. We will review the most important financial ratios that can measure the ability of Faisal Islamic Bank to achieve returns. To find out the profitability of the bank, we calculate the following ratios:

Return on total assets = net profit ÷ total assets

This rate measures the efficiency of the management in using assets optimally in achieving profits through investing in various assets. This ratio is compared with previous years or the industry standard. The higher this ratio indicates the higher efficiency of the bank in using assets and vice versa.

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Return to Shareholders Equity = Net Profit ÷ Shareholders
                          Equity
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This ratio measures the direction of return on the invested funds and compares this ratio with previous years or the industry standard. The higher this ratio indicates the extent of the bank's ability to achieve higher profits on shareholders' equity and vice versa.

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Return on Net Assets = Net Profit ÷ * Net Assets = Industry
                          Ratio = 1% *
        Net Assets = Assets _ Shareholders Equity
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The return on net assets ratio measures the efficiency of management in using assets to achieve profits by investing in various assets. This ratio is compared with previous years or with the industry standard. The higher this ratio indicates the high efficiency of the bank in using its assets and vice versa, and this ratio is considered a basis for assessing the bank according to the components of the (CAEL) system, in addition to the fact that its average results for the years from (2011 to 2015).

Table (5) Profitability ratios for Faisal Islamic Bank

Statement	2011	2012	2013	2014	2015
(1) Assets	3,822,733,920	5,589,782,224	7,028,788,751	8,682,601,995	12,454,192,929
(2) Shareholders' Equity	375,137,207	479,122,630	587,883,932	698,544,442	831,830,280
(2) - (1) net assets	3,447,596,713	5,110,659,594	6,440,904,819	7,984,057,553	11,622,362,649
profits/returns	146,592,402	186,739,111	223,707,017	188,162,185	222,623,079
Profit rate on assets	3,8%	3%	3%	2%	1,7%
Profit ratio to shareholders' equity	39%	38,9%	38%	26,9%	26,7%
Profit is based on net assets	4%	3,6%	3,4%	2,3%	1,9%

Source: Prepared by researchers based on the financial statements of Faisal Islamic Bank.

Average Return to Assets Ratio=÷5÷ 3,8%+3 % + 3% +2 % + 1,7% =2.7%

From Table (5) and looking at the rate of return on total assets, we find that it is equivalent to an average of (2.7%), which is a good percentage. It indicates that every pound in assets contributes to achieving operating profits, as the rate of return on assets ranges between (3.8%) as the highest percentage in (2011). As a result of the high level of profitability and (1.7%) is the lowest percentage resulting from the low level of profitability in (2015), and we note from this that the profitability situation of the bank is able to change the rates of return on assets, which in turn depends on the credit and investment policy of the

bank. When a comparison is made between the return on assets ratios with the (CAEL) standards, the bank is classified in the classification (1), meaning that it occupies a strong rating.

Average ratio of return to equity= =/39%+ 38,9% + 38% + 26,9% +26,7% **5=33,9%**

From Table(5), we conclude that the bank achieved net profits during the period from (2011 - 2015) and that the highest level of profit achieved by the bank in (2011), which amounted to (146,592,402) pounds, equivalent to (39%), while the lowest A level of profit reached by the bank in (2015), which amounted to (222,623,079) pounds. This is equivalent to (26.7%) due to the decrease in the interest on deposits and savings accounts in return for the increase in the amounts allocated for doubtful debts. Therefore, it can be said that the bank has the ability to achieve net profits.

