The Financial Indicators and their Role in Judging the Efficiency of Commercial Banks Performance in Jordan: A Case Study of the Arab Bank Situation

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Abstract:

This study aimed to identify how to employ the financial resources and evaluate the financial and operating policies applied by the management of the Arab Bank. The researchers applied the practical approach based on selecting a set of the Bank's financial statements and the calculation of the assessment of the financial performance indicators of the years covered by this study.

The researchers concluded that there weaknesses in the management and use of funds in the Arab Bank. This was shown through a large surplus cash amount held by the Bank, either in Bank or other banks, reaching up to 32.77 % of total assets in some years of study. This reflected adversely on the Bank's performance and reduces the possibility of achieving profits; especially the Bank bears the costs of obtaining, management and protection of such funds. The researchers recommended the need to restructure the elements of areas of funds investments available to Arab Bank by expanding the investment portfolios, in addition to the employment of these funds in areas of public debt, in particular, the Bank has the surplus liquidity, the bank apparently encounter difficulty in its investment.

Keywords: The banking industry, the methods and tools of financial analysis, Bank performance evaluation indicators, financial banking operating efficiency, profitability of the capital.

Introduction:

Then Banks represent an important sector of the national economy and play a key role in supporting and the development it, and their role as intermediary between savers and investors. Therefore, it is necessary to evaluate the performance of the banks due to their important role in managing their assets to the fullest and to demonstrate its ability to improve and upgrade the quality of their work and services provided, in addition to developing plans for future advancement of banking to the required level commensurate with economic and technical progress, as well as evaluating performance by the financial indicators would give a clear image of the reality of the financial position of the banks , reveal their ability to pay the obligations and determine their profitability and financial liquidity.

Performance appraisal is one of the most important challenges faced by then managers of the banks, represented in how to use the financial resources available to the best. The objective of analyzing and evaluating the financial performance indicators for various companies and organizations in providing the financial information to all parties interested in the Bank activity, so they could identify strengths and weaknesses.

The Study Hypotheses:

The study hypotheses can be formulated by:

1. The financial performance indicators graph by using the financial analysis tools leads to identify strengths and weaknesses in the finance policies applicable in the Arab Bank and the use of the internal and external resources available.

2. The financial performance indicators by using the financial analysis tools are an ideal tool to determine the ratios of the activity and the efficient operation of the capital and profitability achieved by the Arab Bank for the payment of its obligations, and reveal the strength of its financial position and the results of its work.

The Objectives:

The study seeks to achieve the following objectives:

- Learn how the Arab Bank employs its financial resources.
- Evaluation of the financial and operating policies applicable by the management of the Bank.
- Identify the level of financial performance of Arab Bank by extracting the arithmetic mean of the capital efficiency indicators, activity indicators, profitability ratios, and compared such mean to the overall average (the average banking industry) of Jordanian commercial banks and investment together.

Importance of the study:

The significance of this study lies in the importance of Arab Bank in banking system in Jordan, as the Bank ranked first in terms of returns on equity which reached in 2013 to (3,955,414.000 JD), and number of worldwide branches are (184) in 2013, and the number of employees for the same year were (6249). Also, the Arab Bank share of total assets of the banks in the Hashemite Kingdom of Jordan represented 21%, while the bank's share of the deposits size in the banks in Jordan amounted to 21.5%. The Bank's share of direct credit facilities was 15.8%. This indicates the importance of the Arab Bank in the Group of commercial banks operating in Jordan (annual report Arab Bank for 2013, p. 14).

The Sample:

The Arab Bank has been selected to apply this study deliberately and intentionally to identify the financial performance indicators of the Bank, as well as to study the financial situation of the Bank during the years (2009-2013) by using various analysis methods and tools, extract the financial indicators in comparison with the overall average (industrial standard) of all the Banks in the study community to find out its performance level.

Data and Information Collection Methodology

It has been relied on primary sources to collect the data and information necessary for this study, represented in the annual reports issued by the management of the Arab Bank, its data and information were utilized to extract the financial performance indicators of the Bank. Moreover, the financial statements contained in the Jordanian Corporations Manual for 2003 issued by the Amman Exchange Stocks, which was used in extracting industry average financial performance indicators for Jordanian banks.

