# TO WHAT EXTENT DOES FINANCIAL LEASING HAS IMPACT ON THE FINANCIAL PERFORMANCE OF ISLAMIC BANKS: A CASE STUDY OF JORDAN

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## ABSTRACT

*This study sought to show the extent to which the financial performance of Jordanian Islamic banks was impacted by financial leasing during the financial period 2010-2016. A secondary data was collected from annual reports and accounts of all the local Islamic banks that are engaged in lease financing: Jordan Islamic Bank, Jordan Dubai Islamic Bank and Arab Islamic International Bank. In order to achieve the objectives, the study relied on testing the hypotheses through regression analysis. The results of the study indicated that lease financing has significant impact on the return on assets and return on equity as measures of financial performance. Therefore, the research recommends that firms should embrace lease financing as a method of financing their operations as evidence suggests that value is added through the use of lease financing. The most important recommendation of the study is the need to focus on activating the financial leasing to include the various types of assets and the necessity of raising awareness among the managers in the Jordanian Islamic banking sector about the importance of financial leasing as an aspect of investment. The study also recommended that the traditional banking sector could benefit from this tool to improve financial performance.*

**Keywords:** Lease Finance, Financial Performance, Return on Assets, Islamic Banks.

## INTRODUCTION

The financing process is one of the main pillars that contribute to the success of all economic projects, and it is considered an important process because of the many attempts it needs to obtain sufficient funding in order to cover all the obligations of the establishment. Economic openness and scientific progress are factors that have contributed to the intensification of competition among business organizations, which in turn led to the search for new financing alternatives to help them increase their volume of business differs from conventional banking credit facilities that impose a range of requirements and guarantees which economic enterprises may be unable to provide. Moreover, finance leasing is one of the means used by business organizations in order to increase the size of their capital, which is a method of financing, that took great place and space because this contract represents a successful method of financing projects and investments in a way that both contractors to achieve their objectives, Which at the end leads to the development of productive and service investments, which positively affect the role of the national economy.

Financial lease transactions are usually carried out through a contract approved by the parties, where the project is entrusted with the selection of the equipment, the selection of the seller and the materials he wishes and the negotiation of the purchase. The financier enters into a contract of sale in which the equipment is purchased from the original seller, then after the completion of this contract a lease contract shall be concluded with the beneficiary project allowing him to use the equipment, In return, the project is obliged to pay rent to the lessor, and at the end of the contract, the beneficiary shall have a choice between buying the equipment, re-leasing it, or return it to the financing institution and terminating the contract.

The economic importance of financial leases highlights from that the concept of rental contracts have emerged and spread around the world due to the tightness of the credit markets in both medium and long term, whereas the financing methods provided by banks, which are loans have become a great burden on projects and business organizations, therefore the leasing process helps businesses and enterprises to use the resources they need without having to buy them. Leasing operations are of great global importance, as can be seen from the vast amount of laws, for financial leasing contracts.

The importance of finance leasing also stems from the importance of the financing process, which is the basis of any economic development process, through the important and prominent role contributed by the financing process, either in raising investment financing or in financing the capital assets of the institution, Which leads to the acceleration of economic development and increase economic growth rates, because the finance lease increases the assets of companies and economic institutions without increasing the cost, as the company in the case of financial leasing using the asset without paying the price in advance as a down one, so they do pay cash payments from the original price for a period of time to be agreed upon between the parties (lessor and lessee) (Baroud, 2011).

The study also highlighted the importance of the current study by considering an attempt to shed light on the income of the finance lease and its impact on the financial performance of the Jordanian Islamic banks. The previous studies related to the impact of the finance lease or small projects without clarifying the impact of the financial lease on the service provider.

Due to the lack of Jordanian Arab studies - within the limits of the researcher's knowledge - on the impact of financial leasing on financial performance in the Jordanian Islamic banking sector, this study is a scientific contribution to this subject in the Jordanian environment where, most of the previous studies related to financial leasing came to study the impact of financial leasing on service recipients, such as Hamawi's study (2005), which examined the impact of financial leasing on decision making in industrial and commercial projects, and study of Siyam and Qatishat (2007) The impact of financial leasing on financial performance in leased companies in Jordan, and the study of Ashour and Muhammad (2006), which examined the impact of financial leasing as a tool for financing small and medium enterprises. Following on the financial performance of the service provider, in which all this is to stimulate the researcher to analyze the impact of the financial lease on the financial performance of Islamic banks of Jordan.

This study also deals with the subject of financial leasing and its application in the Jordanian Islamic banking sector, in addition to its reliance on qualitative study in some of its parts through analysis of the financial statements of the study. This study is complementary to the lack of previous studies, and linked financial leasing and financial performance in the Jordanian Islamic banking sector, and this study did not address the operational finance leases because of the lack of this type of financial leasing in the Jordanian Islamic banking sector.

