FINANCIAL, NON-FINANCIAL INFORMATION
AND THE PERFORMANCE OF THE JORDIAN COMMERCIAL BANKS

MOHMMAD ANAD HUSSIN

College of Business
Universiti Utara Malaysia
(2011)
FINANCIAL, NON-FINANCIAL INFORMATION
AND THE PERFORMANCE OF THE JORDIAN COMMERCIAL BANKS

A thesis submitted to the
Othman Yeop Abdullah Graduate School of Business
In partial fulfillment of the requirements for the degree of
Master of Science (Banking)
Universiti Utara Malaysia

By
MOHAMMAD ANAD HUSSIN
(801514)
PERMISSION TO USE

In presenting this dissertation in partial fulfillment for a post graduate degree from University Utara Malaysia, I agree that the university’s library may take it freely available for inspection. I further agree that permission for copying of this thesis is any manner, in whole or in a part, for scholarly purposes may be granted by my supervisor or, in their absence, by the Dean. Othman Yeop Abdullah Graduate School of Business College Of Business, It is understood that any copying or publications or use of this thesis or parts thereof for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to Universiti Utara Malaysia for any scholarly use which may be made of any material from my thesis.

Request for permission to copy or to make use of materials in this thesis, in whole or in part, should be addressed to:

Dean Othman Yeop Abdullah Graduate School of Business
College Of Business,
Universiti Utara Malaysia,
06010, UUM Sintok,
Kedah Malaysia
TABLE OF CONTENTS

TITLE........................................................................................................i
PERMISSION TO USE...........................................................................ii
ACKNOWLEDGMENT...........................................................................iii
TABLE OF CONTENTS.........................................................................iv
LIST OF FIGURES................................................................................viii
LIST OF TABLES..................................................................................viii
LIST OF APPENDICES.........................................................................viii
LIST OF ABBREVIATION......................................................................ix
ABSTRACT...........................................................................................x

CHAPTER ONE: INTRODUCTION

1.1. OVERVIEW.......................................................................................1
1.2. PROBLEM STATEMENT...............................................................2
1.3. THE RESEARCH QUESTIONS.....................................................4
1.4. THE RESEARCH OBJECTIVES...................................................5
1.5. SIGNIFICANCE OF THIS STUDY..............................................5
1.6. SCOPE AND LIMITATIONS OF THE STUDY..............................7
1.7. ORGANIZATION OF THE STUDY..............................................7

CHAPTER TWO: COMMERCIAL BANKS IN JORDAN: AN OVERVIEW

2.1. INTRODUCTION..............................................................................9
2.2. BANKING SECTOR IN JORDAN....................................................9
CHAPTER THREE: LITERATURE REVIEW

3.1. INTRODUCTION............................................................................................................15

3.2. PROFITABILITY INFLUENCED BY FINANCIAL FACTORS....................................16
   3.2.1. BANK CAPITAL........................................................................................................17
   3.2.2. BANK SIZE.............................................................................................................23
   3.2.3. LOANS....................................................................................................................26

3.3. PROFITABILITY INFLUENCED BY NON-FINANCIAL FACTORS..................30
   3.3.1. DIFFERENT MARKETS AND COMMERCIAL BANKS:
      GENERAL VIEW............................................................................................................30
   3.3.2. MARKET CAPITALIZATION.....................................................................................33
   3.3.3. TRADING VOLUME................................................................................................35

3.4. PROFITABILITY MEASURES......................................................................................37

3.5. PROFITABILITY STUDIES IN JORDAN.................................................................40

3.6. THEORIES ADOPTED IN THE STUDY......................................................................44
   3.6.1. AGENCY THEORY....................................................................................................44
   3.6.2. MARKET POWER THEORY.....................................................................................44
   3.6.3. CREDIT RISK THEORY..........................................................................................45

CHAPTER FOUR: HYPOTHESES DEVELOPMENT AND METHODOLOGY

4.1. INTRODUCTION............................................................................................................47
6.2.1. BANK CAPITAL AND PROFITABILITY (H1-1)..........................73
6.2.2. BANK SIZE AND PROFITABILITY (H1-2)..............................74
6.2.3. BANK LOANS AND PROFITABILITY (H1-3)............................75
6.2.4. BANK MARKET CAPITALIZATION AND PROFITABILITY
       (H2-1)...........................................................................75
6.2.5. BANK TRADING VOLUME AND PROFITABILITY (H2-2)............75
6.2.6. SUPERIORITY OF BANK PROFITABILITY MEASURES
       (ROA and ROE) (H3)........................................................77
6.3. CONCLUSIONS........................................................................78
6.4. LIMITATIONS OF THE STUDY..............................................79
6.6 SUGGESTIONS FOR FUTURE RESEARCH..................................79
REFERENCES.............................................................................81
APPENDICES...............................................................................92
LIST OF FIGURES

Figure ............................................................ Page

FIGURE 4.1 THEORETICAL FRAMEWORK..................................................63

LIST OF TABLES

Title ........................................................................ Page

TABLE 2.1 NATIONAL AND FOREIGN BANKS OPERATING IN JORDAN ..........11
TABLE 4.1 LINKS AMONG RESEARCH QUESTIONS, OBJECTIVES AND
HYPOTHESES.................................................................53
TABLE 4.2 VARIABLE MEASUREMENTS....................................................56
TABLE 4.3 VARIABLE MEASUREMENTS IN PRIOR RESEARCH..................57
TABLE 5.1 DESCRIPTIVE STATISTICS OF THE DEPENDENT AND INDEPENDENT
VARIABLES.........................................................................68
TABLE 5.2 REGRESSION ANALYSIS RESULTS: THE RELATIONSHIP BETWEEN
ROA AND STUDY’S IVS..........................................................69
TABLE 5.3 REGRESSION ANALYSIS RESULTS: THE RELATIONSHIP BETWEEN
ROE AND STUDY’S IVS..........................................................70

LIST OF APPENDICES

Title ........................................................................ Page

APPENDIX 1 DISTRIBUTION PERCENTAGE OF ASSET BETWEEN COMMERCIAL
AND ISLAMIC BANKS.............................................................92
APPENDIX 2 JORDANIAN AND FOREIGN BANKS NUMBER IN JORDAN.........93
APPENDIX 3 CREDIT FACILITIES DISTRIBUTION IN JORDAN...................94
ABSTRACT

Profitability of commercial banks has been widely examined as a performance measure in developed countries but not in developing countries. This study measures the performance of commercial banks in Jordan by using ROA and ROE as profitability indicators affected by a group of financial factors (bank capital ratio, size and loans) and non-financial factors (market capitalization and trading volume) for the period 2005-2009.

This study has shown that bank financial factors, which are capital and loans, have a negative and significant influence on profitability indicator ROE but not on ROA, while bank size has no significant impact on both bank profitability measures (ROA and ROE).

Bank non-financial factor, market capitalization, has a negative and significant influence on ROA, while it has significant positive influence on ROE in Jordanian commercial banks for the period 2005-2009. Trading volume has strong significant and positive influence on both ROA and ROE. This suggests that trading volume can be considered as the determinant for the commercial banks' profitability in Jordan for the period 2005-2009. The study also has concluded that the ROE has the superiority to ROA as profitability measure in testing the profitability of commercial banks in Jordan for the observed period.
CHAPTER ONE

INTRODUCTION
The contents of the thesis is for internal user only.
REFERENCES