Research Methodology:

The descriptive and practical approach has been used as the descriptive approach covers the theoretical aspect to cover the conceptual side through reference books, periodicals and related studies relevant to the financial analysis and the performance evaluation, while the practical approach covers the applied aspect of the study through the extraction and study the financial indicators of financial reports issued by the Arab Bank between years (2009-2013).

Previous studies

(Irisappane; et al, 2015): This study evaluated the performance of selected banking funds in India using emerging market data. The performance is evaluated in terms of superior returns and diversification benefits. The study shows that ICICI has posted superior performance among all other funds followed by Reliance.

(Walia; et al, 2015): This paper makes an attempt to analyze the performance of the four major banks in India, namely, Punjab National Bank (PNB), State Bank of India (SBI), ICICI Bank and HDFC Bank, for the period 2009-2014. The paper analyzes the impact of various performance parameters on the performance of the selected banks using secondary data. The performance of the banks has been measured using different ratios, and regression analysis has been applied to find the factors predominantly affecting the performance of the banks. The results show that net NPA ratio as a percentage of loans, savings deposit as a percentage of total deposits, priority sector advances as a percentage of total advances and total income as a percentage of capital employed are the factors predominantly affecting the performance of banks.

(Chaudhuri; et al, 2014): This paper applies multi-criteria decision making algorithms to arrive at the financial health of commercial banks in India, both in the public sector and the private sector. The various performance parameters considered arise out of the Basel guidelines, and facilitate the regulator in monitoring the performance of banks over time. It also investigates whether the stock market has taken cognizance of these regulatory variables and valued banks accordingly. The results indicate that while relative performance of private sector banks has not undergone much change, some public sector banks have improved over time. The results also reveal that the stock market does not attach much.

The theoretical framework of the study:

A. The Importance of the Financial Analysis in Commercial Banks:

The financial statements represent a set of basic financial statements issued by the banks arranged in tables prepared is in accordance with certain specifications under a range of accounting concepts and principles and on the rational basis and in a coordinated manner. These statements serve as a window through which the interested people could look to various aspects of the bank activities. They could identify its financial position through the financial position statement and the result of its work through the income statement (Matar, 2013). In the other hand, (Al- Shehadah et al. 2011) believe that they represent the means by which data and information is transferred to the management and concerned parties in a brief of the results of work, the financial position of the economic unit. The financial statements are, in essence, are the final product of the accounting process. So, the interested persons could acquaint to these statements and the financial reports to make decisions and identify the current and future attitudes.

Therefore, the financial statements of the Bank are deemed the starting point and basis of the financial analysis. (David; et al, 1985) believe that the use the information provided by such financial statements may help the banking financial management in:

- Take the administrative decisions, planning, control and internal evaluation of the Bank performance.
- Issuing the financial reporting and evaluate the performance by the external parties (such as shareholders and investors).

(Geoffrey,1991) argues that the investing and financing decisions are vital elements for planning and achieving the objectives of the enterprise, so the Finance Manager should play his role in monitoring actual performance and compare it to the planned performance based on the information that appears in the financial statements .

Most enterprises also get benefit from the process of financial analysis in planning their future policies in credit, investment and control on the efficient other branches departments related to enterprise functions; productive, marketing, sales and investment (Al-Rawi et al. 2014). Therefore, the organizations are interested in the financial analysis because of its multi uses, mainly:

1) For the purposes of granting credit.
2) For the purposes of evaluating the investment in equities.
3) For the purposes of integration or acquisitions.
4) To assess the operating efficiency and performance.
5) For the purpose of future planning.

B. The Financial Analysis Criteria of the Commercial Banks:

Financial ratios measure the relationships between the inputs (costs) and the outputs (benefits), which facilitate the comparison of these relations during a specific time period. The financial performance of the commercial banks can be evaluated by using the financial ratios in accordance with the following methods (White, et al, 1994)):

- Comparing the financial ratios of the facility to the proportions of the industrial sector.
- Comparing the financial ratios for the same facility for several periods of time (Any historical standard).
- Comparing the financial ratios for the facility to the financial ratios of other sectors.

