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RESEARCH ARTICLE

The Impact of Capital Risk on the Financial Performance of the Jordanian Islamic Banks According to Basel (2) during the Period (2007 – 2013)

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Abstract

This study aims at identifying the impact of capital risks on return on all assets, equity rights, and the return per share according to Basel (2). It also aims to identify the impact of capital risks on Tobin's-Q ratio for Jordanian Islamic banks according to Basel (2).

The researchers used the descriptive analytic method, and the sample of this study was limited to Jordan Islamic Bank, and Islamic International Arab Bank during the period (2007-2013).

The results reveal that there is a statistical significant impact of capital risks on return on assets, equity rights, one share, and Tobin's-Q ratio for Jordanian Islamic banks according to Basel (2). The increment of capital adequacy ratio over the ratio prescribed by Basel (2) has led to reduction in the return ratio on the previous variables.

The study recommends the need for the Jordanian Islamic banks to search for new investment tools which enable them to employ the excess liquidity. They also should be involved in long-term investments instead of short-term investment.

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Introduction:-

Islamic banks would not be able to practice their various activities unless they have the necessary cash to fund their fixed and current assets. Islamic banks are highly dependent on external resources of funding just like traditional banks, and they usually seek to differentiate between funding resources in terms of costs, risks, returns, and timespan, and the resulted obligations. This differentiation attempts to reach the optimal financing structure that maximizes the value of the bank, and reduces the risks they might be exposed to, such as capital risk, through adherence to international standards and local control. The decision of funding in Islamic banks is considered as the most important decisions that has high impact on its future cash flows, profitability, and liquidity. This decision is relevant to determining the funding ratio of short-term resources, long-term resources to determine the optimal mixture of funding from ownership resources, debits, and investment deposits. This mixture is said to be important as it reduces the cost of capital in the Islamic bank, maximizes the value of the bank, increases the chances of its investment, and reduces the size of the capital risks that might be exposed.

Problem Statement:-

The problem of this research lies in the attempt of answering the following research question:

- What is the impact of capital risks on the financial performance of the Jordanian Islamic banks according to Basel (2)?

The aforementioned can be answered through posing the following sub-questions:

- What is the impact of capital risks on return on assets of Jordanian Islamic banks according to Basel (2)?

- What is the impact of capital risks on return on ownership of Jordanian Islamic banks according to Basel (2)?
- What is the impact of capital risks on return on one share profitability of Jordanian Islamic banks according to Basel (2)?
- What is the impact of capital risks on return on Tobin's Q of Jordanian Islamic banks according to Basel (2)?

Research Objective:-

As traditional banks, Islamic banks depends on international standards proposed by Basel committee agreements. These agreements have been adapted by the Accounting and Auditing Commission for Islamic Financial Institutions and the Islamic Financial Services Board to investigate its implementation on the financial performance of those banks. Thus, the objectives of the present study can be summarized as follows:

- To identify the impact of capital risks on return on assets of Jordanian Islamic banks according to Basel (2).
- To identify the impact of capital risks on return on ownership of Jordanian Islamic banks according to Basel (2).
- To identify the impact of capital risks on return on one share profitability of Jordanian Islamic banks according to Basel (2).
- To identify the impact of capital risks on return on Tobin's Q of Jordanian Islamic banks according to Basel (2).

Significance of the Study:-

The significance of this study is derived from the importance of the subject of the financial performance of Jordanian Islamic banks in which banks seek to achieve. Banks are considered as the core of the Jordanian public shareholding in the financial sector, so if the researchers were able to come up with appropriate results and recommendations, there will be a contribution in to strengthening the capacity of banks to compete in the domestic and international market, and this leads to a positive reflection of that ability to the Jordanian economy.

Research Methodology:-

The researchers attempted to achieve the objectives of this study through the following:

- 1- Literature review through reviewing the proper references related to the present research topic.
- 2- Quantitative data extracted from the final reports and data of Jordanian Islamic banks, namely Jordan Islamic Bank and Islamic International Arab Bank.
- 3- Using the descriptive and analytic method.
- 4- Regarding the sample of this study, it was limited to Jordan Islamic Bank and Islamic International Arab Bank during the period (2007-2013).

