Banks Performance and Capital Structure: Comparative Study between Islamic Banks and Conventional Banks

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Abstract

The aim of this study is to examine the impact of capital structure towards performance of Islamic and conventional banks in Jordan during the period 2010-2015. For this study ratio analysis and regression analysis are used to test the research hypothesis.

Performance is measured by return on equity (ROE), return of asset (ROA) and earning per share (EPS). Capital structure measured by Total debt to total equity (TD/TE), Total debt to total assets (TD/TA), and total equity to total assets (TE/TA), Size and Age are control variables. The results show that capital structure affects financial performance of the Jordanian Islamic banks significantly, while there is no statistically significant effect of capital structure on Jordanian conventional banks performance.

Keywords: Capital Structure, Performance, Islamic banks, Conventional banks, Jordan.
JEL Classification: G21; G32.

1. Introduction

Capital structure is the mix of debt, preferred stock, and common equity with which the firm finance its investments. The firm management has a specific target capital structure which is the optimal one. A firm's optimal capital structure is the mix of debt and equity which maximizes the value of the firm and minimizes the overall cost of capital.

Firm's capital structure decision influence by several factors, these factors include the firm's business risk, tax position, need for financial flexibility and managerial conservatism or aggressiveness (Weston and Brigham, 1993).

There are various capital structure theories Modigliani and Miller (1958) advocates capital structure irrelevancy theory. They argued on the irrelevance of the capital structure in determining firms' value and future performance. Whether a firm is highly leveraged or has lower debt component in the financing mix, it has no bearing on the value of a firm. But Modigliani and Miller (1963) asserted that their model was not effective. They developed a tradeoff theory of capital structure, where debt is useful because interest is tax deductible, so the firm's value rises as it uses more debt.

Signaling theory argues that profitable firms are likely to increase their leverage because the extra interest payment will offset some of the pretax profits. Rational stockholders will infer firm value from higher debt level. Thus investors debt as a signal of firm value (Ross, 2010).

The pecking order theory implies that managers prefer internal to external financing, if external financing is required, managers tend to choose the safest securities such as debt (Ross, 2010) the agency cost theory the efforts of fifty years of studies have provided the evidence that capital structure does affect firm value, does affect executives' behavior, and does affect future performance of the company (Boodhoo, 2009).

Achieving optimal capital structure of the business through reduction of agency cost is one of the ultimate goals of the businesses in the free market economies (Siddiqui and Shoaib, 2011)

Banks, as financial intermediaries, are different than other firms whose capital structures are affected by a number of conditions unique to the banking industry,

For Islamic banks, Capital structure is not the same: Islamic banks operate in line with the principles of Shariah. Shariah prohibits, among other things, payment and receipt of riba (interest). This means that Islamic banks cannot pay or earn interests on their financial instruments. The consequence is that the banks mobilize and utilize funds using Shariah-compliant instruments or contracts that are not used by their conventional counterparts (Harzi, 2009) Moreover, according to the shariah rules, Islamic banks should share their profits and losses with investors. The mudaraba contract transforms the relationship between the bank and its depositors into a partnership. This implies that the lower leverage may induce bank to gain a higher profit. This can impact Islamic banks capital structure.

The foundations of Modigliani-Miller as well as the predictions of the traditional school, which are based on debt financing, cannot be generalized to include Islamic banks. The cost of capital in conventional banks represents the cost of debt and equity deposit. Nevertheless, the cost of capital in Islamic banks is replaced by profit and loss sharing by depositors and equity holders. Conventional banks use both debt and equity to finance their investments, while Islamic banks are expected to finance their investments using mainly equity financing and customers' deposit account (Karim and Ali, 1989).

The main objective of this paper is to investigate the effect of capital structure on the financial performance of Jordanian banks, by comparing the impact of capital structure on Islamic banks and Conventional banks using 13 commercial banks and 3 Islamic banks. The study covers the period 2010-2015.

This paper is organized as follows: Section 1 is the introduction. Section 2 deals on the review of related literature. Section 3 is research data and methodology, section 4 the results and discussion, while section 5 discusses conclusion.

