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The Impact of Corporate Governance on Islamic Banking Performance: The Case of UAE Islamic Banks

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Abstract:
The objective of this research paper is to provide evidence of whether or not Corporate Governance Index has an impact on financial performance of the UAE Islamic banks. Corporate Governance Index is developed from response of surveyed key persons about management, board of directors, shareholders, and Sharia board of bank. It includes rules and procedures to be followed through which objectives for bank are set. The sample consists of (6) Islamic banks working in UAE. Three hypotheses have been developed and tested by applying descriptive statistical methods, correlation, and regression analysis. The study finds that there is a direct positive relationship between profitability measured either by Earnings per Share (EPS), Return on Equity (ROE), and corporate governance. However, there is an insignificant relationship between CGI and Returns on Asset (ROA). Finally, the study found a positive direct relationship between Corporate Governance Index and banks' financial performance. The regression model can be expressed by following equation: CGI = 1.345 + 1.012 ROE + 0.532 ROA + 0.725 EPS
Key words: *Corporate Governance; Governance Index; Islamic Banking Performance; Profitability and CGI; Islamic Banking Governance Index.*

1. INTRODUCTION

The term corporate governance (cg) has started during last two decades and not yet become fully spelled out even though a substantial volume of literature has become available on subject. It has defined in different ways by different authors. The organization for economic co-operation and development (OECD) has defined it as "set of relationships between a company's management, its board, its shareholders and other stakeholders.

Corporate governance implies relationship between management, board of directors, shareholders and stakeholders of company. It includes rules and procedures to be followed through which objectives of company are set. By following rules set by corporate governance mechanism, the objectives of company are attained, and profitability is monitored. So, the basic features of good corporate governance include clear corporate structures, simple procedures; and responsibility of managers & board of directors towards stakeholders.

The increase in number of failures in 2001 and onwards has brought an improved focus on good corporate governance, which has brought corporate governance to a wider discussion. The importance of corporate governance became a serious issue after failure of Enron and Worldcom, but it cannot be assumed that corporate governance concept is new. Its importance started when separation between management and ownership of corporation took place.

The main objective of corporate governance is to protect rights and increase confidence of all stakeholders. To ensure this, accurate and quick decisions are required. The decisions should be communicated to concerned promptly. In this way, investors and other stakeholders can have more confidence in company. Greater confidence results in higher growth and profits. Stakeholders enter into firms which are renowned for their good governance structures. Investors pay higher to firms, which strictly obey norms of corporate governance. The risk is reduced, and ultimately cost of capital and agency costs are reduced.

Corporate governance also provides the structure through which objectives of company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for board and management to pursue objectives that are in the interests of company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently.

The mechanisms of corporate governance can be defined as a set of tools that explain powers, influence management decisions, govern behavior and limit discretionary space of managers, which is considered as an external mechanism [7]. They are means or control structures used by principals to align interests of principals and agents and to monitor and control agents. The purpose of these governance mechanisms is to limit scope and frequency of agency costs and to ensure that agents

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act under best interests of their principals, which represents internal cg mechanism [14].

An indication of corporate governance in banks seems easier than it is. Much research is done on corporate governance, but very little of it relates to behavior of owners, directors, and managers of banks. Banks are characterized by liquidity production function, deposit assurance fund, assets structure and problems of loyalty, and greater opaqueness that cause a heavy regulation.

Many studies have focused on relationship between cg and financial performance of companies, like saleem & saeed (2011); sami, wang & zhou (2011); ozkan (2011); bayrakdaroglu et al.,(2012); mollah, al farooque & karim (2012); gavrea & stegerean (2012); tabără & ungureanu (2012); duc & phan (2013); munisi&randoy (2013); al-najjar (2014) and johl, kaur, & cooper (2015) [4][24][25].

Less attention has been given to literature on banks' corporate governance and has not been sufficiently considered despite its importance. Additionally, recent global financial and banking crises have revealed importance of enhancing understanding of bank governance.