Average ratio of return to net assets= %+3,6%+3,4%+2,3%+1,9% **/**4**5=3.04%**

Average from Table (5) and when monitoring the trend of asset growth at the Faisal Islamic Bank of Sudan during the period from the year (2011 - 2015), it becomes clear that there is a continuous growth in the asset item, with growth limits ranging between (1.9%) as the lowest percentage that the bank reaches in (2015) Ratio of returns to net assets. It showed a rate of (4%) as the highest growth rate achieved by the bank in net assets during the year (2011), and despite the fluctuation in growth rates, this proves the fact that the bank acquires the largest part of its assets. Therefore, the possession of assets at this level of growth indicates that the bank is able to generate profits and better valuation of both liquidity and capital, the bank can take advantage of the increase in its assets to support capital and distribute profits. The average profit rate on assets, the average profit rate on shareholders' equity, and the average profit rate on net assets amounted to (2.7%), (33.9), and (3.04%), respectively, and by comparing this ratio with the banking evaluation system standard of 1%, these ratios place the bank in classification No. (1)), which indicated that the bank whose profits are classified (1) is characterized by that the profitability ratio is usually above (1%) and the apparent ratio is (33.9%).

ii-Analysis of the profitability of Faisal Islamic Bank:

It is noted from the table (5/2/4) that Faisal Islamic Bank is classified as (1), as it is characterized by the following indicators:i. The bank's profits provide sufficient income to meet the requirements of reserve formation necessary for capital growth and the payment of reasonable dividends to shareholders.ii. Integrity of budgeting, planning, and strong control over income and expenditures.iii. Positive trend in major income and expenditure categories.iv. Reliance at a minimum on exceptional items and non-traditional sources of income.The bank does not rely on exceptional items to increase net profits

4- **Discussing the third hypothesis (there is a statistically significant relationship between the accounting conservatism and the evaluation of the efficiency of banking performance for profitability according to the CAEL indicator):**

It is noted that the use of accounting conservatism in evaluating the profitability of Faisal Islamic Bank is going towards enhancing the credibility of the financial statements and supports the quality of profits in the bank through the low evaluation of assets and revenues and the higher evaluation of obligations and expenses, which in turn supports the transparency of profits as well as the recognition of expected losses without expected profits. This confirms the validity of the hypothesis as noted through the statements of the employees of Faisal Islamic Bank that the accounting conservatism makes the accounting numbers close to the limits contained in the performance evaluation conditions in accordance with the early warning criteria, as the accounting conservatism provides to the users of the financial statements in banks a safety margin to protect them from any adverse results that may lead to negative results, it improves the credit capacity of the bank, limits opportunistic profit management practices, and enhances the bank's value. The presence of a strong case for the Faisal Islamic Bank of Sudan in relation to profitability, and by reviewing the average profit rate on net assets of (33.9%), which measures the extent of the strength or weakness of the bank's profitability, and in comparison with the rates established according to the compound evaluation policy, we find that they are located in the first level, which makes us accept the third hypothesis The low valuation in profits supports the quality of Faisal Islamic Bank's valuation on profitability. It is noted that the use of accounting conservatism in evaluating the profitability of Faisal Islamic Bank enhances the credibility of the financial statements and supports the quality of profits in the bank through the low evaluation of assets and revenues and the higher evaluation of obligations and expenses, which in turn supports the transparency of profits as well as the recognition of expected losses without expected profits and this confirms the validity of the hypothesis. It was also noted from the testimonies of the employees of Faisal Islamic Bank that the accounting conservatism makes the accounting numbers close to the limits included in the performance evaluation conditions in accordance with the early warning criteria, as the accounting conservatism provides to the users of the financial statements in banks a safety margin to protect them from any adverse results that may lead to negative results and improve It increases the credit capacity of the bank, limits opportunistic profit management practices, and enhances the value of the bank.

It is noted through the following clarifications:i. Murabaha profits are recognized through the contract and are distributed over the periods in which they are due on a time basis during the contract period.ii. Mudaraba profits are recognized upon full accounting within the limits of the profits distributed.iii. Profits from posts are made when each process is filtered.iv. Profits from banking services are recognized when the service is provided to the customer.As for the expenditures, if the rights have any financial obligation (legal or expected) resulting from a previous event and it is likely to require the use of sources that include an economic benefit to settle the obligation, and a realistic estimate of the amount of the

obligation can be made. Through Table (5), the profits achieved during the years of study contributed to supporting the growth of the bank, supporting capital adequacy, paying annual dividends, and being able to absorb future losses, and this indicates that profits are conservative. Evaluating the efficiency of banking performance for profitability according to the CAEL index.

