

Islamic Banks' Shares, Dividends, and Earnings Examinations by Financial Profitability Considerations: A Case Study of Islamic Banks

ABDULLAH YUSRI AL KHATIB^{1,a,*}, ZIAD MOH'D OBEIDAT^{1,b},
SARI SULAIMAN MALAHIM^{2,c}, BADER ISMAEEL^{1,d}, IBRAHIM MARWAN KHANJI^{3,e},
ABDELMAJID AHMED ALRAHAMNEH¹, AL'A ATA JARADAT^{1,f}

¹Finance and Business Faculty,
The World Islamic Sciences and Education University,
Amman,
JORDAN

²Department of Financial and Banking Sciences,
Amman University College for Financial and Administrative Sciences,
Al-Balqa Applied University,
Amman,
JORDAN

³Virginia Institute of Finance & Management,
Dubai,
UNITED ARAB EMIRATES

^aORCID ID: <https://orcid.org/0000-0002-5861-3470>

^bORCID ID: <https://orcid.org/0000-0002-2984-4683>

^cORCID ID: <https://orcid.org/0000-0001-5142-141X>

^dORCID ID: <https://orcid.org/0000-0002-0482-6331>

^eORCID ID: <https://orcid.org/0000-0001-8268-0035>

^fORCID ID: <https://orcid.org/0000-0003-4056-9480>

**Corresponding Author*

Abstract: - In analyzing the financial values on Islamic banks' shares, this research reached a significant-positive influence of return on equity, profit margin, and deposits to assets values on Islamic bank's shares' turnover while the significant-negative influence of debt ratio and cash and trading investments on deposits. Similar to the significant-negative affect on shares price-earnings ratios from cash plus trading investments on deposits and the ratio of debt, and significant-positive impact from the margin of profit, return-on-equity, and deposits to assets. Dividends-per-share to earnings per share for Islamic banks values had been analyzed in this research and according to that there was the significant-positive influence of profit margin, debt ratio, and total deposits to assets, but significant- negative statistical impact of cash plus trading investments on deposits, and return on equity. So, the results indicated that the Islamic banks shares are influenced by a variety of financial measurements in the financial market.

Key-Words: - Cash and Trading Investments, Islamic Banks shares and Islamic Finance, Price-Earnings Ratios, Return and Profit Ratios, Shares' Turnover, Stock Exchange Market.

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1 Introduction

Islamic banks and Islamic financial institutions are part of the banking and financial system in Jordan and the Arab world. Central Bank of Jordan supervises the banking and monetary policy to

maintain the financial situation and to be stable in the short and long time. Table 1 has the list of Islamic banks that are presenting Islamic banking

and financial services for customers and clients in Jordan.

The research community is the banks working in Jordan, and the sample of this research is going to be the Islamic banks in Jordan for simplifying the financial and statistical analysis. The first three banks are considered as local Islamic banks, and the last one is considered as foreign Islamic banks (Saudi Islamic Masref - Bank).

Banks are competing with each other for market shares locally and regionally and achieving various good results annually, [1] and that can help banks and Islamic banking and finance to compete with traditional commercial banks and to make market share by building on the previous financial reports and goals, [2].

Table 1. List of Working Islamic Banks in Jordan

1. Jordan Islamic Bank (J.I.B.)
2. Islamic International Islamic Bank (I.I.A.B.)
3. Safwa Islamic Bank (S.I.B.)
4. AL Rajhi Bank - Jordan (Masref Al Rajhi)

All banks working in Jordan even if they are local, foreign, Islamic, or commercial banks should submit their banking, financial, and managerial reports plus financial ratios list to the central bank of Jordan. Moreover, these banks should fund industrial, agricultural, educational, educational and cultural, and health care sectors to support economic and social development.

