



The Impact of Internal Variables on the Islamic Banks and Conventional Banks Financial Performance in Jordan: A Comparative Study

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ABSTRACT

The aim of this study is to explain the effect of the external variables on the financial performance of the Islamic and conventional banks measured by the rates of return of assets and the rates of return on equity, in addition to the earnings per stock during the period (2001-2011). To achieve the objectives of the study, some statistical procedures and E-views program are used. The data of the annual financial reports from the sample of the study are collected. The findings of the study indicated a statistical significant effect of the external variables on the performance of the conventional banks. According to Islamic banks, there was an effect of the external variables, on the financial performance. In addition, the findings showed that there were statistical significant differences in the rates of returns on assets between Islamic and conventional banks, but there were no significant statistical differences with respect to rates of return on equity, and the earnings per stock between the two kinds of banks. In light of these findings, the study has come up with some recommendations. The Islamic banks have to enhance their financial performance to be distinguished and to progress their activities.

Keywords: Conventional Banks, Islamic Banks, External Variables, Financial Performance

JEL Classifications: G2, G21

1. INTRODUCTION

Islamic banks work in the banking sector in order to develop the society economically and socially. By exploiting its available resources in a legitimate manner consistent with the teachings of the Islamic religion concerning the investment of funds and how to dispose them in the legitimate aspects. Although the nature of Islamic banking differs from that of conventional banking, Islamic banks and conventional banks are among the most important financial and economic institutions.

Due to the complexity of its financial and banking relations with all other economic institutions, as well as the multiplicity of the size and type of customers benefiting from its services, so a large part of the activities of Islamic banks are affected by a range of factors and variables (internal and external), This study came to examine

a set of internal variables affecting the activity and business of banks in general, and affect the financial performance in particular.

1.1. The Study Problem

Financial institutions face many challenges as a result of the rapid developments in the world, and because the financial performance is of great importance in financial literature and thought and its importance in economic activity. Islamic and conventional banks have not lost sight of their interest in improving their financial performance.

By briefing the researcher on the previous studies related to the financial performance of Jordanian banks and their follow-up to Islamic and conventional banks, and the fact that these banks do not operate in an isolated environment, The researcher realized that there are many variables that are not taken into consideration by

researchers and bank officials about their impact on their financial performance.

These internal variables (current accounts, equity, bank size) play a pivotal role in the financial performance of banks. Therefore, the purpose of this study is to demonstrate the impact of internal variables on the financial performance of Islamic and conventional banks.

1.2. Study Hypotheses

The first main hypothesis:

There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of the internal variables (current accounts, equity, bank size) on the financial performance of Jordanian Islamic banks.

The first hypothesis is subdivided into the following sub-hypotheses:

The first sub-hypothesis:

There is no statistically significant effect at the level ($\alpha \leq 0.05$) of the internal variables (current accounts, equity, bank size) on the rate of return on assets in Jordanian Islamic banks.

The second sub-hypothesis:

There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of the internal variables (current accounts, equity, bank size) on the rate of return on equity in Jordanian Islamic banks.

Third hypothesis:

There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of the internal variables (current accounts, equity, bank size) on the share of net profit of the Jordanian Islamic banks.

The second main hypothesis:

There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of the internal variables (current accounts, equity, bank size) on the financial performance of Jordanian conventional banks.

The second hypothesis is subdivided into the following hypotheses:

The first sub-hypothesis:

There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of the internal variables (current accounts, equity, bank size) on the rate of return on assets in Jordanian conventional banks.

The second sub-hypothesis:

There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of the internal variables (current accounts, equity, bank size) on the rate of return on equity in Jordanian conventional banks.

Third sub-hypothesis:

There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of the internal variables (current accounts, equity, bank size) on the share of net profits of Jordanian conventional banks

Third main hypothesis:

There are no statistically significant differences at the level ($\alpha \leq 0.05$) of the effect of internal variables (current accounts, equity, bank size) on the financial performance between

conventional banks and financial performance of Jordanian Islamic banks.

The third hypothesis is subdivided into the following hypotheses:

The first sub-hypothesis:

There are no statistically significant differences at the significance level ($\alpha \leq 0.05$) of the effect of internal variables (current accounts, equity, bank size) on the rate of return on assets between Islamic banks and Jordanian conventional banks.

The second sub-hypothesis:

There are no statistically significant differences at the significance level ($\alpha \leq 0.05$) of the effect of internal variables (current accounts, equity, bank size) on the rate of return on equity between Islamic banks and Jordanian conventional banks.

Third sub-hypothesis:

There are no statistically significant differences at the level ($\alpha \leq 0.05$) of the effect of internal variables (current accounts, equity, bank size) on the average earnings per share between Islamic banks and Jordanian conventional banks.

