The Impact of Political Risk on Banks' Profitability: Evidence From FCC

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Abstract: ***Purpose:*** This study is using panel data to examine the impact of the political risk on the profitability of banks in the FCC region during the period 1996-2018.

Design/methodology: This study employs the two-step system GMM technique to empirically find out if the political risk has a vital role in promoting the profitability of banks in FCC.

Findings: The empirical results of this study and after controlling for different bank-specific and macroeconomic variables show that the political risk has a negative and significant relationship with the profitability of FCC banks. The negative relationship between the political risk and the banks' profitability is due to the unstable circumstances in FCC as well as the turmoil situation in the whole MENA region.

Originality: Particular emphasis will be placed on the investigation into the impact of the political risk on banks' profitability of the FCC while controlling for the most comprehensive banking factors, which have not been studied on FCC banks yet.

Keywords: Political risk, unstable area, banks' profitability, FCC.

1. INTRODUCTION

The financial institutions in the FCC region were faced with political risk and economic uncertainty (Peters, Raad, & Sinkey, 2004; Valensisi, & Missaglia, 2010). The uncertainty in the political environment in the FCC region has made it difficult for the banking institutions to manage risks, as these risks adversely affect the banks' profitability (Abdelkarim, 2007). The Fertile Crescent Countries (FCC) are located in the heart of the Middle East. They involve Lebanon, Syria, Iraq, Palestine, and Jordan (Qtaishat, 2013). It has been observed that the banks' profitability in this area has been on a declining trend since the global financial crisis of 2008/2009 (BankScope). The volatility and decline in banks' profitability are important issues that need more concentration and investigation due to the profitability shocks (Bongini, P., Cucinelli, D., Di Battista, M. L., & Nieri, L. 2018). This study took place in the FCC region due to the declining bank profitability over the study period and during, before, and after the global financial crisis. The profitability of the banking sector in the FCC region is the basic element of the stability of the financial system in the region. Higher banking profitability levels in the FCC might enhance the economic growth in these countries (Mirzaei *et al.,* 2013; Mokni, & Rachdi, 2014; Bongini *et al.,* 2018). There are a lot of studies that examined the effect of different factors on banks' profitability, but there are very rare studies that investigate the impact of political risk on banks' profitability in unstable economies such as FCC countries. The banking sector in

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FCC countries was influenced by the unstable situation and was affected by different internal and external factors such as political risk and environmental uncertainty (Peters *et al.,* 2004; Almazari, 2014; Salem & Rahman, 2016).

The annual reports of the associations of banks in FCC countries revealed throughout 1996-2018 that the average profitability ratio in the FCC banks is 1.06 percent, whereas the average profitability in GCC is 2.00 percent over the same period. However, the average profitability in GCC exceeds the average profitability in FCC by 0.94 percent, which indicates the lower profitability in the FCC region compared to GCC countries. Political risk is an important external factor that may have a critical effect on the profitability of banks in unstable and war areas such as the FCC. A severe political risk might encourage the shareholders of banks to decrease their shares and their investments in banks which might have a critical influence on banks' profitability (Kesternich & Schnitzer, 2010; Saad, 2014). This study examines whether the political risk has an impact on banks' profitability. Given the importance of banks' profitability for the stability of the banking industry due to the huge effect of banks on the capital markets as well as the whole economy. The world bank reports during 2016-2017 indicated that the unstable Fertile Crescent area is in turmoil for the last decade, and that situation has had an influence on the economy, especially the banking industry (World Bank, 2017). Political risk which refers to the instability in the political situation and environment of a country might affect the financial system and economic growth and is considered to be a solid indicator for the business environment (Tsai, & Su, 2005). However, banks are the leading financial institutions in the FCC area due to the highest dependency on banks by both individuals and the governments of the region. The research question addressed

in this paper is: Does the political risk in the FCC region affect the profitability of banks?