2 Literature Review

There are plenty of literature reviews about banks in general, commercial traditional banks, Islamic banks, central banks, and banking financial systems in theoretical and practical theses and articles, [3]. Islamic banks in the Middle East and regionally have profits in total and yearly have financial reports on stock exchange to convince the investors to invest and to stay investing in the Islamic bank's shares plus attract new investors to invest their money in Islamic banks normal shares, [4]. Islamic banks compete with each other from one side, and on the other side they compete with commercial banks financially one of them has the highest and massive market share to achieve a high rate of profits and dividends annually in Jordan for instance, [5]. The development and improvement of banking and Islamic banking operations and systems can affect the development of the economy banking, and finance of the countries. On the other way of effecting, the development of the economic and financial affairs in the countries will improve

Islamic bank's annual financial reports and profitability, [6].

Islamic banks fund and give financial facilities to different projects and individuals through various contracts such as debt contracts or equity contracts, [7], that help to increase the total income and affect increasing profitability ratios for banks with financial efficiency and decreasing costs while providing banking services for clients, [8] and that makes financial profits and sometimes Islamic banks' profits and financial performances are excessive than commercial banks in general, [9] and the phase after achieving the profits and returns is distributing the profits as dividends which makes dividends per share, earnings-per-share, and dividends-per-share to earnings-per-share, additionally, economic enhancements and financial prosperity reflect on developing banking facilities and financial performances such as banking dividends and financial ratios with increasing the paid capital, [10], investors are going to analyze that with shares' turnover ratios and price-earnings ratios besides the opportunities and challenges that Islamic banking face and need to be analyzed, [11].

Stock exchanges for Islamic and commercial bank shares were affected by crises and healthcare situations, [12] and that affected the number of traded shares and the price of banks share which was reflected in the market prices for banking shares in the stock market, and to solve these kind of crises banks operated high standards in financial and managerial manners. Market risks have an impact on Islamic banks' shares and their return and investment portfolios as well but Islamic banks are managing and know how to deal with the market risks to prevent losses and gain profits if that is possible, [13].

Generally, financial indicators and ratios give details of banking performances and financial fulfilments during the past and current period, financial decision-makers can predict the banking conduct in the future, especially for increasing banking market share for the number and amount of deposits and projects to be funded, [14] add on increasing the traded shares for Islamic banks in the stock markets and the number of dividends and earnings with affecting the turnover of shares' ratios.

Banks' performance varies from time to time according to the public situations, [15] and that can shape the way of dealing with current affairs and making useful decisions for financial acting and performance shortly, [16] and even in the long run. Islamic banks could perform satisfactory financial and profitable banking operations and that increased

the market share diversifications of funds, and competitiveness, [17].

The development of Islamic finance and banking is in a sustainable situation and with legal functions to provide Islamic banking services for the communities in ethical and profit and loss participation by funding different projects and different sectors to achieve profits and economic-social prosperity, [18].

3 Research Methodology

Islamic banks have shares in the financial markets which are traded according to financial situations and general economic and political issues. This research has analyzed the factors and their impacts on turnover of shares' ratio, shares' prices to earnings ratios, and the ratio of dividends per share to earnings per share for Islamic banks in the Jordan financial markets - Amman Stock Exchange-{ASE}. In general, investors in the financial markets prefer

to recognize the results from the financial factors and variables like trading investments with cash on total customers' deposits, return on equity, the margin of profit, the ratio of debt, and the percentage of deposits to assets as determined in this research to be the independent items.

Figure 1 gives an outline of the study for predictors (independent) variables and predicted (dependent) variables as the study is going to analyze the relationships and repercussions between them.

4 Measurements of Variables

The mathematical models are illustrated in Table 2 as financial equations to find the values of research variables, for more clarification the researchers divided the variables into two sections (A) dependent items and contains (3) items, and (B) independent items and contains (5) items.