1.3. The Importance of Studying

This study draws its significance by addressing a relatively recent topic, which is of great interest to Islamic banks operating in Jordan namely: Jordan Islamic Bank for Investment and Finance and Arab Islamic international Bank, which They have experience in Islamic banking, Derived from the borrowing policy and interest rate, and will be through the measurement of the impact of internal variables on the financial performance of these banks, and to know how Islamic banks are flexible in responding to those variables compared to the flexibility of conventional banks to those variables, and can maintain their financial position and competitiveness in the sector Banking.

2. LITERATURE REVIEW

2.1. Previous Studies

The study of Al-Yahya (2008) aimed to measure the efficiency of Islamic banks compared to commercial banks in Jordan, as well as compare the efficiency of the two Islamic banks, namely Jordan Islamic Investment Bank and Arab Islamic International Bank among them, using the analysis of financial ratios to measure the efficiency of banks.

The results showed that commercial banks are more efficient than Islamic banks by dividing the sample of the study into two groups containing the two Islamic banks in addition to two commercial banks selected based on the convergence in the total assets of these banks with the two Islamic banks. Maria (2009), the study aimed to analyze profitability levels, asset quality, market value and liquidity ratio. The results showed that Islamic banks outperformed their asset growth and net income from financing activities and had better liquidity compared to conventional banks. Bushnaq (2011), the study aimed to evaluate the financial performance of Islamic and conventional banks in Palestine through comparison using several financial indicators such as liquidity, activity, profitability and market indicators. The study found the result: Islamic banks maintain high

liquidity compared to conventional banks. Liquidity is less in Islamic banks than conventional banks. Kosmidou et al. (2005). The study investigates the impact of bank's characteristics, macroeconomic conditions and financial market structure on the net interest margin and return on average assets of the UK commercial banking industry over the period 1995-2002. The result show a negative relation between the cost to income ratio and the bank profitability. Liargovas, and Skandalis, (2008) the study aimed to identify the factors affecting the financial performance of the Greek industrial companies during the period (1997-2004). To achieve this, the researchers conducted a comprehensive analysis of the performance of Greek industrial companies, Based on the gradual regression equation, the researchers also used the questionnaire to collect information. The study also found that large companies, and inexperienced, exporting and involving a competitive management team are the most profitable, as these companies are characterized by the best indebtedness, and use their liquidity to finance their investments, the study recommends the integration of small companies so that they can stand and compete against large companies. Almazari (2014) this paper investigated the internal factors that affecting profitability of banks. The main objective was to compare the profitability of the Saudi and Jordanian banks by using the internal factors for estimations. The necessary data was collected from secondary sources. However, the results indicated that there is a significant positive correlation between ROA of Saudi banks with TEA, TIA and LQR variables, as well as a negative correlation with NCA, CDR, CIR and SZE variables. Meanwhile, there is a significant positive correlation between ROA of Jordanian banks with LQR, NCA, TEA and CDR variables, also there is a negative correlation of return on assets with CIR, TIA and SZE. It is recommended that empirical studies should be undertaken in the same field to find out what more internal factors could affect profitability of banks.

2.2. Theoretical Framework

Internal variables affecting the financial performance of banks:

The financial performance of banks is influenced by many variables that may affect their profitability negatively or positively, among these variables, internal variables affected by government regulations and legislation represented by monetary and financial policy on the financial performance of banks, and internal variables include several factors including current accounts, equity, bank size.

2.2.1. Current accounts (demand deposits)

Banks call accounts on certain types of deposits, such as current accounts. Current accounts are considered one of the most important sources of external funds for conventional and Islamic banks alike, where banks rely in financing the bulk of their operations on the funds of depositors, given the low cost of obtaining them compared to other sources.

Bankers defined the current account as a type of deposit account from which checks are drawn primarily by checks or any other withdrawal instrument withdrawn by the customer on the bank.

2.2.2. Equity

The internal sources of funds of banks include: Equity (funds derived from the contributions of the owners of the bank,

i.e., shareholders), Funds arising from the results of its activities such as cash reserves held by the Bank in compliance with the prevailing laws and part of the profits realized by the Bank from its activities and not distributed to shareholders (retained earning).

There are no differences in internal sources (equity) between Islamic banks and conventional banks, except in one case that the Islamic bank's capital cannot contain preferred shares, because of its special nature, which includes predetermined fixed returns in addition to its share of profits.

2.2.3. Bank size

Through the many applied studies that have introduced the size of the bank as one of the variables or as a basis for the classification of banks it turned out that there is no standard or standardized size of the bank.

However, we can say that the size of the bank reflects the resources available to the bank so that these resources affect its economic activity and its ability to benefit from the environment more effectively.

The size of the bank has a prominent value in many financial and economic studies, which addressed various topics including economic size, production, industrial concentration, profitability and technological change.

