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# CORPORATE RISK DISCLOSURE OF ISLAMIC AND CONVENTIONAL BANKS

## Abstract

This study examines the degree of the corporate risk disclosure and its impact on the banking performance using annual data of banks listed on the UAE financial markets: Abu Dhabi Stock Exchange (ADX) and Dubai Financial Market (DFM) during the period 2003–2013. The authors conduct the content analysis of the annual reports to measure the degree of the corporate risk disclosure. In addition, they use the panel data regressions to analyze the impact of the corporate risk disclosure on the performance of the banks. The results show low degree of the overall corporate risk disclosure index, strategic risk disclosure index, operational risk disclosure index, damage risk disclosure index, and risk management disclosure index for UAE listed banks. In addition, the results reveal significant differences in the overall corporate risk disclosure, strategic risk disclosure, financial risk disclosure, and risk management disclosure between conventional and Islamic banks. However, the effect of the degree of the overall corporate risk disclosure on the performance of UAE bank has been found insignificant. The findings of this paper contribute by providing a better understanding of risk disclosure practices in UAE and help the banks to optimally disclose their risk, improve the quality of their disclosure practices and enhance the quality of their financial reports. The impact of the corporate risk disclosure on the performance of the banks has not been examined by any of the prior researches. In addition, this paper examines the potential difference between Islamic and conventional banks in their corporate risk disclosure practices.

**Keywords** risk disclosure, annual reports, banking performance, panel data

**JEL Classification** C33, G32, G34

## INTRODUCTION

In last few years, the corporate risk disclosure (CRD) in the annual reports has growingly attracted the interest of the researchers and practitioners. Actually, the awareness about the importance of the risk disclosure started in 1998 when the Institute of Charted Accountants in England and Wales (ICAEW) published a discussion paper titled "Financial Reporting of Risk Proposals for a Statement of Business Risk" in which there was a proposition that directors disclose their risk management information in the annual reports. Later on, it has been long argued that the risk disclosure is associated, among others, to the improvement of the corporate risk management (ICAEW, 2002), the reduction of the information asymmetry (Linsmeir et al., 2005), the minimization of the agency costs (Uddin & Hassan, 2011), the protection of the investors (Linsley & Shrives, 2005) and the enhancement of the company's reputation (Yang, 2007). Indeed, all the companies are advised to disclose their risk in order to enhance the transparency of their financial reports, improve their disclosure quality and help the current and the potential investors in their proper assessment and economic decisions.

In the finance literature, there are many studies exploring the extent of the CRD such us: Robb et al. (2001) in Anglo-America (Australia, Canada and US), Beretta and Bozzolan (2004) in Italy, Mohobbot (2005) in Japan, Lajili and Zeghal (2005) in Canada, Korosec and Horvat (2005) in Slovenia, Linsley et al. (2006) and Abraham and Shrives (2014) in UK, and Amran et al. (2008) and Ismail et al. (2013) in Malaysia, Vandemele et al. (2009) in Belgium, Oliveira et al (2011) in Portugal and Dobler et al. (2011) in US, UK, Canada and Germany.

In the context of the emerging market economies located in the Gulf region, there are few researches about the CRD in the annual reports and they are, namely, Naser et al. (2006) in Qatar, Hassan (2009), Uddin and Hassan (2011), Hassan (2014) and Elkelish and Hassan (2014) in UAE and Al-Shammari (2014) in Kuwait.

Naser et al. (2006) test the validity of the theories in the literature (agency theory, political economy theory, legitimacy theory, and stakeholders' theory) in explaining the corporate voluntary disclosure within the corporate social disclosure context. By using 21 companies listed on Doha Stock Exchange during 1999–2000, Naser et al. (2006) construct a risk disclosure index of 34 items and their empirical results show that the risk disclosure is positively associated to the firm's size and leverage. These results assume that the large companies are highly leveraged and more likely to voluntary disclose their corporate risk information. Furthermore, the large companies tend to voluntary disclose information as an attempt to minimize the agency costs (agency theory) and reduce the political pressure (political economy theory).

