

Risk Exposure of Islamic Financial Institutions: Evidence from Gulf Co-operation Council Countries

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Master of Philosophy**

By

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STATEMENT OF ORIGINALITY

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DEDICATION

This dissertation is dedicated to my most beloved parents “Ghalia Ghanem” (have Allah’s Mercy on her souls and grant her eternal happiness and peace in Paradise) and “Mobarak Naser”, without whose sole contribution I could not achieve anything in my life.

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Abstract

This study examines the determinants of major risks faced by both Islamic and conventional banks, and the relationship between different risks and bank performance in the context of Gulf Cooperation Council (GCC) countries. The data used in the study has been collected from the annual reports of banks and Gulf database from 2006-2010. The GCC includes six Arab states: the Kingdom of Saudi Arabia, Kingdom of Bahrain, Kuwait, Qatar, United Arab Emirates and Oman. The study covered 63 banks from these countries. Those banks can be divided into two types: 47 conventional banks and 16 Islamic banks. Foreign banks have been excluded from the list due to their different style of operation and management. This study uses multiple regression models for investigating the factors driving the bank's risk exposure and financial performance. It found no significant difference between Islamic banks and conventional banks in relation to credit risk exposure but both the liquidity risk and the profit-rate risk are significantly higher for the Islamic banks compared to the conventional banks in the GCC region. In the case of Islamic banks, credit risk was found to have a significant positive correlation with leverage, but a negative correlation with bank size. For conventional banks, credit risk is positively correlation with loan to deposit ratio but negatively correlation with management efficiency. Liquidity risk was found to be positively correlation with the degree of financial leverage in the case of Islamic banks, whereas it was found to be positively correlation with fund cost in the case of conventional banks. This study has not been able to identify any significant determinants for the profit-rate (interest-rate) risk in case of Islamic banks. For conventional banks, it has been found that growth of total assets and size negatively affects the interest-rate risk. Further, this study found weak but significant negative relationship between credit risk, liquidity risk and

performance in conventional banks whereas there was no significant relationship between performance and risks in Islamic banks.

CONTENTS

STATEMENT OF ORIGINALITY.....	II
DEDICATION.....	III
ACKNOWLEDGEMENTS.....	III
ABSTRACT	IV
LIST OF TABLES.....	IX
CHAPTER 1 – INTRODUCTION	
1.1 Background.....	1
1.2 Research Questions and hypotheses	6
1.3 Contributions of the Study.....	7
1.4 Methodology and Key Findings	8
1.5 Organization of the Study	9
CHAPTER 2 – LITERATURE REVIEW	
2.1 Introduction.....	10
2.2 An overview of Islamic Finance.....	10
2.3 Principles of Islamic banking.....	12
2.4 Evolution of Islamic Banking Practices.....	13
2.5 Performance of Islamic Banks.....	16
2.6 Islamic Banking Risks.....	21
2.6.1 Credit risk exposure.....	22
2.6.2 Liquidity risk exposure.....	26
2.6.3 Interest Rate Risk Exposure.....	30
2.7 Conclusion.....	34

CHAPTER 3 – METHODOLOGY

3.1 Introduction.....	36
3.2 Sample and Data.....	36
3.3 Development of Hypotheses.....	37
3.3.1. Credit Risk Exposure Hypothesis.....	37
3.3.2 Liquidity Risk Exposure Hypothesis.....	40
3.3.3 Interest Rate Risk Exposure Hypothesis.....	42
3.3.4. Performance Hypotheses.....	43
3.4 Econometric Models.....	44
3.4.1 Credit Risk Model.....	45
3.4.2 Liquidity Risk Model.....	48
3.4.3 Interest Rate Risk Model.....	50
3.4.4 Performance- Risk Relationship Model.....	53
3.5 Conclusion.....	57

Chapter 4 – GCC COUNTRIES’ FINANCIAL SYSTEMS GCC

4.1 Introduction.....	58
4.2 The UAE Banking System and Regulations.....	59
4.3 The Kuwait Banking System and Regulations.....	61
4.4 The Bahrain Banking System and Regulations.....	64
4.5 The Saudi Arabian Banking System and Regulations.....	68
4.6 The Qatar banking system and regulations.....	74
4.7 The Oman Banking System and Regulations.....	78
4.8 Conclusion.....	80

Chapter 5 - EMPIRICAL RESULTS AND DISCUSSION

5.1 Introduction.....	82
5.2 Descriptive Statistics and Test for Differences in Means.....	82
5.3 Tests of Difference in Different Types of Bank Risks and Performance for Islamic and Conventional Banks.....	91
5.4 Correlation Analysis.....	95
5.5 Factors influencing Bank Risks.....	99
5.5.1 Determinants of Credit Risk.....	99
5.5.2 Determinants of Liquidity Risk.....	101
5.5.3 Determinants of Profit-Rate (Interest-Rate) Risk.....	102
5.5.4 Performance Risk Relationship.....	103
5.6 Conclusion.....	106

Chapter 6 - CONCLUSION AND RECOMMENDATIONS

6.1 Introduction.....	108
6.2 Summary of Major Findings.....	108
6.3 Suggestions for Future Research.....	110
6.4 Implications of Research.....	110
6.5 Limitations of the Study.....	111

REFERENCES.....	112
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APPENDIX 1

List of Islamic and Conventional Banks in GCC Countries used in the study	121
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APPENDIX 2

List of Islamic terms used in the study.....	124
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LIST OF TABLES

Table 3.1 Sample by Country and Year	37
Table 3.2 Hypothesized Relationships between Variables.....	57
Table 5.1 Descriptive Statistics on Banks in GCC Countries, 2006–2010.....	83
Table 5.2 Descriptive Statistics according to Country.....	85
Table 5.3 Test for Differences in Means of Risks and Performances according to Country.....	89
Table 5.4 Descriptive Statistics for Islamic and Conventional Banks.....	90
Table 5.5 Tests of Difference in Different Types of Bank Risks and Performance for Islamic and Conventional Banks.....	91
Table 5.6 Correlation between Credit Risk and Its Determinants.....	96
Table 5.7 Correlation between Liquidity Risk and Its Determinants.....	97
Table 5.8 Correlation between Profit-rate Risk and Its Determinants.....	98
Table 5.9 Correlation between Performance and Bank Risks.....	98
Table 5.10 Determinants of Credit Risk.....	100
Table 5.11 Determinants of Liquidity Risk.....	102
Table 5.12 Determinants of Profit Rate (Interest-Rate) Risk.....	103
Table 5.13 Relationship between Performance and Risk.....	105
Table 5.14 Relationship between Risk and Performance (Effects of Islamic Bank).....	106