However, there is no clear concept and standardized measure of the size of the bank, through the various experimental studies, but the most common and used measures of the size of the bank are (total assets, shareholders' equity, number of employees and volume of deposits).

In this study, one measure of the total assets will be taken. This measure is considered one of the most important measures to estimate the size of the bank, the total assets is the economic resources owned by the Bank and is expected to be utilized in future operations.

3. METHODOLOGY

The study relied on the analytical approach in studying, analyzing and interpreting data related to Jordanian conventional and Islamic banks, and in studying and analyzing data based on financial ratios as a tool of analysis. The dependent variable which is financial performance, was measured by profitability ratios.

The data was analyzed using the statistical package E-views. It is a modern and advanced program in the standard analysis and estimation of economic models. It is designed to handle (panel date) cross-sectional data and time series, i.e., data that examine a particular sector over time, and is an easy-to-use program for such a study.

3.1. How to Calculate Variables

The variables that were concentrated during the study were divided into independent and dependent variables. The independent variables were calculated as follows:

Economic growth is measured by (real GDP of current year - real GDP of previous year/real GDP of previous year).

Inflation is measured by consumer price indices.

The Amman Stock Exchange index is measured by weighted indexes of market capitalization.

Then the dependent variable (financial performance) was calculated by the following equations:

1. Rate of return on assets = $\frac{\text{Net income}}{\text{Total asset}}$
2. Rate of return on equity = $\frac{\text{Net income}}{\text{Total equity}}$
3. Earnings per share = $\frac{\text{Net income}}{\text{Number of shares outstanding}}$

The above indicators will be adopted separately to represent the dependent variable.

3.2. Study Population

Through reviewing the bulletins issued by the Central Bank of Jordan and the Association of Jordanian Banks. We find that the study population relates to licensed banks in Jordan, which consist of three categories: conventional Jordanian banks, foreign conventional banks, and Islamic banks. The number of 26 banks according to the prospectus of the Association of Jordanian Banks for 2016.

The sample of the study is derived from the study population mentioned above. It will include 15 Jordanian banks, 13 of which are conventional banks. As for Islamic banks, Jordan Islamic Bank for Investment and Finance and Arab Islamic International Bank, but Jordan Dubai Islamic Bank and Al Rajhi Bank have been excluded for lack of financial statements covering the study period.

The following Table 1 shows the sample of the study:

3.3. Examine the First Main Hypothesis

There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of the internal variables (inflation, economic growth, financial market index) on the financial performance of the Jordanian Islamic banks.

This hypothesis was tested using the standard model of multiple linear regression test for cross-sectional time data.

The first hypothesis is subdivided into the following hypotheses: First sub-hypothesis:

There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of the internal variables (inflation, economic growth, financial market index) on the rate of return on assets in Islamic banks.

The relationship between the rate of return on assets in Islamic banks as a dependent variable, inflation, economic growth and the financial market index can be represented as independent variables by the following general linear model:

$$= a + \beta_1 \text{Inf} + \beta_2 \text{GDP} + \beta_3 \text{FMI} + e \text{ROA}$$

The hypothesis can be formulated as follows:

$$H_0: \beta_1 = \beta_2 = \beta_3 = 0$$

$$H_1: \beta_1 \neq \beta_2 \neq \beta_3 \neq 0$$

To test the previous hypothesis, we estimate this model using Panel EGLS. Using E-views, we obtained the results shown in Table 2.

Table 2 shows that the effect of inflation, economic growth, financial market index (INF, GDP, FMI) on the rate of return on assets is significant with a statistical significance level of 0.05.

The calculated F value (5.567635) indicates a significant level of 0.05. On the fit of the proposed model to represent the relationship between variables (Prob. = 0.002739).

Table 1: The names of the Jordanian banks included in the study

No.	Bank name	Date of establishment
1	Arab Bank	1930
2	Jordan National Bank	1956
3	Bank of Jordan	1960
4	Cairo Amman Bank	1960
5	Housing Bank for Trade and Finance	1974
6	Jordan Kuwait Bank	1977
7	Commercial Bank of Jordan Previously Jordan Gulf Bank	1978
8	Arab Jordan Investment Bank	1978
9	Jordan Islamic Bank for Investment and Finance	1979
10	Arab Banking Corporation (Jordan)	1989
11	Investment Bank	1989
12	Union Bank	1991
13	Societe Generale Bank - Jordan	1993
14	Jordan capital Bank	1996
15	Arab Islamic International Bank	1997

Source: Based on information from the 2016 report of the Association of Jordanian Banks

Table 2: Results of testing the impact of internal variables on the rate of return on assets in Islamic banks for the period (2007-2016)

Dependent variable: ROA				
Variable	Coefficient	Standard error	t-Statistic	Prob.
Inflation	0.000180	0.000216	0.834643	0.4089
GDP	0.001409	0.000298	5.275862	0.0000
FMI	7.33E-07	1.92E-07	3.823295	0.0005
C	0.004171	0.001544	2.701246	0.0101
Weighted statistics				
R-squared	0.294569	Mean dependent var.		1.821899
Adjusted R-squared	0.241661	SD dependent var.		1.239462
SE of regression	1.041363	Sum squared resid.		43.37746
F-statistic	5.567635	Durbin-Watson stat.		1.585408
Prob. (F-statistic)	0.002739			

C - represents the linear equation constant, which is called in the case of two variables in the vertical segment

The value of the coefficient of determination was (0.294569). This means that the previous independent variables combined explain (29.46%) of the variance in the dependent variable.