Research Hypotheses:-

The major hypothesis of this study is: there is no statistically significant impact of capital risks on the financial performance of Jordanian Islamic banks according to Basel (2). The sub-hypotheses of that major hypothesis are as follows:

1. H0: there is no statistically significant impact of capital risks on return on assets of Jordanian Islamic banks according to Basel (2).
2. H0: there is no statistically significant impact of return on ownership of Jordanian Islamic banks according to Basel (2).
3. H0: there is no statistically significant impact of return on one share profitability of Jordanian Islamic banks according to Basel (2).
4. H0: there is no statistically significant impact of return on Tobin's Q of Jordanian Islamic banks according to Basel (2).

Literature Review:-

A number of studies have been carried out on the topic of the present study. Tahrawi and Abdulrazzaq (2013) undertake a study to investigate the risks management in Islamic finance according to Basel standards. It also aims to study the reality of Islamic finance according to Basel standards, and the capability of implementing the new standards along with examining the process of risks management on a sample of Islamic banks. This study used the descriptive, standardized, and comparative methods. The results of this study revealed that the ratio of Islamic banks

was bigger than the ratio prescribed by Basel committee. In addition, the specialized committee of risks management consisted of directors of board.

Bouraqba (2011) conducted a study to examine the operating efficiency of Islamic banks along with clarifying the measurement methods of the operating efficiency for Islamic and traditional banks. This study includes measurement presentation of operating efficiency for these banks, and it presented the classification approaches and the efficiency standards according to Basel (2); it presented the most important risks faced by Islamic banks. This study used the descriptive and inductive methods and the findings showed that: efficiency measurement is done based on the operations volume of the bank, the measurement of operating efficiency leads to evaluating the banks work revealing the weakness points in order to handle, and strength points to improve. The study recommends that there is a need to use the legitimate safety in Islamic banks.

Similarly, Al-Azki (2010) studies the financial risks on the profitability of Yemeni banks and investigates the most important methods used in risks management and measurement. The findings of this study revealed that there is an impact of financial risks on the profitability of Yemeni banks. Also, the depression of capital risks led to increment in profitability of some banks, whereas no impact was found on the profitability of the rest of banks.

Abu Kamal (2007) conducted a study to evaluate the reality and strategies of credit risks management in the banks operating in Palestine according to Basel (2). This study did not address the privacy of risks management of Islamic banks. The research methodology used in this study was the descriptive-analytic method. The findings of this study showed that the process of risks management in the banks operating in Palestine is featured with efficiency. However, there was a difficulty in measuring the credit risks according to Basel (2).

In a similar vein, Abu Zea'ter (2006) investigated the factors affecting the profitability of commercial banks operating in Palestine during the period (1997-2004). The factors included in this study were: credit risks, net returns, copyrights, liquidity ratio, and fixed assets net. This study used the descriptive analytic method and the results revealed that there is inverse relationship between credit risks and profitability according to ROA, ROE measurements. Also, there is a positive relationship between fixed assets ratio to copyrights and profitability.

Al-Atrash (2005) studied the impact of financial risks on the market value of Jordanian commercial banks stocks during the period (1989-2002). The financial risks in this study include: capital risks, risks of interest price, liquidity risks, and credit risks, and the market value of Jordanian commercial banks stocks. This study also aimed at measuring the impact of those risks on the share market value using the descriptive-analytic method. The results of this study showed that there is an impact to some financial risks on the market value of commercial banks stocks. Also, the inequality on the one bank level is attributed to the variation of risks management methods used in each bank; in addition to the amount variation of assets and liabilities for each bank.

Financial Efficiency and Solvency:-

Definition of Solvency:-

Solvency is known as richness and financial capacity and convenience. Imam Ahmad interpreted this term as the financial, speech, and body ability, while financial solvency is defined as the ability to live (Bin Idris, 1983). Shafiest defined financial solvency as having extra money left for bankrupt people to fulfill their debits. Meaning that, people who have enough to afford living cost are known to be rich and wealth (Kuwaiti Ministry of Endowments, 1984).

Definition of Efficiency:-

Jurists have defined financial efficiency as the important actions related to achieving the nation's sakes, and meeting the individuals' basic needs such as food, clothes, and accommodation (Kuwaiti encyclopedia of Fiqih).

Definition of Financial Solvency and Efficiency:-

The term solvency or financial adequacy explains the relationship between capital risks and the surrounded risks of the bank's assets. Thus, financial solvency is defined as the capital appropriateness to the bank's assets or deposits (Al-Harshi, 2000).

