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Did Islamic Banks Benefit from the Financial Crisis of 2008? The Jordanian Case (2008 – 2014)

Dr. Khaled F. Zentuti
Department of Accounting,Princess Sumaya University for Technology(PSUT),Amman – Jordan

Abstract
The Global Financial Crisis of 2008 has meant that the investors flight to safety, and the conventional banks have tighter lending patterns, this paper is trying to find out whether Islamic banks in Jordan have taken this opportunity and have grown more than their peers of conventional banks. To make an appropriate comparative study, a simple model has been developed to establish full coherence and consistency of selected variables to measure the growth rate for both Islamic and conventional banks, those variables are customers' deposits, net credit facilities, total assets and shareholders' equity covering the period of (2008-2014).Trend analysis and T-test were utilized to test out data. Although, the simple average shows higher growth rate related to all of our selected variables in Islamic banks against conventional banks, but statistically insignificant for all of the selected variables.
Keywords: Islamic Banks, Financial Crisis, Growth Rate, Deposits, Credit Facilities, Equity, Assets.

1. Introduction

The whole world has witnessed a big financial crisis, maybe the deepest since the great depression. It has taken more than $3.2 trillion of liquidity support and bailout schemes all over the world, mainly in the U.S. and Europe. Although, the banking sector was the most affected by the 2008 crisis, but with different degrees across continents and countries as well as the type of banks (Islamic and Conventional). Some believe that Islamic banks have not been affected by the mortgage crisis that hit the international financial markets and that they are largely immune against such crisis, due to the Islamic rules applied within Islamic banking concepts, so the Islamic banks are largely sheltered from this crisis; however, they have been affected to a certain extent, since they are a part of the international financial system and of all the global financial dealings.

Generally, we might accept the fact that financial crisis of 2008 has made few winners and many losers, one of the winners are financial Institutions which provide Islamic banking as a demand for Shariah compliant finance which has grown in popularity according to some expectations. For a lot of bankers, the risk profile of Islamic banks is generally lower than conventional banks; this has presented a more solid option for both retail and institutional investors, so dealing with Islamic banks has grown over the last seven years after the financial crisis of 2008.

This paper will examine whether the Islamic banks in Jordan were one of the winners in terms of growth compared to conventional banks, for the period of 2008-2014.

2. Literature Review

Over the last two decades, there have been a lot of studies addressing the concept of Islamic Banks and their performance efficiency either before or after the financial crisis. Those studies were concentrating on some empirical comparative analysis of the performance and efficiency of conventional banks and Islamic banks, but as a matter of fact, there were limited studies addressing the growth of Islamic banks compared to conventional banks after financial crisis of 2008.

Iqbal (2001), he studied the growth of Islamic banking during the Nineties by including 12 banks and measuring annual growth rates for some key variables of Islamic banks such as total assets, total equity, total deposits, gross revenues and total Investments. Then he used the ratio analysis technique by applying specifically capital asset ratio, liquidity ratio, cost / income ratio, as well as some profitability ratios, i.e.; ROA, ROE. He concluded that, Islamic banking (according to his sample), shows a considerable higher growth rate for some key variables such as total assets, total equity, total deposits and total Investment.

Awan (2009) studied the vertical growth of Islamic banks and compared it with conventional banks; he included six Islamic banks in Pakistan and six conventional banks of the same size in his sample. The ratio analysis was used to analyze data (for the period between2006-2008) related to performance and profitability of those banks. He concluded that the performance and profitability of Islamic banks are far better than selected conventional banks. The study showed that Islamic banks are comparatively much better than conventional banks in terms of total assets, deposits, financing, investment and quality of services recovery of loans.

Hasan and Derbi (2010), examined the asset growth (as well as some other variables) in a group of countries where the two group of banks (Islamic and Conventional), included Bahrain, Jordan, Kuwait, Turkey and UAE covering the period of (2008-2009). The results indicate that Islamic banks maintained stronger credit and asset growth, compared to conventional banks in almost all countries. Also, they (Hasan and Derbi) agreed that strong credit and asset growth suggest that the market share of Islamic banks is likely to continue to increase

going forward and to contribute more to macro-stability by making more credit available and less affected by deleveraging.