Moreover, the values of the regression coefficient showed that economic growth and the financial market index have a statistically significant effect on the rate of return on assets where the probability (P-value) at the values of my parameters <0.05, and therefore the null hypothesis will be rejected and accept the alternative hypothesis, that there is a statistically significant effect at the indicative level ($\alpha \leq 0.05$) of inflation, economic growth, and the financial market index (INF, GDP, FMI) on the rate of return on assets.

Second sub-hypothesis:

There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of the internal variables (inflation, economic growth, financial market index) on the rate of return on equity in Islamic banks.

The relationship between the rate of return on equity in Islamic banks as a dependent variable, inflation, economic growth and the financial market index can be represented as independent variables by the following general linear model:

$$ROE = a + \beta_1 Inf + \beta_2 GDP + \beta_3 FMI + e$$

The hypothesis can be formulated as follows:

$$H_0: \beta_1 = \beta_2 = \beta_3 = 0$$

$$H_1: \beta_1 \neq \beta_2 \neq \beta_3 \neq 0$$

To test the previous hypothesis, we estimate this model using Panel EGLS. Using E-views, we obtained the results shown in Table 3.

Table 3 shows that the effect of inflation, economic growth, financial market index (INF, GDP, FMI) combined on the rate of return on equity is significant at a statistical significance level of 0.05.

The calculated value of F (7.87969) indicates a significant level of 0.05. On the appropriateness of the proposed model to represent the relationship between variables (Prob. = 0.000301).

Table 3: Results of testing the effect of internal variables on the rate of return on equity in Jordanian Islamic banks for the period (2007-2016)

Dependent variable: ROE				
Variable	Coefficient	Standard error	t-Statistic	Prob.
Inflation	0.001354	0.002048	0.661180	0.5123
GDP	0.001409	0.000298	4.728188	0.0000
FMI	9.20E-06	1.89E-06	4.869718	0.0000
C	0.042251	0.016358	2.582868	0.0136
Weighted statistics				
R-squared	0.371455	Mean dependent var.	1.986363	
Adjusted	0.324314	SD dependent var.	1.429183	
R-squared				
SE of regression	1.048503	Sum squared resid.	43.97437	
F-statistic	7.879690	Durbin-Watson stat.	1.603326	
Prob. (F-statistic)	0.000301			

The value of the coefficient of determination was (0.371455), that is, the previous independent variables combined account for (37.15%) of the variance in the dependent variable.

In addition, the coefficient parameters showed that economic growth and the stock market index have a statistically significant effect on the rate of return on equity where the probability (P-value) at the values of the regression parameters is <0.05, so the null hypothesis will be rejected. We reject the alternative hypothesis that there is a statistically significant effect at the significance level ($\alpha \leq 0.05$) of inflation, economic growth, and the financial market index (INF, GDP, FMI) on the rate of return on equity.

Third sub-hypothesis:

There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of the internal variables (inflation, economic growth, financial market index) on the share of net profit in Islamic banks.

The relationship between the share of net profit in Islamic banks as a dependent variable, inflation, economic growth and the financial market index can be represented as independent variables by the following general linear model:

$$= a + \beta_1 Inf + \beta_2 GDP + \beta_3 FMI + eEPS$$

The hypothesis can be formulated as follows:

$$H_0: \beta_1 = \beta_2 = \beta_3 = 0$$

$$H_1: \beta_1 \neq \beta_2 \neq \beta_3 \neq 0$$

To test the previous hypothesis, we estimate this model using Panel EGLS.

Table 4 shows the impact of inflation, economic growth, and financial market index (INF, GDP, FMI) combined per share of net profits was significant with a statistical significance level of 0.05.

The calculated F value (16.4938) indicates a significant level of 0.05. On the appropriateness of the proposed model to represent the relationship between variables (Prob. = 0.00000).