Most of Islamic banks are located in the gulf countries, Middle East and North African (Mena) countries, and Southeast Asian countries and they have many special features compared to their conventional counterparts. First, Islamic finance is based on profit-losses-sharing arrangements; hence ibs want to improve their financial performance. Second, religion plays a crucial role in Islamic banking, since activities of Islamic banks must be under sharia principles. Islamic banks have expanded beyond Islamic countries and become world-wide known. These growing Islamic hubs have been acting as a launching pad to promote Islamic banking in western business and financial markets. Corporate governance of Islamic financial institutions allows ensuring fairness to all stakeholders through greater transparency and accountability towards Islamic principle. The corporate governance of a sharia-compliant business would first look at transactional structure to see whether transaction involves elements that invalidate gains or profits since sharia is concerned not only with the substance but also with the form of business. In effect, corporate governance for Islamic financial institutions stems from two principle elements: a faith-based approach that mandates conduct of business in harmony with Islamic law; and a profit-motive that recognizes business & investment transactions; and maximization of shareholder's wealth. Hence, central feature of corporate governance of an Islamic financial institution is ensuring sharia compliance.

Aim & Objectives of Research

The global financial crisis of 2008 and liquidity crunch have had a huge impact on banks in the UAE. Banks lost money, and smaller banks were forced to consider merging with bigger larger banks. This raises serious questions about risks, management, regulations, and governance of the UAE banks. This highlighted the need for proactive risk management and corporate governance practices.

The main objective of this study is to explain relationship between corporate governance variables and financial performance represented by profitability of UAE Islamic banks. Another objective of this project is to discuss and create greater awareness of some of crucial issues related to corporate governance in Islamic financial institutions in the United Arab Emirates (UAE). Furthermore, the project gives particular attention to the mechanisms for corporate governance, including board of directors, senior management, shareholders, depositors, and regulatory and supervisory authorities. It also focuses on the role of corporate governance in Islamic banks and its impact on Islamic banking profitability.

Motivation and Significance of the Study

Corporate Governance has gained significant importance because of the role it can play in safeguarding the interests of all stakeholders. When adopted, it becomes part and parcel of institutional infrastructure; and consists of laws, regulations, and enforcement mechanisms, which are geared to encourage and ensure sound economic performance. In the absence of clear rules and regulations governing the operations of organizations, there is a scope of unethical practices.

This study is being undertaken as there is a growing debate about need for improving corporate governance in Islamic banks. Realizing importance of corporate governance, the Hawkamah Institute for corporate governance was setup in Dubai, as a nodal agency to create greater awareness and encourage application of corporate governance principles in UAE business community.

Empirical studies of corporate governance in Islamic banks are relatively scarce and focus attention on specific issues; while, some of these address the accounting and auditing aspects of corporate governance. Others try to determine the overall strategies and investment policies as well as the role of Shariah supervisory boards in the operation of these banks. Studies in UAE concentrates on companies and conventional banks and purposely excluded Islamic banks because of their different characteristics. Therefore, this motivates to conduct an empirical study in Islamic banks.

Methodology of the Study

The sample of this study is composed of six Islamic banks in UAE and financial data of six years that covers the period of 2011 to 2016 will be analyzed to investigate relationship between corporate governance and profitability of the Islamic banks measured by Return on Assets (ROA), Return on Equity (ROE) and Earnings per Share (EPS).

In this study, an index is developed that includes main elements of CG, combining an index used in some previous studies with

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some other factors related to special context of Islamic Banks. A measure of CG was constructed using some of variables conducted by many previous studies and adding two other variables related to Islamic banks, namely the existence of a Sharia board and size of Sharia board. A CG Index was constructed using six CG characteristics: (1) board size (2) presence of female board members; (3) duality of the CEO; and (4) presence of block 30 holders. Also, their other dimensions were examined: (5) the existence of a Shari'ah committee; and (6) size of the Shari'ah committee

Unfortunately, there is currently no standard index for describing the characteristics of an Islamic Financial Institution. However, the International Islamic Rating Agency (IIRA) in Bahrain created a scale of CGR 1-10 to rate CG, with CGR 10 being the highest, and CGR 1 being lowest possible rating. A CGR of 10 reflects strong CG processes and practices overall, with very few weaknesses in any of major areas of governance analysis. CGR 1 is weakest level of CG processes and practices overall, suggesting significant weaknesses in most of major areas of governance analysis. This index is still in its preliminary stages of development and has only been applied to a few Islamic Banks.

