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EFFECTS OF THE FINANCIAL CRISIS ON BANKING INSTITUTIONS IN THE ESCWA REGION 2006-2009

The research presented in this issue was conducted by Ms. Rima Turk Ariss of the Economic Analysis Section within the context of the work of EDGD on financial linkage and economic development. It is a preliminary paper, disseminating the findings of work in progress, and has not been subjected to the usual review process for ESCWA publications. Feedback and comment from readers are therefore welcome and may be made at http://www.escwa.un.org/main/contact.asp.

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Introduction

Financial institutions play a crucial role in the economy, channelling funds between surplus and deficit units, and ensuring efficient allocation of resources. In the ESCWA region, banks remain the main providers of funds, as financial markets still lack depth and breadth. As a result, any disruption to the operations of financial institutions or the efficiency of delivery of financial services could have severe consequences for the rest of the economy.

The recent financial crisis has shown that, as a result of increasing financial linkage worldwide, no financial institution is immune to global developments. This paper assesses the impact of recent developments on financial institutions in the ESCWA region. It is part of the Working Paper Series of the Economic Development and Globalization Division (EDGD) at ESCWA. These papers are written by ESCWA staff members as part of an ongoing work programme with the aim of providing desk reviews on a subject that is pertinent to the region. They are also intended to identify future avenues for research and stir policy dialogue, discussion and debate.

Banking operations and profitability worldwide have been directly and negatively affected by the global financial crisis, impairing credit growth and the efficient allocation of resources. This study, which is divided into three parts, assesses the impact of the crisis on banking institutions in the ESCWA region. Part one offers a brief presentation of the pre-crisis position of the regional banking sector, an overview of the financial problems encountered by commercial, Islamic and investments banks as a result of the crisis, and sets out the varied financial and economic policy responses adopted in ESCWA member countries in an attempt to stabilize the financial sector. Part two provides an in-depth analysis of the performance of banking institutions between 2006 and 2009, while part three concludes the chapter by offering a number of policy recommendations.

PART I: POLICY INTERVENTION IN ESCWA MEMBER COUNTRIES TO COUNTER THE FINANCIAL CRISIS

(a) *Pre-crisis position*

Prior to the financial crisis, the ESCWA region had experienced a credit boom in the banking sector. In certain countries, such as the United Arab Emirates and Qatar, bank lending was mainly channelled into real estate and construction. In others, bank lending for the purchase of securities had increased. This was most noticeable in Kuwait, which is the only country in the region to report such activities separately, where bank lending for equity purchases had reached 12 per cent of assets prior to the crisis in 2008.[1]

Greater leverage in a low interest rate environment and buoyant economic activity contribute to an increase in demand and asset prices, thereby leading to a real estate boom. With the availability of cheap financing, the continuous rise in domestic demand leads both to a further increase in asset prices that strengthens the value of collaterals and to short-term project success, thus veiling the existence of vulnerability. When a macroeconomic shock, such as the advent of the global financial crisis, triggers a downturn in the business cycle, this loop breaks. As asset prices decline and businesses slow down, the volume of non-performing loans rises, thus endangering the robustness of bank balance sheets. In turn, individual bank difficulties can lead to a break in the chain of interbank lending and, when the correlation between the performance of individual banks is elevated, may also become systemic.[2]

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[1] Mansur and Delgado, 2008.

[2] Davis and Karim, 2008.

The financial crisis triggered a significant slowdown in global economic activity, which was felt across a number of banking sectors in the ESCWA region. The regional financial sector also endured two endogenous shocks in 2009:

(a) The first resulted from the uncertainty surrounding the default of the corporations of two leading family-owned Saudi conglomerates, Ahmad Hamad Algosaibi and Brothers Company and the Saad group in early 2009;

(b) The second came as a result of the November 2009 announcement by Dubai World that it was seeking a six-month "standstill" on its debt repayments amounting to US$26 billion in loans and bonds, including a US$3.5 billion Islamic bond (*Sakk)*[3] due to mature on December 14, 2009.

Yet, despite these problems, the ESCWA region was relatively mildly affected by the global financial crisis. This can be attributed to a number of reasons. First, ESCWA member countries had been strengthening their foreign currency and liquidity positions prior to the financial crisis. The rise in oil prices in the countries of the Gulf Cooperation Council (GCC) and the increase in remittances in non-oil producing countries had allowed economies across the region to build up substantial foreign reserves.[4] Second, banks in the region had limited exposure to complex financial derivatives[5] and third, all forms of financial institution had reinforced their equity base, building up adequate levels of capitalization, all of which combined to ensure that the banking sector in the ESCWA region was in a solid position to withstand the crisis.

However, in common with other regions, the ESCWA region nonetheless experienced reverberations from the financial crisis, albeit to varying degrees. A number of financial institutions in the region had direct exposure to the subprime market and credit derivatives (even though few have publicly admitted to this) and therefore suffered direct losses to their portfolios.[6] However, individual bank problems were not sufficiently serious to raise real concern about systemic risk, and overall banks showed great resilience in the face of the crisis.

(b) *Impact on financial institutions*

The structure of the banking sector in the ESCWA region includes three broad types of financial institution: commercial, Islamic and investment banks. The financial crisis affected the various types of institution in different ways. The following briefly summarizes the toll of the financial crisis on these financial intermediaries:

(i) *Commercial banks*

a. By December 2008, 18 GCC banks had been downgraded by the Fitch international credit rating agency.[7] However, only one commercial bank in the ESCWA region actually collapsed, requiring a capital injection from public funds. The second largest bank in Kuwait,

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[3] *Sakk* (plural: *Sukuk*) is an Islamic investment certificate that represents undivided ownership in an asset. It is typically the equivalent of a conventional bond, but is in compliance with the principles of sharia.

[4] Between 2004 and 2008, the GCC countries grew by an average of six per cent per year and accumulated US$1.3 trillion in foreign reserves. In addition, workers' remittances from the GCC countries account for some US$40 million annually (Ahmed, 2010).

[5] Ahmed, 2009.

[6] Hasan and Dridi, 2010.

[7] Middle East Economic Digest, 2008.

Gulf Bank, reported losses of US$1.3 billion in derivatives and was capitalized through a rights issue, with the Kuwait Investment Authority injecting part of the new capital;[8]

b. Two wholesale banks in Bahrain, the International Banking Corporation and Awal Bank, were placed in administration in mid-2009, following the default of the two prominent Saudi companies;

c. Other direct losses to bank portfolios include the US$272 million exposure of Abu Dhabi Commercial Bank; the US$1.3 billion impairment charges by Gulf International Bank of Bahrain resulting from its material investments in residential mortgage-backed securities and structured investment vehicles in the United States of America; the US$230 million write-down by the Arab Banking Corporation in Bahrain; the US$446 million write-downs by Gulf Investment Corporation in Kuwait;[9] an increase in bad loan provision by Bank Muscat in Oman to US$104 million as a result of its exposure to the two Saudi corporations; and undisclosed losses by Qatar Insurance Company and a number of Saudi banks.

