



EVALUATING PERFORMANCE OF COMMERCIAL BANKS: AN EMPIRICAL STUDY IN JORDAN

(2004-2008)

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EVALUATING PERFORMANCE OF COMMERCIAL BANKS: AN EMPIRICAL STUDY IN JORDAN

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ABSTRACT

Banks are one of the important financial intermediaries in the financial system in Jordan. this study examined the performance of banking sector in Jordan based on the sample of thirteen Jordanian commercial banks, using CAMEL ratios as dependent variable, ROA and ROE as independent variables to indicate on the banks performance. The study reveals that Jordanian banks performance represented by the thirteen banks sample of this study was influenced by all The Independent Variables represented by CAMEL ratios. These ratios are capital adequacy (CA), assets quality (AQ), management (MNG) and earnings (ERN) according to their influence on ROA and ROE.

Dedication

My lovely great beloved grandfather sheikh Abdulqader Hamed Al-freahat
May Allah bless his soul

Declaration

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TABLE OF CONTENTS

PERMISSION TO USE	iii
ABSTRACT	iv
DEDICATION	v
DECLARATION	vi
ACKNOWLEDGEMENTS	vii

TABLE OF CONTENTS	viii
LIST OF FIGURES	xi
LIST OF TABLES	xi
LIST OF ABBREVIATIONS	xii

CHAPTER ONE: INTRODUCTION

1.0 Introduction	1
1.1 overview of economy in Jordan	2
1.2 Jordanian Economic Performance and Prospects for 2008 and 2009	5
1.3 Research Problem	9
1.4 Objectives of the Study	9
1.5 Importance of the Study	10
1.6 Research Questions	11
1.7 Scope and limitation of Study	11

CHAPTER TWO: LITERATURE REVIEW

2.0 Introductions.....	13
2.1 Roles of Commercial Banks.....	13
2.2 Previous Literatures on Commercial Banks Performance	15
2.3 Previous Literatures on Banks Performance in Middle East.....	24

CHAPTER THREE: METHODOLOGY

3.0 Introductions.....	28
3.1 Data.....	29
3.2 Sample.....	29
3.3 Variables of the Study.....	30
3.3.1 Dependent Variables.....	30
3.3.2 Independent variables.....	30
3.4 Models Fit.....	39

CHAPTER FOUR: ANALYSIS AND FINDING

4.0 Introduction.....	41
4.1 Descriptive Analysis.....	41
4.2 Correlation analysis	45
4.3 Regression Analysis.....	49
4.3.1 Regression Analysis for All Observations of Analysis (ROA).....	49

4.4 Application Model.....	54
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CHAPTER FIVE: CONCLUSION

5.0 Introduction.....	56
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5.1 Summary of Findings.....	56
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5.2 Suggestions for Future Researches.....	58
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REFERENCES.....	60
------------------------	----

LIST OF FIGURES

1.1 Real GDP Growth Rate.....	5
1.2 Contribution to GDP Growth by Sector, Percentage.....	6
1.3 Budget Deficit (% of GDP).....	7
1.4 Current account performances (% GDP).....	8
3.1 The conceptual frame work of bank performance ¹ in this study.....	32
4.1 ROE by banks in Jordan for the study period 2005 – 2008.....	42
4.2 Assets Quality for Banks in Jordan For The Study Period 2005 – 2008...	44
4.3 ERN by Banks in Jordan for the Study Period 2005 – 2008.....	45

LIST OF TABLES

3.1 independent variables.....	38
4.1 Descriptive Analysis for the Dependant Variable and Independent Variables.....	42
4.2 Correlation between ROA and all ratios.....	46
4.3 Correlation between ROE and all ratios.....	47
4.4 Model Summary.....	49
4.5 Coefficient Analysis and Collinearity Statistics (ROA).....	50
4.6 Model Summary.....	51
4.7 Coefficient Analysis and Collinearity Statistics (ROE).....	52

CHAPTER ONE

BACKGROUND

1.0 Introduction

Rybczynski (1997) argued that financial systems evolve through time, passing through three phases. Phase one is bank oriented, where most external finance is raised through bank loans, which in turn is funded through savings. Banks are the most important financial intermediaries in the financial system, and interest income is the main source of revenue. Phase two is market oriented. Households and institutional investors begin to hold more securities and equity, and non-bank financial institutions may offer near-bank products, such as money market accounts. Banks themselves reduce their dependence on the traditional intermediary function, increasing their off-balance sheet activities, including proprietary trading, underwriting and asset management. The market or securitized phase is established when the financial markets are the source of external finance for both the financial and non-financial sectors. Corporate bank loans are largely replaced by corporate bonds and commercial paper; mortgages and consumer credit originate in banks but are securitized. In this third phase, trading, underwriting, advising and asset management activities become more important for banks than the traditional core banking functions. With this gradual change in their functions, nowadays many banks became investment banks.

The banking sector in Jordan is one of the most important sectors in the economy. Banks provide capital for industry, construction and trade. The banks are also

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