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**THE IMPACT OF LIQUIDITY RISK, CREDIT
RISK AND OPERATIONAL RISK ON THE
PERFORMANCE OF IRAQI PRIVATE BANKS**



BY

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(817745)

Universiti Utara Malaysia

MASTER OF SCIENCE (BANKING)

UNIVERSITI UTARA MALAYSIA

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**Thesis Submitted to
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Pusat Pengajian Ekonomi,
Kewangan dan Perbankan

SCHOOL OF ECONOMICS, FINANCE AND BANKING

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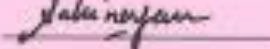
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Abstract

The main objectives of this research is to study the effect of liquidity risk, credit risk and operational risk on the performance of private banks in Iraq for the period 2009 to 2014. This study especially focus on Iraqi commercial private Banks. The dependent variables for bank performances are measured by return on asset (ROA) and return on equity (ROE), and independent variables which are, liquidity risks are measured by liquidity ratio and calculate as liquid asset to total asset, credit risks are measured by non-performing loan ratio and operational risks are measured by earnings before interest and tax divide on total asset. This study employs panel data regression analysis of fixed effects and random effects models. Furthermore, the results show that liquidity risk was found having positive significant relationship with ROA and ROE. While credit risk has negative significant relationship with ROA, and negative insignificant relationship with ROE. However, operational risk was found to have significant and negative effect on ROA. While operational risk was significant and positively related to ROE.

Keywords: Liquidity risk (LR), Credit risk (CR), Operational risk (OR), return on asset (ROA), return on equity (ROE).

ABSTRAK

Objektif utama kajian ini adalah untuk mengkaji kesan risiko kecairan, risiko kredit dan risiko operasi ke atas pencapaian bank-bank di Iraq bagi tempoh (2009 hingga 2014). Kajian ini lebih memberi tumpuan kepada Bank Komersial Swasta di Iraq. Pembolehubah bersandar adalah pencapaian bank yang diukur berdasarkan Pulangan atas Aset (ROA) dan Pulangan atas Ekuiti (ROE). Dalam pembolehubah tidak bersandar, risiko kecairan diukur menggunakan nisbah kecairan dan dikira sebagai aset cecair kepada jumlah aset, risiko kredit diukur oleh nisbah pinjaman tidak berbayar dan risiko operasi diukur menggunakan pendapatan sebelum faedah dan cukai yang dibahagi dengan jumlah aset. Kajian ini menggunakan panel data analisis regrasi yang memberi kesan tetap dan model kesan rawak. Tambahan pula, keputusan menunjukkan bahawa risiko kecairan didapati mempunyai hubungan yang ketara positif dengan ROA dan ROE. Manakala risiko kredit mempunyai hubungan yang ketara negatif dengan ROA dan hubungan yang tidak ketara negatif dengan ROE. Walau bagaimanapun, risiko operasi didapati mempunyai kesan yang ketara negatif dengan ROA. Manakala risiko operasi adalah penting dan positif yang berkaitan dengan ROE.

Kata Kunci: risiko kecairan (LR), risiko kredit (CR), risiko operasi (OR), pulangan atas aset (ROA), pulangan atas ekuiti (ROE).

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CHAPTER ONE

BACKGROUND OF THE STUDY

1.1 Introduction

This chapter consists of nine sections. It serves the purpose of introducing the entire research. Section 1.2 presents background of the study. Then, section 1.3 consists of problem statement. While section 1.4 presents a number of research questions, which are translated into objectives of the study as, contained in section 1.5. Furthermore, section 1.6 explains the scope of the study and significance of the study is presented in section 1.7. Additionally, organization of the study in section 1.8. Finally, section 1.9 Summarize the chapter.

1.2 Background of the Study

1.2.1 Overview of Iraqi banking sectors

Iraqi banking sector grew up since the nineteenth century as a special sector featuring a group of Iraqi banks and branches of Arab and foreign banks (with seventeen branches). Then the emergence of a government banking sector that is represented by the establishment of the Agricultural bank and Industrial bank in 1935, the Rafidain Bank in 1941, the Central Bank of Iraq in 1947, and the Real Estate Bank in 1948. The government banks and private banks were competing to provide better services to the public (Abdul Nabi, 2012). In Iraq, due to the country's huge economic liberalization, the banking sector is starting to play an important role in pushing the country towards free market trade. This sector is showing amazing chance for extension and variety and accounted 44.6% of total stock market capitalization, and participated 18.7% to Gross Domestic Product (GDP) (Iraqi Banks Annual report, 2014). The Iraqi government is

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