Research Hypotheses

Different studies have been published, which show that there is a strong relationship between corporate governance and profitability. Furthermore, this research is trying to investigate impact of corporate governance on profitability of UAE Islamic banks. Based on the literature, research data and methods, the following hypotheses need to be tested:

H1: There is significant relationship between Corporate Governance Index (CGI) and Return on Assets (ROE) of UAE Islamic banks.

H2: There is significant relationship between Corporate Governance Index (CGI) and Return on Equity (ROE) of UAE Islamic banks.

H3: There is significant relationship between Corporate Governance Index (CGI) and Earning per Share (EPS) of UAE Islamic banks.

2. LITERATURE REVIEW

Corporate governance provides a framework through which organizations can set their corporate objectives and also set approach to attain those objectives. Furthermore, it provides a mechanism to monitor performance to ensure objectives set are achieved. This framework should also provide incentives for the board and the management to pursue objectives that are in the best interests of the company and its shareholders and should facilitate effective monitoring.

Corporate governance is positively associated with firm financial performance of corporations. There is significant effect of corporate governance on return of shareholders in different sectors at the local and international levels. There are two main perspectives regarding corporate governance. One group argues in favor of taking a shareholder based view, and other group argues in favor of stakeholder-based approach. The Walker Report (2009) focus on shareholder view and states that role of corporate governance is to protect and advance the interest of shareholders through setting strategic direction of company; and monitoring capable management to achieve this [8]. But it does not imply that other stakeholders are to be ignored. In contrast, corporate governance proposals were drawn up by the Basel Committee (2011) and the European Union (2010) favor the stakeholder view [3]. Taking stakeholder view, the Basel Committee's Principles for Enhancing Corporate Governance (2011) state that in discharging these responsibilities, the board should take into account the legitimate interests of shareholders, depositors, and other relevant stakeholders.

The corporate governance is needed for many reasons, such as: existence of agency problems or conflict of interests, contracts or obligations of members are not clear, separation of ownership & control, and problems of delegating powers.

The Basel Committee on Banking Supervision issued corporate governance principles in 2006, which was based on the principles of corporate governance issued by the Organization for Economic Co-operation and Development (OECD) in 2004. The purpose of these corporate governance principles is to reinforce basic principles that can help minimize problems and to identify practices that can be used to implement the principles.

Many studies have focused on relationship between CG and financial performance of companies, like, Bianco and Casavola, 1999; Black et al., 2003; Kyereboah-Coleman et al., 2006; Kim & Yoon, 2007; Raja and Kumar, 2007), Saleem & Saeed (2011); Sami, Wang & Zhou (2011); Gill & Mathur (2011); Chaghadari & Chaleshtori (2011); Ozkan (2011); Bayrakdaroglu et al.,(2012); Mollah, Al Farooque & Karim (2012); Gavrea & Stegerean (2012); Tabără & Ungureanu (2012); Ujunwa (2012) ;Yusof&Alhaji (2012); Duc & Phan (2013); Munisi & Randoy (2013); Viet (2013); Taghizadeh & Saremi (2013); Al-Najjar (2014); and Johl, Kaur & Cooper (2015) [4][5][12][24][25].

Although, the socio-economic environment that distinguished Islamic banks are now very weak or not existing, Islamic banks have been considered as reliable banks because of risk sharing and remarkable performance. To enhance the performance, satisfy the shareholders, and be more competitive, corporate governance is very helpful to replace the socio-economic environment. Unfortunately, corporate governance is considered to be weak in Islamic banks due to many reasons such as weak regulations, less experienced members of boards, political interventions, inadequate disclosure, and information asymmetries.