2. Literature Review

There is a large literature which has examined the relationship between capital structure and firm performance. Some of them found a negative relationship while other studies found a positive relationship between capital structure and firm's performance. (Pouraghajan, et al., 2012) found that there is a significant negative relationship between debt ratio and financial performance of companies, also (Mwangi, et al., 2014) revealed that financial leverage had a statistically significant negative association with performance. The study recommended that managers of listed non-financial companies should reduce the reliance on long term debt as a source of finance; (Muritala, 2012) hypothesized negative relationship between capital structure and operational firm performance. (Akeem, et al. 2014) observed that capital structure measures (total debt and debt to equity ratio) are negatively related to firm performance. It is hereby recommended that firms should use more of equity than debt in financing their business activities, in as much as the value of a business can be enhanced using debt capital. (Hasan, et al. 2014) found that there is significant negative relation between ROA and capital structure. On the other hand, there is no statistically significant relation exists between capital structure and firm's performance as measured by ROE and Tobin's Q. they conclude that capital structure has negative impact on firm's performance. While (Ebrati, et al*.,* 2013) indicate that firm performance, which is measured by (ROE, MBVR & Tobin's Q) is significantly and positively associated with capital structure, while report a negative relation between capital structure and (ROA, EPS).

(Boroujeni et al., 2013) found that capital structure and ownership structure have a positive impact on the performance of companies listed on Tehran Stock Exchange TSE.

By contrast, fewer studies have looked at the relationship between capital structure and banks performance.(Clementina and Isu, 2013) examined the effects of capital structure on the performance of commercial banks in Nigeria. The study identified long run positive relationship between capitalization and profitability. The implication of this study, among others, is that improved capital position of Commercial banks in Nigeria will enhance their performance, restore the credibility and confidence of customers in banking operations.

Also (Idode, et al., 2014) examined the influence of capital structure on profitability of Nigerian banks listed on the Nigeria Stock Exchange (NSE) from 2008 to 2012. The findings of this study show that capital structure has a significant positive influence on the profitability of Nigerian banks during the period of study. Therefore, it was recommended that directors and management should use both equity and debt in financing the business.

The study of (Abbadi and Abu-Rub, 2013) establishes a model to measure the effect of capital structure on the bank efficiency of Palestinian financial institutions, bank efficiency measured by ROE, ROA. Total deposit to assets, total loans to assets and total loans to deposits were used to measure capital structure. It is found that leverage has a negative effect on bank profits, an increase in each ROA and Total Deposit to Assets increase bank efficiency. It was also found that Leverage has a negative effect on market value of the bank, a positive and strong relationship between market value and ROA and bank deposits to total deposits.

(Goyal, 2013) study the impact of capital structure on profitability of public sector banks in India listed on national stock exchange during 2008 to 2012 methodology-regression Analysis has been used for establishing relationship between ROE, ROA & EPS with capital structure. The findings reveal positive relationship of short term debt with profitability.

In Jordan (Soumadi and Hayajneh, 2012) examine the effect of capital structure on the performance by applying on 76 firms for the period (2001-2006),The results of the study concluded that capital structure associated negatively and statistically with firm performance. In addition, the study found out that there was no significant difference to the impact of the financial leverage between high financial leverage firms and low financial leverage firms on their performance. (Taani, 2013) examined the impact of capital structure on performance of Jordanian banks from 2007-2011. The results show that bank performance, which is measured by net profit, return on capital employed and net interest margin is to be significantly and positively associated with total debt; while total debt is found to be insignificant in determining return on equity in the banking industry of Jordan.

The impact of capital structure on Islamic bank performance received a limited research attention. There are few studies comparing the effect of capital structure on Islamic banks and conventional banks performance. (Pratomo and Ismail, 2007) attempt to prove the agency cost hypothesis of Islamic Banks in Malaysia, under which high leverage firm tends to reduce agency costs. They set the profit efficiency of a bank as an indicator of reducing agency cost and the ratio equity of a bank as an indicator of leverage. The study concluded that the higher leverage or a lower equity capital ratio is associated with higher profit efficiency.

(Al-Farisi and Hendrawan, 2012) examine the impact of capital structure towards performance of two group of banks, conventional and Islamic banks, the study indicate that bank's capital ratio have a negative effect on their profit efficiency. Furthermore, the negative effect happened to be higher for the Islamic bank group compared to conventional bank. The outputs also indicate the Islamic banks in Indonesia succeed to place their position at top 20% highest profit efficiency score. Also in Indonesia (Sagara, 2015) analyze the impact of capital structure on financial performance in Islamic banks listed on the Indonesia Stock Exchange in 2014. Capital structure is calculated by using total debt to equity capital ratio, whereas financial performance is calculated by using capital, assets, earnings, and liquidity ratios. The results show that capital structure affects financial performance of the Islamic banks significantly by 69%. This implies that the greater the capital structure of the Indonesian Islamic banks is, the higher the Indonesian Islamic banks performance will be, or vice versa.