(Aqel, 1995) agrees with the above-mentioned. He argues that the calculation of financial ratios and any standard of the performance standards alone would be of limited benefit, unless there is a standard to measure the results and compare such results to the standard to judge the extent of appropriateness or inadequate results. It can be said that the selection of the appropriate standard for judging the selected ratio is not less important than choosing the next ratio. Based on the foregoing, there are many criteria used to judge the Banks financial performance; the most important are:

1 - Absolute Standards:

The absolute standards are those ratios or averages which their use in the financial analysis field well known in all the areas despite the company type, activity and analysis time. For example the trading ratio and quick liquidity ratio, etc.

2 - Industry standard:

The average rate quoted for a wide range of companies and institutions that belong to a single industry for a specific time period. This standard or average benefits when comparing the ratio of the Bank in question to know the relative position of the bank, and the extent of correspondence or contract with the average of the banking industry.

3 - Historical Standard:

This standard is an important tool to assess the performance of the Bank to compare financial indicators of the Bank with the same indicators of the same bank but for previous periods, so you can learn about the evolution of indicators over time, and discover the change in performance occurred (Ghanem et al., 2000).

4 - Planned Standard

The planned standard is the imagination searching in different aspects of future operations for a specified period. For examples of the Planned Standard; the Bank's management to determine the target ratios for each return of investment and return on equity before the beginning of the fiscal year, and then the management after the end of the financial year compares between planned and actually achieved.

5. Positive Standard:

It is the ration or number developed by competent authority which request the concerned parties to adhere to such ration or number; for example the ratios the banks are requested by the Central Bank to adhere to, such as the loan-to-deposit ratio (of Ramadan, 1997).

It is noteworthy that this study relied on vertical and horizontal analysis method and analysis of the financial ratios to identify strengths and weaknesses in the Arab Bank financial situation, where the industrial standard and historical standard were adopted in the evaluation of the bank performance for the years (2009 - 2013).

The practical side (analytical):

- **Analysis of the Financial Statements of the Arab Bank**

The researchers believe that it is necessary to take advantage of financial analysis tools mentioned herein above. We will focus on the vertical analysis of financial statements of the Bank. Such type of analysis involves the study of the quantitative relations between the various elements of the financial statements and the side on which each item belong to in the financial position at certain date. In addition to the horizontal analysis to find out the size of the change occurred to the various elements of the financial statements compared to the baseline year (2009).

- **Vertical Analysis and the Orientation Analysis of the Elements of the Financial Position:**

(A) Analysis of the Assets:

The table (1) shows the vertical analysis of the elements of the Arab Bank assets. We note that total assets during the years of the study were constantly increasing, so the rate of change to increase reached 6% in 2013, compared to the baseline year 2009 [*]. Herein below is the analysis of the components of assets paragraph and the relative importance of each one:

(*) The change rate was calculated according to the following equation: change rate=target year – baseline year/ target year X 100

Table no. (1) The Vertical Analysis of the Arab Bank Assets (amounts in thousands of Jordanian dinars)

year / Assets	2009		2010		2011		2012		2013	
	amount	**percent**	**Amount**	**percent**	**Amount**	**percent**	**amount**	**percent**	**amount**	**percent**
Cash money and deposits in the banks	7023657	30.40%	7641915	32.77%	7741917	32.37%	7631126	31.91%	7249444	29.54%
Financial assets	4148866	17.96%	3884630	16.66%	4614213	19.30%	4668164	19.52%	5080330	20.70%
Direct credit facilities	10138208	43.89%	10061711	43.15%	10003554	41.81%	9937597	41.56%	10539256	42.96%
Other assets	1788760	0.775%	1731152	0.742%	1561801	0.652%	1675529	0.700%	1669342	0.680%
Total assets	23099491	100%	23319408	100%	23921485	100%	23912416	100%	24538372	100%

The table has been prepared by the researchers based on the information set in the annual reports of the Arab Bank.

