



Sudan University of Science and Technology

College of Graduate Studies



**Impact of Risk Management Practices on the
Financial Performance of Sudanese Islamic Banks
(2007 – 2018)**

**أثر ممارسات إدارة المخاطر على الأداء المالي بالمصارف
الإسلامية السودانية
(2018 – 2007)**

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Researcher:
Ahmed Nourrein Ahmed Mennawi

Supervisor:
Dr. Ahmed Ali Ahmed Mohamed

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يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُضَاعَفَةً وَاتَّقُوا اللَّهَ لَعَلَّكُمْ
تُفْلِحُونَ (130) وَاتَّقُوا النَّارَ الَّتِي أُعِدَّتْ لِلْكَافِرِينَ (131) وَأَطِيعُوا اللَّهَ
وَالرَّسُولَ لَعَلَّكُمْ تُرْحَمُونَ (132) ... آل عمران

صدق الله العظيم

Dedication

**This research work is dedicated to the souls of my sister (Zakia) and
brothers (Awad and Essam).**

**It also dedicated to my dear parents, my beloved wife, my wonderful
children, and my brothers and sisters.**

for their endless love and encouragement

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Abstract

This study examined the impact of risk management practices on the financial performance of Sudanese Islamic banks during the period from 2007 to 2018. The statement of problem is that, despite the existence of risk management departments and regulations, there are a limited role of risk management, absence of adequate controls and lack of proper risk management practice in Sudanese Islamic banks that most likely weaken their financial performance. Given that, the risk management is an important matter that can not be neglected by banking sector otherwise the results will be unpleasant.

The research hypotheses articulated to examine the relationship between the independent variables that include liquidity, credit, operational and market risks plus bank's capitalization; and the financial performance as dependent variable that measured by return on assets and return on equity ratios.

The research design took the form of quantitative approach and it followed the explanatory and descriptive methods. The researcher used a secondary data that gathered from the audited financial statements of (10) Islamic banks in Sudan, with (120) observations. Two models have been constructed using econometrics estimations of panel data; namely fixed effects and random effects models.

The study results revealed that there is strong negative impact between liquidity and operational risks on the financial performance, while the market risk is shown to be positively significant. Additionally, the bank's capitalization indicated its significance on the financial performance, as it has a positive sign to the return on assets and adverse direction with the return on equity. The results also found that credit risk has a negative impact on financial performance when it measured by the ratio of return of equity, however, it has no impact on the financial performance when it measured by the ratio of return on assets.

The study concluded that the risk management practices is a significant determinant to the financial performance of Islamic banks in Sudan. Therefore, the management of banks and the policy makers shall carefully deal with the risk management matters in order to maximize the banks' return and to maintain their financial soundness. The study results are consistent with many previous studies that conducted in Sudan context and at different regions.

المستخلص

تناولت هذه الدراسة أثر ممارسات إدارة المخاطر على الأداء المالي بالمصارف الإسلامية في السودان خلال الفترة من 2007 إلى 2018. وتمثلت مشكلة الدراسة في أنه بالرغم من وجود إدارات ولوائح لإدارة المخاطر في المصارف الإسلامية السودانية إلا أن هنالك دوراً محدوداً لإدارة المخاطر، وغياب للضوابط الكافية مع عدم وجود ممارسة سليمة لرقابه هذه المخاطر، مما يضعف الأداء المالي لهذه المصارف. وبالنظر إلى ذلك، فإن إدارة المخاطر تعتبر مسألة ذات أهمية لا يمكن إهمالها من قبل القطاع المصرفي وإلا فإن النتائج ستكون غير مرضية.

تم وضع فرضيات الدراسة لبحث العلاقة بين المتغيرات المستقلة التي تشمل مخاطر السيولة والائتمان والتشغيل والسوق بالإضافة إلى رأس المال المصرف؛ و الأداء المالي للمصرف كمتغير تابع تم قياسه بنسبتي العائد على الأصول والعائد على حقوق الملكية.

