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THE REPERCSUSSIONS OF THE GLOBAL FINANCIAL CRISIS 2008 ON THE PROFITABILITY OF ISLAMIC BANK IN JORDAN

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ABSTRACT
This study aimed at identifying the repercussions at the global financial crisis on the profitability of Jordanian Islamic Banks during the period 2005-2011. The study period has been split into two sub-period before the global crisis from 2005-2007 and after crisis from 2009-2011. The study used the analysis of financial ratios, such as: return on assets, return on equity, profit to expenses ratios. The sample at the study consist two Islamic banks in Jordan. This study depends on the descriptive statistical method, also used regression. The result showed that the profitability of the Jordanian Islamic banks was affected by the crisis only slightly, as Islamic banks but showed resilience in the face of crisis.

KEYWORDS
global financial crisis, profitability in Jordanian Islamic bank.

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INTRODUCTION
Islamic banking commenced in Jordan approximately two decades ago, ever since it has played an important role in financing and contributing to different economic and social sectors in the country. This study, therefore, examines and analyzes the Jordanian experience of Islamic banking. To know the effect of the crisis on the profitability of Jordanian Islamic banks, focusing on the two largest, Jordan Islamic bank for finance and investment and Arab Islamic International Bank.

The 2007 global crisis is recognized as a sequence of global crises since the 1970s and started with the subprime mortgage in the United States. This crisis is the most important and exceptional one among the other financial crises because of the significant impact it had not only on the US economy but also on other major economic in the world.

This crisis occurs in countries with developed more than other countries. It has given a wide range of impacts to the operating and financial performance of many banks all over the world. As a result, many banks across the world reported financial losses on their financial reports due to their connections with subprime mortgage in the U.S. or were simply affected by economic recession in their own countries. The impact of the crisis have even forced around 123 banks in the U.S. to file for bankruptcy in the year, including American giant bank Lehman Brother.

PROBLEM OF THE RESEARCH
The Jordanian economy as a part of international economy, and the opening of the Jordanian economy to the world. That the Jordanian economy is one of the world's least affected by the repercussions of the financial crisis. This is because financial deposits are few in United State of America. Also the Jordanian economy is not directly linked to the international economy.

The study problem is the following questions:

Is the performance of the Jordanian Islamic banks affected by the profitability ratio pre and post global financial crisis?

OBJECTIVE OF THE RESEARCH
Investigating the Islamic banks performance regarding the profitability ratios pre and post the global financial crisis.

IMPORTANCE OF THE RESEARCH
The importance of the study is attributed to the fact that it addresses the importance of the impact on the economic and social well-being of many countries of the world. Although Islamic banks are somewhat modern, their contribution to addressing the repercussions of the financial crisis has been somewhat tangible. Therefore, this study comes to give evidence of a new experimental about whether Islamic banks have the ability to withstand the economic crisis.

THE CONCEPT OF THE GLOBAL FINANCIAL CRISIS
The oscillations which is affect wholly or partly on the total financial variables, or the consequences of mortgage crisis that appeared on the surface in 2007 due to the failure of millions of borrowers of purchase of housing and real estate in United States in repaying bank debts that resulted in a shake in the US economy.

THE BEGINNING OF THE GLOBAL FINANCIAL CRISIS
The financial crisis indicators started at the beginning of 2007 where some of mortgage loans had crashed which is considered to be of a high risk where people of both middle-income and low-income were rushing to take loans in a remarkable way for buying houses regardless of the high interest starting from 3.2% and even reached 16%, these groups of people are suffering from the an inability to pay for this with a very high interest loans which led to a full collapse for this economic system, whether refinancing institutions, insurance companies, and cognitive sector one after the other, And on top of that largest banks in United States so-called bank Lehman Brothers, it did not end up here and to this extent, this crisis had grown in September 2008 until it's become bigger and bigger and carried out to the geographical area which had started in the US and reached Britain, this crisis forced the British government to nationalize one of the largest banks Northern Rock Bank.

ROOT OF THE GLOBAL FINANCIAL CRISIS IN 2008

The historical roots of the financial crisis in 2008, many researchers and specialist agree that the financial crisis is not the result of the moment and has historical roots associated with some economic events that negative impact the performance of U.S. economy.

First: The negative impact of the Asian Financial Market Crisis of 1997 and the crisis of the information technology and internet companies in 2000 on the performance of the American economy, and the events of 11 September 2011 exacerbated the crisis.

Second: The U.S. federal reserve cut interbank lending rates in response to economists, expectations of a recession in 2001, from 6% in January 2001 to 1,75 in December.