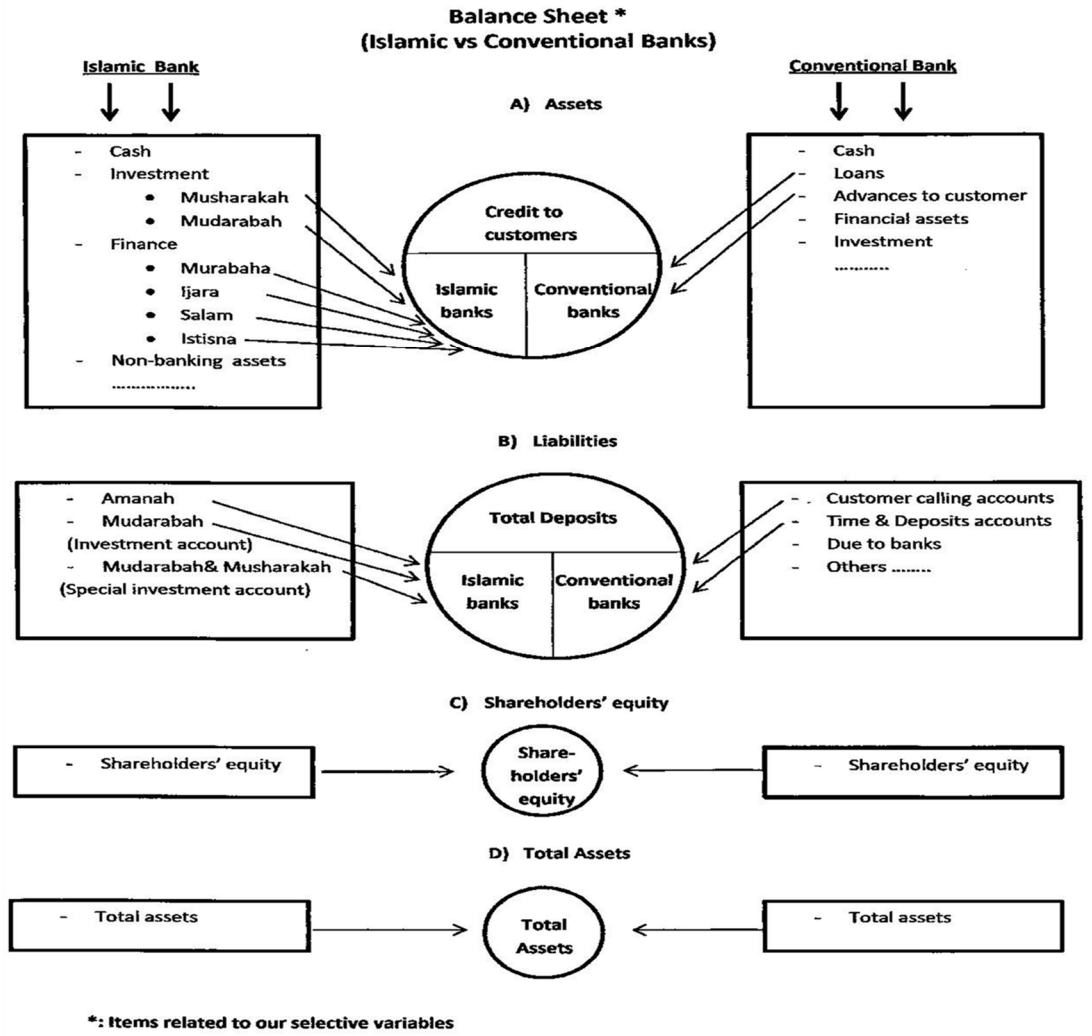
Farhat and others (2012), studied the growth of Islamic banking in Pakistan in terms of its deposits, investments, assets and owners' equity for the period between (2004-2009). They found out that the growth rate of Islamic Banks was higher than its traditional counterpart in deposits, investment, asset and owners' equity, also they came to the conclusion that the growth rates of deposits and assets of Islamic banks were statistically significant, whereas growth rates in investments and owners' equity were found insignificant.