In the same spirit of research, Hassan (2009) explores the relationship between the UAE corporations, specific characteristics (size, level of risk, industry type and reserves) and the level of corporate risk disclosure. Based on the accounting standards, previous studies and UAE regulations, Hassan (2009) constructs a disclosure index containing 45 items including financial, operational, regulatory, empowerment, information integrity, accounting estimates, derivatives and hedging. Using a sample of 49 companies for 2005, the empirical results reveal that the risk disclosure index is significantly affected by the level of risk and reserves. Similarly, Al-Shammari (2014) examines the association between specific corporate characteristics (company size, leverage, liquidity, profitability, complexity, auditor type, and industry type) and CRD in the annual reports for a sample of 109 Kuwaiti listed non-financial companies for 2012. By using the content analysis and regressions, his empirical results reveal a positive association between the CRD and the size, liquidity, complexity and auditor type. In addition, the results indicate significant differences across industries.

In the extension of the previous studies, Uddin and Hassan (2011) explore the extent of the risk disclosure and develop a CRD for the 36 UAE listed corporations for 2005. In their study, they examine the CRD cross-sectional relationship with the stock price volatility after the annual reports publication. Their empirical results reveal a nonlinear effect on the level of stock volatility and investors' market risk. Uddin and Hassan (2011) suggest that more disclosure of corporate risk information may increase uncertainty of investment in UAE markets but more information disclosure allows the investors to diversify their portfolio and minimize their market risk.

Furthermore, El Kelish and Hassan (2014) investigate the relationship between the organizational culture and CRD for 41 companies listed on UAE financial markets for 2005 using quantitative techniques instead of the questionnaires and interviews. In their study, the organizational culture dimensions of clan, adhocracy and market have been measured by proxy variables. Consequently, the clan dimension that places priority on long-term benefits of human resource development is measured by the total compensation paid to employees as percentage of operating expenses. The dimension of adhocracy which is characterized by more risk-taking initiatives to achieve the predetermined targets is measured by the fluctuation in operating income, while the dimension of market oriented toward pro-

ductivity and profitability is measured by return on assets (ROA), return on equity (ROE), and return on investment (ROI). Their empirical findings indicate that the organizational culture of hierarchy (based on internal control and formalized work procedures) has a significant positive effect on the UAE companies' risk disclosure. With regards to the financial institutions, Hassan (2014) examines the extent of the narrative risk disclosure in 23 annual reports for 2008. Based on the legitimacy theory, he explores how the social expectations created by the UAE stakeholders are related to risk disclosure. His findings reveal that the UAE financial institutions use their risk disclosure to gain, maintain and restore their social legitimacy.

This study aims to measure the degree of risk disclosure of Islamic and conventional banks listed in the UAE stock markets. It also aims to examine the impact of the extent of risk disclosure on banks' performance.

## 1. LITERATURE REVIEW

In the literature, there are many definitions of the CRD, but the most complete one is presented by Hassan (2009) who defines the CRD as "the financial statements inclusion of information about managers' estimates, judgments, reliance on market-based accounting policies such as impairment, derivatives hedging, financial instruments and fair value, as well as the disclosure of concentrated operations, non-financial information about corporations' plans, recruiting strategy, and other operational, economic, political and financial risks". This definition gives an idea about the different types of risk that should be disclosed by the companies.

### 1.1. The extent of the risk disclosure in the annual reports

In the management literature, there are many theories explaining the importance and the usefulness of the corporate disclosure. These theories are mainly: the agency theory, the signaling theory, the legitimacy theory and the stakeholders' theory.

The agency theory (Jensen & Meckling, 1976) states that there is a conflict of interests between the shareholders (principals) and the managers (agents) which may affect the corporate investment decisions and lead to investment in projects with negative net present value affecting substantially the firm's performance. According to this theory, to reduce the agency problems, the managers should provide relevant information to prove the alignment of their interests with those of the shareholders (Healy & Palepu, 2001).