2. LITERATURE REVIEW

Bank profitability is a prominent feature in the previous studies, particularly in developed countries, but few studies have been done on developing unstable countries such as FCC (Growe, DeBruine, Lee & Maldonado, 2014). In their process of satisfying shareholders, customers, and investors. Banks have to have good levels of profitability ratios through a better business environment and more stability. Athari (2021) argues in his study on Ukrainian banks during the period 2005–2015 that PR is negatively associated with bank profitability. Tsai and Su (2005), Ali, Sohail, Khan, and Puah (2019) indicate that political risk is a strong indicator of the business environment and that lower political risk leads to a better business environment which affects positively the firm's performance and profitability. Kesternich and Schnitzer (2010) argue in their study on selected multinational firms for the period 1996-2006, that any type of political risk negatively affects the profitability of a firm and the ownership share as well. Thus, political risk is considered an important element that affects profitability. However, different studies have examined different internal and external factors that determine banks' profitability such as (Nguyen, 2019). These studies found inconsistent results regarding the effect of those factors. For instance, different studies have been conducted to test the effect of macroeconomic factors on bank profitability. Previous studies such as Anbar and Alper (2011) on the Turkish banking sector over the period 2002-2010 found that the only macroeconomic factor that positively affects banks' profitability is the real interest rate. Ayadi and Boujelbene (2012) found a significant positive relationship between GDP growth rate and banks' profitability. Ramadan, Kilani, and Kaddumi (2011) found that inflation has a significant and positive relationship with profitability.

In the same vein, Jamal, Abdul Karim, and Hamidi (2012) in their study on Malaysian banks during the period 2004-2011 found a significant relationship between GDP and the inflation rate with bank profitability. Similarly, Petria, Capraru, and Ihnatov (2015) argue that the inflation rate is related to banks' profitability, and might increase financing costs and thus affects profitability. They found a positive and significant relationship between the annual inflation rate (CPI) and bank profitability. Sufian (2009) in his study on the Malaysian banking sector after the Asian financial crisis in 1997, indicated that bank profitability is sensitive to macroeconomic situations, and found that economic growth is negatively associated with the profitability of a bank. He also found that a higher inflation rate has a positive effect on Malaysian banks' profitability. Similarly, Vong and Chan (2009) in their study on Macao banks indicated that only the inflation rate is having a significant relationship with banks' profitability. Sufian and Habibullah (2009) indicated in their study on the Chinese banking sector during 2000-2005 that the macroeconomic variables are economically not significantly related to banks' profitability. Sufian (2012) found no significant relationship between inflation and bank profitability in his study of 77 banks from three south Asian countries i.e., Bangladesh, Sri Lanka, and Pakistan during the years 1997-2008.

Political Risk

Political risk refers to the risks derived from the political environment such as the political shocks, civil wars, and political instability that would affect the profitability of banks. Lee, & Lee (2019) indicate that the degree of the adverse effect is moderated through country stability, particularly economic and political stabilities. Khosuma, Semuel, and Basana (2019) indicate that political risk is significant to profitability. Hsieh, Lee, and Lin (2022) argue that higher political risk leads to a higher level of uncertainty and results in a decrease of liquidity creation. Chen and Liu (2013) in their study on Taiwanese banks over the period 1994-2009 argue that there is a relationship between political risk and financial institutions depending on the ownership structure of a bank. The investigation shows that the profitability of government-owned financial institutions is associated with political risk. Moreover, Pástor and Veronesi (2013) in their study examined the effects of political uncertainty on financial markets and the trend of stock prices. They found that political uncertainty affects negatively the stability of stock prices in all firms including the banking sector, as the political indications are stronger. However, Belkhir *et al.* (2019) revealed that Islamic banks are less exposed to political risk compared to conventional banks. Furthermore, Kesternich and Schnitzer (2010) argue in their study on German firms during the period 1996–2006 that the political risk affects negatively the profitability of multinational banks. Their study aims at investigating how the capital structure of multinational firms responds to political risk. They have used a country-specific index that is provided by the International Country Risk Guide (ICRG) to measure political risk. The ICRG index is composed of 12 weighted variables covering both political and social attributes.

