

FINANCIAL LEASING IN PALESTINIAN ISLAMIC BANKS AND ITS ROLE IN ENHANCING FINANCIAL PERFORMANCE: AN ANALYTICAL STUDY

Bahaa S. Awwad, Palestine Technical University
Bahaa S. Ruzieh, Palestine Technical University

ABSTRACT

The study aims to test the impact of financial leasing on the financial performance of Islamic banks in Palestine during the period between 2010 and 2019, in an attempt to show the role of financial leasing in enhancing financial performance indicators represented by rate of return on deposits, rate of return on ownership, rate of return on investment and rate of return on available assets. The study found an impact of financial leasing on the study's dependent variables including indicators of financial performance. The results showed that financial leasing achieves high efficiency in the use of assets. The study recommended the necessity of urging Islamic banks in Palestine to use more financial leasing tools in order to increase banks' revenues, and to benefit from the experiences of advanced banks regarding financial leasing. For Islamic banks in Palestine, it is important expand the volume of investment in financial leasing assets. The study assist Islamic banks in Palestine to achieve diversification in the fields of financial leasing in line with the principles of Islamic Sharia. This assists in improving Islamic products offered through financial leasing activities and developing them in line with international development. Previous studies provided an unclear image for using financial leasing on the financial performance of Islamic banks in especially Palestine. Numerous aspects differentiate this paper and contribute to its originality, by examining the impact of financial leasing on the financial performance of Islamic banks in Palestine during the period between 2010 and 2019.

Keywords: Islamic banks, financial leasing, financial performance.

INTRODUCTION

The Islamic financial industry has witnessed a remarkable development and increasing growth that made Islamic financial and banking institutions impose themselves, as Islamic finance has become a tangible reality, an important method, an added value to the local and global economic reality, and a bridge of interdependence between countries of the world (Sabra et al., 2016). Numerous factors have led to facilitate the movement of funds between savers and investors in multiple channels, as well as between surplus units and deficit units in the economic financial system. These factors include the international economic progress, the diversity of financing tools in the Islamic and financial industry, the multiplicity of financial institutions and institutions, and the widening of their specialisation. The volume of demand for financing products in trade and investment through financial leasing is increasing rapidly. As a competitive method of financing in many countries, given the great facilities that leasing purchases provide to its customers, in order to obtain multiple types of real estate assets and many other assets with future benefits. The value of the facilities associated with financial leasing operations ranged from multiple amounts. Financial leasing is one of the most flexible forms of financing. Financial leasing also helps in facilitating the process of providing office supplies, factories and equipment very quickly. This can be achieved without having to spend huge amounts of money to buy new assets. The cost of these assets may increase in order to replace or repair them in the future.

Financial leasing is one of the most important topics that preoccupied the thinking of lawmakers in the countries of the world. This is because this successful type and effective method represents in financing projects and investments in a way that all parties achieve their goals. This also leads to the development of productive and service investments, which in turn positively affects the National economy (Tarawneh, 2016). Financial leasing is a method that enables organizations to obtain financing by resorting to institutions specialized in financial leasing operations, through a contract approved by both parties. In response to this, many studies have indicated that through financial leasing contract, the project is entrusted with choosing the equipment and machinery, choosing the seller and the required materials, and negotiating the purchase. Then, the financier concludes a sales contract in which he buys the equipment from the original seller. After the completion of this contract, the seller concludes with the beneficiary project a lease agreement that allows him to use the equipment and machinery.

In return, the project is obligated to pay the lease instalments to the financier and terminate the contract. At the end of the contract, the beneficiary has the choice between purchasing the equipment and machinery, renting it back, or returning it to the financing institution and terminating the contract. The financial leasing product is one of the products offered by Palestinian Islamic banks with the aim of providing an appropriate financing method for business organizations. The primary objective of banks in general whether Islamic or commercial banks are to improve their financial performance. Financial leasing is one of the effective credit methods that are used to finance investment projects of all sizes and shapes. This can be used in the case of investors' need to cover the capital of their projects needed to finance different investments. Therefore, financial leasing represents one of the main sources of income for the bank. From this point of view, it has been argued that it is unclear to identify the impact of using financial leasing on the financial performance of Islamic banks in especially Palestine. This is despite the importance of financial leasing in attracting and promoting local investments, and its importance in building economic projects, as well as achieving additional returns in addition to the returns realised for banks (Abbad & Khasawneh, 2016). Thus, the research problem can be formulated by asking the following main question: Is there a role for financial leasing in enhancing the financial performance of Islamic banks in Palestine?

LITERATURE REVIEW

The financial Leasing Sector in Palestine

The financial leasing sector is one of the important sectors that contribute to economic growth and stability. It is considered as a vital sector which provides the means to increase local investment within economies. The most important thing that distinguishes financial leasing from other financing tools (e.g., lending) is that, it does not require tangible guarantees and conditions for approval of financing, whether it is from a long credit history or a broad asset base that can be used as collateral. Since financial leasing is built on the basis that making profits comes from the use of assets not Its ownership and the ability of the lessee to achieve cash flows resulting from operating the asset. Therefore, leasing is particularly important for small and medium-sized industrial establishments. What distinguishes financial leasing is also that it is in line with the provisions of Islamic Sharia.

