Performance Analysis of Conventional Banks Vs. Islamic Banks in Jordan

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ABSTRACT

Different conventional banks, whose main purpose is to maximize loan-based profit, comply with Islamist law (Shariah), which strictly prohibits the use of interest. Due to the precise feature of Islamic banks, many doubted when the first Islamic banks were established, since interest-free banking cannot surpass it. Even so, Islamic banks are still one of the most rapidly growing financial industries. Interest free banking does not mean banking without profit, but a more stable and safe ethical alternative, since instead of interest, Islamic banks receive fees and commissions, share profit(loss) with their customers, and are protected by contracts.

This study analyzes the performance of Islamic and conventional banks in Jordan in comparison. This study will also address the differences in the profitability and safety of Islamic banks and conventional banks. This comparative study mainly focuses on assessing and measuring the financial performance differences of the two different banking companies operating in Jordan. For data analysis purposes, the researcher has chosen a sample of two Islamic and three conventional banks and used the CAMEL rating to compare the performance of both banks. Between 2005 and 2011, the analysis covered seven years. Trend analysis will also examine how Islamic and conventional banks' performance has changed over the past seven years. The results of these studies indicate that Islamic banks perform well as conventional banks in management efficiency, liquidity management and ROA. In contrast, conventional banks seem to be more adequate in capital, asset quality and ROE than Islamic banks.

Keywords: Islamic banks, conventional banks, Jordan, CAMEL rating, Profitability ratio, trend analysis.

1.1 INTRODUCTION

This study aims to examine traditional banks' output against Islamic banks in Jordan. Evaluated performance in the CAMEL (capital, assets, management, revenues and profitability) and profitability (ROA & ROE) model to evaluate which banking system is more efficient and plays a key role in Jordan's banking and overall financial sectors.. The study included two Islamic banks: the Jordan Islamic Bank, the IAB, and three main conventional banks, Jordan Kuwait Bank (JKB), Jordan Ahli Bank (JAB) and Banco de Jordan (BJ).

Banks are the backbone of financial success in every country and are indispensable for an individual and an enterprise to borrow or save money. As is well known, there are two main banking system categories around the globe, one conventional and one Islamic banking system. The two banking systems have a different approach to income generation. The important difference between Islamic and conventional banking systems is their treatment of interest. Islamic banks believe in free interest rules, profit and loss sharing instead of interest on the borrowers' loans (Arif, 1988).

1.2 RESEARCH PROBLEM

The Islamic banking system is regulated under Islamic Shariah law and is strictly forbidden from charging borrowers' interest. Conversely, traditional banks depend entirely on interest-based income. In this case, when Islamic banks behave absolutely from a different perspective than traditional banks, the dilemma should be examined and the banking system where customers can put their deposits in Jordan is safer and profitable.

1.3 OBJECTIVES

Conventional and Islamic banks play a key role in the financial sector in Jordan. The purpose of this analysis is to analyze and compare the performance of Islamic banks and traditional banks in the following two separate perspectives:

• Down from the point of view of banking regulators (safety of the banking system).

· Down from the viewpoint of bank owners (profitability of the banks).

The researcher uses different performance metrics for each group. The CAMEL ranking will be introduced for the banking regulators. Profitability metrics such as ROA (return on assets) and ROE (return on equities) can also be used by banking owners.

1.4 Significance

This analysis would be of fair use to the owners and regulators of the banks. In addition, the results of this research would show whether depositors can place their savings in Islamic banks or traditional banks better. This comparative study would also help the regulators because they can compare Islamic banks with traditional banks based on CAMEL ranking.

2.1 THEORETICAL FRAMEWORK

2.1.1 CONVENTIONAL VS. ISLAMIC BANKS

The Islamic banking system was developed to fulfill the teachings on loans from the Holy Qur'an. Maximizing the return on investment and assets is not agreed in this framework. According to Shari'ah, there are core concepts referred to as "fair" and "free" lending schemes where "fairness" is the primary objective. Investors are thus free to join, but free transactions with approval of Ribba (interest) and Gharar (risky or ambiguous sales). Furthermore, it is important to be a company partner in this scheme rather than to offer a loan as in traditional banks. Finally, the Islamic banking system makes attempts to meet economic needs by offering services that are free of interest. No one can gain from other losses; this is the key value on which this system operates.

Islamic finance is the complex implementation of Sharia'a (Islamic Law), which is why Islamic financial institutions are based on the principles of Sharia. The fundamental principle, the prohibition of interest (Riba), as revealed by the Quran (Al-Baqarah, 2:275). "Allah has permitted trade and has forbidden riba" There are many main principles of Islamic Banking. Geelani (2005) assets Riba applies to any pre-determined loan capital payments above 13; this is opposed to traditional banks charging both deposits and loans at a fixed rate. Incertitude and speculation (gharar) are also prohibited since any company entered by the bank should be well known to all the contracting parties as quoted in Kahf and Khan (2007).

In comparison, the traditional banking system relies on the prevailing interest rate. Banks normally act as mediators. They take money from savers provided they pay the savers' interest. Banks then lend this money to borrowers and charge them higher interest. This method aims to optimize benefit as their highest goal (Chong, Beng Soon, & Liu, Ming-Hua, 2009).

In the traditional banking system, regardless of whether or not the bank gains depositor capital, the depositors have to pay the interest sum anyway. In this way, traditional banks bear some kind of risk, while depositors have interest on their investment. On the other side, even borrowers are absolutely at risk, whether or not they benefit from the loan, they also have to pay back the loan and interest amount. On the contrary, Islamic banking puts greater focus on risk-sharing through an asset-based approach, whereas traditional banking believes only in the transfer of risks (Imam et al., 2010). Another distinction is the difference between the management structures of both banking systems (Suleiman, 2001).

