# Determinants of Financial Performance of Jordan Islamic Bank

Dr.Hussein Mohammad Samhan[1*]     Mr. Abdullah Yusri AL-Khatib[2]

1.Associate professor ,Department of Islamic Banks, Faculty of Economic and Administrative Sciences, Zarqa University ,P.O .Box 132222,Zarqa 13110,Jordan

2.The World Islamic Sciences and Education University

*E-mail of the corresponding author : dr_husseinsamhan@yahoo.com

**Abstract**

The ever-increasing importance of financial performance to companies in coupled with global and domestic competitions, increasing cost and decreasing profitability was the impetus for this study. Despite the copious number of statistical failure prediction models described in the literature, testing of whether such methodologies work in practice are lacking.

This Study examines the determinants of financial performance of Jordan Islamic Bank (JIB) during the period 2000-2012. The financial performance (Dependent variable) is measured by Return on Assets (ROA), Return on Equity (ROE), and Return on Unrestricted Investment Accounts (ROUIA). On the other hand, the Independent variables are divided to two categories which are macroeconomic variables and bank specificfactors. Macroeconomic variables are inflation rate, Gross Domestic Product (GDP), and Unemployment rate. Bank specific factors are total income divided by total assets, equity ratio, debt ratio, bank size, and liquidity ratio.

Firstly, the researchers found that there is significance level and positive relationship between ROA on one hand. Inflation, equity ratio, and bank size on the other hand. Also, there is not significant but positive relationship between ROA and GDP. On the other hand, there is significance level and negative relationship between ROA and unemployment rate, and Debt ratio. Moreover, there is insignificance level and negative relationship between ROA and total income to total assets, and liquidity ratio.

Secondly, the analysis revealed that there is significance level and positive relationship between ROE on one hand. Inflation and bank size on the other hand. Moreover, there is not significance level but positive relationship between ROE and GDP, equity ratio, and liquidity ratio. We noticed significance level and negative relationship between ROE and unemployment rate, but ROE is insignificant and negative relationship with total income to total assets, and debt ratio.

Finally, the analysis revealed that there is significance level and positive relationship between ROUIA and GDP. Moreover, we noticed that there is insignificance level and positive relationship between ROUIA and inflation rate, total income to total assets, equity ratio, and bank size. On the other hand, there is significance level but negative relationship between ROUIA and unemployment rate. Also, there is insignificance level and negative relationship between ROUIA and debt ratio, and liquidity ratio.

## 1. Introduction

The utilization of financial performance has become more popular in today's business organizations than before, and adoption by organization has increased on it over the years.

There are many dimensions upon which to measure the performance of a credit scoring system, but the most relevant way to compare models with different sample sets is by measuring the models' ordinal ability to differentiate between companies that are most likely to go bankrupt from those that are least likely to go bankrupt (Bemmann, 2005).

Islamic Banks play an important and vital role in the financial and economic sector. Also, good financial performance rewards the shareholders for their investment. This encourages additional investment and brings about economic growth. On the other hand, poor banking performance can lead to banking failure and crisis which have negative results on the economic growth (Ongore, 2013). The performance of banks can be affected by bank specific and macroeconomic factors (Al-Tamimi, 2010; Aburime, 2005). Bank specific factors are individual bank characteristics which affect the bank's performance. These factors are basically influenced by the internal decisions of management and board. On the other hand, macroeconomic variables are country wide factors which are beyond the control of the bank and affect the profitability of banks (Ongore, 2013).

Islamic banks have gained a footing in almost every majority Muslim countries, and in a few non-Muslim countries (Samhan, 2013) . Islamic banks provide profit sharing instead of pre-determined interest payments. Also, Islamic banks undertake businesses and trade activities on the basis of fair and legitimate profits. They ensure fair practices in dealing with customers and shareholders, more than in commercial banks where much fair practice needs to be imposed by external regulation (Haron, 2004).Islamic banking is working in accordance with the rules of Islamic shariah. Moreover, Islamic banking is rooted in the Muslim world as form of bank that prohibits the payment of interest (Riba). The prohibition of Riba is fixed in the shariah (Khrawish, 2011).

Islamic banks are rapidly gaining markets shares in their domestic economies and their presence in highly sophisticated markets exemplifies the empirical success of the viability of eliminating fixed interest payments from financial transactions (Bashir, 2003).They have the flexibility of becoming shareholders and creditors of firms, as well as the advantage of providing investment banking services. A comprehensive evaluation of the financial performance of Islamic banks is essential for managerial as well as regulatory purposes. Managerial perspective, interactions between different performance measures must be taken into consideration in order to maximize the value of the bank (Khrawish, 2011). Also, managers are keen to determine the outcomes of previous management decisions, bank regulators concerned about the safety and soundness of the banking system with preserving public confidence. Without persistent monitoring of performance, existing problems can remain unnoticed and could lead to financial failure in the future (Bashir, 2003).