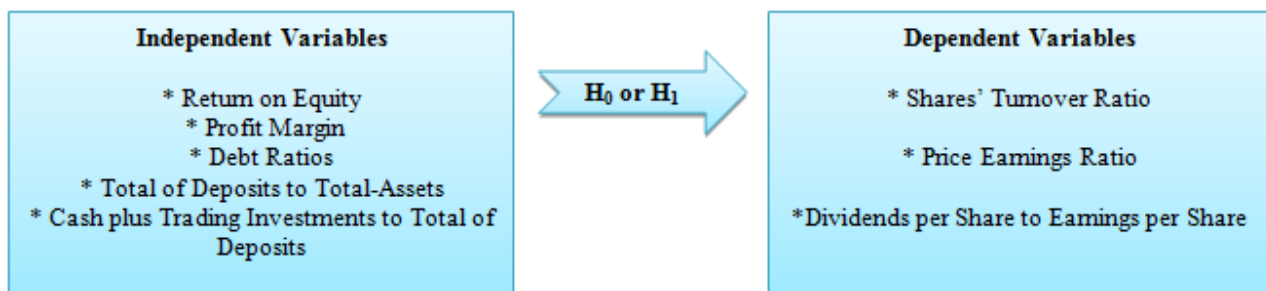


Fig. 1: Research Variables Model

Table 2. The Mathematical Models of the Financial Ratios Variables

Research Financial Ratios	
A) Dependent Items	
1. Shares' Turnover Ratio	$(\text{Number of Shares Traded} \div \text{Number of Subscribed Shares}) * 100\%$
2. Price-Earnings Ratio (as times)	$\text{Market Capitalization (Jordan Dinar)} \div \text{Net Income Pertains to Shareholders}$
3. Dividends-per-Share to Earnings-per-Share	$(\text{Cash Dividends} \div \text{Net Income Pertains to Shareholders}) * 100\%$
B) Independent Items	
1. Return on Equity (R.O.E.)	$(\text{Net Income Pertains to Shareholders} \div \text{Total Shareholders' Equity}) * 100\%$
2. Profit Margin	$(\text{Net Income} \div \text{Total Income}) * 100\%$
3. Debt Ratio	$\{(\text{Total Liabilities} + \text{Unrestricted Investment Accounts Holders Equity (total)} + \text{Investments risks funds} + \text{Provision for Income tax (total) on Investments Risks funds}) \div \text{Total Assets}\} * 100\%$ or $100\% - \text{Equity Ratio}$ or $100\% - \{(\text{Total Shareholders' Equity} + \text{Interest of Non-Controlling}) \div \text{Total Assets}\} * 100\%$
4. Total of Deposits to Total of Assets	$\{(\text{Banks and financial institutions deposits} + \text{Customers current deposits (total)} + \text{amount of unrestricted investments deposits}) \div \text{Total of Assets}\} * 100\%$
5. Cash and Trading Investments to a total of Deposits (Times)	$(\text{Cash and Balances accounts at Central Bank of Jordan} + \text{Balances and accounts with banks and Financial Institutions} + \text{Financial assets at (fair value) through profit or (loss)}) \div (\text{Banks and financial institutions accounts of deposits} + \text{Customers current accounts (total)} + \text{Unrestricted investments accounts})$

Banking performance is changeable during this time because of financial systems and the structure and management of the bank, in addition to the competitive banking environment between local and foreign banks to accomplish satisfactory financial reports to the shareholders and depositors, [19].

Islamic Banks distribute their returns annually on shareholders and depositors for investment deposits such like not restricted investment deposits, as a consequence a positive impact on increasing the amounts of liquidity and number of different investing deposits plus increasing the number of trading shares during the time and rising turnover ratios and price to earnings ratios, [20].

Some studies focused on the dividends and earnings as dependent variables and the effect of financial performance on them, [21] and they found a positive impact for return on equity on the payout and policy of dividends and earnings. Plus, increasing the amounts and percentages of profits and profitability affect the value of shares and trading on them

So, Figure 2 and Figure 3 illustrate the movement of dependent items which are dividends - Earnings per share, shares- turnover, and price-to-earnings numbers. Moreover, independent items are deposits - to assets in total, liquidity, and investments (trading) to deposits in total, return-on-equity, the margin of profit, and debt proportions.