A very important difference between the two diverging banking structures is the secular orientation of traditional banks, while Islamic banks abide by the rules of sharia in all their transactions. Kettel (2011) argues that only

sharia's licensed contracts are to be allowed in Islamic banks, no operation deemed haram (forbidden in Islam) can be financed. In all Islamic Financial Institutions, a Sharia'a Supervisory Board (SSB) is required to ensure that all financial transactions are in compliance with Sharia law. This Supervisory Board reviews all the contracts, transactions and transactions of the bank to ensure that banking operations are halal (permissible) and that sharia rules, as quoted in Lewis, are applied accordingly (2005).

2.1.2 BANKS' PERFORMANCE

Equally relevant for clients, regulators and stakeholders is the performance appraisal of banks. The results of this study are a guideline for deciding whether or not to deposit or invest your money in those banks. In addition, bank managers are able to take advantage of this by changing bank policies to strengthen the financial structures, tracking both banks and regulators as a similar global approach work well enough to meet banking system standards (Samad and Hassan, 1998).

2.2 LITERATURE REVIEW

2.2.1 COMPARATIVE LITERATURE BETWEEN CONVENTIONAL AND ISLAMIC BANKS

Cihak and Hesse (2008) reported in their study that Islamic banking shares the risk, according to Mudaraba and Musharakah (fair participation). They also argued that the banks in this scheme accept all economic risks, and that the borrower is absolutely free from any losses or other factors that have affected the banking industry. However, under this system, the bank is solely responsible for any loss or benefit, and in no way affects depositors or borrowers. In short, Islamic banks tolerate all the effects of losses, and borrowers and depositors only reap the rewards.

In a study on Malaysian banks by Guru and Shanmugam (2010) to decide why some banks are more competitive than others and to what degree the differences in profitability output are due to variations in internal management rather than external environmental factors. The study concluded that cost-management performance is one of the most critical determinants of bank profitability; as a result, banks can increase their profitability by concentrating attention on sound cost control and operating efficiency. Similar findings have been recorded in Bangladesh by Safiullah (2010). Showing that operating efficiency is a major determinant of profitability and that traditional banks are doing better than Islamic banks on the basis of productivity and operating efficiency.

Hasan and Dridi (2010) have shown, in their studies, that Islamic banks have more preference than traditional banks because of their interest-free and loss-sharing policies. The main difference between Islamic and traditional banking is that this system bans non-productive properties, false securities and any other factors that adversely affect customers. The first thing is that these investments are not permitted in the Shariah Law and are considered gambling and profit-making through speculation on the movement of capital. As a result, different activities, Islamic banks and the Islamic economy as a whole have higher capital levels, lower leverage, smaller investment portfolios, as well as a small volume reliance on deposits (Hasan &Dridi, 2010).

2.2.2 BANKS' PERFORMANCE LITERATURE

With the aid of various techniques such as financial ratio analysis, CAMEL rating analysis and trend analysis, a broad range of academics have shed light on the financial performance of banks. For example, the results of the 2012 Kouser and Saba studies show that, due to higher operating costs and inefficient management, traditional banks perform much better than Islamic banks in Pakistan (Ashraf and Rehman, 2011). In addition, the study concluded that Islamic banks have higher rates of capital adequacy, asset quality, productive management and earnings than other banking systems (Kouser and Saba, 2012).

Manarvi& Muhammad (2011) and Momeneen& Jaffar (2011) compared the performance of Islamic and traditional banks in Pakistan using the CAMEL measure. They both concluded that Islamic banks are better at processing adequate capital and have a better liquidity role for IBs compared to CBs in Pakistan, but CBs have been pioneers in controlling quality and earning power, though asset quality for both banking sources has been almost the same. These findings are also consistent with the results of Ika and Abdullah (2011) which concluded that IBs in Indonesia

are more liquid than CBs and have better liquidity management practices. In a study by Javaid, Anwar and Zaman (2011), the key determinants of profitability of banks in Pakistan were established using internal factors only (the impact of assets, loans, equity, and deposits on profitability). Empirical studies have shown that these variables have a strong effect on profitability. However, they concluded that higher total assets can not inherently lead to higher profits due to economies of scale and that higher loans contribute to higher profitability, although their effect is not important. Ok, respectively.

Pakistan's conventional and Islamic systems were compared in order to evaluate their performance by Ashraf and Rehman, 2011. For their 3-year study review, they selected the following five financial dimensions, including liquidity, revenue, benefit, assets and credit risk ratios (2007 to 2010). A research carried out by introducing the CAMEL rating system to review the performance not only of traditional and Islamic banks, but also of mixed banks.

Pakistan Traditional and Islamic Banks, evaluated for their profitability ratio from 2006 to 2009 (ROA and ROE). The study found that the performance of Islamic banks is not significantly different from that of conventional capital banks. While Islamic banks were more liquid in terms of liquidity, they had the lowest risk and better income ratio in this respect. Thus, the overall findings were in favor of Islamic banks rather than traditional banks (Ansari and Rehman, 2011).

Rima Turk Ariss (2006) examined the competitive conditions prevailing in Islamic and Traditional global banking markets by looking at the gap in profitability between Islamic banks and conventional banks. The results indicate that Islamic banks devote significant amounts of their assets to fund operations such as Musharaka, Mudaraba, Ijara and so on compared to traditional peers and Islamic banks are better capitalized. In other words, Islamic banks are very vulnerable to credit risks. Generally, it explored the disparities between Islamic and traditional banking markets, and it emerged that the Islamic global banking industry revealed signs of a more concentrated and less competitive banking sector compared to conventional banking.

From 2005 to 2009, the review of the financial results of traditional banks in Jordan was carried out. Results are driven by a regression analysis. In order to achieve the study objectives, ROA and return on interest income were used as dependent variables while bank scale, operating performance and asset management were used as independent variables. Results have shown that banks with a higher ratio of total assets, deposits, equity and loans do not necessarily have more earnings (Almazari, 2011).