(ii) *Islamic banks*

a. Like many 'conventional' banks (including Bahrain Islamic Bank, the Saudi Bank AlJazira, Dubai Islamic Bank and Kuwait Finance House), several leading sharia-compliant banks recorded a reduction in profits for 2008 and 2009 primarily as a result of write-downs in the value of real estate investments following exposure to the subprime market;[10]

b. Amlak Finance and Tamweel, two leading Islamic finance firms in the United Arab Emirates engaged in providing rental and lease instruments, have been merged by the federal Government pending restructuring following financing difficulties.[11]

(iii) *Investment banks*

a. Most investment banks were affected by the crisis and presented some systemic risk, primarily in Kuwait, where the size of such institutions exceeds 100 per cent of gross domestic product (GDP). Although investment banks in the country are generally well capitalized (above 35 per cent), proprietary trading represents the majority of their investments. More importantly, loans from banks to investment companies in Kuwait amount to some 11 per cent of total bank loans, reflecting considerable cross-sectoral linkage between financial institutions;

b. In December 2008, the largest investment company in Kuwait, Global Investment House, defaulted on its US$3 billion debt, although a credit restructuring agreement was reached before the end of the following year. In May 2009, a large Kuwaiti investment company, Investment Dar, defaulted on US$100 million *Sukuk*.[12]

It is clear, therefore, that of the various types of financial institution, commercial banks were the least affected by the global financial crisis, followed by Islamic banks with direct exposure to the real estate market, while investment banks which deal directly in financial markets were the most severely affected. It

[8] IMF, 2010a. According to this report, 10 other banks in Kuwait will need to raise additional capital as a result of their links with distressed investment companies.

[9] Woertz, 2009.

[10] Hasan and Dridi, 2010.

[11] IMF, 2010b.

[12] IMF, 2010a.

is also of note that the financial institutions which encountered problems as a result of the global financial crisis are, in general, clustered in the GCC countries. This may be attributable to the greater financial integration that the GCC countries have with the rest of the world in comparison with the non-GCC economies of the ESCWA region. Indeed, countries such as Bahrain, Qatar and the United Arab Emirates have long-established financial centres and compete for the leading role in the provision of financial services in the region.

(c) *Policy responses to adverse developments*

In general, ESCWA member countries responded forcefully to the adverse developments brought about by the crisis, which contributed to the maintenance of financial stability. Their responses took three main forms: financial, monetary and fiscal. On the financial front, central banks across the region took exceptional measures to strengthen bank operations and stabilize the financial system. Governments injected capital into stressed institutions, increased deposits with financial institutions, provided emergency credit facilities to banks and extended a blanket guarantee for all deposits. Table 1 shows some of the country-specific financial responses.

TABLE 1. FINANCIAL RESPONSES TO THE CRISIS

Country	Financial response
Bahrain	- Government deposits of US$150 million in three retail banks - Use of oil exports to raise Government deposits in banks with liquidity shortages - Provision of a penalty-free credit facility of a short-term dollar swap (for maturities of one-week, one-month or more) to banks in October 2008 - Raising of the commercial bank deposit guarantee from 15,000 Bahraini Dinars to 20,000 Bahraini Dinars
Egypt	- Promise to guarantee deposits
Jordan	- Removal of ceiling on deposit guarantees until the end of 2009
Kuwait	- Government deposits of US$1.68 billion in banks - Provision of a credit facility of US$13.8 billion to local firms with a 50 per cent guarantee - Provision of Government loan facilities to investment firms - Easing of the loan-to-deposit ratio from 80 per cent to 85 per cent, along with an increase in the cap on credit growth - Capital injection of US$1.87 in banks by the Government - Investment in the stock market by the Kuwait Investment Authority through mutual funds - Full protection of customer deposits in local banks
Oman	- Increase of 30 per cent in Government deposits in the year to June 2009 - Provision of a credit facility of US$2 billion to local banks at LIBOR[a/] + 150 bps[b/] - Loosening of the loan-to-deposit ratio from 85 per cent to 87.5 per cent - Establishment of a US$400 million facility to support the stock market
Qatar	- Increased Government deposits in the banking sector - Capital injection of US$1 billion in listed banks by Qatar Investment Authority - Capital injection by the Government of US$70 million in investment firms - Purchase of bank investment portfolios valued at US$2 billion in April 2009 and real estate portfolios valued at US$4 billion in June 2009 - Removal of the ceiling on deposit guarantees

TABLE 1 (*continued*)

Country	Financial response
Saudi Arabia	- Government deposits of US$36 billion in banks - Provision of a credit facility through repurchase agreements - Government lending of US$2.67 billion in credit to low-income citizens - Provision of deposit guarantees by the Supreme Economic Council
United Arab Emirates	- Government deposits of US$18.7 billion in banks - Provision of an emergency credit facility of US$13.6 billion (October 2008) - Progressive increase in the capital adequacy ratio to 12 per cent and in the Tier I capital ratio to 8 per cent (effective June 2010) - Capital injection of US$4.4 billion by Abu Dhabi Government to recapitalize five banks - Government commitment to at least US$15 billion to support Dubai World and the debt restructuring of the Nakheel company, as well as a further US$2 billion to Dubai Holding - Government guarantee of all deposits and interbank lending for 3 years (September 2008)

Source: IMF, 2010a and ESCWA, 2009.

a/ LIBOR is the London Interbank Offered Rate.

b/ bps: Basis points, a measurement used to calculate a percentage change in the value or rate of a financial instrument (1 basis point = 0.01 per cent).

In addition to financial responses, central banks across the ESCW region have used monetary policy tools to ease credit and ensure that liquidity does not dry up. Specific actions have included a reduction of overnight and repurchase rates, and a lowering of reserve requirement ratios. The Central Bank of the United Arab Emirates has also engaged in open market operations by entering into a bond-buying programme. Table 2 sets out the monetary responses to the financial crisis.

TABLE 2. MONETARY RESPONSES TO THE FINANCIAL CRISIS

Country	Monetary response
Bahrain	- Reduction of the reserve requirement rate from 7 per cent to 5 per cent - Reduction of the one-week deposit rate by 25 bps and the overnight repurchase rate by 125 bps, including *Sukuk* as acceptable collateral
Egypt	- Cutting the overnight and lending rates in two stages in 2009, first by 100 bps and then by 50 bps
Jordan	- Reduction of the reserve requirement rate from 9 per cent to 7 per cent - Reduction of the rediscount rate from 5.75 per cent to 5.25 per cent and the repurchase rate from 5.5 per cent to 5 per cent
Kuwait	- Reduction of the repurchase rate by 150 bps and the discount rate by 125 bps
Oman	- Reduction of the reserve requirement from 8 per cent to 5 per cent to release 270 million Omani rials into the banking system - Reduction of the repurchase rate by 220 bps in November 2008
Saudi Arabia	- Reduction of the reserve requirement on current accounts from 10 per cent to 7 per cent - Lowering of the overnight repurchase rate by 150 bps

TABLE 2 (*continued*)

Country	Monetary response
United Arab Emirates	- Reduction of the repurchase rate by 50 bps - Launch of a US$20 billion bond programme and sale of the first tranche of US$10 billion to the central bank
Yemen	- Reduction of the reserve requirement rate from 10 per cent to 7 per cent

Source: IMF, 2010a and ESCWA 2009.

Finally, fiscal authorities also responded decisively in the form of high levels of spending. During the boom years of 2004-2008, the GCC countries had accumulated more than US$1.3 trillion in foreign assets, which were employed in countercyclical capital spending during the downturn. The largest stimulus package (as a percentage of GDP) was that formulated by Saudi Arabia, not only among the countries of the region, but also among the countries of the G-20, with a US$400 billion spending plan over five years. The fiscal responses by four ESCWA member countries are set out in the following table.[13]

TABLE 3. FISCAL RESPONSES TO THE CRISIS

Country	Fiscal response
Egypt	Announcement of a fiscal stimulus package of EGP30 billion, half of which is to be disbursed as follows: - EGP 13.3 billion in public investment to increase demand - EGP 1.7 billion to account for a reduction in customs duties on imports of intermediate and capital goods
Kuwait	Plans to increase Government spending by approximately US$104 billion during the period 2010-2014
Oman	Increase in Government spending in 2009 by 11 per cent compared with the previous year
Saudi Arabia	Plans to implement the largest expansionary fiscal stimulus package of the G-20 countries of US$400 billion on development projects

Source: IMF, 2010a and ESCWA, 2009.

