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Impact of Banking Services Revenues on the Profitability of Jordan Islamic Bank

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Abstract
This study aimed to find the impact of banking services revenues on the banking profitability for Jordan Islamic bank (JIB) during 2001 to 2016, the data was collected from the annual reports of (JIB). So, the independent variable is banking services revenues (BSR). On the other hand, the dependent variable is the profitability which is measured by return on assets (ROA) and return on equity (ROE).According to the statistical analysis (SPSS) the researchers found a positive significant impact of banking services revenues on return on assets at (0.001) significance level. Also, we found a positive significant impact of banking services revenues on return on equity at (0.001) significance level as well.For that, the researchers advise all banks in Jordan to conduct studies and focus on their banking services to improve the revenues from the banking services which reflect an improvement on the banking profitability by enhancing return on assets and return on equity for the banking sector in Jordan.
Keywords: Banking Services, Revenues, Banking Profitability, Jordan Islamic Bank, and Jordan.

1. Introduction

Jordan has an improvement in banking sector according to the increasing number of the banks and the number of branches yearly. As a result of that, the competition between these banks has been increased as well. So, some banks such as Jordan Islamic Bank focused on banking services as a way to compete in this situation.
There are many banks in Jordan and the Islamic banking sector is represented by four Islamic banks which are Jordan Islamic Bank (JIB), International Islamic Arab Bank (IIAB), Jordan Dubai Islamic Bank (JDIB), and Al Rajhi Bank.

In this study the researchers focused on Jordan Islamic Bank (JIB) as a sample for this study during the period 2001 to 2016, and as can be considered is the first Islamic bank in Jordan and a successful bank can compete many commercial banks.

2. Literature Review

Many literature review and previous studies analyzed the banking profitability from various perspectives, as we are going to present some of them in the next paragraphs to give a wider picture on banking profitability.

In a study about the profitability of Islamic banks in the Middle East (Bashir, 2003). A variety of internal and external bankingcharacteristics were used in that study to predict profitability and efficiency for Islamic banks.The results indicated that high capital-to-asset and loan-to-asset ratios ledto higher profitability. The results also indicated that foreign owned banks were likelyto be profitable. Furthermore, the regression results showed that implicit and explicit taxes affected the bank performance and profitability negatively while favorable macroeconomic conditions impact performance measures positively.

In a study about the empirical analysis of the determinants of bank profitability in Romania (Roman and Dănuleţiu, 2013) showed Romanian banks' profitability is influenced by both bankspecific factors and changes in the external environment. In the case of bank-specific factors, the results of that study reflect that banking profitability is significantly influenced by asset quality, management quality and banking liquidity. Among external factors, it turns out that banking concentration and economic growth rate have animportant impact on banking profitability.

In addition, a study about the impact of macroeconomic variables and banks characteristics on Jordanian Islamic banks profitability for Al-Qudah and Jaradat (2013), they approved thatcapital adequacy, and bank size have a positive and significant impact on return on assets (ROA) and return on equity (ROE). While leverage measured by total deposits to total assets has a negative and significant impact on (ROA) and (ROE).The study found that macroeconomic factor such as money supply growth is a gooddeterminant for Islamic banks profitability.

Also, in a research about comparing the profitability determinants of domestic and foreign Islamic banks in Malaysia (Muda, Shaharuddin, Embaya, 2013) by using quarterly data for the period of 2007 to 2010. In order to find out the differences in the profitability determinants, the sample of banks is divided into two subsamples (domestic and foreign). The study finds that, deposits, capital, and reserves, inflation and banks' age have a significant effect in determining banks' profitability of both domestic and foreign banks. The findings indicate that the profitability of domestic banks is affected by the global financial crisis while, the profitability of foreign banks is not affected.

Finally, a study about impact of financing revenues of the banks on their profitability (Almanaseer, and AlSlehat, 2016) the purpose of that study is to identify the impact of some financing revenues of Islamic banks in Jordan on the profitability of Islamic banks during (2006-2014). So, the results of that study proved that there is a positive impact of financing revenues of Islamic banks on their profitability.

3. Research Sample

Research sample is Jordan Islamic Bank (JIB) for the period 2001 to 2016. So, the data was taken from Jordan Islamic Bank annual reports for that period. The independent variable is banking services revenues, and the dependent variable is banking profitability which is measured by return on assets and return on equity.