Elfeituri (2022) investigates political issues and the quality of the institutional environment that contributed to shaping the stability and the financial performance of MENA banks. Fayman, He, and Casey (2018) argue in their study on the US banks during the period from 1978 to 2008 that the political risk and the political control have a significant impact on both the banks' profitability and risk. Papadimitri, Pasiouras, Pescetto, and Wohlschlegel (2018) found in their study on the selected US commercial banks during the period from 2000 to 2015 an inverse relationship between the political risk and the enforcement of the banking regulations which affect their profitability. In addition, Finger, Gavious, and Manos (2018) argue in their study on developed and developing countries during the period from 2003 to 2015 that the political risk affects negatively the banks' profitability. Olson and Zoubi (2011) indicated that the MENA countries are an important part of the world in terms of political and economic instability, hence, a sound and profitable banking system in the area plays a crucial role in providing sustainable economic growth and development. The political disorder in Jordan due to the migration of refugees from surrounding troublous FCC countries such as Syria and Iraq have a negative effect on banks' profitability (Alalaya, & Al Khattab, 2015). Similarly, Abbadi and Abu-Rub (2012) argue that the
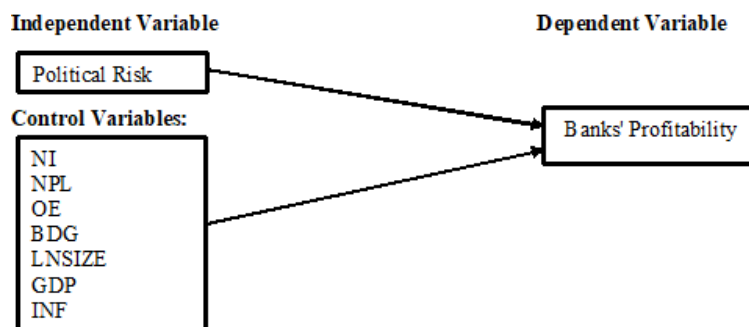
Independent Variable   **Dependent Variable**

Political Risk

Control Variables:

NI
NPL
OE
BDG
LNSIZE
GDP
INF

Banks' Profitability

Fig. (1). Conceptual Framework.

Table 1. Description of Variables Used in the Regression Models.

Variable	Measurement	Notation
Dependent Variable: Bank Profitability	Return on assets (net profit before tax over total assets).	ROA
	Return on equity (net profit before tax over average equity).	ROE
	Net interest income / total assets. (NI/TA)	NIM
Independent Variable:		
Political Risk	Country-specific political risk index, provided by the International Country Risk Guide (ICRG)	PR
Control Variables:		
Net Interest Income	Net interest income over total income (NI/TI)	NI
Non-performing loans	Non-performing loans to gross loans (NPLs/GL)	NPL
Operating expenses	Operating expenses / gross income (OE/GI)	OE
Bank deposits growth	Total deposits to total assets (TD/TA)	BDG
Bank size	Natural log of total bank assets (Ln of total assets)	LNSIZE
GDP growth	Yearly change in GDP (in %)	GDP
Inflation rate	Annual Inflation rate (Consumer Price Index, CPI) (in %)	INF

Source: Bank's annual reports, and the world bank data [1]

Palestinian banks are implementing a conservative lending policy due to the high political risk, and uncertainty in the economic and financial environment. Peters *et al.* (2004) argue that the improvements in banks' profitability in Lebanon during 1993-2000 is due to different political factors such as the cease of war, the decrease in the inflation rate, and the regulations of the central bank regarding bank capital.