In conclusion, not all ESCWA member countries intervened to counteract the possible negative reverberations of the global financial crisis and those which did take action responded in a variety of ways, using a combination of financial, monetary and fiscal measures. No new macroeconomic or financial policies were adopted in Lebanon, while in Yemen, the Central Bank only reduced the legal reserve requirement, as did the Government in Jordan, which also guaranteed deposits. While the GCC countries took action in most areas, of the non-GCC countries in the region, only Egypt intervened on all three fronts with financial, monetary and fiscal action.[14]

[13] The Saudi Arabia stimulus package amounts to 9.4 per cent of 2008 GDP. To date, no other ESCWA member country has announced a fiscal stimulus package.

[14] No information is available in this regard for Iraq, Palestine or the Syrian Arab Republic.

PART II: PERFORMANCE ANALYSIS OF FINANCIAL INSTITUTIONS IN THE ESCWA REGION 2006-2009

Previous studies on the impact of the global financial crisis on the regional banking sector focused on the extent of losses and write-downs by banks. This section, however, provides a different perspective on assessing the performance of the financial institutions in ESCWA member countries and offers a detailed examination of key performance indicators across three categories: commercial, Islamic and investment banks.

(a) *Data description*

To assess the impact of the global financial crisis on the ESCWA region, data on all credit institutions in 11[15] member countries was retrieved from Bankscope[16] for the years 2006-2009. The dates were chosen with a view to identifying the position of each financial sector two years prior to the start of the crisis (2006-2007) and again two years into the crisis (2008-2009). The sample comprised a total of 345 institutions, including commercial banks, Islamic banks, investment banks and other financial firms. Table 4 shows the structure of those financial institutions by country.

TABLE 4. DISTRIBUTION OF FINANCIAL INSTITUTIONS BY MEMBER COUNTRY

Country	Bank holding company	Commercial banks	Cooperative banks	Investment banks	Islamic banks	Other non-banking credit institutions	Real estate and mortgage banks	Specialized governmental credit institutions	Total
Bahrain	0	17	0	7	23	3	1	2	53
Egypt	1	33	0	3	3	0	1	5	46
Jordan	0	11	0	4	2	0	2	0	19
Kuwait	0	7	0	11	9	4	0	1	32
Lebanon	0	64	0	2	2	0	0	0	68
Oman	0	11	0	2	0	1	2	2	18
Qatar	1	7	0	1	5	1	0	0	15
Saudi Arabia	0	11	0	0	4	2	0	0	17
The Sudan	0	15	0	0	12	0	0	1	28
United Arab Emirates	0	20	0	5	10	1	0	1	37
Yemen	0	6	1	0	4	0	0	1	12
Total	2	202	1	35	74	12	6	13	345

Source: Bankscope.

In all ESCWA member countries, the financial sector is dominated by commercial banks, with the exception of Kuwait where investment firms dominate the sector. As in Kuwait, the delivery of financial services in Bahrain and the United Arab Emirates is assured through diverse financial institutions, suggesting greater competition in the industry than in those countries where the traditional banking model is more prevalent, whether in conventional or Islamic format. Interestingly, of all ESCWA member countries, those three (Bahrain, Kuwait and the United Arab Emirates) exhibit the highest degree of financial integration with the rest of the world as a result of their closer links with international equity and credit markets, and, as the following analysis shows, they were the member countries most affected by the crisis.

[15] Bank-level data are not available for Iraq, Palestine or the Syrian Arab Republic.

[16] Bankscope is a comprehensive, global database containing information on 30,000 public and private banks around the world.

(b) *Global analysis for the ESCWA region*

Table 5 presents key financial indicators for the three main types of financial institution operating in the ESCWA member countries analysed: commercial banks, Islamic banks and other non-commercial non-Islamic banks (mostly investment banks).

TABLE 5. KEY PERFORMANCE RATIOS FOR FINANCIAL INSTITUTIONS, SELECTED ESCWA MEMBER COUNTRIES, 2006-2009

		Growth		Liquidity		Loan quality	Profitability		Capitalization	
	Year	Tangible asset growth	Loan growth	Cash and reserves/ Earning assets	Government securities/ Earning assets	Non-performing loans/Total loans	Return on average equity	Return on average assets	Tangible common equity/ Tangible total assets	Equity to assets
Commercial banks	2006	25.96	27.23	11.92	15.37	9.30	18.30	1.87	12.04	12.13
	2007	32.20	27.66	19.68	14.58	8.00	14.15	1.93	11.74	11.84
	2008	15.64	23.66	28.26	18.32	7.85	11.67	1.40	11.66	11.89
	2009	10.29	12.95	16.81	20.44	8.79	11.67	1.33	12.13	12.36
	2006-2009	21.02	22.88	19.17	17.18	8.49	13.95	1.63	11.89	12.06
Islamic banks	2006	44.55	45.24	9.19	*	3.29	19.39	5.88	35.63	35.71
	2007	45.25	63.31	14.69	*	3.90	18.22	5.69	35.01	35.22
	2008	26.79	59.90	12.48	*	6.27	8.84	1.46	33.96	34.22
	2009	11.75	15.75	14.87	*	7.75	-2.03	-1.78	32.59	32.96
	2006-2009	32.09	46.05	12.81	*	5.30	11.11	2.81	34.30	34.53
Non-commercial, non- Islamic banks	2006	37.52	13.75	10.00	13.30	18.47	14.10	5.79	40.83	41.43
	2007	49.76	18.70	11.60	11.43	18.77	18.67	8.07	43.44	44.20
	2008	4.80	19.81	19.62	12.29	11.58	0.51	0.61	40.45	41.14
	2009	3.54	10.39	19.62	18.12	11.17	-1.09	-0.31	40.81	41.35
	2006-2009	23.91	15.66	15.21	13.79	15.00	8.05	3.54	41.38	42.03

* Figures are not available for Islamic banks because they are prohibited from holding Government securities.

The figures above indicate that at the end of 2007 and prior to the spread of the crisis to ESCWA member countries, financial institutions were enjoying high rates of growth in terms of both total assets and loans. Indeed, asset and loan growth figures corroborate the credit boom that most countries in the region experienced in 2006 and 2007. All the financial institutions in the analysis have managed to maintain positive growth since 2008, albeit at substantially lower rates than in previous years. The growth rate of commercial banks in terms of assets stood at 32.20 per cent in 2007 and plunged by more than 50 per cent to 10.29 per cent in 2009. The corresponding growth rate in terms of loans also halved over the same period, from 27.66 per cent to 12.95 per cent. This decline in asset growth is a direct result of the sluggish economic activity since the credit crunch started. Average credit growth rates reached their lowest levels in 2009 across all types of financial institution, which may go some way towards explaining the lower average economic growth rates in the region in 2009. Islamic banks suffered an even more drastic decline in asset growth (from 45.25 per cent to 11.75 per cent) and credit financing (from 63.31 per cent to 15.75 per cent) between 2007 and 2009, although their growth figures still exceeded those of commercial banks and other financial institutions. This decline was primarily a result of exposure of Islamic banks to the real estate market and the default in a number of *Sukuk*, which most Islamic banks hold as part of their investment portfolios. Other banking firms (mainly investment banks) reported a similar position with regard to the curtailment in asset growth (from 49.76 per cent to 3.54 per cent) and loans (from 18.7 per cent to 10.39 per cent) between 2007 and 2009. These investment banks are more financially integrated with the rest of the world than commercial and Islamic banks because of their links with global capital markets, which goes some way towards explaining why they were more affected by the crisis than other financial institutions.