The signaling theory (Myers & Majluf, 1984) assumes that the managers are more informed about the real value of the company than the other investors and may therefore use this information asymmetry to their benefit and reinforce their entrenchment strategy in their respective companies. Based on this theory, the managers should disclose adequate information in the financial reports to communicate specific signals to current and potential investors. This kind of communication is credible to the investors because managers with fake signals will be penalized (Hughes, 1986).

The legitimacy theory and the stakeholders' theory have both derived from the general political economy perspective (Gray et al., 1996). In fact, the legitimacy theory suggests that the voluntary disclosures are part of a process of legitimation and considers that there is an implicit contract between the company and the society (Gray et al., 1995). In order to demonstrate the fulfilment of its part in the contract and compliance with the value systems of the society, the company must disclose all the information about its economic, environmental and social issues, while the stakeholders' theory offers an explanation of accountability to stakeholders and presents the duties and the responsibilities that the company has toward the stakeholders. According to this theory, the company has to disclose all its matters in order to maintain a sustainable relationship with its stakeholder (Freeman, 1994).

In the empirical literature, there are many studies published about the CRD in the annual reports. These studies rely commonly on the content analysis and their main results are summarized in Table 1.

**Table 1.** Empirical studies on the CRD

Source: based on Vandemele et al. (2009), supplemented with other studies.

| Authors | Method and sample | Main results |
|---|---|---|
| Robb et al. (2001) | Content analysis; disclosure index and regression<br>192 annual reports of Australian, Canadian and US companies | Risk disclosure positively associated with the international orientation and the size of the company |
| Beretta and Bozzolan (2004) | Content analysis; disclosure index and regressions<br>85 annual reports of Italian listed non-financial companies | Voluntary risk disclosure mainly qualitative<br>Focus on past and present risks, rather than future risks<br>Evidence consistent with size effect |
| Mohobbot (2005) | Content analysis; disclosure index and regressions<br>90 annual reports of Japanese listed companies | Large variation in voluntary risk disclosure<br>Risk disclosure mainly qualitative<br>Evidence consistent with size effect |
| Lajili and Zeghal (2005) | Content analysis<br>300 annual reports of Canadian listed companies | Large variation in voluntary risk disclosure<br>Risk disclosure mainly qualitative |
| Korosec and Horvat (2005) | Content analysis<br>36 annual reports of large Slovenian listed companies | Low risk disclosure practice in the annual reports of the Slovenian companies |
| Linsley et al. (2006) | Content analysis<br>9 annual reports of Canadian banks and UK banks with comparable size | Non-significant difference between the risk disclosure in Canada and in UK<br>Risk disclosure positively associated with the bank's size and the number of risk definitions |
| Naser et al. (2006) | Content analysis, disclosure index and regressions<br>21 annual reports of Qatari listed companies | Risk disclosure positively associated with the size and leverage |
| Abraham and Shrives (2014) | Content analysis<br>4 annual reports of UK companies in the food producers and processors sector. | Preference for the symbolic disclosure rather than the substantive<br>Developed model to evaluate the risk disclosure quality |
| Amran et al. (2008) | Content analysis, disclosure index and regressions<br>100 annual reports of Malaysian companies | Low risk disclosure in the Malaysian annual reports<br>Risk disclosure positively associated with the firm's size |
| Vandemele et al. (2009) | Content analysis; disclosure index and regression<br>46 annual reports of Belgian non-financial companies. | Risk disclosure positively associated with the size<br>Risk disclosure negatively associated with the profitability<br>Risk disclosure positively associated with beta |
| Hassan (2009) | Content analysis; disclosure index and regressions<br>49 annual reports of UAE listed companies | Risk disclosure index affected by the level of risk and reserves |
| Oliveira et al. (2011) | Content analysis<br>190 annual reports of Portuguese credit institutions | Optimal level for the mandatory disclosure and lack of transparency for the voluntary disclosure requirements |
| Dobler et al. (2011) | Content analysis; disclosure index and regressions<br>160 annual reports of US, Canadian, UK and German non-financial listed companies | Highest risk disclosure quantity in the US firms followed by the German<br>Risk disclosure positively associated with the firm's risk in the North America and negatively associated with the leverage in Germany |
| Uddin and Hassan (2011) | Content analysis; disclosure index and regressions<br>36 annual reports of UAE listed companies | Non-linear effect on the level of the stock volatility and investors' market risk |
| Ismail et al. (2013) | Content analysis<br>17 annual reports of Islamic banks in Malaysia | More than 80% of compliance with the disclosure practices in Malaysia |
| ElKelish and Hassan (2014) | Content analysis; disclosure index and regressions<br>41 annual reports of UAE listed companies | Organizational culture of hierarchy positively associated with UAE companies' risk disclosure |
| Hassan (2014) | Content analysis<br>23 annual reports of UAE financial institutions | Risk disclosure in the objective to gain, maintain and restore the social legitimacy |
| Al-Shammari (2014) | Content analysis, risk disclosure index and regression<br>109 annual reports of Kuwaiti non-financial companies | Significant differences in CRD across industries<br>Risk disclosure positively associated with the size, liquidity, complexity and auditor type |