1- Cash Money and Deposits in the Banks:

The total value of cash and deposits with Arab Bank were about 30.40% in 2009 and 29.54% in 2013 of the total assets. They represent useless liquid funds where the bank does not realize any return. It also refers to the case of overvaluation in this ratio, which is approximately equal to the percentage specified by the Monetary Authority (Central Bank of Jordan) ranging from (25% - 30%).

2- **Financial Assets:**

They are short-term investments that can be converted into cash quickly when needed. This type of assets are between (17.97% - 20.70%) of the total assets. This indicates that the Arab Bank is interested in investing in securities for the many benefits that can be realized. Investment in these securities would support the cash flow balance of the Bank, and contributes to increase profits because they often realize fixed returns with low risk.

3- Direct Credit Facilities:

The direct credit facilities form the larger percent of the assets elements of the Arab Bank as shown in Table 1. They formed between (43.89% - 42.96%) of the total assets. It has been noted that it is in continuing increase in terms of average, as they reached 10138208 million dinars in 2009, and were 10539256 million dinars in 2013 thereby achieving a growth rate of 4% compared to baseline year 2009.

4. Other Assets:

They are the assets get by the banks due to debts settlements receivables from others. So, this paragraph is changeable under the law of the Central Bank of Jordan, which requires the disposal of these assets within two years from the date of transfer of ownership to the Bank. Therefore, the percent of this component appeared between (0.775% - 0.680%) of the total assets over the years of the study.

(B) Analysis of Liabilities:

The table (2) indicates to the vertical analysis of the constituent elements of the liabilities side during the years in question. As long as there is a turnover increase of total assets at 6 %, it will inevitably lead to a similar rate of change in liabilities side. This is due to the significant increase in the customer deposits, deposits of banks and other banking institutions, which are the traditional and main sources of financing the Bank. Herein below the analysis of the constituent elements of the paragraph of liabilities and the relative importance of each element:

table No. (2)
Vertical Analysis of Liabilities and Equity of the Arab Bank (thousands JDs)

year / Liabilities	2009		2010		2011		2012		2013	
	amount	percent	amount	percent	amount	percent	amount	percent	amount	percent
Deposits of banks and other banking institutions	3586052	15,52%	2891784	12,40%	2870365	11,10%	2172535	0,908%	1754200	0,715%
Customers deposits	15179401	65,71%	16159848	69,30%	16703718	69,83%	17362863	72,61%	18243668	74,35%
Others	532832	0,231%	481181	0,206%	533878	0,223%	501507	0,210%	585090	0,238%
Shareholders' Equity	3801206	16,46%	3786595	16,24%	3813524	15,94%	3875511	16,21%	3955414	16,12%
Total liabilities and equity	23000491	100%	23319408	100%	23921485	100%	23912416	100%	24538372	100%

The table has been prepared by the researchers based on the information stipulated in the annual reports of the Arab Bank

1- Deposits of Banks and Financial Institutions:

It has been noted in table (2) that the deposits of the banks and financial institutions with the Arab Bank are going down for years in question. The decreased rate in 2013 reached 79.59% compared to the baseline year 2009. Such decrease is due to the shortfall of the banking transactions between the banks, the sample of the study and other banks operating in the Jordanian market, in addition to the lack of desire to invest such funds deposited with these banks. It also indicates to the desire of the Arab Bank in the seeking new sources of financing, giving the Bank greater flexibility in the employment of such funds.

2- Customer Deposits (of various types):

Table 2 shows that the customer deposits have not decreased in any of the years of the study as an amount. In 2009 the deposit amount was (15179401) million JDs, and continued to increase until it becomes (18243668) million JDs in 2013. As a ratio of the total liabilities also, the increase in one year represented (65.71%) of the total liabilities and became in 2013 it represented (74.35%), which demonstrates the customer confidence in the Bank's activities and financial operations.

3- Others:

Other funding sources increased, except deposits of banks and banking institutions (turnover increase in 2013 by 8.93% compared to baseline year 2009). Most of these funding sources were mainly from of bonds re-discount with the Central Bank.

