



An-Najah National University

Faculty of Graduate Studies

**DOMESTIC VERSUS FOREIGN BANKS
PROFITABILITY: EVIDENCE FROM
PALESTINE AND JORDAN**

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Dedication

We dedicate this great work to the martyrs, the prisoners and the fighters in this life.

“I dedicate this work to Palestine.”

To my mothers and Fathers were the only people who believed in me and gave me many happy moments that ease the stress of this life.

"May Allah protect you."

To my brothers and sisters, the sparking gems. Who stood by me in the darkest moments.

"Always in hearts."

To our real friends, the greatest gifts of life, they are always there when I need them.

"Much love"

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We are especially indebted to my dear mothers and fathers, who have provided me with much encouragement, support, and patience during the hard times.

Finally, we are most grateful to **Al-Najah University** for giving me the experience and opportunity to do such research.

Declaration

I, the undersigned, declare that I submitted the thesis entitled:

DOMESTIC VERSUS FOREIGN BANKS PROFITABILITY: EVIDENCE FROM PALESTINE AND JORDAN

I declare that the work provided in this thesis, unless otherwise referenced, is the researcher's own work, and has not been submitted elsewhere for any other degree or qualification.

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٢٠٢٢/٦/٥

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DOMESTIC VERSUS FOREIGN BANKS PROFITABILITY: EVIDENCE FROM PALESTINE AND JORDAN

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Abstract

This study compares the profitability of Palestinian and Jordanian foreign and domestic banks from 2008 to 2019. In this study, the researcher used specific bank data to determine the difference between domestic and foreign banks operating in Palestine and Jordan. The data was collected from the individual banks' financial statements. Moreover, the researcher used a set of control variables that include macroeconomic data for the two countries, which the researcher collected from the World Bank database. The sample consists of 7 local and 7 foreign Palestinian banks and another 16 local and 8 foreign Jordanian banks. For the analysis, the researcher applied the panel data model. Return on assets, return on equity, and net interest margin are used to approximate banks' profitability. Our results are important to investors, creditors, decision-makers, regulators, and boards of directors as they are interested in the performance of the banking institutions. The researcher measured the profitability of banks using three distinct dependent variables: return on assets (ROA), return on equity (ROE), and net interest margin (NIM). The independent variables include bank specific factors and control variables. Bank specific factors include profitability, liquidity and risk. Control variables include macroeconomic indicators such as growth in gross domestic product (GDP), and inflation. After analyzing the 35 local and foreign banks in Palestine and Jordan from 2008 to 2019, and assessing their profitability with return on assets, return on equity, and net interest margin, the results showed higher liquidity and profitability for foreign banks. In addition, the bank specific internal factors significantly affected the banks' profitability measured by return on assets (ROA) and return on equity (ROE), except for Assets Quality Ratio (AQ) and liquidity (LIQ) for local and foreign banks. Furthermore, liquidity (LIQ) had a significant impact only on Net Interest Margin (NIM), as it explained 3.9% of its variability.

Keyword: bank profitability, domestic banks, foreign banks, internal & external factors.

Chapter One

Introduction and Theoretical Background

1.1 Profitability Determinants

Through competition, foreign and domestic banks within a specific country compete against each other. This competition has increased as a result of globalization and financial market deregulation. It is a logical expectation that banking services, efficiency, and profitability will change under increased competition. Schaeck, K., and Cihák, M. (2014) note that an increase in the competition level leads to an increase in bank capital and profitability. Bouzgarrou et al. (2018) note that foreign banks are more experienced in managing banking businesses and have more resources available for financing than local banks, which may affect the profitability of local banks. Several studies compared foreign and local banks, in which local banks. They were found to have lower profitability and non-interest income relative to foreign banks (Claessens et al., 2001). increased cost margins within countries of low economic development (Lensink and Hermes, 2004). Less experience in trade finance and foreign exchange business but increased spending on banking technology and loan loss reserves (Xu, 2011). Its higher contagion risk during the financial crisis as a result of the increased presence of foreign banks (Chen et al., 2009); During the crisis period, non-performing loans had a negative impact while capitalization had a positive impact on domestic banks (Efthyvoulou and Yildirim, 2014).

In a study conducted within the MENA region by Moudud-UI-Huq et al. (2020), competition negatively affected banks' profitability. The researchers recommend that banks improve the monitoring process of loans to decrease their credit risk level and thus improve their profitability. Muda et al. (2013) compared Malaysia's profitability determinants and recommended domestic and international Islamic banks. Their findings revealed a distinction between the profitability determinants of domestic and international Islamic banks. In addition, local Islamic banks are found to be more profitable than their international counterparts. The researchers suggest that local banks strengthen their Islamic banking system by enhancing their risk management practices. A similar study performed by Azzam and Siddiqui (2012) in Pakistan found domestic and foreign banks to have different profitability determinants. The study results show

that foreign banks have higher domestic banks but are less affected by the host country's macroeconomic factors.

Almazari (2014) compared the impact of bank-level data on the profitability of Saudi Arabia and Jordan banks. He found that Jordanian banks are less profitable than Saudi banks. The level of liquidity risk, net credit facilities to total assets, total equity to total assets, and net credit facilities to total deposits all positively affect their profitability. Khaza'lah & Khazu'le (2018) studied the relationship between bank ownership and profitability in Jordan. They found that foreign ownership harmed bank profitability.

Twairesh (2013) investigated the impact of foreign bank entry on Jordanian banks. The results indicate a negative effect for foreign banks on the accounting profit of local banks. Alruihat (2015) analyzed the profitability and competitiveness factors of Jordanian commercial banks. The results indicated that the level of competitiveness is related to bank size, in which large and medium-sized banks have almost full monopoly power, but small banks have monopolistic competition. The results also pointed out that the higher cost of capital is associated with higher competition and the positive effect of the cost of capital on banks' profitability.

In Palestine, Ayyash & Jawad (2020) described the Palestinian banking sector as a monopolistic competition system, within which foreign and domestic banks determine together the rates that allow them to realize higher profits. They pointed out that large banks achieve greater profits because of economies of scale and thus, lower production costs. On the other hand, they find that small banks can also increase their earnings based on lower operating costs, large deposits, and lending. Another study by Al Haj (2004) used a questionnaire to determine the effect of foreign banks on the activities and profitability of local Palestinian banks. The study results showed that foreign banks negatively affected the return on investment of local Palestinian banks.

Even though there are a limited number of studies comparing the profitability of domestic and foreign banks in Jordan, Palestinian researchers need to address this topic directly. This is the first study comparing the profitability of domestic and foreign banks operating in Palestine and Jordan from 2008 to 2019. The significance of this study stems from its inclusion of the 2008–2009 global financial crisis.

Also, the peak of the government debt crisis in Greece and its effect on Europe in 2010-2012; and finally, the Corona pandemic starting period was by the end of 2019. This study's results could benefit decision-makers, customers, investors, and banking institutions. Both local and foreign banks can utilize the outcomes of this study to understand the varied sources of their profitability in Palestine and Jordan.

1.2 Purpose Statement

This aims of this study are in twofold: first, the study allows to compare the profitability level of domestic and foreign banks operating in Palestine and Jordan using a set of internal and external factors that are expected to affect banks' profitability. Hence, the study will highlight the factors affecting banks' profitability under different banking ownership types. Second, the study will allow to determine the difference between the two banking types under different crisis periods (global financial crisis, government debt crisis, and Corona Pandemic crisis). Hence, the study will allow us to determine how the different crisis periods affected the profitability of those banking types in Palestine and Jordan.

For this purpose, the researcher used a set of bank-level data to determine the difference between local and foreign banks operating in Palestine and Jordan. The Palestinian banking market includes 14 banks, 7 of which are local, and 7 are foreign banks, indicating a 50% distribution for each bank type within the Palestinian market. The Jordanian banking market consists of 24 banks, 16 of them are local and 8 are foreign banks, indicating that 67% are local banks, while 33% are foreign banks. The researcher also used a set of control variables that includes macroeconomic data from the two countries.

1.3 Problem Statement

In Palestine and Jordan, the available literature is mainly concerned with banking profitability without clearly distinguishing the difference in profitability due to the difference in bank ownership type. Thus, this study mainly compares local and foreign banks' profitability in Palestine and Jordan. Palestine includes seven local banks and seven foreign banks. Jordan includes 16 local banks and seven foreign banks.

Return on assets (ROA) (see, e.g., Pasiouras & Kosmidou, 2007; Samad, 2015; Chantapong, 2005), as well as return on equity (ROE) and net interest margin (NIM), are used to measure the profitability of banks (see, e.g., Dietrich and Wanzenried, 2014; Bozgaro et al., 2018). The application of ROA disregards the impact of financial leverage and associated risks (Dietrich & Wanzenried, 2014; Bozgaro et al., 2018). Bouzgarrou (2018) stated that internal and external factors influence banks' profitability. Internal factors are bank-specific and depend on the bank's liquidity, and risk profile. We follow Bouzgarrou et al., 2018 in selecting the bank-specific factors to compare the profitability of local and foreign banks in Palestine and Jordan¹. External factors include macroeconomic indicators as growth in Gross Domestic Product (GDP) and inflation, which bank management cannot control.

1.4 Research Questions

The researcher will use the Panel data model to answer our main research question:

Is there a difference between domestic and foreign banks' profitability in Palestine and Jordan?

From the main question, the researcher elicits two sub-questions:

1. Do domestic banks' internal factors affect their profitability differently from foreign banks?
2. Do country macroeconomic factors affect domestic banks' profitability differently from foreign banks?

1.5 Research Hypothesis

Based on the main research question, the researcher derives the main hypothesis as in the following:

H0: There is no significant difference between domestic and foreign banks' profitability in Palestine and Jordan.

From the main hypothesis, the researcher derives the following two sub hypothesis:

¹ Independent variables include return on assets, return on equity, and net interest margin. Banks' internal factors include capital adequacy ratio, liquidity ratio, assets quality ratio, off-balance sheet engagements ratio, overhead to total assets, bank type, and bank size. Table 1 provides a list of the variables and their measurement.

H01: Domestic banks' internal factors do not affect their profitability differently from foreign banks.

H02: Country macroeconomic factors do not affect domestic banks profitability differently from foreign banks.

1.6 Research Terminology

Banking System: The banking system refers to the network of financial institutions, including commercial banks, savings and loan associations, credit unions, and central banks, that provide various financial services, such as accepting deposits, facilitating loans, and managing monetary policy within an economy (Freixas & Rochet, 2008).

Domestic Banks' Profitability: pertains to the financial performance of banks that operate primarily within their home country. It reflects the ability of these banks to generate profits from their core banking activities, including lending, investments, and other financial services (Berger & Bouwman, 2013).

Foreign Banks' Profitability: refers to the financial performance of banks that operate in a foreign country or jurisdiction. It assesses the ability of these banks to generate profits within a host country, taking into account factors such as local market conditions, regulations, and competition (Claessens & Horen, 2014).

Internal Factors (Dependent and Independent): Internal factors in research refer to variables or elements that originate from within the system being studied. Dependent internal factors are variables that are influenced by other factors and are the outcomes of interest in a study, while independent internal factors are variables that are manipulated or controlled to observe their impact on the dependent variables (Trochim, 2006).

Macroeconomic Factors: Macroeconomic factors are large-scale economic variables or conditions that affect the overall performance and behavior of an economy. These factors include indicators like inflation rates, unemployment rates, gross domestic product (GDP) growth, interest rates, and exchange rates, among others. Macroeconomic factors provide insights into the health and stability of an economy and can have a significant impact on businesses, financial markets, and policymaking (Mankiw, 2016).

Chapter Two

Theoretical Framework

2.1 The Banking System:

The banking system is a crucial component of any modern economy, encompassing a complex network of financial institutions responsible for facilitating economic transactions and channeling funds between savers and borrowers. It plays a pivotal role in the financial intermediation process, which is essential for the efficient allocation of resources in an economy (Freixas & Rochet, 2008). This system comprises a diverse array of institutions, including commercial banks, savings and loan associations, credit unions, and central banks, each with its own distinct functions and roles. Commercial banks, for instance, serve as intermediaries that accept deposits from individuals and entities while providing loans and credit to borrowers, fostering economic growth and stability. Central banks, on the other hand, wield significant influence over monetary policy, regulating the money supply and interest rates to control inflation and ensure the stability of the financial system (Mishkin & Eakins, 2015). Thus, the banking system serves as the cornerstone of modern economies, facilitating economic activities and maintaining financial stability.

2.2 The Tasks and Purposes of Banks in General:

Wright (2012) states that financial intermediaries within the financial system's framework facilitate technological and economic development. Entrepreneurs in need of financing are linked to loan-providing financial intermediaries. The business relationship benefits entrepreneurs and loan providers, and loans benefit the economy because they are typically used to finance large investments such as real estate or automobiles. Various financial intermediaries exist, including venture capitalists, insurance companies, and banks (Hillier, Grinblatt, & Titman, 2011). It is linked to other financial institutions and markets in a financial system in order for the system to share risks, facilitate trading, and distribute funds (Wright, 2012).

A bank's general business model may be described as follows: Banks generate income by extending credit to customers, who must pay interest in order to submit a loan application. Banks administer depositors' funds. The bank pays interest on medium- and

long-term deposits, but the interest paid is less than the interest earned on loans (Deutsche Bundesbank, 2015).