An Islamic banks' management must carefully decide the appropriate mix of debt and equity, i.e. capital structure, to maximize the value of the bank (Al-Kayed et al., 2014) examine the effect of capital structure on Islamic banks' performance using a sample of 85 Islamic banks covering banking systems in 19 countries, results indicate that Islamic banks' performance (profitability) responds positively to an increase in equity (capital ratio). The result is consistent with the signaling theory which predicts that banks expected to have better performance credibly transmit this information through higher capital.

Based on financial statements of Iranian banks for the period 2009-2014 (Nikoo, 2015) investigate the Impact of Capital Structure on Banking Performance in Tehran stock exchange. The study establishes a model to measure the effect of capital structure on the bank efficiency measured by ROA, ROE and EPS. It is found that capital structure has positive impact on bank performance. The significant levels are positive between ROE, EOA, EPS and debt to equity.

(Akhtar,et.al., 2016) examined the effect of capital structure (debt to equity) on profitability, liquidity, tangibility, interest rate and growth rate to measure performance of banking sector of Pakistan. For this study include five banks annual reports between 2005 and 2015. The result shows that there are positive significant relationships between profitability, tangibility, liquidity, interest rate, and growth rate and capital structure.

For Jordanian Islamic banks (Rajha and Alslehat, 2014) test the impact of capital structure on the performance of the Jordanian Islamic Banks, through the using multiple regression model. The model included a sample of two Islamic banks: Jordan Islamic Bank and Islamic International Arab Bank for the period (1998-2012). By using several financial ratios represented the Independent variable: (Equity Ratio, Total Assets, Ratio of Financing to Total Assets, Ratio of liquid Assets of total asset and concentration Ratio "Index Hervndal". The dependent variable is the performance was measured using a scale Tobin Q. The results of study found a positive impact for each: (Equity Ratio, Total Assets and Ratio of financing to Total Assets) on performance. And the "Index Hervndal" had negative impact on performance, and there is no impact to the Ratio of liquid Assets of Total asset on the performance of Islamic banks in Jordan.

The study examines the impact of capital structure on performance of Islamic Jordanian banks without comparing this effect with conventional banks in Jordan. But my study examines the impact of capital structure towards performance of two groups of banks, conventional and Islamic banks.

3. Data and Methodology
3.1 Sample and Data

In this study financial ratios will be used to compare of Islamic banks and conventional banks relationship with capital structure. The sample of this study consists of data for all banks in Jordan (Islamic and conventional) listed in the Amman Stock Exchange (ASE) and available continuous series of accounting and financial information for the period from 2010 – 2015. The study sample consists of 16 banks, 3 Islamic banks and 13 conventional banks.

Annual data were obtained from banks financial statements both income statements and balance sheets in order to assess both Islamic and conventional banks performance and capital structure for the period of (2010-2015). Table 1 shows the banks in this study.

Table 1:   Name of banks in the study

Conventional Banks	Islamic Banks
1-Arab Bank	1- Jordan Islamic Bank
2- Jordan Kuwait Bank	2-Islamic International Arab Bank
3- Jordan Commercial Bank	3-Jordan Dubai Islamic Bank
4- The Housing Bank for Trade and Finance	
5- Arab Jordan Investment Bank	
6- Bank Al- Etihad	
7- Arab Banking Corporation	

Conventional Banks	Islamic Banks
8- Invest Bank 9- Capital Bank of Jordan 10- Societe Bank of Jordan 11- Cairo Amman Bank 12- Bank of Jordan 13-Jordan Ahli Bank	

3.2 Hypotheses

The main Hypotheses are:

H1: There is a significant impact of capital structure on Islamic banks performance in Jordan.

H2: There is a significant impact on of capital structure on conventional banks performance in Jordan.

H3: There is a significant difference in the relationship between capital structure and performance between Islamic banks and conventional banks in Jordan.