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Effective corporate governance may significant help to strengthen Islamic banks and to enable them to expand rapidly and perform their role effectively. This need will become more and more serious as institutions expand and their problems become more complex, which will erode their ability in long-run to meet successfully the challenges that they face. It is, therefore, not possible to avoid taking of all those measures that would help improve functioning of Islamic banks.

Islamic banks are in bad needs for corporate governance to protect the interest of all stakeholders. The most important stakeholder in the case of Islamic banks is Islam itself. If the banks do not perform well, those who assume the Islamic system to be out of tune with the modern world may try to blame Islam for poor performance of these banks even though Islam may itself have nothing to do with it. Shareholders' stake is unquestionably recognized. However, depositors, whose interest is also at stake, do not get much attention in conventional banks.

This is because all deposits are insured, and rate of return is known in advance. Since investment depositors share in the profit and loss in the Islamic banks, their interest needs to be protected. Demand depositors, even though their deposits are guaranteed, have their interest at stake because of fear that the losses suffered by investment depositors may inadvertently get shifted to demand depositors unless firewalls are constructed between the operations based on these two sets of deposits. Employees also have a stake. Their contribution to efficient performance of the bank and their remuneration are both determined by bank's incentive structure. The better the bank performs, the better and the greater the incentive effect. The interest of government is also at stake because the effective performance of banks can benefit them] in some ways.

This will induce them to ensure that regulatory and supervisory authorities perform their tasks conscientiously in the public interest. The financial system is at stake because failure of major banks can create a crisis and hurt the whole economy. Thus, in short, economy and society are as a whole at stake because ineffective functioning of financial system can exert an adverse effect on all sectors of economy and society through financial instability, as well as lower rates of economic growth and general well-being.

Therefore, CG has crucial and basic role in satisfying conflicting interests of all stakeholders. The main role is to create a fair equilibrium among different stakeholders through a broad range of formal as well as informal rules, standards and constraints aimed at directing and controlling bank in a way that would safeguard interests of all at a relatively low cost. The cost is an important consideration because if cost is high, there will be an excuse for not safeguarding the interests of stakeholders. In conventional banks, the primary conflict of interest is considered to be between shareholders and management but in an Islamic bank another important dimension gets injected and that is of depositors.

The central feature of corporate governance of an Islamic bank is ensuring Sharia compliance. Thus, Islamic banks have complicated system of corporate governance. Indeed, Islamic financial institutions are submitted to two internal structures of corporate governance i.e. Board of Directors and Supervisory Shari'a Board (Lewis 2008).

Boards of directors consist of two types of directors i.e. insiders and outsiders. There is still confusion that to achieve optimal board composition, how much percentage of each type of director should be present. Corporate Board is the apex of internal corporate governance mechanism (Brennan; 2006). Board of Directors has the duty to monitor management and take care of their rights on behalf of shareholders. Non-Executive Directors have positive impact on firm performance when evaluated by Return on Assets (ROA) and Return on Equity (ROE) [2].

There is positive relationship between some outside directors on board and firm performance [9];[. A significant positive correlation is found between firm value with outside directors in an Indian context [17]. The presence of outside directors on the board is not related to the performance of the firm.

The purpose of corporate governance in Islamic banks is different from the purpose of corporate governance of other firms. The corporate governance of Islamic financial institutions is considered as a mechanism that allows ensuring fairness to all stakeholders through greater transparency and accountability towards Islamic principle. According to Ibrahim (2006), corporate governance of Sharia-compliant business would first look at transactional structure to see whether transaction involves elements that invalidate gains or profits, since Sharia is concerned not only with substance but also with the form of business.

The Sharia Supervisory Board (SSB) has very special governance characteristics. Sharia governance is a feature of governance for Islamic banks, whose concern is the religious aspects of overall activities of Islamic banks as compared to conventional concept of corporate governance.

This board, as part of internal governance structure of institution operates as an internal control body in the organization, therefore, enhancing the credibility of institutions in the eyes of its customers, shareholders, and other stakeholders.