Jordan Islamic Bank (JIB)was established in 1978, as a public shareholding limited company to carry out all kinds of banking, financing and investment business operations in compliance with the glorious Islamic shariah and in accordance with the provisions of Jordan Islamic Bank's Special Law, which was superseded by one chapter on Islamic banks in the Banks' Law which was in effect as of 2nd August, 2000 (Jordan Islamic Bank website, 2014).

## 1.1 Research Problem
The main problem faces this study is about answering the following questions: Is financial performance of Jordan Islamic Bank affected by macroeconomic variables and bank specific factors. Also,is there any significant impact of inflation, GDP, unemployment rate, total income to total assets, equity ratio, debt ratio, bank size, or liquidity ratio on financial performance of Jordan Islamic Bank?

## 1.2 Research Objectives
This research highlights the various variables affect financial performance of Jordan Islamic Bank (JIB) by focusing on Inflation rate, GDP, and unemployment rate as proxies of macroeconomic variables. On the other hand, total income/total assets, equity ratio, debt ratio, bank size, and liquidity ratio as proxies of bank specific factors.

## 1.3 Research Hypotheses
Based on the literature review, we formulated the hypotheses. Two hypotheses were formulated to investigate the research problems and to fulfill its goals.The financial performance will be presented by Return on Assets (ROA), Return on Equity (ROE), and Return on Unrestricted Investment Accounts (ROUIA).

$H_{0.1}$: There is no statistically significant impact of macroeconomic variables on financial performance of Jordan Islamic Bank (JIB).

$H_{0.2}$: There is no statistically significant impact of bank specific factors on financial performance ofJordan Islamic Bank (JIB).

Note: In chapter three we will talk in details about the hypotheses.

## 1.4 Research Outlines
This research contains four chapters; first chapter is an introduction about the study, its importance and objectives. Moreover, second chapter will display some literature review about determinants of Islamic banks profitability. Also, third chapter will be about the variables definitions. Next, in chapter four we will illustrate the statistical analysis and the test of study's hypotheses, thesis' results, conclusion, and some recommendations.

## 2. Literature Review
This chapter will focus on the literature review and previous studies that focused on the variables which were also investigated in this study. This chapter is thought to be useful by providing a review, the reader can compare between the previous studies and this research. Moreover, know some studies about determinants of financial performance.In defining bank performance there are several measures of bank performance popular in the literature. The most common use of performance variables are return on assets, and return on equity (Demirguc-kunt and Huizinga, 1999; Mahajan, 1996). Also, Ongore (2013) added Net Interest Margin (NIM) for the financial performance of commercial banks.What makes this research distinguished is taking the unemployment rate as a proxy of macroeconomic variable, return on unrestricted investment accounts as a proxy of bank specific factor, and research period from 2000 to 2012.

*1- Sudin Haron(1996)Competition and Other External Determinants of the Profitability of Islamic Banks.*
This study examines the effects of competition and some other external factors on the profitability of Islamic banks. The banks chosen for thisstudy from many countries were divided into two groups according to the market in which they operate.The study found that Islamic banks in competitive markets earned more than

thosewhich operate in a monopolistic markets. Evidence was also found to support thehypothesis that the profit-loss sharing principle practiced by Islamic banks isbeneficial to both depositors and the banks.

In addition, the study provides empirical evidence on the determinants of profitability for Islamic Banks. Inflation and bank's size have a significant positive relationship with profitability.This study found that there was no significant variation in earnings between Islamic banks in competitive and monopolistic markets. The results of this study indicated that banks in a competitive market were better managed than their counterparts. Therefore, it is obviousthat protectionist policies adopted by some Muslim governments is inappropriate andcan distort future development of Islamic banking. Establishment of more Islamicbanks will give more benefits to the depositors.

## 2- Sudin Haron (2004) Determinants of Islamic Bank Profitability

That study examines the effects of factors that contribute towards the profitability of Islamic banks. The study found out internal factors such as liquidity, total expenditures, funds invested in Islamic securities, and thepercentage of the profitsharing ratio between the bank and the borrowerof funds are highly correlated withthe level of total income received bythe Islamic banks. Similar effects arefound for external factors such as interest rates, market share, and size ofthe bank. Besides, other determinants suchas funds deposited into current accounts, total capital and reserves, thepercentage of profit-sharing betweenbank and depositors, and money supply also play a major role in influencing the profitability of Islamic banks.