This is reflected in the balance sheet, with the assets side listing cash reserves and loans granted to individuals, companies, and banks, and the liabilities side listing loans obtained from banks and liabilities owed to individuals and companies in addition to stocks and reserves (Deutsche Bundesbank, 2015). These obligations may be current or demand deposits that the customer can withdraw at any time, such as the savings account that pays varying interest rates, but money can be withdrawn without incurring a financial penalty, whereas term deposits cannot be withdrawn prior to a predetermined, agreed-upon date. Customers with term deposits receive a higher, fixed rate of interest than those with savings accounts (Wright, 2012).

Converting deposits into loans, typically short-term deposits at commercial banks, and converting them into long-term loans requires the bank's employees to manage assets and liabilities for three reasons (Wright, 2012). There is often a minimum level of reserves that exceeds this limit, which are referred to as "excess reserves." Since loans and reserves are major revenue sources for banks but do not generate interest, banks avoid having a large amount of cash on hand (Wright, 2012). The second reason for profit is that assets must be managed profitably and liabilities must be acquired at the lowest possible cost. Banks must evaluate credit risks, and they can levy higher interest rates on loans with greater risk (Wright, 2012). The third reason is the management of capital adequacy. This indicates that banks have a certain amount of equity to continue operations during times of financial difficulty (Wright, 2012).

Banks perform many important and basic functions that enhance the confidence of customers on the one hand and enhance the financial position of the bank on the other hand. The functions performed by banks can be summarized as follows:

Traditional jobs that were associated with the emergence of banks include accepting deposits, granting loans.

Accepting deposits and savings from institutions and individuals are in the form of current accounts or term deposits, and then lending a portion of these funds to projects and individuals in the form of short-term loans to earn a reasonable return (عبد الباقي،)

2016). Granting credit facilities, one of the most important means used by the commercial bank to employ what it has of money to obtain returns, is linked to accepting deposits as the bank works to use the funds available to it in the best way possible (زعيتر، 2006).

Modern jobs that arose with the development of banks to maintain the continuity of the bank's work and achieve profits Includes financing foreign operations, collecting checks, and issuing credit cards (Eman, 2017).

1. Trading in foreign currencies, letters of guarantee, issuing guarantees and making money transfers (زعيتر، 2006).
2. Creating modern means to displace money, such as bank checks, bills of collection, and other means of modern cash dealing (زعيتر، 2006).
3. Providing advisory services to clients by conducting financial studies for clients to determine the optimal amount of financing, The payment mechanism and its agreement with the project's policy of purchase, sale, production and collection .
(خلاف، 2015)

2.2.1 Purpose of the Banking Sector

The most important reforms in continuing the banking sector's work depend on developing the payment system and following accounting standards in addition to the deposit insurance system. Each structure will be explained separately:

- **Commitment to accounting standards adopted at the global level**

So that the regulatory systems in the Arab countries impose the provision of unified accounts for all their banking branches, so that the financial data on the items registered outside the balance sheet must be published and made available to the regulatory authorities and the public, and the banks are responsible for the validity of these data in the event of fraud or forgery, banks shall bear full responsibility and penalties shall be imposed.

- **Payment and settlement systems**

Most central banks have developed payment systems and processes in line with global trends as a result of the technical and technological advancements in the use of electronic means in the field of payment systems within a single country and between countries. Jordanian banks have worked on a check clearing system to speed up the checks exchange process by sending copies of checks and other information electronically.

- **Credit Bureaus**

Regulatory authorities work to provide information about borrowers in order to take precaution and caution in granting them credit, which contributes to reducing credit risks. The reports providing information are divided into two parts: First, there are inquiry offices for borrowers, and this requires opening special offices that collect information in return for a commission. Secondly, the borrowing record This section is managed by the Central Bank with the aim of supervising information about lending and borrowers. This record is available in Jordan and Egypt. No one has access to the data except in special cases.

- **Deposit Insurance System**

Commercial banks remain exposed to the risk of bankruptcy, and the weaker side remains depositors, so their savings must be secured so that they are not affected in cases of bankruptcy. Work has been done to establish systems to secure deposits. In 2002, the International Deposit Insurers Association was launched in Switzerland, and Jordan and Lebanon joined its membership, aiming to achieve the stability of financial systems.

2.3 Section One: Characteristics of the Banking System

A stable and resilient banking system is the backbone of the economy, as it increases confidence among stakeholders in the banking system by efficiently and effectively managing the flow of money from lenders to borrowers. The stability of banks depends mainly on their lending and financing structures. Banks in general have a mixture of retail deposits and non-deposit financing; after the liberalization of interest rates and the development of other financial products, deposit products became a cost to banks, so the

focus of banks shifted to wholesale financing, which led to a relaxation of liquidity constraints and highly liquid wholesale markets to accelerate the lending activities of banks. The banks lent money for the long term, and they financed it from short-term sources, believing that they could get money from the wholesale markets whenever they needed it. It led to the creation of the liquidity crisis, which was one of the main factors behind the emergence of the global financial crisis between 2007 and 2009. The global financial crisis forced the banking industry to concentrate on its core competencies: accepting deposits and lending to entrepreneurs or borrowers, as well as determining the factors. They affect bank deposits through such factors as deposit rates, bank stability, service quality, and access to the bank, as well as the impact of other social and economic factors on deposits such as education, health, income, and markets finance (Srivastava, 2020)

In any society, the banking system mainly contains banking units represented by the central bank, commercial banks, investment banks, and specialized development banks. In some countries, it also contains Islamic banks and comprehensive banks, as well as exchange institutions, lending institutions, investment and development institutions, and other institutions that practice any business that is considered a banking business. In addition, it contains the legislation, regulations, and laws governing banking in any society (عاشور، 2003).

2.4 Section Two: Commercial Banks

2.4.1 Definition of commercial banks

It is a type of financial institution whose activity is to accept deposits and grant credit, as it is an intermediary between people who have surplus funds and those who have a deficit in funds. It is an institution whose goal is to trade in money by obtaining it in the form of deposits and loans and using it in a variety of investment fields (عبدالباقي، 2016). and one of the most important features that distinguish banks from other institutions is their acceptance of deposits, which depositors can withdraw at any time, meaning on-demand deposits (زعينر، 2006).

According to Eman (2017) Bank: It is a financial institution whose operations focus on collecting money in excess of the needs of its owners and lending it according to certain

principles or investing it. Its operations are distinguished by dealing with short-term credit.

2.4.2 The Emergence and Development of Commercial Banks

The origin of the banks is due to the process of merchants, moneylenders, and goldsmiths depositing money in exchange for issuing receipts and certificates of deposit for the amount of the deposit. The money changers have noticed that the depositors do not withdraw their money all at once; they withdraw part of the amount and part of the money remains frozen, which encouraged the cashier to lend this money. Hence, interest became paid to depositors to encourage depositors to deposit their money, and with this, the bank's activity developed in the field of receiving deposits in return for interest and also granting loans against interest (Eman, 2017).

The first bank was established in Venice, Italy, in 1517, then the Bank of Amsterdam in 1609, with the primary purpose of keeping deposits and transferring them upon request. The number of banks gradually increased, and most of them belonged to institutions and individuals. As long as laws protected depositors, if banks were bankrupt, depositors could return to the private funds of the owners of these banks. And the resultant industrial revolution in European countries led to growth and expansion of corporate activity, which called for the need for large banks that could finance these companies, hence a number of banks were established that expanded their business and established branches for them everywhere (Eman, 2017).

2.4.3 The Importance of Commercial Banks

Banks play an important role in economic activity by directly affecting the size of the facilities provided, which affects the money supply in the economy. Also, banks are considered one of the monetary policy tools that affect the economic situation, such as recession or inflation, through the central bank's control of debit and credit or interest rates. The discount rate and the rates imposed on the mandatory reserves and the financial regulatory ratios, also for banks, are important in achieving economic growth through the interaction of commercial financial institutions on the one hand and their dealers on the other, by facilitating the transactions of traders and investors and the employment of large numbers of employees in them, and by increasing its profitability

and production, which increase the country's gross national product and increase the market value of its owners' shares. (زعينر، 2006).

2.4.4 Types of Commercial Banks

The type of bank depends on the relationship between deposits and the manner in which they are invested, i.e., the relationship between the credit that is granted and the credit that is obtained. In most countries, the banking system consists of three main types of banks, which can be described as follows: commercial banks, savings banks, and investment banks:

1. Central Bank

The central bank is at the head of the apparatus, the bank, and its names differed between countries as it was known in the United States as the Federal Reserve System, and in India, it was known as the Reserve Bank, while France called it the Bank of France. Despite the different names, most countries call it by the same name: The central bank was defined as the bank that determines the monetary and banking structure to achieve the greatest benefit to the economy by performing many functions, such as managing financial operations (الدوري والسامرائي، 2013).

2. Commercial banks

It is one of the oldest types of banks in terms of its origin, the most numerous, and the most important. Commercial banks, in their contemporary form, are considered the legitimate descendants of money changers and goldsmiths, and they are defined as the banks that have been given a license to engage in banking business, including providing banking services and accepting deposits of all kinds.

It is also known as a deposit bank, and the most important characteristic of it is the acceptance of demand deposits and current accounts. This type of bank engages in external and internal financing operations in order to achieve development goals and support the national economy, in addition to its contribution to the establishment of projects as decided by the Central Bank (خلاف، 2015).

3. Specialized Banks

They are the financial institutions that are established to serve a specific sector, and they are development banks, some of which accept deposits and some of which do not, based on the law and the bank's main sources. The financing of these banks focuses on the long term, and they carry out specialized development operations, whose financing requires specialized expertise and knowledge of the nature of production operations (الحاج وفلاح، 2013).

2.5 The Banking System in Palestine

Several laws and regulations have succeeded in the Palestinian territories that have had an impact on the banking sector, starting with the British Mandate rule until 1948, then the Jordanian rule in the West Bank, and the Egyptian rule in the Gaza Strip, and then the Israeli rule between 1967 and 1994, and at the end of the Palestinian Authority's legislation after 1994 to the present. Therefore, these periods affected the performance of the banking sector in general, according to the prevailing political situation and the provisions that apply to the financial sector in general and the banking sector in particular (ماس، 2014).

As a result of these political events, the banking system and sector were subjected to weakness and destruction at times, and they were not formed regularly until after 1994, after the signing of the peace agreement between the Palestinian Authority and Israel. As a result, the Palestinian Monetary Authority was established in 1994, which worked to open many Islamic and commercial banks. The Arab and local banks, the Palestine Stock Exchange and many of its affiliated brokerage companies, and the Monetary Authority work on managing the Palestinian banking system and financial institutions in terms of supervision and control (أبو عيدة، 2016).

2.6 Development of the Banking System

The Palestinian banking system is characterized by going through three stages, which are the following:

2.6.1 The First Stage

During this period, the West Bank was under the control of Jordan, while the Gaza Strip was under the control of Egypt. The issuance of the Palestinian pound was halted at this point, and the Palestine Monetary Council was dissolved, and the Jordanian dinar was issued in 1950, while the Palestinian currency was replaced by the Egyptian pound (ماس، 2014). in the Gaza Strip. The number of banks in this period was eight banks with 32 branches in the West Bank, and six banks with seven branches in the Gaza Strip, including the Bank of Palestine and the Arab Bank (أبو عيدة، 2016).

2.6.2 The Second Stage

This period stretched from 1967 until 1994, as Israel occupied the West Bank and Gaza Strip, and consequently, a separation from Jordan and Egypt occurred, and it came under the rule of Israel. Accordingly, all banks operating in the West Bank and Gaza were closed by military order. This continued until the occupation agreed to open branches belonging to some Arab and local banks, including Cairo Amman Bank, and this continued until the signing of an agreement between the Palestinian and Israeli sides (أبو عيدة، 2016).

2.6.3 The Third Stage

This period began from 1994 to the present, when it witnessed the birth of the Palestinian banking system with the issuance of instructions and laws regulated by the National Authority, which took control of matters in its hands with regard to banks with the presence of the Paris Agreement, which lays down the general framework for the banking system, the most important of which was stipulated in the establishment of the Palestinian Monetary Authority. This stage was marked by the occurrence of major and significant developments on the banking system, as well as the impact on banks in terms of increasing their number and number of services. (ماس، 2014).

2.7 Crises Impact on Palestinian Banks in Palestine

The Palestinian banking sector differs from others in its response to crises because it is subject to Israeli occupation and its environment is characterized by local instability; there is complex liquidity management in the sense of cash movement between banks and their branches due to military restrictions and the absence of a national currency; despite this, it is distinguished by its resilience to shocks as a result of the occupation. For the PMA's use of precautionary tools, methodologies, and building holistic scenarios, as well as the adoption of the early warning system and one of the most significant experiences of the Palestinian banking sector in the face of disasters during the Gaza War in 2014, the Monetary Authority worked to ensure the effectiveness of business continuity and reduce risks, as banks were provided with the necessary cash and strengthened the implementation of banking services over the course of the year.

Financial Crises

The history of financial crises dates back to the late nineteenth century, which centered on the Great Global Depression during the period 1929-1933. and the 1979 exchange rate crisis.

Banking crises also prevailed, which led to the intervention of governments to support and rescue banks during the period 1975-1986. The global financial crisis during the period 2007-2009.

