

# Is the GCC Islamic Banks' Financial Performance Affected by the 2007/2008 Financial Crisis?

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## Abstract

*The purpose of this study is to examine the influence of the 2007/2008 financial crisis into financial performance of Islamic banks in the GCC and determine factors that significantly influence financial performance of the Islamic banks during 2005-2010. Data of 23 Islamic banks that completely reported their financial statements during 2005-2010 was extracted from Bankscope database. The relationship between dependent and independent variables was tested using panel data regression analysis. The study found that the financial crisis significantly affected financial performance of Islamic banks in the GCC. The impacts of the crisis were even worse in the two years after the crisis. The study also found equity, short term funding, overhead expenses and GDP per capita as the factors which significantly influenced financial performance of Islamic banks in the GCC during 2005-2010. The study is expected to benefit stakeholders of Islamic banks in the GCC in order to understand the factors that influence Islamic banking financial performance and minimize the impacts of any future financial crises.*

**Keywords** *Financial Crisis, Islamic Banking, Financial Performance, Panel Data Regression, The GCC*

## 1. INTRODUCTION

It is well known, the recent 2007/2008 financial crisis has globally affected financial performance of many banks (Kassim and Majid, 2010; Smolo and Mirakhor, 2010;

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Ellaboudy, 2010). The crisis has even resulted in the collapse of many large banks that were never expected to fail<sup>1</sup>. Originally started in the U.S subprime mortgage market in 2007, the crisis spread quickly into financial markets worldwide in 2008 (Abraham and Zhang, 2009).

Contrary to the above global phenomenon, some experts of Islamic banking and finance are in the opinion that Islamic banks are either not or less affected by the crisis due to their principles of operations in which all transactions must be based on trade and linked to assets (Ahmed, 2009; Ahmed, 2010). In addition, some scholars even argue that the crisis could have been avoided if the principles of Islamic banking and finance had been adopted globally (Ahmed, 2009). In other words, the scholars believe that the Islamic banking system is more crisis proof than the conventional banking system (Kia and Darrat, 2003). Even though empirical tests should be done to justify the above belief, it is surprising to know that more people are interested to know the principles of Islamic finance as applied in Islamic banks after the crisis than ever before (Hidayat and Abduh, 2012).

Islamic banking is a relatively new industry. The recorded history indicates that the first bank that operated under Islamic principles was Mit Ghamr Rural Savings Bank in Egypt. The bank was established by Dr. Ahmad El Najjar in 1963 in the Egyptian town of Mit Ghamr<sup>2</sup>. After its first appearance about fifty years ago, Islamic banking services are currently available worldwide. One of the most crucial regions to the development of Islamic banking and finance is the Gulf Cooperation Council (GCC). The GCC is a regional association of six Arab and Muslim majority states located in the Arabian Gulf<sup>3</sup>. Being a regional association of Muslim majority states, all member countries encourage and support the development of Islamic banking and finance in their respective countries<sup>4</sup>. The GCC region is also home to many pioneers in the Islamic banking industry. In 2007, the GCC countries collectively controlled about 41% of the total global Islamic finance assets<sup>5</sup>. In summary, the GCC region has a relatively long history of involvement in the Islamic banking industry.

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1 It is also known as "Too big to fail".

2 [www.en.wikipedia.org/wiki/Islamic\\_banking](http://www.en.wikipedia.org/wiki/Islamic_banking). it was retrieved on 20/02/2013

3 The member countries are Bahrain , Kuwait, Oman, Qatar, UAE, and Saudi Arabia.

4 Oman is late to embark into Islamic banking industry. It joined the industry in 2010.

5 (Wilson, 2009) as quoted from (Hidayat and Abduh, 2012)

Based on the above explanations, this study attempts to empirically investigate the impacts of the 2007/2008 global financial crisis on financial performance of Islamic banks in the GCC. This study also aims to identify the factors which significantly influenced the financial performance of Islamic banks in the GCC during 2005-2010. This study is expected to give a significant contribution towards the existing literatures on the relationship between financial crisis and banking financial performance, specifically in the GCC Islamic banking industry.