3. CONCEPTUAL FRAMEWORK AND MEASUREMENTS

This study is examining the impact of political risk on bank profitability taking into account 7 factors as a control variable namely: net interest income, non-performing loans, operating expenses, bank deposits growth, bank size, GDP, and inflation rate. Profitability in this study is proxied by three

[1] Available at:
http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=JO

indicators: the return on assets (ROA) which is measured by the Net profit before tax / total assets (NPBT/TA) (Okafor, Adeleye, & Adusei, 2021), the return on equity (ROE) is measured by Net profits before tax/book value of equity (NPBT/EQ), and the net interest margin (NIM) is measured by the net interest income / total assets (NI/TA). The conceptual framework is shown in Fig. (**1**). Political risk is measured by the country-specific political risk index provided by the International Country Risk Guide (ICRG). The data was converted at an annual frequency (Kesternich & Schnitzer, 2010; Bolarinwa & Soetan, 2019).

The control variables in this study are measured as follows: The net interest income (NI) is measured by the net interest income over total income (NI/TI). The non-performing loans is measured by non-performing loans to gross loans (NPLs/GL). The operating expenses is measured by the operating expenses over gross income (OE/GI). Bank deposits growth in the current study is measured by total deposits to total assets (TD/TA). Bank size is measured by the natural logarithm of bank assets (LNSIZE). Also, the GDP growth is

Table 2. Descriptive Statistics.

Variable	Mean	Std. Dev.	Min	Max
ROA	0.0104	0.0134	-0.1740	0.0739
ROE	0.1036	0.0892	-0.5900	0.3718
NIM	0.0307	0.0122	0.0024	0.0953
PR	0.6999	0.1647	0.4900	0.9670
NI	0.6822	0.1239	0.1108	0.9747
NPL	0.0871	0.1174	0.0000	1.0465
OE	0.4737	0.2047	0.0000	0.9937
BDG	0.7363	0.1314	0.0000	0.9599
LNSIZE	11.0197	5.1611	3.2601	21.7686
GDP	0.0423	0.0486	-0.1249	0.1467
INF	0.0334	0.0316	-0.0375	0.1493

Source: researchers' analysis

calculated as the yearly change in GDP (in %). Finally, the inflation rate is measured as the annual Inflation rate (Consumer Price Index, CPI) (in %). However, the measurements and notations of variables used in the regression model are described in Table **1**.

4. RESEARCH METHODOLOGY

4.1. Sampling Design

The data used in this study is unbalanced panel data including commercial banks from 3 countries in the FCC region (Palestine, Jordan, Lebanon), and covers the period between 1996–2018. The unbalanced microdata in this paper is taken from the annual reports of individual banks and the bankscope, however, the macroeconomic data such as GDP and inflation data is taken from the World Bank. This study sample is taken from Palestine, Jordan, and Lebanon. However, the other FCC countries are excluded due to the unavailability of data caused by the instability and frequent wars in the FCC area.

4.2. Research Procedure

In order to examine the impact of political risk on bank profitability, and due to the multicollinearity in banking data the two-step system GMM is used in this study. Thus, banks' profitability is regressed on the political risk and 7 control variables. The profitability ratio in this study is the return on assets (ROA) defined as the net profit before tax to total assets, the return on equity (ROE) which is defined as the net profit before tax to average equity, and the net interest margin (NIM) defined as the net interest income to total assets, these measures were used by different authors (Kosmidou *et al.,* 2007; Zopounidis, & Kosmidou, 2008; Athanasoglou, Brissimis & Delis, 2008; Dietrich & Wanzenried, 2011, 2014; Growe *et al.,* 2014; Idawati, & Wahyudi, 2015; Almaqtari *et al.,* 2019).

The general regression model used in this study is as follows:

$$\prod_{it} = \beta_0 + \beta_1\,PR_{it} + \beta_2\,NI_{it} + \beta_3\,NPL_{it} + \beta_4\,OE_{it} + \beta_5\,BDG_{it} + \beta_6\,LNSIZE_{it} + \beta_7\,GDP_{it} + \beta_8\,INF_{it} + \varepsilon it$$

where:

$\prod_{it}$ = The profitability of bank i at time t ; β_0 = is a constant term (the intercept); PR = Political risk; NI = Net interest income; NPL = Non-performing loans; OE = Operating expenses; BDG = Bank deposits growth; LNSIZE = Bank size; GDP = Gross Domestic Product; INF = Inflation rate (CPI).