The global financial crisis was caused by the mortgage crisis, which began to appear in 2007 and whose big bubble exploded in the second half of 2008, due to the failure of millions of borrowers to pay their debts to banks in order to buy housing and real estate in the United States, which led to the occurrence of this crisis in the American economy and had effects on the economies of Europe and Asia. Despite the hundreds of billions of dollars that were pumped into the global financial markets to put an end to the mortgage crisis, it developed into a global financial crisis (علي، 2009).

Currency crisis: The “foreign exchange crisis” occurs as a result of speculative attacks on the currency of a country. These attacks lead to its depreciation or force the central bank to defend the currency by raising the interest rate to a large percentage, which leads to the collapse of the currency, as happened in Thailand in 1997 (البيستحي، 2012).

Banking crises: When the tendency withdraw deposits from a bank, forcing the government to intervene by providing large-scale financial support to banks to prevent large-scale negative effects in the country, banking crises are represented in several forms (البيستجي، 2012):

1. Liquidity crisis: In the event that the bank lends and operates most of the deposits in long-term investments in return for maintaining a certain liquidity ratio to meet the daily withdrawals, and in the event that the daily withdrawals are higher than the minimum the bank finds itself facing a lack of liquidity and makes it unable to respond to depositors' requests.
2. Credit crisis: Banks' refusal to give customers credit as a result of fear of failure to meet the payment due to unfavorable economic conditions.
3. Debt crisis: This crisis occurs either when borrowers stop paying or when lenders believe that a default may happen, which leads them not to grant new loans and try to liquidate old loans.

2.8 The Monetary Authority in Palestine

The Monetary Authority was established in 1995, and in 1997, the Legislative Council issued a law confirming and supporting the existence of the Monetary Authority and helping it to ensure banking work and maintain monetary stability and economic growth. The Monetary Authority seeks to become the central bank in Palestine, to have an integrated banking system capable of advancing the national economy and contributing to the process of economic development, and to have access to an environment conducive to the issuance of a Palestinian currency (PMA, 2021).

In the absence of a central bank in Palestine, the Monetary Authority was established as an independent institution with full powers from the Israeli side as a supervisory body responsible for all banks operating in Palestine, opening the door for many banks to enter the Palestinian market and engage in banking activity, with the number of banks increasing from 2 to 13 branches in the West Bank and 21 banks in the Gaza Strip by the end of 2002 (الخليل، 2004).

The Palestinian banking sector has suffered since its inception, since Israel's decision to prohibit all banks from operating in Palestine in 1967, and during a period when Israel

allowed Israeli banks to operate and open branches in the West Bank and Gaza, but they did not perform the normal functions of banks. Normally, development assistance is limited because it works to serve the occupation, which seeks to destroy the Palestinian economy and weaken its sectors, but in the early 1990s, with the start of the peace process and the convening of the peace conference in Madrid in 1991, a new banking policy began in the Palestinian areas, and the banking system underwent a transformation. The Monetary Authority was established for the first time in Palestine, carrying out central bank functions and entrusting it with the authority to license and monitor banks; thus, the Monetary Authority was established in accordance with the protocol of the Palestinian economic agreement signed in Paris in 1994 between the Palestine Liberation Organization and the Israeli occupation authority (The Palestinian Monetary Authority, 2013).

The Palestinian Monetary Authority was established by a presidential decree in 1995 as an independent institution, and it was established to achieve many of the tasks contained in the Paris Economic Protocol, as it performs most of the traditional functions of central banks and also works as a financial advisor and agent for the Palestinian Authority. As a result of the absence of cash, the Palestinian Monetary Authority lacks the tools necessary to carry out some of the essential functions performed by the central bank, such as the function of lender, the function of controlling the volume of credit and its assignment, and the adoption of an exchange rate system (Agha, 2013).

The banking sector in Palestine is one of the important sectors that affect the economy in general, and the role of the banking sector varies from one country to another. In Palestine, it depends directly on the banking system for financing development and providing the liquidity necessary for financing. Since its establishment, it has been interested in reactivating the banking role by reopening and licensing Arab banks that were operating in Palestine before the June 1967 war, in addition to establishing and licensing new local banks (Awda, 2011).

2.9 The Banking System in Jordan

The Jordanian banking system contains the Central Bank of Jordan, which was initially the Jordanian Monetary Council in 1949 and was the only authority authorized to issue money in Jordan. With Jordan's desire to enhance economic independence, the government saw that the Monetary Council would be unable to keep pace with development requirements in the coming period, which prompted the Jordanian government to establish the Central Bank of Jordan, one of whose most important objectives is to maintain monetary stability in Jordan, encourage economic growth, and maintain the Kingdom's gold reserves. monitoring banks as well as providing advice to the government in drawing up financial policies (الغالبى و عطشان، 2009).

2.10 Central Bank Law

The existence of a central bank is regarded as one of the most important financial institutions in a nation due to its effective role in supporting and stabilizing the financial system and regulating the level of local liquidity to ensure the attainment of the targeted economic growth rates. Therefore, the central bank must have the practical independence necessary to withstand any external pressures. the researcher mean the concept that the central bank has the freedom to choose and use the appropriate tools to manage monetary policy. Central banks in most Arab countries are responsible for supervising the supervisory system. as it is one of the most important factors to achieve financial stability because it follows up and audits the performance of the banking sector through the main indicators and the capabilities available to the supervisory body, which led to reducing non-performing loans and raising capital adequacy ratios (تطور الأداء والإصلاحات في القطاع المصرفي في الدول العربية).

2.11 Statistical Comparison between Banks Operating in the Palestinian and Jordanian Banking Sector in 2019

In 2019, there were 14 licensed banks in Palestine, including 4 local banks, 3 Islamic banks, and 7 foreign commercial banks, with a total of 370 branches distributed among 239 local banks and 131 foreign bank branches. The number of licensed banks in Jordan has reached 24. The number of bank branches has reached 938, comprised of 862 domestic banks and 76 foreign banks (جمعية البنوك في فلسطين، 2019). The total assets of

banks operating in Palestine amounted to 17.107 million dollars in 2019, the total assets of banks operating in Jordan reached 75.659 million dollars, and the total customer deposits with banks operating in Palestine in 2019 amounted to 14.495 million dollars. Jordanian banks \$49.796 million. As for the banking facilities granted by the Palestinian banking sector to its customers, they amounted to 88.14 million dollars in 2019. The total value of the direct facilities granted by local commercial banks amounted to \$54.32 million in 2019, while the branches of foreign banks collectively provided direct financing with a value of \$32.09 million. The credit facilities granted to customers in Jordan amounted to 38.198 million dollars. The net profit of banks operating in Palestine is \$159 million, a decrease of 9.2% compared to 2018. It should be noted that the combined profits of the local commercial banks in 2019 were \$72.80 million. And the foreign banks have together achieved profits of \$90.57 million in 2019. The profit rate for banks operating in Jordan is \$827 million. As for the total equity of the Palestinian banking sector, it increased by 3% to reach \$1,787 million in 2019 compared to \$17.34 million in 2018. The proportion of equity held by banks operating in Jordan amounted to \$89.24 million. (جمعية البنوك في فلسطين، 2019).

2.12 Section Three: Measuring Banking Performance

2.12.1 Bank Performance Concept

Despite the large number of research studies on the performance of banks, there was no consensus on a unified concept of performance. The reason for the dispute is the multiplicity of criteria and standards that the researcher adopts in studying and measuring performance, as Kherakhem defined it as doing an action or activity to reach certain goals. Performance is defined as a set of practices and activities that lead to the achievement of goals (الداوي، 2010). While Zahra and Bromily defined it as the results achieved as a result of the interaction of internal factors of all kinds with external influences to reach the goals of the institution (أسية، 2016).

2.12.2 The Importance of Performance Measurement

Performance measurement provides many benefits, the most important of which is focusing on what must be accomplished to achieve the goals while saving the necessary time and energies. It also contributes to improving the management of services and the process of their delivery to customers, giving clarifications about the implementation of programs and the costs of these programs, and enhancing accountability. In addition, there can be no improvement. Without measurement, goals cannot be reached without knowing the reality of operations (سعودي، 2018), providing important information for various administrative levels and contributing to the process of economic and social development, discovering deviations and knowing their causes to take appropriate measures to correct them and prevent their recurrence, achieving the integrity of the financial position of banks and the extent of the consistency of the distribution of available funds on the various aspects of investment and the efficiency of their utilization of those funds (تريعة، 2015).

2.12.3 Measuring the performance of banks

Measuring performance means that it is a comprehensive process that is used to collect accounting and other data, to find out the banking situation of banks, and to determine the mechanism for managing resources during a certain period (قريشي، 2000). There are those who believe that this process is a set of procedures whose main objective is to compare the actual results with the established objectives, to determine the extent to which the results are consistent with the specific objectives, and to assess the level of performance efficiency (أسببة، 2016).

2.13 Section Four: Profitability of Banks

2.13.1 Introduction

Achieving profit is one of the most important goals that banks seek, as it is necessary for their continuity and survival. It is also considered one of the basic requirements for each of the depositors, lenders, shareholders, supervisory authorities, and management, as lenders, depositors, and shareholders look to it as a source of confidence and as an important indicator for the bank's management to measure its efficiency in using

existing resources (زعيتر، 2006), And in the following, the researcher will explain the concept of profitability and the profitability of banks, in addition to profitability measures.

Any investment project whose main objective is to achieve profit is just a number that represents the difference between the revenues and returns achieved and the costs and expenses that it incurs. Subsequently, the profit increases as the revenues increase and the expenses decrease (حمد وناجي، 2017). Profitability is an indicator of the efficiency of the project and its management in the use of existing resources. It represents the net results of a large number of policies and decisions, and therefore it is considered an indicator of project performance (2006 ، زعيتر).

2.13.2 Bank Profitability

It is the relationship between the profits achieved by banks and the investments that contributed to achieving these profits, and because of the contradiction between the profitability of the banks and their liquidity, the banks must not focus on profitability only but also take into account the risks of credit and investment projects, so their goal is to maximize the value of the bank and the wealth of its owners. Increasing this profitability depends on increasing returns, reducing costs, or both, and ensuring that the returns of any investment or credit project are higher than their costs (حمد وناجي، 2017).

This refers to the capacity of banks to generate revenues that exceed expenses, and it is related to the capital of the bank. If the banking sector is robust and profitable, it will be better able to withstand negative shocks and contribute to the financial system's stability (Alshatti, 2015).

Profitability is, in general, the relationship between the institution's profits and the investments that contributed to those profits. Profitability is regarded as an organization's objective and a performance metric. Profitability is determined by the relationship between profits and sales or profits and the investments that contributed to their achievement. Since current liabilities are paid from current assets within one year, liquidity measures help ensure that a bank can pay its operating expenses and other short-term or current liabilities (Alshatti, 2015).

Eman (2017) stated that one goal of the basic is to achieve the maximum possible profit for the bank, which is the result of the difference between the total revenues and the total expenditures of the bank. The profit is achieved for the bank through the lending and investment operations carried out by the bank, in addition to the capital gains that occur as a result of the increase in market values of the bank's assets. As for its expenditures, it includes administrative and operational expenses, interest paid by the bank on deposits, and losses incurred by loans that the bank is unable to recover.

Abdulrahman & Alfarsi (2020) said that profitability is the bank's ability to earn and achieve profits over a specified period of time while taking the fewest possible risks. It is expressed through the profits it earns and the investments that contributed to earning these profits. Profitability is one of the primary objectives of banks, and it indicates the extent to which financial institutions are able to utilize their resources with high efficiency in order to achieve profitability.

2.13.3 Profit and Profitability

Profit is defined as the remaining part (surplus) after deducting the total costs from the total revenue and is the basis for calculating the tax and paying the distributed profits. It is considered the best measure of knowing the success of the institution from its failure. Profit reflects a decrease in liabilities, an increase in assets, and an increase in equity, which provides resources for investment; without it, it may lead to the extinction of the company.

Profitability refers to the financial success of the project. This may be done before entering the business or used to analyze an existing project. There may not be a necessary need to abandon the project in cases where there are a set of factors that indicate the failure of the project. Some of these factors can be changed operationally, such as pricing or costs. There are basic cases that describe the financial position of the project: it may be profitable or operate at a loss, and the goal of any organization is usually to make a profit (Tiisekwa, 2013).

2.13.4 Profitability Metrics

Profitability ratios reflect the overall performance of the facility, so that they examine its ability to generate profit from its sales. It is one of the most important measures to measure the effectiveness of the facility's management, and there are several measures of profitability that can be clarified as follows:

1. Rate of Return on Assets

Profitability is, in general, the relationship between the institution's profits and the investments that contributed to those profits. Profitability is regarded as an organization's objective and a performance metric. Profitability is determined by the relationship between profits and sales or profits and the investments that contributed to their achievement. Since current liabilities are paid from current assets within one year, liquidity measures help ensure that a bank can pay its operating expenses and other short-term or current liabilities. (شحادة، 2020).

Return on assets: This ratio measures the profitability achieved by the bank by investing its assets in different activities, and it is calculated by dividing the net profit after tax by the total assets (Alshatti, 2015)

2. Rate of return on equity

This indicator measures the rate of return achieved from investing the owners' funds, and the high return is an indication of the efficiency of the management, while its low value indicates conservative financing from loans (حمد وناجي، 2017). This ratio is considered one of the most important indicators of profitability for investors, as it shows the percentage of profits as a result of their investment in the company, and it gives investors a vision to choose between companies because they prefer those in which the return on equity is high (شحادة، 2020).