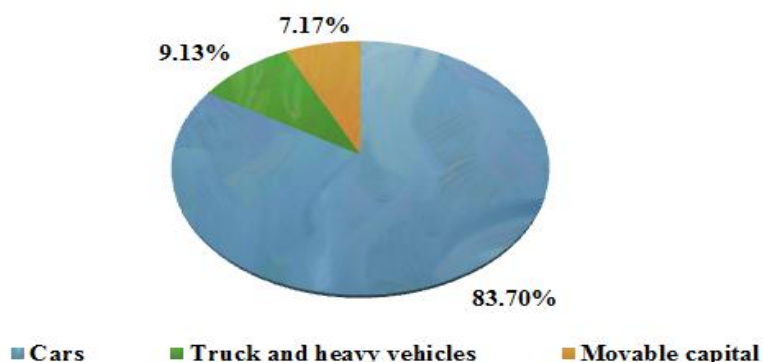
Within the strategic plan to promote and develop mortgage financing and financial leasing in the Capital Market Authority. And to develop the appropriate legal system for the work of the financial leasing sector, in order to serve the achievement of the Authority's strategy and objectives. The number of financial leasing companies licensed by the Authority reached 13 companies in 2018. However, the number of licensed companies reached 9 in 2019. The financial leasing sector recorded a decline during the year 2019 compared to the

previous year. In 2019, the value of the total investment contracts [total investment represents: advance payment, if any + (payment value x number of payments) + purchase option, if any] registered with the authority amounted \$64.48 million representing 1417 contracts. This is compared to 1645 contracts in 2018, where the total investment value of registered contracts amounted to \$94 million (Palestinian Capital Market Authority, 2020).

Table 1 shows the distribution of the leasing sector portfolio financing in Palestine. This is linked with the nature of the leased assets from 1/1/2019 to 30/9/2019:

Nature of Lease	Number of contracts	Percentage	Value of contracts	Percentage
Cars	1,334	94.10%	5,39,71,466	83.70%
Trucks and heavy vehicles	36	2.50%	58,85,674	9.10%
Movable capital	47	3.30%	46,24,105	7.20%
Total	1,417	100%	6,44,81,245	100%

It is evident from table 1 that the financial leasing contracts in cars come in the first place in terms of the nature of the lease, amounting to about \$53.97 million (83.7%) of the total contracts. Trucks and movable capital contracts come in the second and third place, with a value of \$5.89 million and \$4.62 million respectively. To explain this, figure 1 shows the distribution of financial lease contracts according to the nature of the lease.



**FIGURE 1
DISTRIBUTION OF FINANCIAL LEASE CONTRACTS ACCORDING TO THE
NATURE OF THE LEASE**

Financial leasing and its role in enhancing the financial performance of the Palestinian Islamic Bank and the Arab Islamic Bank

Palestinian Islamic Bank

1. Efficiency of using the assets leased financially (financial lease assets). In order to analyse this, the efficient use of the financial leasing assets of the Palestinian Islamic Bank (see table 2).

Table 2
EFFICIENT USE OF FINANCIAL LEASING ASSETS OF THE PALESTINIAN ISLAMIC BANK

Year	Financial leasing income	financial leasing assets	Ratio of finance lease income to finance lease assets	Total revenue	Total Assets	Revenue to Assets Ratio
2010	2,60,260	37,02,569	7.03%	1,51,02,388	35,37,78,457	4.27%
2011	3,01,413	48,61,266	6.20%	1,84,86,228	38,78,14,628	4.77%
2012	3,69,678	56,76,827	6.51%	1,91,70,504	42,64,32,452	4.50%
2013	4,49,280	59,84,860	7.51%	2,33,18,625	49,62,66,970	4.70%
2014	3,52,516	52,98,717	6.65%	2,84,19,656	58,99,61,196	4.82%
2015	3,88,127	49,46,272	7.85%	3,52,99,633	67,02,65,066	5.27%
2016	3,66,456	45,18,799	8.11%	4,60,57,574	80,45,63,770	5.72%
2017	3,08,317	37,53,155	8.22%	5,11,76,234	1,00,66,16,262	5.08%
2018	2,64,590	35,52,214	7.45%	6,01,31,620	1,09,91,11,746	5.47%
2019	2,53,540	47,21,772	5.37%	5,90,73,311	1,31,36,91,550	4.50%
Average	3,31,418	47,01,645	7.09%	3,56,23,577	71,48,50,210	4.91%
greatest value	4,49,280	59,84,860	8.22%	6,01,31,620	1,31,36,91,550	5.72%
smallest value	2,53,540	35,52,214	5.37%	1,51,02,388	35,37,78,457	4.27%

Note: as shown in table 2, the total revenue is equal to the bank's total revenue after subtracting the finance leasing revenue. Total assets equal to the total assets of the bank after deducting the assets of the financial lease. Ratio of financial leasing revenues to financial leasing assets. Ratio of total revenue to total assets (see table 2).

It is evident from table 2 that the volume of financial leasing revenues increased from \$260,000 in 2010 to its peak in 2015 and reached \$388,000. Then it begins to decline slightly and gradually until it reaches \$254,000 in 2019. The actual investment of the financially leased assets has also decreased to reach \$4.7 million more than it was in 2015. Figures 2 and 3 provide more clarification to the previous discussion. On the other hand, and by looking at the ratio of financial leasing revenues to financial leasing assets during the study years (2010-2019). It is evident that this ratio was 150% higher than the ratio of total revenues to total assets. Where the ratio of financial leasing revenues to financial leasing assets averaged 7.089%, while the ratio of total revenues to total assets was on average 4.90%. More illustration and details about the volume of financial leasing revenues against financial leasing assets as shown below (see figure 2).