The picture across the region is not entirely negative, however, and table 5 indicates that, on average, financial institutions in the region improved their liquidity position during the crisis, either by holding more cash and reserves or by shifting their portfolio composition towards more liquid Government securities. The decisive financial policy responses by central banks targeting monetary easing were successful in ensuring that liquidity did not dry up during the period 2008-2009. Banks responded favourably to the various financial packages aimed at injecting greater liquidity and capital into the system, whether in terms of reduction of legal reserve requirements, cutting repurchase and discount rates, or making long-term Government deposits. Indeed, the high liquidity ratios observed in 2008 suggest that banks changed their asset allocation by lowering the weight of loans and increasing their holdings of more liquid cash reserves and Government securities.

Interestingly, the quality of the loan portfolios held by financial institutions in the ESCWA member countries profiled in this paper did not, on average, worsen during the study period, with the exception of Islamic banks. The ratio of non-performing loans to total loans hovered around 8.5 per cent for commercial banks, a level which is in fact below the pre-crisis ratio of 9.3 per cent in 2006. Similarly, the average non-performing loan ratio for investment banks and other financial institutions fell from 18.47 per cent to 11.17 per cent between 2006 and 2009. Banks in the ESCWA region had limited exposure to the toxic assets which were responsible for the financial turmoil elsewhere in the world, and this was reflected in a better quality of loan portfolio. In contrast, average non-performing loans in Islamic banks (as a proportion of total loans) more than doubled during the same period (from 3.29 per cent to 7.75 per cent), although it should be noted that these figures are still the lowest among the financial institutions. The credit portfolio of the Islamic banks was particularly adversely affected by the decline in real estate prices in the region, primarily in Dubai.[17]

Profitability, as measured by both return on average equity and return on average assets, declined for all types of financial institution, but the reduction was less pronounced for commercial banks than for Islamic or investment banks or other financial institutions. For commercial banks, ROAE decreased from 14.15 per cent to 11.67 per cent between 2007 and 2009, while the corresponding figures for Islamic banks show an average reduction from 18.22 per cent to -2.03 per cent, and for other financial institutions from 18.67 per cent to -1.09 per cent. A similar pattern was observed for ROAA, which over the same period declined from 1.93 per cent to 1.33 per cent for commercial banks, from 5.69 per cent to -1.78 per cent for Islamic banks, and from 8.07 per cent to -0.31 per cent for other financial institutions. Indeed, Islamic and other non-commercial, non-Islamic banking firms also recorded losses in the wake of the financial crisis, which are attributable to the real estate exposure of Islamic banks and the high levels of external financial integration of investment banks in the region.

The figures in table 5 also show that all types of financial institution in the countries profiled enjoy solid capitalization levels, whether in terms of the ratio of tangible equity to tangible assets or the ratio of equity to assets. In 2006, all categories of financial firms were more than adequately capitalized, and that remained the position at the end of 2009. Banks in the ESCWA region thus entered the crisis on solid grounds in terms of equity capital, which provided them with the wherewithal to better weather the crisis.

In the light of the above discussions, three general comments emerge. First, the global financial crisis took its toll on financial institutions in the ESCWA region primarily through a reduction in asset growth, sluggish credit financing and a substantial decline in profitability, with Islamic and investment banks recording losses in 2009. However, unlike many other regions, no systemic crisis ensued, such as that experienced in the United States of America following the fall of the Lehman Brothers businesses and subsidiaries in September 2008 or the destabilizing financial situation which continues to affect certain European countries. This is due in great part to the healthy capitalization of banks in the ESCWA region, which has meant that they have, in general, been able to weather the financial crisis. Second, for the reasons

[17] See Ghose, 2010.

explained above, the effect of the crisis was most severe on investment banks and Islamic banks.[18] Third, it has become clear that the general claim that Islamic banks showed greater resilience to the financial crisis than conventional banks is not entirely accurate. Until 2008, when the effects of the crisis had not yet been fully felt in the region, this was indeed the case. As Hasan and Dridi (2010) noted, while Islamic banks showed greater resilience than commercial banks in 2008, they were more vulnerable in 2009 due to a "second round effect" of the global financial crisis. It is true that the Charter of Islamic banks forbids them from investing in complex financial derivatives and they did not, therefore, carry any toxic assets on their books. However, most conventional commercial banks in the ESCWA region did not have major exposure to credit derivatives, either, and those institutions which did have such exposure were few in number.[19] On the contrary, the data in table 5 suggest that Islamic banks were more impaired by the financial crisis than commercial banks, even though their rates of asset and credit growth still stand above those of commercial banks.

(c) *Individual country analysis*

To analyse the effect of the financial crisis on selected ESCWA member countries individually in tabular format, the appendix to this paper adopts the key financial indicators used in table 5 for commercial, Islamic and investment banks. The following section provides a brief summary of the principal findings by country.

In Bahrain, the banking sector was severely affected by the global crisis. Total assets experienced negative growth across all types of institution and credit was curtailed at commercial banks. Intervention by the Central Bank had a positive effect on the liquidity position of banks, but non-performing loans peaked and profitability turned negative. However, commercial banks started to recover in 2009 and bank capitalization was solid across all categories of financial firms. In Bahrain, several offshore banks operate as wholesale banks, maintaining strong ties with international banks. The country also presents a high degree of financial integration with international markets compared with Oman, Qatar, Saudi Arabia and the non-GCC ESCWA countries and consequently its banking sector was directly affected by the crisis.

In Egypt, all categories of banks experienced an increase in asset growth between 2008 and 2009. With the exception of commercial banks, credit financing also increased. While non-performing loans rose, profitability nonetheless improved significantly for all financial firms over the last two years of the study period. The Government's stimulus plan and the monetary intervention by the Central Bank to ease credit were successful in limiting the impact of the crisis on financial institutions.

In Jordan, the total assets of commercial and Islamic banks increased in 2009, albeit at a lower rate than in 2008. This increase in assets can be explained by higher liquidity positions following the decision by the Central Bank to cut its policy rates on lending and reduce the legal reserve requirement. However, credit growth was severely impaired for investment banks and commercial banks barely expanded their loan portfolios. These figures point to sluggish economic activity, which could negatively affect economic growth if maintained in the future. Non-performing loans also rose for all banks, but they were particularly pronounced for commercial banks. The worsening of the credit portfolio necessitated additional provisioning and charge-offs, which in turn took its toll on profitability, which was reduced for all financial institutions and resulted in losses for Islamic and investment banks. These institutions are generally less capitalized than their peers in other member countries and their ability to absorb losses is lower than banks with high capitalization levels.

Of the ESCWA member countries studied, Kuwait appears to have been the country most severely affected by the global credit crunch. All financial indicators for the sector worsened. As in Bahrain, asset and loan growth were severely impaired in 2008 and 2009, to the extent that banks actually shrank in size. Despite Government efforts to inject liquidity into the system and its direct deposits into banks, liquidity

[18] IMF, 2010c.

[19] Ahmed, 2009.

ratios also declined significantly, contrary to other countries in the region, where central bank actions were successful in maintaining the flow of liquidity. The average ratio of non-performing loans to total loans rose and all types of banks generally recorded losses, with the exception of commercial banks, which experienced a slight rise in profitability ratios in 2009. Kuwait is more financially integrated with the rest of the world than other member countries and it was therefore particularly affected by the spillover of the crisis. In addition to the financial policy response by the Central Bank, the Government also has plans to increase public spending by some US$104 billion over the next few years, thereby contributing to a faster recovery.

In contrast, Lebanon is the only country in the region which not only did not suffer repercussions from the financial crisis; indeed, its banking sector experienced even higher rates of growth in assets and loans than in previous years. The Lebanese banking system attracted deposits from many parts of the world, partly from an increase in workers' remittances and partly as a result of the general perception by customers of the existence of a sound regulatory framework.[20] The Central Bank had forbidden banks from investing in complex financial derivatives and closely monitors proprietary trading at financial institutions. More importantly, it did not have to implement any emergency financial measures to directly shield the financial system from the crisis. Liquidity remained high, non-performing loans were on average reduced and profitability remained solid for commercial banks, although not for Islamic banks. It should be noted that Islamic banking in Lebanon is in its early stages of development and is not as sophisticated as in other countries in the region.