The Importance of Capital Efficiency Standards in Islamic Banks:-

The recent financial crisis of the international economy have led to bankruptcy of a number of banks in the developed countries. These crisis makes audit institutions to seek for the preventive procedures to protect banks from the risk of bankruptcy. The most important factors that led to developing systematic procedures for capital efficiency in banks are as follows:

1. The increasing number of deposits in banks, and inequality faced by market value of banks investment and the variances of their assets components (Abu-Eliz, 2014).
2. The bank usage of their capitals to offer big loans for governments because they think that this kind of funding is free of risks (Khuzzam, 2001).

The above mentioned reasons have led regulators to determine the bank's capital, and the amount of cash that the bank should keep to meet its requirements if bankruptcy encountered. The importance of this standard arises from the fact that it contains compulsory regulations, which aim to protect the banks from risks that might happen through keeping enough capital to avoid the expected loss. The survival and success of any bank depends on customers' trust whether they are investors or depositors. This trust relies heavily on the cash kept by the bank which enables it to deal with financial crisis without any effect on customers (Abu-Eliz, 2014).

As for Islamic banks, they have to keep enough capital for the following reasons:

1. To be the base for the bank's grow and development.
2. To protect the different deposits and creditors' money.
3. To absorb and cover unexpected losses.
4. To improve the creditors trust and audit authorities about the bank's ability in facing the difficulties it might face.
5. The inability of Islamic bank to depend on central bank as the last shelter.
6. Disproportion between investment deposit which short-term period (one year), and the periods of funding and Islamic investment formulas which is mid and long-term periods.

Jurisprudential Adaptation of Financial Solvency:-

Jurisprudential adaptation means determining the reality of new incident to annex it with jurisprudential origin, which has been assigned with specific descriptions. This assignment was to provide the new incident with these descriptions after ensuring the similarity between the origin and new incident (Shaiber, 2004). It is possible to view the instructions issued by the central bank regarding the capital ratio of Islamic banks and non-Islamic banks from legitimate policy to protect the depositors' cash from loss. The most important intents of Islamic Sharia'a is to protect money which can be in two ways: existence way through investing that money, and nothingness through take precaution steps to avoid damage (Ghernati, 1997). Thus, the standards of financial solvency or capital efficiency appeared to implement the basics of precaution and prevention before the financial risks happen. These basics can be achieved through certain permissible mechanisms and procedures. This is because protecting money from nothingness side cannot be achieved without considering the aforementioned procedures (Al-Sobki. 1991).

The importance of these standards arises from the fact that it contains compulsory legitimate rules for banks, which aim to preventing investment risks they might face before happening. This prevention can be accomplished through keeping enough capital which is capable to meet any expected losses, and this emphasizes the preventive role for this standard (Abu-Eliz, 2014). This is better than leaving the bank investment without a standard and without considering any risks, because in case of loss, the damage become worse and difficult to be overhauled. Hence, the jurisprudential rules arose to ensure this orientation such as the rule of "paying is better than rising" (Al-Sobki, 1991), "damage is payable as possible" (Al-Borno, 1996), prevention is better than cure" (Al-Zhaili, 2006), and "Excuses coverage" (Haj Salim, 2008). These rules and others emphasize the importance of precaution and prevention from risks before happening, and this is cannot be fulfilled with issuing the necessary plans and regulations to face these risks.

International Audit Standards and Risks Management in Islamic Banks:-

The capital of banks forms the primary self-defense as it insures a part of liquidity to face any losses might occur. The capital adequacy expresses the ability of banks to achieve the safety and stability of the financial rank for banks. Thus, it was important to study the ratio of capital adequacy according to Basel (2) agreement. This agreement gives the permission to auditory authority in each country to formulate its own auditory rules related to capital adequacy based on its convenience. Therefore, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and The *Islamic Financial Services Board (IFSB)* have proposed ratios

of capital adequacy that are appropriate for Islamic banks use. The owned capital is considered the basic pillar to protect the depositors' cash from investment risks which might lead to bank's bankruptcy.