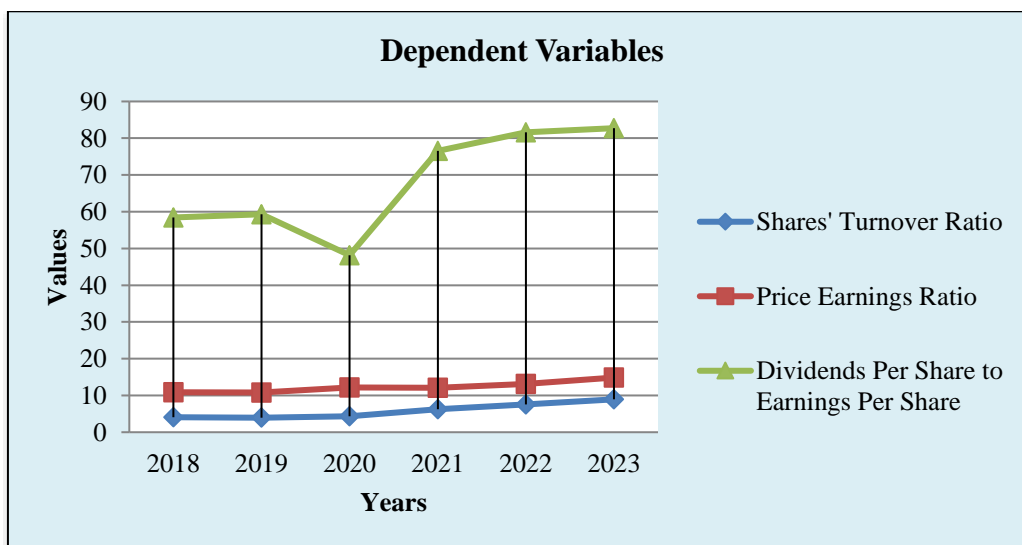


Fig. 2: Research Dependent Variables (2018 - 2023)

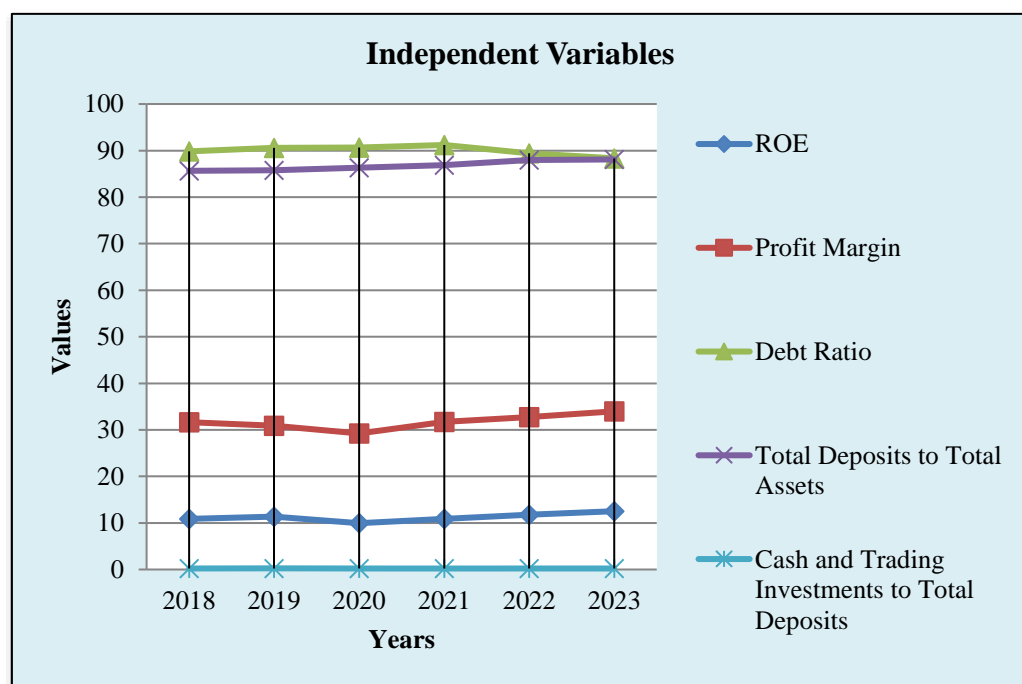


Fig. 3: Research Independent Variables (2018 - 2023)