Return on Equity: This ratio is calculated by dividing the net income (net profit after taxes) by the equity. It measures the efficiency with which the management uses the bank's funds to generate a profit (Alshatti, 2015).

3. Net interest margin

This indicator measures the extent of the bank's ability to exploit operating assets to generate revenues and is calculated by dividing net revenues by operating assets. This percentage contributes to the performance between different banks operating in the same market (الربيعي وراضى، 2012). It is one of the most important factors that measure the operational efficiency of any bank through its role of managing savings and allocating loans, and the increase in the interest margin may discourage investment, thus resulting in a slowdown in economic growth (عبيد، 2019).

2.14 Capital Adequacy

The bank's capital is the amount of money that secures the bank as part of its liquidity to face potential future losses, and capital adequacy reflects financial stability and safety by providing the liquidity necessary to face future events. Furthermore, it increases banks' capacity to expand their banking operations and activities, as well as to provide and develop new services (مشكور وفليح، 2020), and he defined capital adequacy as the amount of capital suitable for the bank so that it can perform all of its functions and activities without being exposed to risks or liquidation, and from capital adequacy comes the bank's solvency and ability to bear risks and face cases of insolvency (محمد، 2021), and the by Law No. 9 of 2010, banks must maintain a specified capital adequacy ratio according to the Monetary Authority, and in the event that a particular bank falls below the minimum, the Monetary Authority has the right to ask for a capital increase.

2.15 Basel 3 and Capital Adequacy

The Basel agreement seeks to enhance quality and expand the bank's equity base. This contract includes three measures of capital needs:

1. Capital Adequacy Ratio: It is the ratio that requires a minimum of 8% of the capital to the risk-weighted assets (Bitar, Pukthuanthong, & Walker, 2018).
2. Capital ratio tier 1: which requires a minimum of 6% of Tier 1 capital to risk weighted assets (Bitar et al., 2018).

3. Tier 1 common equity to risk, which requires at least 4.5 percent of common stock to risk-weighted assets (Bitar et al., 2018).
4. Maintaining higher capital leads to weak economic growth, increased bank risks, and reduced profitability and efficiency (Bitar et al., 2018).

2.16 Asset Quality Ratio

It is regarded as one of the most important ratios for evaluating the quality of a bank's assets, as it determines the bank's ability to generate income and provides a more accurate assessment of liquidity, management, and capital (الفراء، 2008).

2.17 Liquidity

The theory of financial intermediation is considered the basis for the establishment of banks and the continuation of their work, so that they work to transfer money from lenders and borrowers between requesting deposits and granting loans, and banks try to synchronize due dates between assets and liabilities and avoid the process of reinvestment. This function constitutes a state of uncertainty and increases the cost that arises from the fact that cash flows differ so that operations are either short-term or long-term (Ho & Saunders, 1981). Abu Zir (2016) showed that banks divide their business into short-term borrowing to get fewer costs and long-term borrowing to achieve higher returns to maintain the bank's profitability.

Liquidity and profitability are two genial aspects of commercial life and the survival of companies and financial institutions in work because the goal of any institution is continuity and achieving profits. However, the absence of maintaining a liquidity ratio for the continuation of work threatens the institution's survival and may expose it to collapse. If they are not able to achieve profits that do not affect the survival of the institution, so the companies contact them so that they can work to improve their performance and achieve profits. These institutions are named during the period of non-achievement of profits as sick institutions (Bavaria, 2004).

Gordijenkaitė & Keršys (2015) require increasing the ratio of liquid assets to cover short-term liabilities, such as short-term deposits to banks. This may limit the bank's ability to invest its money to make a profit, such as lending, so its income may decrease due to the opportunity cost.

Gordijenkaitė & Keršys (2015) indicated that capital adequacy depends on the bank's risk-weighted assets and affects the equity requirements. The higher the risk-weighted assets (representing the bank's business) is, the greater the equity required. According to the theory of the trade-off between return and risk, the higher the risk, the higher return, as the bank imposed a margin for loans according to the percentage of risk it is exposed to by granting the loan to clients. It requires higher capital to bear higher risks. Consequently, the expectation of a positive or negative coefficient of the ratio of property rights to assets is evidence of the management's effectiveness or ineffectiveness in management capital (Staikouras & Wood, 2004).

Ho & Saunders (1981) found that the net interest margin consists of two basic elements: the grade of rivalry in the market and interest rate risk. The model suggests that the structure of assets and liabilities should be analyzed because of their mutual relationships. Saunders & Schumacher (2000) developed the model and indicated the importance of the trade-off between the bank's solvency and reducing the cost of financial services to clients, meaning that high protection against credit risk tends to reduce profitability.

2.17.1 Concept of Liquidity in Banks

Liquidity means the ability of banks to meet their financial obligations when they fall due. Liquidity in a commercial bank means the bank's ability to finance all its contractual obligations when they fall due. These obligations can include lending, investing, withdrawing deposits, and accruing liabilities (Alshatti, 2015).

The concept of liquidity in commercial banks is referred to as the bank's ability to meet the demands of depositors to withdraw deposits and meet the demands of borrowers to meet the needs of the customer and the community. Liquidity is of great importance to banks because it affects the relationship between depositors and the bank when they want to withdraw an amount, and if it is not available, it will lead to a loss of confidence. but in commercial establishments, the management of the facility can negotiate with the customer to give a deadline to provide the amount without affecting the financial position (Abdulrahman, 2020).

Liquidity in commercial banks can be divided according to the degree of liquidity into two parts: Cash balances (primary reserves) are the most liquid asset items in commercial banks and consist of liquid assets from cash, balances with other banks, and balances deposited with the Central Bank. Secondary reserves: They are assets that can be converted into cash when needed and consist of securities and commercial papers discounted. This type promotes cash balances while earning some profits for the bank and providing liquidity. The first objective of this account is to achieve profits and then appropriate liquidity for the bank when necessary (Abdulrahman, 2020).

2.17.2 Liquidity Ratio

Liquidity is defined as the ability of a bank to meet the withdrawal requests of depositors and the needs of lenders in a timely manner without selling securities at large losses or borrowing at a high cost, in addition to the adequacy of cash and semi-cash balances, especially legal and secondary reserves (محمد، 2021).

2.17.3 Liquidity Management Theories:

Expected Income Theory: According to this theory, a bank can manage liquidity through proper loan guidance, the ability to collect loans when they are due, and the reduction of the risk of late loan repayment (Alshatti, 2015).

Transfer theory: "Transferability" is a strategy for maintaining the liquidity of a bank by facilitating the transfer of assets. When the bank is in need of funds, it can sell its assets to a more liquid institution. In accordance with the transfer theory, the banking system attempts to avoid liquidity crises by permitting banks to sell or repurchase assets at favorable prices (Alshatti, 2015).

2.18 Section Five: Comparison between Local and Foreign Banks in Palestine

The banking sector is one of the most significant components of Palestine's financial system and is most influenced by financial stability. It is considered the main financing channel, whether in the public or private sector. Therefore, the changes that this sector is witnessing directly affect economic activity (PMA, 2010). The banking system represents an important pillar in the national economy of any society. That is why most countries have been interested in organizing and setting laws and legislation related to all types of banks.

2.19 Literature Review

According to the previous studies that will be discussed in this research, determinants that affect the bank's profitability have been divided into external and internal determinants. These variables form part of the environment in which banks work. Internal determinants are the factors that are affected by the bank's management decisions and policy measures and affect profitability.

Exposure to credit risk is usually correlated with lower profitability for banks, and therefore the quality of the loans granted is more important than the size of the loans (Abu Zir, 2016). In cases where the bank is exposed to high risks, it will witness an increase in the percentage of bad loans, which will lead to a decrease in profitability (Allen, 1988).

Several research studies pointed out that loans provide a higher return compared to other banks' assets (see e.g., Sufian & Habibullah, 2009; Sufian, 2011; Abu Zir, 2016; Abugamea, 2018; Gul, Irshad, & Zaman, 2011). It is considered that there is a positive profitability indicator in the event that the banks have a low risk of default (Sufian & Habibullah, 2009).

There is a link between the amount of bank deposits and the liquidity of the banks. The greater the ratio of loans to deposits, the lower the liquidity. The bank will be insufficiently liquid to meet the unpredictable demands of depositors and borrowers. In order to achieve higher interest margins, banks incur higher costs as a result of increased competition, as they require more deposits. Inadequate liquidity and excessive liquidity may result in subpar performance by banks. And if the bank lacks sufficient funds, it could fail. Studies indicate that there is both a positive and a negative relationship between liquidity and a bank's profitability. If it has too much cash on hand, it will operate less efficiently. (Ali, 2022, Albulescu, 2015, Salike, 2017, and Samad, 2015) discovered a correlation between bank liquidity and bank profitability, while (Naifar, 2010 & Tan, 2012) reported an insignificant relationship. (Kosmidou, 2005, Mirzaei, 2011, Islam, 2016, Al-Jafari, 2014, and Derbali, 2018) all found that liquidity and bank profits are not related.

Empirical evidence indicates that a bank's size takes into account the differences in cost and diversification of risk and that size positively affects a bank's profitability (see e.g.

Abu Sir, 2016; Gul et al., 2011; Abugamea, 2018; Samad, 2015; Bouzgarrou et al., 2018); (Al-Jafari, 2014; Athanasoglou, 2006; Sufian, 2009; Petria, 2015), (Menicucci, 2016; Petria, 2015, Chen, 2018; Kosmidou, 2008 and Bougatef, 2017). On the other hand, Dietrich & Wanzenried (2014) did not find an effect of bank size on profitability as indicated by return on assets; however, a positive effect was found for bank size on both return on equity and net interest margin.

Larger sized banks that have well diversified bank portfolios are expected to have lower risk levels as a result of their portfolio diversification, leading to lower expected returns for banks as a result (see e.g. Tan, 2012, Abdullah, 2014, Kosmidou, 2005), (Ali, 2022), (Sarpong-Kumankoma, 2018), (Sufian, 2008), (Mirzaei, 2011).

Capital adequacy is an indicator of risk aversion. The traditional assumption of risk and return implies a negative relationship between the bank's capital and its earnings. The bank's avoidance of risk indicates a decrease in financial leverage and thus lower profitability. A well-known capital adequacy indicator is the equity to total assets ratio, which was found to have a positive effect on bank profitability as represented by return on assets by some research studies (see, e.g., Abugamea, 2018; Ramadan et al., 2011; Pasiouras & Kosmidou, 2007; Bouzgarrou et al., 2018; Dietrich & Wanzenried, 2014; Samad, 2015), but was found to have a negative effect on return on equity by others (Abugamea, 2018; Bouzgarrou et al., 2018; Dietrich & Wanzenried, 2014; Dietrich & Wanzenried, 2018). These results were discussed in terms of how financial leverage affects them. Return on assets doesn't take financial leverage into account, but return on equity and net interest margin do (Abugamea, 2018; Bouzgarrou et al., 2018; Dietrich & Wanzenried, 2014).

Samad (2015) remarked that when banks have higher operating expenses, their profitability will decrease, but when operating costs are used for loan recovery, loan default, and asset management, it is completely possible that the increase in the OPEX will increase the profitability of a bank. The significant relationship between OPEX and profitability at the bank provides information on the efficiency of management with expenditures related to the revenues it generates, indicating a negative association with profitability (Bouzgarrou et al., 2018; Pasiouras & Kosmidou, 2007; Dietrich & Wanzenried, 2014). Several previous studies, including those by Kosmidou (2008), Mirzaei (2011), Sarpong-Kumankoma (2018), Athanasoglou (2006),

Ali (2022), Petraria (2015), Rahman (2015), Curak (2012), Naifar (2010), and Sameta (2017), have been conducted.

Economic development impacts the profitability of banks. The development of the economy requires financing more loans and thus expects profitability to be higher, hence showing a positive relationship between GDP and profitability (Derbali, 2020), An economy that is relatively stable and expanding fosters investment and bank profitability. Many studies like (Alhassan, 2016), (Curak, 2012), (Reddy, 2011), (Kosmidou, 2005), (Kosmidou, 2008), (Chen, 2018), (Yüksel, 2018), (Majumder, 2018), (Salike, 2017). However, some studies such as (Rahman, 2015), (Ali, 2022), (Petria, 2015), (Mirzaei, 2011) found no significant correlation between the variables, whereas studies such as (Brahmaiah, 2018), (Bouzgarrou, 2018), (Al-Jafari, 2014), (Tan, 2012), (Islam, 2016) reported negative relationship.

Most economic variables and the interest rate are affected by inflation, so the higher the inflation rate, the higher the interest rate, which increases profitability. Profit correlates positively with inflation. In the existing literature, the relationship between the inflation rate and bank profitability is inconsistent. Many previous studies, including those, reported a positive correlation (Yüksel, 2018), (Kosmidou, 2005), (Athanasoglou, 2006), (Tan, 2012), (Islam, 2016), (Al-Jafari, 2014), (Bouzgarrou, 2018), (Brahmaiah, 2018), (Abdullah, 2014), (Rahman, 2015), reported positive relationship. (Sufian, 2009); (Sufian, 2012); (Ali, 2022); (Petria, 2015) indicated an insignificant relationship in their study, while (Alhassan, 2016); (Mirzaei, 2011); (Kosmidou, 2008); (Salike, 2017) a negative relationship existed. Inflation may cause an increase in bank operating expenses, but a rise in productive activity may be beneficial to bank profitability (Ali, 2022).