The financial ratios for banks in Oman suggest that the financial system in the country responded positively to Government action to withstand the crisis and, in consequence, no significant problem emerged. In 2009, all banks expanded their assets and loans in response to a 30 per cent increase in Government deposits and a rise in fiscal spending, although at lower rates than in 2008. Liquidity improved generally following initiatives by the Central Bank to lower the reserve requirement ratio and repurchase rates. From 2006, non-performing loans followed a downward trend, indicating that losses on loan portfolios as a result of the crisis were limited, but that overall, bank profitability remained solid and all financial institutions were adequately capitalized.

In Qatar, commercial and Islamic banks responded favourably to the forceful Government response to the crisis. They maintained positive growth rates in assets and financing, and recorded very low levels of non-performing loans in comparison with banks in other countries. This is a direct result of the fact that the Government cleaned up the balance sheet of banks by buying their investment and real estate portfolios, and injected capital up to 2 per cent of GDP.[21] In consequence, commercial and Islamic banks in Qatar registered solid profitability levels, and Islamic banks were even able to expand their capital base. However, as in other countries in the region, investment banks were more severely affected by the crisis because of their stronger links with global financial markets. The growth rate of credit financing extended by non-commercial, non-Islamic banks decreased, on average, by 100 per cent in 2009 and their levels of non-performing loans were considerably higher than for commercial and Islamic banks. Investment banks recorded losses and, in general, saw a reduction in their equity base, despite having initially been highly capitalized.

In 2009, the assets of commercial banks in Saudi Arabia grew by a mere 1.33 per cent, while Islamic bank assets increased by almost 11 per cent. Loan financing receded for commercial banks, but it registered a 20 per cent growth among Islamic banks in 2009. Islamic banks' performance was better than commercial banks because the two defaulting Saudi conglomerates had more dealings with commercial banks than with Islamic banks, although non-performing loans increased for both institutions between 2008 and 2009. Bank Profitability remained positive but it was also reduced over the last two years, due to credit provisioning and sluggish lending. Overall, the responses of the Central Bank in cutting the reserve requirement, decreasing

[20] According to data from Bankscope, customer deposits in Lebanon grew at a rate of 23.24 per cent between 2006 and 2007 (from US$64.1 billion to US$79 billion) and at a rate of 24.48 per cent between 2008 and 2009 (from US$90.7 billion to US$112 billion).

[21] Khamis and Senhadji, 2010.

interest rates and announcing the largest stimulus package of the G-20 countries. Succeeded in limiting the spillover effects of the crisis into the country's financial institutions.

Commercial banks in the Sudan maintained strong balance sheet positions in 2009. They remained positive on asset and credit growth, suggesting limited adverse impact from the crisis, which can probably be attributed to the country's relatively low level of global financial integration. Despite such positive indications, however, non-performing loans of Islamic banks increased from less than 1 per cent in 2008 to more than 10 per cent in 2009. Other financial institutions in the country do not report non-performing loans separately and it is therefore not possible to assess their position on such loans. Nonetheless, all Sudanese banks remained adequately capitalized in 2009 and recorded profits.

In the United Arab Emirates, commercial banks saw a severe drop in asset and lending growth rates in 2009, accompanied by a rise in non-performing loans, although overall banks maintained a good record of profitability. They also widened their capital base following the capital injections by the Government, but Government efforts to ease credit did not produce an improvement in liquidity. In parallel, investment bank credit financing volumes were considerably lower in 2009 than in the previous year. As in Kuwait and Bahrain, both Islamic and investment banks registered an increase in non-performing loans, recording significant losses in 2009. In recognition of the worsening financial conditions, the forceful anti-crisis stimulus measures introduced by the Government of the United Arab Emirates represented the largest stimulus package in the emerging markets as a percentage of GDP, amounting to some 16 per cent of national GDP in 2008.[22]

Finally, in Yemen, the most striking change between 2008 and 2009 was the reduction in commercial banks' asset and credit growth rates. In contrast, Islamic and investment banks continued to grow at high rates, seemingly unaffected by the crisis. Liquidity ratios across the various types of banks improved following a decrease in the reserve requirement by the Central Bank. Banks in Yemen have the lowest average capitalization levels in the region, which accounts for the fact that they also have the highest return on equity (17.7 per cent) in the region. Their balance sheets also show the highest rate of non-performing loans regionally, but it should be noted that this is a historical trend and not necessarily a direct result of the crisis.

PART III: POLICY RECOMMENDATIONS

The banking sector in the ESCWA region entered the global financial crisis on solid ground, benefiting from significant foreign reserves and high capitalization ratios. At the economy-wide level, the oil-producing countries in the region had accumulated foreign reserves as a result of the increase in oil prices during the boom years, and non-oil producing countries, such as Egypt, Jordan and Lebanon, had experienced a rise in remittances and transfers.[23] These foreign reserves proved useful when countercyclical policies were implemented in a number of countries. At the financial sector level, the different categories of financial institution enjoyed solid capitalization rates, which also served to cushion later losses. Most banks in the ESCWA region more than satisfied the Basel II capital requirements and, indeed, held substantial excess capital. Furthermore, investment banks were better capitalized than other financial institutions in the region, in contrast to their counterparts in Western countries, which were the highest leveraged of all. Table 6 shows average equity to total assets ratios by percentage for the three broad categories of banks in 2007, prior to the start of the financial crisis. All figures reported are positioned comfortably above the ratio of 8 per cent recommended under Basel II international standards.

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[22] *UAE Interact*, 2009.

[23] According to the World Bank *Migration and Remittances Factbook 2011*, Lebanon registered the second largest increase in remittances in the ESCWA region in 2009 at 8.2 per cent, followed by Egypt and Jordan.

TABLE 6. AVERAGE EQUITY TO TOTAL ASSETS (PERCENTAGE), 2007

Country	Commercial banks	Islamic banks	Non-commercial, non-Islamic banks
Bahrain	16.41	53.65	50.19
Egypt	8.91	4.45	22.25
Jordan	14.00	10.45	24.03
Kuwait	12.17	35.59	48.87
Lebanon	8.88	45.84	*
Oman	13.77	**	47.23
Qatar	12.76	37.22	98.50
Saudi Arabia	12.83	38.70	57.30
The Sudan	14.97	24.66	60.60
United Arab Emirates	14.32	16.09	52.60
Yemen	8.20	25.70	7.45

* There are no investment banks in Lebanon.

** There are no Islamic banks in Oman.

Despite such a sound starting position, the financial crisis revealed vulnerabilities across the ESCWA region, stemming primarily from rapid credit growth and an overexposure to real estate and equity markets. Certain financial institutions suffered direct losses during the crisis as a result of direct exposure to credit derivatives and other banks were forced to write down the value of their real estate investments. More importantly, credit growth in 2008 and 2009 remained sluggish as a result of the crisis and actually contracted in Bahrain, Kuwait and Saudi Arabia. However, no systemic crisis ensued and individual bank difficulties did not spill over into healthier institutions. While solid capitalization levels helped to absorb losses, official responses to the crisis were also forceful. Governments and central banks across the region responded quickly to safeguard liquidity, ensuring that capital injection was available where necessary. Several countries reduced the legal reserve requirements, coupling this measure with a reduction in certain policy rates to maintain liquidity in the system, and limits on deposit guarantees were lifted to preserve public confidence in the financial system and avoid runs on banks. In other countries, plans to increase public spending in the post-crisis period are expected to stimulate economic activity before a renewed pick-up in lending activity is seen.