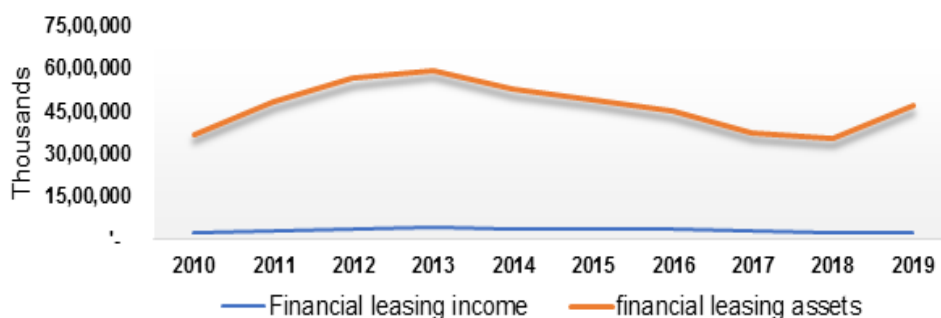


FIGURE 2
THE VOLUME OF FINANCIAL LEASING REVENUES AGAINST THE VOLUME OF FINANCIAL LEASING ASSETS

Figure 2 argues that the financial leasing assets during the study period from 2010 to 2019, grew well during the first period (2010-2014), reaching \$6 million. After that it started to decline again during the second period (2014-2018). These assets rise again in 2019, while the revenues generated from financial leasing were relatively stable during the study period.

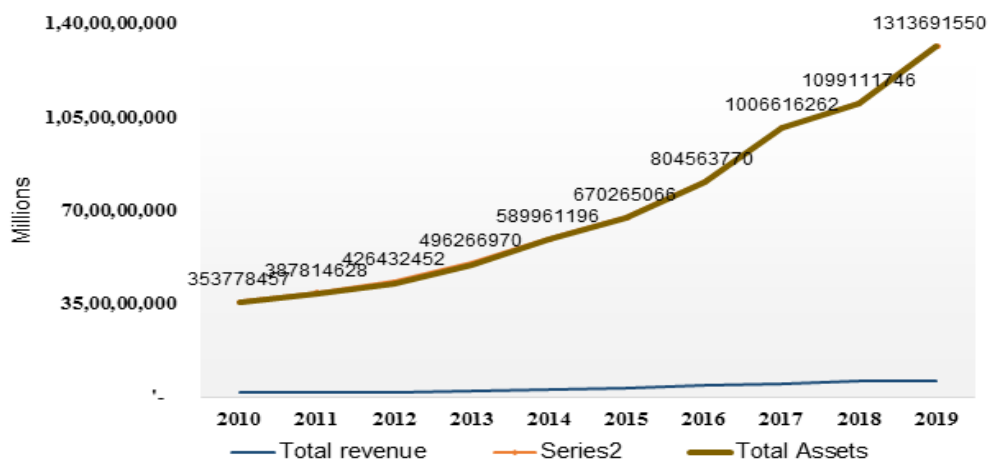


FIGURE 3
THE VOLUME OF REVENUES AGAINST THE VOLUME OF ASSETS DURING THE PERIOD 2010-2019

It is noted from Figure 3 that the growth in the volume of assets has reached 1.313 billion dollars in 2019. After that, the volume of investment in assets has doubled to almost 4 times in 2010 to reach 353 million dollars. In 2019, the total revenue grew from 15 million dollars in 2010 to reach 60 million dollars with a growth rate of 300% (e.g., 4 times). This proves that the growth rate in the size of assets (excluding financial leasing assets) was the same as the growth rate in total revenues (excluding financial leasing revenues).

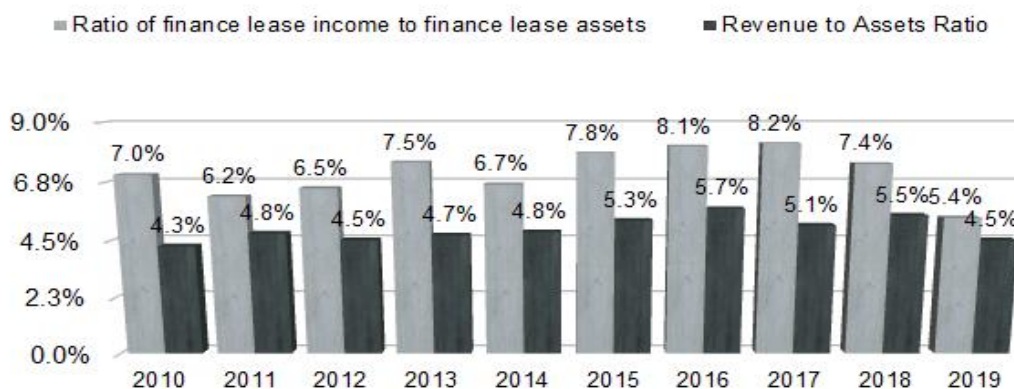


FIGURE 4
EFFICIENT USE OF ASSETS AND FINANCIAL LEASING ASSETS DURING THE PERIOD

It is noted that the ability of financial leasing assets to generate revenues during the study period was better in any case than the ability of assets to generate revenues other than the assets and revenues of financial leasing. In 2016, the ratio of revenues to assets was equal to 5.7% (the highest percentage that it reached). In contrast, the ratio of financial leasing revenues to financial leasing assets was 8.1% for the same year 2016. However, when the

percentage of revenues to assets declined again to 4.5% in 2019, this was followed by the ratio of financial leasing revenues to financial leasing assets, which amounted to 5.4% in 2019. With both percentages declining, the ratio of financial leasing income to financial leasing assets was at the fore. This means that financial leasing assets generate revenues for the Palestine Islamic Bank at rates much higher than other assets.

