

# Relationship Between Bank Deposits and Profitability of Commercial Banks (Practical Example of Jordan Commercial Bank)

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**Abstract**—In this article research in the field of Bank's deposit policy is conducted and deposit operations are classified. Special attention is paid to the analysis of savings and deposit accounts in the Jordan Commercial Bank based on quantitative analysis of current deposits. Also, external and internal factors, which have the influence on the bank's profitability are identified, the prerequisites for the development of the Bank's effective activity and direct relationship between Bank deposits and profitability indicators are determined. Bank deposits are classified into three types: current deposits, savings deposits, and time deposits, which allows you to determine the identified relationship more precisely. To develop the improving strategy for the bank's performance, it is necessary to use the method of credit diversification. As the research shows, banks should direct their available funds to various deposits. This policy is quite successfully guided by the Jordan Commercial Bank, as demonstrated by the presented bank's deposits and profitability's graphs. The results have applied nature and can be used in the activities of commercial banks.

**Keywords**—the yield, deposit operations, commercial banks, savings deposits, time deposits.

## I. INTRODUCTION

The problem of developing banking practices and improving banking's customer service has become particularly relevant and important due to the transition to the market economy.

Such authors and researchers as L.P. Krolivetskaya, O.I. Lavrushin, A.Yu. Kazak, A. Brew, P.S. Rose, J.F. Sinki, J.M. Keynes and others were engaged in the development of banking activities in the field of Deposit operations.

The purpose of this study is the dimension of the relationship between Bank deposits and the profitability generated in all types of commercial banks, and determination of deposits types which have a greater impact on the Bank's profitability. Jordan Commercial Bank and its activity for the period from 2012 to 2020 were selected as the subject of the study. This study demonstrates that there is a significant relationship between deposits and profitability indicators. The savings deposit is the most significant contribution to profitability, then the term deposits and, finally, the current deposits with the lowest contribution to profitability. The article explores the approach of the Jordan Commercial Bank to taking special strategic measures, diversification credit and

attracting investment deposits as a basis for the increasing the Bank's profitability.

## II. METHODS

The methodological and theoretical basis of this research is the provisions containing the works of foreign researchers. The study of world practice in the field of Bank profitability management has revealed various approaches to assessing the relationship between Bank deposits and profitability. This relationship was revealed using scientific methods of knowledge, such as analytical, comparative and graphical analysis, in particular, by the example of the Jordan Commercial Bank. And by the correlation method deposits, profitability and margin of a commercial bank were analyzed.

## III. DISCUSSION AND RESULTS

The world banking system is in a difficult situation against the background of economic instability and constant crisis situations [2]. The problem of ensuring the financial stability of credit institutions, including commercial banks, get key value at the present stage of development of the world economy and society. The instability of the financial position of credit institutions, on the one hand, and the tendency to expand investment in the economy, on the other hand, aggravate this problem, and so the question in the theory and practice of bank profitability relevance arises, and, consequently, the development of the national economy. The main factor affecting the profitability of banking activities is to maintain the liquidity and to manage the income (profit). Consequently, any country's economy cannot function without the banking system, which in turn cannot operate and develop without profit.

The profit is recognized as the main indicator of the Bank's stability and the main source of the equity. Therefore, it is necessary to get the maximum profit (by trading money supply and investing your resources in special areas) and keep up the optimal relationship between the value and the risk of losses.

Any business project is aimed at achieving the goal and getting maximum profit. Profitability is a simple index of the difference between revenue and costs; therefore, the higher is the profit, the higher is the revenue and the lower the cost. The profitability is an indicator of the bank's competitiveness with

the quality of management on the banking market. For clarity, we present the reports of the Jordan Central Bank as at 01.04.2020 in table 1 and figure 1 [11].

TABLE I. BALANCE SHEET TABLE OF JORDAN COMMERCIAL BANK AS FOR 01.04.2020

Jordan Money	Latest	Previous	Highest	Lowest
Interest rate	2.50	2.50	9.00	2.50
Interbank interest rate	2.15	2.15	8.92	0.71
Money supply M1	11941.70	11932.90	11941.70	1539.20
Money supply M2	35965.00	35840.50	35965.00	4484.70
International reserves	13872.10	13874.40	13972.40	1536.19
Volume of lending to the private sector	27082.10	26986.70	27082.10	5055.60
Interest rate on deposits	3.81	3.89	8.51	2.41
Balance sheet of the Central Bank	14936.60	14918.40	15272.62	4246.50
Balance sheet of the Bank	53651.40	53832.40	54422.10	14248.80

Source: [11]

Commercial banks generate most of this activity, but they are mainly related to banking operations, which are the lending. This type of service is the main activity of banks. This activity requires the availability of funds related to the ability of banks to provide high guarantees to depositors who can invest their savings in the form of deposits. Therefore, the volume and continuity of deposits are the most important factors that can increase or limit the profitability of any bank.