i. Liquidity:

Liquidity is the ability of banks to obtain the necessary funds when they are needed by matching the cash flows resulting from monetary market operations (lending and borrowing) in view of the due dates for the sources of funds and their use and the operations of buying and selling foreign currencies and the positions held in those currencies. Liquidity also means the ability of assets to convert into cash quickly and without a loss on the cost of purchase. Some believe that liquidity is the ability of banks to meet their obligations immediately by converting any assets into cash quickly and without loss in value, as this cash is used to meet the demands of depositors to withdraw from their deposits and provide credit to meet the needs of society. Assets vary in the degree of their liquidity, so cash is the absolute liquid by which the liquidity of the rest of the assets is measured. Banks keep part of the deposits in cash (primary reserves) and employ the rest in assets very close to cash. It is considered the second line of defense in protecting the bank's liquidity (secondary reserves), then in loans and investments, and the shorter the term of the assets in general, the greater the bank's liquidity. On the other hand, the higher the term of the liabilities, the better the bank's liquidity and vice versa. The most important of these liabilities are workers' deposits, the shorter their term, that is, the greater the demand for them, the more deteriorating the bank's liquidity and the greater the pressure on assets. This indicator is also used to ensure that the available liquidity is sufficient with the bank at a certain time within the limits of monetary safety and that the appropriate level of the liquidity position according to the (CAEL) indicators is between 35-40% of the total available assets that are subject to financing operations, which consists of capital and reserves Deposits, central bank lending, and interbank financing. And the low level of liquidity in the conventional bank 35-40% indicates the possibility of the bank being exposed to a liquidity shortage crisis, so the bank is exposed to a decline in market confidence.

ii. Liquidity ratios:

These ratios are concerned with measuring the extent of the bank's ability to meet its short-term obligations on their due dates without any delay that may expose the bank to risk. The liquidity ratio is measured as follows:

1- Legal Liquidity Ratio = Liquid Assets ÷ Liquid Liabilities * 100%.

2- This ratio indicates the extent to which the bank depends on its liquid assets to cover deposits. The higher this ratio, the better and a source of safety for management.

3- Liquidity ratio = cash in hand ÷ liquid liabilities * 100% This ratio indicates the adequacy of quick cash assets to pay deposits.

Table (6) The ratios related to the liquidity of Faisal Islamic Bank

Statement	2011	2012	2013	2014	2015
(1)Cash on hand and foreign banknotes	60,134,648	65,626,790	61,372,456	63,950,046	97,731,958
(2)LiquidLiabilities (Customer Deposits)	1,118,114,883	1,622,166,503	1,904,313,064	2,636,679,078	3,586,864,618
liquid assets	787,194,015	1,532,402,286	1,696,161,561	2,049,224,429	2,840,940,429
(liquid liabilities	3,151,523,846	4,724,224,125	5,856,008,532	7,530,178,732	11,088,696,963
Cash Ratio = 1/2	5,37%	4,04%	3,22%	2,42%	2,72%
Liquidity Ratio (Legal) = 3/4	24,6%	32,4%	28,9%	27,2%	25,6%

The ratios that come from the source: based on the financial statements data of the Faisal Islamic Bank suspended with the liquidity of the Faisal Islamic Bank