4.1 Sample

The banking system in Jordan contains a group of commercial (traditional) banks and Islamic banks; all of them are organized and managed by the central bank of Jordan's rules and regulations. The sample of this research is Islamic banks in Jordan to find out the impact of financial values on Islamic banks' shares from (2018) to (2023) from many aspects.

4.2 Hypotheses of the Research

There are three groups of null hypotheses for each dependent factor to test the degree of independent factors' impact. The null hypotheses for shares' turnover ratios are explained in Table 3, the null hypotheses for price-earnings ratios as exemplified from Table 4; finally Table 5 demonstrates the null hypotheses for dividends per share to earnings per share.

Table 3. The Null Hypotheses for Shares' Turnover Ratios

H_{0.1.1}	There isn't an impact of return on equity on shares' turnover ratios
H_{0.2.1}	There isn't an impact of profit margin on shares' turnover ratios
H_{0.3.1}	There isn't an impact of debt ratios on shares' turnover ratios
H_{0.4.1}	There isn't an impact of total deposits to total assets on shares' turnover ratios
H_{0.5.1}	There isn't an impact of cash plus trading investments to (total) deposits on shares' turnover ratios

Table 4. The Null Hypotheses for Price Earnings Ratios

H_{0.1.2}	There isn't an impact of return on equity on price-earnings ratios
H_{0.2.2}	There isn't an impact of profit margin on price-earnings ratios
H_{0.3.2}	There isn't an impact of debt ratios on price-earnings ratios
H_{0.4.2}	There isn't an impact of total deposits to total assets on price-earnings ratios
H_{0.5.2}	There isn't an impact of cash plus trading investments to (total) deposits on price-earnings ratios

Table 5. The Null Hypotheses for Dividends-per-Share to Earnings-per-Share

H_{0.1.3}	There isn't an impact of return on total equity on dividends-per-share to earnings-per-share
H_{0.2.3}	There isn't an impact of profit margin on dividends-per-share to earnings-per-share
H_{0.3.3}	There isn't an impact of debt ratios on dividends-per-share to earnings-per-share
H_{0.4.3}	There isn't an impact of total deposits to total assets on dividends-per-share to earnings-per-share
H_{0.5.3}	There isn't an impact of cash plus trading investments to (total) deposits on dividends-per-share to earnings-per-share

Table 6. Research Variables Descriptive Statistics

	Mean	Standard Deviation
1. Shares' Turnover Ratio	5.8433	2.08938
2. Price Earnings Ratio	12.3233	1.53169
3. Dividends per Share to Earnings per Share	67.8117	14.39278
4. Return on Equity	11.2233	.87486
5. Profit Margin	31.7000	1.61750
6. Debt Ratio	90.0067	1.03074
7. Total of Deposits to Assets in total	86.7783	1.05678
8. Cash-and-trading investments to Deposits in total	0.2283	0.01472

Table 7. Symbols of Research Variables

Research Variables	Symbol
1. Shares' Turnover Ratio	S.T.R
2. Price Earnings Ratio	P.E.R
3. Dividends per Share to Earnings per Share	DPS.EPS
4. Return on Equity	R.O.E
5. Profit Margin	P.M.
6. Debt Ratio	D.R.
7. Total of Deposits to Total of Assets	D.A.
8. Cash and Trading Investments to Total Deposits	C.I.D.