## 1.2. The economic and institutional environment in UAE

The UAE is one of the richest Arab countries. Its oil reserves are the seventh-largest in the world, while its natural gas reserves are the world's seventeenth-largest (OPEC, 2014). Although the UAE's economy is the most diversified in the Gulf Cooperation Council (GCC), it relies particularly on petroleum and natural gas. The UAE became a contracting party to the General Agreement on Tariffs and Trade (GATT) in 1994, and consequently a member of the World Trade Organization (WTO) in April 1996. In addition, UAE participates in two overlapping regional trade agreements, the GCC and the Greater Arab Free Trade Area (GAFTA) in 1997, along with other five GCC states (Bahrain, Oman, Qatar, Saudi Arabia and Kuwait).

In UAE, there are two sets of legislations regulating the financial accounting practices of the banks. First, the UAE central bank sets regulations governing the preparation of the financial reports in compliance with the IFRS (Hussein et al., 2002). In UAE, all the financial and non-financial companies are required to comply with the IFRS 7 (financial instruments disclosure), as well as other standards about segment reporting and contingencies so they are all under the pressure to disclose their risk information (Hassan, 2009).

Second, the Emirates Securities and Commodities Authority (ESCA) sets registration conditions affecting the registration, as well as the regulations concerning the disclosure and transparency (UAE Federal Law No. 4 of 2000) and encourages the capital market registrants to disclose their risk information and ensure an appropriate level of transparency to raise the investors' confidence. The later ESCA's amendments require the potential registrants to disclose in their financial reports, among others, the unexpected circumstances and any significant development affecting the prices of the companies' securities (Hassan, 2009).

In addition to the above regulations, a code of corporate governance was issued by the ESCA in 2007 that requires all the market listed companies and institutions, as well as the members of their boards of directors to adopt corporate governance rules that aim, among others, to encourage the companies to adopt the principles of good corporate governance, publish their corporate governance report and make them available to all the shareholders.

To increase the awareness about the importance of the corporate disclosure and the accounting professions, the UAE formed the Institute of Internal Auditor (IIA). This institute is organizing conferences and seminars and gathering professionals from over the world in order to enhance the quality of the financial reports. In spite of all these activities, the accounting profession is dominated in UAE by the big international auditing firms such as Ernst & Young and Price Waterhouse Coopers (Hussain et al., 2002) and all Abu Dhabi banks are audited by Ernst & Young which legitimates its UAE clients to disclose their risk information (Islam, 2003).

The reason of exploring the CRD in UAE as an emerging market is to examine the adoption of the international and national regulations in the preparation of the UAE banks' annual reports and investigate to which extent the UAE banks comply with the CRD practices.

## 2. DATA AND METHODOLOGY

### 2.1. Data

Our data include all listed banks in the UAE financial markets for the years 2003–2013. Our final sample includes 176 firm-year observations.