Akhtar, Ali & Sadaqat (2011) conducted a comparative study of Islamic and traditional banks focusing on the value of firm scale, networking capital, equity returns, capital adequacy and asset returns with liquidity risk management. The results showed that the size of the bank and the networking capital of the net assets had favorable but negligible relationships with the liquidity risk. Whereas capital adequacy in CBs and return on assets in IBs has a favorable and important relationship with liquidity risk.

A major comparative analysis of almost 6,562 branches of 48 Bangladeshi banks was conducted between 1999 and 2006. The CAMEL rating system was used to assess the financial performance of all branches. According to CAMEL ranking, three banks out of 48 banks rated 'better,' 31 banks rated 'average,' 7 banks rated 'good enough,' 5 banks rated 'marginal,' and two banks rated 'bad' scores (Nimalathasan, 2008).

CAMEL's study of Islamic banks in Malaysia for the period 1997 to 2003 was carried out with a view to evaluating the financial analysis of the overall banking system. According to the results of the report, Islamic banks have done well to handle their deposits and assets effectively and to have a solid financial base. The study showed that Islamic banks were expanding rapidly during that time, stabilizing their positions in Malaysia. By comparison, traditional banks performed much better than Islamic banks in the same system (Mokhtar et al.,2006).

According to a report by Faysal(2004) aimed at defining the profitability of Islamic Bank and Traditional Bank determinants. The profitability metrics ROE, ROA and NIM for two different types of banks are compared. As an independent variable it used: net asset logarithms, asset equity, asset deposits, total asset loans and so on. He used cross-country bank level data for Gulf Cooperation Council GCC countries to perform ordinary least squares. He found results consistent with Hassan and Bashir(2004) for Islamic Banks, and also found in his study of the relationship between banks the characteristics and profitability indicators of Traditional Banks. The effect of the variables showed a different representation of 25 on the profitability indicators. Logarithmic total assets TA have a negative relationship with output assessment in the Traditional Banking System, but positive in the Islamic Banking

System. The capital ratio or equity ratio has been negatively linked to the efficiency calculation of the Traditional Banks and the positive relationship with Islamic Banks has been negatively linked to the profitability indicators. It also found that lending increases the profitability of both Islamic and Traditional Banks, in other words, total loans are positively connected to the profitability determinant of both banks. In addition, he found that the deposit ratio had an inverse relationship with the profit margins for Islamic banks, which is consistent with previous studies by Bashir (2000) and Hassan, Bashir (2004). However, deposits are positively linked to the profitability determinants of traditional banks. Both the Islamic and the Traditional Banks have a good relationship with the determinant of profitability.

Samad carried out a study of the performance of Islamic banks in Bahrain (2004). This research concerned credit risk, liquidity management and profitability ratios. The findings suggested that Islamic banks are performing much better than traditional banks, though; the Islamic banking system had only been launched in Bahrain a few years earlier. With the aid of the t-test, the researcher concluded that there was no substantial difference between profitability and liquidity management for both banking systems (Samad, 2004).

Faizulayev (2011) also performed a comparative analysis between IBs and CBs in several countries using the CAMEL system. Using the regression analysis to determine the effect of the profitability determinants and the ANOVA tests to evaluate the importance, it concluded that CBs are different from IBs in terms of capital adequacy, asset quality, earnings quality, liquidity quality and management quality, and IBs are less liquid than CBs because they mostly deal with long-term investment. In addition, he suggested that the moderating influence of the type of bank had a major impact on bank efficiency. Conversely, in a study by Ongore et al (2013) on the moderating impact of the ownership structure on bank performance in Kenya, they concluded that the moderating function of ownership recognition was insignificant to the profitability of banks and therefore did not affect performance.

The traditional banks of Bangladesh were examined for the period 1980 to 1995. The main objective of the analysis was to see the contribution of Bangladeshi traditional banks to the economy. The study shows that traditional banks perform well enough in terms of profitability; the collective result was close to 0.09 per cent for the entire period. Overall, the findings suggest that the output of traditional banks was not fair enough in various respects. However, it has a major contribution and role to play in Bangladesh's overall economic growth (Siddique and Islam, 2001).

2.3 OVERVIEW OF JORDAN ISLAMIC AND CONVENTIONAL BANKS

2.3.1 BANKS HISTORY

The Islamic banking system began in Jordan around two hundred years ago, as it plays a key role in Jordan's economic field. The first traditional bank began with the Arab bank in the early 1900s. In 1964, the Central Bank of Jordan (CBJ) was formed to be responsible for the issuance of notes, the regulation of credit and the management of exchange reserves, and also for the supervision and control of the banks and financial institutions as a whole.

The 1980s was a time when Jordan had considerable importance in the Arab world due to the growth of its GDP and bank reserves. Current bank assets grew from $1.1 million to $2.3 billion in 1985, while total deposits rose to $1.7 billion, CBJ handled investments and increased earnings by up to 7% and liquid capital also increased to $900 million. In that period of rivalry, the banking sector expanded due to the growth of banks (JIR, 2005). At the end of the 1980s, eight conventional, two Islamic, six foreign-operated. By the end of 2004, the number of institutions increased to 24, and 8 out of 24 banks were international, 14 were traditional, and 2 were Islamic banks (JIB, 2005).

Two thousand seven has been a good year for the capital-related banking industry. The year ended with a rise of $2,578.0 million due to stable economic and political circumstances. Private banking deposits have amounted to $1,232.4 million in 2008. Although foreign liabilities have risen by $577.3 million. In addition, substances with undisclosed liabilities and capital, assets and allowances have amounted to up to $356.4 million, respectively (CBJ, 2008).

Nowadays, the banking sector is privately owned, well established and productive (CBJ, 2008). Jordan's entire banking sector is made up of 26 banks, with approximately 695 branches across the region. These branches are divided into two major groups by the CBJ; the international bank branch group and the national bank branch group, and each of these groups consists of both traditional and Islamic banks.