## 2. REVIEW OF LITERATURE

### 2.1 *The Impacts of the Crisis into the GCC Banking Sector*

The GCC is an association of six rich nations. All members rely on natural resources such as oil and gas for their main revenues. More than 70% of the GCC's exports and fiscal revenues in 2011 were earned through oil (Kotilaine et al, 2012). One of the GCC members, Qatar is listed as the wealthiest nation in the world by the International Monetary Fund (IMF) in 2009. Other members ranked in between 12<sup>th</sup> to 38<sup>th</sup> wealthiest in the world during the year. Table 1 below lists the GDP per capita as a measure of wealth of the GCC countries and their world's ranks

Table 1. List of GDP per capita of The GCC countries in 2009

COUNTRIES	GDP PER CAPITA (USD)	THE WORLD'S RANK
State of Qatar	83,841	1
Kuwait	38,304	12
UAE	36,537	15
Bahrain	27,068	32
Oman	25,110	35
Saudi Arabia	23,221	38

Source: International Monetary Fund (IMF) <sup>6</sup>

Since all the GCC members are wealthy nations with plenty of financial resources, the recent financial crisis should have affected the GCC economy less than the rest of the world. These resources along with the initial macro intervention policies taken by the GCC governments have minimized the unfavorable impacts of the recent global financial crisis (Ellaboudy, 2010). As a result, unlike the U.S and other advanced

<sup>6</sup> [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_GDP\\_\(nominal\)\\_per\\_capita](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal)_per_capita). it was retrieved on 15/04/2011

economies that experienced recession during the crisis and post crisis periods, the economy of the GCC still grew even at 7.2% in 2011 (Kotilaine et al, 2012). Another reason why the GCC banks were generally less affected by the recent global financial crisis than other emerging economies is that they were not as much directly exposed to the U.S subprime assets. The subprime exposure of the GCC banks was estimated to worth about \$2.7 billion in 2008 (Geisst, 2009). This amount was considered small when compared to over \$1trillion dollars in Europe and the US.

However, there are some noticeable impacts of the financial crisis on the GCC banks' financial performance. The impacts are more because of global liquidity shortage rather than exposures of the GCC banks into the U.S subprime assets (Batini, et al, 2009). Shortage of global liquidity has increased the global cost of borrowing including the cost of borrowing in the GCC. With higher cost of borrowings, companies tend to postpone their expansion plans. As a result, the GCC stock markets declined drastically in 2008 (Batini, et al, 2009). In summary, the effects of the financial crisis on the GCC economies was relatively low and mainly came through an indirect way as a result of the global shortage of liquidity.

## ***2.2 The Impact of Financial Crisis on Islamic Banking Financial Performance***

To the best knowledge of the authors, there are relatively a few numbers of studies that evaluate the impacts of the 2007/2008 financial crisis on Islamic banking financial performance. Most of them compare the impacts of the crisis into Islamic and conventional banking financial performance such as Beck et al (2010), Kassim and Majid (2010) and Hassan and Dridi (2010), and one of them focuses on the effect of the crisis into financial performance of Islamic banks (Hidayat and Abduh, 2012).

Beck et al (2010) compared the financial performance of conventional and Islamic banks during the recent global financial crisis in a sample of countries with both Islamic and conventional banks. The study concluded that Islamic banks are more solvent but not more stable, less profitable, and less liquid than the conventional banks during the period.

Kassim and Majid (2010) comparatively examined the impacts of the 1997 and the 2007/2008 financial crises on the Islamic and conventional banks in Malaysia. The study found mixed results regarding the impacts of the crises. The descriptive statistics found the Islamic banks are relatively more crisis proof than conventional banks. However, the Impulse Response Function (IRF) and Variance Decomposition Analysis (VDA) results indicated that both Islamic and conventional banks were

equally affected by the financial crises.