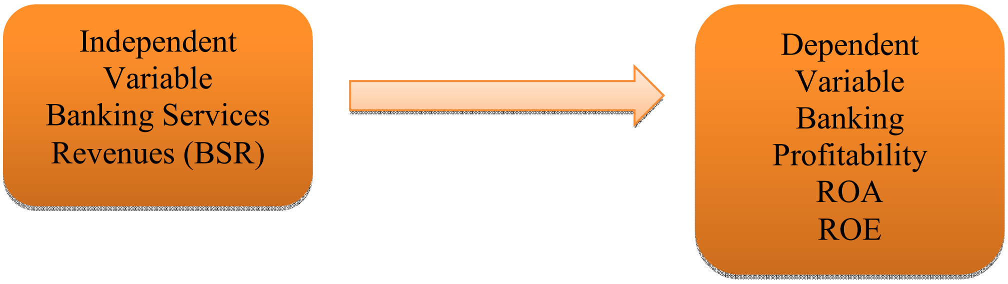

Figure (1) Research Variables

4. Research Hypotheses

H_0. There is no significant impact of banking services revenues (BSR) on banking profitability.
$H_{0.1}$. There is no significant impact of banking services revenues (BSR) on return on assets (ROA).
$H_{0.2}$. There is no significant impact of banking services revenues (BSR) on return on equity (ROE).

5. Data Analysis

5.1. Return on Assets (ROA) Analysis

According to figure (2) the reader can see the trend of (ROA) as a proxy of banking profitability of Jordan Islamic Bank during (2001 – 2016). From table (1) Model Summary for ROA, we can observe R square equals (0.180) which means we could explain about 18.0% of the variations in ROA for Jordan Islamic Bank (JIB). Also,fromtable (2)Analysis of Variance (ANOVA) for ROA the (F) calculated equals (12.954) at (0.001) significance level comparing that with (F) tabulated which equals (11.97) at (0.001) significance level, that means the model is suitable.

Moreover, from table (3) Coefficients for ROA, we can notice that (Beta) for revenues equals (4.911), and (T) calculated is (3.599) at (0.001) significance level. Compare that with (T) tabulated which equals (3.232) at (0.001) significance level which means we refuse the null hypothesis and accept the alternative hypothesis which is there is a significant impact of banking services revenues on the banking profitability which is measured by (ROA). For that the regression equation will be:

ROA = 0.546 + 4.911 (Revenues)

Finally, by looking at matrix (1) Pearson correlation matrix for ROA, we can find the relationship between ROA and banking services revenues is positive and equals (0.424) with (0.01) significant level.

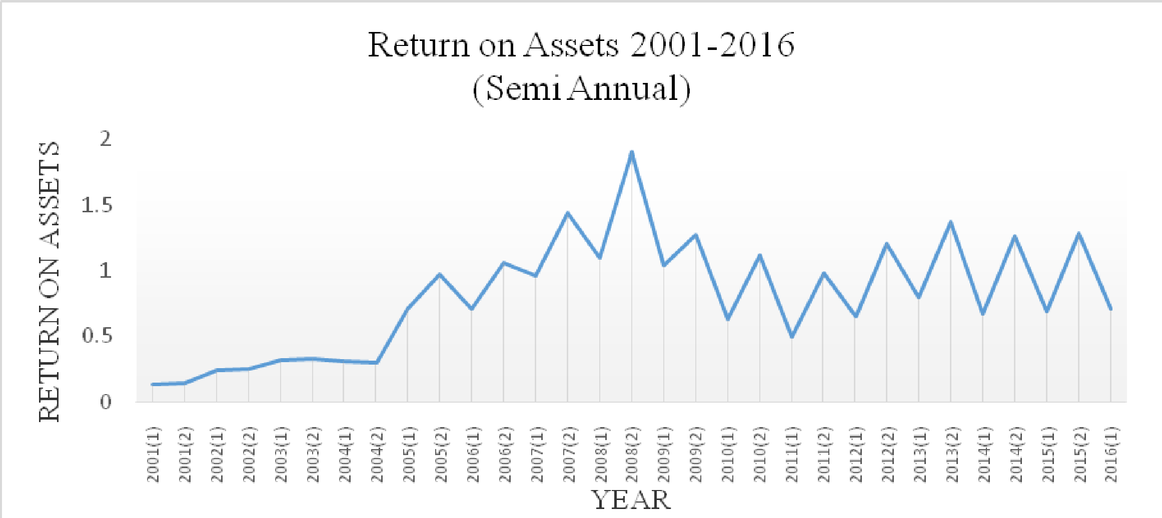

Figure (2) the Trend of Return on Assets from 2001 -2016

Table (1) Model Summary for ROA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.424	.180	.166	.39653

Table (2) Analysis of Variance (ANOVA) for ROA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.037	1	2.037	12.954	.001
	Residual	9.277	59	.157		
	Total	11.314	60			

Table (3) Coefficients for ROA

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.546	.078		6.967	.000
	Revenues	4.911	.000	.424	3.599	.001

Matrix (1) Pearson Correlation Matrix for ROA

	ROA	Revenues
ROA	1	
Revenues	0.424**	1

****. Correlation is significant at the 0.01 level (2-tailed).**

5.2. Return on Equity (ROE) Analysis

According to figure (3) the reader can see the trend of (ROE) as a proxy of banking profitability of Jordan Islamic Bank during (2001 – 2016).