Tobash and Dhankar (2014), examined the impact of the global financial crisis on the key performance ratios of all pledged Islamic banks operating in the Kingdom of Saudi Arabia, trend analysis and ratio analysis had been utilized for the period of 2005-2010. They concluded that Islamic banking section is a more stable section in terms of capital adequacy and liquidity in the period understudy.

Farooq and Zaheer, (2015), compared Islamic banks to conventional banks in Pakistan during financial panics, they used detailed data on the bank balance sheets, their granted loans and deposits. They concluded that Islamic branches of banks that have both Islamic and conventional operations tend to attract (rather than lose) deposits during panics, while suggesting a role for religious branding, also they found out that Islamic bank branches grant more loans during financial panics.

3. Model Specifications

To understand the theoretical framework of growth rate issue, the following is the model that was developed to explain how we study the most important variables affecting growth rate such as customers' deposits, total assets, net credit facilities and shareholders' equity, concentrating on balance sheet items related to both Islamic and conventional banks, which may affect growth rates, and trying to explain the consistency between those variables.



Greuning and Iqbal (2009), explained that the structure data of typical conventional banks has in its liability side demand and saving deposits, issuing certificate of deposits (CD) and has capital and reserve. In the asset side, we find loans (lending) to individual customers and corporations, marketable securities and trading

accounts. If we look at the balance sheet of Islamic banks (as per the above model) we find different account names for different activities and different instruments, but they have same functions, at uses of funds side (asset side) we find Murabaha, Salam, Ijara, Istisna as finance accounts and Musharkah Mudarabah as Investment accounts, at sources of funds side (liability) we find Ammanah equivalent to demand deposits and Mudarabah account equivalent to saving accounts. So as mentioned in our previous model, we can rename the assets and liabilities of Islamic banks to be in consistence with conventional banks, based on functionality aspect covering the area of total customers' deposits and total net credit facilities, also we have the same account names for both Islamic and traditional banks in terms of total shareholders' equity and total assets, so now we can go on with our analysis.

4. Data and Methodology

The objective of this study is to find out the growth rate in terms of four variables i.e. total customers' deposits, total net credit facilities, total shareholders' equity, and total assets, and having comparison of both Islamic banks and conventional banks in Jordan for the period of (2008-2014). So this paper has two Islamic banks included in its sample, first one is Jordan Islamic Bank for Finance and Investment (JIBFI), it was established as a public company in 1978 and was licensed with the objective of applying Islamic Shariah in its banking and investment operations, the total assets of the bank was about JD 3,555 M. by the end of 2014. The second Islamic bank included in this sample is Islamic International Arab Bank (IIAB), it is the second bank in Jordan to apply Islamic Shariah, it started its business in 1998 and its assets measured JD 1,569 M. by the end of 2014.

This paper also includes in its sample two conventional banks to compare with the sample of Islamic banks. First is Jordan Ahli Bank (JAB), established in 1955 to operate as a conventional bank with total assets, (2014) of JD 2,352 M., so it's considered to be close in size (Total Assets) to Jordan Islamic Bank for Finance and Investment (JIBFI). Second is Arab Jordan Investment Bank (AJIB), established in 1978 as a conventional bank with total assets (2014) of JD 1,750 M. (which is very close to Islamic International Arab Bank (IIAB)).

The period of (2008-2014) was covered in this study, because the main objective of this study is to compare the growth rate of the paper's sample in the period of the financial crisis and after, to see whether the Islamic banks were the winners in terms of our selected variables.

The data used in this study is financial information, extracted and analyzed from the balance sheets and income statements which are available in the annual reports of the banks and from Amman Stock Exchange (ASE).

Taking into consideration the model specifications developed earlier, this paper is going to apply trend analysis technique to find out the growth rates of total customers' deposits, net credit facilities, shareholders' equity and total assets for both (Islamic and Conventional) Banks in the period of (2008-2014).