Thirdly: The continued deficit in the balance of trade payment to the United States of America reached very worrying level. In 2005, this deficit reached 800 billion US $, equivalent to 6.4% at the GDP of the United States of America, equivalent to 1.5% of the world GDP.

Fourth: The diversion of American and foreign investment to housing and real estate.

REASONS OF THE GLOBAL FINANCIAL CRISIS

1. The economic recession in U.S.
2. Increase in real estate debt securitization.
3. Mortgage banking credit companies trap.
4. Lack of supervision of financial institution.
5. Expansion and excessive application of credit cards without balance (bank overdraft).
6. Dealing in usury.

IMPACT FINANCIAL CRISIS ON THE GLOBAL ECONOMY

1. Continuously bankruptcy of many banks, real estate institutions and insurance companies.
2. A sharp deterioration in the activity of global financial markets influence by the banking and financial sector.
3. High mortgage debt ratio about 6.6 trillion dollar.
4. The decline of oil price.
5. A significant decline in the growth rates of the industrial countries from 1.4% in 2008 in 3% in 2009.

LITERATURE REVIEW

Anouar Hassoune (2002) studied the volatility of Islamic banks in terms of return on equity ROE and return on assets ROA by comparing with Conventional peers in GCC countries. He used ROE as efficiency measure and ROA as profitability measure equity ROE and return on assets ROA by comparing with Conventional peers in GCC. Moreover, he found that Islamic banks are more profitable than conventional banks with the same structure of balance sheet. And he explained his empirical results in a way that Islamic banks gets benefit from imperfection of market. Furthermore, he found that Islamic banks have weakness in terms of liquidity, concentration risks and operational Efficiency.

Quesmi (2010) the researcher measured the impact of the financial liberalization on the Jordanian banks performance where he used the quantitative analysis method, for a sample consist of (8) Jordanian banks 1986-2008, the performance have been measured by using the return on equity, the return on assets and four fake variables, where the study showed that the liberalization of interest rates have no effect on the Jordanian banks performance, and that there is a negative impact of the lifting restrictions on the foreign ownership.

Hussni Al-kholi (2009) the research addressed the conventional and Islamic Saudi banks indicators, where that these banks reflect in its entirety stability covered with caution, where the study showed that the Saudi banking sector absorbed the consequence of the global financial crisis, where the Saudi banks results appear during the first nine month of 2009 a slight decline in profitability reached.

While Turk Ariss (2010) searched in measuring the competitive conditions of Islamic and conventional banks, where it relied on market power indicators during the period(2000-2006) it explained that the weakness of the competition has a positive and intangible correlation with the degree of profitability and that the conventional banks, have bigger competitive compared to Islamic banks, where this study is characterized with the standard comparison for the financial stability between the conventional and Islamic banks in Saudi Arabia. Shammout (2003): this study addressed the efficiency performance test of the Jordanian banks, especially with Jordan applying the debugging and liberalization of economic and financial programs in the early nineties of the previous century, the study aimed to analyze and examine the relationship nature between the performance of Jordanian banks measured by profitability with the characteristics of these banks, taking into account some of the overall economic factors used the researcher linear regression (ols).

HYPOTHESIS

There is no significant difference in the performance of profitability ratios of Jordanian Islamic banks between pre and post crisis period.

RESEARCH METHODOLOGY

SAMPLE OF THE RESEARCH

Two Islamic banks, which were founded and its practice before the start of the global financial crisis, Jordan Islamic bank for finance and investment and Arab International Islamic bank.

SOURCES OF DATA COLLECTION

The study relied on secondary sources of data, which are represented by the Jordanian public shareholding companies issued by the Amman Stock Exchange guide for the period (2005 - 2011). In addition the annual financial statements issued by the banks in the same period, and that in order to obtain the necessary data to calculate the financial ratios used in knowing the impact of the global financial crisis on the performance of Islamic banks.

STATISTICAL METHODS USED

The descriptive analysis method was used based on: the Mean, Standard deviation, measured by the proportions of different performance pre and post the global financial crisis began. Where this type of analysis will take two equal periods of time, some pre-crisis (2005–2007), and some post-crisis (2009–2011), and to learn performance of the Jordanian Islamic banks in the light of the global financial crisis In addition to all of that, the study also used and Regression to find out if there are any differences in averages pre-and post-start the global financial crisis.