All financial institutions in the ESCWA region were affected by the crisis, albeit to varying degrees. Investment banks were adversely affected because of their links with international credit and equity markets; Islamic banks suffered losses as a result of their portfolio investments in real estate; and wholesale banks recorded substantial losses arising from their connections with international banks. Of all institutions, investment banks registered the highest levels of loss, followed by Islamic banks in the three countries in the region where those institutions have a significant presence, namely Bahrain, Kuwait and the United Arab Emirates. Those three countries are also among the most financially integrated with the rest of the world and it was therefore predictable that they would encounter difficulties as a result of the global crisis. The most severely hit financial sector in the region was in Kuwait, where the considerable number of both investment and Islamic banks exceeds the number of commercial banks, thus increasing the risk of exposure.

The financial systems of ESCWA member countries remain bank-based, and a continuous strengthening of this sector is therefore crucial if credit is to be efficiently channelled to productive uses, thereby better serving the economy. In the light of the above, policy recommendations include the following:

1. Develop a macroprudential framework to ensure systemic oversight, thereby complementing fiscal and monetary policies.

2. Identify troubled banks and assess recapitalization needs by conducting stress tests where needed.

3. Coordinate regulation, both between member countries and between regulatory agencies in individual countries, to prevent regulatory arbitrage and reduce risk-taking incentives by banks.

4. Enhance the regulation and oversight of non-bank financial institutions.

5. Replace the ad-hoc blanket deposit guarantee that promises unlimited coverage with an insurance system that fosters market discipline and provides due diligence incentives.

6. Develop an adequate bankruptcy resolution framework for financial institutions and corporations in order to ensure a speedy and efficient exit process for non-viable firms.

7. Closely monitor large conglomerates and promote sound corporate governance mechanisms.

8. Develop alternatives to bank financing, such as a debt market, which would allow banks to focus on financing small to medium-sized enterprises. This would not only help to create jobs in the private sector for the growing population in the region, but would also improve competitiveness in financial markets.

9. Strengthen social safety nets, directing Government resources to protect the poor and vulnerable in society.

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<u>Appendix</u>

INDIVIDUAL COUNTRY PERFORMANCE, BY ESCWA MEMBER COUNTRY

Bahrain

		Growth		Liquidity		Loan quality	Profitability		Capitalization	
	Year	Tangible asset growth	Loan growth	Cash and reserves/ Earning assets	Government securities/ Earning assets	Non-performing loans/Total loans	Return on average equity	Return on average assets	Tangible common equity/ Tangible total assets	Equity to assets
Commercial banks	2006	44.83	45.04	1.93	4.31	8.16	11.59	1.37	16.12	16.41
	2007	33.76	43.37	3.65	4.43	6.01	10.90	2.46	16.17	16.41
	2008	3.25	7.30	3.51	3.28	5.98	1.19	0.80	17.70	18.01
	2009	-8.39	-11.01	10.37	4.80	5.88	5.21	0.69	16.09	16.46
	06-09	18.36	21.18	4.87	4.21	6.51	7.22	1.33	16.52	16.82
Islamic banks	2006	44.06	45.13	3.30	*	8.80	14.28	6.35	51.40	51.47
	2007	71.58	101.65	2.67	*	10.70	19.67	8.99	53.58	53.65
	2008	22.54	1.85	3.65	*	20.65	9.15	2.60	51.47	51.68
	2009	-6.99	4.83	5.12	*	19.66	-10.24	-5.55	54.45	54.56
	06-09	32.80	38.37	3.69	*	14.95	8.22	3.10	52.73	52.84
Non Commercial non Islamicbanks	2006	93.71	-14.75	10.58	3.32	13.50	22.13	7.80	47.07	47.57
	2007	24.98	-10.05	14.03	2.91	58.75	22.74	9.08	48.88	50.19
	2008	2.35	11.33	40.49	17.68	12.33	4.62	1.71	53.82	54.32
	2009	-8.54	86.88	25.98	3.70	19.80	-20.49	-4.79	50.58	51.20
	06-09	28.13	18.35	22.77	6..9	26.10	7.25	3.45	50.09	50.82

* Figures are not available for Islamic banks because they are prohibited from holding Government securities.

Egypt

		Growth		Liquidity		Loan quality	Profitability		Capitalization	
	Year	Tangible asset growth	Loan growth	Cash and reserves/ Earning assets	Government securities/ Earning assets	Non-performing loans/Total loans	Return on average equity	Return on average assets	Tangible common equity/ Tangible total assets	Equity to assets
Commercial banks	2006	19.47	11.99	3.31	14.27	26.95	20.39	0.58	8.34	8.37
	2007	40.97	30.00	6.03	9.99	12.63	13.40	1.25	8.89	8.91
	2008	4.53	22.15	10.38	19.90	8.45	5.78	0.67	9.11	9.19
	2009	7.68	5.25	8.62	18.33	20.55	11.69	1.18	10.71	10.82
	Average 2006-2009	18.16	17.35	7.09	15.62	17.15	12.82	0.92	9.26	9.32
Islamic banks	2006	21.45	23.50	3.66	*	**	9.10	0.40	5.35	5.35
	2007	18.70	16.35	4.20	*	**	0.00	0.00	4.45	4.45
	2008	11.85	7.70	7.83	*	**	4.00	0.20	5.40	5.45
	2009	13.25	15.25	9.56	*	**	9.25	0.50	5.30	5.40
	Average 2006-2009	16.31	15.70	6.31	*	**	5.59	0.28	5.13	5.16

	Year	Growth: Tangible asset growth	Growth: Loan growth	Liquidity: Cash and reserves/ Earning assets	Liquidity: Government securities/ Earning assets	Loan quality: Non-performing loans/Total loans	Profitability: Return on average equity	Profitability: Return on average assets	Capitalization: Tangible common equity/ Tangible total assets	Capitalization: Equity to assets
Non Commercial non Islamicbanks	2006	63.39	25.00	3.00	7.10	11.10	-1.53	2.26	24.81	25.33
	2007	17.55	48.05	6.29	2.09	4.30	2.80	2.47	21.96	22.25
	2008	1.34	-2.81	11.14	6.79	1.10	0.65	1.70	23.18	23.54
	2009	18.52	23.74	11.30	15.47	2.85	17.20	3.42	25.75	26.10
	Average 2006-2009	25.20	23.50	7.93	7.86	4.84	4.78	2.46	23.93	24.31

* Figures are not available for Islamic banks because they are prohibited from holding Government securities.

** Figures not available.

Jordan

	Year	Growth: Tangible asset growth	Growth: Loan growth	Liquidity: Cash and reserves/ Earning assets	Liquidity: Government securities/ Earning assets	Loan quality: Non-performing loans/Total loans	Profitability: Return on average equity	Profitability: Return on average assets	Capitalization: Tangible common equity/ Tangible total assets	Capitalization: Equity to assets
Commercial banks	2006	16.01	21.29	6.53	6.23	8.16	14.98	2.06	14.51	14.77
	2007	16.21	16.76	10.30	8.20	6.90	12.80	1.79	13.76	14.00
	2008	10.08	13.76	15.90	14.19	6.10	12.33	1.68	14.10	14.46
	2009	8.25	0.35	18.77	18.80	9.89	9.12	1.24	14.26	14.55
	Average 2006-2009	12.64	13.04	12.88	11.86	7.76	12.31	1.69	14.16	14.45
Islamic banks	2006	28.00	42.75	30.84	*	2.80	15.15	1.40	9.40	9.40
	2007	6.30	8.45	27.03	*	5.00	17.20	1.70	10.30	10.45
	2008	34.25	55.30	26.04	*	4.20	16.40	1.45	9.40	9.50
	2009	16.40	43.90	30.69	*	4.40	9.50	0.85	9.65	9.70
	Average 2006-2009	21.24	37.60	28.65	*	4.10	14.56	1.35	9.69	9.76
Non Commercial non Islamicbanks	2006	22.28	29.70	3.37	15.70	20.20	13.40	2.75	18.75	18.90
	2007	8.63	14.38	4.82	12.53	16.70	9.93	2.50	23.90	24.03
	2008	0.32	12.10	10.08	16.95	16.16	8.48	1.75	18.60	18.96
	2009	14.18	-6.52	23.29	22.86	10.36	5.24	1.04	27.34	27.66
	Average 2006-2009	11.35	12.42	10.39	17.01	15.86	9.26	2.01	22.15	22.39

* Figures are not available for Islamic banks because they are prohibited from holding Government securities.