Annex (3) explains the details of the items of liquid assets and liabilities

Average Cash Ratio=/5,37% +4,04% + 3,22% + 2,42% +2,72%5=3.22

Average Cash Ratio=27.74%= 5÷24,6% + 32,4% + 28,9% + 27,2% + 25,6%

From Table (6) when evaluating the liquidity of Faisal Islamic Bank during the period from (2011 - 2015) and according to the average cash ratio indicator and the legal liquidity ratio, we note that the average ranged between (3.22%) and (27.74%), respectively. This ratio indicates that The bank's cash position is good and able to meet good lending requests at the same time, it places the bank in the first level within the classification levels set by the CAEL standards, which is between (35%-40%) of the total assets available and subject to financing operations, which consist of capital, reserves, deposits and available lending, as well as through legal liquidity ratios. We note the positive development of the liquidity situation, as the bank recorded the lowest percentage of the liquidity index during the year (2011) 24.6 (%), while the highest percentage of the liquidity index in the year (2012) was (32.4%), which did not exceed the percentage specified by the criteria (CAEL, and according to the assessment defined by (CAEL) standards and over the length of the mentioned period, the percentages of the index reveal that the bank's management has taken conservative accounting policies in managing liquidity despite the growth in deposit balances.) where the percentage specified by the standard did not exceed during the period from (2011 - 2015), and this indicates that the bank did not disrupt the bulk of its liquid assets and did not invest them, but rather worked within the framework of balancing between profitability, liquidity and risk. The presence of a strong case for Faisal Islamic Bank and by reviewing the average cash flow ratios and the cash liquidity ratio of 3.22% and 27.74% respectively, which measures the strength or weakness of the bank's liquidity and by comparing it with the rates established according to the compound evaluation policy, we find that it is located in the first level, which is characterized by the following indicators: i. Understand the overall management of the budget

statement, customer environment and economic environment. ii. Providing liquid assets to meet the normal fluctuation of deposits and demand for loans in addition to unexpected demands. iii. Limited reliance on interbank borrowings for liquidity needs. iv. Provide requirements for strong oversight and supervision of operations. iiv. The management's possession of sufficient experience and profitable use of interbank lending operations to meet liquidity needs. iiiv. The bank is characterized by acumen in managing liquidity and extensive planning to deal with liquidity needs. v. The bank's high ability to meet the demands of creditors and depositors. vi. Which leads us to accept that the accounting conservatism supports the liquidity position? It is noted from the table (5/2/4). We note that the accounting conservatism seeks to enhance the adoption of a high degree of verification to recognize the gains, which positively affects the future cash flows, which supports raising the bank's liquidity reserves and thus avoids the banks risks, and it is clear from this that the accounting conservatism Supports liquidity index calendar.

5- **Discussing the fourth hypothesis: (there is a statistically significant relationship between accounting conservatism and evaluating the efficiency of banking performance according to the liquidity index according to the CAEL standard):**

We note through the complementary notes that the bank is diversifying sources of funding and managing assets, taking into account liquidity and maintaining a sufficient balance of cash and similar items of cash and negotiable securities. We also note from the table (Table (5/2/4) that the bank has assets that can be easily converted into cash (without losses) and has the ability to meet its liquidity needs as well as monitor and control liquidity quickly and that the bank and through the table (3/2/4) The bank has good assets capable of generating future profits and that the growth opportunities for the bank are available, and the bank can grow and obtain financing on a concessional condition, all as a result of following conservative policies.

Ninthly: Evaluation of Faisal Islamic Bank:

Under all components of the Banking Evaluation System (CAEL). After evaluating the components of the (CAEL) system on an individual basis for each of the components and determining a numerical rating for each component from (1 to 5), it is necessary to evaluate the bank on a composite basis for all the main components of (CAEL). The bank that is rated (1-2) is basically sound in most respects, and its ability to withstand challenges is good, with the exception of severe economic fluctuations in front of banks rated (3), as they face some weaknesses in general that may appear prominently in the efficiency of liquidity, which It requires taking appropriate administrative measures and providing clear instructions by the Central Bank to the management of the bank to identify and avoid weaknesses, and banks whose complex classification is (4,5) have very critical problems with regard to their ability to continue. Accordingly, the composite evaluation of the Faisal Islamic Bank of Sudan can be positive (CAEL) components, as the bank obtained a rating of (1) in all components. Table (6) the composite evaluation of the Faisal Islamic Bank of Sudan according to the (CAEL) system.