## 3- Husni Ali Khrawish and Others (2011) Determinants of Islamic Bank profitability: Evidence from Jordan

The objective of that study is to examine and analyze the factors that might effect on the Jordanian Islamic banks' profitability. This study revealed that there are significant and positive relationship between ROA and (provision for credit facilities plus interest in suspense) divided by credit facilities (PRFCFI/CF), total equity / total assets, and total income / total assets of the Islamic banking. Moreover, there are significant and negative relationships between ROA and the bank size, total liabilities/ total assets, GDP, and Inflation rate.

In addition, this study found that there are significant and positive relationships between ROE and bank's size, total liabilities/ total assets, total income/ total assets. On the other hand, there are significant and negative relationships between ROE and PRFCFI/CF, total equity/ total assets, GDP, and inflation of the Islamic Banking.

## 4- Imad Z. Ramadan and Others (2011) Determinants of Bank Profitability: Evidence from Jordan.

This research is about studying the relationship between the profitability of Jordanian commercial banks and the characteristic of bank specific and macroeconomic factors.Two measures of bank's profitability have been utilized ROA and ROE.

Resultsshowed that the Jordanian bank's characteristics explain a significant part of the variation in bank profitability. HighJordanian bank profitability tends to be associated with well capitalized banks, high lending activities, low creditrisk, and the efficiency of cost management. Results also showed that the estimated effect of size did not support the significant scale economies for Jordanian banks.

## 3. Research Methodology

In this chapter the researchers will explain the methodology which is followed to investigate the research objectives and its importance. This study focused on Jordan Islamic Bank (JIB) to analyze the impact of bank specific and macroeconomic variables on the financial performance for period 2000-2012. This study depended on the following sources for collecting the data needed:

1- Annual reports were issued by Jordan Islamic Bank.
2- Annual reports were issued by Amman Stock Exchange.
3- World Bank reports about Jordan.

This research is descriptive and quantitative analytical nature because its primary purpose is to form a better understanding of factors that affect the financial performance of JIB. Also, this research is considered to be deductive because of the hypotheses will be studied and tested. The researchers used SPSS to analyze the data and to find the results.

## 3.1 Research Framework

Based on studies and literature review about financial performance, it will be presented by the most popular proxies Return on Assets (ROA), and Return on Equity (ROE). Moreover, in this research we will use Return on Unrestricted Investment Accounts (ROUIA) as well. On the other hand, the independent variables will be divided in two groups, macroeconomic variables which are inflation rate, Gross Domestic Product (GDP), and unemployment rate. In addition,thebank specific factors will be total income divided by total assets ratio, equity ratio, debt ratio, bank size, and liquidity ratio.

## 3.2 Operational Definitions

First of all, we will give definitions of the macroeconomic variables according to the World Bank because it is

the source of these ratios. After that, we will explain the bank specific factors by defining the way of calculating them. Finally, dependent proxies will be explained.

**A) Macroeconomic Variables:**

**Inflation Rate** as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly.Bourke (1989) has represented a positive relationship between inflation and bank's financial performance.

**Gross Domestic Product (GDP)**is measured byannual percentage growth rate of GDP at market prices based on constant local currency. GDP is the sum of gross value added by all residents' producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. Khrawish (2011) found a significant and negative relationship between the financial performance and GDP in Jordan.

**Unemployment Rate** refers to the share of the labor force that is without work but available for and seeking employment. The researchers added this ratio as a macroeconomic factor because of the increasing unemployment rate in Jordan.

**B) Bank specific Factors:**

1) **Total income divided by total assets**: total income which from income statement divided by total assets which from the balance sheet.Haron (2004) found significant and positive relationship between this ratio (TI/TA) and ROA as well as ROE.

2) **Equity ratio**: which means total shareholders' equity plus minority interest are divided by total assets .Khrawish (2011) found significant and positive relationship between equity ratio and ROA. On the other hand, significant and negative relationship between equity ratio and ROE in Jordan.

3) **Debt ratio**: which means total liabilities is divided by total assets. In a study about Jordan the relation between ROA and debt ratio was significant and negative relationship, but between ROE and debt ratio was significant and positive relationship (Khrawish, 2011).

4) **Bank size**: is the natural logarithm of total assets of the bank.Demerguc-Kunt and Huizingha (1999) found a significant and positive relationship between ROA and ROE with size of the bank.