### 2.2. Hypotheses

In our first hypothesis, we will measure the degree of the corporate risk disclosure for all UAE listed banks. We assume that the corporate risk disclosure consists of the strategic risk disclosure, operational risk disclosure, financial risk disclosure, damage risk disclosure, and risk management disclosure (Linsley & Shrives, 2006).

*H1: The corporate risk disclosure consists of the strategic risk, operational risk, financial risk, damage risk and risk management disclosure.*

In our second hypothesis, we will investigate any significant difference in the degree of corporate risk disclosure between UAE conventional and Islamic banks.

*H2: There is a difference in the degree of corporate risk disclosure between UAE conventional and Islamic banks.*

In our third hypothesis, we will test the association between the corporate risk disclosure and the banking performance for all UAE banks by differentiating between the Islamic and conventional banks.

*H3: There is an association between the corporate risk disclosure and the banking performance.*

## 2.3. Variables choice

In this study, we will employ the corporate risk disclosure index developed by Linsley and Shrives (2006), we will measure the corporate risk disclosure by:

- the strategic risk disclosure items (Table 2);
- the operational risk disclosure items (Table 3);
- the financial risk disclosure items (Table 4);
- the damage risk disclosure items (Table 5);
- the risk management disclosure items (Table 6).

Table 7 shows the control variables included in our model, and Table 8 describes the banking performance measure.

**Table 2.** Strategic risk disclosure

Source: Linsley and Shrives (2006).

| No. | Items of disclosure |
|---|---|
| 1 | Market competition |
| 2 | Market areas |
| 3 | Position in the production chain |
| 4 | Dependence on customers |
| 5 | Dependence on suppliers |
| 6 | Changes in customer preferences |
| 7 | Technological development |
| 8 | Regulatory changes |
| 9 | Political changes |
| 10 | Economical changes |
| 11 | Mergers and acquisitions |
| 12 | Pricing |
| 13 | Industry specific changes |
| 14 | Launch of new products |
| 15 | Business portfolio |
| 16 | Life cycle (growth and profitability) |
| 17 | Management of strategic risk |
| 18 | Research and development |

Table 2 shows 18 items of the strategic risk disclosure. Each item is a binary variable; it takes 1 if it is disclosed in the annual reports, 0 otherwise.

**Table 3.** Operational risk disclosure

Source: Linsley and Shrives (2006).

| No. | Items of disclosure |
|---|---|
| 1 | Dependence on the know-how of the personnel |
| 2 | Uncommon business fluctuations in demand |
| 3 | Interruptions in the delivery chain |
| 4 | Price fluctuations of the factors of production |
| 5 | Patents and other industrial property rights |
| 6 | Customer satisfaction |
| 7 | Information technology risks |
| 8 | Reputation and brand name development |
| 9 | Stock obsolescence and shrinkage |
| 10 | Product and service failure |
| 11 | Environmental |
| 12 | Health and safety |
| 13 | Project deliveries |
| 14 | Quality controls |

Table 3 shows 14 items of the operational risk disclosure. Each item is a binary variable; it takes 1 if it is disclosed in the annual reports, 0 otherwise.

**Table 4.** Financial risks disclosure

Source: Linsley and Shrives (2006).

| No. | Items of disclosure |
|---|---|
| 1 | Interest rate |
| 2 | Exchange rate |
| 3 | Liquidity |
| 4 | Credit |
| 5 | Commodity |

Table 4 shows 5 items of the financial risk disclosure. Each item is a binary variable; it takes 1 if it is disclosed in the annual reports, 0 otherwise.

**Table 5.** Damage risks disclosure

Source: Linsley and Shrives (2006).

| No. | Items of disclosure |
|---|---|
| 1 | Insurances |
| 2 | Significant legal actions |

Table 5 shows 2 items of the damage risk disclosure. Each item is a binary variable; it takes 1 if it is disclosed in the annual reports, 0 otherwise.