Hassan and Dridi (2010) comparatively assessed the impacts of the recent global financial crisis on the financial performance of Islamic and conventional banks in a group of dual banking countries in terms of profitability, credit and asset growth, and external ratings. The study found that the crisis affected the financial performance of Islamic and conventional banks at different levels. Hassan and Dridi (2010) also indicated that some Islamic banks' profitability is affected more in 2009, which is a year after the crisis due to weaknesses in risk management practices.

Hidayat and Abduh (2012) evaluated the impact of the recent financial crisis on the financial performance of Islamic banks in Bahrain using the panel data regression analysis. The result shows that there was no significant impact of the financial crisis on the financial performance during the crisis period. However, it did affect the financial performance of Bahrain's Islamic banking industry after the crisis period.

Referring to the above studies, it is found that none of the available literatures discuss the impacts of the financial crisis into Islamic banking financial performance in the GCC. Hidayat and Abduh (2012) only evaluated the impacts of the crisis into Islamic banking financial performance in Bahrain which is a member of the GCC. Therefore this study attempts to expand the study of Hidayat and Abduh (2012).

### ***2.3 Banking Financial Performance Determinants***

As it has been mentioned earlier, this study also aims to identify the factors which significantly influenced the financial performance of Islamic banks in the GCC during 2005-2010. Therefore it is very important to understand the determinants of Islamic banking financial performance. Based on the available literatures, Islamic banking financial performance determinants can be categorized into internal and external factors (Bashir, 2000; Haron, 2004; Al-Kassim, 2007; Zantioti, 2009). Among the internal factors that influence Islamic banking financial performance are bank size, leverage, financings, short-term funding, overhead, and equity (Bashir, 2000; Haron, 2004; Burhonov, 2006; Al-Kassim, 2007). GDP per capita is the external variable that is usually included in banking financial performance literatures (Bashir, 2000; Burhonov, 2006; Zantioti, 2009; Choong et al, 2012). It is also found that ROA and ROE are very important indicators of Islamic banking financial performance and in most cases used as the dependent variables (Bashir, 2000, Burhonov, 2006; Al-Kassim, 2007; Zantioti, 2009; Choong et al, 2012; Al-Mamun et al, 2014).

Bashir (2000) concluded that financings and equity are positively related to Islamic banking financial performance. It means if financing and equity are high, Islamic banks should be more profitable. The study also found that profitability is positively related to leverage. The results also indicated that GDP per capita positively affects profitability. Haron (2004) found that profitability and expenses have a positive relationship. The study also suggested that the size of the Islamic banks only had a significant positive relationship with one of the performance indicators but was not significant with other profitability measures.

Burhonov (2006) cannot determine the relationship between the impact of macroeconomic variables, GDP per capita, short-term funding and the profitability indicators. Alkassim (2007) found that for Islamic banks, total assets and total expenses are positively significantly correlated with ROA. Lastly, Zantioti (2009) discovers that Islamic bank profitability is positively significantly influenced by equity/total assets and GDP per capita.

Choong et al (2012) evaluated the determinants of Islamic banking financial performance in Malaysia using the panel data regression analysis. ROA and ROE are used as dependent variables, while liquidity, credit risk, level of capital, size, concentration level and GDP per capita are used as independent variables. The study found that credit risk as the most significant factor that influences financial performance of Islamic banks in Malaysia. It has a significant negative relationship with both ROA and ROE of the Islamic banks.

Al-Mamun et al (2014) compared the financial performance of Islamic and conventional banks in Malaysia during 2003-2010 using financial ratios. The study found that Islamic banks are more liquid and better in term of credit risk than their conventional counterparts. However, conventional banks are more profitable than Islamic banks during the study period. ROA and ROE are employed in the study as measures of profitability.