Hassan et al., (2011) have discussed theoretical aspects of Shari'a Governance of Islamic financial institutions. Francis et al., (2012) possessed that good governance corporations performed well during financial crisis because risk taking and financial stability is concerned issue during global financial dilemma [11]. Hassan (2014) stated that financial institution based on Islamic philosophy founded on real proscription of receipt of few determined and assured rate of return. This

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system encouraged Entrepreneurship and promotes risk sharing and emphasized on purity of contracts with proper governance and supremacy.
Muhammad (2008) explored various results in his empirical study and found positive relationship for board size and firm financial performance in Islamic institutions in Pakistan. Safieddine (2009) has stated that corporate governance apparatus in Islamic financial institution is distinctive that is hold on Shari'a governance. Ibrahim (2010) focused on enhanced practices of corporate governance, and stated that it become significant elements in escalation for long lasting economic growth of corporations [16].
Mohamed (2009) found a different result in his empirical study as compared to previous studies [23]. He observed the relationship between board size and firm profitability in banking sector. The sample consisted of 174 banks. Unexpectedly, the result found between relationship of board size, and firm profitability was positive. So, it suggested an exception from common thinking of smaller boards to be more positively related to profitability. Board size is positively related to profitability in the banking sector [23].
Olaleke, Onakoya, Adegbemi and Ofoegb (2014) studied the effect of CG on the performance of nine Nigerian banks for the period of 2006-2010 [27]. They applied a pooled Ordinary Least Square (OLS) regression analysis and found that both size of the board and its ownership structure had a significant positive impact on ROE; while corporate governance indicators had a significant negative relationship with asset values. Furthermore, board composition was found to be an insignificant predictor of profitability.
Mallin, Farag, and Ow-Yong (2014) investigated the correlation between Corporate Social Responsibility (CSR) and financial performance in Islamic banks. Using a comprehensive CSR index covering ten dimensions, they analyzed CSR disclosures in a sample of 90 Islamic banks across 13 countries.

3. RESEARCH METHOD AND ANALYSIS

The total number of banks in UAE is 32 of which 8 are Islamic banks. The sample of this study is composed of six Islamic banks in UAE because two of the banks have been excluded because they are recently established and data required is not available for period under study. All the banks under study are Islamic banks, working in UAE and established under the UAE Central bank regulations, and the data for analysis is available. The selected banks are Dubai Islamic Bank (DIB), Abu Dhabi Islamic Bank (ADIB), Sharjah Islamic Bank (SHIB), Emirates Islamic Bank (EIB), Ajman Bank (AJB), and Bank of Sharjah (BS).
The primary data have been collected through a direct interview with some key persons at the top management level of each of the banks under study. The purpose of this survey is to know details about the corporate governance and the composition of the board, its characteristics, quality, nature of the job and responsibilities. The secondary data is extracted from the annual financial reports over a period horizon of six years that covers the period of 2011 to 2016; and will be analyzed to investigate the relationship between the corporate governance and the profitability of the Islamic banks measured by Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS).
The independent variable is corporate governance which uses an index used in some previous studies that includes components like board size and board independence in addition to some other factors related to the special context of Islamic Banks, such as the existence of Shariah committee and its size expressed in terms of the number of board members, compensation system, and qualification background of the board's member. The study is trying to investigate whether firms with high score of corporate governance perform more than firms with low score of corporate governance or not.
Therefore, the weighted average score of 50% or above is classified as strong, and the other measure below 50% is classified as poor. The impact of some major components of the corporate governance such as the board's members and characteristics, sharia board structure, and shareholders' roles and responsibilities on the variables of financial performance will be tested.
The dependent variable is profitability which is evaluated through three components:

1. Return on Assets (ROA), measured by dividing net income during the financial period by the ending balance of the total assets of the bank,
2. Return on Equity (ROE), measured by dividing the net income by the shareholders equity, and
3. Earnings per Share (EPS), measured by dividing net income by the number of common outstanding shares.