Table (7) Classification Bank

Strong degree rating	Classification	Average percentage of a paragraph	the components
1	Strong	Capital Adequacy 8.29%	capital adequacy
1	Strong	Rating rate2.85% Overall rating ratio 2.26%	asset table
1	Strong	Profitability on assets 2.7%	Profitability
1	Strong	cash flow 3.22% Legal Liquidity27.74%	Liquidly

Below is the average rating score, which is the result of the bank's overall rating based on the results of the four components mentioned above. The following is an explanation of this according to the following equation.

Composite Rating = C+A+E+L/5= 1 to 1.5 Strong

The quantitative rating of Faisal Islamic Bank = 1 + 1 + 1 + 1 + 1 ÷ 5 = 1) The rating is strong (It is noted from the overall rating of the four components that Faisal Islamic Bank of Sudan has received rating No. (1) (strong). The presence of a strong case for Faisal Islamic Bank according to the components of (CAEL) Faisal Islamic Bank of Sudan has obtained a rating of No. (1), which means that the bank is fundamentally sound in most respects and its ability to withstand challenges is good, except for severe economic fluctuations. We accept that the accounting conservatism supports the evaluation of Faisal Bank Islamic According to (CAEL).From Table (6) it is noted that the use of accounting conservatism in Faisal Islamic Bank led to the low assessment of assets and revenues improves the evaluation of the efficiency of banking performance in accordance with Basel standards, and the accounting conservatism in Faisal Islamic Bank supports the ability of bank capital to absorb current and future losses and facilitates obtaining On external financing on concessional terms. Hence, achieving banking convenience, as well as the pessimistic tendency in estimating revenues and assets, and the interaction in expenses and obligations increases the bank's ability to generate cash flows from the operating process and thus support the efficiency of banking capital, which includes that accounting conservatism is one of the important indicators of the quality of accounting profits that affect In the market returns of stocks from the perspective of money markets and also increases the reliability of accounting information. The accounting reservation provides reliable information to shareholders that is useful in making investment decisions, as the uncertainty about future cash flows decreases due to the postponement of current profits in favor of future profits, which enables investors to analyze and evaluate its impact on the current and future profitability of the bank and naturally leads to a reduction in the cost of equity as it plays Accounting conservatism plays a pivotal role in lowering the cost of capital, Money, which facilitates obtaining external sources of financing, increases cash flows from financing operations, limits disinvestment of funds, enhances the facility's ability to generate cash flows from operations, and reduces accounting conservatism from negative claims of information asymmetry by helping investors monitor and reduce the process Withholding information. Reducing the accounting profit

as a result of adopting conservative accounting policies leads to a reduction in the distribution of profits in accordance with indebtedness contracts, which reduces the conflict of interests between shareholders and creditors and reduces the risks of default or financial failure.

Finally:

The researchers' money towards accounting conservatism contributes to reducing the cost of capital in two ways:A- A direct method by improving the quality of accounting profits that affect stock returns in the money markets.B-An indirect method that ensures reducing the phenomenon of information asymmetry between management and investors, which reduces the cost of funding sources and reduces the conservative financial estimate, and all this leads to improving the evaluation of banking financial performance in accordance with early warning criteria.

Table (8) Share Value During Periods(2011-2015)

Statement	2011	2012	2013	2014	2015
number of shares (1)	18,714,308	18,714,308	350,000,000	350,000,000	2,339,637.000
Paid-up Capital(2)	200,000,000	280,000,000	350,000,000	435,000,000	510,000,000
Share value (2)/(1)	.11	.15	0,01	,012	.218

It is noted from Table (8) that the value of the share was the lowest in 2013 and then increased in the year 2015, which indicates that the accounting conservatism had an impact on the value of the share, as it rose significantly in the year 2015.

Results and Recommendations:

This research aims in general to study the phenomenon of accounting conservatism according to the measures of total benefits in the Faisal Islamic Bank of Sudan during the period from (2011 until 2015) in order to identify the current reality of this phenomenon in an effort to contribute to the development and transparency in evaluating the efficiency of banking performance in particular, this study studies the relationship He showed the accounting conservatism in evaluating the efficiency of banking performance according to the CAEL indicators.