Capital Adequacy According to Basel (2):-

As we discussed earlier, capital adequacy means the ability of eligible bank's capital to face the assets risks that are funded from its own money and from its insured money at all times (Saeed and Abu-Eliz, 2014). The capital efficiency standard is said to be international standard that represents the minimum demand of financial safety and security. In 1988 and as a result of the collapse of some of the major traditional banks in the eighties, there has been an issuance of Basel (1) agreement. But, this agreement has distinguished between loans and facilities given to world banks, and those given to industrial countries through determining a ratio of 8% from the capital as a guarantee to these loans and facilities. However, Basel (1) agreement was unable to provide the minimum capital appropriate to face all risks that banks might face, because the risks were not limited to credit risks but exceeds to include other risks. Examples on these risks include dealing with financial resources risks, and bank's loans securitizing risks which might lead to negative consequences affecting the safety of banks' capitals. This encourages banks to bear more credit risks, so the banks' commitment of the 8% ratio of capital efficiency determined by Basel (1) agreement does not necessarily mean that the capital is efficient to face the risks that might occur. Meaning that, the determinants of Basel (1) did not take into account the objectivity in risks classification (Bank of Alexandria, 2001).

Therefore, the committee of Basel proposed in the middle of 1999 a new standard regarding the capital efficiency. This new standard aimed at:

1. Encouraging banks to follow more comprehensive practices for risks management, and including more advanced approaches to measure risks which include the three components (the minimum requirements of capital, supervisory review, and market punctuality) which are featured by high sensitivity.
2. Implementing the new frame would contribute in keeping the capital efficiency levels, and harmonize with the probable risks and the change in financial transactions.
3. Developing and improving the transparency principle and risks disclosure.
4. Improving competition between financial system institutions.
5. Enhancing the safety and security of financial system through keeping solid capital for banks.
6. Place the principles, means, and financial practices on international base applied by small and medium banks with a focus on big banks (SAP Group Agency, 2005).

In the year of 2011, the committee of Basel has adjusted the standard of capital efficiency in addition to credit and marketing risks. The committee added operating risks, weights change, and market risks. This leads to the issuance of Basel (2) agreement in preamble to implement in 2007. Hence, the capital ratio expresses the banks' ability in measuring, directing, and controlling the risks they might face. The purpose of this new agreement is to prevent the occurrence of risks and control them. In addition, this would enable to taking decisions that are consistent with the banks' policies and strategies, and taking the necessary policies and procedures to protect the different kinds of risks (Al-Taib, and Shahateet, 2011). Consequently, the agreement of Basel (2) did not differentiate between banks, and it deals with banks in the same manner regardless of their size and the degree of advancement.

According to the new Basel accord (2004), the standard of Basel (2) for capital efficiency included the following pillars:

1. Pillar 1: the minimum requirements of capital.
2. Pillar 2: Supervisory review.
3. Pillar 3: market punctuality.

The ratio of capital efficiency can be calculated as follows:

Rate of Capital Efficiency

$$= \frac{\text{Comprehensive Capital}}{\text{Probable risky assets (credit risks + market risks) + operating risks}} \times 100 ; \leq 8\%$$

Where:

$$\begin{aligned} \text{Comprehensive Capital} &= \text{Basic Capital} + \text{Complementary Capital} + \text{Supportive Capital} \\ &= \text{Regulatory Capital} \end{aligned}$$

Thus, the equation of capital efficiency ratio becomes:

$$\text{Rate of Capital Efficiency} = \frac{\text{Regulatory Capital}}{\text{The Total Probable Risky Assest}} \times 100 ; \leq 8\%$$

Since the Islamic banks are different compared to traditional banks in terms of the nature of activities, the usage of financial resources, and the structural construction for those uses. As a result of these differences, it was important that the ratio of capital efficiency of Islamic banks to become less than traditional banks, because the traditional bank is a guarantor of the client money (the different deposits). Also, the investor is committed to pay the interest, whereas Islamic banks do not guarantee the money of the different investment accounts owners except the cases of infringement and dereliction. It is possible for Islamic banks to charge the loss (all or some), if any, to a specified account for investment risks, or investment accounts owners in case of inadequacy of the credit allocated for investment risks to compensate damage (Sheikh Hussein, 2005). Based on the variations in the nature of Islamic and traditional banks in terms of accounting the capital efficiency ratio, new ratios were proposed that suit Islamic banks by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and The *Islamic Financial Services Board (IFSB)*.