Based on the above literatures, this study employs bank size, leverage, financings, short-term funding, overhead expenses, equity and GDP per capita as the independent variables and ROA and ROE as the dependent variables. In order to evaluate the impacts of the crisis, a crisis dummy is included in the regression model. In addition, since some literatures find that financial performance of Islamic banks is affected more after the crisis than during the crisis due to low exposures to the US subprime markets and weak risk management practices (Hassan and Dridi, 2010; Hidayat and

Abduh, 2012), therefore, this study also includes an after crisis dummy in the regression model. Lastly, all the GCC countries almost have similar economic characteristics, which is heavily dependent on incomes from selling royalty of natural resources such as oil and gas, therefore, there is no specific way to differentiate between them (Geisst, 2009), thus there is no need to have a country dummy variable.

Based on the above literatures, the following propositions and regression models are developed:

Table 2. Description of the Variables Used in the Regression Analysis

Variables	Description	Hypothesized Relationship with Profitability
ROA (Dependent)	The Return on Average Total Assets of Bank <i>i</i> in year <i>t</i>	NA
ROE (Dependent)	The Return on Average Shareholders' Equity of Bank <i>i</i> in year <i>t</i>	NA
LTA (Internal Independent)	The logarithmic of total assets of <i>i</i> in year <i>t</i>	(+)
LFIN (Internal Independent)	The logarithmic of the financings of bank <i>i</i> in year <i>t</i>	(+)
LLEV (Internal Independent)	The logarithmic of the leverage of bank <i>i</i> in year <i>t</i>	(+)
LSF (Internal Independent)	The logarithmic of the short-term funding of bank <i>i</i> in year <i>t</i>	(-)
LOHE (Internal Independent)	The logarithmic of the overhead expenses of bank <i>i</i> in year <i>t</i>	(+)
LEQ (Internal Independent)	The logarithmic of the total shareholders' equity of bank <i>i</i> in year <i>t</i>	(+)
LGDPPC (External Independent)	The logarithmic of the GDP per capita of country <i>i</i> in year <i>t</i>	(+)
DE (Dummy)	A dummy variable for financial crisis (1) and others (0).	(-)
DEAC (Dummy)	A dummy variable for a period after financial crisis (1) and others (0).	(-)

### Model 1:

$$ROA_{i,t} = \alpha + \beta_1 LTA_{i,t} + \beta_2 LFIN_{i,t} + \beta_3 LLEV_{i,t} + \beta_4 LSF_{i,t} + \beta_5 LOHE_{i,t} + \beta_6 LEQ_{i,t} + \beta_7 LGDPPC_{i,t} + \gamma DE + \gamma DEAC + \varepsilon_{i,t}$$

**Model 2:**

$$ROE_{i,t} = \alpha_2 + \beta_1 LTA_{i,t} + \beta_2 LFIN_{i,t} + \beta_3 LLEV_{i,t} + \beta_4 LSF_{i,t} + \beta_5 LOHE_{i,t} + \beta_6 LEQ_{i,t} + \beta_7 LGDPPC_{i,t} + \gamma DE + \gamma DEAC + \epsilon_{i,t}$$

**3. DATA AND METHODOLOGY****3.1 Data**

In 2011, there were 51 active Islamic banks in the GCC according to the Bankscope database. However, only 23 of them completely reported financial statements from 2005-2010 periods. Therefore, this study only uses 23 Islamic banks as samples.

**3.2 Methodology**

In order to achieve its objectives, this study employs panel data regression analysis. A panel data set consists of a time series for each cross-sectional member in the data set (Baltagi, 2001). In other words, panel data have both cross sectional and time series. In general, there are three different methods to estimate simple linear panel data models namely (a) The pooled Ordinary Least Square (OLS) method, (b) The fixed effects method, and (c) The random effects method. The pooled OLS method presents results under the principal assumption that there are no differences among the data matrices of the cross-sectional dimension (N) (Asteriou and Hall, 2007). However, this case is quite limited and in most cases the choice is between fixed and random effects (Kvanli et al, 1992).