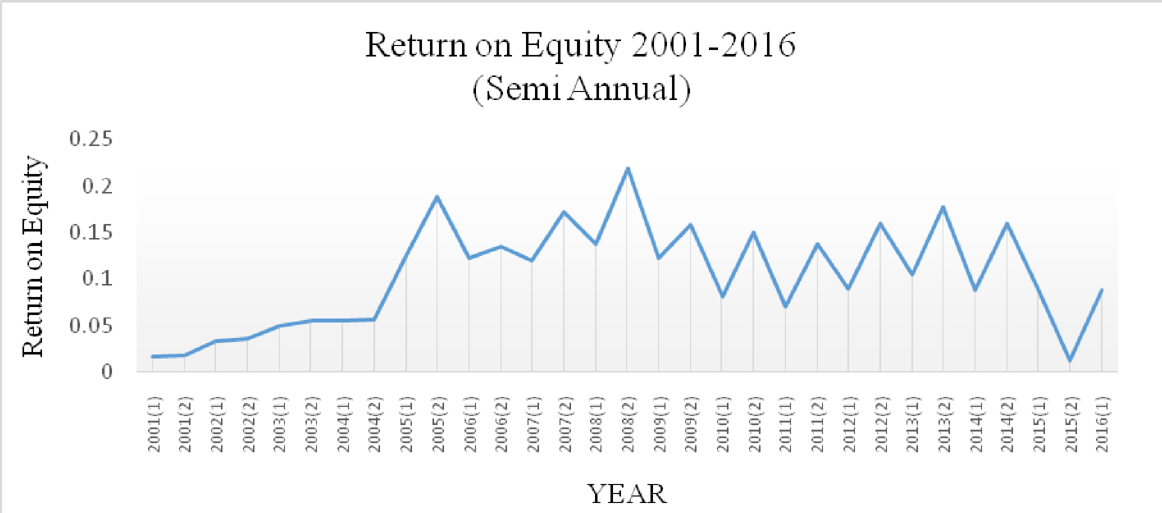

Figure (3) the Trend of Return on Equity from 2001 -2016

Table (4) Model Summary for ROE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.718	.515	.507	3.61347

Table (5) Analysis of Variance (ANOVA) for ROE

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	819.452	1	819.452	62.759	.000
	Residual	770.374	59	13.057		
	Total	1589.826	60			

Table (6) Coefficients for ROE

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.319	.714		6.046	.000
	Revenues	9.850	.000	.718	7.922	.000

Matrix (1) Pearson Correlation Matrix for ROE

	ROE	Revenues
ROE	1	
Revenues	0.718**	1

****. Correlation is significant at the 0.01 level (2-tailed).**

From table (4) Model Summary for ROE, we can observe R square equals (0.515) which means we could explain about 51.5% of the variations in ROE for Jordan Islamic Bank (JIB). Also, from table (5)Analysis of Variance (ANOVA) for ROE the (F) calculated equals (62.759) at (0.000) significance level comparing that with (F) tabulated which equals (11.97) at (0.001) significance level, that means the model is suitable.

Furthermore, from table (6) Coefficients for ROE, we can notice that (Beta) for revenues equals (9.850), and (T) calculated is (7.922) at (0.000) significance level. Compare that with (T) tabulated which equals (3.232) at (0.001) significance level which means we refuse the null hypothesis and accept the alternative hypothesis which is there is a significant impact of banking services revenues on the banking profitability which is measured by (ROE). For that the regression equation will be:

ROE = 4.319+ 9.850 (Revenues)

Finally, by looking at matrix (2) Pearson correlation matrix for ROE, we can find the relationship between ROE and banking services revenues is positive and equals (0.718) with (0.01) significant level.

6. Conclusion and Recommendations

When we take a look at this study, we can notice the importance of banking services to increase the banking revenues which reflects on banking profitability. Also, banking services can be considered as a vital way to compete with other banks especially in Jordan.

According to the results of this study, banking services revenues helped to increase the percentage of return on assets (ROA) and return on equity (ROE) for Jordan Islamic Bank (JIB).

So, we recommend Jordan Islamic Bank (JIB) to enhance its banking services, and this recommendation is extended to all banks work in Jordan.

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- Note: for more information about the annual reports about Jordan Islamic Bank, there are available on: www.JordanIslamicBank.com