Sample islamic banking dissertation

Finance, Banking

The impact of risk management on profitability in Islamic banks against conventional banks

Introduction

1. 1)Background of the study

Since 1970s Islamic banks is developing on the feet and leg. The number of Islamic financial institutions has risen to over three hundred institutions in more than seventy five country all over the world. One fundamental aspect of this fast growth is that most of Muslims who are a quarter of the population on earth want to follow Sharia principles. Another fundamental aspect is the growth of oil wealth with high demand for appropriate investments in the Gulf region.

The aim of Islamic financial products is investors who want to follow Sharia (Islamic low). Sharia put forward the guiding principles for all aspects ofhuman beingin order to spread the concept of justice in society. Therefore, this includes the economic aspect. Sharia banned Riba which is the interest that comes from loanmoneyand Gharar which is contractual ambiguity. Furthermore, Sharia also banned investing in business that providing services and goods which is forbidden like selling alcohol and gambling.

1. 2)Financial Products in Islamic banks

Economists who are interested in Islamic banking started to suggest changes in contracts in order to be suitable for the Islamic financial system. These changes in contracts can be classified into four broad types: first, transactional contracts which deal with sale, exchange and trade of services and goods. Second, financing contracts which suggest different ways due to

create and extend credit, smooth the progress of financing the transactional contract, and afford channels between investors and entrepreneurs for capital formation and resource recruitment. Third, intermediation contracts which offer agents with group of tools to perform financial intermediation besides providing fee-based services for economics activities. Finally, social welfare contracts which promote the welfare for less advantaged people by contracts between society and individuals.

Transactional contracts

Simply, there are two exchange contracts, one is sale of an asset and another is sale of rights to utilise an asset. First of all, contracts of exchange and sale apprehensive with trading besides selling and buying activities considering all their derivatives such as sale on order and deferred payment sale. Exchange contracts contain a variety of contracts which are similar to each other in terms of the outcome but are different from one another in terms of the exact legal requirements, obligations, rights and liabilities involved in or associated to them. Here the most popular contracts used by Islamic banks:

Bay’ al-Muajjil is a contract that allows for sale a product on the basis of deferred payment in instalments or in lump sum payment. The two parties; sellers and buyers agreed about the price of the product at the sale time and cannot contain any charges for deferring payments[1].

Bay’ al-Salam is a contract between two parties where agreed that buyers have to pay the sellers full negotiated price for specific product that the sellers promise to deliver at particular date in the future.

Ijarah means leasing and this contract is similar to sale contract but the different is that Ijarah is more sale of the usufruct for particular period of time rather than sale of a tangible asset.

Istisna is a contract that has two parties; one is the manufacturer and another buyer who request manufacturing or construction of an asset or property with specific features and they should agree on fixing price. The transaction of Istisna begins once the manufacturer takes on manufacturing the asset for the buyer.

Financing contracts

In the world of commercial financing and more particularly, project financing, certain methods are more commonly encountered than others such as Murabaha, Mudaraba and Musharaka. The Murabaha is a contract between the bank and its customer for the sale of goods at a price that includes an agreed profit margin, either a percentage of the purchase price or a lump sum. The bank will purchase the goods as requested by its customer and will sell them to the customer with fixed profit gain usually be over time by instalments.

The Mudaraba is a profit-loss sharing contract, with one party providing the capital and the other party providing its expertise to invest the capital and manage the investment project. Profits percentage is agreed and fixed at the beginning and is a way of paying the work of people that did not invest in the project. In case of losses, there is a loss of time from the part that brought their expertise and a loss of capital for the bank.

The Musharaka involves a partnership between two parties who both provide capital towards the financing of new or established projects. Both parties share the profits on a pre-agreed ratio, allowing managerial skills to be remunerated, with losses being shared on the basis of equity participation. One or both parties can undertake management of the project.

However, financial products can be provided by conventional banks using specific distribution channels such as window, branch, and subsidiary. Window is operating and accounting that separated from the conventional operations such as HSBC amanah, and Lloyds. Whereas, branch similar to the window but using separate branches instead of the conventional branch network. Subsidiary, normally prepare separate annual reports and reports such as Citi Islamic Investment Bank.

1. 3)Risk Management

Risk management is recognising and evaluating the risks then managing the sources economically in order to minimise, observe and control the probability or effect of the unpredictable events or maximise the realisation of opportunities. Efficient risk management capability is important to allow banks to be in good position in the market by using their capital professionally. This paper discusses the way that Islamic banks faced and managed the risks different from conventional banks. The specific risks analyzed include market risk, credit risk, operational risk, liquidity risk, Sharia low risk, concentration risk and reputation risk.