In order to confirm whether it is enough to use the pooled OLS or there is a need to go for a random or fixed effects panel data analysis, the Breusch-Pagan Lagrangian Multiplier (LM) test needs to be conducted (Nachrowi and Usman, 2006). If the LM test value is greater than the tabulated chi-squared value with one degree of freedom and 5% alpha which is 0.003, thus it is recommended to further analyze the data using random or fixed effects models in panel data analysis (Kvanli et al, 1992).

The difference between the fixed effects and the random effects methods is that the latter handles the constants for each section compared to fixed (Asteriou and Hall, 2007). In order to choose between the fixed effects and random effects approaches, this study uses the Hausman test (Nachrowi and Usman, 2006). The test is conducted based on the idea of no correlation in the hypothesis, both OLS and GLS are consistent but OLS is inefficient (Asteriou and Hall, 2007).

## 4. DATA ANALYSIS AND DISCUSSION ON THE FINDINGS

### 4.1 Pooled OLS Regression

The pooled OLS regression implies that there are no differences between the estimated cross sections and it is useful under the hypothesis that the data set is  $\alpha$  priori homogeneous. This assumption is very rare to exist. The pooled OLS is often used as an irregular and ready means of analyzing the data. Table 3 below summarizes the results.

Table 3. Summary of Pooled OLS Output

Dependent	ROA			ROE		
	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.
LTA	-3.099118	-1.065996	0.2886	0.440693	0.072310	0.9425
LFIN	1.196119	1.781521	0.0774*	1.969961	1.298896	0.1966
LEQU	4.793983	4.119751	0.0001***	17.14133	5.561985	0.0000***
LLEV	-0.449143	-0.236141	0.8137	-1.992129	-0.594157	0.5536
LSF	0.046418	0.175402	0.8611	-0.906040	-1.044325	0.2985
LOHE	-1.276219	-1.512523	0.1331	-8.725671	-4.116821	0.0001***
LGDP	1.305918	1.555649	0.1225	2.043512	0.926106	0.3563
DE	-1.963588	-2.038812	0.0437**	-8.918135	-3.666409	0.0004***
DEAC	-6.080081	-6.334268	0.0000***	-29.11059	-12.13975	0.0000***
R-squared	0.386799			0.693256		
Adjusted R-squared	0.339223			0.669457		
F-statistic	8.130129			29.12951		
Prob(F-statistic)	0.000000***			0.000000***		

Note: \* significant at  $\alpha=10\%$ ; \*\* significant at  $\alpha=5\%$ ; \*\*\* significant at  $\alpha=1\%$ ;

The regression result for model 1 reveals that LFIN, LEQU, DE and DEAC significantly affect ROA. Variables of LFIN and LEQ positively significantly affect ROA at  $\alpha=10\%$  and  $\alpha=1\%$  respectively. On the other hand, DE and DEAC variables are negatively significantly related to ROA at  $\alpha=5\%$  and at  $\alpha=1\%$  respectively. This indicates that the global financial crisis negatively affects financial performance of Islamic banks in the GCC. The probability of F-statistic of the model reveals that

model 1 is significant at  $\alpha=1\%$ , which thus suggests that the model is reliable.

The regression result for model 2 indicates that LEQU, LOHE, DE and DEAC variables are statistically significant to ROE. LEQU is positively related to ROE while LOHE negatively affects ROE. Similar to the finding for model 1, DE and DEAC are significant at  $\alpha=1\%$ . It again indicates that the global financial crisis negatively affects financial performance of Islamic banks in the GCC. The probability of F-statistic of the model shows that model 2 is significant at  $\alpha=1\%$ , thus suggests that the model is reliable.