Also, this paper is going to apply T-Test to see if a statistical difference between Islamic and conventional banks exists in terms of growth rate as measured by the paper's selective variables.

5. Findings and Discussion

The objective of this study is to find out whether the growth rates of Islamic banks were higher compared to conventional banks during and after the financial crisis of 2008. The growth rates had been analyzed horizontally in terms of customers' deposits, net credit facilities, total assets and shareholders' equity. The related data and growth rates of both Islamic and conventional banks are shown in (Appendix – A).

5.1 Customers' Deposits Growth Rate:

As tables 1-A, 1-B, 1-C show clearly, customers' deposits in Islamic banks had increased dramatically in the first two years after the financial crisis, i.e. 124.6% in (2008-2009) and 175.2% in (2009-2010) comparing to conventional banks, that was only 112.5% in (2008-2009) and 110.3% in (2009-2010). It is very obvious that the Islamic banks get the benefit of the negative effect that had been spread by the financial crisis, and by looking at years later it was found generally that Islamic banks had higher growth rate compared to conventional banks, while very close growth rate for both (Islamic & Conventional) in 2011-2012. In 2012-2013, the difference was so high, 110.6% for Islamic banks and 86.2% for conventional banks, but in 2013-2014 the trend patterns had changed clearly, the conventional banks had 122.8% growth rate vs. only 110.8% for Islamic banks, this change can be explained in reference to the fact that the financial crisis effect had been decreased after 6 years of the starting date of the crisis.

As an average of the period understudy, it was a clear increase in growth rate of customers' deposits of Islamic banks 123.5% against only 106.7% in conventional banks.

5.2 Total Net Credit Facilities Growth Rate:

Growth rates of total net credit facilities of both Islamic and conventional banking for the period of 2008-2014 are given in tables 2-A, 2-B, 2-C, which reveal that the growth rate of net credit facilities in 2008-2009 is strongly higher in Islamic banks (132.8%) comparing with only 108.7% in conventional banks. This may be explained by the momentum of the financial crisis at the first year after the crisis started, then at most of the remaining years,

the Islamic bank has surpassed the conventional banks but with less rate difference, except for 2010-2011, when the growth rate of net credit facilities in Islamic banks stood at 106.2% compared to 108.6% for conventional banks while a big increase in net credit facilities growth rate of Islamic banks was seen in 2011-2012 at 133% against only 110.3% at conventional banks. The picture had been sharply changed at the last year of this study in 2013-2014, only 93.6% growth rate in net credit facilities in Islamic banks, while it was 121.3% at the same year for conventional banks, which meant that conventional banks started to take the lead in the area of investment (net credit facilities).

As an average, Islamic banks had higher growth rate in net credit facilities of 114.8% compared to conventional banks of 108.67%.

5.3 Shareholders` Equity Growth Rate:

Tables 3-A, 3-B, 3-C display the growth rate of shareholders' equity in both Islamic banks and conventional banks for the period of the study (2008-2014). The table 3-C reveals that the growth rate of shareholders' equity in Islamic banks was at 115.6%, against only 104.6% for conventional banks, in 2008-2009, while in 2009-2010 it was only 92.6%, in Islamic banks compared to 104.1% in conventional banks. Two years later, the growth rate was almost the same for both Islamic & conventional banks. Also in2012-2013 the growth rate was higher in the Islamic banks at 113.0% against 104.2% in conventional banks, but in 2013-2014 the growth rate of shareholders' equity was higher in the conventional banks compared to Islamic banks.

As an average, growth rate of shareholders' equity was almost the same for both Islamic and conventional banks, (108.47% and 108.32%) respectfully.