Bank Performance Measured By ROA

Model 1: $ROA = \alpha_0 + \alpha_1 \, TD/TE + \alpha_2 \, TD/TA + \alpha_3 TE/TA + \alpha_4 \, Size + \alpha_5 \, Age + e$

Bank Performance Measured By ROE

Model 2: $ROE = \alpha_0 + \alpha_1 \, TD/TE + \alpha_2 \, TD/TA + \alpha_3 TE/TA + \alpha_4 \, Size + \alpha_5 \, Age + e$

Bank Performance Measured By EPS

Model 3: $EPS = \alpha_0 + \alpha_1 \, TD/TE + \alpha_2 \, TD/TA + \alpha_3 TE/TA + \alpha_4 \, Size + \alpha_5 \, Age + e$

Where:

Performance measures are:

ROA: Return on Assets which is the ratio of net income after tax to total assets.

ROE: Return on Equity which is the ratio of net income after tax to total equity capital.

EPS: Earning per share which is the net income divided by number of shares outstanding.

Capital structure measures are:

TD/TE: Total debt to total equity which is the ratio of total liabilities to total equity.

TD/TA: Total debt to total assets which is the ratio of total liabilities to total assets

TE/TA: Total equity to total assets.

Control Variables are:

Firm size: the natural logarithm of the book value of total assets.

Firm Age: the natural logarithm of the number of years since the firm's inception.

3.3 Definition of Variables

Dependent variable

1. Return on Assets (ROA) which is net income divided by the total assets. It's a measure of profit per dollar of assets (Ross et al., 2010). ROA is used to measure profitability of the firm by (Abbadi and Abu-Rub, 2013), (Goyal, 2013), (Idode, et al., 2014), (Nikoo, 2015), (Zafar, 2016), (Chinaemerem and Anthony, 2012).

2. Return on Equity (ROE) which is net income divided by the book value of its equity. It's a measure of how the stockholders fared during the year (Ross et al., 2010). ROE is used to measure banks performance by (Abbadi and Abu-Rub, 2013) (Goyal,2013), (Taani, 2013), (Pratomo and Ismail, 2007), (Siddiqui and Shoaib,2011), (Nikoo,2015), (Zafar, 2016), (Chinaemerem and Anthony,2012)

3. Earning per share (EPS) which is net income divided by the total number of shares outstanding. its used to measure banks performance by (Goyal,2013),(Nikoo,2015), and (Zafar,2016).

Independent Variables
1. TD/TE: Debt equity ratio is considered as risk and insolvency indicator. This variable has been previously used by (Goyal,2013), (Taani, 2013),(Nikoo,2015),(Meero,2015),(Sagara, 2015), (Akhtar,et.al., 2016), (Zafar,2016) .A lower debt equity ratio is a good sign for a bank.
2. TD/TA: its total debt over total assets, its a liquidity indicator, The higher this ratio the less liquid the bank will be. A high TD/TA indicates that a bank involved in more risky business. Previous studies show positive relationship with profitability, this measure is also similar to that used by (Zafar, 2016), (Meero, 2015), and (Idode, et al., 2014).
3. TE/TA: which is shareholders equity divided by total assets following (Pratomo and Ismail, 2007), (Idode, et al., 2014), (Meero, 2015), It measures the proportion of the total assets that are financed by stockholders and not creditors. A low equity ratio will produce good results for stockholders as long as the company earns a rate of return on assets that is greater than the interest rate paid to creditors (Idode, et al., 2014).
   (Siddiqui and Shoaib, 2011), (Ayanda et.al, 2013) use this ratio as a measure of leverage.

Controlled Variables

1. Bank Size: is measured by the logarithm of the bank's assets. Companies with bigger size tend to possess stronger ability against risk and have better negotiation power which may increase the firm performance (Jiahui, 2015). This measure is also similar to that used by (Goyal, 2013), (Meero, 2015), (Chinaemeremand Anthony, 2015)
2. Bank age: the natural logarithm of the number of years since the firm's inception. This variable has been previously used by (Chinaemerem and Anthony, 2015)

4. Results and Discussion
4.1 Descriptive Statistics

Tables (1) and (2) present the descriptive statistics for all the variables of the study "Independent and dependent" for Islamic banks and conventional banks in our model. Table (1) and (2) show the characteristics of the variables used by revealing the statistical mean, standard deviation, minimum and maximum values.

Table (1) shows the means and standard deviation for variables of the study "Independent and dependent" for Islamic banks.