تم تصميم البحث وفقاً للمنهج الكمي مع استخدام الأساليب التوضيحية والوصفية. و قد استخدم الباحث بيانات ثانوية تم جمعها من التقارير المالية المراجعة لعدد (10) بنوك إسلامية في السودان بعدد (120) ملاحظة. وبناءً على ذلك، تم تصميم نموذجين لأغراض الدراسة باستخدام أحد تقديرات الإقتصاد القياسي يسمى بنماذج بيانات السلسلة الزمنية المقطعية (panel data models)، ومن خلاله تم تحديد نمذجي التأثيرات الثابتة (fixed effects) و التأثيرات العشوائية (random effects).

أظهرت نتائج الدراسة عن وجود تأثير سلبي جوهري بين مخاطر السيولة والتشغيل على الأداء المالي للمصارف الإسلامية في السودان، في حين أن مخاطر السوق أظهرت تأثير إيجابي. علاوةً على ذلك، أظهر رأس المال المصرف الإسلامي تأثير ذو أهمية على الأداء المالي، حيث إتضح أن التأثير ذو علاقة طردية مع نسبة العائد على الأصول و ذو علاقة سالبة مع نسبة العائد على حقوق الملكية. كما أظهرت النتائج أن مخاطر الائتمان لها تأثير سلبي على الأداء المالي عندما يتم قياسه من خلال نسبة العائد على حقوق الملكية، في حين أن هذه المخاطر لم تظهر أي تأثير على الأداء المالي عندما يتم قياس الأداء المالي بنسبة العائد على الأصول.

وخلصت الدراسة إلى أن ممارسات إدارة المخاطر ذات أهمية قصوى كمحدد للأداء المالي في المصارف الإسلامية بالسودان. لذلك يتوجب على إدارات هذه المصارف و متخذى القرار الإهتمام بإدارة المخاطر لتعظيم العائد و تحقق السلامة المالية. أضف إلى ذلك، فإن نتائج الدراسة تتوافق مع نتائج العديد من الدراسات السابقة التي شملت المصارف العاملة بالسودان أو في العاملة بمناطق مختلفة أخرى.

Table of Contents

Sr.	Title	Page
	List of Tables	xi
	List of Figures	xii
	List of Appendixes	xiii
	List of Symbols /Abbreviations	xiv
Chapter One: Research Basics and Previous Studies		
1.1	Section One: Research Basics	
1.1.1	Background	1
1.1.2	Statement of Problem and Research Questions	3
1.1.3	Importance of the Research	5
1.1.4	Objectives of the Research	6
1.1.5	The Research Model	7
1.1.6	Hypotheses of the Research	8
1.1.7	Methodology of the Research	8
1.1.8	Source of Data for the Research	9
1.1.9	Period and Geographic Limitations	10
1.1.10	The Structure and Organization of the Research	10
1.2	Section Two: The Previous Studies	
1.2.1	The Relationship Between Risk Management Practices and Banks's Financial Performance	12
1.2.2	Previous Studies on Managing Specific Types of Risks and Banks' Financial Performance	29
1.2.3	The Benefits from Previous Studies	34
1.2.4	The Differences in Current Study from Previous Studies	35
Chapter Two: Theoretical Framework		
2.1	Section One: Islamic Banking Aspects	
2.1.1	Definition and Concept of Islamic Banks	39
2.1.2	Basics of Islamic Finance Principles	41
2.1.3	Origins and Evolution of Islamic Banks	43
2.1.4	Objectives of Islamic Banks	49
2.1.5	Islamic Financing Modes	51
2.1.6	Conceptual Differences Between Islamic and Conventional Banking Systems	66
2.1.7	Supportive Institutions for Islamic Banking	67
2.1.8	Financial Performance Measures in Islamic Banks	72