Table 4: Results of the test of the impact of internal variables on the share of net profit in the Jordanian Islamic banks for the period (2007-2016)

Dependent variable: EPS				
Variable	Coefficient	Standard error	t-Statistic	Prob.
Inflation	0.003878	0.002393	1.620680	0.1129
GDP	0.012054	0.004850	2.485407	0.0172
FMI	2.11E-05	3.01E-06	7.003683	0.0000
C	0.112627	0.025317	4.448612	0.0001
Weighted statistics				
R-squared	0.552979	Mean dependent var.	2.177012	
Adjusted	0.519453	SD dependent var.	1.810461	
R-squared				
SE of regression	1.039755	Sum squared resid.	43.24366	
F-statistic	16.49378	Durbin-Watson stat.	1.759666	
Prob. (F-statistic)	0.000000			

The value of the coefficient of determination was (0.552979), which means that the previous independent variables combined explain (55.30%) of the variance in the dependent variable.

In addition, the values of the coefficient parameters showed that economic growth and the stock market index have a statistically significant effect on the share of net profits where the probability (P-value) at the values of my parameters <0.05, and therefore will reject the null hypothesis We can not reject the hypothesis The alternative is that there is a statistically significant effect at the indicative level ($\alpha \leq 0.05$) of inflation, economic growth, and the financial market index (INF, GDP, FMI) on the share of net earnings.

Test the second main hypothesis:

There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of the internal variables (inflation, economic growth, financial market index) on the financial performance of the traditional Jordanian banks.

This hypothesis was tested using the standard model of multiple linear regression test for cross-sectional time data.

The second hypothesis is subdivided into the following hypotheses: First sub-hypothesis:

There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of the internal variables (inflation, economic growth, financial market index) on the rate of return on assets in traditional Jordanian banks.

The relationship between the rate of return on assets in conventional banks as a dependent variable, inflation, economic growth and the financial market index can be represented as independent variables by the following general linear model:

$$ROA = a + \beta_1 Inf + \beta_2 GDP + \beta_3 FMI + e$$

The hypothesis can be formulated as follows:

$$H_0: \beta_1 = \beta_2 = \beta_3 = 0$$

$$H_1: \beta_1 \neq \beta_2 \neq \beta_3 \neq 0$$

To test the previous hypothesis, we estimate this model using Panel EGLS. Using E-views, we obtained the results shown in Table 5.

Table 5 shows that the effect of inflation, economic growth, financial market index (INF, GDP, FMI) on the rate of return on assets is significant at a statistical significance level of 0.05.

The calculated F value (67.34020) indicates a significant level of 0.05. On the appropriateness of the proposed model to represent the relationship between variables (Prob. = 0.000000).

The value of the coefficient of determination was (0.4174), that is, the previous independent variables combined account for (41.74%) of the variance in the dependent variable.

In addition, the coefficient coefficient values showed that all internal variables have a statistically significant effect on the rate of return on assets where the probability (P-value) at all coefficients is <0.05. There is a statistically significant effect at the significance

level ($\alpha \leq 0.05$) of inflation, economic growth and the financial market index (INF, GDP, FMI) on the rate of return on assets.

Second sub-hypothesis:

There is no statistically significant effect at the level ($\alpha \leq 0.05$) of the internal variables (inflation, economic growth, financial market index) on the rate of return on equity in conventional banks.

The relationship between the rate of return on equity in conventional banks as a dependent variable, inflation, economic growth and the stock market index can be represented as independent variables by the following general linear model:

$$= a + \beta_1 Inf + \beta_2 GDP + \beta_3 FMI + eROE$$

The hypothesis can be formulated as follows:

$$H_0: \beta_1 = \beta_2 = \beta_3 = 0$$

$$H_1: \beta_1 \neq \beta_2 \neq \beta_3 \neq 0$$

To test the previous hypothesis, we estimate this model using Panel EGLS. Using E-views, we obtained the results shown in Table 6.

Table 5: Results of testing the impact of internal variables on the rate of return on assets in the traditional Jordanian banks for the period (2007-2016)

Dependent variable: ROA				
Variable	Coefficient	Standard error	t-Statistic	Prob.
Inflation	0.000220	8.88E-05	2.477963	0.0138
GDP	0.000629	0.000115	5.471067	0.0000
FMI	1.33E-06	1.08E-07	12.26997	0.0000
C	0.001290	0.000817	1.578962	0.1155
Weighted statistics				
R-squared	0.417380	Mean dependent var.		0.708390
Adjusted	0.411182	SD dependent var.		2.284083
R-squared		Sum squared resid.		283.9155
SE of regression	1.003391			
F-statistic	67.34020	Durbin-Watson stat		1.722182
Prob. (F-statistic)	0.000000			

Table 6: Results of testing the effect of internal variables on the rate of return on equity in the traditional Jordanian banks for the period (2007-2016)

Dependent variable: ROE				
Variable	Coefficient	Standard error	t-Statistic	Prob.
Inflation	0.001409	0.000664	2.121988	0.0320
GDP	0.005834	0.000999	5.841519	0.0000
FMI	6.94E-06	8.63E-07	8.050228	0.0000
C	0.017967	0.006571	2.734266	0.0066
Weighted statistics				
R-squared	0.266404	Mean dependent var.		0.815761
Adjusted	0.258599	SD dependent var.		2.000191
R-squared		Sum squared resid.		283.6312
SE of regression	1.002888			
F-statistic	34.13586	Durbin-Watson stat.		1.735645
Prob. (F-statistic)	0.000000			

Table 6 shows that the effect of inflation, economic growth, financial market index (INF, GDP, FMI) combined on the rate of return on equity is significant at a statistical significance level of 0.05.