2. The material and relative importance for the income and assets of the financial leasing

Year	Ratio of finance leasing revenue to total revenue	Ratio of financial leasing assets to total assets
2010	1.72%	1.05%
2011	1.63%	1.25%
2012	1.93%	1.33%
2013	1.93%	1.21%
2014	1.24%	0.90%
2015	1.10%	0.74%
2016	0.80%	0.56%
2017	0.60%	0.37%
2018	0.44%	0.32%
2019	0.43%	0.36%
SMA	1.18%	0.81%
Greatest value	1.93%	1.33%
Smallest value	0.43%	0.32%

It is noted from table 3 the gradient in the ratio of financial leasing revenues to total revenues, as well as in the ratio of financial leasing assets to total assets. It is clear that there are successive decreases in the two percentages during the second half of the study extended during the period (2015-2019). This corresponds to decrease in the ratio of financial leasing revenues to total revenues a balanced decrease in the ratio of financial leasing assets to total assets. Furthermore, it was found that the ratio of financial leasing revenues to total revenues averaged 1.182%. This is higher than the ratio of financial leasing assets to total assets, which averaged 0.809%. This also supports and proves that the material return from financial leasing assets is higher than the volume of investment in them. To understand this, see figure 5 that illustrate the material/relative importance of financial leasing income.

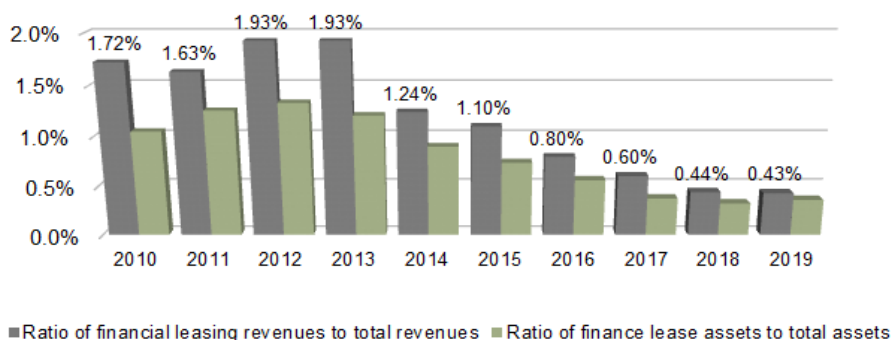


FIGURE 5

MATERIAL/RELATIVE IMPORTANCE OF FINANCIAL LEASING INCOME

3. The effect of financial leasing income on the study variables

Year	Financial leasing income	Return on deposit	Return on ownership	Return on investment	Return on assets
2010	2,60,260	0.55%	3.32%	3.46%	0.45%
2011	3,01,413	1.34%	7.75%	8.77%	1.03%
2012	3,69,678	1.65%	10.06%	12.35%	1.35%
2013	4,49,280	1.63%	10.28%	13.05%	1.30%
2014	3,52,516	1.65%	11.16%	15.08%	1.27%
2015	3,88,127	1.87%	13.69%	20.07%	1.49%
2016	3,66,456	1.93%	13.22%	20.17%	1.56%
2017	3,08,317	1.79%	13.26%	21.06%	1.44%
2018	2,64,590	1.67%	13.06%	20.45%	1.37%
2019	2,53,540	1.38%	13.44%	18.86%	1.10%
SMA	3,31,418	1.55%	10.92%	15.33%	1.23%
Greatest value	4,49,280	1.93%	13.69%	21.06%	1.56%
Smallest value	2,53,540	0.55%	3.32%	3.46%	0.45%

As shown in table 4, there is a fluctuation in the return on deposits and the return on assets. This fluctuation is to some extent related to the fluctuation and decrease in the money and assets invested in the financial leasing. This has also led to decrease in financial leasing revenues. In terms of the return on ownership and the return on investment. It evident that there is a stability and continuous growth for each of them. The rate of return on ownership started to grow from 3.32% in 2010 to 7.75% in 2011 to reach 13.44% in 2019. Similarly, the rate of return on investment started to grow from 3.46% in 2010 to 8.77% in 2011 to reach more than 19% in 2019. It is clearly demonstrated that the trend of financial leasing income is increasing as long as the volume of financial leasing assets increases and vice versa (see table 4).

Arab Islamic Bank

1. Efficiency of using the assets leased financially (financial lease assets)

Year	Financial leasing income	Financial leasing assets	Ratio of finance lease income to finance lease assets	Total Revenue	Total Assets	Revenue to Assets Ratio
2010	2,74,510	39,04,556	7.03%	1,18,01,940	28,20,95,444	4.18%
2011	3,38,172	39,68,285	8.52%	1,30,24,936	37,70,31,715	3.46%
2012	2,78,174	52,69,329	5.28%	1,40,81,409	36,97,30,671	3.81%
2013	4,50,373	80,64,230	5.59%	1,60,41,414	46,19,35,770	3.47%
2014	7,38,630	1,49,99,735	4.92%	1,92,31,677	54,70,00,265	3.52%
2015	11,31,645	2,45,76,710	4.61%	2,12,17,304	62,64,23,290	3.39%
2016	15,97,326	3,49,68,704	4.57%	2,51,72,051	75,90,31,296	3.32%

2017	20,76,041	5,06,25,164	4.10%	3,18,29,554	99,03,74,836	3.21%
2018	21,37,393	5,87,80,915	3.64%	3,66,23,665	1,00,85,26,912	3.63%
2019	24,60,705	6,70,45,465	3.67%	4,34,27,878	1,20,48,82,820	3.60%
SMA	11,48,297	2,72,20,309	5.19%	2,32,45,183	66,27,03,302	3.56%
Greatest value	24,60,705	6,70,45,465	8.52%	4,34,27,878	1,20,48,82,820	4.18%
Smallest value	2,74,510	39,04,556	3.64%	1,18,01,940	28,20,95,444	3.21%

Based on table 5 it is important to note that the total revenue is equal to the bank's total revenue after deducting the finance leasing revenue. Total assets equal to the total assets of the bank after deducting the assets of the financial lease. It is evident from table 5 that the financial leasing revenues of the Arab Islamic Bank doubled. As the financial leasing revenues grew from 275,000 dollars in 2010 to a peak of 2.46 million dollars in 2019. This can be explained as a result of the increase in the size of the bank's financial leasing assets. In 2010, the assets of the bank from the financial leasing amounted to 3.9 million dollars, which doubled to reach 27.22 million dollars. This demonstrates that the greater the volume of investment in the assets of the financial leasing, the higher the income from the financial leasing of the bank. The bank's total revenues (excluding financial leasing income) grew from \$11.8 million in 2010 to \$43.4 million in 2019 (e.g, at lower rates and rates than the increase in financial leasing income). Similarly, the bank's assets grew from \$282 million in 2010 to reach 1.204 billion dollars in 2019. This supports and enhances this study that financial leasing contributes to enhancing and maximising the financial performance of the bank (see table 5).