1. 4)Problem Statement

Interest is prohibited in Islamic Sharia low which obliged Islamic banks to take part in the business and decide on sharing profits as well as losses. Furthermore, Islamic banks might seem faced more risk in view of the fact that Islamic banks can not charge a fixed return not linked with their customer's operations. Given that Islamic banks will have more unstable returns on their assets since they have to be the owner of the asset before lease or sale it to the customers. This paper investigates whether Islamic banks are riskier than conventional banks or not and that by looking at the profit compatibility in Islamic banks compared with conventional banks and this relationship is evaluated withrespectto the risk management procedures.

Gulf Cooperation Council

3. 1)Background

The Gulf Cooperation Council (GCC) was established in 1981 and located in middle east. GCC contains six member states with total population of 34 million and these countries are Saudi Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates and Oman. The objective of GCC is to coordinate policies of various political, economic and social matters among its member countries in order to have similar regulations (Faisal 2005).

GCC countries are wealthy due to the large oil reserve which is the largest in the world. In addition to, these countries economy structure rely on oil

trading and governments also supporting the local investments in order to reduce the importance role of oil.

3. 2)Banking in GCC and Financial Market

GCC countries established their central banks between 1950's and 1970's and linked them to the USD. GCC countries do not have requirement of local ownership in the foreign banks accept Saudi banking system which lets a maximum of 40% ownership. However, foreign banks have to follow the central banks policy and regulations.

Compared to developed countries, the financial market are new in GCC and foreign investments have just been allowed to trade in the stock market in recent years. Moreover, it is common tofinanceGCC governments projects by providing government bonds and T-bills.

Research Methodology

4. 1) The Aim

This paper introduces the definite risk management procedures of Islamic banks and investigates empirical data to observe whether these procedures are sufficient or not. There will be special focus in this paper profitability ratio in the Gulf banks. The data has been collected to estimate the profitability ratio is the return on equity ROE and the return on asset ROA for Islamic and conventional banks.

4. 2) The Data

There are 100 banks have been collected from bankScope. The study of profitability compares 37 Islamic banks to 63 conventional banks in the Gulf

between 2002 and 2008. However, the number of banks is not the same in the whole period due to the fact that the banks have established in different time during the period.

4. 3) The Model

ROE and ROA have been used as dependent variables in two models; one model to distinguish among years and another to distinguish among the countries in the Gulf. Each model includes a dummy to distinguish between the Islamic and conventional banks. The dummy gives the value one if the bank is Islamic and gives zero if it is conventional.

The model which is for the year has seven dummies, one for each year. For example, if the ROE or ROA is in 2008 then the dummy which is for the year 2008 gives the value one and the other dummies give zero and the same for all the other dummies. This model helps to observe the changes during the period from 2002 until 2008.

Whereis the coefficient of the year 2002 but it has been used as constant in order to compare it to all the other year to see whether there is an increase or decrease in following years or not.

However, there are six dummies in the model which distinguish among the countries; there is one for each country. So, the dummy of Saudi gives only Saudi banks the value one and the other dummies give zero and the same in all the dummies.

4. 4) The Dependents Variable

4. 4. 1) Return on Equity

Return on equity (ROE) specifies the profit that the bank earns from investing shareholders money. Additionally, it shows the efficient of the bank management using shareholders investment. ROE calculated by net income divided by equity shareholders.

4. 4. 2) Return on Assets

Return on Assets (ROA) is useful indicator of the bank efficient management on create profits from each monetary unit of investment. ROA is calculated by net income divided by total assets.

4. 5) Hypothesis Testing

The aim of the hypothesis is to test the efficiency of risk management procedures result in commercial viability of banking activities. Therefore, ROE and ROA for Islamic and conventional banks have been collected in order to see what is the different between the Islamic and conventional banks in the profitability. Then, calculating the variance for ROE and ROA of each bank in order to see whether Islamic banks have the same risk that conventional banks have or different.

Findings and Results

There is two steps to analyse the differences between the Islamic and conventional banks. The first step is to analyse the profitability for Islamic and conventional banks using ROE and ROA in the period between 2002 and 2008. Then, look at the differences among the Gulf countries in the same

period. The second step is to analyse the risk for Islamic and conventional banks by calculating the variance of ROE and ROA in the period between 2002 and 2008 for each of the 100 banks then observe the differences among the Gulf countries.