The calculated value of F (34.13586) indicates a significant level of 0.05 for the suitability of the proposed model to represent the relationship between the variables (Prob. = 0.000000).

The value of the coefficient of determination was (0.2664), that is, the previous independent variables combined account for (26.64%) of the variance in the dependent variable.

In addition, coefficient values showed that all internal variables have a statistically significant effect on the rate of return on equity where the probability (P-value) of all coefficients is <0.05. However, there is a statistically significant effect at the level ($\alpha \leq 0.05$) of inflation, economic growth and the financial market index (INF, GDP, FMI) on the rate of return on equity.

Third sub-hypothesis:

There is no statistically significant effect at the level ($\alpha \leq 0.05$) of the internal variables (inflation, economic growth, financial market index) on the share of net profit in conventional banks.

The relationship between net earnings per share in conventional banks as a dependent variable, inflation, economic growth and the stock market index can be represented as independent variables by the following general linear model:

$$EPS = \alpha + \beta_1 INF + \beta_2 GDP + \beta_3 FMI + e$$

The hypothesis can be formulated as follows:

$$H_0: \beta_1 = \beta_2 = \beta_3 = 0$$

$$H_1: \beta_1 \neq \beta_2 \neq \beta_3 \neq 0$$

To test the previous hypothesis, we estimate this model using Panel EGLS. Using E-views, we obtained the results shown in Table 7.

Table 7 shows that the effect of inflation, economic growth, financial market index (INF, GDP, FMI) combined on the net

Table 7: Results of the test of the impact of internal variables on the share of net profit in the traditional Jordanian banks for the period (2007-2016)

Dependent variable: EPS				
Variable	Coefficient	Standard error	t-Statistic	Prob.
Inflation	0.005293	0.002193	2.413589	0.0296
GDP	0.007378	0.001983	3.720002	0.0002
FMI	7.87E-06	1.97E-06	4.004959	0.0001
C	0.096735	0.015316	6.315730	0.0000
Weighted statistics				
R-squared	0.094343	Mean dependent var.	1.165601	
Adjusted R-squared	0.084708	SD dependent var.	1.728491	
SE of regression	1.002557	Sum squared resid.	283.4442	
F-statistic	9.792046	Durbin-Watson stat.	1.838280	
Prob. (F-statistic)	0.000004			

earnings per share is significant with a statistical significance level of 0.05.

The calculated F value (9.792046) indicates a significant level of 0.05. On the suitability of the proposed model to represent the relationship between variables (Prob. = 0.000004).

The value of the coefficient of determination was (0.0943), which means that the previous independent variables combined explain (9.43%) of the variance in the dependent variable.

In addition, coefficient values showed that all internal variables have a statistically significant effect on the net earnings per share where the probability (P-value) at all coefficients is <0.05, therefore, the null hypothesis will be rejected and we cannot reject the alternative hypothesis which states that there is a statistically significant effect at the significance level ($\alpha \leq 0.05$) of inflation, economic growth, and the financial market index (INF, GDP, FMI) on the average earnings per share.

The third main hypothesis:

There are no statistically significant differences at the level ($\alpha \leq 0.05$) of the effect of internal variables (inflation, economic growth, financial market index) on the financial performance between Islamic banks and traditional Jordanian banks.

The third hypothesis is subdivided into the following hypotheses: First sub-hypothesis:

There are no statistically significant differences at the significance level ($\alpha \leq 0.05$) of the effect of internal variables (inflation, economic growth, financial market index) on the rate of return on assets between Islamic banks and traditional Jordanian banks.

The bank is expressed as a dummy variant DUMMY VARIABLE, where the Islamic bank takes the value of 1, while the commercial bank takes the value of 0, the results were as follows in Table 8.