Kuwait

		Growth		Liquidity		Loan quality	Profitability		Capitalization	
	Year	Tangible asset growth	Loan growth	Cash and reserves/ Earning assets	Government securities/ Earning assets	Non-performing loans/Total loans	Return on average equity	Return on average assets	Tangible common equity/ Tangible total assets	Equity to assets
Commercial banks	2006	31.83	33.63	11.27	12.65	3.36	26.33	3.40	12.70	12.82
	2007	31.28	34.34	13.98	10.04	2.72	24.60	2.90	11.77	12.17
	2008	7.08	20.63	7.74	11.50	4.48	-5.25	0.38	8.68	9.63
	2009	-1.70	4.47	7.97	12.71	11.68	4.85	0.63	10.20	11.22
	Average 2006-2009	17.12	23.27	10.24	11.73	5.56	12.63	1.83	10.84	11.46
Islamic banks	2006	62.80	80.98	6.10	*	3.30	25.08	9.78	29.79	30.11
	2007	40.19	42.31	12.39	*	6.70	26.46	8.74	34.78	35.59
	2008	9.95	31.44	6.45	*	5.73	-4.23	-3.40	33.60	34.59
	2009	-2.70	-16.42	4.10	*	6.83	-27.87	-8.33	20.90	23.27
	Average 2006-2009	27.56	34.58	7.26	*	5.64	4.86	1.70	29.77	30.89
Non Commercial non Islamicbanks	2006	23.01	-10.93	11.48	8.75	6.64	19.19	7.67	42.47	43.94
	2007	35.78	10.09	10.48	9.39	7.16	27.13	11.53	47.32	48.87
	2008	-2.80	31.06	12.45	9.25	5.96	-14.96	-5.32	39.29	41.26
	2009	-12.15	-14.89	12.97	6.46	8.51	-6.51	-2.74	44.53	45.53
	Average 2006-2009	10.96	3.83	11.85	8.46	7.07	6.21	2.79	43.40	44.90

* Figures are not available for Islamic banks because they are prohibited from holding Government securities.

Lebanon

		Growth		Liquidity		Loan quality	Profitability		Capitalization	
	Year	Tangible asset growth	Loan growth	Cash and reserves/ Earning assets	Government securities/ Earning assets	Non-performing loans/Total loans	Return on average equity	Return on average assets	Tangible common equity/ Tangible total assets	Equity to assets
Commercial banks	2006	8.73	10.62	25.01	29.58	14.49	13.33	0.53	7.89	8.01
	2007	13.80	19.71	28.42	28.27	12.86	10.09	0.72	8.77	8.88
	2008	15.33	23.77	21.41	30.70	13.97	12.72	0.77	7.57	7.86
	2009	24.77	17.50	19.41	35.57	10.57	12.79	0.97	8.13	8.41
	Average 2006-2009	15.66	17.90	23.56	31.06	12.97	12.23	0.75	8.09	8.29
Islamic banks	2006	21.02	-99.62	6.70	*	**	**	**	67.46	67.57
	2007	68.68	-70.40	43.79	*	**	3.39	2.11	45.40	45.84
	2008	24.00	410.00	71.71	*	**	-12.40	-4.90	44.40	44.70
	2009	**	**	**	*	**	**	**	**	**
	Average 2006-2009	37.90	79.99	40.73	*	**	-4.51	-1.40	52.42	52.70

* Figures are not available for Islamic banks because they are prohibited from holding Government securities.

** Figures not available.

Oman

		Growth		Liquidity		Loan quality	Profitability		Capitalization	
	Year	Tangible asset growth	Loan growth	Cash and reserves/ Earning assets	Government securities/ Earning assets	Non-performing loans/Total loans	Return on average equity	Return on average assets	Tangible common equity/ Tangible total assets	Equity to assets
Commercial banks	2006	26.14	20.82	2.74	9.47	7.32	21.24	3.00	13.58	13.70
	2007	30.94	24.44	4.25	16.50	6.06	22.04	2.96	13.70	13.77
	2008	38.38	48.50	9.43	6.81	3.50	15.20	2.03	13.48	13.53
	2009	5.65	8.18	10.25	6.96	4.70	12.17	1.68	13.42	13.45
	Average 2006-2009	25.28	25.49	6.67	9.94	5.40	17.66	2.42	13.55	13.61
Non Commercial non Islamicbanks	2006	10.70	14.78	0.95	3.55	24.53	14.10	5.86	47.78	47.80
	2007	39.06	2.10	1.74	8.08	15.03	16.58	7.96	47.08	47.23
	2008	26.84	46.78	4.22	5.84	12.55	11.80	4.56	42.74	42.86
	2009	19.88	19.30	5.74	2.89	10.00	12.25	5.65	50.53	50.68
	Average 2006-2009	24.12	20.74	3.16	5.09	15.53	13.68	6.01	47.03	47.14

Qatar

		Growth		Liquidity		Loan quality	Profitability		Capitalization	
	Year	Tangible asset growth	Loan growth	Cash and reserves/ Earning assets	Government securities/ Earning assets	Non-performing loans/Total loans	Return on average equity	Return on average assets	Tangible common equity/ Tangible total assets	Equity to assets
Commercial banks	2006	44.18	59.86	2.67	6.96	1.50	20.14	3.22	14.92	14.92
	2007	54.28	51.90	5.07	5.21	1.28	23.48	3.04	12.76	12.76
	2008	44.08	45.56	4.81	3.29	1.23	21.42	2.58	16.08	16.43
	2009	13.63	7.52	4.82	8.36	2.32	15.00	1.98	15.58	15.85
	Average 2006-2009	39.04	41.21	4.34	5.96	1.58	20.01	2.71	14.84	14.99
Islamic banks	2006	51.63	33.23	2.10	*	3.35	29.73	7.30	28.30	28.30
	2007	34.00	42.90	3.14	*	2.60	24.97	6.63	37.20	37.22
	2008	40.24	65.40	5.80	*	2.00	17.30	5.22	33.44	33.54
	2009	23.43	25.37	5.15	*	1.00	14.18	4.10	38.68	38.75
	Average 2006-2009	37.33	41.73	4.05	*	2.24	21.55	5.81	34.41	34.45
Non Commercial non Islamicbanks	2006	-9.20	6.40	22.88	**	17.50	0.40	0.30	93.50	93.50
	2007	546.40	49.10	4.55	**	11.70	11.00	10.75	98.50	98.50
	2008	59.70	44.70	5.07	2.64	12.60	10.20	9.85	93.05	93.05
	2009	22.90	-100.00	8.23	**	**	-7.20	-5.90	70.80	70.80
	Average 2006-2009	154.95	0.05	10.18	2.64	13.93	3.6	3.75	88.96	88.96

* Figures are not available for Islamic banks because they are prohibited from holding Government securities.