The financial leasing service is one of the services provided by the Jordanian Islamic banks in order to provide an appropriate financing method for business organizations where it is a service that is compliant with Islamic jurisprudence; this led the Islamic banks to activate this service as a secondary financing method different from the traditional financing methods of loans.The main objective of the study is to analyze the impact of financial leasing income on the financial performance of Islamic banks for the period 2010-2016 and the sub-objectives of the study may be summarized as follows:

1. Clarification of the impact of financial leasing revenue on return on assets (ROA) of Jordanian Islamic banks.
2. Clarification of the impact of financial leasing revenue on the return on equity (ROE) of Jordanian Islamic banks.

Moreover, the study faced some of the limitations which were the lack of studies that dealt with the subject of finance leasing revenue and its impact on the financial performance of Jordanian Islamic banks. In addition to the number of Islamic banks in Jordan is relatively small and if the number of banks was more, it would be possible to build a more accurate scientific opinion. It was not likely to distinct between finance and operating leases as banks did not distinct the same in their lease payments.

## LITERATURE REVIEW AND PREVIOUS STUDIES

### Finance Lease

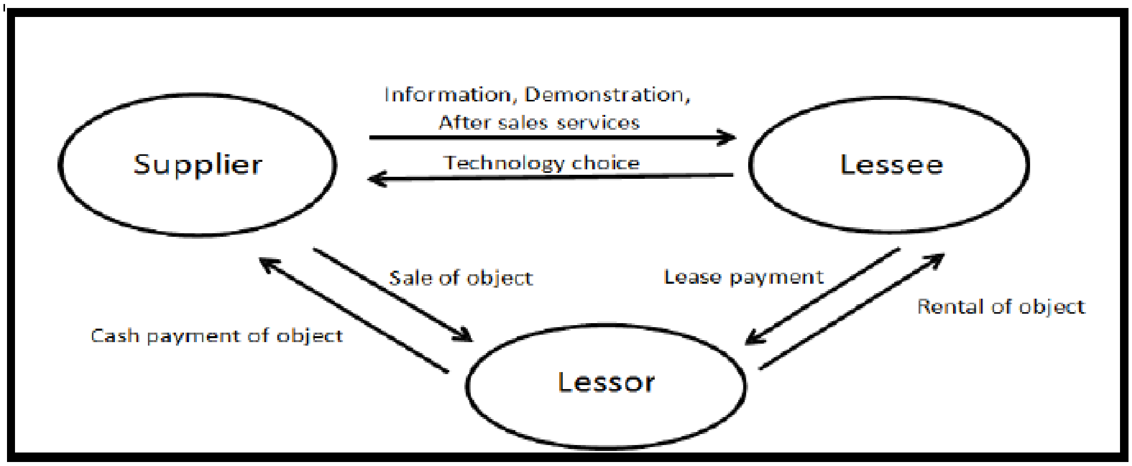
Despite the beginning of the use of financial leasing in the fourteenth century, it first appeared in the United States of America back in 1952, through the establishment of a company specialized in leasing under the name of the American leasing company founded by David Boat , and in 1960 increased use the concept of financial leasing has become more widespread, as it has received unprecedented support, especially after it was allowed to be practiced by commercial banks in the United States, in addition to issuing legislation granting tax concessions for this activity in the year1982 (Baroud, 2011).

After that, the financial leasing has developed to become as it is today, through specialized investment financial formulas, resulting from the economic and technological developments in the major industrial countries, resulting in an increasing demand for finance, which led to the establishment of responsible and specialized companies that help finance, Economic activity. Thus, the leasing of real estate and hotels was clearly manifested by the operation and management contracts between the owner and the leased company for a specified period against a fixed rent or percentage of net income (Osman, 2011).

With the widespread financial leasing operations, some countries have decided to enact and enact special laws aimed at regulating this method. With the advent of financial leasing contracts, the success of leasing operations has been proven to reduce public financial burdens and increase economic growth rates in many countries of the developed world (Hinnawi, 2009). Jordan is one of the countries that have enacted a number of laws and regulations aimed at regulating leasing operations through the issuance of the Financial Leasing Law No. (16) for the year 2002 and the instructions for licensing financial leasing. (2002) issued pursuant to paragraph (b) of Article (5), and then the amended law of the leasing of finance was issued in (2008).