4. shareholders' Equity:

Shareholders equity were stable during the years of the study due to the commitment of Arab Bank to the minimum paid capital stipulated in the Central Bank Act in Jordan to all banks operating in Jordan, which is (20) million JDs, to provide security for depositors, so their deposits would not be affected in case of the bank suffers loss. For this reason Act also stipulates that certain percent will be deducted from the annual net profits (before distribution) to be mandatory legal reserve capital.

A look at the table (2), it can be noted that the large part of the Arab Bank funding sources comes from customer deposits which reached (74.35%) of the total finance sources to the Bank under consideration. This proves the high confidence of the bank customers with the Bank due to the financial stability of the Bank during the financial crisis.

(C) The Vertical Analysis of the Income Statement:

1- Analysis of Revenue:

table No. (3)
The Vertical Analysis to Income Statement of the Arab Bank (thousands JDs)

Year / Revenues and Expenses	2009		2010		2011		2012		2013	
	Amount	Percent	Amount	Percent	Amount	percent	Amount	percent	Amount	percent
Revenues										
-Net Interest revenues	518372	67.85%	490515	61.51%	505903	63.86%	545931	64.37%	589707	67.06%
-Net commissions revenues	133204	17.43%	141438	17.74%	153941	19.43%	151321	17.84%	162846	18.52%
Other revenues	112528	14.72%	165502	20.75%	132359	16.71%	150964	17.79%	126830	14.42%
Total Revenues	**764104**	**100%**	**797455**	**100%**	**792203**	**100%**	**848126**	**100%**	**879383**	**100%**
Expenses										
- Personnel expenses	168761	38.40%	165029	25.52%	183484	40.05%	184624	37.17%	191729	45.56%
- Operating expenses	189830	43.20%	186066	32.15%	191283	41.75%	185421	37.33%	190119	45.18%
- Decrease of credit facilities allowance	80850	18.40%	224769	38.84%	83352	18.20%	126668	25.50%	36059	0.857%
- Decrease of financial assets allowance	0	0%	2832	0.049%	0	0%	0	0%	2913	0.069%
Total expenses	**439441**	100%	**578696**	100%	**458119**	100%	**496713**	100%	**420830**	100%
Profit before taxes	**324663**		**218759**		**334084**		**351413**		**458563**	
Income tax	74624		73674		71083		90072		112337	
Net profit after the tax	**250039**		**145058**		**263001**		**261341**		**346226**	

The table has been prepared by the researchers based on the information stipulated in the annual reports of the Arab Bank

Table 3 shows that the total income of the Arab Bank was almost in stable increase during the years of the study. The increase reached 4% in 2013 compared to 2012, and the increase in total revenues compared to baseline year 2009 reached 14.60%. This indicates the income stability and close increase every year. It has also been noted from table (3) that the Arab Bank has achieved a good income from commissions charged by the creditor as a result of its providing the banking services (such as opening of documentary credits, issuing bonds, discount receivables and other operations that create credit commissions to the Bank). This return formed a percent ranging from (17.43% - 18.52%) of the total revenues. Other income, except credit interest and credit commissions, grew well and formed percent ranged between (14.42% - 20.75%) of the total revenues. These revenues often results from the Bank's brokerage operation in Amman capital market and some other incidental activities.

2- Expenses Analysis:

The Arab Bank expenses consist of multiple elements; the most important are debit interests, which are paid on the account balances deposits with banks of various kinds, which formed a percent ranged between (43.20% - 45.18%) of the total expenses. This increase is due to large amount of the customer deposits, forming 74.35% of the total Arab Bank finance sources in 2013 as the operating expenses are paid for deposits. Table 4 also indicates that the personnel expenses constitute a large proportion of the total expenditure ranged between (38.40% - 45.56%), ranked the second among the total expenses of or all years of study.

Generally, the rate of change in expenditures measured in the baseline year 2009 is negative (-4.42%), where the bank realized savings in expenses. This demonstrates the efficiency of rationalization and cost management, as well as the existence of effective system in the banking risks management, and the ideal use of funding sources, in addition to the existence of efficient system for the comparison between the maintaining liquidity against the withdrawals and investment of funding sources.