2.3.2 Climate REGULATORY OF THE JORDANIAN BANKS

Jordan's banking sector functions under the CBJ as an independent regulatory oversight. In recent years, the Jordanian traditional banking industry has undergone frequent regulatory adjustments in line with global standards. After 1993, the CBJ deregulated interest rates and liberalized the financial sector. It has also implemented prudential legislation up to date (Bdour and Al-khoury, 2008).

To ensure that Jordanian banking sector regulations comply with international standards, CBJ imposes restrictions on financial institutions. These laws consist of bank payments, foreign currency transfers, administrative and securities transactions, daily paperwork, plentiful and domestic loans, asset sufficiency, risk-based provisioning, internal controls, liquidity regulation, debit/credit card spending, and deposit insurance. Surrounded by this regulatory environment, there is no oversight of deposit or loan charges.

In the case of new banks (domestic and international), banks must comply with a number of conditions: registration as a public shareholder, payment of license fees, presentation of a detailed business plan, minimum capital of $40 million for domestic banks and $20 million for branches of foreign banks, similar in permanent home country regulations, in addition to other conditions (Jordanian Banking Law, 2000). International banks have additional licensing conditions. For example, the bank must be permitted to accept deposits in its home country, enjoy an excellent reputation and a well-built economic position, and have permission from the competent authority of the head office to operate in the empire. The main features of the regulations are the minimum capital requirements of 12% for international banks, while just 8% for local banks.

Prudential regulations on the repayment of loans require banks to report their loans which are not due for 90 days. Banks are expected, by way of a loan, to remove their bad loans from their assets and to retain provisions for them. By regulation, all banks are required to have deposit insurance plans and to publish their financial statements at least once a year or semi-annually. Banks are subject to periodic off-site inspections and frequent on-site visits.

3. METHODOLOGY

Data analysis will be conducted using the "trend analysis" method, which uses historical data to forecast future outcomes (Ac. Coach, 2013). The current research used the published data (balance sheet and income statement) published by the banks on their official websites. Data derived from 5 Jordanian banks, including three traditional banks; Jordan Kuwait Bank (JKB), Jordan Ahli Bank (JAB) and Jordan Bank (JAB) (BJ). Two Islamic banks; Jordan Islamic Bank (JIB) and Islamic International Arab Bank (IIAB) from 2005 to 2011.
Two models were used to evaluate the performance of the banks. Next, the CAMEL rating system is used to assess the efficiency of banks from a regulatory perspective. Second, profitability analyzes are carried out from the viewpoint of bank owners.

4. DATA ANALYSIS METHODOLOGY
4.1 CAMEL MODEL ANALYSIS
CAMEL stands for capital adequacy, asset quality, management efficiency, Earnings ratio, and Liquidity management. These terms are defined below in detail:

1. **Capital adequacy** ratio achieved by dividing total shareholders' equity from total assets. This capital adequacy shows the banks' capital or weighted assets ratio to its risks thatdefines how well the bank is capable against to its risks (Chen, Guo, & Huang, 2009).
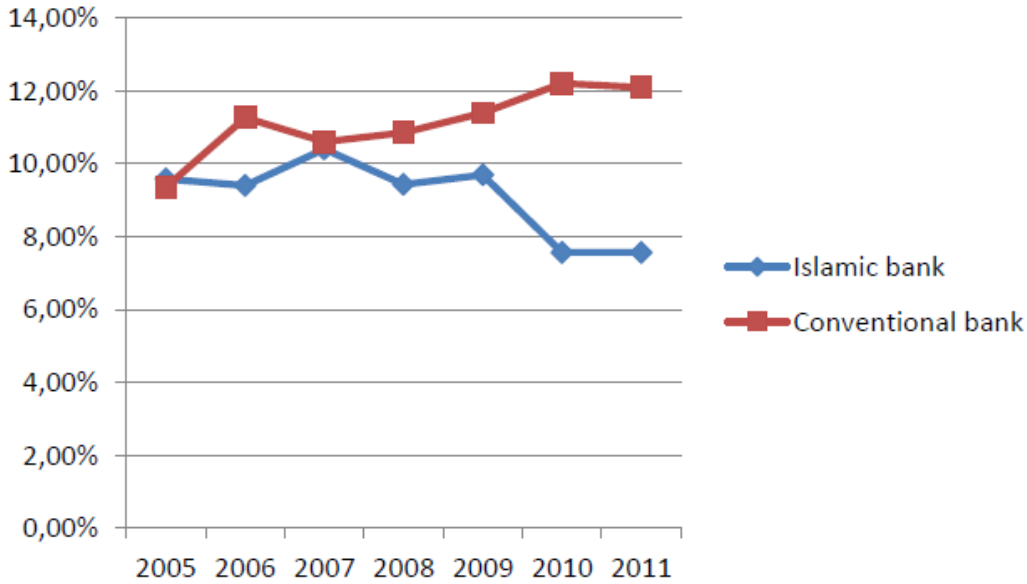
Figure (1): Capital Adequacy of Islamic &Conventional Banks (2005 – 2011)

Figure 1 shows the capital adequacy ratio of both Islamic and conventional banks of Jordan from the period of 2005 to 2011. The figure illustrates that the capital ratio of Islamic banks is less than conventional banks in respective years. Thus, results prove that conventional banks are efficiently managing its capital to protect its depositors and lenders.