Richard and Stwart (2001) defined a financial lease as a contract whereby two parties (lessee and lessor) commit to pay the lessee a series of cash payments to the lessor, provided that the total of these payments (installments) is greater than the price of the underlying asset. As defined by Aljundi (2005) as "a tool used to achieve the benefits and benefits of a group of parties mostly (two or three)", as it provides the tenant with substantial capital expenditures if he wants to buy this asset, as for the originator (the company producing it). The process is a way to promote and display its products. In leasing operations, the lessor retains ownership of the underlying asset after the end of the contract period, and the contract may be long-term or medium-term or may extend over the life of the asset or less. The contract may also include a requirement to lease the asset again at a lower cost than preceded by a nominal value, and the contract may include specific terms for cancellation, but it is often irrevocable (Al-shiab and Bawnih, 2008).

In fact, the financial lease depends on the transfer of all the risks and benefits of the underlying asset to the lessee. The determination of the premiums includes rent benefits, so the lessee bears the cost of maintenance and insurance, as well as obsolescence or depreciation (Abu Orabi, 2014). According to the researcher, the finance lease is a process agreed upon by two parties, whereby the first party rents a certain asset (property or equipment) to the second party in return for rental payments agreed upon in advance, so that the second party can use the asset subject to the contract without having to bear the cost Purchase it, Bearing all the risks of the leased asset (Figure 1).




Source: Adapted from FAO and GTZ (2004)

**FIGURE 1**
**THE FINANCIAL LEASE**

## Financial Performance

The assessment of financial performance in Islamic banks is particularly important in all societies and economic systems due to the scarcity of economic and financial resources compared to the large needs. Therefore, one of the most important challenges facing bank managers is how to use the financial resources available to them best use (Al-Mutairi, 2012).This study believes that the financial performance of Islamic banks is very important and should be disclosed and analyzed through periodic evaluations of the financial indicators. The financial performance assessment of financial institutions allows them to know the level of achievement of their objectives and location among its competitors.

Financial Performance is a measure of an organization's earnings, profits, appreciation in value as evidenced by the rise in the entity's share price (Asimakopoulos, et al., 2009). Although the definition of Financial Performance is not debated in the literature, there is disagreement with respect to the best way to measure it (Cochran & Wood, 1984). In empirical studies of Financial Performance, researchers, with the goal of measuring Financial Performance, have resorted to the use of various types of variables. Examples of the variables employed for this purpose are the following: return on assets (ROA) (Choi & Wang, 2009); return on equity (ROE) (Agle, Mitchell, & Sonnenfeld, 1999).In order to overcome the nature of survey data collected from managers and employees, many recent studies have tried to investigate presumably more objective information such as ROA (Return on Assets), ROE (Return on Equity).As it known in accounting literature, there are limitations associated with the use of financial ratios, in that ratio analysis is retrospective not prospective examination and it based on accounting rather than economic data.

According to Penman (2010), return on assets is a measure that is commonly used to measure the financial performance of a firm’s operations. ROA measures the income available to debt and equity investors per dollar of the firm’s total assets (Brealey et al., 2011). That is, it measures financial soundness of the firm in terms of its assets. As mentioned above, it also indicates the overall financial health of a firm (Bodie et al., 2011). It was therefore used in the regression model as a measure of financial performance. Specifically, it is the ratio of revenues generated over a firm’s total assets. However, in this paper, ROA along with ROE are used as performance proxy measures.