3- Profits Analysis:

Table 3 shows that the Arab Bank has realized net profit during the years of the study ranged between (250039 – 346226) million JDs. The same table also shows that the Arab Bank has achieved a rate of change with increased profits during the years (2009 -2013) with almost invariably in terms of the value of the change at the rate (27.78%) compared to the baseline year 2009. This indicates the efficiency in the use of available finance sources for Arab Bank through its internal and external sources by the management of the Bank during the years of the study.

(D) Assessment of the Financial Performance of the Arab Bank:

This study evaluated the financial performance of the Arab Bank for the years (2009 - 2013) through the comparison between the indicators of the Bank's financial performance to the industry standard for the same indicators. The industry standard extracted by calculating the average financial performance indicators for the same years for study, to all the commercial banks of similar activity to Arab Bank; namely: Jordan Ahli Bank, Amman Cairo Bank, Bank of Jordan, Housing Bank for Trade and finance.

We have to point out at the outset that this study is to evaluate the financial performance of the Arab Bank based on data contained in its financial statements, but it is not necessary to reflect all aspects of financial performance, because the financial statements do not refer to the vagaries of the financial situation throughout the days of the year, but only to what is the case at the end of the year. In addition to having many external variables affecting the operation of the Arab Bank, which are not reflected in the financial statements, so this will not be addressed because it is outside the scope of the study.

- **Activity Ratios:**

1 - Cash and Financial Assets to Total Deposits:

This ratio measures the extent of the use of funds deposits (of all kinds) in the areas of investment by the Bank management. It has been noted in Table (4) that the Arab Bank realized a greater proportion than the industry standard almost for the years of study except in 2009. Therefore, this ratio had achieved increase and more stability during the years (2010 to 2013). The balance between cash and deposits is very important for the banking activity.

2 - Direct Credit Facilities / Deposits.

The management and the beneficiary parties (as shareholders, investors and others) of the financial analysis are interested in this ratio because it measures the ability of the management to employ one of the basic sources of financing of the Bank, which is the deposits of the various types in the area of traditional use of bank resources, that is lending. It is known that the lending achieves revenues to the Bank that could cover expenses and realize profits. Table 4 shows that the managements of the Arab Bank was able to employ the available fund depositors in lending area, to reach to the general average of the industry. In general, it could achieve a higher rate during the considered years of study than the industry average. Lending percent ranged from loan-to-deposit in the Arab Bank between (66.8% -57.8%), while the industry rate ranged between (59% - 69%).

3- Direct Credit Facilities to Total Assets.

This ration indicates to rate of assets turnover through granting loans by the bank. Table 4 shows that the turnover rate was acceptable for all years of the study. This demonstrates the efficiency of the management in employing assets in lending, which is one of the areas that the Bank can achieve revenues. The general rate of industry was between (35.71% - 44.23%), while this ratio in the Arab Bank was (41.59% - 43.89%).

Table (4)
Comparison between the Performance Indicators of the Arab Bank and the Industry Standard