5 The Statistical Equations and Description of Variables

Financial ratios and financial analysis reveal and reflect on the growth of the economy in the countries that support Islamic banking activities, [22] more of that the behavior of financial operations can shape the size of profitability and the efficiency of banking costs to receive the final results of banking and financial performance as well [23] and that can make a considerable impact on Islamic banks shares and the relation issues for shares. In this part, the group of variables' means and variables' standard deviations were calculated as in Table 6 for each research dependent and independent variable. Also, Table 7 illustrates the research variables' symbols and after that, it is the three regression equations.

$$1. f(\text{STR}) = \alpha_0 + \beta_1(\text{ROE}) + \beta_2(\text{P.M}) + \beta_3(\text{D.R}) + \beta_4(\text{D.A}) + \beta_5(\text{C.I.D.}) + \varepsilon \quad (1)$$

$$2. f(\text{PER}) = \alpha_0 + \beta_1(\text{ROE}) + \beta_2(\text{P.M}) + \beta_3(\text{D.R}) + \beta_4(\text{D.A}) + \beta_5(\text{C.I.D.}) + \varepsilon \quad (2)$$

$$3. f(\text{DPS.EPS}) = \alpha_0 + \beta_1(\text{ROE}) + \beta_2(\text{P.M}) + \beta_3(\text{D.R}) + \beta_4(\text{D.A}) + \beta_5(\text{C.I.D.}) + \varepsilon \quad (3)$$

6 Empirical Analysis

Table 8 correlation matrix (1) illustrates the value of correlations between shares' turnover ratio and each

of return on all equity (positive), profit margin ratio (positive), debt ratio (negative), and finally trading investments and cash to total deposits (negative) at (0.05) correlation significant level (one-tailed), and correlation is significant at the (0.01) level (one-tailed) with total deposits to total assets (positive) and that can give an indication about these independent variables and the way of shaping the final results on shares' turnover ratio during the analyzing period. Moreover, the value of correlations and the significant level for the independent factors between each other can be illustrated and seen from correlation matrices (1), (2), and (3).

Continuing the explanations of price-earnings ratios from correlation matrix (2) Table 9 by analyzing the correlation is significant at the (0.01) level one tailed with return on equity (positive), deposits to assets ratio (positive), trading investments and cash to deposits (negative), but the correlation is significant at the (0.05) level (one-tailed) with debt ratio (negative), and profit margin (positive).

There are correlations with dividends per share to earnings per share Table 10 correlation matrix (3) at the (0.01) level one-tailed with cash and trading investments (negative), and profit margin (positive). Also, correlation is significant at the (0.05) level (one-tailed) with return on equity (positive), debt ratio (positive), and total deposits to total assets (positive).

Table 8. Correlation Matrix (1) Shares' Turnover Ratios and Independent Items

	S.T.R	R.O.E	P.M.	D.R.	D.A.	C.I.D.
S.T.R	1					
R.O.E	0.771*	1				
P.M.	0.845*	0.926**	1			
D.R.	-0.690*	-0.789*	-0.776*	1		
D.A.	0.969**	0.668	0.724	-0.634	1	
C.I.D.	-0.519*	0.095	-0.123	-0.051	-0.533	1

Table 9. Correlation Matrix (2) Price Earnings Ratios and Independent Items

	P.E.R	R.O.E	P.M.	D.R.	D.A.	C.I.D.
P.E.R	1					
R.O.E	0.644**	1				
P.M.	0.681*	0.926**	1			
D.R.	-0.723*	-0.789*	-0.776*	1		
D.A.	0.935**	0.668	0.724	-0.634	1	
C.I.D.	-0.575**	0.095	-0.123	-0.051	-0.533	1

Table 10. Correlation Matrix (3) Dividends per Share to Earnings per Share and Independent Items

	DPS.EPS	R.O.E	P.M.	D.R.	D.A.	C.I.D.
DPS.EPS	1					
R.O.E	0.801*	1				
P.M.	0.897**	0.926**	1			
D.R.	-0.517*	-0.789*	-0.776*	1		
D.A.	0.843**	0.668	0.724	-0.634	1	
C.I.D.	-0.370**	0.095	-0.123	-0.051	-0.533	1