2.20 Related Studies

In a study (Kadioglu, Telceken, & Ocal, 2017) that examined the impact of the asset quality ratio on profitability, it was found that there was a significant direct relationship between the ratio of asset quality and profitability, as it was emphasized that the more non-performing loans increased significantly, the more this led to a decrease in the quality of assets and, consequently, a decrease in profitability, which was measured by the return on assets and the return on equity. In addition, it confirmed that liquidity

management and bank size have a substantial impact on the profitability of banks. In addition, a study (Mahmoud, 2019) confirmed that the ratio of asset quality to profitability is positively correlated.

The impact of capital structure ratios on profitability was examined by Addae, Baasi, and Hughes (2013), who discovered a positive relationship between profitability and short-term debt and a negative relationship between profitability and long-term debt. Moreover, it demonstrated a negative correlation between profitability and total debt. The study (Gill, 2011) emphasized, however, that the relationship between capital structure and profitability cannot be disregarded because enhancing profitability is essential for the company's long-term survival. This study revealed a positive correlation between short-term debt, total assets, and profitability, as well as between total debt, total assets, and profitability.

In addition, the study (Naima and Karima, 2021) that confirmed the effect of the capital structure on profitability found that the capital structure, as measured by the ratio of liabilities to assets, affects profitability as measured by the return on assets, the return on equity, and the reduced share return. Additionally, the capital structure, as measured by total deposits, is detrimental to profitability. The study (Al-Zahraa and Al-Hafeez, 2020) confirmed that the capital structure has an effect on profitability.

In other studies that confirmed the impact of off-balance sheet items on profitability, such as the study (Al-Abed, 2006) that highlighted the growing interest of banks in off-budget items, the investment of Jordanian commercial banks in these items increased by more than fourfold during the study period. During the study period, the statistical analysis revealed that there was no correlation between off-balance sheet items and the profitability of commercial banks. As for how off-balance sheet items affect the interest rate margin, this study shows that there is a positive correlation between off-balance sheet items and the interest rate margin. This means that off-balance sheet items should be added to the list of factors that affect the interest rate margin.

In the study (Sumaya, 2021) conducted on seven Algerian banks from 2012 to 2018, where the independent variable represented the percentage of off-balance sheet items to total assets and the dependent variables were profitability ratios represented in the rate of return on assets and rate of return on equity, the results of the simple regression

analysis indicated that there was no effect of off-balance sheet items on the return on assets as measured by the rate of return on assets. The effect of non-balance-sheet items on the return on assets of private banks is under study.

Chapter Three

Methodology

3.1 Research Sample

Using panel data, our study examines the profitability of local and foreign banks in both commercial and Islamic banks operating in Palestine and Jordan. Return on assets is calculated net by dividing income by total assets; return on equity is calculated by dividing net income by total equity; and net interest margin is the difference between interest income and interest expense. The researcher discusses, among the bank determining factors, each of the following: capital adequacy ratio, liquidity ratio, asset quality ratio, and off-balance sheet cost ratio, bank size, and take into account the macroeconomic factors represented in GDP and inflation. And controlling factors were added as "dummy variables": the global financial crisis from 2008–2010; the Greek crisis from 2010–2012; and the Corona crisis from 2019.

Data on the variables specified for the banks is collected from the financial statements represented in the balance sheet and the income statement's list from the websites of the Palestinian Banks Association, the Jordan Stock Exchange, and the main websites of Jordanian banks not listed on the stock exchange, and annual reports from 2008–2019. These macroeconomic factor data were obtained from the World Bank's publicly available data. Data for the year 2020 was omitted because it was unavailable when data collection commenced.

Our database consists of a data set of 38 banks, divided into 14 Palestinian banks, 7 local banks, and 7 foreign banks. There are 24 Jordanian banks, 16 of which are local and 8 are foreign.

3.2 Panel Data

According to Greene (2003), panel data is a technique that uses cross-data to predict economic relations. Wooldridge (2002) also covers broad and complex problems and allows the study of dynamic phenomena; this is what distinguishes it from time series and cross sections, which use time effects.

Thus, it uses data that has a time dimension and a cross-sectional dimension. As a result, the results obtained are more accurate. This analysis differs from the analysis of

time series and cross-section in that there is no problem of lack of observation, and it reduces the number of multiple linear problems and the interaction between parameters, so the results are more reliable and the degree of significance increases (Bayrakdaroglu, Ege, & Yazıcı, 2013).

3.3 Regression Model Specification:

To study the bank specifications and country specifications that affect the profitability of Palestinian and Jordanian banks, we follow Bouzgarrou et al., 2018 in specifying the model as in the following formula:

$$\Pi_{it} = c + \sum_{k=1}^K \beta_k X_{it}^k + \varepsilon_{it} \quad \dots\dots\dots(1)$$

- Where π_{it} measured bank profitability i at time t , using return on assets (ROA), return on equity (ROE), and net interest margin (NIM).
- C fixed constant term across all banks and all time.
- β_k is the scalar product of constant coefficients across banks.
- X_k is the vector of causal variables. $\varepsilon_{it} = \alpha_i + \mu_{it}$ with α_i signifies the unobservable specific individual effect (The bank i has a single error component) and μ_{it} reflects the interplay of unobserved individual and temporal sources of variation.

The individual specific effect α_i incorporated into the bank profitability explanation model to explicitly account for heterogeneity bias among banks. According to this model, the dependent variable measuring bank profitability of the bank (i) at time t , ROA_{it} , NIM_{it} , ROE_{it} , will be of a mixed type and will be determined by exogenous explanatory variables that vary over time and across banks, as well as variables that permit, at the same time, individual antinomy to be taken into account by α_i a- A particular constant term in each bank that does not change over time.

The literature on continuing bank profits indicates the adoption of a panel data model to assess the profitability determinants of banks, based on a comparison between local banks and foreign banks operating in Palestine and Jordan. In fact, bank earnings show a continuous trend through time. Continuing variables in bank profitability can be referred to as market structure, reflect barriers to sensitivity, and reflect competitiveness to macroeconomic shocks.

3.4 Research Variables

3.4.1 Variable's Definition:

We follow Bouzgarrou et al., 2018 in selecting the dependent and the independent variables to compare the profitability of local and foreign banks in Palestine and Jordan. In this section, we define each variable and provide the expected effect that the variable may have on bank profitability proxies.

3.4.2 Dependent Variables

In this study, the researcher measures the profitability of banks using three distinct variables: return on assets (ROA), return on equity (ROE), and net interest margin (NIM) (NIM).

In this study, the researcher has chosen to measure the profitability of banks using three distinct variables: return on assets (ROA), return on equity (ROE), and net interest margin (NIM). The selection of these three variables may be based on their relevance and significance in assessing a bank's financial performance and profitability. ROA measures the bank's ability to generate profits from its total assets, ROE assesses the profitability from shareholders' equity, and NIM reflects the difference between interest income and interest expenses, indicating how efficiently the bank is managing its interest-bearing assets and liabilities. By employing these three variables, the researcher aims to provide a comprehensive and multifaceted analysis of bank profitability, which can offer valuable insights into different aspects of their financial health and operational efficiency (the researcher).

Return on assets is defined as a profit before tax divided by total assets. It gives an indication of the efficiency of bank management in using its assets to achieve profits. The ratio is calculated by dividing the profit before tax on the total assets (Bouzgarrou et al., 2018).

Return on equity: is an indicator of how lucrative banks are in relation to shareholder equity. This ratio is calculated by split the net income by the shareholders' equity (Bouzgarrou et al., 2018).

Dependent variables are a fundamental component of experimental research, playing a crucial role in the scientific method. They represent the outcomes or results that

researchers aim to measure, observe, or analyze in an experiment. These variables are dependent on the independent variable, which is the factor that researchers manipulate to determine its effect on the dependent variable. In other words, changes in the independent variable are believed to cause changes in the dependent variable, allowing researchers to test hypotheses and draw conclusions about cause-and-effect relationships (Trochim, 2006). Dependent variables can take various forms, including numerical data like height or weight, categorical data such as survey responses, or even physiological measurements like blood pressure or brain activity (Rosnow & Rosenthal, 2008). Accurate identification and careful measurement of dependent variables are essential to ensure the validity and reliability of research findings.

3.4.3 Independent Variables:

The researcher uses bank specific factors and control variables. Bank specific factors include profitability, liquidity and risk. Control variables include macroeconomic indicators as growth in gross domestic product (GDP), inflation.

Internal factors are subject to the control of bank management as they are bank-specific factors that depend on the bank financial performance foreign Banks (FB) dummy variable equals to 1 if the bank is foreign and 0 otherwise.

Capital Adequacy: Equity to Total Assets Ratio (EQTA): This ratio is calculated by dividing equity by total assets. The higher the ratio of capital to assets indicates a decrease in financial leverage and thus lower risk (Pasiouras & Kosmidou, 2007).

Liquidity ratio: Loans to Customers and Short-Term Funding (LCSTF): The ratio of net loans to clients and short-term financing is used to illustrate the relationship between illiquid assets (loans) and stable sources of financing (deposits and short-term financing). The lower this ratio is the greater the bank's liquidity (Pasiouras & Kosmidou, 2007).

SIZE (Bank's total assets) is an important determinant of bank profitability and is calculated by taking the logarithm of total assets (Pasiouras & Kosmidou, 2007).

Asset quality ratio: Loan Loss Provisions to Total Assets Ratio (LLPTA): The uncollected loan loss allowance is used to cover bad loans and customer bankruptcy. This percentage indicates the quality of the assets and is considered an indicator of

credit risk. The higher this percentage gives the higher the credit rate. It can be measured by taking a loan loss allowance in relation to total assets or total loans (Bouzgarrou et al., 2018).

Off Balance Sheet to (Off Balance Sheet + Total Assets) Ratio (OBSOBSTA): This ratio measures the importance of unbalanced engagements on the bank's entire activities (Bouzgarrou, Jouida, & Louhichi, 2018).

Overhead to Total Assets (OVTA): This ratio measures the importance of employee and other non-financial expenses to a bank's total assets (Bouzgarrou et al., 2018).

3.4.4 External Factors-Control Variable:

INF: Inflation expresses the decrease in the purchase potential of a country's currency over a period of time (Pasiouras & Kosmidou, 2007).

GDP: The gross domestic product expresses the total monetary value of goods and services created internal the country borders during a period of time and this indicator indicates the health of the country's economy in this year. (Pasiouras & Kosmidou, 2007)

Table (1)*Measuring Main Variables*

Dependent Variables - DV:			
Symbol	Name	Measurement	
ROA	Return on assets	Net income / total assets	
ROE	Return on equity	Net income / stockholders' equity	
NIM	Net interest margin	(Interest income/loans) –(interest expense/deposit)	
Independent Variables - IV (Banks' internal factors):			
Symbol	Name	Measurement	Expected sign
DFL	Foreign banks dummy variable	DFL = 1 for a foreign bank, and 0 for a domestic one	+/-
CAR	Capital adequacy ratio	Equity / total assets	+/-
LIQR	Liquidity ratio	Loans / customers deposit	+
AQR	Assets quality ratio	Loan loss provisions / total assets	-
OBSTA	Off-balance sheet engagements ratio	Off balance sheet / (off Balance Sheet +Total Assets)	+
OVTA	Overhead to Total Assets (structural costs ratio)	Overhead / total assets	-
LNTA	Bank size	Natural logarithm of total assets	+
Control Variables CV - (Country macroeconomic factors):			
Symbol	Name	Measurement	Expected sign
GDP	Gross domestic product growth rate	(GDP at time t - GDP at time t-1)/GDP at time t-1	+
INF	Inflation rate	Not available	+
DCF	Financial crisis dummy variable	DCF = 1 for the financial crisis period (2008–2010), and 0 otherwise	-
DCG	Greece crisis dummy variable	DCG = 1 for the financial crisis period (2010–2012), and 0 otherwise	-
DCC	Corona crisis dummy variable	DCC = 1 for the corona crisis period (2019), and 0 otherwise	-
DFD	Palestine bank or Jordan bank	DFD = 1 Jordan bank, and 0 otherwise	

3.5 Empirical Results

This chapter begins with summarized statistics, then statistical analysis, then the correlation matrix, then discusses the results and compares them with theories and previous empirical research on the profitability of local and foreign banks.

The panel data model was used to analyze the financial data collected from the database published through the official websites of local and foreign banks in both Palestine and Jordan. The sample includes 3444 observations on the annual data account for 14 Palestinian banks and 20 Jordanian banks.