Proposal of the Accounting and Auditing Organization for Islamic Financial Institutions:-

In 1999, The Accounting and Auditing Organization for Islamic Financial Institutions has issued a statement clarifying the method of calculating the capital efficiency of Islamic banks. This statement has taken into consideration the variations in the nature of Islamic banks and financial institutions, and the private nature of investment deposits which are not considered as a financial commitment for Islamic bank as it is not guaranteed except in the cases of infringement and dereliction unlike traditional banks (Tahrawi and Benhabib, 2013). Hence, the ratio was as follows:

$$\text{Rate of Capital Efficiency} = \frac{\text{Regulatory Capital}}{\text{The total probable risky assets funded by the bank own money} + \text{50\% From Probable Risky Assest Funded by Investment Account}} \times 100 ; \leq 8\%$$

Thus, the risks have been distributed to shareholders and depositors where 50% is distributed to shareholders to meet investment risks and transferred commercial risks, and the other 50% is distributed to depositors to meet the regular commercial risks (Hussein and Abueliz, 2014). This ratio matches with Basel (1) agreement more than Basel (2) which makes it traditional standard (Tahrawi and Benhabib, 2013).

Proposal of the Islamic Financial Services Board:-

The Islamic Financial Services Board is considered as international organization that sets international standards for regulatory and supervisory agencies that have an interest in ensuring the reliability and stability of the Islamic financial services industry compatible with the rules of Islamic Sharia. The board is designed to unify the way of risks inherent in financial products and services compatible with the rules of Islamic Sharia. It also set weights of risks that meet the internationally accepted prudential standards. In December (2005)The Islamic Financial Services Board has issued the standard of capital efficiency that is related to Islamic financial institutions (except insurance institutions) taking into considerations the privacy of different investment account owners who take roles in bearing a part of risks along with shareholders as follows (Tahrawi and Benhabib, 2013):

Rate of Capital Efficiency =

$$\frac{\text{Regulatory Capital}}{\text{The Total Probable Risky Assest (Credit Risks, Market Risk, and Operating Risk)}} \times 100 ; \leq 8\%$$

$\alpha - 1$ is subtracted (the total probable risky assets funded by investment accounts+ credit risks+ market risks).

α is subtracted (the total probable risky assets funded by the auxiliary of profits and investment risks ratio “credit risks market risks).

Capital Efficiency for Jordanian Islamic Banks:-

The Jordanian banking system is considered as developed system and it keeps up with the latest developments in the global financial institutions in a short-period of time. The Central Bank of Jordan is keen to implement the standard of capital efficiency in order to enhance the capability of Jordanian banks to continue working effectively, to confront the future global developments, and to create financial institution capable to confront any possible risks and avoid them safely. In addition, it encourages financial merging between banks to strengthen the financial positions of Jordanian banks (Al-Tayyib and Shahateet, 2011).

The Central bank of Jordan has issued certain instructions about capital efficiency for Islamic banks and they were given the number (50/2010) from 19/8/2001 in order to be followed in the beginning of September (2010), and to continue calculating the ratio of capital efficiency according to Basel (2) in a parallel manner until 31/3/2011. These instructions were consistent with the standard of capital efficiency for Islamic banks issued by Islamic Financial Services Board in December (2005) with making some modifications on it. These modifications come to be consistent with what is already implemented in Jordanian Islamic banks. The most important modifications were as follows:

- Alpha value equals 30%.
- The ratio of capital efficiency is 12% rather than 8% as stipulated in Basel (2) agreement.

Financial Performance:-

Financial performance is defined as “the process of finding and deriving a group of quantitative and qualitative indicators of any economic project that concerns with determining the financial and operating activities for the project”. This determination is done through collecting information from financial statements or any other sources to use it in evaluating the financial performance (Matar, 2006).

Financial Performance in General:-

Generally, financial performance is defined as “using financial indicators to measure the extent of achieving goals, contributing to make financial sources available, and providing bank with investment opportunities (Obadah, 2007). The financial performance of banks is effected by economic factors, industry structure, and organizational and administrative capabilities. The bank’s financial performance describe its performance through achieving high rate of growth and assets after deducting capital cost after tax, and facing financial risks arise from using debts or other’s money in funding bank’s uses. The financial measurement needs a closer look at two dimensions: profitability and risk (Obadah, 2007). Financial performance is considered as an indicator of the extent of bank’s success or failure in achieving its objectives in light of bases and standards taken in light of its financial and human resources as well as adjusting with the surrounding environment of the bank (Mashhadi, 2002).