Table 11. Analysis of Variance (AN.O.VA.) for Dependent and Predictor Variables

Shares' turnover		Price-Earnings		Dividends-per-share to Earnings-per-share ratio	
F. cal.	60.849	F. cal.	27.864	F. cal.	16.513
Sig.	0.001	Sig.	0.006	Sig.	0.015

Table 12. Coefficients for Dependent Factor Shares' Turnover Ratio

	Beta (β)	(t)	Sig.	VIF
Constant	-160.353	-7.526	0.002	-----
R.O.E	+ 0.224	1.569	0.030	3.254
P.M	+ 0.301	2.644	0.021	2.751
D.R	- 0.128	-0.753	0.034	3.261
D.A	+ 0.969	7.801	0.001	1.010
C.I.D.	- 0.004	-0.024	0.028	2.524

$$f (\text{S.T.R}) = - 160.353 + 0.224 (\text{ROE}) + 0.301 (\text{P.M}) - 0.128 (\text{D.R}) + 0.969 (\text{D.A}) - 0.004 (\text{C.I.D.})$$

Table 13. Coefficients for Dependent Factor Price-Earnings Islamic Banks Ratios

	Beta (β)	(t)	Sig.	VIF
Constant	- 105.293	- 4.725	0.009	-----
R.O.E	+ 0.036	0.132	0.040	2.531
P.M	+ 0.008	0.027	0.035	1.942
D.R	- 0.218	- 0.937	0.028	2.336
D.A	+ 0.935	5.279	0.006	1.002
C.I.D.	- 0.108	- 0.463	0.029	3.071

$$f (\text{P.E.R.}) = -105.293 + 0.036 (\text{ROE}) + 0.008 (\text{P.M}) + -0.218 (\text{D.R}) + 0.935 (\text{D.A}) - 0.108 (\text{C.I.D.})$$

Table 14. Coefficients for Dependent Factor Dividends per Shares to Earnings per Shares

	Beta (β)	(t)	Sig.	VIF
Constant	- 185.267	- 2.972	0.041	-----
R.O.E	- 0.206	- 0.310	0.033	4.212
P.M	+ 0.897	4.064	0.015	1.006
D.R	+ 0.454	1.471	0.050	3.214
D.A	+ 0.407	1.427	0.043	2.107
C.I.D.	- 0.264	- 1.274	0.002	1.892

$$f (\text{DPS.EPS}) = -185.267 - 0.206 (\text{ROE}) + 0.897 (\text{P.M}) + 0.454 (\text{D.R}) + 0.407 (\text{D.A}) - 0.264 (\text{C.I.D.})$$

In the following tables, Table 11 demonstrates the variance of analysis for measured variables and predictor variables with calculated (F) and significance levels for each model of regression. In the next three tables; Table 12, Table 13 and Table 14 illustrate and represent the coefficients for

shares turnover, price-earnings, and dividends-per-share to earnings-per-share ratios with calculated beta, (t), significance level, and variance inflation factors for predictor items and variables and the constant. After that, under each table, there is the equation of regression with beta values.

7 Research Findings and Testing the Hypotheses

The study reached that the casual values of the study have significant results and impact on the measured values with positive signs for return on equity, profit margin, and deposits-to-assets, on shares turnover ratios and price-earnings ratios combined with debt ratio on dividends per share to earnings per share.

Debt ratio has a downside on share turnover and price-earnings, and return on equity has a minus impact on dividends per share to earnings per share, in addition, cash and trading investments-to-deposits have a minus impact on all explained variables. Table 15, Table 16 and Table 17 represent the accepted alternative hypotheses for this analysis.