Based on the literature, and research data and methods, the following hypotheses need to be tested:
H1: There is significant relationship between Corporate Governance Index (CGI) and Return on Assets (ROE) of UAE Islamic banks.
H2: There is significant relationship between Corporate Governance Index (CGI) and Return on Equity (ROE) of UAE Islamic banks.
H3: There is significant relationship between Corporate Governance Index (CGI) and Earning per Share (EPS) of UAE Islamic banks.

4. ANALYSIS AND FINDINGS

To achieve the objectives of this study and to test the above stated hypotheses, statistical techniques such as descriptive statistics, correlations, covariance, and regressions have been applied results of statistics have been generated based on processing the collected data through the statistical package of

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social studies (SPSS). Average results for the six years and all the banks have been combined to facilitate and simplify analysis. All the major components of the corporate governance have been merged in the corporate governance score and have been analyzed as one element to investigate its relationship with the key indicators of Islamic banks profitability (ROA, ROE, and EPS).

Three types of analysis have been conducted:

- Normality Test: In statistics, normality tests are used to determine whether a data set is well-modeled by a normal distribution or not, or to compute how likely an underlying random variable is to be normally distributed. More precisely, they are a form of model selection, and can be interpreted several ways, depending on one's interpretations of probability.
- Correlation: Correlation is a statistical technique that can show whether and how strongly pairs of variables are related. For example, a strong corporate governance and financial performance are related; more profits result because of the keen follow up of the bank's governance. Spearman's correlation or Spearman's rho is a nonparametric measure of statistical dependence between two variables. It assesses how well the relationship between two variables can be described using a monotonic function. If there are no repeated data values, a perfect Spearman correlation of +1 or −1 occurs when each of the variables is a perfect monotone function of the other.
- Regression Analysis: It is a statistical tool that helps the researcher to develop a model that provides the coefficient (β) as a measure of explanatory power of different factors (performance measures: ROE, ROA, and EPS) and their influence the independent variable (CGI) in our study.

First, the discussion starts by the descriptive statistics of the variables used in research (depicted by Table 1). This is done by the normality test to predict whether the data is normally distributed or not. The high values of means and standard deviations of the variables prove that the data is not normally distributed. Over and above, the 2-tailed significant test is above the significant value of 0.05, which proves that the data are different among the different banks of the sample.

The normality shows the banks tested by this study, their means and standard deviations. The extreme corporate governance scores are presented by the normal test, which varies among the banks under study as indicated by the high values of standard deviations and the extreme differences. The results are clearly stated on table 1 attached in Appendix.

Second, it discusses the results of correlation analysis to decide about the acceptance or rejection of the hypothesis. The following correlations between the corporate governance index (CGI) and the concerned variable are analyzed:

- To test the first hypothesis, we have to analyze the relationship between the corporate governance index (CGI) and the return on equity (ROE): the relationship between CGI of the UAE Islamic banks and the ROE is positive and highly significant as proved by the high value of the correlation coefficient which is 0.849. Moreover, the relationship is statistically significant as the p-value is (0.002) less than the conventional significant level of 0.05. This means that the variable correlation is significant. The explanation to this finding is that the banks' governance score has a positive relationship with its profitability and its returns on equities. Banks with strong governance will earn high return on equity and with weak governance may face losses.

On the other hand, as per Spearman's correlation, there is a significant relationship between the Sharia board score on one hand and the CGI on the other hand. It is proved by the significant two tailed test of 0.026, which is far below the significant level of 0.05. The findings indicate that the relationship between the Sharia board score and ROE is statistically insignificant 0.27 and 0.15. This may be due to their concentration on the validity of transactions from Islamic perspectives rather the profitability of the bank. The same positive relationship is found for board quality and shareholders. For details see table (2) (Attached in Appendices).

Therefore, one can conclude that there is a significant relationship between CGI and ROE and based on this finding, the first hypothesis is accepted. The findings are consistent with Muhammad (2008), Saremi (2013), Al-Najjar (2014), and Saifiedin (2009).