8) **Liquidity ratio**: which is(Cash and Balances at Central Bank, Balances at banks and Financial Institutions, Deposits at banks and Financial Institutions, and Trading Investments) are divided by (Customers' Deposits, plus Banks and Financial Institutions Deposits). Higher liquidity levels indicate that bank can easily meet its current obligations (Molyneux and Thornton, 1992). This ratio was not significant in a study about Kenya commercial banks (Ongore, 2013).

**C) Dependent Variables:**

According to many previous studies ROA (which is net income divided by total assets),and ROE(which is net income pertains to shareholders divided by total shareholders' equity) were proxies for the financial performance (Ongore, 2013). Moreover, the researchers will add the Return on Unrestricted Investment Accounts (ROUIA) as a representative of financial performance as well.

**3.3 Research Hypotheses**

**$H_{0.1}$: There is no statistically significant impact of macroeconomic variables on financial performance of Jordan Islamic Bank (JIB).**

$H_{0.1.1}$: There is no statistically significant impact of inflation rate on financial performance of JIB.

$H_{0.1.2}$: There is no statistically significant impact of GDP on financial performance of JIB.

$H_{0.1.3}$: There is no statistically significant impact of unemployment rate on financial performance of JIB.

**$H_{0.2}$: There is no statistically significant impact of bank specific factors on financial performance of Jordan Islamic Bank (JIB).**

$H_{0.2.1}$: There is no statistically significant impact of total income divided by total assets on financial performance of JIB.

$H_{0.2.2}$: There is no statistically significant impact of equity ratio on financial performance of JIB.

$H_{0.2.3}$: There is no statistically significant impact of debt ratio on financial performance of JIB.

$H_{0.2.4}$: There is no statistically significant impact of bank size on financial performance of JIB.

$H_{0.2.5}$: There is no statistically significant impact of liquidity ratio on financial performance of JIB.

**3.4 Research Model**

The aim of doing the regression analysis is investigating if the independent variables influence the dependent variables. The researchers used SPSS to get the results, and used the following regression equation:

$$FP = \alpha_{(i,t)} + \beta_1 \text{ inflation }_{(i,t)} + \beta_2 GDP_{(i,t)} + \beta_3 \text{unemploy}_{(i,t)} + \beta_4 \text{ TITA}_{(i,t)} + \beta_5 \text{ equity}_{(i,t)} + \beta_6 \text{ debt}_{(i,t)} + \beta_7 \text{banksize}_{(i,t)} + \beta_8 \text{ liquidity}_{(i,t)} + \varepsilon_{(i,t)}$$

FP: Financial Performance is measured by ROA, ROE, and ROUIA.

Inflation: The Inflation rate in Jordan.

GDP: Gross Domestic Product.
Unemploy: Unemployment rate in Jordan.
TITA: Total Income / Total Assets.
Equity: Equity Ratio.
Debt: Debt ratio.
Banksize: Natural Logarithm of Total Assets.
Liquidity: Liquidity Ratio.
$\varepsilon$: random error.

In chapter four the data will be analyzed and tested to determine the relationships between the variables, and to identify the significant or insignificant relations.

**Chapter Four**
**4. Data Analysis**
The purpose of this chapter is to analyze the collected data by knowing the relationships between the macroeconomic and bank specific on one hand, and the financial performance on the other hand. Macroeconomic variables will be presented by inflation rate, GDP, and unemployment rate. Also, bank specific factors will be presented by total income/ total assets, equity ratio, debt ratio, bank size, and liquidity ratio. In addition, financial performance will be presented by Return on Assets (ROA), Return on Equity (ROE), and Return on Unrestricted Investments Accounts (ROUIA) during 2000 – 2012.
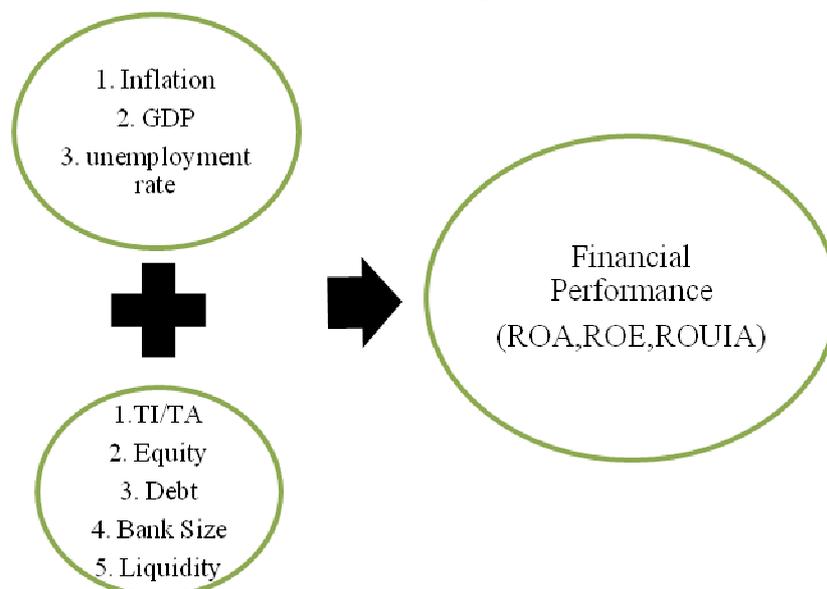