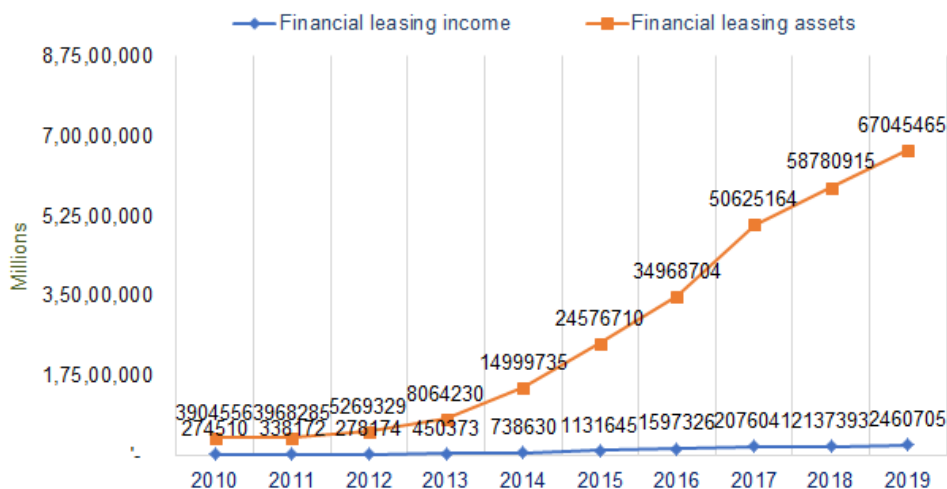


FIGURE 6
THE VOLUME OF FINANCIAL LEASING REVENUES AGAINST THE VOLUME OF FINANCIAL LEASING ASSETS

As shown in figure 6, there is a continuous growth in the bank's financial leasing assets, as they have doubled to more than 17 times during the period between 2010 and 2019. This is an important indication of the bank's interest in investing in financial leasing assets alongside investing in other financial assets. The figure also shows the size of the relative stability and the remarkable growth in finance leasing revenue.

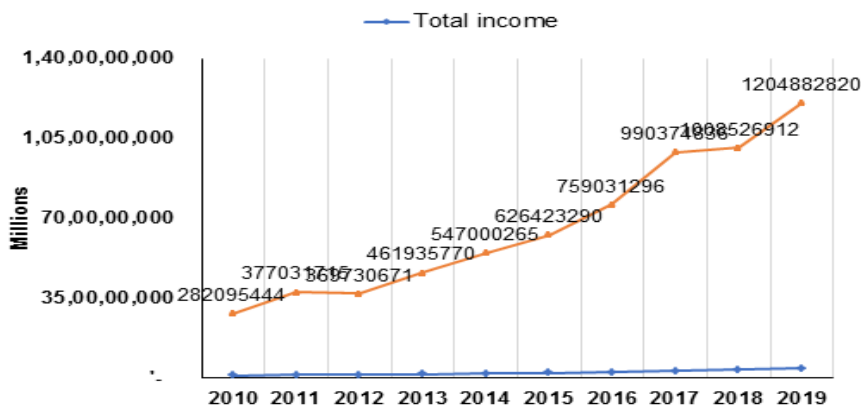


FIGURE 7
THE VOLUME OF REVENUES AGAINST THE VOLUME OF ASSETS DURING THE PERIOD 2010-2019

Figure 7 shows the size of the assets invested in the bank against the volume of revenues generated from the invested assets. It also illustrates the growth and the doubling of the size of assets at a rate of almost 4 times. In comparison with Figure 8, it is evident that the growth rate in the invested assets of the Bank was less than the growth rate. Investing in financial leasing assets showed its ability to generate revenues at higher rates compared with the bank’s assets (see figure 8).