## Previous Studies

Several studies were conducted on the impact of leasing on financial performance of businesses. For instance, SindaniWafula et al. (2016) examined the Effect of Leasing on the Financial Performance of the County Government of Trans Nzoia. The study was based on the Agency theory, the theory of Information Asymmetry, and the theory of Managerial Risk Aversion. The study adopted a descriptive survey research design where the population of the study was 10 departments of the County government of Trans Nzoia and entailed a sample of 10 county officials who were selected using purposive sampling method. The research instrument used was a 5 point Likert scale questionnaire and interview schedule was used as tool of collecting data. The measures of financial performance were taken as the dependent variables while amount of Finance lease, taken as the independent variables. The primary data was analyzed using Statistical Package for Social Science (SPSS) version 22. A regression analysis was conducted on the data set to determine the effect of leasing on the ROA for county government of Trans Nzoia. From the regression results, finance lease, had positive effects on ROA. Financial performance of the county government of Trans Nzoia is affected by the level of lease financing. The study recommends that county governments should be careful with the use of leasing as a method of financing their operations as evidence suggests that value is added through the use of leasing since there is a positive correlation between leasing and financial performance. This study will benefit county governments, as well as other organizations who may want to explore the use of leasing to enhance their financial performance. Bello et al. 2016 conducted a study about lease financing and financial performance of companies. It aimed at examining the impact of lease financing on the financial performance (measured by Return on Asset (ROA)) of Nigerian oil and gas companies. The data for the study was collected from annual reports and accounts of 6 sampled companies in the Nigerian Oil and Gas industry, that are engaged in lease financing and were also listed on the Nigerian Stock Exchange (NSE) not later than January, 2005. Robust OLS regression analysis is used to analyze the impact of lease financing on return on assets (ROA). The results of the study revealed that lease financing has significant impact on the ROA of oil and gas companies in Nigeria. Therefore, the research recommends that firms should embrace lease financing as a method of financing their operations as evidence suggests that value is added through the use of lease financing. Fredrick Ogilo (2016) sought to investigate the effect of Islamic financial instruments on the performance of Islamic banks in Kenya. Correlation analysis was carried out to investigate the strength of the relationship between the dependent variable and independent variables. Multiple regression analysis was carried out to investigate the nature of the relationship between the dependent and independent variables. Analyzing the variables collectively; it was found out that there is a strong positive significant relationship between an Islamic banks performance and different financial instruments. The study found that musharaka, Ijara and murabaha had a positive effect on return on assets. The overall regression was found to be statistically significant. The F ratio for the regression was 21.796 with a p-value of 0.0028. The independent variables reasonably explained variation in return on assets. From this it can be concluded that an increase in either of the variables of interest is associated with an increase in Islamic bank performance. This implied that the diversification and introduction of more financial instruments will enhance Islamic banks performance. The study recommends that Islamic banks in Kenya should increase their funding on musharaka, Ijara and murabaha in order to maximize return on assets for the banks. Ikapel and Kajirwa (2016), in their study analyzed the effect of operating lease finance on financial performance of state owned sugar firms in Kenya. The study used the retrospective research design in collection of data. A target population of all the four state owned sugar firms was considered in the study for the period 2004-2014. The firms included Muhoroni Sugar Company, Chemilil Sugar Company, Nzoia Sugar Company and Sony Sugar Company. Secondary data was the main source of data obtained from financial statements and annual reports. The data was analyzed using regression analysis and Pearson product moment correlation coefficient. The study found that operating lease finance negatively affects return on assets (ROA) ($r = -.475$, $p = 0.008$, $<0.05$). The study recommended that state owned sugar manufacturing firms should reduce the proportion of operating lease finance in their capital structure as it negatively affects financial performance.

While the study which was compiled by Munene (2014) aimed to determine the impact of financial leasing on financial performance. Secondary financial data were collected from (62) companies listed on the Nairobi Stock Exchange for the period 2009-2013. The financial performance measures were adopted as dependent variables, and finance lease, operation lease, liquidity and the size of the company as independent variables. The study concluded that the financial leasing and the size of the company have negative effects on the return on assets, while the liquidity has had positive effects on the return on assets. Under the title Effects of Lease Finance on Performance of SMEs in Bangladesh, Salam (2013) conducted a study aimed at ascertaining the financial impact of leasing on the financial performance of the two companies on Moncheng and Koshtia in Bangladesh and whether the finance lease has a relationship with the return on equity (ROE) of SMEs and return on assets (ROA). The study used a questionnaire method. The study sample consisted of (53) small and medium-sized companies. The study reached a number of results, including: a positive relationship between financial leasing and return on equity (ROE) and return on assets (ROA). The study also pointed to the need for small and medium-sized companies in Bangladesh to participate in the financial leasing process because of its great impact on improving the financial performance of SMEs. Asghar et al. (2012) did a study on the factors influencing the profitability of leasing firms in Pakistan. They analyzed a pool of data of 28 leasing companies for a period of 2006-2008. The variables used to determine profitability were size, leverage liquidity, age and net investment in lease finance. The study applied ordinary least square (OLS) model and Logistic (Logit) models for estimation of results. The results indicated that size, net investments in lease finance and liquidity had a positive relationship with the profitability of leasing companies whereas leverage and age had a negative relationship with the profitability of the leasing companies. Debt substitutability has been advanced as one of the reasons why firms do employ lease financing. Eric (2012) did a study on French SME for 11436 firms for the year 1999. The variables used were long term debt, leasing, equity, short term assets, short term liabilities, EBITDA, financial fees, fiscal debt and firm age. The results suggested that SME use leasing all the more the leasing so when they are young, leveraged, less solvent when they are small size and present a strong likelihood of bankruptcy. Thus, leasing pushes back the limits of banking debt for firms that have no access (firms with a high leverage) and would be more often used when a firm can no longer bear the costs associated with the ownership good or can start up a new activity. Secondly, the results suggested a strong and significant relationship between credit rationing and the use of leasing.