Table (2)

Summary Statistics

	All Banks			Domestic Banks			Foreign Banks		
	Obs.	Mean	Std. dev.	Obs.	Mean	Std. dev.	Obs.	Mean	Std. dev.
Dependent Variables									
ROA	408	.0115	.022	168	.00743	.016	240	.0144	.025614
ROE	408	.9708	17.86	168	.06753	.08584	240	1.603	23.2872
NIM	408	2.78	18.82	168	0.084	0.084	240	4.669	24.375
Independent Variables									
CAR	408	.1477	.09810	168	.1673	.12927	240	.1340	.06523
LIQR	408	3.155	47.643	168	.58783	.29141	240	4.953	62.108
AQR	408	.0033	.00583	168	.00287	.00776	240	.0037	.00394
OBSH	408	.1499	.150059	168	.16748	.21716	240	.1376	.070873
Size	408	19.46	4.07416	168	18.806	5.0781	240	19.91	3.12023
Over	408	.0202	.016577	168	.02357	.00857	240	.0178	.020082
Control Variables									
GDP	408	3.772	2.56524	168	4.85150	3.2790	240	3.016	1.51682
INF	408	109.20	9.03414	168	105.982	6.0637	240	111.4	10.0442

Reports the summary statistics of our sample Brief report for our sample, the researcher finds that the return on assets for all banks is.01 and the return on local and foreign bank assets are similar, equal to.01 The return on equity for all banks is equal to.97 The researcher find return on equity of foreign banks is higher than that of local banks, where the percentage.067 and 1.603, respectively, as well as the net interest margin

ratio for all banks equal 2.78, and the percentage of foreign banks was higher than the local ones 4.66, and.084, respectively.

The ratio liquidity and size for foreign banks is higher than that of local banks. However, local banks are characterized by ratio off-balance sheet, capital adequacy a higher ratio than those of foreign banks. The ratio is similar on asset quality ratio and structural cost ratio that the results convergent between both local and foreign banks. The gross domestic product growth rate was equal to 3.77 and the inflation rate was equal to 109.

Table (3)

Descriptive Statistic

Variable	Min	Mean	Median	Max	s.dev
ROA	-0.154540	0.011532	0.011056	0.360863	0.204409
ROE	-0.530728	0.972976	0.086683	360.8625	129842.2
NIM	-165.2042	2.787920	0.076119	156.4239	144079.6
Size	0.000000	19.45895	20.47500	22.85640	6755.081
OV	0.000000	0.020229	0.019334	0.313127	0.111843
OBSH	0.000000	0.149487	0.115080	0.780144	9.135776
LIQ	0.000000	3.161561	0.683921	962.4624	923829.8
INF	93.80300	109.2365	110.7470	125.6040	33045.17
GDP	-0.158000	3.763587	2.610000	9.601000	2666.262
CAR	0.000000	0.147731	0.132697	0.960918	3.916420
AQ	-0.008216	0.003391	0.001973	0.092223	0.013844

Among the most important things mentioned in the previous table, which is related to the descriptive analysis of the variables of the study, where the highest value of return on assets was 36% in Jordan Islamic Bank in Jordan, meaning that the highest return on assets was achieved in Jordan Islamic Bank in 2014, and the lowest value was -15% in Egyptian Arab Land Bank in Palestine for the year 2008, meaning This is because the bank achieves a loss of its assets by 15%. As for the return on equity, the highest value reached 360 in Jordan Islamic Bank, meaning that the highest return on equity was achieved in Jordan Islamic Bank in 2014, and the lowest value was -53% in Egyptian Arab Land Bank for the year 2008. This means that the bank achieves a loss from equity by 53%, the highest value of net interest income is 156, and this means that the banks under study reached the highest value achieved by Safwa Islamic Bank in Jordan for the

year 2019 as a result of its business with the interest paid by its owners to the holders of savings accounts and certificates of deposit, and the lowest value -165 in Arab Bank in Jordan for the year 2014.

Table (4)

Correlation Matrix

	SIZE	ROE	ROA	OV	OBSH	NIM	LIQ	INF	GDP	CAR	AQ
SIZE	1.00										
ROE	-0.01	1.00									
ROA	0.10	0.78	1.00								
OV	0.21	0.88	0.62	1.00							
OBSH	0.14	0.16	0.19	0.18	1.00						
NIM	0.05	-0.01	0.01	-0.02	-0.04	1.00					
LIQ	-0.01	0.02	0.05	0.04	-0.02	-0.09	1.00				
INF	0.21	0.05	0.08	0.03	-0.02	0.09	-0.07	1.00			
GDP	-0.18	-0.01	-0.04	0.01	0.02	-0.08	0.07	-0.60	1.00		
CAR	0.19	-0.08	-0.12	0.16	0.25	0.00	0.12	-0.09	0.07	1.00	
AQ	0.08	-0.05	-0.34	0.00	-0.01	-0.04	-0.10	-0.08	0.00	0.12	1.00

Table (4) shows the correlation matrix between the variables of the study to know the nature of the relationship between these variables and the strength of this relationship. Where this matrix indicates that there is a significant correlation between ROA and ROE with a correlation strength of 78%, which is a normal and expected percentage because both variables represent the bank's performance and this type of correlation does not cause statistical problems in regression because they are not used as independent variables, there is also a strong and positive correlation Between OV & ROE and OV & ROA up to 88% and 62% respectively, which is a large and logical correlation according to this study, as OV is an explanatory variable for ROE, and it is normal that there is a correlation between them

The results of the correlation matrix indicate that the rest of the independent variables do not contain a strong correlation higher than 80% positive or less than -80% negative, where the highest correlation ratio among the independent variables was 25% between CAR and OBSH, and the lowest correlation ratio was -60% between GDP and INF, where the strength of these correlations did not exceed 80% in absolute terms, so there is no indication of a multicollinearity problem between the independent variables.

Table (5)*The Difference between Local and Foreign Banks Profitability in Palestine and Jordan*

	Dependent variables				Independent Variables				
	ROA	ROE	NIM	CAR	LIQR	AQR	OBSH	Size	Over
T-test	-3.136	-.854	-2.44	3.069	-.911	-1.504	1.720	-2.737	3.450
Sig	.002	.393	0.015	.002	.363	.133	.087	.006	.001

The return on Asset and the Size of foreign banks is significantly higher than the return on equity of domestic banks, respectively. The capital adequacy ratio and the structural costs ratio of domestic banks are significantly higher than those of foreign banks.

Table (6)*The Association between Country Macroeconomic Factors and Profitability*

Variables		ROA	ROE	NIM
GDP	Pearson Correlation	-.039	-.008	-.148**
	Sig. (2-tailed)	.431	.875	.003
Inflation	Pearson Correlation	.074	.045	.181**
	Sig. (2-tailed)	.134	.359	.000

Through the results from table (6), Gross domestic product and Dependent variables (Return on assets, Return on Equity) the p-value is greater than 0.05, which means there is no association statistically significant at the 0.05 level between macroeconomic (factors Gross domestic product, Inflation) and (Return on assets, Return on Equity) used as a measure of the profitability.

On the other hand, there is a statistically significant association at the 0.05 level between macroeconomic (factors Gross domestic product, Inflation) and Net interest margin, but it is too weak relationship. The researcher concludes that there is no association between Country macroeconomic factors and profitability.

The results in the above table indicated a negative relationship between GDP and profitability, consistent with the study of (Brahmaiah, 2018), (Bouzgarrou, 2018), (Al-Jafari, 2014), (Tan, 2012), and (Islam, 2016). Previous studies indicated that the higher the rate of inflation, the higher the profitability of banks. The analysis in the previous

table indicated that there is a positive relationship between inflation and profitability, consistent with the study of (Yüksel, 2018), (Kosmidou, 2005), (Athanasoglou, 2006), (Tan, 2012), (Islam, 2016), (Al-Jafari, 2014), (Bouzgarrou, 2018), (Brahmaiah, 2018), (Abdullah, 2014), (Rahman, 2015).

Table (7)

Regression Model For All Bank

Model	ROA		ROE		NIM	
Variable	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
C	0.0298	0.1162	-6.6074	0.4755	-3.3113	0.8713
CAR	-0.0376	0.0001	-33.5585	0.0143	9.0585	0.4302
LIQR	0.0000	0.1856	-0.0011	0.5431	-0.0432	0.0000
AQR	-1.4276	0.0000	-33.3708	0.3891	-181.5678	0.4568
OBSTA	0.0166	0.1661	8.4991	0.1558	-4.0689	0.3527
OVTA	1.0189	0.0000	1105.2830	0.0000	-6.2475	0.6391
SIZE	-0.0003	0.5546	-0.7070	0.0069	0.0817	0.3450
GDP	0.0004	0.0610	0.2881	0.0036	-0.0269	0.8811
INF	-0.0004	0.0272	-0.0334	0.6664	0.0241	0.8996
DCC	0.0062	0.1781	0.5231	0.4690	4.6617	0.0949
DCF	-0.0040	0.0364	-0.2792	0.7759	0.0561	0.9442
DFD	0.0174	0.0000	8.7229	0.0000	4.1588	0.0922
DFL	0.0039	0.3361	0.7471	0.7096	-2.2079	0.1760
R-squared	0.7144		0.9439		0.0398	
F-statistic	82.1279		552.6771		1.3598	
Prob (F-statistic)	0.0000		0.0000		0.1827	

Note: The researcher used ordinary least square (OLS) and adopted random effect model with cross section

The model includes intercept (constant term)

Table (7) provides the analysis results of the regression model for all commercial banks over the period from 2008 to 2019. The researcher used return on assets as a dependent variable in model 1, return on equity in model 2, and net interest margin in model 3 to measure banks' profitability. The researcher found a positive and significant relationship between foreign banks dummy variable and the profitability when the return on Asset is used as a measure of the profitability, the estimation reveals that foreign banks (Jordanian bank) are more profitable than domestic banks with (B=

0.017). The researcher found a positive and significant relationship between foreign banks dummy variable and profitability when the return on Equity is used as a measure of the profitability, the estimation reveals that foreign banks (Jordanian bank) are more profitable than domestic banks with (B= 8.72). Based on these findings, the researcher concludes that in terms of the main hypothesis, we reject the null hypothesis and accept the alternative one. In other words, there is a significant difference between domestic and foreign banks' profitability (represented by ROA and ROE) in Palestine and Jordan.

In terms of sub hypothesis, the researcher notice that local and foreign banks' internal factors affect their profitability (represented by ROA and ROE) significantly except for the assets quality ratio (AQ) and the liquidity ratio (LIQR). To illustrate these differences, the findings show that the structural costs ratio has the highest effect on the Return on Equity with (B=1105.52), followed by the capital adequacy ratio with (B= -33.55), the Off-balance sheet engagements ratio comes after with (B= 8.499), the lowest factor affected the Return on Equity is the bank size with (B= -0.7070). All the variables explain 89% of the variability in ROE. The researcher found that the LIQ has a significant effect on NIM with (B=-0.0432). The independent and control variables explained 3.9% of the variability in NIM. Furthermore, inflation has a significant negative effect on ROA, while the growth rate of the gross domestic product has a positive significant effect on ROE.

The researcher presents the results of the regression of the factors determining the profitability of the bank measured by the return on assets (ROA), return on equity (ROE) and Net interest margin (NIM) where these tables display the R-square value of 0.71, 0.94 and 0.039 respectively, which indicates the ability of this model to explain the change in the dependent variable, which is an appropriate ratio according to similar previous studies. on the other hand, the table displays the F-statistical value of 0.000, 0.000 and 0.1827 respectively which indicates the validity of this model from a statistical point of view in interpreting the change in the dependent variable that expresses the profitability of the bank.

There is a statistically significant negative relationship at the 1% level of the capital adequacy ratio (CAR) on the profitability of the bank measured by the return on assets (ROA) and return on equity (ROE) as this ratio indicates an increase in the volume of

financial financing. Amount money that is secured for the bank forms part of the liquidity to meet potential future losses and increases the ability of banks to expand their banking operations and activities (مشكور وفليح، 2020). The results of this study were discussed in terms of how leverage affects it, and the results of this study are consistent with (Abugamea, 2018; Bouzgarrou et al., 2018; Dietrich & Wanzenried, 2014; Dietrich & Wanzenried, 2018). The results of this study differed with each of those who found a positive relationship with return in equity (ROE) (see, e.g., Abugamea, 2018; Ramadan et al., 2011; Pasiouras & Kosmidou, 2007; Bouzgarrou et al., 2018; Dietrich & Wanzenried, 2014; Samad, 2015).and There is a positive relationship of the capital adequacy ratio (CAR) on the profitability of the bank measured by the net interest margin (NIM), as this ratio indicates an increase in the volume of financial financing. Amount money that is secured for the bank forms part of the liquidity to meet potential future losses and increases the ability of banks to expand their banking operations and activities 2020،(مشكور وفليح). The results of this study were discussed in terms of how leverage affects it, and the results of this study are consistent with (see, e.g., Abugamea, 2018; Ramadan et al., 2011; Pasiouras & Kosmidou, 2007; Bouzgarrou et al., 2018; Dietrich & Wanzenried, 2014; Samad, 2015). The results of this study differed with each of those who found a negative relationship (Abugamea, 2018; Bouzgarrou et al., 2018; Dietrich & Wanzenried, 2014; Dietrich & Wanzenried, 2018). but it is not statistically significant.