Years / Performance Indicators	2009		2010		2011		2012		2013	
	Arab Bank	Medium Industry	Arab Bank	Medium Industry	Arab Bank	Medium Industry	Arab Bank	Medium Industry	Arab Bank	Medium Industry
1- Activity ratios										
- Cash and financial assets to the total deposits	59.54%	62.46%	60.50%	56.34%	63.12%	55.63%	62.96%	59.90%	61.66%	58.27%
-liquidity ratio (cash and quasi-cash)	48.4%	47.08%	49.4%	49.95%	51.7%	61.91%	51.4%	47.85%	50.3%	54.46%
- Direct Credit facilities/ deposits	66.8%	69.85%	62.3%	68.30%	59.9%	58.46%	57.2%	59.90%	57.8%	59.01%
- Direct Credit facilities to total assets	43.89%	44.23%	43.14%	39.69%	41.82%	42.05%	41.59%	38.65%	42.95%	35.71%
- total expenses/ total revenues (after excluding the debt allowance)	57.5%	68.22%	72.6%	65.44%	57.8%	63.34%	58.6%	59.32%	47.9%	52.18%
- Total	46.9%	43.46%	44.4%	59.07%	47.3%	39.66%	43.6%	51.76%	43.8%	44.56%
2- Ratios of operating efficiency of the capital										
- Capital adequacy	16.98%	11.4%	14.40%	12.31%	15.1%	14.45%	14.5%	15.54%	14.6%	13.41%
- Shareholders' equity	25.04%	19.55%	23.43%	19.83%	22.83%	21.27%	22.32%	19.67%	21.68%	18.35%
- Shareholders' equity to total assets	16.23%	13.37%	16.46%	14.55%	15.94%	16.16%	16.21%	15.25%	16.12%	15.16%
3- Profitability Ratios										
- Return on Equity	6.6%	7%	3.8%	3.64%	6.9%	6.18%	6.7%	9.18%	8.8%	7.52%
- Return on Assets	1.1%	3.48%	0.6%	4.60%	1.1%	2.53%	1.1%	3.68%	1.4%	3.69%
- Net interest and commission returns / Assets	2.8%	1.67%	2.7%	2.52%	2.8%	2.53%	2.9%	3.59%	3.1%	2.4%

The table has been prepared by the researchers based on the information stipulated in the annual reports of the Arab Bank

4. Liquidity Ratio (cash and quasi- monetary).

The liquidity is considered a target same as profitability. There is a conflict between these two objectives because one is realized at the expense of the other, and to define the relationship between liquidity and profitability is represented in the attempt to reconcile between them as possible:

First: liquidity is a policy while Profit is an objective: Liquidity as a reflection of the management actions taking the shape in the form of a work policy related to the management of the funds to achieve a regular flow of funds to avoid any a bottleneck may the bank exposes to in a time. Profit is a bank target i.e. a target to manage the money.

Second: Liquidity is connected to a short-term while profit is connected to a long term: The management of deposits, as it represents the main source of funding to the Arab Bank occupies an important side of the Bank activity because it affects directly on the ability to achieve revenue for the Bank.

The Management of the Bank Arab strongly believes in the importance of sustaining a high level of liquidity to support the bank operations and protect shareholders and its clients in all territories where the Bank exists. It was and will be always one of the prime pillars of the Arab Bank (the annual report of the Arab Bank for the year 2013, p. 123). The liquidity ration ranged between (48.4% and 50.3%), which was higher than the general rate of the industry, and was less in some years.

5. Total Expenses / Total Income:

This ratio indicates the Bank's efficiency in using expenses to create positive cash flows to the bank. The ratio ranged during the years of the study between (47.9 % -57.5%), which is a good ratio in comparison to industry ration which ranged between (52.18% - 68.22%). The real significance of this ratio is that each half JD spent as expenses in the Arab Bank produces one JD.

- **Capital Operating Efficiency Ratios:**

1- Capital adequacy

The Arab Bank remains committed, at all times, to maintain a high convenient ration to capital adequacy, exceeding the limits determined by (Basel) Committee and the Central Bank of Jordan, as well as the remainder competent regulatory authorities and other regulatory authorities in the countries where the Bank operates. This ration ranged between (14.6% -16.98%). This ration achieves the ratio determined by Basel Committee 15% of the total funding resources.

2. Shareholders Equity to Deposits:

Table 4 shows that the ratio of shareholders equity to deposits in Arab Bank is higher than the industry rate for the years of the study. The banks realized a ration ranged between (21.68% - 25.04%), while industry rate ranged between (18.35% - 23.43%). This indicates the interest of the managements of the Arab Bank in providing much protection for depositors' funds through strengthening shareholders equity.

3- Shareholders Equity to Total Assets:

Arab Bank has realized equity ratio ranged between (16.23 % - 16.56%) to total assets, which is higher than the industry rate ranged between (13.37% - 15.16%) during the years in of the study. This confirms, what was previously mentioned, the desire of Arab Bank to enhance the protection of depositors' funds, because the increase in this ration tends to increase confidence of depositors in the Bank ability to cover losses, if occurred, without reaching the funds of depositors.