As for research attempts in the context of Jordan, for example, Siyam and Qatishat (2007) aimed at explaining the impact of leasing decisions on the financial performance of leased companies in Jordan by measuring the degree of profitability, liquidity and risk borne by the company. The study was based on a scientific questionnaire. The study population consisted of all 102 companies that employ financial leasing. 102 of the questionnaires were distributed. The study showed that there is a demand for financial leasing in Jordan; the use of leasing finance leads to increase the profitability of companies and liquidity and reduce the degree of risk in them. In addition, the study of Abu Orabi (2014) aimed at identifying the impact of leasing on the financial performance of industrial companies in Jordan during the period 2002-2011, and the study used the descriptive analytical method. The study sample was composed of all the industrial companies listed on the Amman Stock Exchange. The study reached to the existence of a statistically significant impact of finance lease on the liquidity of companies and profitability of the companies. Moreover, Alazzam (2015) aimed to study the Financial Leasing in the Construction Companies in Irbid City .The study found the being of motives for contracting companies to alternative to hire finance. Also demonstrates that these companies are described by regulatory and supervisory to do a finance lease. It found that the most significant problem is the shortage of sufficient financial to finance companies by means of the finance lease.

## METHODOLOGY

The study was based on more than one source. In order to cover the theoretical aspect, the study relied on books, periodicals and statistics related to the subject of the study. The descriptive approach was used to identify the theoretical aspects of the subject of the study through a precise description of the concepts related to the study variables and the relationship between them. As for the aspect of testing the hypothesis of research and the applied side, Secondary data on the study variables for the period 2010-2016 was obtained from the annual reports Which are represented in the financial statements of the banks in question. The sample of the study included all the Jordanian Islamic banks provided to finance leasing and the number of (3) banks were chosen in an intentional manner, because there are no Jordanian Islamic banks except them. The sample consisted of Jordan Islamic Bank, Jordan Dubai Islamic Bank, Arab Islamic International bank. The statistical methods used were descriptive statistics (mean and standard deviation) and simple regression analysis.

$$\mathbf{Y_i = \alpha + BX_i + \varepsilon_{i,}}$$

Y= Financial Performance of firm i and X= Lease Finance of firm i at time
Model 1: $ROA_{it} = \alpha_1 + \beta_1 LF_{it} + \varepsilon$ ………………(1)
Model 2: $ROE_{it} = \alpha_2 + \beta_2 LF_{it} + \varepsilon$ ……………...(2)
Where: ROA it: Return on Assets of firm i at time t
ROE it: Return on Equity of firm i at time t
LF it: Lease Finance of firm i at time t.
ε: error term or residual in the model. α: intercept of the regression.
$\beta_1$ and $\beta_2$: are coefficients of the independent variables.

## CONCEPTUAL FRAMEWORK AND STUDY VARIABLES

Gibson (2009) distinct the return rate as a measure to grade the firm's ability to capitalize on its assets. The ROA is one of the best significant traditional accounting roles that can be utilized to express the value of firms. The return on assets can be stated in net income divided by assets and in addition to return on equity is one of the most public measures in scholars that examining the factors that influence the firm value. This percentage is a sign of the fraction of the investment power of the assets put in in the firm, or it can be supposed that it measures the proficiency of the organization in investing the funds acquired by the firm from all external and internal financing, so it is a percentage to quantify the profitability in general (Matar, 2010). The return on equity is the extent of the return on each dollar invested by the ordinary shareholders APAS, 2008. It takes into consideration the influence of operational and financing activities. In addition, Brigham, E. (2011) claims that the shareholders are present their funds to the firm looking to reach a high return on their investments. This (Table 1) shows the role of this ratio in achieving investor expectations. This was calculated by the following financial ratios:

**Table 1**
**ROLE OF THIS RATIO IN ACHIEVING INVESTOR EXPECTATIONS**

| **Symbol** | | **Variables** | **Description and Measurement** |
|---|---|---|---|
| **FP (Firm Performance)** | **ROA** | Return on Assets | (Net profit after tax / total assets) x 100 |
| | **ROE** | Return on equity | (Net profit after tax / total value of shares traded) |
| **LF** | | Lease Finance | Revenue of Lease Finance |

**Source:** Author's processing.

## FORMULATION OF RESEARCH HYPOTHESES

In light of the elements of the study problem and the objectives set for it, the study is based on the following set of hypotheses:

**H1:** There is a statistically significant effect at the level of (α0.05) of the financial leasing revenue on the return on assets (ROA) of Jordanian Islamic banks.
**H2:** There is a statistically significant effect at the level of (α0.05) of the financial leasing revenue on the return on equity (ROE) in Jordanian Islamic banks.

Figure (2) shows the model of the study, which consists of the independent variable of financial leasing revenue and the dependent variable of the financial performance of the Jordanian Islamic banks.