2- **Asset Quality**ratio illustrates the banks' ability to handle outstanding loans. In this regard, banks need to maintain their asset quality, and it can be achieved by dividing non-performing loans to total loans (Chen, Guo, & Huang, 2009).
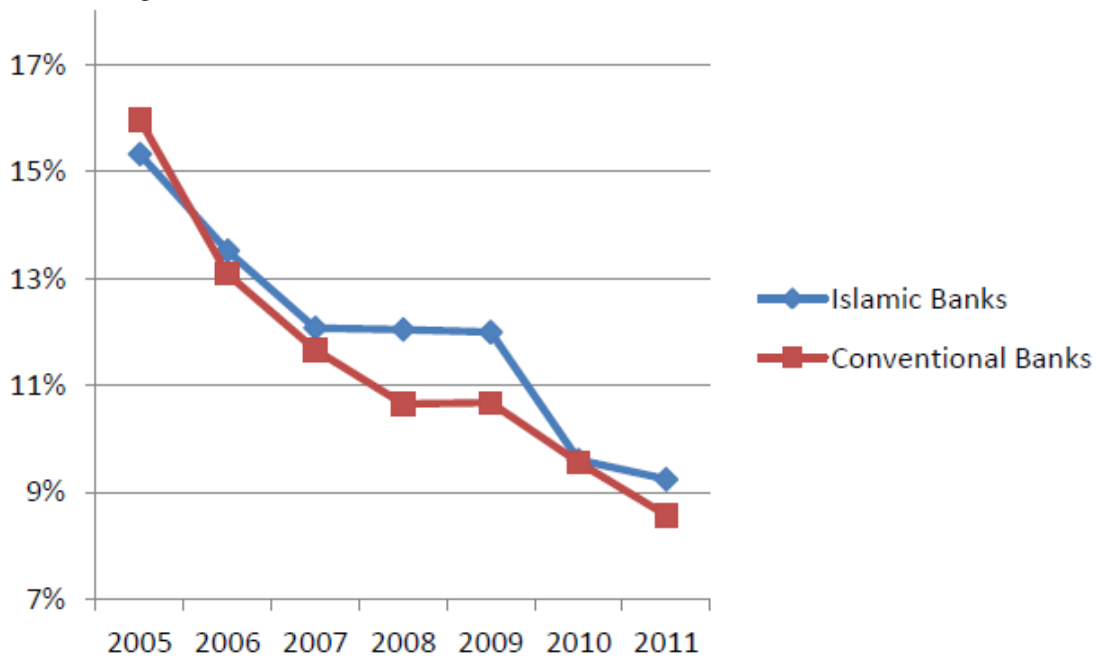

Figure (2): Assets quality ratio (NPL) analysis of banks

Figure 2 presents the non-performing loans (NPL) ratios of both banking systems, which shows that conventional banks have a consistent decrease in their NPL rate. Right since from the year, 2005 conventional banks reduced their bad loans more than the Islamic banks. During the financial crises period between 2008-2009, it appears that conventional banks managed their asset quality better than the Islamic banks.

3- **Management Capability**which can be evaluated by operating ratio, expenses and profit per labor or employee and gross earning assets to total assets. The bank considered healthy in financial terms when it has enough profit as compared to its expenses (Apostolos et al., 2011).
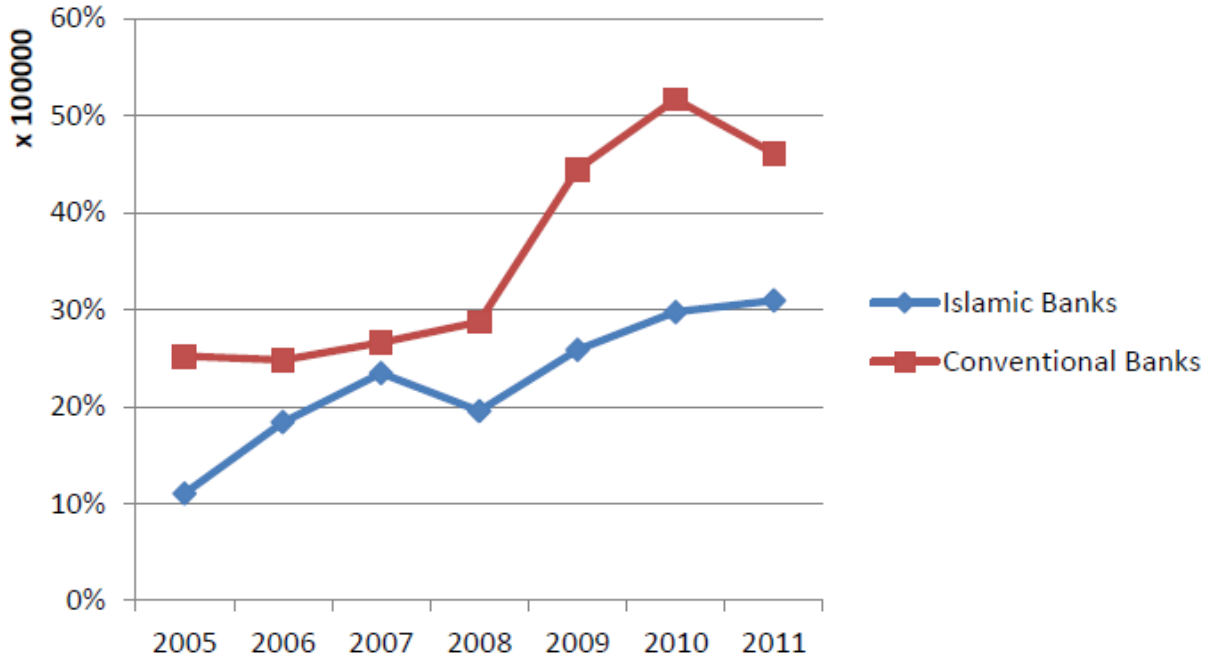