The results of the study showed the following::

- The study showed the importance of accounting conservatism in the application of the American Banking Evaluation System (CAEL), A statement of other uses of the accounting reservation as it highlighted the positive aspects of applying the system and its role in the review and control of information that reveals some aspects of weakness and shortcomings and their causes.

- The bank's exercise of accounting conservatism The bank was given the first level according to the compound evaluation policy (the compound evaluation system), which means that the bank is basically sound:1- The average capital adequacy ratio was (8%), and by comparing this ratio with the (Basel 1) standard, 8%, according to which the bank is classified in the first level with regard to capital adequacy.2- highlighting the impact of using accounting conservatism in the financial statementsThe

bank can be classified in terms of capital adequacy in the first rank (ie, classification (1).3- By reviewing the average rating ratio for the quality of assets and the total rating ratio of (2.85%) and (2.26%) respectively, which measures the strength and weakness of the quality of assets and by comparing them with the rates established according to the compound evaluation policy, we find that they are located in the first level. 4- The average ratio of allocations to shareholders' equity is in the first level (strong), while the average ratio of transformational expenses to shareholders' equity and allocations is located in the first level (strong):5- The average rate of return on assets was (2.7%) (3.04%), respectively, and by comparing these percentages with the standard of the banking evaluation system of (1%) and the general average rate of return on assets, these ratios put the bank in classification No. / 1. 6-

- Statement of the impact of accounting conservatism and considering it one of the important tools in debt-intensive financial institutions and on the value of the stock and the classification of the degree of the bank

The average ratio of cash and legal liquidity is (3.22%) (27.74%) respectively, and by comparing these ratios with the liquidity ratios according to CAEL) according to which the bank is classified in the first level.7- The importance of applying the American banking evaluation system is to show the strengths and weaknesses that need special attention and consequently hinder serving the goals of depositors, investors and shareholders alike, which contributes effectively to increasing the efficiency of banking work, which has become an indispensable strategy to keep pace with banking developments.The CAEL system works on conducting a comprehensive analysis of the bank's performance and comparing it with the industry level in the banking environment, which contributes to the formulation of tight policy and plans by focusing on the negative elements.

Recommendations

1- The necessity of applying the CAEL system for evaluating banks, where the positive aspects of its application and its role in oversight and oversight feeding are highlighted with information that reveals some aspects of weakness and shortcomings and their causes.

2- The necessity for the Bank of Sudan to exercise its supervisory role through written and field supervision operations on banks operating in public and private Sudan.

3- Working on setting up advanced training courses in the field of banking evaluation and supervision, the purpose of which is to develop technical capabilities to advance the requirements of banking and supervisory work in a manner that ensures access to an efficient banking sector.

It is necessary to work on developing information technologies in the bank to contribute to the analysis of all components of the assessment system (CAEL), especially those related to risks, and to work on showing weaknesses in order to ensure that these are addressed.

4- Information and advancement of banking work in a way that serves shareholders, dealers, depositors, investors and lenders

5- The necessity of examining many other considerations and issues related to capital, asset quality, profitability and liquidity

The reviewer:

The Impact of Accounting Conservatism in the Financial Statements of Companies Listed on the Palestine Stock Exchange on the Added Economic Value,

CAMELS method in evaluating the performance of Islamic banks

The effect of accounting conservatism in improving the quality of financial reports

The impact of the ownership structure and the characteristics of the board of directors on the accounting conservatism in financial reports: a guide to the Egyptian environment

The role of conditional accounting conservatism in reducing profit manipulation practices and its impact on the efficiency of investment decisions

The reflection of the adoption of standards issued by (AAOIFI) on the measurement and accounting disclosure of financing tools in Islamic banks and their audit procedures

The relationship between accounting conservatism and the efficiency of investment decisions in light of administrative ownership

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