Figure (1) Macroeconomic, Bank Specific, and Financial Performance Variables

**4.1 Return on Assets (ROA) Analysis:**
According to figure (2) the reader can see the trend of ROA as a proxy of financial performance of Jordan Islamic Bank during 2000 – 2012. Also, by looking at table (1) the descriptive statistics of ROA the reader can see ROA Mean is 0.8692 and Standard Deviation is 0.54978, not to mention mean, standard deviation, and number of observations for the other variables.

Figure (2) Trend of Return on Assets of Jordan Islamic Bank 2000 – 2012.

**Descriptive Statistics**

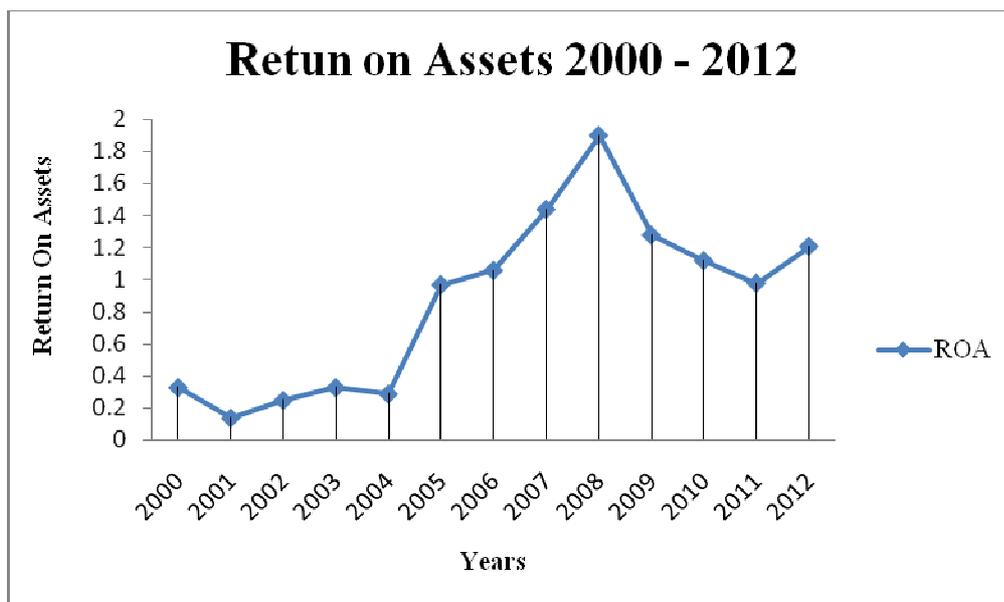|  | Mean | Std. Deviation | N |
|---|---|---|---|
| ROA | .8692 | .54978 | 13 |
| Inflation | 4.0615 | 3.81522 | 13 |
| GDP | 5.6000 | 2.29456 | 13 |
| Unemploy | 13.4308 | 1.41444 | 13 |
| TITA | 3.9954 | .64603 | 13 |
| Equity | 7.2600 | 1.17463 | 13 |
| Debt | 92.7400 | 1.17463 | 13 |
| Banksize | 9.1600 | .22866 | 13 |
| Liquidity | .5662 | .33716 | 13 |

Table (1) ROA Descriptive Statistics

As can be observed from table (2) correlation matrix for ROA and other variables, there is a positive correlation between ROA on one hand, and inflation, GDP, equity, and bank size on the other hand. Moreover, there is a negative correlation between ROA on one hand, and unemployment rate, total income to total assets, debt ratio, and liquidity ratio on the other hand.