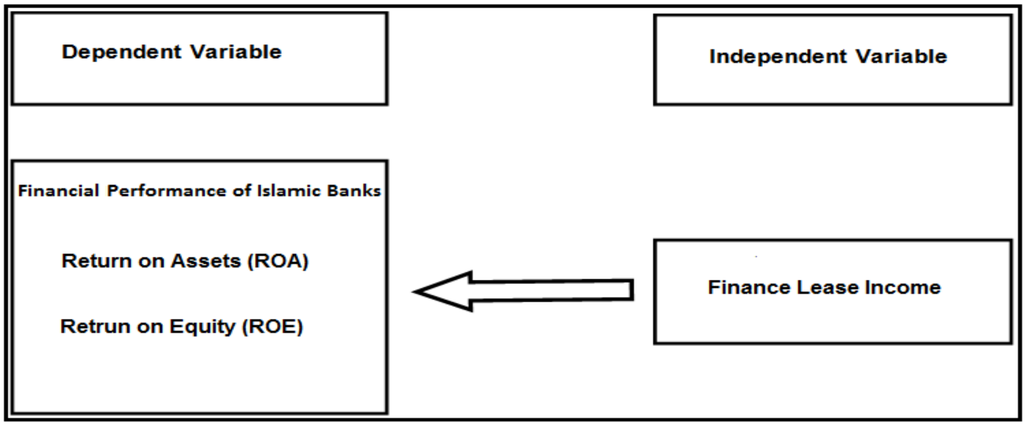



**FIGURE 2**
**THE STUDY MODEL SOURCE: PREPARED BY RESEARCHERS BASED ON THEORETICAL LITERATURE AND PREVIOUS STUDIES**

## RESULTS OF STATISTICAL ANALYSIS OF STUDY VARIABLES AND HYPOTHESIS TESTING

### Descriptive Analysis of Study Variables

A study of the financial statements of the Islamic banks represented by the study sample on the importance of financial leasing revealed the following (Table 2):

**Table 2**
**SHOWS THE RATIO OF FINANCE LEASING INCOME TO TOTAL FINANCIAL LEASING ASSETS AND THE RATIO OF TOTAL REVENUES TO TOTAL ASSETS**

| | Year | Ratio of income to assets of finance leasing | Ratio of total revenues to total assets |
|---|---|---|---|
| **Jordan Islamic Bank** | 2012 | 0.077 | 0.027 |
| | 2013 | 0.075 | 0.03 |
| | 2014 | 0.072 | 0.027 |
| | 2015 | 0.07 | 0.026 |
| | 2016 | 0.068 | 0.028 |
| | Mean | 0.072 | 0.026 |
| **Jordan Dubai Islamic Bank** | 2012 | 0.07 | 0.021 |
| | 2013 | 0.081 | 0.015 |
| | 2014 | 0.081 | 0.01 |
| | 2015 | 0.085 | 0.009 |
| | 2016 | 0.087 | 0.007 |
| | Mean | 0.081 | 0.012 |
| **Arab Islamic International Bank** | 2012 | 0.072 | 0.025 |
| | 2013 | 0.077 | 0.025 |
| | 2014 | 0.072 | 0.013 |
| | 2015 | 0.077 | 0.024 |
| | 2016 | 0.073 | 0.012 |
| | Mean | 0.074 | 0.02 |

Table 2 shows a reading on asset efficiency where it is evident that the proportion of finance lease income to assets of finance leasing during the years of study is significantly higher than the ratio of other income to total assets. It reached at average (7.3%) compared to other revenues (average of 2.6%) for the Jordan Islamic Bank where it reached at average (7.6%) compared to other revenues (average of 1.7%) for Jordan Dubai Islamic Bank and it was at average (6.8%) compared to other revenues (average of 2.0%) for the Arab Islamic International Bank, which means that there is high efficiency on the use of assets leased in financing to generate revenue and thus have a positive impact on profits. The assertion of the above can be observed where the increase in the relative importance of investment in leased assets as of table (3), the ratio is increased from (6.5%) in 2010 and reached (13.8%) in 2016 for the Jordan Islamic Bank I and reached 9.9%in 2010, it reached 24.3% in 2016 of Dubai Islamic Bank. In 2010, it reached 11% and reached 27.1% for Arab Islamic International Bank in 2016. It is clear from the previous table (2) that the ratio of finance leasing income to leased assets is higher than the ratio of total revenues to total assets. This means that the leased assets have a greater capacity than the rest of the assets to generate revenues and ultimately generate a positive impact of finance lease income on total revenues.