**Table 6.** Risk management disclosure

Source: Linsley and Shrives (2006).

| No. | Items of disclosure |
|---|---|
| 1 | Risk management policy |
| 2 | Risk management organization |

Table 6 shows 2 items of the risk management disclosure. Each item is a binary variable; it takes 1 if it is disclosed in the annual reports, 0 otherwise.

**Table 7.** Control variables

| Variable | Notation | Measure |
|---|---|---|
| Leverage | TLE | Total liabilities to equity |
| Size | LGTA | Logarithm of total assets |

Table 7 shows the control variables of size and leverage.

**Table 8.** Banking performance

| Variable | Notation | Measure |
|---|---|---|
| Return On Equity | ROE | Net income to total equity |

Table 8 shows the banking performance measures.

## 2.4. Methodology

To measure the degree of the corporate risk disclosure of the UAE listed banks, the means of the different disclosure indices (overall corporate risk, strategic risk, operational risk, financial risk, damage risk, and risk management) have been computed and reported in Table 9. The values of all the above indices are ranging between 0% and 100%. The value of 0% means no corporate risk disclosure by the banks, while the value of 100% means full corporate risk disclosure.

The Mann-Whitney test is used to examine the differences between conventional and Islamic banks in terms of overall corporate risk disclosure, strategic risk disclosure, operational risk disclosure, financial risk disclosure, damage risk disclosure, and risk management disclosure.

To examine the effect of the degree of risk corporate risk disclosure and banking performance, the robust Generalized Method of Moment System Estimation (GMM) was applied to dynamic panel data. This model was proposed by Arellano and Bover (1995) and Blundell and Bond (1998) with its finite sample correction suggested by Windmeijer (2005). This estimation controls the possibility of unobserved province-specific effects correlated with the regressors. We have also included in our model control variables of size and leverage.

The above estimation approach leads to the following estimation equation:

$$roe_{it} = a + b_1 \cdot roe_{it_{-1}} + b_2 \cdot tbe_{it_{-1}} + \\ + b_3 \cdot \lg ta_{it_{-1}} + b_4 \cdot index_{it} + e_{it}. \quad (1)$$

In our model, the dependent variable and the independent variables are in the form of first difference:

- the ( $roe_{it}$ ) is the first difference of the return on equity;
- the α is the intercept of the regression;
- the ( $roe_{it_{-1}}$ ) is the differenced lagged dependent variable;
- the ( $tbe_{it_{-1}}$ ) is a control variable of leverage measured by the first difference of total borrowings to equity;
- the ( $lgta_{it-1}$ ) is a control variable of size measured by the first difference of logarithm of total assets;
- the ( $index_{it}$ ) is the first difference of the degree of corporate risk disclosure.
- the ( $\varepsilon_{it}$ ) is the error term.

# 3. EMPIRICAL RESULTS

In this section, we present our descriptive and estimation results concerning levels of corporate risk disclosure of UAE banks. Table 9 below reports the means of the overall corporate risk disclosure reporting index, strategic risk disclosure

**Table 10.** Mann-Whitney test of corporate risk disclosure indices of UAE conventional and Islamic banks

| Mann-Whitney-test | Overall risks | Strategic risks | Operational risks | Financial risks | Damage risks | Risk management |
|---|---|---|---|---|---|---|
| Coefficient | 2.508* | 4.184** | 1.530 | -2.059* | -1.947 | -2.271* |

*Note:* Table 10 reports the results of Mann-Whitney test of corporate risk disclosure indices of UAE conventional and Islamic banks during the period 2003–2013. * Significant at 95% confidence level, * *significant at 99% confidence level.