- **Profitability Ratios:**

1 - Return on Equity. :

Table shows (4) shows that the Arab Bank realized a ration ranged between (3.8% - 8.8%), which is higher than the industry rate in 2013, while the rest of the years of study, that are approximately equal to the industry standard in those years or less.

2- Return on Assets:

This ration is deemed a comprehensive measure of profitability, because it measures the financial return realized on investments of the Bank shareholders, i.e. it represents a measure of the success in the management to maximize returns of investors in the Bank. The ration of returns to shareholders equity in the Arab Bank appeared in the years of the study between (1.1% - 1.4%), which less than the industry average, which ranged between (3.48% - 3.69%). This indicates inefficient management in the employment of available funds in profitable areas.

3- Net Interest Income and Commissions to Assets:

The ratio of income on investment is deemed an important measure of bank profitability, because it indicates the ability of one Jordan dinar invested in the assets to realize a return to the Bank. It also summarizes the relationship between profitability ratios and activity ratios. The Arab Bank has realized income ration on investment higher than the industry average in all years except in 2012, when the Bank realized less revenue than the industry rate as shown in Table 4 herein above.

Conclusions and Recommendations:

1. Conclusions:

Through previous presentation of the financial statement analysis for the Arab Bank, the following conclusions can be concluded:

1- Poor money management and use in Arab Bank. This appears by having a large surplus in the cash amount held by the Bank; either in Bank or other banks, reaching 32.77% of total assets in some years of the study, which reflects negatively on the performance and reduces the possibility of achieving profits, especially that the Bank bears the costs of obtaining such funds and their management and protection. This confirms the first hypothesis presented in the introduction of this study.

2- Deposits and deposits equivalent formed the vast majority of Arab Bank finance sources, demonstrating the great confidence the Arab Bank enjoyed by the domestic market and abroad, despite the intense competition the banks encounter, which is a heavy burden on the shoulders of the management to maintain this rosy image of the Bank among the customers, especially the total deposits had achieved high growth rates during the years of the study. This confirms the first hypothesis presented in the introduction of the study

3- The management of the Arab Bank is fully aware of the nature of the work, which requires them to expand investment in securities, and worked on the development of their portfolios investment during the years of study, but still much less than the volume of investment in credit facilities which formed the greater part in using the resources. This confirms the second hypothesis as presented in the introduction of the study

4- The Arab Bank realized profits during the years (2009 - 2013), which indicates the management ability to use the funding sources well despite the financial crisis the financial sector suffered, internal and abroad. The increase of rate in profits was about 27% during the years of the study, but it can be said that these profits are very modest compared to the average assets of the Bank and its investment compared to the risks faced by the Bank in the course of its work. Table 1 shows that the total assets ranged between (23099491 -24538372) JDs. This confirms the second hypothesis presented in the introduction of the study

2. Recommendations: In light of the above, you can make the following recommendations:

1- The Arab Bank has to use of the qualified and expertise persons who are capable of providing advice on how to get rid of surplus cash and inventory management in a better manner which would open opportunities for greater success and progress and achieve a better competitive position in domestic and foreign market.

2- It is necessary to reshape the available areas of funds employment to the Arab Bank, so investment in the various securities would be considered. This could be done through the expansion of investment portfolios, in addition to the expansion in the employment of funds in areas of public debt and, in particular, the Bank has the surplus liquidity and apparently encounters difficulty in its employment.

3- If the Arab Bank encounters difficulties in obtaining adequate securities for investment of available funds, the bank could expand in granting the various credit facilities according to the needs of customers with an appropriate credit position, which will reduce the cash held by the bank.

4- We recommend that Arab Bank should expand its services provided to customers, particularly modern services; (such as consulting services to the customers, billing services, safes, and credit cards, etc.). They represent areas of employing the surplus liquidity at the banks as well as commissions and significant interests realized by the Bank. They contribute to improve profitability and thus support the market value of Bank shares.

5- The need for the Arab Bank to expand in opening branches in different geographical territories to support its financial position and competitiveness, and open area in increasing the volume of funds for lending and investment. This would contribute to increase the flexibility of the Bank in the areas of investment, credit and investment risks tolerance.

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