- Return on Assets: the relationship between CGI and ROA is positive that proves there is a relationship but very weak as the value of the coefficient is 0.069. More importantly, the relationship is not statistically significant as the p-value is (0.805) greater than the conventional significant level of 0.05. This means that the variable correlation is random or happened by chance. The explanation to this finding is that the corporate governances of the banks are highly concerned about profitability rather than the quality and nature of assets.

On the other hand, as per Spearman's correlation, there is a significant relationship between the board members characteristics and the ROA. It is proved by the significant two tailed test of 0.004, which is below the significant level of 0.05. The findings indicate that there are positive and significant correlations between Sharia board and ROA but low positive

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and insignificant between shareholder and ROA. (See Table 3: Attached in Appendices)

Therefore, one can conclude that the relationship between CGI and the ROA is insignificant but on the other hand there is a significant relationship of ROA with some components of the CGI. The main finding based on this test, is to reject the second hypothesis.

- The third hypothesis states that; there is a significant relationship between (CGI) and the earning per share (EPS) of UAE Islamic banks. The relationship between CGI of the UAE Islamic banks and the EPS is positive (0.725) that proves there is a positive correlation. Moreover, the relationship is statistically significant as the p-value is (0.028) less than the conventional significant level of 0.05. This means that the variable is really correlated the corporate governance index. The explanation to this finding is that the banks' CG are highly concerned with earnings per shares. Also there is no significant relationship between the Sharia board and the CGI. The CGI has a positive and significant relationship with both members of the board and the shareholders as evidenced by the results of (Table 4 attached in Appendices).

At the end, one can conclude that there is a significant relationship between the CGI and the EPS and based on this finding, the third hypothesis is accepted. The regression results of the study confirm the significant positive relationship between CGI and ROE of the UAE Islamic banks. The value of regression coefficient is (β= 1.012) and it is significant at $p < 0.05$.

The regression results of the study also confirm the significant positive relationship between CGI and EPS of the UAE Islamic banks. The value of regression coefficient is (β=0.725) and it is significant at $p < 0.05$.

The regression results of the study provide an insignificant relationship between CGI and ROA of the UAE Islamic banks. The value of regression coefficient is (β=0.532) and it is significant at $p > 0.05$.

As per the regression table, CGI has a significant impact on factors other than profitability indicators as show by the high beta coefficient of (1.345). Details presented in table 5 attached in Appendices.

The regression model can be expressed by the following equation:

$$CGI = \alpha + \beta\ ROE + \beta\ ROA + \beta\ EPS + \varepsilon$$

$$CGI = 1.345 + 1.012\ ROE + 0.532\ ROA + 0.725\ EPS$$

Based on the test of the hypotheses, we can come up with the following findings:

- As stated by the first hypothesis: "There is a significant relationship between the CGI and ROE". This hypothesis is accepted because after the test, we found that there is a significant relationship between the two variables. The CGI of all UAE Islamic banks started to grow rapidly after the period of financial crises, which result in high returns as evidenced by the significant and positive correlations. Around 90% of the UAE Islamic banks are found to be profitable and scored high corporate governance index.
- The second hypothesis is projecting a linear relationship between CGI and ROA. The finding here proved insignificant relationship. Therefore, the hypothesis is rejected. It is obvious result that banks ROA is irrelevant to the index of corporate governance. This finding is to some extent consistent with Olaleke, Onakoya, Adegbemi and Ofoegb (2014) who found that governance indicators had a significant negative relationship with asset values. Furthermore, board composition was found to be an insignificant predictor of profitability [. On the other hand our findings are not in line with A]wan (2012) who found that governance have a positive impact on firm performance when evaluated by return on assets (ROA) [2].
- The purpose of the third hypothesis it to test the relationship between CGI and EPS: Our findings here prove the positive and significant correlation between both variables. This finding is consistent with Waseem (2011).

5. CONCLUSION

The main objective of this study is to explain relationship between corporate governance variables and financial performance represented by profitability of UAE Islamic banks. In this research, the sample is composed of six Islamic banks in UAE and financial data of six years is analyzed to investigate relationship between Corporate Governance Index (CGI) and profitability of the Islamic banks measured by Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS).