Figure (3): Management quality on the basis of per employee income
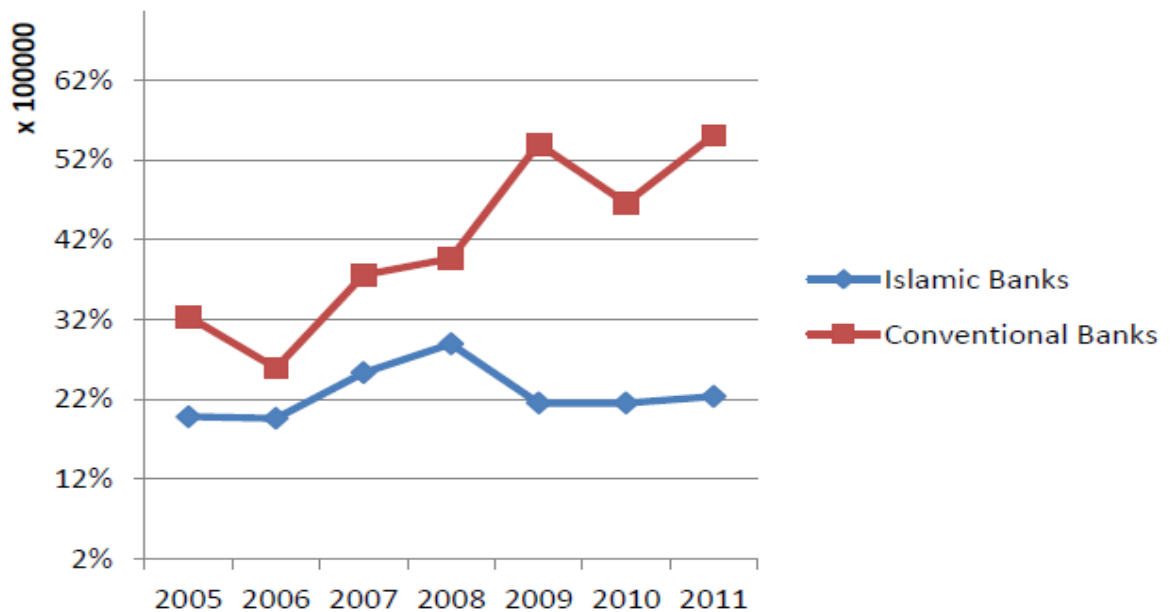

Figure (4): Management quality based on per employee expense

Figure 3 shows that the conventional bank is earning much better than Islamic banks based on per employee. While figure 4 shows the management efficiency ratio of Islamic banks based on per employee expense is better than conventional banks. Comparatively Islamic bank's management efficiency ratio is higher than conventional banks, because conventional banks per employee earning is quite equal to their per employee expense, whereas, Islamic banks per employee income ratio is higher than per employee expense. This figure shows that Islamic banks are efficiently managing their operating expenses and income.

4- **Earning Ability:** According to the CAMEL model earning ability of banks can be determined by **Return on Assets**(ROA) and **Return on Equity (ROE)** (Gul et al. 2011).
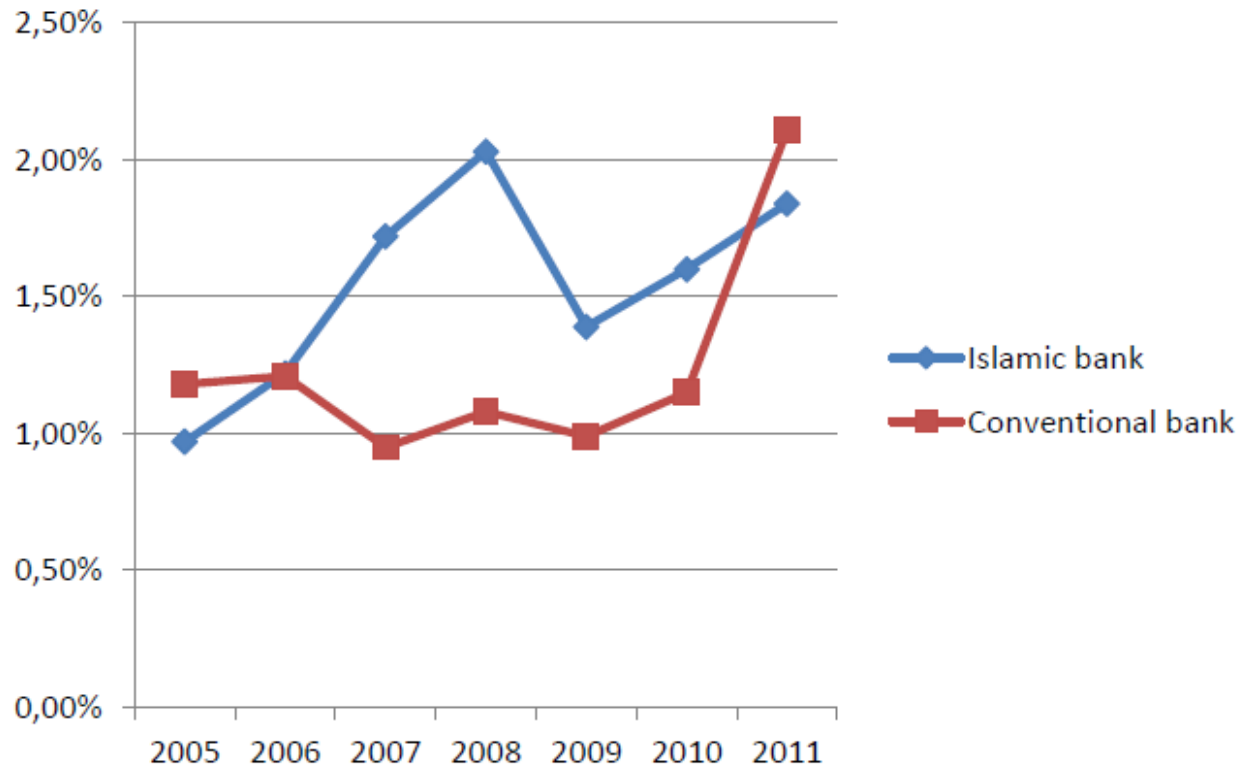