4. DATA ANALYSIS

Our sample in this paper consists mainly of the political risk index for three FCC countries namely: Palestine, Jordan, and Lebanon for 23 years. This study is controlling for seven important variables from the internal and external banking environment namely: net interest income, non-performing loans, operating expenses, bank deposits growth, bank size, GDP, and inflation rate. Next, the descriptive statistics is done for the whole sample of the study as shown in Table 2. The mean value of the profitability ratio (ROA) is 0.0104 with a standard deviation of 0.0134 which is considered low compared to the ratio of similar countries such as eastern European countries which is 0.018 (García-Herrero, Gavilá, & Santabárbara, 2009). The ROA values vary from -0.17 to 0.07 and a standard deviation of 0.013 indicates that ROA is low and highly fluctuating in FCC banks.

Furthermore, Table **2** shows that ROE varies from -0.59 to 0.37 with a mean value of 0.1036 and a standard deviation of 0.0892 indicating a lower and fluctuating ROE for banks' shareholders in the area of FCC. The high variation of equity and asset returns and the low mean value for ROA and ROE imply an unstable stream of returns of FCC banks over the 1996-2018 period. The NIM mean is 0.0307 and the standard deviation is 0.0122, also it varies from 0.0024 to 0.0953 indicating a high fluctuating net interest margin in the politically unstable FCC area. The mean value of the PR 0.6999 is high in the area of FCC, it varies from 0.49 to 0.96 for Palestine, Jordan, and Lebanon indicating that these countries are

Table 3. Correlation Metrics.

Variable	ROA	ROE	NIM	PR	NI	NPL	OE	BDG	LNSIZE	GDP	INF
ROA	1										
ROE	0.749	1									
NIM	0.246	0.138	1								
PR	-0.120	-0.204	0.196	1							
NI	0.025	0.013	0.378	0.022	1						
NPL	-0.047	-0.058	0.001	-0.016	-0.067	1					
OE	-0.280	-0.294	-0.087	-0.272	0.096	-0.094	1				
BDG	0.010	0.164	0.019	-0.306	0.026	-0.115	0.287	1			
LNSIZE	-0.090	0.092	-0.395	0.125	0.040	-0.086	-0.215	0.185	1		
GDP	0.088	0.082	-0.056	0.185	-0.200	0.109	-0.176	-0.138	-0.013	1	
INF	0.093	0.087	0.086	0.001	-0.024	0.052	-0.034	-0.039	-0.058	0.218	1

Source: researchers' analysis.

highly exposed to political risk, uncertainty, and instability. Moreover, the descriptive statistics for the control variables are shown in Table **2** as follows: the net interest income varies from 0.11 to 0.97 with a mean of 0.68 and a standard deviation of 0.12 which indicates that there is a high fluctuation in the net interest income between banks in the FCC area.

In terms of the NPL ratio mean of 0.0871 with a standard deviation of 0.1174, it varies from 0 to 1.04. This indicates that there is a very high variation in the ratio of non-performing loans to total loans in FCC banks which may be due to the instability and the political risk in the region. The mean of the operating expenses ratio of 47 percent is considered high which indicates that banks in the area are facing high operating expenses. This ratio differs from bank to bank and country to country, due to the political situation and the effect of macroeconomic factors in each country of the FCC region. The BDG mean of 0.7363 is considered high, which indicates that there is a high growth rate in bank deposits, caused by the higher dependency of the people and governments on bank deposits in the FCC area. The governments of different FCC countries used to borrow from banks in order to cover their expenditure and budget deficit. Further, the higher range of variation is due to the lower ratio of bank deposits to total assets in countries such as Palestine (Abbadi & Abu-Rub, 2012).