THE FINANCIAL RATIOS USED IN ASSESSING THE PROFITABILITY RATIOS

We can judge it through the following indicators:

A. Return on Assets (RoA).
B. Return on Equity (RoE).
C. Profit to Expenses (PER)

DATA ANALYSIS

TABLE 1: DESCRIPTIVE STATISTICS OF PROFITABILITY RATIOS BEFORE AND AFTER CRISIS

Ratio	Measure	Jordan Islamic bank(JIB)		International Arab Islamic bank(IIAB)		Overall	
		Before	After	Before	After	Before	After
Return on Assets(ROA)	Mean	**1.16**	**1.13**	**1.40**	**0.61**	**1.28**	**0.87**
	St. Deviation	0.25	0.15	0.43	0.35	0.34	0.37
	Max	1.44	1.28	1.83	0.94	1.83	1.28
	Min	0.97	0.98	0.97	0.25	0.97	0.25
Return on Equity(ROE)	Mean	**16.50**	**14.83**	**11.44**	**7.35**	**13.97**	**11.09**
	St. Deviation	2.79	1.05	4.03	4.84	4.16	5.16
	Max	18.86	15.77	14.67	11.81	18.86	15.77
	Min	13.42	13.69	6.93	2.21	6.93	2.21
Profit/Expenses **(PER)**	Mean	**0.64**	**0.65**	**1.00**	**0.40**	**0.82**	**0.53**
	St. Deviation	0.14	0.13	0.34	0.18	0.31	0.20
	Max	0.79	0.74	1.25	0.55	1.25	0.74
	Min	0.52	0.51	0.61	0.20	0.52	0.20

Based on table (1) The following conclusions are drown:

1. The overall mean of ROA for period before crisis was (1.28), and after crisis (0.87), this variation comes from the variation between means of ROA, for (IIAB), (from 1.40 to 0.61), whereas means of ROA, for (JIB) were approximate (from 1.16 to 1.13).
2. The overall mean of ROE for period before crisis was (13.97), and after crisis (11.09), this variation comes from the variation between means of ROE, for (IIAB), (from 11.44 to 7.35), whereas means of ROE, for (JIB) were approximate (from 16.50 to 14.83).
3. The overall mean of profit/expenses for period before crisis was (0.82), and after crisis (0.53), this variation comes from the variation between means of profit/expense, for (IIAB), (from 1.00 to 0.40), whereas means of profit/expenses, for (JIB) were approximate (from 0.64 to 0.65).
4. The above results show that there was a variation in profitability ratios, before and after crisis, but this variation did not include both banks. (JIB) profitability ratio were remarkably stable, while (IIAB) were not. This reason may due to the seniority of (JIB), and its market share, and its large operations across the country.

HYPOTHESIS TESTING

1. Hypothesis based on profitability ratios.

H01: Return on assets (ROA) in the after crisis era is not significantly different from pre-crisis era.

H02: Return on equity (ROE) in the after crisis era is not significantly different from pre-crisis era.

H03: Profit/expenses in the after crisis era is not significantly different from pre-crisis era.

IMPACT OF FINANCIAL CRISIS ON FINANCIAL PERFORMANCE

Linear regression analysis is performed to test study hypotheses, where financial crisis is the independent variables, and financial ratios are dependent variables, the results are as following:

1. Results of testing the hypotheses for profitability are:

TABLE 2: REGRESSION RESULT FOR PROFITABILITY RATIOS

Hypothesis	**H01**	**H02**	**H03**
Dependent Variable	**Return on Assets**	**Return on Equity**	**Profit to Expenses**
Independent variable: Financial crisis			
Coefficient	-0.408	16.855	-0.293
t-value	-1.989	-1.066	-1.074
Sig.*	0.075	0.311	0.077
R	0.532	0.319	0.530
R Square	0.283	0.102	0.280
F	3.954	1.137	3.897
Sig.*	0.075	0.311	0.077

*Significant level 0.05

Based on Table (2) The sig. value for first hypothesis is (0.075) and it is not statistically significant, so the null hypothesis is accepted. And, the sig value for second hypothesis is (0.311) and it is statistically significant, so the null hypothesis is rejected, the difference for period before crisis. Moreover, the sig. value for third hypothesis is (0.077) and it is not statistically significant, so the null hypothesis is accepted.

It shows that there is no significant effect of financial crisis on profitability ratios. So, we can accept all null hypotheses (H01, H02, H03).

CONCLUSION

The results indicate that profitability of Jordanian Islamic banks slightly affected by global financial crisis. All profitability ratios dropped down after financial crisis. This is an inevitable result since the crisis impacts on all economies and commercial sectors, and this consequently impact the profitability of banks sector. Since transactions in Islamic banks related to real investment and secured by tangible goods and assets, the impact of financial crisis was weak.

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