Table 1: Means and standard deviation for variables of the study "Independent and dependent" for Islamic banks

Variable	Variables	Mean	Standard. Deviation	Minimum	Maximum
Independent Variable	size	9.59	1.12	7.82	11.93
	Age	2.10	1.78	0.00	4.93
	TD/TE	1.96	1.35	0.50	3.92
	TD/TA	30.54	10.22	15.17	55.66
	TE/TA	14.48	10.31	7.14	40.98
dependent Variable	ROA	0.80	0.64	-1.29	1.53
	ROE	9.26	6.46	-3.15	17.66
	EPS	0.15	0.13	-0.05	0.36

Table (2) shows the means and standard deviation for variables of the study "Independent and dependent" for conventional banks.

Table 2: Means and standard deviation for variables of the study "Independent and dependent" for conventional banks

Variable	variables	Mean	Standard. Deviation	Minimum	Maximum
Independent Variable	SIZE	9.26	0.46	7.41	10.41
	AGE	1.54	0.20	1.00	1.83
	TD/TE	6.19	1.36	3.55	10.02
	TD/TA	85.58	2.53	78.04	90.93
	TE/TA	14.38	2.55	9.08	21.96
dependent Variable	ROA	1.29	0.50	-0.17	2.51
	ROE	9.10	3.62	-1.45	16.87
	EPS	0.23	0.16	-0.02	0.65

From table (1) and (2) the descriptive statistics of the variables reveal that Banks Performance (dependent variable) is measured by Return on Assets (ROA), Return on Equity (ROE) and Earning per share (EPS). The mean for ROA and EPS of conventional banks over the period from 2010 to 2015 are 1.29 and 0.23 respectively which is higher than the mean for ROA and EPS of Islamic banks 0.80 and 0.15. The mean for ROE of Islamic banks and conventional banks is nearly the same 9.26 and 9.10 respectively.

Conventional banks have a higher performance than Islamic banks in terms of ROA and EPS, conventional banks have used their assets in a more efficient way when compared to Islamic banks. Conventional banks on the average perform better than Islamic banks.

Besides, the variation of ROA is higher for Islamic banks than conventional banks indicated by the higher standard deviations (0.64 > 0.50).also the variation of ROE is higher for Islamic banks than conventional banks indicated by the higher standard deviations (6.46 > 3.62). While the variation of EPS for Islamic banks is lower than conventional banks indicated by the lower standard deviations (0.13 < 0.16).

There are three independent variables (TD/TE, TD/TA, TE/TA) and two control variables (SIZE, AGE). The mean for TE/TA of Islamic banks and conventional banks is nearly the same 14.48 and 14.38 respectively, but the variation of TE/TA for conventional is lower than the variation of TE/TA for Islamic banks indicated by the lower standard deviations (2.55< 10.31).

The average of TD/TE for Islamic banks is lower than TD/TE for Conventional banks (1.96 < 6.19) with the same standard deviations.

The average of DT/TA for Islamic banks is lower than DT/TA of Conventional banks (30.54 < 85.58) with higher variation for Islamic banks (10.22 >2.53)

4.2 Correlation Analysis

Correlation coefficient between variables for Islamic banks and Conventional banks, table (3) and (4) below show that.

Table 3: Correlation coefficients between variables "Independent and dependent" for Islamic banks

N	Independent Variable	ROA		ROE		EPS	
		Correlation Overall	sig	Correlation Overall	sig	Correlation Overall	sig
1	TD/TE	0.181	0.473	0.227	0.366	-0.062	0.806
2	TD/TA	0.163	0.518	0.224	0.372	0.085	0.737
3	TE/TA	-0.678(**)	0.002	-0.859(**)	0.000	-.744(**)	0.000
4	size	0.353	0.150	0.533(*)	0.023	0.296	0.232
5	Age	0.316	0.201	0.452	0.059	0.165	0.512

* Correlation is significant at level ($\alpha \leq 0.05$)
** Correlation is significant at level ($\alpha \leq 0.01$)

Table 4: Correlation coefficients between variables "Independent and dependent" for conventional banks

N	Independent Variable	ROA		ROE		EPS	
		Correlation Overall	sig	Correlation Overall	sig	Correlation Overall	sig
1	TD/TE	-0.251(*)	0.027	0.165	0.148	-0.079	0.492
2	TD/TA	-0.221	0.052	0.192	0.093	-0.016	0.890
3	TE/TA	0.213	0.062	-0.201	0.077	0.018	0.878
4	Size	0.172	0.132	0.206	0.070	0.679(**)	0.000
5	Age	0.189	0.098	0.346(**)	0.002	0.552(**)	0.000