**Table 3**
**SHOWS THE RATIO OF FINANCE LEASING INCOME TO TOTAL REVENUES AND FINANCIAL LEASING ASSETS FOR TOTAL ASSETS**

| | Year | Finance Lease Income | Total Revenue | Ratio of total financial lease income to total Revenue | Finance Lease Assets | Total Assets | Ratio of Finance Lease Assets to Total Assets |
|---|---|---|---|---|---|---|---|
| Jordan Islamic Bank | 2010 | 1,29,41,163 | 7,18,64,717 | 0.18 | 16,85,39,668 | 2,60,36,83,927 | 0.065 |
| | 2011 | 1,62,69,087 | 7,82,64,191 | 0.209 | 22,29,21,648 | 2,89,83,00,754 | 0.077 |
| | 2012 | 2,08,79,080 | 9,60,90,156 | 0.217 | 27,24,54,045 | 3,02,12,80,631 | 0.09 |
| | 2013 | 2,58,97,458 | 11,61,36,153 | 0.223 | 34,49,36,804 | 3,28,16,38,362 | 0.105 |
| | 2014 | 3,00,51,475 | 11,57,29,451 | 0.26 | 41,53,15,832 | 3,55,47,39,368 | 0.117 |
| | 2015 | 34741112 | 13,44,78,003 | 0.258 | 48,30,95,875 | 3,79,89,91,435 | 0.127 |
| | 2016 | 40362962 | 14,95,91,293 | 0.27 | 56,59,44,539 | 4,09,95,19,696 | 0.138 |
| Jordan Dubai Islamic Bank | 2010 | 19,40,539 | 47,96,774 | 0.405 | 2,66,34,723 | 26,80,88,438 | 0.099 |
| | 2011 | 40,09,412 | 1,75,57,882 | 0.228 | 6,88,47,161 | 35,04,24,020 | 0.196 |
| | 2012 | 67,05,462 | 1,44,86,460 | 0.463 | 9,62,34,667 | 47,52,17,035 | 0.203 |
| | 2013 | 1,15,76,341 | 1,73,05,945 | 0.669 | 14,31,87,633 | 52,84,62,073 | 0.271 |
| | 2014 | 1,34,41,262 | 1,82,61,362 | 0.736 | 16,68,25,519 | 65,77,99,676 | 0.254 |
| | 2015 | 15782451 | 2,76,13,894 | 0.786 | 20,33,57,885 | 78,01,51,083 | 0.261 |
| | 2016 | 18340817 | 2,26,62,226 | 0.816 | 22,37,43,971 | 91,96,03,000 | 0.243 |
| Arab Islamic International Bank | 2010 | 66,88,242 | 2,35,54,658 | 0.284 | 12,01,06,427 | 1,09,61,62,778 | 0.11 |
| | 2011 | 91,38,192 | 3,04,12,632 | 0.300 | 19,06,11,472 | 1,12,74,82,501 | 0.17 |
| | 2012 | 1,81,52,746 | 4,10,09,571 | 0.443 | 25,15,36,917 | 1,17,37,75,421 | 0.214 |
| | 2013 | 2,37,53,029 | 4,95,50,998 | 0.479 | 30,67,23,429 | 1,34,82,44,028 | 0.227 |
| | 2014 | 2,98,48,070 | 4,46,97,615 | 0.668 | 41,26,60,857 | 1,56,88,55,695 | 0.263 |
| | 2015 | 37627939 | 6,49,65,424 | 0.579 | 56,89,38,389 | 1,96,98,17,711 | 0.289 |
| | 2016 | 41517882 | 5,28,92,414 | 0.785 | 48,97,38,214 | 1,80,85,83,910 | 0.271 |

Note: Values in JD

Table 4 displays the descriptive statistics of all the used in the study where FP (financial performance of Islamic banks) is a dependent variable measured by ROA and ROE and LF is independent variables. The mean of ROA of the sampled firms is about 0.85% with standard deviation 0.0045 indicating Low efficiency in asset utilization in profit making and the standard deviation indicates relative variation in the values of the return on assets where the minimum and maximum values of ROA as an example are -0.013 and 0.0152correspondingly. Moreover, the mean of ROE is 10.1% with standard deviation 0.004. The average lease finance leverage is 19984034 with a standard deviation of 904.69 indicating a decline in the amount where the lower standard deviation indicates the relative variation in the values of the lease finance. The rest of explanatory variables are as shown above in the table.

**Table 4**
**DESCRIPTIVE STATISTICS VARIABLES**

| Variables | ROA | ROE | LF |
|---|---|---|---|
| Mean | 0.008476 | 0.101143 | 19984034 |
| Std. Deviation | 0.0045 | 0.004 | 904.69 |
| Minimum | -0.013 | -0.039 | 4009412 |
| Maximum | 0.0152 | 0.178 | 40362962 |