6. 1)The Different in the Profitability:

First, the ROE model for the years:

Table 1

Prob.

(t-test)

constant

15. 07338

(1. 351064)

0

Islamic

-2. 70161

(0. 953205)

0. 0041

Year08

-0. 6461

(1. 734848)

0. 0166

Year07

5. 252066

(1. 71731)

0. 3614

Year06

4. 803732

(1. 743603)

0. 0115

Year05

6. 359871

(1. 774068)

0. 0365

Year04

1. 837861

(1. 848711)

0

Year03

-0. 58218

(1. 868266)

0. 0041

R-squared

0. 07971

Mean dependent var

16. 85381

Adjusted R-squared

0. 067439

S. D. dependent var

10. 63519

Sum squared resid

55376. 72

Prob(F-statistic)

0. 000097

The coefficient of the Islamic dummy gives negative sign and t-test shows that the Islamic dummy is significant which means that the ROE in the conventional banks are higher than in the Islamic banks by 2. 70%. The relationship between deposits and the ROE explained by Bashir and Hassan (2004) and Faisel (2005), helps demonstrate the results above, which is positive for conventional banks and negative for Islamic banks. Additionally, Islamic banks do not have variety of financial instruments in the short term like the conventional banks which force them to have high liquidity.

The constant coefficient representing the year 2002 where the ROE was 15. 07%. By making the coefficient of the year 2002 constant we can just concentrating on the changes during the period from 2003 to 2008. The coefficients of the year 2003 show that ROE in most of Islamic and conventional banks decreased by 0. 58% and one possible explanation for this fall is that banks were cautious of the war in Iraq. Then, started to recover in 2004 – after the war has finished – with 1. 83% and this is due to the increase in the oil price and the stock markets in the Gulf. The coefficientsof the year 2005 and 2006 show that there were high increase in the ROE (6. 35% in 2005 and 4. 80% in 2006) and they are significant statistically under t-test. This is refer to the increase in the governments spending in the Gulf due to the increase in the oil price which is reflect in ROE of the banks and the stock markets in the Gulf.

The coefficients of the year 2007 shows that there was an increase by 5. 25% in ROE but this coefficient is insignificant under t-test and this gives an

idea about the changes in the income of banks which appear clearly in 2008. The coefficients of the year 2008 show the decrease in the ROE due to the fact that Gulf banks activities have been affected by the financial crisis in 2008. This also gives an idea about the banks investments outside the Gulf.

The period has been separated to two sub-periods in order to examine the robustness of the Islamic dummy and to check whether the results would be the same or not. One of the sub-periods starts from 2002 to 2005 and another from 2006 to 2008:

Table 2

Prob.

(t-test)

constant

18. 25633

(0. 737579)

0

Islamic

-2. 788691

(0. 967584)

0. 0041

Year05

3. 20889

(1. 335078)

0. 0166

Year04

-1. 319631

(1. 444487)

0. 3614

Year03

-3. 744061

(1. 475989)

0. 0115

Year02

-3. 165236

(1. 509765)

0. 0365

R-squared

0. 047673

Mean dependent var

16. 85381

Adjusted R-squared

0. 038637

S. D. dependent var

10. 63519

Sum squared resid

57304. 5

Prob(F-statistic)

0. 000097

Table 3

Prob.

(t-test)

constant

17. 1756

(0. 696724)

0

Islamic

-2. 31887

(0. 964229)

0. 0165

Year08

-2. 90314

(1. 283861)

0. 0241

Year07

3. 005798

(1. 260971)

0. 0175

Year06

2. 559091

(1. 297937)

0. 0492

R-squared

0. 044414

Mean dependent var

16. 85381

Adjusted R-squared

0. 037174

S. D. dependent var

10. 63519

Sum squared resid

57500. 59

Prob(F-statistic)

0. 000079

The tables above proved that the coefficients of Islamic dummy in sub-periods are almost the same as in whole period which means it is robust. Furthermore, the other coefficients in the sub-periods give the same result as in whole periods and there is no changes in R-squared and adjusted R-squared or in the tests.