2.2	Section Two: Risk Management Practices	
2.1.1	Introduction	77
2.1.2	Risk Management Framework	78
2.1.3	Risk Management Process	79
2.1.4	Risk Management in Islamic Banks	83
2.1.5	Risk Management Practicing in Islamic Banks	87
2.1.6	Risk Management Process in Islamic Banking	90
2.1.7	The Types of Risks in Islamic Banks	92
2.1.8	Risk Management Practices in Islamic vs. Conventional Banks	101
2.1.9	Basel Committee on Banking Supervision	104
2.1.10	Capital Adequacy Framework for Islamic Banks	118
2.1.11	Risk Mitigation in Islamic Banks	125
2.1.12	Challenges for Risk Management in Islamic Banking	127
Chapter Three: The Sudanese Economy, Banking Industry and Risk Management		
3.1	Introduction	129
3.1	Overview of the Republic of Sudan	129
3.3	Macroeconomic and Financial Indicators of Sudanese Economy (2007-2018)	130
3.3.1	Major Economics Sectors	130
3.3.2	Financial Indicators of Sudanese Economy (2007-2018)	133
3.4	Overview to the Sudanese Banking Industry	135
3.5	History of the Sudanese Banking Industry	136
3.5.1	Phase one: Emerging of the banking institutions (1903-1958)	137
3.5.2	Phase Two: The Establishment of Central Bank and National Banks (1959-1969)	138
3.5.3	Phase Three: The Nationalization “Sudanisation” (1970-1975)	139
3.5.4	Phase Four: The Economic Openness (1976-1983)	141
3.5.5	The Emergence and Development of Islamic Banks in Sudan	142
3.6	The Structure of the Sudanese Banking	149
3.6.1	Central Bank of Sudan	149
3.6.2	Supervision Role by Central Bank of Sudan	151
3.6.3	Operating Banks in Sudan	152
3.7	Financial Performance of the Sudanese Banks (2007-2018)	155
3.7.1	The size of the banking system	155
3.7.2	Selected Financial Statements’ Ratios	155
3.7.3	The Financial Stability and Soundness of Sudanese Banks	158
3.7.4	The Financing Modes of Sudanese Banks	161
3.8	Risk Management Practices in Sudanese Islamic Banking	163
3.9	Application of the Basle Accord in Sudanese Banks	165
3.10	Guidelines on Risk Management in Sudanese Islamic Banking	167

Chapter Four: Research Methodology		
4.1	Introduction	173
4.2	Research Philosophy	173
4.2.1	Epistemology	174
4.2.2	Ontology	174
4.2.3	Other Aspects on Research Philosophy	174
4.2.4	The Chosen Research Philosophy	175
4.3	Research Approaches	175
4.3.1	Deductive Reasoning Approach	175
4.3.2	Inductive Reasoning Approach	176
4.3.3	Chosen Research Approach	176
4.4	Research Design	177
4.4.1	Purpose of the Research	178
4.4.2	Strategies and Types of Research	179
4.4.3	The Chosen Research Design	180
4.5	Research Method:	181
4.5.1	Data Collection	181
4.5.2	Population and Sampling	182
4.6	The Research's Analysis Technique	184
4.7	Panel Data Techniques	186
4.7.1	Model Specification	186
4.7.2	Data Cleaning and Preliminary Examination	188
4.7.3	Panel Data Regressions and Models	196
4.7.4	Diagnostic Tests:	203
4.8	Variables Characteristics of the Research	209
4.8.1	The Depended Variables	209
4.8.2	Independent Variables	211
4.9	Summary	217
Chapter Five: Empirical Analysis and Research Findings		
5.1	Introduction	218
5.2	Descriptive statistics	218
5.3	Data and Variables Examinations	228
5.3.1	Panel Unit Root Tests	228
5.3.2	Cointegration Tests	229
5.3.3	Multicollinearity Tests	231
5.4	Heteroskedasticity and Serial Correlation (Autocorrelation) Tests	233
5.4.1	Heteroskedasticity Test	233
5.4.2	Serial Correlation (Autocorrelation) Test	234
5.4.3	Corrections to Heteroskedasticity and Serial Autocorrelation	234
5.5	Models Determination and Regression Analysis	235
5.6	Estimated Results Using Fixed Effects Model for Model No.1(ROA)	236