|  | ROA | Inflation | GDP | unemploy | TITA | Equity | Debt | Banksize | liquidity |
|---|---|---|---|---|---|---|---|---|---|
| ROA | 1 | | | | | | | | |
| Inflation | $0.68^*$ | 1 | | | | | | | |
| GDP | $0.10^{NS}$ | $0.24^{NS}$ | 1 | | | | | | |
| unemploy | $-0.66^*$ | $-0.40^{***}$ | $-0.13^{NS}$ | 1 | | | | | |
| TITA | $-0.20^{NS}$ | $0.18^{NS}$ | $0.12^{NS}$ | $0.43^{***}$ | 1 | | | | |
| Equity | $0.50^{**}$ | $0.32^{NS}$ | $-0.17^{NS}$ | $-0.06^{NS}$ | $0.33^{NS}$ | 1 | | | |
| Debt | $-0.50^{**}$ | $-0.32^{NS}$ | $0.17^{NS}$ | $0.06^{NS}$ | $-0.33^{NS}$ | $0.00*$ | 1 | | |
| Banksize | $0.75^*$ | $0.37^{***}$ | $-0.32^{NS}$ | $-0.70^*$ | $-0.60^{**}$ | $0.19^{NS}$ | $-0.19^{NS}$ | 1 | |
| liquidity | $-0.01^{NS}$ | $-0.006^{NS}$ | $-0.28^{NS}$ | $-0.09^{NS}$ | $-0.36^{NS}$ | $-0.14^{NS}$ | $0.14^{NS}$ | $0.30^{NS}$ | 1 |

Table (2) Pearson Correlation Matrix for ROA and the other variables.
Note: * 1% significance level.
     ** 5%significance level.
     *** 10%significance level.
     NS: Not Significant.

The model is significant at 5% significance level according totable (3) Analysis of Variance (ANOVA) for ROA. Also, from table (4) we can observe that R Square equals 0.914 which means the model could explain about 91% of the variations of ROA, and about 8% will be explained by other variables. In addition, Inflation, unemployment, and bank size are significant at 1% level. Also, equity ratio and debt ratio are significant at 5% significance level, but GDP, total income to total assets, and liquidityare not at any significance level.

**ANOVAᵃ**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 3.316 | 7 | .474 | 7.617 | .020ᵇ |
| | Residual | .311 | 5 | .062 | | |
| | Total | 3.627 | 12 | | | |

Table (3) Analysis of Variance for ROA

**Model Summaryᵇ**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .956ᵃ | .914 | .794 | .24938 |

Table (4) Model Summary for ROA

Finally, the analysis revealed that there is significance level and positive relationship between ROA on one hand.Inflation, equity ratio, and bank size on the other hand. Also, there is not significant but positive relationship between ROA and GDP. On the other hand, there is significance level and negative relationship between ROA and unemployment rate, and Debt ratio. Moreover, there is insignificance level and negative relationship between ROA and total income to total assets, and liquidity ratio.

**4.2 Return on Equity (ROE) Analysis:**

According to figure (3) the reader can see the trend of ROE as a proxy of financial performance of Jordan Islamic Bank during 2000 – 2012. Also, by looking at table (5) the descriptive statistics of ROE the reader can see ROE Mean is 11.7369 and Standard Deviation is 6.65202, Also, mean, standard deviation, and number of observations for the other variables.
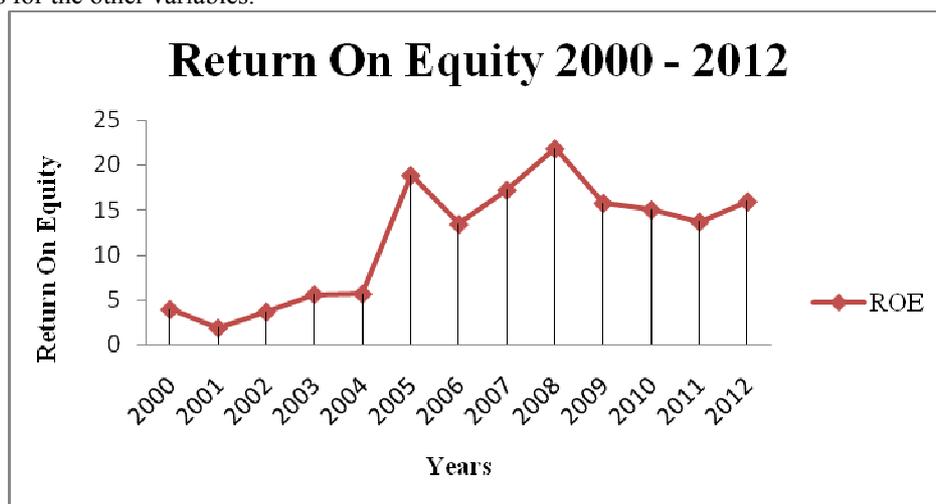


Figure (3) Trend of Return on Equity of Jordan Islamic Bank 2000 – 2012.