Second, the ROE model for the countries[2]:

The test results are similar to the one for years and the coefficient of the Islamic dummy almost the same. The range of ROE of Gulf banks is between 14. 70% and 19. 34%. Kuwaiti banks had the highest ROE (19. 34%) followed by Qatari banks with 19. 16% Then Saudi banks with 18. 33%. Afterwards, Emirates banks had 16. 91% and we can see clearly the gap between Saudi and Emirates banks in ROE. Bahrain came next with 15. 37% then Omani banks which got the lowest ROE in the Gulf by 14. 70%. The t-test shows that all coefficient are significant.

Table 4

Prob.

(t-test)

Islamic

-2. 47002

(1. 052489)

0. 0193

Saudi

18. 33551

(1. 254086)

0

Oman

14. 70265

(1. 874979)

0

Qatar

19. 16886

(1. 441722)

0

Kuwait

19. 34724

(1. 445981)

0

Emirates

16. 91736

(0. 917708)

0

Bahrain

15. 37403

(1. 039737)

0

R-squared

-0. 04485

Mean dependent var

16. 85381

Adjusted R-squared

-0. 05677

S. D. dependent var

10. 63519

Sum squared resid

62872. 03

Durbin-Watson stat

1. 562729

This differences between the Gulf countries is due to the different policy they have used. For example, we can see that Saudi banks did not affected by the financial crisis like Emirates and Bahraini banks. This because of the close

economy policy that Saudi central bank use whereas Emirates and Bahraini central bank use open economy policy. Furthermore, the Saudi government spending was very high comparing with the other Gulf countries.

Third, the ROA model for years:

Table 5

Prob.

(t-test)

constant

1. 983087

(0. 548057)

0. 0003

Islamic

2. 241809

(0. 389)

0

Year08

-0. 92146

(0. 699029)

0. 188

Year07

1. 788613

(0. 695931)

0. 0104

Year06

1. 894682

(0. 715132)

0. 0083

Year05

2. 062882

(0. 723348)

0. 0045

Year04

0. 922792

(0. 745526)

0. 2163

Year03

0. 148001

(0. 750172)

0. 8437

R-squared

0. 121093

Mean dependent var

3. 588051

Adjusted R-squared

0. 109825

S. D. dependent var

4. 492388

Sum squared resid

9808. 95

Prob(F-statistic)

0

The coefficient of the Islamic dummy gives positive sign and t-test shows that the Islamic dummy is significant which means that the ROA in the Islamic banks are higher than in the conventional banks by 2. 24%. This is can be explained by the relation between total asset and profitability, the relation between total equity and profitability, and the relation between total expenses and profitability in the Gulf banks that figured by Faisal (2005) which is negative for conventional banks and positive for Islamic banks. So, when total expenses, capitalisation, and size of a bank increase the profitability increase in if it is an Islamic bank and decrease if it is conventional bank. In other words, Islamic instruments such as Istisna, Ijarah, Mudaraba and Musharaka accounted as assets which means the increase in these types of financing lead to higher ROA.

The year 2002 used as constant coefficients in order to compare 2002 among the whole period and focusing on the changes in the ROA. The coefficients of the year 2003 and 2004 show slight increase in the ROA in the Gulf by 0. 14% and 0. 92 respectively, but they are insignificant. Then, ROA increased rapidly in 2005, 2006 and 2007 by 2. 06%, 1. 89 and 1. 78% and became statistically significant. This increase due to the rise in the oil prices. However, the coefficient of the year 2008 shows decrease in ROA by -0. 92% in the Gulf banks because of the financial crisis.

The same technique of separating to two sub-periods has been used in order to examine the robustness of the Islamic dummy. One of the sub-periods starts from 2002 to 2005 and another from 2006 to 2008:

Table 6

Prob.

(t-test)

constant

2. 874444

(0. 300776)

0

Islamic

2. 242753

(0. 397574)

0

Year05

1. 171183

(0. 549906)

0. 0336

Year04

0. 031175

(0. 584339)

0. 9575

Year03

-0. 74357

(0. 593025)

0. 2104

Year02

-0. 891543

(0. 616993)

0. 149

R-squared

0. 078455

Mean dependent var

3. 588051

Adjusted R-squared

0. 070047

S. D. dependent var

4. 492388

Sum squared resid

10284. 8

Prob(F-statistic)

0

Table 7

Prob.