5.4 Assets Growth Rate:

The tables 4-A, 4-B, 4-C show the growth rates of assets for both Islamic and conventional banks in the period 2008-2014. The growth rate of total assets in Islamic bank stood at 117.0 % against 109.1 % in conventional banks in year (2008, 2009), that is the first year after the financial crisis had taken place in 2008. Then, it is seen as an almost steady growth rate of assets for Islamic banks (110% - 111 %) in the remaining period except in (2011-2012) where it was only 104.2 %, while total assets growth rate of conventional banks ranged between (106 % and 111 %) at the same period except also (2011-2012), when it was only 102.6 %.

As an average of growth rate in total assets, as the table 4-C shows it was about 111% for Islamic Banks against about 106% of conventional banks for the period understudy.

5.5 T-Test Analysis:

T- Test for independent samples was developed to compare growth of Islamic banks and conventional banks in Jordan (during and after) the financial crisis had taken place in 2008. The test had been applied on a base of 0.05 as a level of significance.

Table 5 shows that in terms of customers' deposit growth rate, the mean for Islamic banks was 123.03 % against the mean of 106.72 % for conventional banks with SD of 26.26 and 12.17 respectfully. The mean difference was 16.73, T (10) = 1,416, P value 0.187 >0.05 (level of significance), which means that there is no significant differences between Islamic and conventional banks for the years 2008- 2014.

The same results had been found in terms of net credit facilities growth rates that are with mean differences of only 5.42, T (10) =1,736, P value = 0.497 which is higher than 0.05 means no significant difference exists.

Also, the T- result for the other two variables, total assets and shareholders' equity show a mean difference of 4.46 and only 0.15 respectfully with P values 0.057 and 0.972 which are higher than 0.05 level of significance, which means that no significant difference exists between Islamic and conventional banks for both variable total assets and total shareholders' equity.

So, in spite of the fact that a simple average for our selective four variables was higher in Islamic banks compared to conventional banks in the study period, but no significant differences (at .05) were found for all of selective variables.

6. Concluding Remarks

The objective of this study is to find out whether Islamic banks in Jordan were one of the few winners of the financial crisis of 2008.

Growth rates of some important variables reveal to growth concept had been studied carefully to see whether Islamic banks in Jordan had strategic wins in terms of growth rate compared to conventional banks in the period of 2008 – 2014. Thus, a model has been developed to define, unify and make those variables more consistent from the balance sheet of both Islamic and conventional banks. Those variables are customers' deposits, net credit facilities, total assets and total shareholders' equity. Trend analysis had been utilized to show the fact that, as an average, Islamic banks had higher growth rates in terms of selective variables comparing to conventional banks,

but with a small margin.

At the same time, T-test had been applied as well in order to see if there are significant differences. The results were negative which means that no significant differences were found at the confidence level of .05, for all selective variables. So in general, we conclude that although the Islamic banks have higher growth rates as an average, no significant differences exist.

It is obvious from our analysis above that no significant differences were found between the Jordanian Islamic and conventional banks with reference to growth rate issue. One of the reasons which might explain this result is the fact that Jordanian banks, in general, had not been highly affected by the financial crisis of 2008, due to the fact of not being involved in subprime loans problem which was the main reason of the crisis.

Further research is strongly recommended to cover the same topic in some other countries and/or regions, which had suffered and were affected by the financial crisis of 2008.

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Appendix -A
Total Customers' Deposits (2008 – 2014)

Table 1-A Islamic Banks (Million J.D.)

Year	IIAB	JIB	Total
2008	460	942	1.402
2009	676	1.072	1.748
2010	798	2.265	3.063
2011	956	2.586	3.542
2012	997	2.683	3.680
2013	1.155	2.915	4.070
2014	1.367	3142	4.509

Table 1-B Conventional Banks (Million J.D.)

Year	AJIB	JAB	Total
2008	384	1374	1758
2009	459	1518	1977
2010	517	1664	2181
2011	545	1705	2250
2012	572	1797	2369
2013	581	1461	2042
2014	986	1522	2508

Table 1-C Customers' Deposits (%) Growth Rates of Islamic and Conventional Banks

Year	Islamic Banks	Conventional Banks
2008 – 09	124.6	112.5
2009 – 10	175.2	110.3
2010 – 11	115.6	103.2
2011 – 12	103.9	105.3
2012 -13	110.6	86.2
2013 -14	110.8	122.8
Average	123.45	106.716

Total Net Credit Facilities (2008 – 2014)

Table 2-A Islamic Banks (Million J.D.)