Table 8: Results of testing the effect of internal variables on the rate of return on assets between Islamic banks and traditional Jordanian banks for the period (2007-2016)

Dependent variable: ROA				
Variable	Coefficient	Standard error	t-Statistic	Prob.
GDP	0.000393	0.000197	1.996313	0.0467
Inflation	-0.000180	0.000132	-1.364175	0.1735
FMI_P_Bank	1.31E-06	1.72E-07	7.607783	0.0000
C	-0.003110	0.001332	-2.334549	0.0202
R-squared	0.002695	0.001271	2.119953	0.0348
Adjusted R-squared	0.199586	Mean dependent var.	0.009673	
SE of regression	0.189734	SD dependent var.	0.009139	
Sum squared resid	0.008227	Akaike info criterion	-6.747811	
Log likelihood	0.021996	Schwarz criterion	-6.690249	
F-statistic	1118.389	Hannan-Quinn criter.	-6.724851	
Prob. (F-statistic)	20.25993	Durbin-Watson stat	1.723928	
	0.000000			

Note that the value of the coefficient coefficient at the bank variable is (-0.003110), which is a statistically significant value where the value of (t-statistic = -2.334549) and a significant level (Prob. = 0.0202) which is <0.05, which indicates that the classification of the bank Islamic or commercial It significantly affects the rate of return on assets and indicates differences in the effect of internal variables on the rate of return on assets between Islamic banks and conventional banks.

Second sub-hypothesis:

There are no statistically significant differences at the significance level ($\alpha \leq 0.05$) of the effect of internal variables (inflation, economic growth, financial market index) on the rate of return on equity between Islamic banks and traditional Jordanian banks (Table 9).

Note that the value of the coefficient at the bank variable is (-0.001869), a value that is not statistically significant, where the value (t-statistic = -0.180482) and the level of significance (Prob. = 0.8569) which is >0.05, which indicates that the classification of the bank is Islamic or Tejari does not significantly affect the rate of return on equity, and indicates that there are no differences in the impact of internal variables on the rate of return on equity between Islamic banks and conventional banks.

Third sub-hypothesis:

There are no statistically significant differences at the significance level ($\alpha \leq 0.05$) of the effect of internal variables (inflation, economic growth, financial market index) on the average earnings per share between Islamic banks and Jordanian conventional banks (Table 10).

Note that the value of the coefficient at the bank variable is (-0.026019), a value that is not statistically significant, where the value (t-statistic = -1.025753) and the level of significance (Prob. = 0.3058) which is >0.05, which indicates that the classification of the bank Islamic or Tejari does not have

Table 9: Results of the test of the impact of internal variables on the rate of return on equity between Islamic banks and traditional Jordanian banks for the period (2007-2016)

Dependent variable: ROE				
Variable	Coefficient	Standard error	t-Statistic	Prob.
GDP	0.004550	0.001529	2.975811	0.0031
Inflation	-0.001471	0.001024	-1.435967	0.1520
FMI_P_	8.09E-06	1.34E-06	6.061506	0.0000
Bank	-0.001869	0.010355	-0.180482	0.8569
C	0.023550	0.009880	2.383660	0.0177
R-squared	0.149344	Mean dependent var.		0.080233
Adjusted	0.138874	SD dependent var.		0.068908
R-squared				
SE of	0.063944	Akaike info criterion		-2.646577
regression				
Sum squared	1.328879	Schwarz criterion		-2.589015
resid.				
Log likelihood	441.6852	Hannan-Quinn criter.		-2.623616
F-statistic	14.26452	Durbin-Watson stat.		1.775719
Prob.	0.000000			
(F-statistic)				

a significant impact on the share of net profit, and indicates that there are no differences in the impact of internal variables on the share of net profit between Islamic banks and conventional banks.

4. DISCUSSION OF THE FINDINGS AND HYPOTHESES

Discussion of the first main hypothesis:

Based on the results of the previous statistical tests, it was found that there was a significant statistically significant effect between the financial performance represented by (ROA, ROE, EPS), and economic growth as measured by GDP in real prices.

Therefore, we believe that this result is in line with the expectations and economic studies and financial analysis. Therefore, economic growth is an indicator of the health of the economies of the countries and institutions in which they operate. The banks often benefit from high economic growth rates to achieve high profits, which leads to increase domestic and foreign investment. Increasing the appetite of individuals and sectors for bank financing, if Islamic banks are efficient to manage their assets, using more than one Islamic financing formula.

The impact of inflation on the financial performance of Islamic banks, shows the result of statistical tests that the impact is not significant, and this result is consistent with economic expectations, saying that high inflation rates and facilities have high interest rates, can positively affect the profitability of Islamic banks, especially as a large proportion The profits of Islamic banks come from investments and other traditional activities such as Murabaha operations.

As for the stock market index, there was a significant statistical impact on the financial performance. Since the market index is a mirror to the image of the domestic economy of any country, any

Table 10: Results of the test of the impact of internal variables on the share of net profit between Islamic banks and Jordanian traditional banks for the period (2007-2016)

Dependent variable: EPS				
Variable	Coefficient	Standard error	t-Statistic	Prob.
GDP	0.003179	0.003746	0.848595	0.3967
Inflation	-0.001943	0.002509	-0.774462	0.4392
FMI_P_	1.20E-05	3.27E-06	3.674802	0.0003
Bank	-0.026019	0.025366	-1.025753	0.3058
C	0.104287	0.024202	4.308995	0.0000
R-squared	0.052290	Mean dependent var.		0.165209
Adjusted	0.040625	SD dependent var.		0.159923
R-squared				
SE of	0.156641	Akaike info criterion		-0.854691
regression				
Sum	7.974283	Schwarz criterion		-0.797129
squared				
resid.				
Log	146.0240	Hannan-Quinn criter.		-0.831730
likelihood				
F-statistic	4.482938	Durbin-Watson stat.		1.842340
Prob.	0.001540			
(F-statistic)				

improvement in it reflects positively on the financial performance of Islamic banks.