Figure (5):ROA ratio analysis of banks

The return on assets ratio for the conventional banking system is unstable, in 2005 it was around 1.2%, and then it declined to 0.95%, again, it increased 1% in 2008, and there were ups and downs till 2010. However, 2011 was the most significant year with 2.1% of earnings on assets. On the other hand, Islamic banks earning was 1% only that reached up to 2% in 2008 but it again declined in 2009 and 2010 but with a bit increase in 2011. Two thousand eight was a significant year of ROA ratio for Islamic banks. Overall Islamic banks performed a much way better than conventional banks throughout all 2005 till 2011.
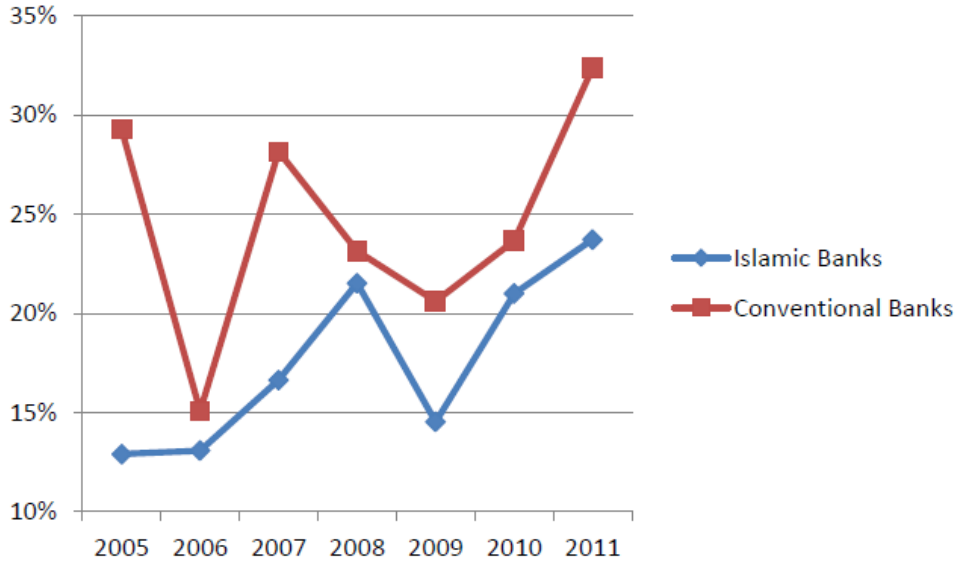
Figure (6):ROE ratio analysis of Islamic and conventional banks of Jordan

The average return on shareholders' equity for both banking systems from the period of 2005 to 2011 is shown in Figure 6. The figure clearly demonstrates that there is a significant increase in shareholders' equity for conventional banks than Islamic banks. However, only 2011 is the year, conventional banks made more than 100% earning on equities. If we compare both systems 'earnings ratio of equities for the entire period, it's visible that conventional banks are performing better than Islamic banks.

5- **Liquidity Ratio:** In this study, the CAMEL two ratios of a loan to deposit ratio and a liquid asset to total deposit ratio are examined to find out the liquidity position of both banks to ensure the bank's ability to meet its short-term and long-term funding commitments (Apostolos et al., 2011).
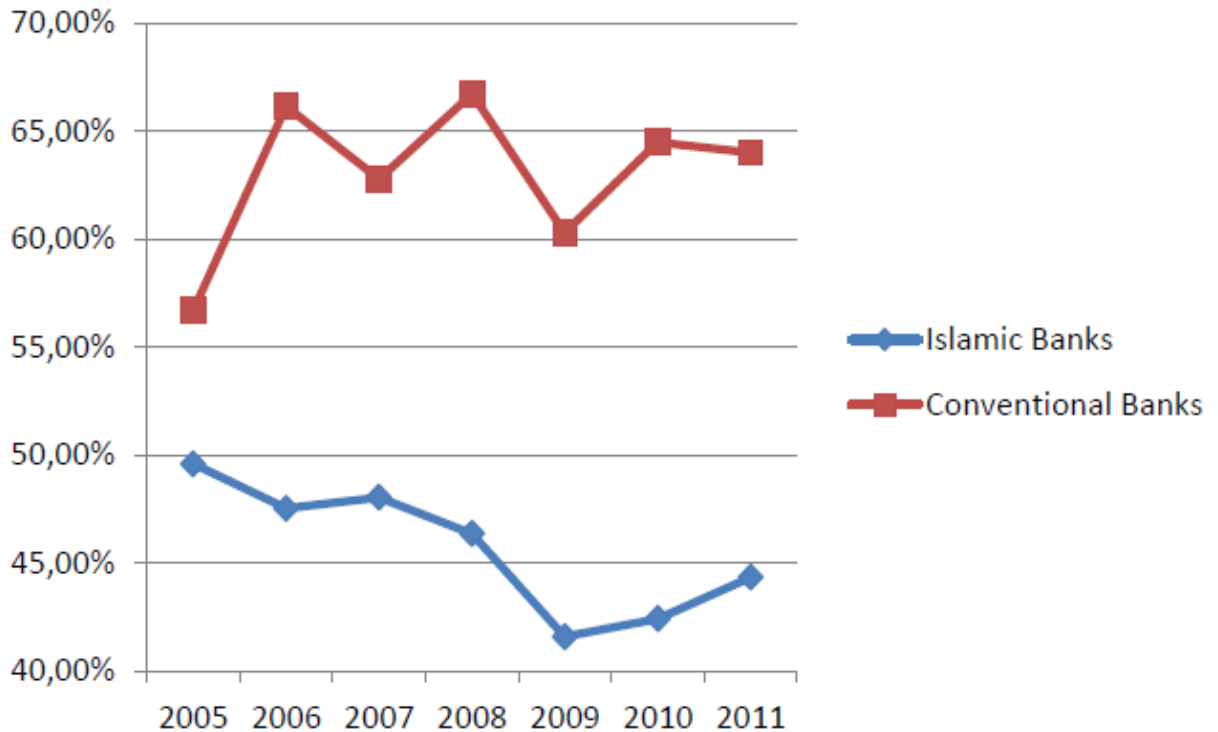

Figure (7): Liquidity ratio analysis of Islamic and conventional banks of Jordan

As liquidity means to have enough liquidity in the bank to deal with short-term financing needs, like deposits withdrawals. Figure 6 shows that the loan to deposit ratio for both systems was higher in 2005, but after that, there is a linear decrease for both banking systems. However, in comparison to conventional banks, Islamic banks have the lowest ratio which means higher liquidity in comparison to the conventional banks.