Year	IIAB	JIB	Total
2008	531	443	1474
2009	887	1071	1958
2010	940	1231	2171
2011	976	1330	2306
2012	1017	2051	3068
2013	1192	2133	3345
2014	879	2219	3098

Table 2-B Conventional Banks (Million J.D.)

Year	AJIB	JAB	Total
2008	282	890	1172
2009	293	981	1274
2010	324	1066	1390
2011	332	1178	1510
2012	391	1274	1665
2013	377	1188	1565
2014	698	1201	1899

Table 2-C Net Credit Facilities Growth Rates (%) of Islamic and Conventional Banks

Year	Islamic Banks	Conventional Banks
2008 – 09	132.8	108.7
2009 – 10	110.9	109.1
2010 – 11	106.2	108.6
2011 – 12	133.0	110.3
2012 -13	109.0	94.0
2013 -14	92.6	121.3
Average	114.083	108.67

Total Shareholders' Equity (2008 – 2014)

Table 3-A Islamic Banks (Million J.D.)

Year	IIAB	JIB	Total
2008	94	163	257
2009	118	179	297
2010	81	194	275
2011	90	207	297
2012	101	229	330
2013	117	256	373
2014	130	282	412

Table 3-B Conventional Banks (Million J.D.)

Year	AJIB	JAB	Total
2008	125	204	329
2009	126	218	344
2010	129	229	358
2011	129	255	384
2012	155	270	425
2013	159	284	443
2014	218	309	527

Table 3-C Total Shareholders' Equity Growth Rates (%) of Islamic and Conventional Banks

Year	Islamic Banks	Conventional Banks
2008 – 09	115.6	104.6
2009 – 10	92.6	104.1
2010 – 11	108.0	107.3
2011 – 12	111.1	110.7
2012 -13	113	104.2
2013 -14	110.5	119.0
Average	108.47	108.32

Total Assets (2008 – 2014)

Table 4-A Islamic Banks (Million J.D.)

Year	IIAB	JIB	Total
2008	906	1849	2755
2009	1041	2183	3224
2010	1003	2603	3606
2011	1127	2893	4025
2012	1173	3021	4194
2013	1348	3281	4629
2014	1569	3555	5124

Table 4-B Conventional Banks (Million J.D.)

Year	AJIB	JAB	Total
2008	698	2106	2804
2009	801	2257	3058
2010	871	2520	3391
2011	972	2617	3589
2012	1033	2650	3683
2013	1199	2702	3901
2014	1750	2325	4075

Table 4-C Total Assets Growth Rate (%) of Islamic and Conventional Banks

Year	Islamic Banks	Conventional Banks
2008 – 09	117	109.1
2009 – 10	111.8	110.9
2010 – 11	111.6	105.8
2011 – 12	104.2	102.6
2012 -13	110.4	105.9
2013 -14	110.7	104.5
Average	110.95	106.47

Table 5- Statistical Analysis (T-test) – Islamic VS Conventional Banks

	Type of Banks	Mean	Std. Deviation	Std. Error Mean	Mean Difference	T	P. Value	Remarks
Customers' Deposits	Islamic Banks	123.450	26.2616	10.7212	16.73	1.416	0.187	Insignificant
	Conventional Banks	106.717	12.1677	4.9675				
Net Credit facilities	Islamic Banks	114.083	15.8041	6.4520	5.42	0.736	0.479	Insignificant
	Conventional Banks	108.667	8.6899	3.5476				
Total Assets	Islamic Banks	110.950	4.0908	1.6701	4.48	2.155	0.057	Insignificant
	Conventional Banks	106.467	3.0389	1.2406				
Shareholders' Equity	Islamic Banks	108.467	8.1789	3.3390	0.15	0.037	0.972	Insignificant
	Conventional Banks	108.317	5.8205	2.3762				