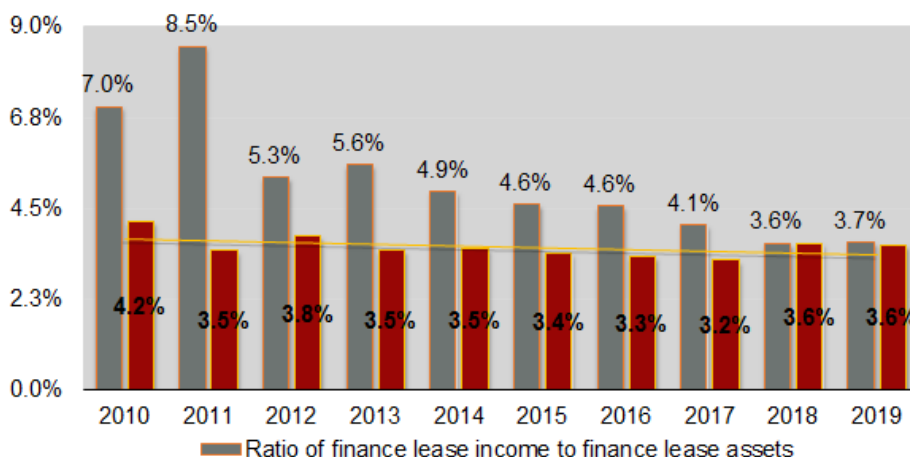


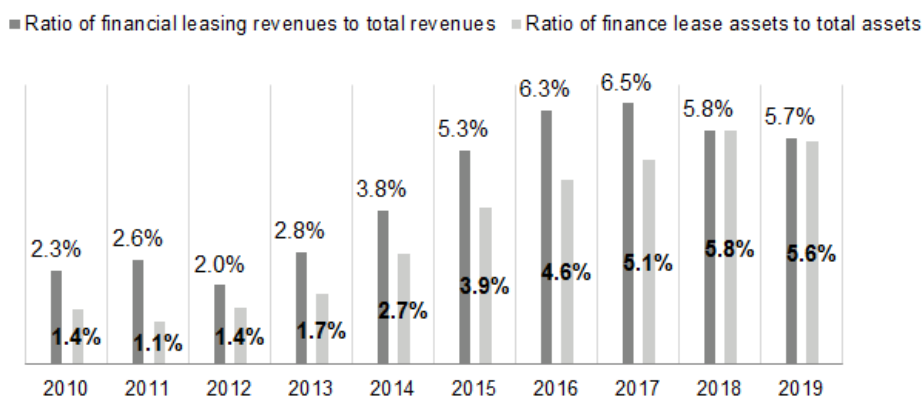
FIGURE 8
MATERIAL/RELATIVE IMPORTANCE OF FINANCIAL LEASING INCOME

It is evident from the above figure that the ability of financial leasing assets to generate revenues during the study period was better than the ability of assets to generate revenues other than the assets and revenues of financial leasing. In 2011, the ratio of revenues to assets was equal to 3.5% (it is characterized by a stable ratio of 3.5%). In contrast, the ratio of financial leasing revenues to financial leasing assets was 8.5% for the same year 2011. However, when the ratio of revenues to assets decreased, it reached 3.6% year 2018. This was followed by the ratio of financial leasing revenues to financial leasing assets, which amounted to 3.6% in 2018. Both ratios declining, the ratio of financial leasing revenues to financial leasing assets was higher than its peers, and in the least, the two ratios were equal. This means that financial leasing assets are more efficient and effective to generate revenues in the Arab Islamic Bank compared with other assets (see figure 8).

2. Material/relative importance (income and assets of financial leasing)

Year	Ratio of finance leasing revenue to total revenue	Ratio of financial leasing assets to total assets
2010	2.33%	1.38%
2011	2.60%	1.05%
2012	1.98%	1.43%
2013	2.81%	1.75%
2014	3.84%	2.74%
2015	5.33%	3.92%
2016	6.35%	4.61%
2017	6.52%	5.11%
2018	5.84%	5.83%
2019	5.67%	5.56%
SMA	4.33%	3.34%
Greatest value	6.52%	5.83%
Smallest value	1.98%	1.05%

It is evident from table 6 that the material importance of the financial leasing revenues in relation to the total revenues was increasing and growing. It represented 2.3% of the total revenues in 2010 and then it became 5.7% of the total revenues in 2019. The material importance of the ratio of financial leasing assets to total assets is characterized by stability and growth at the same time. It was stable at 1.3% during the period between 2010 and 2013. It has then gradually begun to grow continuously until it reached more than 5.6% in 2019. This explains the company’s maintenance a clear pace of investment in financial leasing assets. In order to show the efficiency of financial leasing assets in generating financial leasing revenues, see figure 9.



**FIGURE 9
MATERIAL/RELATIVE IMPORTANCE OF FINANCIAL LEASING INCOME**

Previous Related Studies

Numerous studies have examined the relationship between the financial leasing tool in banks and its relationship to financial performance (Abad & Al-Khasawneh, 2019). This study aimed to identify the impact of financial leasing on the rate of return on assets and the rate of return on ownership in commercial and Islamic banks in Jordan during the period 2008 - 2013. Abad & Al-Khasawneh (2019) also identified the extent of differences between Jordanian commercial banks and Jordanian Islamic banks in terms of the impact of financial leasing on their profitability. Their study confirmed the importance of banks establishing financial leasing companies through the Investment encouragement law, and encouraging the attraction of international companies that practice this activity in order to attract advanced technology. Alkhazaleh & Al-Dwiry (2018) concluded that lease financing has a significant impact on return on assets and return on equity as measures of financial performance. These results are in agreement with the study (Awad, 2013), which aimed to identify the impact of the use of financial leasing on the financial indicators of Palestinian Islamic banks during the period 2008 - 2011. The results of the study indicated that there is a positive and statistically significant effect of financial leasing on the profits, liquidity and revenues of Palestinian Islamic banks. The convergence in the results was somewhat clear through the study of (Al-Tarawneh, 2016). Al-Tarawneh (2016) analyzed the impact of financial leasing revenues on the financial performance of Jordanian Islamic banks during the period 2010-2014. The study relied on calculating return on share, return on assets, return on ownership and return on investment. It concluded that there is an effect of financial leasing income on the return on the share, and that there is no effect of financial leasing income on the return on assets. The study focused on better activating financial leasing in Islamic banks in Jordan, and the need to educate administrators in the Jordanian Islamic banking sector of the importance of financial leasing and the expected benefits of using it.

Asuquo (2020) revealed a positive and important relationship between financial leasing, operating leasing and equity financing, and debt financing among the performance of banks in Nigeria. This study aimed to identify the impact of leasing financing on the performance of banks in Nigeria. Al-Saadi (2015) argued that the cost of financing by leasing is less expensive than borrowing. Therefore, the use of financial leasing entails a financial raise and an increase in the profitability of the bank. The study also confirmed that the use of financial leasing reduces the risks that the bank is exposed to compared with financing by borrowing.