* Correlation is significant at level ($\alpha \leq 0.05$)
** Correlation is significant at level ($\alpha \leq 0.01$)

Table (3) and (4) show the correlations between all the variables both the dependent and independent variables for Islamic banks and conventional banks

In the correlation analysis of Islamic banks ROA has a negative significant relationship with TE/TA while ROE has negative significant relationship with TE/TA and size, and EPS has negative significant relationship with TE/TA.

In the correlation analysis of conventional banks ROA has a negative significant relationship with TD/TE while ROE has positive significant relationship with Age, and EPS has positive significant relationship with Size and Age.

4.3 Hypothesis Testing

The first main hypothesis: There is a significant impact of capital structure on Islamic banks performance in Jordan.

The first hypothesis: There is a significant impact of (TD/TE, TD/TA, TE/TA, Size, and Age) on ROA for Islamic banks.

To test this hypothesis, and to detect the impact (TD/TE, TD/TA, TE/TA, Size, and Age) on ROA for Islamic banks, the (Multiple Regression) analysis was used; table (5) shows that.

Table 5: Result of the (Multiple Regressions) analysis for impact of (TD/TE, TD/TA, TE/TA, size, and Age) on ROA for Islamic banks (n= 18)

Independent variable	"t" value	"t" sig	Beta	R	R^2	"F" value	"F" sig
TD/TE	-0.798	0.438	-0.798				
TD/TA	0.258	0.801	0.258	0.699	0.488	4.451	0.021
TE/TA	-3.522	0.003(**)	-3.522				
size	0.342	0.738	0.126	0.702	0.493	2.335	0.106
Age	-0.134	0.895	-0.192				

Dependent variable: ROA, * indicates significance at 5 percent le*vel* for difference in means
** indicates *significance at 1 percent level* for difference in means

Table (5) shows that there is statistically significant role at significance level ($\alpha \leq 0.05$) for (TD/TE, TD/TA and TE/TA) on ROA of Islamic banks, where "F" value reached (4.451) by statistically significance (0.021). (R) Value reached (0.699), (R^2) value reached (0.488). Also, there is no statistically significant role at significance level ($\alpha \leq 0.05$) for (Size and Age) on ROA of Islamic banks, where "F" decreased value reached (2.335) by statistically significance (0.106) whenever (R) value increased (0.702), (R2) value increased (0.493).

The second hypothesis: There is a significant impact of (TD/TE, TD/TA, TE/TA, Size, and Age) on ROE for Islamic banks.

To test this hypothesis, and to detect the impact of (TD/TE, TD/TA, TE/TA, Size, and Age) on ROE for Islamic banks, the (Multiple Regression) analysis was used; table (6) shows that.

Table 6:   Result of the (Multiple Regressions) analysis for impact of ((TD/TE, TD/TA, TE/TA, Size, and Age) on ROE for Islamic banks (n= 18)

Independent variable	"t" value	"t" sig	Beta	R	R^2	"F" value	"F" sig
TD/TE	-1.752	0.102	-0.335				
TD/TA	0.734	0.475	0.131	0.889	0.791	17.613	0.000
TE/TA	-6.994	0.000(**)	-0.974				
Size	0.682	0.508	0.097	0.962	0.925	29.520	0.000
Age	3.647	0.003(**)	2.007				

Dependent variable: ROE, * indicates significance at 5 percent level   for difference in means
** indicates significance at 1 percent level   for difference in means

Table (6) shows that there is statistically significant role at significance level ($\alpha \leq 0.05$) for (TD/TE, TD/TA and TE/TA) on ROE of Islamic banks, where "F" value reached (17.613) by statistically significance (0.000). (R) Value reached (0.889), (R^2) value reached (0.791). Also, there is statistically significant role at significance level ($\alpha \leq 0.05$) for   (size, Age) on ROE of Islamic banks, where "F" increased value reached (29.520) by statistically significance (0.000) whenever (R) value increased (0.962), (R2) value increased (0.925).

The third hypothesis: There is a significant impact of (TD/TE, TD/TA, TE/TA, Size, and Age) on EPS for Islamic banks.