Note: ROA= Return on Assets; ROE= Return on Equity; LF = Lease Finance

**Table 5**
**SHOWS THE FINANCIAL STATEMENTS RELATING TO THE ISLAMIC BANK OF JORDAN, ARAB ISLAMIC INTERNATIONAL BANK, AND JORDAN ISLAMIC BANK DURING THE PERIOD (2010-2014)**

| | Year | Finance Lease Income | ROA | ROE |
|---|---|---|---|---|
| Jordan Islamic Bank | 2010 | 12941163 | 0.011 | 0.15 |
| | 2011 | 16269087 | 0.01 | 0.137 |
| | 2012 | 20879080 | 0.012 | 0.159 |
| | 2013 | 25897458 | 0.014 | 0.177 |
| | 2014 | 30051475 | 0.013 | 0.16 |
| | 2015 | 34741112 | 0.013 | 0.157 |
| | 2016 | 40362962 | 0.013 | 0.158 |
| Jordan Dubai Islamic Bank | 2010 | 1940539 | -0.013 | -0.039 |
| | 2011 | 4009412 | 0.015 | 0.06 |
| | 2012 | 6705462 | 0.004 | 0.023 |
| | 2013 | 11576341 | 0.003 | 0.015 |
| | 2014 | 13441262 | 0.003 | 0.019 |
| | 2015 | 15782451 | 0.004 | 0.025 |
| | 2016 | 18340817 | 0.006 | 0.043 |
| Arab Islamic International Bank | 2010 | 6688242 | 0.009 | 0.1 |
| | 2011 | 9138192 | 0.009 | 0.106 |
| | 2012 | 18152746 | 0.01 | 0.116 |
| | 2013 | 23753029 | 0.012 | 0.157 |
| | 2014 | 29848070 | 0.009 | 0.134 |
| | 2015 | 37627939 | 0.009 | 0.119 |
| | 2016 | 41517882 | 0.012 | 0.148 |

If the study wants to know the impact of finance lease income on the variables of the study, Table 5 clearly shows that the trend of leasing income is rising for Jordan Islamic Bank, Jordan Islamic Bank, and Arab International Islamic Bank, which means that volatility, is not due to finance lease income.

### Discuss Hypothesis Testing

The first hypothesis, which states that "there is a significant statistical impact at the level of significance (α≤0.05) of the income of financial leasing on return on assets (ROA) in Jordanian Islamic banks."

**Table 6**
**RESULTS OF THE TEST OF FIRST HYPOTHESIS**

| Level of significance SIG | F | Result of the hypothesis | Value of impact B | R | $R^2$ |
|---|---|---|---|---|---|
| 0.167 | 56.876 | Rejected | 5.452 | 0.794 | 0.682 |

From the previous Table 6 we note that the value of the impact of (B) was (5.452), and the level of significance was (0.167), which is greater than (0.05), and therefore we reject the second hypothesis, which states that there is a significant impact at the level of significance (α≤0.05) for financial leasing income on return on equity (ROE) in Jordanian Islamic banks.

The second hypothesis, which states that "there is a statistically significant impact at the level of significance (α≤0.05) of the income of finance lease on return on equity (ROE) in Jordanian Islamic banks."

**Table 7**
**RESULTS OF THE TEST OF SECOND HYPOTHESIS**

| Level of significance SIG | F | Result of the hypothesis | Value of impact B | R | $R^2$ |
|---|---|---|---|---|---|
| 0 | 3.529 | Accepted | 1.657 | 0.579 | 0.286 |

From the above Table 7 we note that the value of the impact of (B) was (1.657), and the level of significance is (0.000) which is smaller than (0.05), and therefore we accept the second hypothesis, which states that there is a significant statistical impact at the level of significance (α≤0.05) of the financial leasing income on the return on assets (ROA) in Jordanian Islamic banks, and we reject the alternative assumption.

## CONCLUSIONS, RECOMMENDATIONS AND PROPOSALS FOR FURTHER STUDIES

The present study found that for Jordanian Islamic banks there is an impact of the financial lease income on the return on assets and that there is no impact of the leasing income on the return on equity . Moreover, there is more efficient use of leased assets more financing than other assets in Islamic banks in achieving revenue and the positive impact that this leads to profits. Based on previous findings, the study recommends the following to focus on activating the finance lease as one aspect of investment in Jordanian Islamic banks more than others, by generating revenue more than others. It also has to be emphasized the necessity of raising the awareness of administrators in the Jordanian Islamic banking sector about the importance of financial leasing and the expected returns from its use and to pay more attention to increase the areas of financial leasing in Islamic banks to include assets of various types. The study proposes that further studies essential to be done in this extent in Jordan as investigation on lease financing in Jordan is still generally unapproachable. The study recommends that future works should emphasis on how lease capitalizations impact performance of firms. More studies also required to be done on the determinants of lease financing among firms in Jordan and other countries. It may similarly be imperative for forthcoming studies on this field to employ panel data analysis to observe these associations as contrasting to the current method used with additional variables and measurements.

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