Liquidity refers to the bank's ability to meet depositors' withdrawal requests and borrowers' needs in a timely manner without the need to sell securities at great losses (محمد، 2021). There is a positive relationship between liquidity and bank profitability represented by the return on assets (ROA), but it is not statistically significant the results of the study agree with both (Kosmidou, 2005), (Mirzaei, 2011), (Islam, 2016), (Al-Jafari, 2014), and (Derbali, 2018). There is a negative relationship between liquidity and bank profitability represented by the return on equity (ROE), but it is not statistically significant the results of the study agree with both (Kosmidou, 2005), (Mirzaei, 2011), (Islam, 2016), (Al-Jafari, 2014), and (Derbali, 2018) and There is a statistically significant negative relationship at the 1% level of the Liquidity ratio (LIQA) on the profitability of the bank. represented by the net interest margin (NIM),

the results of the study agree with both (Ali, 2022), (Albulescu, 2015), (Salike, 2017), and (Samad, 2015) who reported that there is a significant relationship between liquidity and profitability.

There is a statistically significant positive relationship at the level of 1% for the ratio of asset quality on the financial performance of the bank measured by the return on assets (ROA), as this result indicates that if the percentage of doubtful loans increases, the bank allocates a reserve to cover this type of expected loss. Which in turn leads to a decline in bank profitability, this result is consistent with the study of both (Kadioglu, Telceken, & Ocal, 2017). While the researcher found there is a negative relationship between asset quality ratio (AQ) and bank profitability represented by the return on equity (ROE) and net interest margin (NIM), but it is not statistically significant.

There is a positive, statistically significant relationship at the level of 5% for off-balance sheet activities on the bank's profitability as measured by the return on assets (ROA), and statistically significant relationship at the level of 1% for off-balance sheet activities on the bank's profitability as measured by the return on equity (ROE), and this result is not consistent with the study (Al-Abed, 2006) and (Sumaya, 2021) who concluded that there is no relationship between off-balance sheet items and profitability.

There is a negative relationship of off-balance sheet activities on bank profitability, measured by net interest margin (NIM) But it is not statistically significant. And this result is not consistent with the study (Al-Abd, 2006). Which concluded that there is a positive relationship between off-balance sheet and net interest margin (NIM) items and profitability.

There is a negative relationship between the size of the bank and the financial performance of the bank measured by the return on assets (ROA), but it is not statistically significant, although this result will not be able to prove it statistically, which is indicated by (Dietrich & Wanzenried (2014)). while she was a positive relationship between the size of the bank and the financial performance of the bank measured by the net interest margin (NIM), but it is not statistically significant, although this result will not be able to prove it statistically, which is indicated by (Dietrich & Wanzenried (2014)). And there is an inverse relationship between the size of the bank and the financial performance of the bank, measured by the return on equity

(ROE), with statistical significance. This study does not agree with of (Abu Sir, 2016; Gul et al., 2011; Abugamea, 2018; Samad, 2015; Bouzgarrou et al., 2018); Al-Jafari, 2014; (Athanasoglou, 2006); (Sufian, 2009); (Petria, 2015), (Menicucci, 2016); (Petria, 2015), (Chen, 2018); (Kosmidou, 2008), (Bougatef, 2017) that indicated a positive relationship between the size of the bank and the financial performance.

There is a negative relationship between the dummy variable that expresses the global financial crisis (DCF) and the financial performance of banks measured by the return on assets (ROA), but it is not statistically significant, although this relationship has not been proven statistically. While there is a positive relationship between the dummy variable that expresses the global financial crisis (DCF) and the financial performance of banks measured by the return on equity (ROE) and net interest margin (NIM), but it is not statistically significant, although this relationship has not been proven statistically.

There is a positive relationship between the Greek financial crisis and the financial performance of Palestinian and Jordanian banks measured by the return on assets, return on equity and net interest margin (DCG), but it is not statistically significant and it is an expected result, given that the Greek financial crisis is a governmental crisis in its nature that will not have a significant impact on the economies of other countries of the world.

There is a statistically significant positive relationship at the level of 1% between the crisis of the spread of the Corona epidemic and the financial performance of banks, as measured by the return on assets. she was there is positive relationship between the crisis of the spread of the Corona epidemic and the financial performance of banks, as measured by the return on equity and net interest margin. but not statistically significant.

There is a statistically significant positive relationship at the level of 1% between the dummy variable that expresses the type of bank (foreign or local), as this result indicates that the Jordanian foreign banks enjoy a much better financial performance than the Palestinian local banks in each of return on assets, return on equity and net interest margin.

Table (8)*Regression Analysis Domestic and Foreign Bank*

model national	ROA				ROE				NIM			
	Local		Foreign		Local		foreign		local		foreign	
variable	Coefficient	Prob.			Coefficient	Prob.			Coefficient	Prob.		
C	0.01966	0.03790	0.04205	0.00120	-1.64586	0.77340	0.35294	0.00000	16.59118	0.49010	-0.06589	0.47070
CAR	-0.04475	0.01200	0.03640	0.24400	-35.63295	0.00280	-0.17356	0.06970	6.95573	0.47810	0.39389	0.02040
LIQR	0.00002	0.00360	-0.00119	0.77320	0.00054	0.86570	-0.00735	0.61480	-0.05093	0.00000	-0.28667	0.00070
AQR	-0.39243	0.01880	-1.64643	0.00000	67.73746	0.42270	-6.14424	0.00000	-485.45730	0.05770	-0.82272	0.22120
OBSTA	0.01194	0.12370	0.00600	0.19180	15.63216	0.02230	-0.02830	0.15410	-54.96264	0.16100	-0.01672	0.79600
OVTA	1.06639	0.00000	-0.57299	0.00010	1110.36200	0.00000	-2.23717	0.00030	65.07435	0.37840	2.36277	0.01190
SIZE	-0.00073	0.03820	0.00215	0.00000	-0.82792	0.00000	0.01678	0.00000	-0.08527	0.71280	0.01124	0.00000
GDP	0.00036	0.01920	-0.00035	0.00350	0.14338	0.37160	-0.00162	0.04250	-0.25446	0.41040	0.00021	0.90430
INF	-0.01805	0.05170	-0.05853	0.00000	-4.77842	0.31030	-0.45250	0.00000	-11.80934	0.61010	-0.01470	0.89480
DCC	0.00752	0.00000	0.00055	0.44320	0.59769	0.36980	-0.00105	0.73300	7.81063	0.00450	-0.00833	0.59410
DCF	-0.00315	0.02540	-0.00210	0.32890	-0.51384	0.56510	-0.01292	0.03360	-1.93811	0.54000	-0.00931	0.73100
DFD	0.01425	0.00000	0.01532	0.00180	6.71846	0.02900	0.09319	0.00000	12.89509	0.00060	0.13188	0.00010
R-squared	0.75755		0.86445		0.95941		0.79119		0.06148		0.37677	
F-statistic	74.70594		77.16682		565.13650		45.84686		1.56608		7.31495	
Prob(F-statistic)	0.00000		0.00000		0.00000		0.00000		0.10880		0.00000	

Note: the researcher uses ordinary least square (OLS) and adopt random effect model with white cross section

The model includes intercept (constant term)

Two regression was implemented for each model in the local sample, because the number of independent variables is greater than the number of cross sections, which is not allowed to be implemented in the fixed and random effect model. Therefore, the model was implemented in two phases. In each phase, the researcher replaces the dummy variables that express financial crises, so that the number of independent variables in each model remains less than the number of companies

The table shows the R-square value of the return on assets model of 0.75 and 0.86, and its value in the net interest margin model of 0.06 and 0.37 for local and foreign banks, respectively, which indicates that internal factors and economic factors are able to explain the change in the return on assets and net interest margin for foreign banks more than in the local banks, On the other hand, the R-Square value in the return on equity model indicates 0.95 and 0.79 for local banks and foreign banks, respectively. This indicates the ability of internal factors and economic factors to explain the change in return on assets for local banks better than for foreign banks.

The value of probability F-statistical for all models indicates the validity of the model to explain the change in the dependent variable, except for its value in the net interest margin model for local banks, which is 0.108, which is somewhat close to 0.10. The reason is that there are other factors that are able to explain the change in the net interest margin. It will not be included in the form, which is also indicated by the low R-square value (0.06) in the same form.

The results indicate that there is a difference in the impact of the capital adequacy ratio on the variables that represent the financial performance of banks between local and foreign banks, as it negatively and statistically affects the return on assets in local banks, while no effect was proven for the same model in foreign banks. It also had a statistically significant negative effect on the return on equity for both local and foreign banks, but it had a more negative effect in the local banks model. On the other hand, it had a statistically significant positive effect on the net interest margin in foreign banks, while no effect was proven on local banks.

There is a fundamental difference in the effect of liquidity on the financial performance of banks, as the results indicate that liquidity negatively affects the return on assets and the return on equity of local banks, while it positively affects these returns in foreign banks. From another aspect, liquidity affects positively the net interest margin for both two banks, however, had a stronger influence on local banks than on foreign banks.

There is a difference in the effect of the asset quality ratio on the financial performance variables, as the results indicate that the asset quality ratio negatively affects the return on assets and net interest margin for both local and foreign banks, but its negatively affects foreign banks more than local banks, On the other hand, the quality of assets

ratio negatively affects the return on equity of foreign banks, while the researcher were not able to prove any significant statistical effect on local banks.

There is a difference in the effect of the off-balance sheet engagements ratio on the financial performance of local and foreign banks, where the results indicate that there is a statistically significant positive effect of the off-balance sheet engagements ratio on the return on equity of foreign banks, while the researcher could not prove any significant statistical effect on the rest of the variables Returns for both foreign and local banks

There is a difference in the effect of the overhead to total asset ratio on the financial performance variables of local and foreign banks, as the results indicated that of the overhead to total asset ratio positively affects the return on assets and the return on equity of local banks and also positively affects the net interest margin of foreign banks, in contrast, the overhead to total asset ratio negatively affects the return on equity and return on assets of foreign banks

There is a difference in the effect of bank size on the financial performance variables for each of the local banks and foreign banks, where the results indicate that the size of the bank negatively affects the return on assets and the return on equity of local banks and also has a negative impact on the net interest margin of local banks, but it is not significant Statistically, on the other hand, the size of the bank positively affects the return on assets, the return on equity, and the net interest margin for foreign banks.

There is a difference in the effect of the gross domestic product on the financial performance variables of local and foreign banks, as the results indicate that the gross domestic product positively affects the return on assets of local banks and did not have any statistically significant effect on the return on equity and the net interest margin of local banks. On the other hand, the gross domestic net negatively affects the return on assets and the return on equity of foreign banks, while the gross domestic product no significant statistical effect on the net interest margin of foreign banks.

There is a difference in the effect of inflation on the variables of financial performance of local and foreign banks, as the results indicate that inflation affects the return on assets of local banks, and the researcher could not prove any statistically significant

effect of inflation on the return on equity and the net interest margin of local banks, although they bear A negative effect sign, on the other hand, inflation negatively affects the return on assets and the return on equity of foreign banks, while the researcher could not prove any statistical effect of inflation on the net interest margin of foreign banks, although it bears a negative impact sign

There is a difference in the impact of the Corona pandemic on the financial performance variables of foreign and local banks, as the results indicate that the Corona pandemic positively affects the return on assets and the net interest margin of local banks, while the researcher were unable to prove any significant statistical effect on the impact of the Corona pandemic on the return on equity For local banks, on the other hand, the Corona pandemic affects positively the return on assets for foreign banks, while the researcher will not be able to prove any significant statistical effect of the Corona pandemic on the return on equity and the net interest margin for foreign banks.

There is a difference in the impact of the global financial crisis on the financial performance of local and foreign banks, as the results indicate that the global financial crisis negatively affects the return on assets of local banks, while the researcher could not prove any statistical effect of the impact of the global financial crisis on the return on equity and the net margin The interest for local banks, on the other hand, the global financial crisis negatively affects the return on equity of foreign banks, while the researcher were unable to prove any statistical effect of the impact of the global financial crisis on the return on assets and the net interest margin for foreign banks

There is a difference in financial performance between local and foreign banks operating in Palestine and Jordan, where the results indicate that all local and foreign banks operating in Jordan enjoy better financial performance than the international banks in Palestine according to all financial performance measures (return on assets, return on equity and net interest margin).

The results above indicate that there is a difference in the impact of the internal factors of local banks on the foreign banks operating in both Palestine and Jordan in accordance with the hypothesis of the research. Therefore, is accepted the first hypothesis, which states that the impact of internal factors local banks differs from that of foreign banks on the profitability of the of banks operating in Palestine and Jordan.

The above results also show a difference in the impact of external factors for local banks on foreign banks, in line with the research hypothesis. Accordingly, is accepted the second hypothesis, states that the impact of external factors local banks differs from foreign banks on the profitability of banks operating in Palestine and Jordan.

Chapter Four

Conclusion and Recommendations

4.1 Conclusion

This study examined the impact of internal and external factors on the profitability of local and foreign banks operating in Palestine and Jordan, using 35 local and foreign banks in Palestine and Jordan during the period 2008-2019, using the three indicators profitability of bank: return on assets, return on equity, and net interest margin, the data was analyzed using a panel data.

The results indicated that the ratio of liquidity and volume of foreign banks is higher than that of local banks and that there is a positive and significant relationship between the dummy variable of foreign banks and profitability, the researcher found that the return on assets for all banks is (0.01), the researcher also found that local and foreign banks' internal factors affect their profitability, as these factors significantly affected profitability, except Assets quality ratio (AQ) and the liquidity ratio LIQR. Also, the researcher notice that not all local and foreign bank's internal factors affect their profitability in the same manner. The LIQ has the effect on NIM with (B=-0.043). and the independent and control variables explained 3.9% of the variability in NIM.