4.2 RESULTS ANALYSIS IN BANK REGULATOR'S PERSPECTIVE

Capital availability to handle risks to protect lenders and depositors' money, asset management to make more loans, higher interest income than interest expense, enough ROA and shareholders' equity and better liquidity position to meet short- and long-term funding are the major concerns of banks' regulators. If banks can manage at least three of these variables, it shows they are performing well enough to comply with financial laws and regulations (Jose A. Lopez, 2008).

The capital adequacy results as conducted in the previous section clearly show that Islamic banks need to improve its performance regarding their capital. During the entire period, conventional banks had the highest capital adequacy ratios, while Islamic banks' adequacy was consistently around 7% and 9%, which is lower than conventional banks. The trend analysis indicates continuous declined in Islamic banks adequacy and a constant increase in conventional banks adequacy. The adequacy ratio was 9.37% for the same banks in 2005, and gradually it reached up to 12.10% in 2011.

The asset quality ratio is much higher for Islamic banks than conventional banks. In 2005, when Islamic banks have a15.34% ratio, the conventional banks' ratio was 15.98%, there was not much difference, but in 2008 conventional banks' ratio came down to10.66% which is much lower than Islamic banks' ratio of 12.05%. Thus, conventional banks' performance is much better than the Islamic banks in managing assets' quality.

Islamic banks are leading in management quality by not spending much capital on operational expenses. As lower this ratio would be, the better the performance will be considered. Thus, the driven results in the previous section show Islamic Banks's management ratio between 3 to 3.8% throughout all periods. While conventional banks had the lowest percentage of 3.86% in 2005, that increase up to 9.34% in 2010, and there was a small decrement in 2011 with 0.01%. Islamic banks are maintaining the same level of management capacity, conventional banks, on the other hand, failed to do so, as there is a significant increase in the amount they spend on operational expenses.

The results of the liquidity ratio analysis are also favorable for Islamic banks. There is a vast difference between both banking systems regarding liquidity ratio. The liquidity ratio for conventional banks is rapidly increasing; there was no single improvement noticed in the entire period of 2005-2011. However, the ratio is also increasing annually for Islamic banks as well, but it is still much lesser than conventional banks. The last ratio for Islamic banks was 44.34% in 2011, while 64.02% were for conventional banks. Hence, Islamic banks have better liquidity management and can meet any uncertain funding requirements.

4.3 RESULTS ANALYSIS IN BANK OWNERS' PERSPECTIVE

As we already mentioned that owners are more concern with profit and loss over their assets and deposits, thus result driven in the previous section from ROA and ROE are parallel for both banking systems. Islamic banks are earning good enough on their assets, while the conventional banks are earning more on their equity. Although, an increase in year basis in ROA and ROE ratios for both banking system is noticeable. The increment on assets return is favorable, but not in the equity case. The highest ratio of return on assets was 2.03% of Islamic banks and 2.11% of congenital banks. In the aspect of equity both banking systems had the highest ratios just in 2011.

5. CONCLUSION

The performance assessment of any bank is critical in order to measure its growth and ability to comply with all financial rules and regulations. It is customary in the banking sector to determine their goals and objectives. Like most traditional institutions, the primary goal of banks is to maximize profits. On the other hand, Islamic banks often have other goals besides making or maximizing money, namely to promote economic and social well-being and to ensure that customers are not abused. Both structures were opposed to business constructs.

The goal of this study was to analyze the output of Islamic and traditional banks in Jordan to see which banking system plays a better role in the growth of Jordan's economy. Jordan's banking sector is one of the most active banking sectors in the world and consists of 13 traditional and 3 Islamic banks. The sector as a whole plays a critical role in economic development. The "CAMEL model" was used to achieve the goals of the analysis. The CAMEL model defines the success of the bank in a number of ways, such as money, assets, profits, management and liquidity. The bank needs to follow the requirements for each CAMEL factor.

In order to meet the objectives of the report, five banks (2 Islamic and three traditional banks) were selected to assess their performance under the CAMEL rating system. The data for each bank was obtained from the bank's official website, annual financial reports and mostly from the Jordanian CBJ for the period 2005 to 2011. A simple picture of the effects of the trend analysis has been used. According to the Islamic review, the bank is doing well in terms of management performance, better liquidity management and asset returns than traditional banks. Though traditional banks have a better stock, assets and return on equity ratio than Islamic banks. Thus, the overall results indicate a correlation between the two banking systems, since, in some respects, traditional banks do better than Islamic banks and, in some cases, Islamic banks do well. In short, we can conclude that both banking systems play their best role in contributing to the economy. According to the CAMEL testing system, the banks are doing well if they meet three of its requirements, but the banks would be considered at a higher level if they meet all the criteria.

The most critical thing about both banking sectors is their distinct way of doing business and earnings. We have already seen a study of numerous articles and studies on the disparities between the two banking systems, which is a prominent aspect that affects their efficiency. Since both banking systems have a different vision, mission, goals, and business operating procedures, it is hard to tell why one is better at managing cash, while the other is in return on equity. The findings show that both banking structures are better at their aspects if we consider their business policies. Both are doing well, but with regard to financial supervision, both banking structures should strengthen their efficiency in all respects.

Islamic banks should boost their capital adequacy ratio and add to quality, as well as work more on equity returns to make profits. Conventional banks should consider updating their policies, in particular in the areas of liquidity ratio, management performance and asset returns. Conventional banks need to reduce their operating costs in order to improve management efficiency and quality of liquidity.

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