Table **3** shows that the correlation among the variables is less than 0.70. Gujarati (2009) and Hair *et al.* (2010) argue that the correlation between the independent variables is not a concern until it exceeds 0.7. Thus, this suggests that the correlation coefficients are within the accepted level. The correlation between dependent variables (ROA, ROE, and NIM) and the independent variables are highly significant. Implying that internal and external characteristics are highly related to banks' profitability.

5. RESULTS AND DISCUSSION

The regression results are shown in Table **4** using the three profitability indicators. It shows the results for (ROA, ROE, NIM) in two panels, panel A: without a country dummy and panel B: with a country dummy variable. The two-step system GMM is used in this study. We find that the political risk has a significant and negative relationship with ROA and NIM in panels A and B for all models (significant at 0.01). The negative relationship shows that when the PR increases in FCC countries the profitability of banks decreases and vice versa. This result indicates that the increase in PR in the FCC countries is responsible for the decline of ROA and NIM. This finding is in line with the findings of Athari (2021) and Ghosh (2015) indicating that the PR in the area has negatively affected the profitability of the banking industry. Moreover, the negative effect of PR on ROA is in line with Kesternich and Schnitzer (2010), Chen and Liu (2013), and Pástor and Veronesi (2013), Papadimitri *et al.* (2018) indicating that the ROA of financial institutions is associated negatively with the PR in a country.

However, this study finds an insignificant relationship between PR and ROE as shown in Table **4**. The insignificant relationship between PR and ROE is not in line with the findings of Kesternich and Schnitzer (2010), Ghosh (2015), and Alalaya and Al Khattab (2015). The insignificant result may be due to the ownership structure of banks in the unstable FCC area. Chen and Liu (2013) indicate that the relationship between political risk and a financial institution depends on the ownership structure of a bank. Haw, Ho, Hu, and Wu (2010) find that ROE is influenced by the capital structure of a bank which may vary from one bank to another. Thus, the impact of the ownership structure and capital structure on the ROE of banks in politically unstable areas may be the cause of the insignificant relationship between PR and ROE.

Table 4. The Relationship of Political Risk with Bank Profitability.

	Dependent Variable: ROA		Dependent Variable: ROE		Dependent Variable: NIM	
	Panel A: without Country Dummy	Panel B: with Country Dummy	Panel A: without Country Dummy	Panel B: with Country Dummy	Panel A: without Country Dummy	Panel B: with Country Dummy
Variable	Two-step System GMM	Two-step System GMM	Two-step System GMM	Two-step System GMM	Two-step System GMM	Two-step System GMM
L.ROA$_{t-1}$	0.339***	0.326***	0.264***	0.274***	0.399***	0.345***
	(0.0217)	(0.0420)	(0.0558)	(0.0624)	(0.0545)	(0.0739)
PR	-0.0318***	-0.0360***	-0.114	-0.135	-0.00379	-0.0286***
	(0.00442)	(0.00434)	(0.0883)	(0.0853)	(0.00547)	(0.00567)
NI	-0.0183***	-0.0191***	-0.125***	-0.142***	0.0219***	0.0240***
	(0.00269)	(0.00284)	(0.0201)	(0.0238)	(0.00287)	(0.00293)
NPL	-0.00971***	-0.00971***	0.0394	0.0618	-0.0135***	-0.0156***
	(0.00286)	(0.00271)	(0.0379)	(0.0394)	(0.00229)	(0.00274)
OE	-0.0189***	-0.0175***	-0.125***	-0.124***	-0.00975***	-0.0103***
	(0.00121)	(0.00136)	(0.0107)	(0.0170)	(0.00121)	(0.00123)
BDG	0.00769***	0.00925***	0.0234	0.0408*	0.0182***	0.0195***
	(0.00198)	(0.00246)	(0.0253)	(0.0237)	(0.00371)	(0.00328)
LNSIZE	-0.00104***	-0.000998***	-0.00295	-0.00540***	-0.00127***	-0.000974***
	(0.000117)	(0.000148)	(0.00296)	(0.00205)	(0.000196)	(0.000249)
GDP	0.0267***	0.0289***	0.125***	0.113***	0.00249	0.00275
	(0.00164)	(0.00348)	(0.0343)	(0.0360)	(0.00332)	(0.00416)
INF	0.00918***	0.00867***	0.0414	0.0726***	0.0257***	0.0269***
	(0.00240)	(0.00315)	(0.0296)	(0.0273)	(0.00320)	(0.00408)
Country dummy	No	Yes	No	Yes	No	Yes
Constant	0.0567***	0.0576***	0.312***	0.324***	0.0120**	0.0272***
	(0.00409)	(0.00524)	(0.0786)	(0.0901)	(0.00599)	(0.00451)
Observations	492	492	488	488	499	499
No. of Banks	36	36	36	36	36	36
Sargan test P-value	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
AR(1) test P-value	0.0114	0.0193	0.0027	0.0046	0.0075	0.0081
AR(2) test P-value	0.3143	0.2638	0.4058	0.4091	0.2997	0.2360