Table 15. The Alternative Hypotheses for Shares' Turnover Ratios

H_{1.1.1}	There is an impact of return on equity on shares' turnover ratios
H_{1.2.1}	There is an impact of profit margin on shares' turnover ratios
H_{1.3.1}	There is an impact of debt ratios on shares' turnover ratios
H_{1.4.1}	There is an impact of total deposits to total assets on shares' turnover ratios
H_{1.5.1}	There is an impact of cash-and-trading investments on deposits in total on shares' turnover ratios

Table 16. The Alternative Hypotheses for Price Earnings Ratios

H_{1.1.2}	There is an impact of return on equity on price-earnings ratios
H_{1.2.2}	There is an impact of profit margin on price-earnings ratios
H_{1.3.2}	There is an impact of debt ratios on price-earnings ratios
H_{1.4.2}	There is an impact of total deposits to total assets on price-earnings ratios
H_{1.5.2}	There is an impact of cash-and-trading investments on deposits in total on price-earnings ratios

Table 17. The Alternative Hypotheses for Dividends-per-Share to Earnings-per-Share

H_{1.1.3}	There is an impact of return on. equity on dividends-per-share to earnings-per-share
H_{1.2.3}	There is an impact of profit margin on dividends-per-share to earnings-per-share
H_{1.3.3}	There is an impact of debt ratios on dividends-per-share to earnings-per-share
H_{1.4.3}	There is an impact of total deposits to total assets on dividends-per-share to earnings-per-share
H_{1.5.3}	There is an impact of cash and trading investments on total deposits on dividends per share to earnings per share

Table 18. Summary of research factors on shares' turnover ratio

Research Factors	Influence on shares turnover
1. Return on Equity	Sig., positive (+)
2. Profit Margin	Sig., positive (+)
3. Debt Ratio	Sig., negative (-)
4. Total Deposits to Total Assets	Sig., positive (+)
5. Cash and Trading Investments to Total Deposits	Sig., negative (-)

Table 19. Summary of research factors on price-earnings ratio

Research Factors	Influence on price-earnings
1. Return on Equity	Sig., positive (+)
2. Profit Margin	Sig., positive (+)
3. Debt Ratio	Sig., negative (-)
4. Total Deposits to Total Assets	Sig., positive (+)
5. Cash and Trading Investments to Total Deposits	Sig., negative (-)

Table 20. Summary of research factors on dividends-per-share to earnings-per-share

Research Factors	Influence on dividends-per-share to earnings-per-share
1. Return on Equity	Sig., negative (-)
2. Profit Margin	Sig., positive (+)
3. Debt Ratio	Sig., positive (+)
4. Total Deposits to Total Assets	Sig., positive (+)
5. Cash and Trading Investments to Total Deposits	Sig., negative (-)

8 Conclusion: Results and Recommendations

In analyzing the results of findings the impact of independent values on shares' turnover and price-earnings ratios as measured variables, Islamic banks are recommended and advised to focus on increasing total return (total income) for enhancing return on all equity ratio and profit margin ratio besides increasing the amount of deposits in a growth percentage bigger than growing percent of assets as total as can be summarized from Table 18 and Table 19.

Compare that to dividends per share -to earnings per share where Islamic banks must manage for a long time trading investments and cash to deposits as total and manage return on equity by giving attention to the percentage growth of trading investments and cash, return as well besides the percentage growth of equity and deposits as total. Moreover, profit margin, debt ratio, and deposits to assets do not decreasing the importance of dividends per share-to-earnings per share as presented in Table 20.

High performance and good records for Islamic banks helped to compete and expand rapidly Islamic banking profitability and the operation of issuing new shares and trading the current shares with huge amounts of shares' prices and numbers of shares. Developing and growing Islamic banks enhanced the economic conditions in different countries, [24].

Every year, banks should make a list of financial ratios to give an investing idea for expected investors and improve the investing decisions in the financial and stock markets to the current investors and depositors in banks, [25]. Also, banking performance and actions are affected by the structure of bank's capital which is shaped by the shares and stocks traded in the financial markets, [26].

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