RESEARCH METHODOLOGY

Research Population and Sampling

The study population and sample consist of all Islamic banks. These banks deal in accordance with the provisions of Islamic Sharia. They are also operating in Palestine during the period between 2010-2019. There are currently three Islamic banks in Palestine that provide banking services (see table 7).

Bank name	Year Founded	Issued Capital	Business Volume
Arab Islamic Bank	1995	\$ 84,919,252	\$ 1,271,928,380
Palestinian Islamic Bank	1995	\$ 77,000,000	\$ 1,320,145,499
Safa Bank	2016	\$ 75,000,000	\$ 221,999,709

The item of business volume represents the total assets of each bank according to the data disclosed up to 31/12/2019. Safe Bank started its business in 2016. Due to its newness, it

cannot be used to conduct an analysis of the data published during the period 2016-2018. Therefore, this Bank is excluded from the study sample.

Study Variables

This study depends on explaining the role of financial leasing in enhancing the financial performance of Islamic banks in Palestine. Accordingly, the following indicators were adopted in order to measure the variables.

First: the dependent variable represented by financial performance as follows:

Table 8		
DEPENDENT VARIABLE		
Dependent Variable	Indication	Calculation Equation
Rate of return on deposit	DRR	$DRR = \frac{Netprofits}{Averagedeposits}$
Rate of return on equity	ROE	$DRR = \frac{Netprofits}{Shareholders'equity}$
Rate of return on investment	ROI	$DRR = \frac{Netprofits}{Netinvestment}$
Rate of return on available assets	ROA	$DRR = \frac{Netprofits}{Asets}$

Second: The independent variable represented by the financial leasing and symbolised by (FL).

Study Model

The study model was formulated according to (Abad & Al-Khasawneh, 2020) as follows:

- $DRR = \alpha + \beta_1 FL + e$
- $ROE = \alpha + \beta_2 FL + e$
- $ROI = \alpha + \beta_3 FL + e$
- $ROA = \alpha + \beta_4 FL + e$

Where,

e: random error

α : regression coefficient constant

β : slope of the regression equation

STATISTICAL ANALYSIS AND HYPOTHESIS TESTING

Descriptive Analysis

Table 9					
DESCRIPTIVE ANALYSIS OF FINANCIAL LEASING INCOME					
Year	Financial leasing income	Return on deposit	Return on equity	Return on investment	Return on assets
2010	2,74,510	-0.94%	-4.79%	-5.65%	-0.80%

2011	3,38,172	0.32%	1.56%	1.86%	0.23%
2012	2,78,174	0.21%	1.13%	1.36%	0.17%
2013	4,50,373	0.94%	5.62%	7.19%	0.75%
2014	7,38,630	0.97%	6.10%	8.26%	0.74%
2015	11,31,645	1.01%	7.54%	10.40%	0.80%
2016	15,97,326	0.99%	8.24%	12.40%	0.78%
2017	20,76,041	0.81%	5.98%	8.53%	0.62%
2018	21,37,393	0.84%	6.49%	9.47%	0.67%
2019	24,60,705	0.88%	7.73%	10.61%	0.71%
SMA	11,48,297	0.60%	4.56%	6.44%	0.47%
Greatest value	24,60,705	1.01%	8.24%	12.40%	0.80%
Smallest value	2,74,510	-0.94%	-4.79%	-5.65%	-0.80%

It is evident from Table 9 that there is an increase in the rate of return on equity (averaged 4.6%). There is also a balanced rise in the rate of return on investment (averaged 6.4%). In terms of rate of return on deposit, there is a clear fluctuation and instability in its values. These values began to rise from 0.315% in 2011 to reach 0.211% in 2012, and then reached 0.941% in 2013. Similarly, the rate of return on assets showed the same results. Therefore, It can be argued that the financial leasing income is rising as long as the volume of financial leasing assets is rising (and vice versa). A descriptive analysis was also conducted for the financial performance variables (the rate of return on deposits, the rate of return on equity, the rate of return on investment, and the rate of return on assets). The following table shows the arithmetic mean, median and standard deviation, in addition to identifying the highest and lowest value for the study variables.

Variable	Arithmetic mean	Median	Standard deviation	Greatest value	Smallest value
Return on deposit	1.07%	1.00%	0.70%	1.93%	-0.90%
Return on equity	7.74%	7.74%	4.87%	13.69%	-4.80%
Return on investment	10.89%	10.51%	7.22%	21.06%	-5.70%
Return on assets	0.85%	0.79%	0.57%	1.56%	-0.80%

Hypothesis Testing

First Hypothesis H01: There is a statistically significant effect of financial leasing on the rate of return on deposits for Islamic banks in Palestine. As shown in table 11, The Durbin Watson test was performed to check the independence of the remains.

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.293-a	0.08585	0.074	305.437	0.397-
a. Predictors: (Constant), FL					
b. Dependent Variable: DRR					

Since the value of the coefficient is -0.397, which is not between 1.5 and 2.5? This means that the residuals are not independent. Therefore, the simple linear regression cannot be performed. The relationship between the dependent variable (the rate of return on deposits) and the independent variable (financial leasing) equal to 0.397 - a strong inverse relationship. This means that the higher the rate of return on deposits, this leads to a decrease in the size of the financial leasing.

ANOVA^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4614890000	1	3.21146E+13	5.814	0.019b
	Residual	59782100000	96	5.52394E+12		
	Total	64396990000	97			
a. Dependent Variable: DRR						
b. Predictors: (Constant), FL						

From the mono contrast test, it is evident that the significance value of the variable rate of return on deposits is about 0.019. This value is less than 0.05, which means “there is a statistically significant effect at the level of significance ($\alpha = 0.05$) of financial leasing on the rate of return on deposits for Islamic banks in Palestine (see table 12).