Notes: The table reports the results of two-step system GMM dynamic panel model for banks in FCC region over the period 1996-2018. The dependent variable in all models is return on assets (ROA). The independent variable is PR the political risk, the control variables are: NI is net interest income; NPL is non-performing loans; OE is operating expenses; BDG is bank deposit growth; LNSIZE is natural logarithm of total assets, GDP is growth of gross domestic product; INF is Inflation rate. Value of Sargan test is insignificant, indicating that instruments are valid. Significant values of AR(1) show that null hypothesis of no autocorrelation among error terms in first difference is rejected. AR(2) is significant, showing that error terms in level regressions are not correlated. Standard errors in parentheses.
* Statistical significance at the 10% level. ** Statistical significance at the 5% level. *** Statistical significance at the 1% level.

This study finds a significant and negative relationship between PR and NIM as shown in Table 4 at 0.05 level. The significant and negative relationship between PR and NIM is in line with the fact that argue that the increased political instability decreases the demand and supply on bank loans and other credit which decreases the level of net interest income to total banking assets.

6. CONCLUSION

Unlike previous studies related to the FCC region, the current study introduces the PR variable as a determinant of the banks' profitability in unstable and conflicted FCC countries. It seems that very few previous studies have tested the PR variable as the banks' profitability determinant in such countries. Moreover, the current study tests and supports the political risk theory by introducing evidence of the adverse relationship between the political risk and the uncertainty and the banks' profitability. The increase in the political risk in the FCC region decreases the profitability of the banks. Thus, after analyzing the effect of the most important variable in the FCC region: the political risk on banks' profitability, after controlling for different banking factors. The results show a negative effect of political risk on banks' profitability in the FCC area. The data used in this study is taken from three politically and economically unstable FCC countries over the period 1996-2018. We can conclude that the empirical findings are almost consistent with the expected results in the unstable FCC area. Thus, the PR has an adverse impact on bank profitability. Whereas, the controlling of the seven most important variables (NI, NPL, OE, BDG, LNSIZE, GDP, INF) from the banking environment doesn't change the results. Moreover, this study supports the political risk theory by introducing evidence of the adverse relationship between the political risk and the uncertainty and the banks' profitability. The increase in the political risk in the FCC region decreases the profitability of the banks.

Therefore, as a policy recommendation for decision-makers and authorities in unstable areas such as FCC, we suggest better supervision for the banking industry and unstable macroeconomic factors in the FCC region. This supervision may increase profitability levels in banks in order to enable banks to survive in the instability situations, and play their role in the economic growth by financing several economic sectors, individuals, and the governments in the FCC region.

The results of the current study shed light on the importance of political stability for banks. In other words, political stability would contribute to the decrease in the cost of raising capital, which is crucial to the banks' investment capacity. This contribution is of the highest importance, especially in countries where private investment is much needed to increase economic growth. Since the findings of this study are based on the FCC region, their implications can be relevant to other regions suffering from political instability.

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