index, operational risk disclosure index, financial risk disclosure index, damage risk disclosure index, and risk management disclosure index for all banks, and also separately for conventional banks and Islamic banks. With regard to the overall risk disclosure index, the average level is 35% for all banks, 36% for conventional banks and 32.6% for Islamic banks. The results indicate that the overall corporate risk disclosure of UAE banks is, in general, low. Moreover, the Islamic banks have lower corporate disclosure level than the conventional banks. The results reported in Table 9 show also that the results of the level of strategic risk disclosure and operational risk disclosure are similar to the results of the overall corporate risk disclosure. The results indicate that the strategic risk disclosure and operational risk disclosure of UAE banks are at low levels and Islamic banks have lower disclosure than the conventional banks. Similarly, the degree of both damage risk disclosure and risk management disclosure are at low levels, but the Islamic banks have higher degree of disclosure than the conventional banks. The results reported in Table 9 show also that the degree of financial risk disclosure is at high levels for all UAE banks, as well as for both conventional and Islamic banks and more particularly, the Islamic banks have higher degree of financial risk disclosure than the conventional banks.

**Table 9.** Levels of corporate risk disclosure of UAE banks

| Mean | All banks | Conventional banks | Islamic banks |
|---|---|---|---|
| Overall risks | .3512195 | .3599124 | .3261066 |
| Strategic risks | .3448637 | .3642757 | .2880659 |
| Operational risks | .1772237 | .1844485 | .1560847 |
| Financial risks | .8396226 | .8206751 | .8950617 |
| Damage risks | .1320755 | .1075949 | .2037037 |
| Risk management | .4669811 | .443038 | .537037 |

*Note:* Table 9 reports means of corporate risk disclosure of all banks, Islamic and conventional banks listed on UAE financial markets during the period 2003–2013. The value of the index is ranging between 0% and 100%. The value of 0% means no corporate risk disclosure by the bank, while the value of 100% means a full corporate risk disclosure.

The results of the Mann-Whitney test reported on Table 10 below support most of the descriptive statistics findings reported on Table 8 above and confirm that the levels of the overall corporate risk disclosure, strategic risk disclosure, financial risk disclosure, and risk management disclosure have significant differences between conventional and Islamic banks.

Table 11 reports the results of the robust dynamic panel-data two-steps GMM system estimation of the relationship between the level of corporate risk disclosure and performance of all banks, conventional banks and Islamic banks. The results of the lagged dependent variable for all banks, conventional banks, and Islamic banks indicate that the bank's performance in the previous period has no significant effect on the bank's performance in the current period. The overall corporate risk disclosure has shown insignificant effect on banks' performance for all banks, conventional banks, and Islamic banks. These findings confirm that the degree of corporate risk disclosure has no effect on the performance of all UAE banks, conventional banks, and Islamic banks.

**Table 11.** Results of robust dynamic panel-data two-steps GMM system estimation of overall corporate risk disclosure index

| Dependent: performance | All banks | Conventional banks | Islamic banks |
|---|---|---|---|
| Lag dependent | -.26597 | -.2277066 | -3.237987 |
| Leverage | .0098292 | .0078079 | .0122796* |
| Size | .1022748 | .1010396 | .1064303 |
| Overall risks | .0307002 | -.351543 | -.9271227 |

*Note:* Table 11 reports the results of robust dynamic panel-data two-steps GMM system estimation for the relationship between the degree of the overall corporate risk disclosure on performance of all banks, Islamic and conventional banks listed in the UAE financial markets during the period 2003–2013. Dependent variable and independent variables are in the form of first difference. * Significant at 95% confidence level, * *significant at 99% confidence level.

## CONCLUSION

In this study, we explore the extent of the corporate risk disclosure and examine its impact on the banking performance using annual data for listed banks on the UAE financial markets during the period 2003–2013. The results show low degrees of the overall corporate risk disclosure index, as well as all the sub-risks disclosure (strategic risk, operational risk, damage risk, and risk management) for all UAE listed banks, conventional, and Islamic banks, while the financial risk disclosure is at high level for all UAE banks, conventional, and Islamic banks. The results show also significant differences in the overall corporate risk disclosure, as well as all the sub-risks disclosure between conventional and Islamic banks. The results have shown insignificant effect of the degree of the overall corporate risk disclosure on performance of all UAE banks, conventional and Islamic banks.

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