Evaluating Financial Performance in Islamic Banks:-

Evaluating financial performance in Islamic banks is defined as “a group of procedures where the achieved results are compared with the stated goals to determine the extent of the results consistency with the goals which is important in evaluating the efficiency level of activity level” (Obadah, 2007). In addition, a measurement and comparison between activity inputs and outputs can be done in this evaluation along with teaching the accomplishments methods to make sure that the activity was done within permitted bases, and in a high rate of quality which can be described through best results associated with less costs and efforts, and contributing in the social and economic development (Obadah, 2007).

Tobin’s Q Ratio:-

Tobin’s Q ratio is an instrument often used in the fields of economy and financing as an indicator of measuring firms’ performance. One of the advantages of using Tobin’s Q is to limit any distortions because of tax and accounting laws. This is because it uses market value of capital (Q) which includes risk and profitability factors in

the future (Chen and Lee, 1995). The ratio of Tobin (Q) is seen as the best measurements to measure firms' performance compared to any other accounting procedures such as Return on Assets (ROA), or Return on Sales (ROS). The ratio of Tobin (Q) can be calculated easily based on the financial and accounting information available in financial statements

This pattern is used in attempt to interpreting the financial organization of investments, and help investor in future evaluation of markets whether it is attractive to invest or not. According to this pattern, firms are encouraged to invest more in case of evaluated value in market was high, but they will not invest if the evaluated value in market was low. Firms and banks are evaluated in stock market by shareholders and investors through expected value of the increment of firm or bank future returns and the risks associated with it (Griliches, 1981). This pattern has been widely used as an indicator reflecting firms' performance, risks level, and future profits. Furthermore, this pattern describes the moral value found in firm which is derived from expected returns, growth possibilities, abnormal profits come from market position of firm, products variations, trade mark, or fame.

This pattern is also used to study the effects of market power on firms' performance especially when accounting standards fail to reveal these effects and interpret them. This measurement reveals overall returns from efficiency or monopolism (Kour, 2007). Regarding to banks, certain patterns and measurements rely on the original idea of Tobin (Q) ratio, but this pattern is easier and more appropriate to financial information. This patterns is also depends on historical cost of assets instead of present substitution of assets, and it is used in a number of studies such as (Tam, 1998; and Hovey et al., 2003). Therefore, this pattern is used in the present study based on the following (Kour, 2007):

Tobin's Q (TQ) = overall market value of bank/ overall book value of bank assets

Where:

Market value of bank = multiplying share price in the end of year with a number of regular shares subscribed to it.

Statistical Analysis:-

This section demonstrates the statistical analysis of the study data. It shows and examines the study variables and hypotheses.

Description of the Study Variables:-

This section shows the descriptive statistics of the study variables: capital risks, return on property, return on assets, share portion of profits, Tobin's Q ratio. These data were based on financial annual data of Islamic Bank and Islamic International Arab Bank during the period (2007-2013).

Independent Variables: Capital Risks:-

Table 1: Descriptive Statistics of Capital Annual Risks (2007-2013)

Measurement %	Capital Annual Risks	
	Islamic International Arab Bank	Islamic Bank
Mean	22.756	18.232
Std. Deviation	4.451	3.934
Maximum Value	31.340	24.480
Minimum Value	17.900	13.730

Table 1 above shows a description of capital annual risks during the period (2007-2013). The mean of capital annual risks at Islamic Bank was 18.232%, Std. Deviation (3.934%), the maximum value recorded was (24.480%) while the minimum value recorded was (13.739%). The mean of capital annual risks at Arab International Islamic Bank was (22.756%). Std. Deviation (4.451%), the maximum value recorded was (31.340%) while the minimum value recorded was (17.900%).

Dependent Variables: Performance Measurements:-

Table 2: Descriptive Statistics of Annual Dependent Variables Values (2007-2013)

Variable	Bank	Mean	Std. Deviation	Maximum Value	Minimum Value
ROA	Islamic	1.329	0.295	1.900	0.980
	Arab	0.953	0.486	1.830	0.250
ROE	Islamic	16.733	2.608	21.830	13.690
	Arab	9.999	4.212	14.670	2.210
EPS	Islamic	0.326	0.057	0.430	0.280
	Arab	0.066	0.067	0.160	0.000
TOBIN'S Q	Islamic	0.143	0.046	0.234	0.095
	Arab	0.086	0.010	0.096	0.067

Table 2 above shows the following:

- 1- The mean of annual return on assets in the Jordanian Islamic Bank was (1.329), Std. Deviation (0.295), the maximum value recorded was (1.900) while the minimum value recorded was (0.980). The mean of annual return on assets in the Arab International Islamic Bank was (0.953), Std. Deviation (0.486), the maximum value recorded was (1.830) while the minimum value recorded was (0.250).
- 2- The mean of property rights in the Jordanian Islamic Bank was (16.733), Std. Deviation (2.608), the maximum value recorded was (21.830) while the minimum value recorded was (13.690). The mean of property rights in the Arab International Islamic Bank was (9.999), Std. Deviation (4.212), the maximum value recorded was (14.670) while the minimum value recorded was (2.210).
- 3- The mean of return per share in the Jordanian Islamic Bank was (0.326), Std. Deviation (0.057), the maximum value recorded was (0.430) while the minimum value recorded was (0.280). The mean of return per share in the Arab International Islamic Bank was (0.066), Std. Deviation (0.067), the maximum value recorded was (0.160) while the minimum value recorded was (0.000).
- 4- The mean of Tobin Q in the Jordanian Islamic Bank was (0.143), Std. Deviation (0.046), the maximum value recorded was (0.234) while the minimum value recorded was (0.095). The mean of Tobin Q in the Arab International Islamic Bank was (0.086), Std. Deviation (0.010), the maximum value recorded was (0.096) while the minimum value recorded was (0.067).

Results of Hypotheses Examination:-

1-Results of the first hypothesis: there was no statistical significant impact at the level ($0.05 \geq \alpha$) of capital risks on return on assets in Jordanian Islamic banks

Table (3) shows the results of first hypothesis where the value of Durbin Watson indicates no existence of Autocorrelation phenomenon between errors involved in the deviation formula which was (1.652). This value was within the acceptable limits for this test, ($F= 15.210$) with significance level of (F -statistics= 0.002) which is less than (0.05). These results lead to rejecting zero hypothesis H_0 and accepts the alternative hypothesis H_1 which states that there is significant impact of capital risks on return on assets. Also, the coefficient value was ($R^2=0.559$) which means that 55.9% of the variance of return on assets can be interpreted through the variance of capital risks. The regression coefficient value was (-0.061) which indicates that the impact of capital risks on return on assets is

negative, which is in fact moral impact, where ($t = -3.900$) and significance level ($\text{Sig.T} = 0.021$) which is less than 0.05).

Table 3: Hypothesis Results of the Impact of Capital Risks on Return on Assets

Dependent Variable: Return on Assets				
Method: Panel EGLS (Cross-section weights)				
Dependent Variable	Regression (B)	Std. Deviation	T- value	Sig (T)
Capital Risks	-0.062	0.016	-3.900	0.002
Coefficient R²	Adjusted R²	F value	Prob.(F-statistics)	D-W
0.559	0.522	15.210	0.002	1.652

2-Results of the second hypothesis: there was no statistical significant impact at the level ($0.05 \geq \alpha$) of capital risks on return on property rights in Jordanian Islamic banks.

Table (4) shows the results of second hypothesis where the value of Durbin Watson indicates no existence of Autocorrelation phenomenon between errors involved in the deviation formula which was (1.706). This value was within the acceptable limits for this test, ($F = 9.826$) with significance level of ($F\text{-statistics} = 0.009$) which is less than (0.05). These results lead to rejecting zero hypothesis H_0 and accepts the alternative hypothesis H_2 which states that there is significant impact of capital risks on return on property rights. Also, the coefficient value was ($R^2 = 0.450$) which means that 45.0% of the variance of return on property rights can be interpreted through the variance of capital risks. The regression coefficient value was (-0.640) which indicates that the impact of capital risks on return on property rights is negative, which is in fact moral impact, where ($t = -3.135$) and significance level ($\text{Sig.T} = 0.009$) which is less than 0.05).

Table 4: Hypothesis Results of the Impact of Capital Risks on Return on Property Rights

Dependent Variable: Return on Assets				
Method: Panel EGLS (Cross-section weights)				
Dependent Variable	Regression (B)	Std. Deviation	T- value	Sig (T)
Capital Risks	-0.640	0.204	-3.135	0.009
Coefficient R²	Adjusted R²	F value	Prob.(F-statistics)	D-W
0.450	0.404	9.826	0.009	1.706

3-Results of the third hypothesis: there was no statistical significant impact at the level ($0.05 \geq \alpha$) of capital risks on return on share in Jordanian Islamic banks.