In order to confirm whether it is enough to use the pooled OLS or there is a need to go for a random or fixed effects panel data analysis, this study conducts the Breusch-Pagan Lagrangian Multiplier (LM) test. The LM test formula is as given below:

$$LM = \frac{NT}{2(T-1)} \left[ \frac{\sum_{i=1}^N \left( \sum_{t=1}^T \hat{\varepsilon}_{it} \right)^2}{\sum_{i=1}^N \sum_{t=1}^T \hat{\varepsilon}_{it}^2} - 1 \right]^2$$

where N is the number of Islamic banks included in the analysis and T is the time period used in this study. The epsilon  $\varepsilon$  signifies the residuals produced by the pooled OLS regression. In this test, LM follows the chi-square distribution with one degree of freedom under the null hypothesis.

The calculated LM statistics for model 1 and model 2 are 1.75 and 0.44 respectively. Since those values are greater than the tabulated chi-squared value with one degree of freedom and 5 percent alpha which is 0.003, thus it this study recommends to further analyze the data, in both models, either using random or fixed effects model in panel data analysis.

#### **4.2 Fixed or Random Effects**

After confirming that the Breusch-Pagan LM test shows that the random or fixed effects model is preferable than the pooled OLS model, the next step is to conduct the Hausman test in order to choose between the fixed and random effects model which is made available by the e-views software. Under the null, both are consistent, but one is more efficient; under the alternative, the more efficient of the two becomes inconsistent but the less efficient remains consistent. Thus if the null is okay, the two

estimators should be similar; divergence indicates rejection of the null. The Hausman test results indicate that the fixed effects model is preferable to be used for estimating model 1 (the probability value is less than 0.05) while the random effects model is preferable to be used for estimating model 2 (the probability value is more than 0,05).

Table 4 below presents the summary of the regression results for model 1 where ROA is the dependent variable using the generalized Least Square (GLS) fixed effects approach.

Table 4. The Summary of Panel Data Regression Results for model 1 (Fixed Effects Approach)

Dependent Variables	ROA		
Independent Variables	Coefficient	t-Statistic	Prob.
LTA	7.065137	1.388508	0.1682
LFIN	-0.008116	-0.007818	0.9938
LEQU	13.20828	3.968307	0.0001***
LLEV	-1.310698	-0.503409	0.6158
LSF	-2.065845	-1.943213	0.0549*
LOHE	2.784768	1.036825	0.3024
LGDP	-17.11540	-2.139197	0.0350**
DE	-11.19365	-3.970805	0.0001***
DEAC	-21.82601	-8.053929	0.0000***
R-squared	0.589201		
Adjusted R-squared	0.465105		
F-statistic	4.747957		
Prob(F-statistic)	0.000000***		

Note: \* significant at  $\alpha=10\%$ ; \*\* significant at  $\alpha=5\%$ ; \*\*\* significant at  $\alpha=1\%$ .

The regression result indicates that for model 1, LEQU, LSF, LGDP, DE and DEAC statistically significantly affect ROA of Islamic banks in the GCC. LEQU is positively significantly related to ROA at  $\alpha=1\%$ . It also means the more equities the better their financial performance. The result confirms the hypothesis and the previous findings (Bashir, 2000; Haron 2004; Al-Kassim, 2007; Zantioti, 2009; Hidayat and Abduh, 2012). LSF negatively significantly affects ROA at  $\alpha=10\%$ . The result of LSF is in line with the hypothesis. However, the result shows that LGDP negatively significantly affects ROA at  $\alpha=5\%$ . This is not in line with the hypothesis

and the finding of a previous study (Bashir, 2000). However, the result is similar to the finding of Zantioti (2009). This might be due to tougher competition where more banks attempt to tap the advantage of rapid increase in individuals' incomes as indicated by higher GDP in the GCC.