To test this hypothesis, and to detect the impact of (TD/TE, TD/TA, TE/TA, Size, and Age) on EPS for Islamic banks, the (Multiple Regression) analysis was used; table (7) shows that.

Table 7:   Result of the (Multiple Regressions) analysis for impact of (TD/TE, TD/TA, TE/TA, Size, and Age) on EPS for Islamic banks (n= 18)

Independent variable	"t" value	"t" sig	Beta	R	R2	"F" value	"F" sig
TD/TE	-4.206	0.001(**)	-0.751				
TD/TA	1.712	0.109	0.286	0.904	0.817	20.883	0.000
TE/TA	-7.717	0.000(**)	-1.003				
Size	0.156	0.878	0.019	0.971	0.943	40.000	0.000
Age	4.418	0.001(**)	2.110				

Dependent variable: EPS, * indicates significance at 5 percent level   for difference in means
** indicates significance at 1 percent level   for difference in means

Table (7) shows that there is statistically significant role at significance level ($\alpha \leq 0.05$) for (TD/TE, TD/TA and TE/TA) on EPS of Islamic banks, where "F" value reached (20.883) by statistically significance (0.000). (R) Value reached (0.904), (R^2) value reached (0.817). Also, there is statistically significant role at significance level ($\alpha \leq 0.05$) for   (size, Age) on EPS of Islamic banks, where "F" increased value reached (40.000) by statistically significance (0.000) whenever (R) value increased (0.971), (R2) value increased (0.943).

Tables (5,6 and 7) show that there is statistically significant negative relationship between capital adequacy TE/TA and Islamic bank performance ROA, ROE and EPS , also there is a statistically significant negative relationship between TD/TE and Islamic bank performance EPS, this result is consistent with (Nikoo, 2015)

The results also show that bank age has significant positive relationship with Islamic bank performance ROE and EPS.

The overall result show that capital structure significantly affects Islamic bank performance this result is consistent with (Sagara, 2015), (Akhtar, *et.al,* 2016)**, (**Nikoo, 2015).

The second main hypothesis: There is a significant impact on of capital structure on conventional banks performance in Jordan.

The First Hypothesis: There is a significant impact of (TD/TE, TD/TA, TE/TA, Size, and Age) on ROA of conventional banks.

To test this hypothesis, and to detect the impact of (TD/TE, TD/TA, TE/TA, Size, and Age) on ROA of conventional banks, the (Multiple Regression) analysis was used; table (8) shows that.

Table 8: result of the (Multiple Regressions) analysis of (TD/TE, TD/TA, TE/TA, Size, and Age) on ROA of conventional banks (N=78)

Independent variable	"t" value	"t" sig	Beta	R	R^2	"F" value	"F" sig
TD/TE	-1.718	0.090	-0.858				
TD/TA	-0.755	0.453	-0.865	0.30	0.09	2.46	0.069
TE/TA	-1.221	0.226	-1.484				
Size	0.168	0.867	0.021	0.42	0.18	3.09	0.014
Age	2.284	0.025(*)	0.315				

Dependent variable: ROA, * indicates *significance at 5 percent level*   for difference in means
** indicates *significance at 1 percent level*   for difference in means

Table (8) shows that there is statistically significant role at significance level ($\alpha \leq 0.05$) of (TD/TE, TD/TA, and TE/TA) on ROA of conventional banks, where "F" value reached (2.46) by statistically significance (0.069). (R) Value reached (0.30), (R^2) value reached (0.09). And there is statistically significant role at significance level ($\alpha \leq 0.05$) of (size, Age) on ROA of conventional banks, where "F" increased value reached (3.09) by statistically significance (0.014). (R) Increased Value reached (0.42), (R^2) increased value reached (0.18).

The Second Hypothesis: There is a significant impact of (TD/TE, TD/TA, TE/TA, Size, and Age) on ROE of conventional banks.

To test this hypothesis, and to detect the impact of (TD/TE, TD/TA, TE/TA, Size, and Age) on ROE of conventional banks, the (Multiple Regression) analysis was used; table (9) shows that.

