



**EVALUATING PERFORMANCE OF COMMERCIAL
BANKS: AN EMPIRICAL STUDY IN JORDAN**

(2004-2008)

KHALED ISSA ABEDALQADER AL FREAHAHAT

College of Business
Division of Banking
Universiti Utara Malaysia

**EVALUATING PERFORMANCE OF COMMERCIAL
BANKS: AN EMPIRICAL STUDY IN JORDAN**

KHALED ISSA ABEDALQADER AL FREAHAAT

A thesis submitted to the
fulfillment of the requirement for the degree
Master of Science (Banking)
College of Business (Finance and Banking)
Universiti Utara Malaysia
2009

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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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ACKNOWLEDGMENTS

First of all, my praise to Allah S.W.T whose blessing and guidance have helped me to complete my dissertation. Peace be upon our Prophet Mohammad S.A.W, who has given light to mankind.

My highest and most sincere appreciation goes to my beloved parents, brothers and sisters, who have always encouraged and guided me to be independent, and reached the highest peak of my aspirations. I will always be very grateful to my beloved father for providing, supporting, and advising me with great patience and attention in everything that I had done to complete not only this thesis but also my master program. Without this kind gesture, probably I would not have been satisfied with myself as I am now.

I hereby want to thank my supervisor, Prof. Dr. Nor Hayati Ahmad, for her invaluable advice, constant guidance, great patience, understanding, insight, knowledge, attention, kindness and encouragement throughout my study in Universiti Utara Malaysia.

I would like to express my high appreciation to my lecturers in the division of MSC. Banking College of Business, and to all my friends. Thanks again to everyone including those who I have probably forgotten to mention here.

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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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