Table (5) shows the results of third hypothesis where the value of Durbin Watson indicates no existence of Autocorrelation phenomenon between errors involved in the deviation formula which was (1.718). This value was within the acceptable limits for this test, ($F = 5.503$) with significance level of ($F\text{-statistics} = 0.037$) which is less than (0.05). These results lead to rejecting zero hypothesis H_0 and accepts the alternative hypothesis H_3 which states that there is significant impact of capital risks on return on share. Also, the coefficient value was ($R^2 = 0.314$) which means that 31.4% of the variance of return on property rights can be interpreted through the variance of capital risks. The regression coefficient value was (-0.018) which indicates that the impact of capital risks on return on property rights is negative, which is in fact moral impact, where ($t = -2.346$) and significance level ($\text{Sig.T} = 0.037$) which is less than 0.05).

Table 5: Hypothesis Results of the Impact of Capital Risks on Return on Share

Dependent Variable: Return on Assets				
Method: Panel EGLS (Cross-section weights)				
Dependent Variable	Regression (B)	Std. Deviation	T- value	Sig (T)
Capital Risks	-0.018	0.008	-2.346	0.037
Coefficient R²	Adjusted R²	F value	Prob.(F-statistics)	D-W
0.314	0.257	5.503	0.037	1.718

4-Results of the fourth hypothesis: there was no statistical significant impact at the level ($0.05 \geq \alpha$) of capital risks on return on Tobin's Q ratio in Jordanian Islamic banks.

Table (6) shows the results of fourth hypothesis where the value of Durbin Watson indicates no existence of Autocorrelation phenomenon between errors involved in the deviation formula which was (1.920). This value was within the acceptable limits for this test, ($F = 6.085$) with significance level of ($F\text{-statistics} = 0.030$) which is less than

(0.05). These results lead to rejecting zero hypothesis H_0 and accepts the alternative hypothesis H_4 which states that there is significant impact of capital risks on Tobin's Q ratio. Also, the coefficient value was ($R^2=0.337$) which means that 33.7% of the variance of return on property rights can be interpreted through the variance of capital risks. The regression coefficient value was (-0.005) which indicates that the impact of capital risks on return on property rights is negative, which is in fact moral impact, where ($t = -2.467$) and significance level ($\text{Sig.T} = 0.030$) which is less than 0.05).

Table 6: Hypothesis Results of the Impact of Capital Risks on Tobin's Q Ratio

Dependent Variable: Return on Assets				
Method: Panel EGLS (Cross-section weights)				
Dependent Variable	Regression (B)	Std. Deviation	T- value	Sig (T)
Capital Risks	-0.005	0.002	-2.467	0.030
Coefficient R²	Adjusted R²	F value	Prob.(F-statistics)	D-W
0.337	0.281	6.085	0.030	1.920

Results and Recommendations:-

Results:-

- 1- There was a statistically significant impact of capital risks on return on assets in Jordanian Islamic banks.
- 2- There was a statistically significant impact of capital risks on return on property rights in Jordanian Islamic banks.
- 3- There was a statistically significant impact of capital risks on return on share in Jordanian Islamic banks.
- 4- There was a statistically significant impact of capital risks on Tobin's Q in Jordanian Islamic banks.
- 5- The high rate of capital efficiency of Jordanian Islamic banks which exceeds the permissible rate led to a reduction in the rate of return on assets and property rights. It also led to a reduction of share profitability and Tobin's Q rate which resulted in a reduction of capital risks in Jordanian Islamic banks.
- 6- The financial performance of Jordanian Islamic Bank was better than Islamic International Arab Bank, where the capital risks were less which can be attributed to the size of bank and its geographical distribution.
- 7- The market value of Islamic banks was less than its assets value which resulted from poor performance and the low rate of its profitability.

Recommendations:-

- 1- Committing to Basel (2) ratio and not to exaggerate in implementing its standards, because it permits the bank to invest more money which allows the bank to increase the ratio of return on assets, property rights, and increasing the profitability of one share.
- 2- Jordanian Islamic banks should search for new investment tools to invest the extra cash they have.
- 3- Jordanian Islamic banks should engage themselves in a long-term investments instead of short-term ones. This will reflect positively on its financial performance.

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