(t-test)

constant

2. 81072

(0. 277333)

0

Islamic

2. 366673

(0. 389844)

0

Year08

-1. 79641

(0. 509244)

0. 0005

Year07

0. 914638

(0. 505101)

0. 0707

Year06

1. 018571

(0. 531234)

0. 0557

R-squared

0. 103778

Mean dependent var

3. 588051

Adjusted R-squared

0. 097249

S. D. dependent var

4. 492388

Sum squared resid

10002. 19

Prob(F-statistic)

0

The tables above proved that the coefficients of Islamic dummy in sub-periods are approximately the same as in whole period which means it is robust. Furthermore, the other coefficients in the sub-periods give the same result as in whole periods and there is no changes in R-squared and adjusted R- squared or in the tests.

Fourth, the ROE model for the countries:

the coefficient of the Islamic dummy almost the same. The range of ROE of Gulf banks is between 3. 86% and 2. 04%. Bahraini banks had the highest ROA (3. 86%) followed by Qatari banks with 3. 02% Then Kuwaiti banks with 2. 73%. Afterwards, Emirates banks had 2. 60% then Saudi came next with 2. 33%. Omani banks had the lowest ROA in the Gulf by 2. 04%. The t-test shows that all coefficient are significant.

Table 8

Prob.

(t-test)

Islamic

2. 029741

(0. 415863)

0

Saudi

2. 33044

(0. 500783)

0

Oman

2. 044595

(0. 712912)

0. 0043

Qatar

3. 022825

(0. 566836)

0

Kuwait

2. 73999

(0. 556167)

0

Emirates

2. 601632

(0. 357261)

0

Bahrain

3. 862964

(0. 409867)

0

R-squared

0. 078317

Mean dependent var

3. 588051

Adjusted R-squared

0. 068207

S. D. dependent var

4. 492388

Sum squared resid

10286. 34

Durbin-Watson stat

0. 976295

The table above shows that there are no significant differences between the banks in Gulf countries in ROA. Moreover, the different between Bahraini banks which were the highest and Omani banks which were the lowest is less than 2%.

4. 2. The Different in the Risk

Analysing the profitability is not enough to say whether the Islamic or the conventional banks have effective risk management procedures or not without analysing the risk. The variance for each bank during the period have been calculated in order to see the whether Islamic and conventional banks have the same or different risk.

First: calculating the variance of ROE for Islamic and conventional banks:

Table 9

Prob.

(t-test)

Islamic

-42. 4969

(17. 63172)

0. 018

Saudi

93. 67778

(23. 59077)

0. 0001

Oman

34. 00545

(32. 77482)

0. 3022

Qatar

65. 8434

(26. 34869)

0. 0143

Kuwait

99. 83715

(23. 19668)

0

Emirates

67. 42153

(16. 44457)

0. 0001

Bahrain

81. 53135

(16. 80893)

0

R-squared

0. 08429

Mean dependent var

62. 20235

Adjusted R-squared

0. 023913

S. D. dependent var

81. 25905

Sum squared resid

586507. 1

Durbin-Watson stat

2. 087805

The sign of the coefficient of Islamic dummy is negative which means that Islamic banks have less risk in ROE than conventional banks in the Gulf. This is because of the PLS system that Islamic banks use which allow them to share the profit and losses with the depositors which decrease the risk Islamic bank taking. This findings agree with the relation between deposits to assets and ROE that explained by Bashir and Hassan (2004), and Faisel (2005) which is positive in conventional banks and negative in Islamic banks. Moreover, the findings illustrated why conventional banks receive higher ROE than Islamic banks in the Gulf.

From the table above it is observed, Kuwaiti banks were the most risky banks in the Gulf followed by Saudi, then Bahraini banks. The banks, however, had high risk due to the massive changes in the ROE that they received every year during the period. This indicates that their ROE was instable and more risky during the period. Comparatively, Emirates and

Qatari banks faced less risk then the banks in the previously mentioned banks. Among all the banks, mentioned in the above table, Omani banks were the most stable banks and, thus, faced the least risk. However, the t-test result, found for Oman is not statistically significant.

Second: calculating the variance of ROA for Islamic and conventional banks:

The positive sign of the coefficient of Islamic dummy show that Islamic banks have higher risk in ROA than conventional banks in the Gulf. This is due to the fact that Istisna, Ijarah, Mudaraba and Musharaka finance have high risk because banks are in ownership and they share the risk as well as the profit and these types of finance appear as assets in the balance sheet.