** Figures not available.

Saudi Arabia

		Growth		Liquidity		Loan quality	Profitability		Capitalization	
	Year	Tangible asset growth	Loan growth	Cash and reserves/ Earning assets	Government securities/ Earning assets	Non-performing loans/Total loans	Return on average equity	Return on average assets	Tangible common equity/ Tangible total assets	Equity to assets
Commercial banks	2006	13.38	9.02	6.48	14.71	1.64	34.84	4.89	13.96	13.96
	2007	24.50	24.00	7.74	16.54	1.62	21.98	2.90	12.83	12.83
	2008	23.01	31.88	5.58	22.22	1.34	16.71	1.84	12.00	12.11
	2009	1.33	-0.92	8.28	17.16	4.10	11.90	1.44	12.87	12.96
	Average 2006-2009	15.56	16.00	7.02	17.66	2.18	21.36	2.77	12.92	12.97
Islamic banks	2006	25.13	25.67	14.38	*	1.47	24.15	4.60	41.37	41.37
	2007	25.37	27.60	14.39	*	1.60	15.90	3.00	38.70	38.70
	2008	11.93	-1.60	9.87	*	1.50	14.80	2.55	52.45	52.45
	2009	10.98	20.03	10.59	*	3.53	6.90	2.10	47.80	47.80
	Average 2006-2009	18.35	17.93	12.31	*	2.03	15.44	3.06	45.08	45.08
Non Commercial non Islamicbanks	2006	2.80	57.70	25.48	**	**	26.10	14.40	67.90	67.90
	2007	-7.20	**	142.45	**	**	49.70	30.60	57.30	57.30
	2008	22.00	**	174.55	**	**	51.80	30.30	59.50	59.50
	2009	4.90	**	190.31	**	**	50.60	31.30	64.20	64.20
	Average 2006-2009	5.63	57.70	133.20	**	**	44.55	26.65	62.23	62.23

* Figures are not available for Islamic banks because they are prohibited from holding Government securities.

** Figures not available.

The Sudan

		Growth		Liquidity		Loan quality	Profitability		Capitalization	
	Year	Tangible asset growth	Loan growth	Cash and reserves/ Earning assets	Government securities/ Earning assets	Non-performing loans/Total loans	Return on average equity	Return on average assets	Tangible common equity/ Tangible total assets	Equity to assets
Commercial banks	2006	76.61	86.76	45.95	**	**	13.28	2.48	14.04	14.04
	2007	19.75	-16.41	75.42	**	**	-12.28	1.45	14.97	14.97
	2008	22.94	-3.17	184.25	15.47	**	19.75	3.20	16.38	16.38
	2009	16.73	103.10	71.52	24.22	**	14.50	1.91	15.04	15.04
	Average 2006-2009	34.01	42.57	94.29	19.85	**	8.81	2.26	15.11	15.11
Islamic banks	2006	34.82	44.98	25.39	**	**	22.16	2.96	30.34	30.35
	2007	11.19	55.23	26.42	**	0.30	14.43	2.51	24.45	24.66
	2008	21.26	18.30	28.73	**	0.70	13.01	2.22	24.35	24.73
	2009	20.50	6.01	36.84	**	10.65	13.84	2.39	24.79	25.29
	Average 2006-2009	21.94	31.13	29.35	**	3.88	15.86	2.52	25.98	26.26

		Growth		Liquidity		Loan quality	Profitability		Capitalization	
	Year	Tangible asset growth	Loan growth	Cash and reserves/ Earning assets	Government securities/ Earning assets	Non-performing loans/Total loans	Return on average equity	Return on average assets	Tangible common equity/ Tangible total assets	Equity to assets
Non Commercial non Islamicbanks	2006	**	**	**	**	**	**	**	**	**
	2007	**	**	22.87	**	**	**	**	60.60	60.60
	2008	-5.20	-26.70	60.66	**	**	1.00	0.60	63.90	63.90
	2009	**	**	**	**	**	**	**	**	**
	Average 2006-2009	-5.20	-26.70	41.77	**	**	1.00	0.60	62.25	62.25

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** Figures not available.

United Arab Emirates

		Growth		Liquidity		Loan quality	Profitability		Capitalization	
	Year	Tangible asset growth	Loan growth	Cash and reserves/ Earning assets	Government securities/ Earning assets	Non-performing loans/Total loans	Return on average equity	Return on average assets	Tangible common equity/ Tangible total assets	Equity to assets
Commercial banks	2006	32.31	39.12	4.93	2.80	2.76	16.96	2.81	16.87	16.91
	2007	63.39	53.39	19.40	2.18	2.39	21.09	3.20	14.14	14.32
	2008	22.16	43.44	9.68	1.31	2.59	16.15	2.11	12.88	13.11
	2009	5.46	1.36	8.12	1.20	4.97	13.17	2.06	15.17	15.43
	Average 2006-2009	30.83	34.33	10.53	1.87	3.18	16.84	2.55	14.77	14.94
Islamic banks	2006	65.38	72.55	2.98	*	1.57	25.27	7.90	24.83	24.83
	2007	71.64	94.04	6.92	*	1.92	19.19	3.64	16.09	16.09
	2008	41.67	67.51	4.30	*	2.54	15.04	2.01	22.73	22.73
	2009	32.86	42.61	6.47	*	6.47	-3.42	-0.56	18.11	18.12
	Average 2006-2009	52.89	69.18	5.17	*	3.13	14.02	3.25	20.44	20.44
Non Commercial non Islamicbanks	2006	2.72	78.53	4.76	**	9.80	8.30	4.15	44.80	45.18
	2007	29.70	3.47	5.00	**	7.60	11.38	5.88	52.46	52.60
	2008	-14.02	21.66	5.99	**	3.70	-4.92	-2.72	43.95	44.12
	2009	13.88	-22.33	8.53	**	11.80	-0.02	-1.85	39.23	39.78
	Average 2006-2009	8.07	20.33	6.07	**	8.23	3.69	1.37	45.11	45.42

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** Figures not available.

Yemen

		Growth		Liquidity		Loan quality	Profitability		Capitalization	
	Year	Tangible asset growth	Loan growth	Cash and reserves/ Earning assets	Government securities/ Earning assets	Non-performing loans/Total loans	Return on average equity	Return on average assets	Tangible common equity/ Tangible total assets	Equity to assets
Commercial banks	2006	19.45	19.03	7.35	35.63	40.28	19.13	1.20	8.96	8.96
	2007	27.65	13.65	10.25	46.02	34.75	27.60	2.03	8.20	8.20
	2008	10.83	8.70	12.76	32.88	29.38	19.13	1.40	8.93	8.93
	2009	7.75	2.10	13.64	56.04	29.13	17.70	1.65	9.98	9.98
	Average 2006-2009	16.42	10.87	11.00	42.64	33.39	20.89	1.57	9.02	9.02
Islamic banks	2006	33.40	-6.40	24.80	*	**	2.00	0.40	17.40	17.40
	2007	-9.70	41.50	25.31	*	6.60	0.00	0.00	25.70	25.70
	2008	5.80	11.55	16.95	*	4.93	3.10	0.80	16.18	16.18
	2009	21.55	8.08	17.57	*	7.23	3.25	0.33	16.40	16.40
	Average 2006-2009	12.76	13.68	21.16	*	6.25	2.09	0.38	18.92	18.92
Non Commercial non Islamicbanks	2006	99.30	12.10	24.72	42.69	40.75	10.60	1.20	8.60	8.60
	2007	68.85	75.85	23.74	46.54	22.30	30.45	2.45	7.45	7.45
	2008	23.95	20.55	26.15	32.76	25.80	13.70	1.40	8.20	8.20
	2009	22.45	10.90	13.65	57.64	20.05	12.65	1.00	7.30	7.30
	Average 2006-2009	53.64	29.85	22.07	44.91	27.23	16.85	1.51	7.89	7.89

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** Figures not available.