**Abstract:**

Islamic banks aspire to achieve their objectives in line with the principles of Islamic economic and finance as guided by the teachings of Al Shariah. Islamic banks simultaneously endeavor to raise funds and use these funds in a constructive manner to serve their communities and make their clients’ transactions within reach - while equally providing a platform for socio-economic development within the Shariah framework. The questions being raised regarding the role of Islamic banks in economic and social development are yet to be answered conclusively. Therefore, it is vital that the economic and business performance of Islamic banks be thoroughly and critically analyzed in order to establish their business viability and to ensure that their practices are in line with their stated objectives.

This paper examines the performance of the Palestinian Islamic banking sector and its role in advancing the cause of the socio-economic development of the country. The study utilizes statistical information provided by the consolidated balance sheets of the Palestinian Islamic banks in order to describe and to analyze the type and level of financing offered by Islamic banks to the various sectors of the Palestinian economy. Furthermore, the study seeks to examine the implications of extended financing for the promotion and the development of various sectors within the Palestinian economic landscape. Performance analyses are carried out systematically along the following three tracks: the first track highlights the financing performance of Islamic banks in Palestine before and after the second Al-Aqsa Intifadah; the second track contrasts the financing performance of the Islamic banks with their Palestinian conventional counterparts; and the third track compares the financing performance of the Islamic banks with their Islamic counterparts in the neighboring countries of Jordan and Egypt.

The findings of this study demonstrate that Islamic banks in Palestine are financially sound with relatively lower solvency risks than their conventional counterparts. The findings also indicate that although the Islamic banking sector in Palestine has succeeded in executing its role in mobilizing deposits according to the Shariah, it is yet to succeed in utilizing these deposits effectively; the contribution of the Islamic banks in financing the reconstruction and development of the Palestinian economy remains insignificant.

**Keywords:** Islamic banks, conventional banks, performance analysis, socio-economic development, economic sectors

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1 The consolidated balance sheet of Islamic banks in Palestine is a unified balance sheet of all the Islamic banks operating in Palestine. This consolidated balance sheet is issued periodically by the Palestinian Monetary Authority (PMA).

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