The result also finds that the global financial crisis (DE) and after the global financial crisis (DEAC) negatively significantly impact the GCC Islamic banking ROA both at  $\alpha=1\%$ . The result also reveals that Islamic banking financial performance is negatively affected more after the financial crisis than during the crisis. This is shown by the higher coefficient of after the crisis variable than the coefficient of crisis variable. The result also shows that model 1 is significant at  $\alpha=1\%$  as it has been shown by the probability of F-statistic of the model which thus suggests that the model is reliable. Table 5 below presents the summary of the regression result for model 2 using the random effects approach.

Table 5. The Summary of Panel Data Regression Results for Model 2 (Random Effects Approach)

Dependent Variables	ROE		
	Coefficient	t-Statistic	Prob.
LTA	-5.495641	-0.803494	0.4233
LFIN	2.102225	1.238808	0.2179
LEQU	21.22570	4.634945	0.0000***
LLEV	1.419797	0.371281	0.7111
LSF	-1.187100	-0.936728	0.3508
LOHE	-9.272413	-3.542232	0.0006***
LGDP	2.964549	0.765022	0.4458
DE	-10.84960	-2.696662	0.0080***
DEAC	-35.71501	-9.007935	0.0000***
R-squared	0.546101		
Adjusted R-squared	0.510884		
F-statistic	15.50704		
Prob(F-statistic)	0.000000***		

Note: \* significant at  $\alpha=10\%$ ; \*\* significant at  $\alpha=5\%$ ; \*\*\* significant at  $\alpha=1\%$ .

Referring to table 5, it is found that LEQU, LOHE, DE and DEAC are significantly related to ROE. LEQU positively significantly affects ROE at  $\alpha=1\%$ . The result of

LEQU again supports the hypothesis and in line with the result for model 1. LOHE variable negatively significantly influences ROE at  $\alpha=1\%$ . This finding is not in line with the hypothesis. This is because the increase in staff costs is not compensated by the generation of higher incomes (revenues), thus makes the costs reduce the profitability of the Islamic banks. Unlike the results for model 1, the external determinant (LGDP) is not significant. The result for model 2 also finds that global financial crisis (DE) and after global financial crisis (DEAC) negatively significantly affect Islamic banking ROE at  $\alpha=1\%$ . The result again indicates the impacts of the financial crisis on the GCC Islamic banking financial performance. Similar to the result for model 1, it is also found that Islamic banking financial performance is negatively affected more after the global financial crisis than during the crisis. The result also reveals that model 2 is significant at  $\alpha=1\%$  as it has been shown by the probability of F-statistic of the model, thus suggests that the model is reliable.

## 5. CONCLUSION

This study aims to evaluate the impact of the 2007/2008 financial crisis on the financial performance of Islamic banks in the GCC using the panel data regression analysis. The study also attempts to examine the factors that significantly influence the financial performance of the GCC Islamic banks during 2005-2010. The study finds that the financial crisis negatively significantly affects the financial performance of the GCC Islamic banks. The impacts of the crisis into the GCC Islamic banking financial performance were worse after the crisis period which is the year 2009-2010. The above findings contradict the belief of some experts mentioning that Islamic banks were not affected by the financial crisis. The study also finds that equity positively significantly affects ROA and ROE. It is also found that short term funding (LSF) and GDP per capita (LGDP) negatively significantly affect ROA. The study also finds that overhead expenses (LOHE) only negatively significantly affect ROE.

Lastly, there are at least two limitations in this study, which are: (i) due to the availability of data, only 21 Islamic banks are used in this study, thus it limits the capability of this study to accurately represent the all Islamic banks in the GCC, and (ii) it does not include the comparative analysis on conventional banking. As a result, the findings of this study cannot give a universal conclusion regarding the impacts of the crisis into Islamic banking financial performance. Thus, suggestions for future researches are; (i) apply a similar study to other countries which have Islamic

banking and (ii) also incorporate the analysis on conventional banking in the GCC so a comparison of the impact of the crisis to both types of bank can be done.

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