5.6.1	Hausman Test and Fixed Effects Test	236
5.6.2	The Empirical Results of Fixed Effects Model for Model No.1(ROA)	237
5.6.3	Model (ROA) Goodness of Fit	238
5.6.4	Regression Coefficients and Their Explanation	238
5.6.5	The Estimation Diagnostics for Model No.1ROA)	241
5.7	Estimated Results Using Random Effects Model for Model No.2(ROE)	242
5.7.1	Hausman Test for Random Effects	242
5.7.2	The Empirical Results of Random Effects Model for Model No.2(ROE)	242
5.7.3	Model (ROE) Goodness of Fit	243
5.7.4	Regression Coefficients and Their Explanation	244
5.7.5	The Estimation Diagnostics for Model No.2(ROE)	246
5.8	Discussion of the Research Findings	246
5.9	Summary	255
Conclusions		
	Introduction	256
	Summary of Practical Research's Results:	256
	Summary of Theoretical Research's Results	258
	The Recommendations	259
	Contributions of the Research	261
	Limitations of the Research	262
	Potential Future Researches	262
	List of References	264
	Appendixes	285

List of Tables

No	Title	Page
1-1	Summary of the Study Variables in Accordance with the Previous Studies	37
2-1	Comparison of Financial Statements Structure Between Islamic and Conventional Banks	67
2-2	The Role of Different Stakeholders in the Risk Management System	90
2-3	Basel III Phases-in Arrangements	109
2-4	Sources and Nature of Funds in Islamic and Conventional Banks	119
3-1	Selected Indicators for the Sudanese Economy (2007 -2018)	134
3-2	The Changes in Sudanese Banks Structure As of 1975	141
3-3	The New Established Banks During 1976 – 1983	142
3-4	Operating Islamic Banks in Sudan in Numbers (2007-2018)	153
3-5	Selected Performance Indicators of the Sudanese Banks (2007-2018)	157
3-6	Financial Stability and Soundness Indicators for Sudanese Banks (2010-2018)	160
3-7	Sudanese Banks' Financing Modes During 2007 to 2018	162
3-8	The Minimum Requirement of Internal Controls and Procedures for Risk Management in Sudanese Islamic Banks	170
4-1	Summaries of the Variables of This Study	188
5-1	Descriptive Statistics of the variables in Studied Sample	219
5-2	Panel Unit Root Tests Using LLC and IPS Methods	228
5-3	The Result of Cointegration Tests for the Model No.1 (ROA)	230
5-4	The Result of Cointegration Tests for the Model No.2 (ROE)	231
5-5	Correlation Matrix for All Independent Variables	232
5-6	VIF and Tolerance Values for All Independent Variables	232
5-7	The Results of Heteroskedasticity Test on the Pure Models	234
5-8	The Results of Serial Correlation Test on the Pure Models	234
5-9	Hausman Test and Chow Test for Fixed Effects Model	236
5-10	Panel Regression Model.2 (ROA) on fixed effect model (FEM).	237
5-11	Hausman Test for Radom Effects Model	242
5-12	Panel Regression Model.2 (ROE) on Random Effect Model (REM).	243
5-13	Summaries of the Two Models' Coefficients	247

List of Figures

No	Title	Page
1-1	The Research Model	7
2-1	The Risk Management Process from ISO 31000:2009	80
2-2	An Overview of Islamic Banks Risks	87
2-3	Changes to the Risk Profile Due Distinct Features of Islamic Banks	103
2-4	Conceptual Framework for the Basel II Accord	111
2-5	Proposed Assessment Methods under Pillar 1	113
3-1	The Main Sectors of Sudanese Economy (2007 – 2018)	133
3-2	The Structure of the Banking System in Sudan as end of 2018	154
3-3	Trend of Selected Financial Performance Indicators of the Sudanese Banks (2007-2018)	157
3-4	Trend of Financial Stability and Soundness Indicators for Sudanese Banks (2010-2018)	160
3-5	Trend's Movement of Sudanese Banks' Financing Modes (2007 – 2018)	162
4-1	Sampling Techniques	183
4-2	The Research Model (1) with Dependent variable ROA	186
4-3	The Research Model (2) with Dependent variable ROE	187
5-1	Descriptive Statistics of Study Variable (ROA)	220
5-2	Descriptive Statistics of Study Variable (ROE)	221
5-3	Descriptive Statistics of Study Variable (FIDP)	223
5-4	Descriptive Statistics of Study Variable (LLP)	224
5-5	Descriptive Statistics of Study Variable (OCOI)	225
5-6	Descriptive Statistics of Study Variable (VAR)	226
5-7	Descriptive Statistics of Study Variable (EQTA)	227
5-8	The Relationship Between Liquidity Risk and Sudanese Banks' Financial Performance	248
5-9	The Relationship Between Credit Risk and Sudanese Banks' Financial Performance	250
5-10	The Relationship Between Operational Risk and Sudanese Banks' Financial Performance	252
5-11	The Relationship Between Market Risk and Sudanese Banks' Financial Performance	253
5-12	The Relationship Between Equity Capitalization and Sudanese Banks' Financial Performance	225