**Descriptive Statistics**

| | Mean | Std. Deviation | N |
|---|---|---|---|
| ROE | 11.7369 | 6.65202 | 13 |
| Inflation | 4.0615 | 3.81522 | 13 |
| GDP | 5.6000 | 2.29456 | 13 |
| Unemploy | 13.4308 | 1.41444 | 13 |
| TITA | 3.9954 | .64603 | 13 |
| Equity | 7.2600 | 1.17463 | 13 |
| Debt | 92.7400 | 1.17463 | 13 |
| Banksize | 9.1600 | .22866 | 13 |
| Liquidity | .5662 | .33716 | 13 |

Table (5) ROE Descriptive Statistics

As can be observed from table (6) correlation matrix for ROE and other variables, there is a positive correlation between ROE on one hand, and inflation, GDP, equity ratio, bank size, and liquidity. On the other hand, a negative correlation between ROE and unemployment rate, total income to total assets, and debt ratio.

| | ROE | Inflation | GDP | unemploy | TITA | Equity | Debt | Banksize | liquidity |
|---|---|---|---|---|---|---|---|---|---|
| ROE | 1 | | | | | | | | |
| Inflation | $0.62^{*}$ | 1 | | | | | | | |
| GDP | $0.14^{NS}$ | $0.24^{NS}$ | 1 | | | | | | |
| unemploy | $-0.73^{*}$ | $-0.40^{***}$ | $-0.13^{NS}$ | 1 | | | | | |
| TITA | $-0.36^{NS}$ | $0.18^{NS}$ | $0.12^{NS}$ | $0.43^{***}$ | 1 | | | | |
| Equity | $0.26^{NS}$ | $0.32^{NS}$ | $-0.17^{NS}$ | $-0.06^{NS}$ | $0.33^{NS}$ | 1 | | | |
| Debt | $-0.26^{NS}$ | $-0.32^{NS}$ | $0.17^{NS}$ | $0.06^{NS}$ | $-0.33^{NS}$ | $0.00^{*}$ | 1 | | |
| Banksize | $0.77^{*}$ | $0.37^{***}$ | $-0.32^{NS}$ | $-0.70^{*}$ | $-0.60^{**}$ | $0.19^{NS}$ | $-0.19^{NS}$ | 1 | |
| liquidity | $0.04^{NS}$ | $-0.006^{NS}$ | $-0.28^{NS}$ | $-0.09^{NS}$ | $-0.36^{NS}$ | $-0.14^{NS}$ | $0.14^{NS}$ | $0.30^{NS}$ | 1 |

Table (6) Pearson Correlation Matrix for ROE and the other variables.

Note: * 1% significance level.

     ** 5%significance level.

     *** 10%significance level.

     NS: Not Significant.

The model is significant at 10% significance level according to table (7) Analysis of Variance (ANOVA) for ROE. Also, from table (8) R Square equals 0.834 which means the model could explain about 83% of the variations of ROE, and about 17% will be explained by other variables. In addition, inflation, unemployment rate, and bank size are significant at 1% significance level. On the other hand, GDP, total income to total assets, equity ratio, debt ratio, and liquidity ration are insignificant.

**ANOVA**[a]

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 442.620 | 7 | 63.231 | 3.578 | $.090^{b}$ |
| | Residual | 88.372 | 5 | 17.674 | | |
| | Total | 530.992 | 12 | | | |

Table (7) Analysis of Variance for ROE

**Model Summary**[b]

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | $.913^{a}$ | .834 | .601 | 4.20409 |

Table (8) Model Summary for ROE

Finally, the analysis revealed that there is significance level and positive relationship between ROE on one hand. Inflationand bank size on the other hand. Moreover, there is not significance level but positive relationship between ROE and GDP, equity ratio, and liquidity ratio. We noticed significance level and negative relationship between ROE and unemployment rate, but ROE is insignificant and negative relationship with total income to total assets, and debt ratio.

**4.3 Return on Unrestricted Investment Accounts (ROUIA) Analysis:**

According to figure (4) the reader can see the trend of ROUIA as a proxy of financial performance of Jordan Islamic Bank during 2000 – 2012. Also, by looking at table (9) the descriptive statistics of ROUIA, the reader can see ROUIA Mean is 4.5115 and Standard Deviation is 0.97029, Also, mean, standard deviation, and number of observations for the other variables.

Figure (4) Trend of Return on Unrestricted Investment Accounts of Jordan Islamic Bank 2000 – 2012.