The banks were separated into local and foreign banks to study the impact of internal and external factors on banks, and the difference in the impact of internal and external factors of local banks on foreign banks was reached, and accordingly, the research hypotheses were accepted.

It is clear that Jordanian banks enjoy a suitable investment environment and have the ability to adapt to investment and financing conditions and operational capabilities and have sufficient experience in business, which made them able to outperform Palestinian banks that lack these capabilities due to the modernity of their banking system and the economic restrictions imposed by the Israeli occupation, which constitutes an impediment to the volume of international trade.

4.2 Limitation

The sample of this study is limited to those that consisted of banks operating in Palestine and Jordan during the period 2008-2019, which lacked sufficient observations before the global financial crisis and also lacked observations after the coronavirus crisis, which hinders knowing the exact impact of these financial shocks caused by the crises.

The study model was based on multiple dummy variables to express the impact of the multiple crises that the banking sector was exposed to during the study period, which is what the OLS model lacks to deal with them together. There are specialized models dedicated to this type of variable, but these variables were secondary to the study and not essential.

4.3 Recommendations

In light of the research findings, several key recommendations emerge for banks in Palestine and Jordan to enhance their financial performance and resilience. Firstly, banks should prioritize diversifying their investment portfolios to achieve higher returns, with a particular focus on asset quality management. This includes monitoring and reducing doubtful loans while also maintaining a healthy capital adequacy ratio. Efficient liquidity management and prudent risk assessment are essential in navigating economic fluctuations. Furthermore, banks should closely analyze the strategies employed by foreign banks that lead to superior profitability and adapt accordingly. Collaborative information sharing within the banking sector, along with a customer-centric approach and strategic investments in technology, can further bolster banks' performance. Continuous research and performance assessments will be vital in ensuring banks remain adaptable to changing economic conditions and competitive environments. Lastly, rigorous regulatory compliance and crisis preparedness plans should be integral components of banks' strategies to maintain long-term stability and trust among stakeholders.

This study recommended that it be re-applied to a wider sample of Arab countries, such as the Middle East or the Maghreb region, to find out the extent of the differences between the performance of the banking sector in countries with similar cultural and economic levels and thus the possibility of generalizing these results.

This study relied heavily on accounting profit concepts to express the financial performance of banks, such as return on assets and return on equity, and did not address market measures to express financial performance such as the Tobin Q ratio or the market multiplier. This study recommends applying the model to the market performance of the sector. Banking due to the importance of the market financial performance of the banking sector for investors and related parties.

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Appendices

Appendix (A)

Statistical Testing Details

This study relies on panel data to test the linear relationship between the independent and dependent variables by using the ordinary least squares (OLS) model, as this study relies on three main models to represent this relationship that depends on panel data, which are Bold effect, fixed Effect and Random Effect.

These models differ among themselves in the value of the constant (alpha) in the regression equation, which expresses the special characteristics associated with each bank, as the Booled Effect model considers that all these banks have homogeneous special characteristics that do not differ with the different banks, and therefore it treats the panel data as time series data so that there is a constant (alpha) value that is the same for all banks.

On the other hand, the fixed effect model considers that these banks differ in their own characteristics and, therefore, gives a constant or intercept value (alpha) for each bank that differs from the other, as this model gives a dummy variable for each bank to distinguish it from the rest of the banks. On the other hand, the random effect model agrees with the fixed effect model in this feature in that it added another feature by adding a random variable in the error term that expresses the possibility of not including all possible values in all variables as a result of the study sample being drawn randomly from the study population. Therefore, the value of the variable in this sample may not contain all the values for the same variable in the study population.

Likelihood test

Model	cross-section F		cross-section Chi-square	
	Statistic	Prob	statistic	Prob
ROA	11.5045	0.000	288.1267	0.000
ROE	24.8731	0.000	473.7694	0.000
NIM	7.4802	0.000	209.2909	0.000

The table represents the Likelihood test to compare the preference of the pooled effect model or the fixed effect model in representing this relationship in the model. This test contains a null hypothesis stating that the pooled effect model is better than the fixed effect model. According of Likelihood test shows the P-value of less than 5%, thus rejecting the null hypothesis and accepting the alternative hypothesis, which states that the fixed effect model is better than the pooled effect model.

Hausman test

model	Chi-Sq. statistic	Chi-Sq. d.f	prob
ROA	48.864081	8	0.000
ROE	61.949304	8	0.000
NIM	238.496833	8	0.000

The table shows the results of the Hausmann test, which compares the preference of the fixed effect model or the random effect model, where the null hypothesis of this test indicates that the fixed effect model is better than the random effect model, according to the results of this test, which shows that the P-value for all models is less than 5%. Therefore, the researcher reject the null hypothesis and accept the alternative hypothesis, which indicates that the random effect model is better than the fixed effect model.

Group unit root test: Summary				
Series: NIM, ROA, ROE, OV, SIZE, OBSH, LIQ, INF, GDP, AQ, CAR				
Sample: 2008 2415				
Exogenous variables: Individual effects				
Automatic selection of maximum lags				
Automatic lag length selection based on SIC: 0 to 14				
Newey-West automatic bandwidth selection and Bartlett kernel				
Method	Statistic	Prob.**	Cross-sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-17.0639	0.0000	11	4443

Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-37.7137	0.0000	11	4443
ADF - Fisher Chi-square	964.147	0.0000	11	4443
PP - Fisher Chi-square	1186.59	0.0000	11	4475

**** Probabilities for Fisher tests are computed using an asymptotic Chi-square distribution. All other tests assume asymptotic normality.**

From the table, the researcher can notice the p-value obtained should be less than the significance level (0.05). Thereby inferring that the series is stationary.

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test period random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d. f.	Prob.
Period random	0.000000	11	1.0000

* Period test variance is invalid. Hausman statistic set to zero.

A generalized Method of Moments was applied to the variables; the results are shown in Tables (4, 5, and 6).

Table: Model (1) Dependent Variable: ROA

Dependent Variable: ROA				
Method: Panel EGLS (Period random effects)				
Sample: 1 408				
Periods included: 34				
Cross-sections included: 12				
Total panel (unbalanced) observations: 407				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.020093	0.016901	1.188837	0.2352
CAR	-0.037213	0.008247	-4.512424	0.0000
LIQ	6.91E-06	1.22E-05	0.564201	0.5729
AQ	-1.422267	0.107556	-13.22345	0.0000
OBSH	0.018590	0.007658	2.427545	0.0156
SIZE	-0.000276	0.000235	-1.173114	0.2415

OV	1.016033	0.039257	25.88135	0.0000
GDP	0.000422	0.000282	1.499685	0.1345
INF	-0.000252	0.000145	-1.732832	0.0839
DCF	-0.002691	0.002504	-1.074607	0.2832
DCG	0.002230	0.001476	1.510698	0.1317
DCC	0.005939	0.002277	2.607507	0.0095
DFD	0.015778	0.002923	5.398402	0.0000
Effects Specification				
			S.D.	Rho
Period random			0.007203	0.2942
Idiosyncratic random			0.011156	0.7058
Weighted Statistics				
R-squared	0.714577	Mean dependent var	0.004709	
Adjusted R-squared	0.705884	S.D. dependent var	0.020806	
S.E. of regression	0.011284	Sum squared resid	0.050165	
F-statistic	82.20070	Durbin-Watson stat	2.077022	
Prob(F-statistic)	0.000000			

Table: Model (2) Dependent Variable: ROE

Dependent Variable: ROE				
Method: Panel EGLS (Period random effects)				
Date: 06/12/22 Time: 13:55				
Sample: 1 408				
Periods included: 34				
Cross-sections included: 12				
Total panel (unbalanced) observations: 407				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-10.39095	6.205367	-1.674511	0.0948
CAR	-33.52396	3.187572	-10.51708	0.0000

LIQ	-0.000735	0.004457	-0.164987	0.8690
AQ	-34.16199	39.52414	-0.864332	0.3879
OBSH	8.625016	3.321242	2.596925	0.0098
SIZE	-0.706255	0.093986	-7.514510	0.0000
OV	1105.503	14.75272	74.93557	0.0000
GDP	0.290876	0.102279	2.843951	0.0047
INF	0.002378	0.052771	0.045054	0.9641
DCF	0.182846	0.910097	0.200908	0.8409
DCG	0.806251	0.536285	1.503401	0.1335
DCC	0.447119	0.827137	0.540562	0.5891
DFD	8.310574	1.440999	5.767230	0.0000
Effects Specification				
			S.D.	Rho
Period random			3.823763	0.4712
Idiosyncratic random			4.051021	0.5288
Weighted Statistics				
R-squared	0.944041	Mean dependent var	0.284572	
Adjusted R-squared	0.942337	S.D. dependent var	17.20444	
S.E. of regression	4.131327	Sum squared resid	6724.738	
F-statistic	553.9086	Durbin-Watson stat	1.873300	
Prob(F-statistic)	0.000000			

Table: Model (3) Dependent Variable: NIM

Dependent Variable: NIM
Method: Panel EGLS (Period random effects)
Date: 06/12/22 Time: 13:52
Sample: 1 408
Periods included: 34
Cross-sections included: 12
Total panel (unbalanced) observations: 407
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-14.53117	22.55065	-0.644379	0.5197
CAR	9.138996	8.379124	1.090686	0.2761
LIQ	-0.042259	0.016274	-2.596694	0.0098
AQ	-206.2201	133.8631	-1.540529	0.1242
OBSH	-6.113929	5.291318	-1.155464	0.2486
SIZE	0.131121	0.201149	0.651860	0.5149
OV	0.181948	48.27152	0.003769	0.9970
GDP	-0.019581	0.383737	-0.051027	0.9593
INF	0.105601	0.197151	0.535633	0.5925
DCF	1.185272	3.403703	0.348230	0.7279
DCG	1.966015	2.011277	0.977496	0.3289
DCC	4.478744	3.105551	1.442174	0.1500
DFD	4.321927	1.997040	2.164167	0.0311
Effects Specification				
			S.D.	Rho
Period random			0.000000	0.0000
Idiosyncratic random			15.22771	1.0000
Weighted Statistics				
R-squared	0.038915	Mean dependent var		2.787920
Adjusted R-squared	0.009644	S.D. dependent var		18.83815
S.E. of regression	18.74709	Sum squared resid		138472.7
F-statistic	1.329461	Durbin-Watson stat		2.129882
Prob(F-statistic)	0.198852			
Unweighted Statistics				
R-squared	0.038915	Mean dependent var		2.787920
Sum squared resid	138472.7	Durbin-Watson stat		2.129882



جامعة النجاح الوطنية
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قدمت هذه الرسالة استكمالاً لمتطلبات الحصول على درجة الماجستير في التمويل، من كلية الدراسات العليا، في جامعة النجاح الوطنية، نابلس-فلسطين.

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الملخص

تقارن هذه الدراسة ربحية البنوك الأجنبية والمحلية الفلسطينية والأردنية من عام 2008 إلى عام 2019. في هذه الدراسة، يستخدم الباحث بيانات مصرفية محددة لتحديد الفرق بين البنوك المحلية والأجنبية العاملة في فلسطين والأردن، والتي تم جمعها من البيانات المالية لكل بنك على حدة. كما استخدم الباحث مجموعة من المتغيرات الضابطة التي تشمل بيانات الاقتصاد الكلي للبلدين، والتي يجمعها الباحث من قاعدة بيانات البنك الدولي. وتتكون العينة من 7 بنوك فلسطينية محلية وسبعة أجنبية و16 بنوك محلية و8 بنوك أردنية أجنبية. في تحليلنا، طبق البحث نموذج بيانات اللوحة. يتم استخدام العائد على الأصول والعائد على حقوق الملكية وصافي هامش الفائدة لتقريب ربحية البنوك. تعتبر النتائج مهمة للمستثمرين والدائنين وصناع القرار والمنظمين ومجالس الإدارة لأنهم مهتمون بأداء المؤسسات المصرفية. يقيس الباحث ربحية البنوك باستخدام ثلاثة متغيرات تابعة متميزة: العائد على الأصول (ROA)، والعائد على حقوق الملكية (ROE)، وصافي هامش الفائدة (NIM) (NIM). يستخدم الباحث العوامل البنكية المحددة ويتحكم في المتغيرات المستقلة. وتشمل العوامل المحددة للبنك الربحية والسيولة والمخاطر. تشمل متغيرات التحكم مؤشرات الاقتصاد الكلي مثل نمو الناتج المحلي الإجمالي والتضخم. قامت هذه الدراسة بتحليل 35 بنكاً محلياً وأجانبياً في فلسطين والأردن من عام 2008 إلى عام 2019، وتقييم ربحيتها مع العائد على الأصول، والعائد على حقوق الملكية، وصافي هامش الفائدة. وأظهرت النتائج ارتفاع السيولة وربحية البنوك الأجنبية. وقد أثرت العوامل الداخلية بشكل كبير على الربحية، باستثناء نسبة جودة الأصول (AQ) والسيولة (LIQ) للبنوك المحلية والأجنبية. أثر LIQ على صافي هامش الفائدة (NIM)، مما يفسر 3.9% من تقلبه.

الكلمات المفتاحية: ربحية البنوك، بنوك محلية، بنوك اجنبيه، عوامل داخلية وخارجية.