Discussion of the second main hypothesis:

Based on the results of the previous statistical tests, it was found that there is a significant statistical effect of economic growth as measured by GDP in real prices on the financial performance represented by ROA, ROE, EPS., That the presence of growth in GDP means that the economic situation is improving, and the various economic sectors are growing well and these sectors traditional banks.

This gives investors and individuals alike a state of future optimism, and leads to increased appetite for loans from conventional banks to finance their investments and spending, as well as the ability of companies and individuals to repay the installments of loans owed to them, and this result was consistent with the study (Dawood, 2000), that the economic recession leads to Projects faltered and the inability to pay and vice versa in the period of economic recovery.

The effect of inflation on the financial performance of conventional banks was statistically significant, which is acceptable and consistent with the economic literature. Increased demand for capital to finance the proposed projects, and increased demand for capital leads to higher interest rates, and consequently increase the profits of business enterprises, and this justifies the result consistent with the theoretical framework of the study, the lack of justice in the distribution of income among the layers of society The effect of inflation, where the first beneficiary of inflation are employers and professions, this result also corresponded with the results of the study (Damotaran, 1999).

The effect of the financial market index on the financial performance of conventional banks shows that there is a significant statistically significant effect, since any improvement in the performance of the financial market leads to a direct improvement in the financial performance of conventional banks as listed companies in that market.

Discussion of the third hypothesis:

The existence of statistically significant differences on the effect of internal variables and internal variables on the rate of return on assets between Islamic banks and conventional banks is attributed to the low financing and investment income of Islamic banks compared to conventional banks that depend on the fixed interest rate to achieve their revenues. Also, due to the low commission income of Islamic banks and the lack of diversification of the areas of banking services provided by them, and this result is consistent with the study (Alserogi) The results of a study conducted in the Arab Gulf states that conventional banks achieve higher profitability than Islamic banks, within the measurement of financial performance index (ROA).

The rate of return on equity, which is a percentage of the profitability ratio, i.e., represents the return on shareholders' investment from banks.

This indicates better performance, due to the absence of statistically significant differences on the impact of internal variables on the rate

of return on equity between Islamic banks and conventional banks to use both types of banks for their own resources to make profits.

Earnings per share is an indicator measured by dividing the net profit after tax by the number of shares traded. This indicator is used to know the per share of net profit. It measures the share of earnings per share as a result of employing the economic resources of the bank and increasing this percentage indicates better financial performance of the bank.

The absence of statistically significant differences is due to the impact of internal variables on the share of net profit between Islamic banks and conventional banks due to the convergence between the share of net earnings per share of both Islamic banks and conventional banks. Especially after the global financial crisis (2008) and directed by them to acquire this stock because of the existence of religious motivation they have.

5. RESULTS OF STATISTICAL ANALYSIS AND CONCLUSION

1. The study showed that the effect of inflation was significant on the financial performance of the traditional Jordanian banks, due to their dealing with cash and interest rates, while Islamic banks were not affected by inflation performance, because they deal with real commodities, and rely on the use of financing tools and forms of trade in goods Islamic Murabaha Formula.
2. It is clear from the study that the stock market index, represented by the index of weighted indexes of stock prices, has a significant effect on the financial performance of Islamic and conventional banks.
3. The study showed a significant impact of economic growth on the financial performance of the Jordanian Islamic and traditional banks, due to the increase in demand among individuals and increase production and therefore high economic growth rates.
4. The study shows that there are significant differences in the effect of internal variables on the rate of return on assets between Islamic banks and conventional banks, due to the diversity of investments and financing methods in conventional banks. And their dependence on a fixed rate of interest.
5. The study found that there were no significant differences for the effect of internal variables on the share of net earnings per share between Islamic banks and conventional banks. This is due to the convergence between the share of net profit in Islamic banks and conventional banks, and thus good performance of those banks.
6. The study showed no significant differences for the effect of internal variables on the rate of return on equity between Islamic banks and conventional banks, which means the ability of Islamic banks to compete in the Jordanian banking market, despite the small size of their total assets compared to conventional banks.

In the light of the previous results, the study concluded with many recommendations, the most important of which are that Islamic

banks should improve their financial performance and strive for excellence and development in their activities.

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