**Descriptive Statistics**

|           | Mean    | Std. Deviation | N  |
|-----------|---------|----------------|----|
| ROUIA     | 4.5115  | .97029         | 13 |
| Inflation | 4.0615  | 3.81522        | 13 |
| GDP       | 5.6000  | 2.29456        | 13 |
| Unemploy  | 13.4308 | 1.41444        | 13 |
| TITA      | 3.9954  | .64603         | 13 |
| Equity    | 7.2600  | 1.17463        | 13 |
| Debt      | 92.7400 | 1.17463        | 13 |
| Banksize  | 9.1600  | .22866         | 13 |
| Liquidity | .5662   | .33716         | 13 |

Table (9) ROUIA Descriptive Statistics

As can be observed from table (10) correlation matrix for ROUIA and other variables, there is a positive correlation between ROUIA on one hand, and inflation rate, GDP, total income to total assets, equity ratio, and bank size on the other hand. Moreover, there is a negative correlation between ROUIA and unemployment rate, debt ratio, and liquidity ratio.

|           | ROUIA | Inflation | GDP | unemploy | TITA | Equity | Debt | Banksize | liquidity |
|-----------|-------|-----------|-----|----------|------|--------|------|----------|-----------|
| ROUIA | 1 | | | | | | | | |
| Inflation | $0.31^{NS}$ | 1 | | | | | | | |
| GDP | $0.73^{*}$ | $0.24^{NS}$ | 1 | | | | | | |
| unemploy | $-0.46^{**}$ | $-0.40^{***}$ | $-0.13^{NS}$ | 1 | | | | | |
| TITA | $0.11^{NS}$ | $0.18^{NS}$ | $0.12^{NS}$ | $0.43^{***}$ | 1 | | | | |
| Equity | $0.25^{NS}$ | $0.32^{NS}$ | $-0.17^{NS}$ | $-0.06^{NS}$ | $0.33^{NS}$ | 1 | | | |
| Debt | $-0.25^{NS}$ | $-0.32^{NS}$ | $0.17^{NS}$ | $0.06^{NS}$ | $-0.33^{NS}$ | $0.00^{*}$ | 1 | | |
| Banksize | $0.54^{NS}$ | $0.37^{***}$ | $-0.32^{NS}$ | $-0.70^{*}$ | $-0.60^{*}$ | $0.19^{NS}$ | $-0.19^{NS}$ | 1 | |
| liquidity | $-0.34^{NS}$ | $-0.006^{NS}$ | $-0.28^{NS}$ | $-0.09^{NS}$ | $-0.36^{NS}$ | $-0.14^{NS}$ | $0.14^{NS}$ | $0.30^{NS}$ | 1 |

Table (10) Pearson Correlation Matrix for ROUIA and the other variables.
Note: * 1% significance level.
     ** 5%significance level.
     *** 10%significance level.
     NS: Not Significant.

The model is significant at 10% significance level according to table (11) Analysis of Variance (ANOVA) for ROUIA. Also, from table (12) R Square equals 0.856 which means the model could explain about 86% of the variations of ROUIA, and about 14% will be explained by other variables. In addition, there is a significance level between ROUIA and GDP at 1% and 5% between ROUIA and unemployment rate. Also, there is not a significancelevel between ROUIA and inflation rate, total income to total assets, equity ratio debt ratio, bank size, and liquidity ratio.

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 9.675 | 7 | 1.382 | 4.258 | .065[b] |
| | Residual | 1.623 | 5 | .325 | | |
| | Total | 11.298 | 12 | | | |

Table (11) Analysis of Variance for ROUIA

**Model Summary[b]**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .925[a] | .856 | .655 | .56970 |

Table (12) Model Summary for ROUIA

Finally, the analysis revealed that there is significance level and positive relationship between ROUIA and GDP. Moreover, we noticed that there is insignificance level and positive relationship between ROUIA and inflation rate, total income to total assets, equity ratio, and bank size.On the other hand, there is significance level butnegative relationship between ROUIA and unemployment rate. Also, there is insignificance level and negative relationship between ROUIA and debt ratio, and liquidity ratio.

### 4.4 Recommendations

According to the research's results, we advise Jordan Islamic Bank to improve Return on Assets (ROA) by increasing equity ratio, bank size,and reducing debt ratio. Also, we advise JIB to enhance ROE by focusing on bank size. Moreover, the researchers noticed that Return on Equity (ROE) is always higher than return on Unrestricted Investment Accounts (ROUIA) which makes insignificant relationships betweenROUIAand bank specific factors because ROUIA values are so small.

With those recommendations, we advise the Jordanian government to find ways and solutions to reduce inflation rate and unemployment rate, and increase GDP.

Finally, I advise the researchers to make other research about determinants of financial performance for the whole Islamic Banks in Jordan by increasing macroeconomic variables, bank specific factors, and the period of studying sample.

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