Table 9: result of the (Multiple Regressions) analysis of (TD/TE, TD/TA, TE/TA, Size, and Age) on ROE of conventional banks (N=78)

Independent variable	"t" value	"t" sig	Beta	R	R^2	"F" value	"F" sig
TD/TE	-1.197	0.235	-0.605				
TD/TA	-0.743	0.460	-0.862	0.26	0.07	1.78	0.159
TE/TA	-1.340	0.184	-1.649				
Size	0.385	0.702	0.049	0.39	0.15	2.51	0.038
Age	2.052	0.044(*)	0.287				

Dependent variable: ROE, * indicates significance at 5 percent level   for difference in means
** indicates significance at 1 percent level   for difference in means

Table (9) shows that there is no statistically significant role at significance level ($\alpha \leq 0.05$) of (TD/TE, TD/TA, and TE/TA) on ROE of conventional banks, where "F" value reached (1.78) by statistically significance (0.159). (R) Value reached (0.26), (R^2) value reached (0.07).And there is statistically significant role at significance level ($\alpha \leq 0.05$) of (size, Age) on ROE of conventional banks, where "F" increased value reached (2.51) by statistically significance (0.038). (R) Increased Value reached (0.39), (R^2) increased value reached (0.15).

The third Hypothesis: There is a significant impact of (TD/TE, TD/TA, TE/TA, size, and Age) on EPS of conventional banks.

To test this hypothesis, and to detect the impact of (TD/TE, TD/TA, TE/TA, size, and Age) on EPS of conventional banks, the (Multiple Regression) analysis was used; table (10) shows that.

Table 10:   result of the (Multiple Regressions) analysis of ((TD/TE, TD/TA, TE/TA, size, and Age) on EPS of conventional banks (N=78)

Independent variable	"t" value	"t" sig	Beta	R	R^2	"F" value	"F" sig
TD/TE	-2.504	0.014(*)	-1.259				
TD/TA	0.315	0.754	0.363	0.28	0.08	2.11	0.107
TE/TA	-0.694	0.490	-0.849				
Size	5.369	0.000(**)	0.478	0.77	0.59	20.44	0.000
Age	3.996	0.000(**)	0.390				

Dependent variable: EPS, * indicates significance at 5 percent level   for difference in means
** indicates significance at 1 percent level   for difference in means

Table (10) shows that there is no a statistically a significant role at significance level ($\alpha \leq 0.05$) of (TD/TE, TD/TA, and TE/TA) on EPS of conventional banks, where "F" value reached (2.11) by statistically significant (0.107). (R) Value reached (0.28), (R^2) value reached (0.08).and there is a statistically a significant role at significance level ($\alpha \leq 0.05$) of (size, Age) on EPS of conventional banks, where "F" increased value reached (20.44) by statistically significant (0.000). (R) Increased Value reached (0.77), (R^2) increased value reached (0.59)

Tables (8, 9 and 10) show that there is a statistically negative significant relationship between TD/TE and conventional banks performance EPS, and there is a statistically positive significant relationship between Size and conventional banks performance EPS, also there is a statistically positive significant relationship between Age and conventional banks performance ROA, ROE and EPS.

The overall results show that there is no statistically significant effect of capital structure on conventional banks performance ROA, ROE and EPS.

5. Conclusions

Interest free Islamic banks work on a profit / loss basis rather than on interest based rate of return which make Islamic banks capital structure different from capital structure of conventional banks. Conventional banks use both debt and equity to finance their investments, while Islamic banks are expected to finance their investments using mainly equity and customers' deposit account. This study aims to build a comparison in capital structure between commercial and Islamic banks and its impact on performance.

In this study, regression analysis is performed to investigate the impact of capital structure on performance for Islamic and conventional banks in Jordan during the period 2010-2015. Capital structure is calculated by using TD/TE, TD/TA, TE/TA ratios the independent variables, whereas financial performance is calculated by using ROA, ROE, EPS ratios the dependent variables, Controlled variables are bank size and bank age. The results show that capital structure affects financial performance of the Islamic banks significantly and show that there is statistically significant negative relationship between capital adequacy TE/TA and Islamic bank performance ROA, ROE and EPS. The study also shows that Islamic bank age has significant positive relationship with Islamic bank performance ROE and EPS, the older Islamic banks has better performance.

Moreover, the results show that there is no statistically significant impact of capital structure on conventional banks performance ROA, ROE and EPS, and show that there is a statistically positive significant relationship between Size and conventional banks performance EPS, also there is a statistically positive significant relationship between Age and conventional banks performance ROA, ROE and EPS this mean that older and bigger conventional banks has better performance.

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