The table below shows that Kuwaiti banks were the most risky banks in the Gulf then Bahraini banks came next. After that, Emirates and Omani banks came next with much less risk then the previously mentioned banks. The gap between Bahraini and Emirates is enormous which gives us an idea about the instability in the ROA that Kuwaiti and Bahraini banks received. In contrast, Among all the countries, mentioned in the above table, Saudi and Qatari banks faced the least risk due to the stability they have in the ROA. However, the results of all previously mentioned banks are insignificant.

Table 10

Prob.

(t-test)

Islamic

21. 57855

(10. 44977)

0. 0417

Saudi

-3. 97466

(14. 14604)

0. 7794

Oman

1. 989429

(19. 66142)

0. 9196

Qatar

-6. 86578

(15. 79286)

0. 6648

Kuwait

24. 89889

(13. 62678)

0. 0709

Emirates

2. 439974

(9. 855151)

0. 805

Bahrain

15. 46982

(10. 01932)

0. 126

R-squared

0. 109403

Mean dependent var

16. 10476

Adjusted R-squared

0. 051945

S. D. dependent var

49. 46225

Sum squared resid

215706. 9

Durbin-Watson stat

1. 759712

The reason behind the high risk in Bahraini banks is due to the fact that Bahrain is the fastest growing financial centre in 2008 according to the City of London's Global Financial Centres Index. The high increase means that there is great changes every year in the ROE and ROA. However, most of Kuwaiti banks are international and have presences in many countries, such as the national banks of Kuwait who has more than 12 presence all over the world, which effected by the financial crisis.

Emirates attract the investors all over the world by the open economy policy. Therefore, Emirates banks have been effected by financial crisis but less than Kuwait due to that Emirates banks focusing more in financing investments rather than housing. In contrast, Saudi, Qatar and Oman are less free market and open economy than previously mentioned countries. Consequently, Saudi, Qatar and Oman are much less effected by the international economy than Bahrain, Kuwait and Emirates.

Conclusion

5. 1) The different between Islamic and conventional risk management procedures

This paper concentrating on studying efficiency of the risk management procedures for conventional and Islamic banks result in commercial viability of banking activities in the Gulf. The paper started by analysing the profitability for conventional and Islamic banks using ROA and ROE in the Gulf between 2002 and 2008. Then, analyse the risk in conventional and Islamic banks by calculating the variance for ROA and ROE between 2002 and 2008.

The results show that Islamic banks have higher profit in ROA than the conventional banks and by calculating the variance for ROA it has been noticed that Islamic banks have higher risk in ROA than conventional banks. This is due to the fact that Istisna, Ijarah, Mudaraba and Musharaka accounted as assets which gives positive relation between total asset and profitability. Moreover, that Istisna, Ijarah, Mudaraba and Musharaka finance have high risk because banks are sharing the risk as well as the profit and Islamic banks have to balance the management and control rights in order to be in save.

However, Islamic banks have lower profit in ROE than the conventional banks. This is due to the relationship between deposits and the ROE which is positive for conventional banks and negative for Islamic banks. Additionally, Islamic banks do not have variety of financial instruments in the short term like the conventional banks which force them to have high liquidity. On the other hand, is Islamic banks have less risk in ROE than conventional banks because of the PLS system that Islamic banks use which.

The findings shows that both Islamic and conventional banks in the Gulf have adequate risk management procedures. Furthermore, both Islamic and conventional banks are profitable, however, the ROA and ROE is different Islamic and conventional banks. This different is due to the different risk they face.

5. 2)The different between the Gulf countries

Qatari banks seems to had the best economicenvironmentbecause they were the most profitable and the least risky. Then, Saudi and Emirates banks came next. Saudi banks had higher profitability in ROE and less risk in ROA than Emirates banks. Whereas, Emirates banks have higher profitability in ROA and less risk in ROE than Saudi banks. Bahraini and Kuwaiti banks had very high profitability and risk in both ROA and ROE comparing with banks from other countries. However, Omani banks have very low risk and profitability comparing with banks from other countries.

The reason behind the difference between the Gulf countries is due to the difference policies they are using, whether they have international banks and if they effected by the financial crisis or not.

5. 3)The different between the year

The profitability had the highest increase in the year 2005 and this is due to the increase in the financial market in the Gulf, oil prices and government spending. In contrast, profitability had increased two times; one in the year 2003 because of the war in Iraq and another in the year 2008 due to the financial crisis.

[1] Iqbal Z. & Mirakhor A., (2007), “ An introduction to Islamic finance”, John Wiley & Sons, Asia.

[2] There is no Islamic banks in Oman but it has been included because it is one of the Gulf countries.