The following three hypotheses have been tested: H1: There is a significant relationship between Corporate Governance Index (CGI) and Return On Assets (ROE) of UAE Islamic banks, H2: There is significant relationship between Corporate Governance Index (CGI) and the return on equity (ROE) of UAE Islamic banks, and H3: There is significant relationship between Corporate Governance Index (CGI) and Earning Per Share (EPS) of UAE Islamic banks. The study finds a positive direct relationship between Corporate Governance Index and Return on Equity & earnings per share; but there is no significant impact of CGI on ROA. When bank has an effective corporate governance practices, it will be reflected in enhancing the bank's financial performance

6. RECOMMENDATIONS

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- UAE Islamic banks should take into consideration Return on Equity (ROE) and Earning per Share (EPS) that was found significant in determining corporate governance and corporate performance.
- The Islamic banks in UAE have to focus on improving their corporate governance practices, which will lead to enhance their bank's financial performance through tight control and follow up mechanisms.
- Bridging the gap of financial and Sharia knowledge for the Sharia members' board to concentrate on overall policies and performance instead of validity of transactions.
- Construct an accurate model for measuring performance of corporate governance of the Islamic banks.
- Conduct further studies and take into consideration such variables that had not been taken in this study.

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8. APPENDICES

Table (1) One-Sample Kolmogorov-Smirnov Test

		ROA	ROE	EPS	Corporate Governance Score
N		36	36	36	3
Normal Parameters[a,b]	Mean	.107	.349	.35
	Std. Deviation	5.455	.796	.22
Most Extreme Differences	Absolute	.326	.404	.16
	Positive	.523	.404	.14
	Negative	-.526	-.208	-.16
Kolmogorov-Smirnov Z		1.218	1.116	.910	.79
Asymp. Sig. (2-tailed)		.103	.166	.379	.55

a. Test distribution is Normal.
b. Calculated from data.

Table 2: Correlations between CGI and ROE

			CGI	ROE
Spearman's rho	CGI	Correlation Coefficient	1.000	.712*
		Sig. (2-tailed)		.022
		N	34	36
	Sharia Board	Correlation Coefficient	.491	.274
		Sig. (2-tailed)	.026	.150
		N	34	36
	Members and Quality	Correlation Coefficient	.870	.916
		Sig. (2-tailed)	.033	.031
		N	34	36
	Shareholders	Correlation Coefficient	.765	.722
		Sig. (2-tailed)	.041	.013
		N	34	36

**. Correlation is significant at the 0.05 level (2-tailed).*

Table 3: Correlations between CGI and ROA

			CGI	ROA
Spearman's rho	CGI	Correlation Coefficient	1.000	.532**
		Sig. (2-tailed)		.805
		N	34	36
	Sharia Board	Correlation Coefficient	.491	.674
		Sig. (2-tailed)	.026	.037
		N	34	36
	Members and Quality	Correlation Coefficient	.870	.650
		Sig. (2-tailed)	.033	.004
		N	34	36
	Shareholders	Correlation Coefficient	.765	0.323
		Sig. (2-tailed)	.041	.088
		N	34	36

***. Correlation is significant at the 0.05 level (2-tailed).*

Table 4: Correlations between CGI and EPS

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			CGI	EPS
Spearman's rho	CGI	Correlation Coefficient	1.000	.725**
		Sig. (2-tailed)		.028
		N	34	36
	Sharia Board	Correlation Coefficient	.491	.471
		Sig. (2-tailed)	.026	.067
		N	34	36
	Members and Quality	Correlation Coefficient	.870	.622
		Sig. (2-tailed)	.033	.037
		N	34	36
	Shareholders	Correlation Coefficient	.765	0.53
		Sig. (2-tailed)	.041	.048
		N	34	36

***. Correlation is significant at the 0.05 level (2-tailed).*

Table 5: The Regression Results

Independent V (CGI)	Dependent Variables	β-Coefficient	P- Value
CGI	ROE	1.012	0.022
CGI	ROA	.532	0.805
CGI	EPS	.725	0.028
CGI	Constant	1.345	0.001