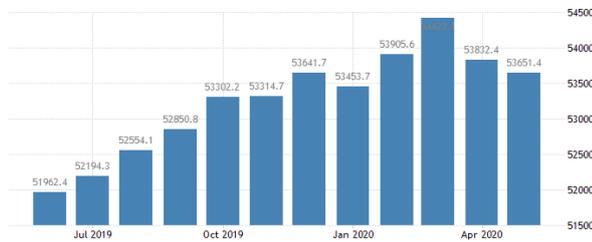


Fig. 1. Indicators of the balance sheet of the Central Bank of Jordan as of 01.04.2020

In order to generate the maximum possible profit and ensure an appropriate ratio of liquidity and cash withdrawals, the departments of these banks are required to optimally ensure the liquidity of their deposits. The statement of this study's problem is based on the different types of deposits and sizes to the selected banks profitability's. So, deposit operations are important source for the bank's life and the main source of income and can amount for more than 90% [1]. We will reveal the classification of Bank deposits, which can be divided into several types and present in figure 2.

The main sources of financing for commercial banks are deposits, as they allow banks to create credits in a unique way and due to their ability to provide credit facilities [8]. In addition, it is the most important form of savings deposits that contributes significantly to investment in countries and supports the flow of investment and project finance, contributing to the foundation of fixed capital in banks and at

the same time encouraging and supporting clients to increase savings through benefits.

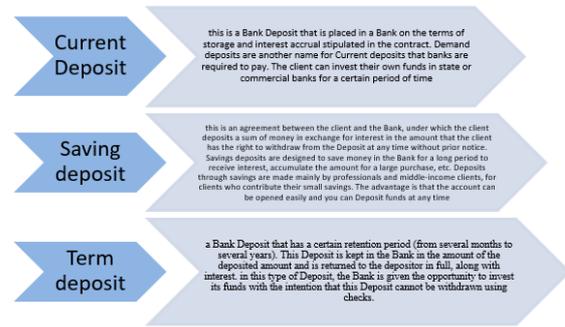


Fig. 2. Classification of Bank deposits

We can identify a number of factors that affect the bank's profitability, considering the relationship between bank deposits and profitability, as shown in figure 3.

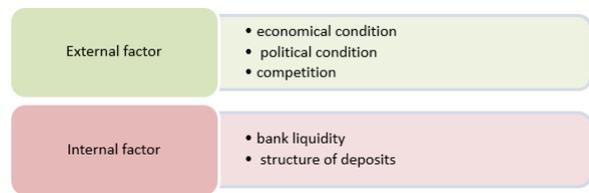


Fig. 3. Factors affecting Bank profitability

Factors having the influence on the profitability are considered as the relationship between the profit received by the bank and the investments that contributed to the achievement of this profit. The profitability is a measure that determines the efficiency of a bank and its financial management. Moreover, this is the impact of corporate governance on the level of internal and external mechanisms, which in turn represent the quality of the accounting and the external audit.

For the deeper research and search for strategies, that can increase the bank's profit, it is appropriate to analyze the real Commercial Bank. As the object of research, let us take Jordan Commercial Bank, which is one of the most important commercial banks in Jordan with various types of activities. The Bank's annual reports and the full financials were studied for the period from 2012 to 2016 and from 2016 to 2019. The dimension of the bank profitability indicators can be calculated using the formulation [10]:

$$ROA = \frac{\text{Net annual profit}}{\text{Total assets}} * 100\% \quad (1)$$

or

$$ROE = \frac{\text{Net profit after tax}}{\text{Authorized capital}} * 100\% \quad (2)$$

In this research quantitative analysis of current, savings and term deposits in the Jordan Commercial Bank was used as a selected totality, and the impact of each of these deposits on the bank's profitability was studied using the simple equation of linear regression (figure 4).

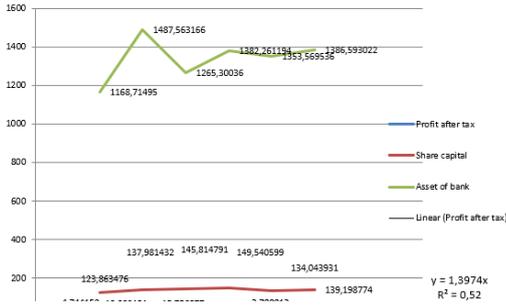


Fig. 4. Dynamics of the Bank's profitability indicators (million dinars)

After the calculating of bank data using the proposed formulations, we found that the higher is the ROE value, the better the bank's return on equity. When evaluating the Bank's ROE indicator, it is important to understand that the interest rate at which money works is important. The analysis revealed that there is a positive correlation between current deposits and Jordan Commercial Bank's profitability indicators. On the figure 5 the volumes of three deposit's types and their profitability indicators in the Jordan Commercial Bank for the period from 2012 to 2016 are shown [4].