List of Appendixes

No	Title	Page
No (1)	Specified Risk Weights for Islamic Bank's Assets as per CBOS	285
No (2)	Variance Inflation Factors	288
No (3)	Heteroskedasticity Tests: Model 1. (ROA)	289
No (4)	Heteroskedasticity Tests: Model 2. (ROE)	289
No (5)	Serial Correlation: Model 1. (ROA)	289
No (6)	Serial Correlation: Model 2. (ROE)	290
No (7)	Pure Panel Models: Model 1. (ROA)	291
No (8)	Chow Test: Model 1. (ROA)	293
No (9)	Wald Test – Dummy Cross Sections Variables: Model 1. (ROA)	293
No (10)	Wald Test – Dummy Time Variable: Model 1. (ROA)	294
No (11)	Hausman Test: Model 1. (ROA)	295
No (12)	Appropriate Model: Fixed Effects Model. (ROA)	295
No (13)	Pure Panel Models: Model 2. (ROE)	296
No (14)	Chow Test: Model 2. (ROE)	298
No (15)	Wald Test – Dummy Cross Sections Variables: Model 2. (ROE)	298
No (16)	Wald Test – Dummy Time Variable: Model 2. (ROE)	299
No (17)	Hausman Test: Model 2. (ROE)	300
No (18)	Appropriate Model: Random Effects Model. (ROE)	300
No (19)	Calculated Data for the Research Variables	301
No (20)	List of Sampled Sudanese Islamic Banks	304

List of Symbols /Abbreviations

Abbreviations	Description
AAOIFI	The Accounting and Auditing Organization for Islamic Financial Institutions
AMA	Advanced Measurement Approach
ANOVA	Analysis of Variances
b and Beta	Regression Coefficients
BCBS	Basel Committee on Banking Supervision
BIA	Basic Indicator Approach
BIS	Bank for International Settlements
BOD	Board of Directors
CAR	Capital Adequacy Requirement
CBOS	Central Bank of Sudan
CIBAFI	General Council for Islamic Banks and Financial Institutions
df	Degrees of Freedom
DW	Durbin-Watson Test
EQTA	Equity to Total Assets Ratio
FEM	Fixed Effects Model
FIDP	Total Financing (Loan) to Total Deposits Ratio
I(0)	At Level
I(1)	At First Differencing
IAHs	Investment Account Holders
IIFM	International Islamic Financial Market
IFSB	Islamic Financial Services Board
IFSI	Islamic Financial Services Institutions
IMA	Internal Model Approach
IICRA	International Islamic Centre for Reconciliation and Arbitration
IIRA	Islamic International Rating Agency
IRM	Institute of Risk Management
IRTI	The Islamic Research and Training Institute
ISO	International Organization for Standardization
LIBOR	London Interbank Offered Rate

Abbreviations	Description
LLP	Loan Loss Provision to Total Financing Ratio
LMC	Liquidity Management Centre B.S.C.
NPL	Nonperforming Loan (Financing) to Total Loan (Financing) Ratio
PLS	Profit –and – Loss Sharing
R ²	Coefficient of determination
REM	Random Effects Model
ROA	Return on Total Assets Ratio
ROE	Return on Total Equity Ratio
RWA	Risk-weighted Assets
SA	Standardized Approach
VAR	Value at Risk