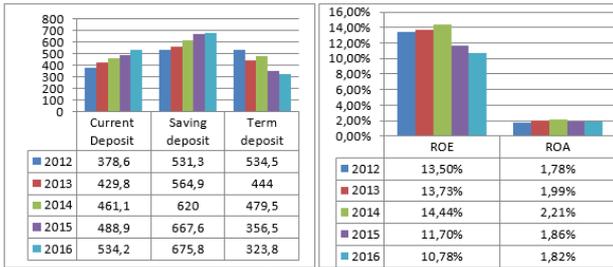


Fig. 5. Volume of deposits (million dinars) and profitability indicators

The ROE deposits are affected by the design value of the bank's clear annual profit, namely, a decrease or increase in savings deposits and a significant effect occurs, and The ROA indicator is affected by net profit after taxes. This indicator shows the financial return on the use of assets, i.e. shows the efficiency of the financial management. As for the structure of deposits, the leading position belongs here to savings deposits and deposits. Currently, large commercial banks provide their clients with a full range of services [9].

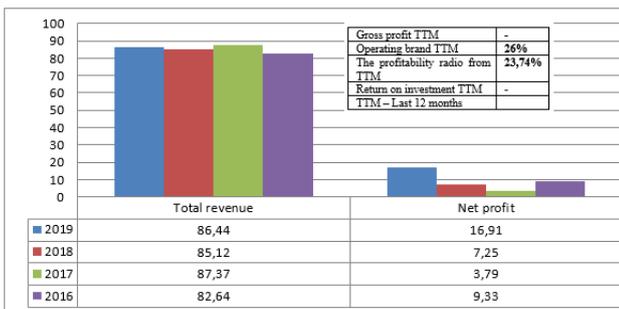


Fig. 6. Income declaration of Jordan Commercial Bank

The analysis revealed that there is a positive dynamic between current deposits and the Jordan Commercial Bank's profitability indicators. For the more identification of the relationship between deposits and the bank's profitability, we present the current state of the bank financial position, i.e., the liquidity values on the figure 7.

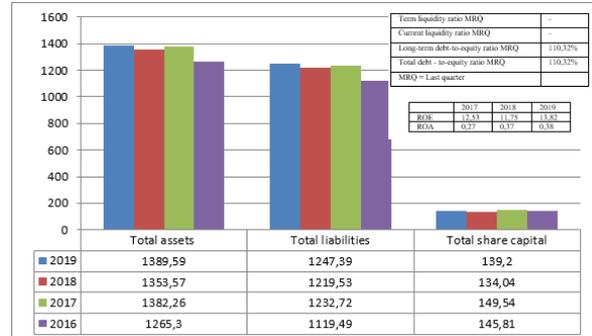


Fig. 7. Balance sheet analysis of Jordan Commercial Bank

So, the ability of the credit organization Jordan Commercial Bank fulfills its obligations and satisfies the requirements of its customers by the disposal of assets or by the borrowing at the prices not higher than competitors. Thus, we conclude that profit is the main indicator of the bank's effectiveness. It is formed as the difference between the Bank's income and expenses for a certain period and is determined by the progressive total for the year. The value of profit has decisive important now. In order to get a more significant profit, banks seek strive to increase profits and reduce their costs. I would also note that the volume of profit in the banking system as a whole ensures its reliability, which guarantees the security of deposits and the availability of credit sources, on which are directly dependent consumers of banking services.

#### IV. CONCLUSIONS

The Bank analysis has shown that the basis of the Bank's work is deposits [3]. The largest percentage of investments is represented by deposits and is used mainly in major credit operations. Banks also managed to maximize their contribution to the bank's profitability by using term deposits for investments and savings deposits. In this study, the accepted indicators of profitability are effective. This shows us that the bank's management is moving at the right pace, maximizing the bank's profitability and increasing its dependence on savings and term deposits.

The results showed a positive correlation between these different types of deposits and profitability indicators and showed a significant deposit's influence on the profitability, thus justifying all the hypotheses proposed. Savings deposits are the most influential factor affecting the bank's profitability. The level of current deposits has the least impact on the bank's profitability. To regulate the volume of investments by types of deposits, the bank's management should intensify its activities, using tools to provide customer's guarantees at competitive interest rates.

Thus, the determination of further guidelines for the development of financial technology financial market is of particular importance [6]. So, in the financial market is particularly important the definition of further reference points for the financial technology's development.

As result of this study of the yield's indicators and the commercial bank's profitability should be noted that they are closely connected and it's liquidity that acts as the most significant catalyst, which has the potential to identify and neutralize banking risks, directing the bank to operate in a stable mode and for the future.

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