Second Hypothesis H02: There is a statistically significant effect of financial leasing on the rate of return on equity of Islamic banks in Palestine.

Model Summary^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.218a	0.0475	0.037	2367330.2	0.396
a. Predictors: (Constant), FL					
b. Dependent Variable: ROE					

The value of the coefficient is -0.396, which is not between 1.5 and 2.5. This means that the residuals are not independent. Therefore, the simple linear regression cannot be performed. The relationship between the dependent variable (the rate of return on ownership) and the independent variable (the financing lease) can be explained as 0.366, which considered as a strong direct relationship. This means that the larger the size of the financial leasing, the more it will lead to an increase in the rate of return on ownership.

ANOVA^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4614890000	1	3.21146E+13	4.355	0.041b
	Residual	59782100000	96	5.52394E+12		
	Total	64396990000	97			
a. Dependent Variable: ROE						
b. Predictors: (Constant), FL						

From the mono contrast test, it is evident that the significance value of the variable is about 0.041. This value is less than 0.05, therefore, there is a statistically significant effect at the level of significance ($\alpha \leq 0.05$) for financial leasing on the rate of return on equity of Islamic banks in Palestine.

Third hypothesis H03: There is a statistically significant effect of financial leasing on the rate of return on investment for Islamic banks in Palestine.

Table 15 DURBIN WATSON EXAMINATION ANALYSIS					
Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.202a	0.041	0.031	2370284.8	0.383
a. Predictors: (Constant), FL					
b. Dependent Variable: ROI					

The value of the coefficient is 0.383, which is not between 1.5 and 2.5. This means that the residuals are not independent. Therefore, the simple linear regression cannot be conducted. The relationship between the dependent variable (the rate of return on investment) and the independent variable (the financial lease) equal to 0.383 and it is a strong direct relationship. This means that the greater the size of the financial leasing, the financial leasing income will increase, this leads to an increase in the rate of return on investment.

Table 16 MONO CONTRAST CHECK						
ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4614890000	1	3.21146E+13	4.105	0.046b
	Residual	59782100000	96	5.52394E+12		
	Total	64396990000	97			
a. Dependent Variable: ROI						
b. Predictors: (Constant), FL						

It is evident from table 16 that the significance value of the financial leasing variable is about 0.046. Since this value is less than 0.05, then there is a statistically significant effect at a level of significance less than 0.05 for the financial leasing variable on the rate of return on investment for Islamic banks in Palestine.

Fourth Hypothesis H04: There is a statistically significant effect of financial leasing on the rate of return on the assets available to Islamic banks in Palestine.

Table 17 DURBIN WATSON EXAMINATION ANALYSIS					
Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.209a	0.0436	0.0391	2361165.9	0.362
a. Predictors: (Constant), FL					
b. Dependent Variable: ROA					

The value of the coefficient is 0.362, which is not between 1.5 and 2.5. This means that the residuals are not independent. Therefore, the simple linear regression cannot be performed. The relationship between the dependent variable (the rate of return on available assets) and the independent variable (the size of the financial lease) which equals to 0.362 and is considered strong direct relationship. To explain this, the larger the size of the financial leasing in Islamic banks, this leads to an increase in financial leasing revenues and thus leads to an increase in the rate of return on available assets.

Table 18						
MONO CONTRAST CHECK						
ANOVAa						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4614890000	1	3.21146E+13	4.879	0.030b
	Residual	59782100000	96	5.52394E+12		
	Total	64396990000	97			
a. Dependent Variable: ROA						
b. Predictors: (Constant), FL						

As shown in table 18, the significance value of the independent variable is about 0.03 which is less than 0.05. Therefore, there is a statistically significant effect at a level of significance less than 0.05 for the variable of financial leasing on the rate of return on the assets available for Islamic banks in Palestine.

Main Hypothesis: There is a statistically significant effect of financial leasing on the profitability of Islamic banks in Palestine.

Table 19	
COEFFICIENT OF DETERMINATION AND REGRESSION	
α	0.022
F model	67.47
Adjusted R	38.7

It is evident from table 19 that the total statistical significance value was equal to 0.022. Since this value is less than the 0.05 test morale level, so it is necessary to accept the alternative hypothesis that states “there is an effect of financial leasing on profitability at the level of morality 0.05 for Islamic banks in Palestine. Whereas, the value of the adjusted coefficient of determination was equal to 38.7. This means that about 38.7% of the factors that affect the profitability of Islamic banks in Palestine are directly related to financial leasing.

DISCUSSION AND CONCLUSION

The results of the statistical analysis showed that the four sub-hypotheses were accepted and that there is an impact of financial leasing on the dependent study variables which are: rate of return on deposits, rate of return on equity, rate of return on investment, rate of return on available assets. Thus, financial leasing is considered one of the important and effective activities in which Islamic banks operate in Palestine along with various financing activities (e.g., Murabaha, ordering to buy, speculation, Istisna). The assets invested through financial leasing activities for Islamic banks in Palestine are also considered among the assets that achieve a higher financial return than the rest of the assets. This happens when

the ratio of financial leasing income to financial leasing assets reached an average of 7.089%. While the ratio of revenue to assets was 4.909% in the Palestinian Islamic Bank, the ratio of finance lease revenue to finance lease assets was on average 5.192%. The ratio of revenue to assets was 3.559% in the Arab Islamic Bank. This proves that finance lease assets achieve high efficiency in the use of assets. Most importantly, the financial leasing provides an excellent guarantee for Islamic banks that they own the asset.

In light of the results that have been reached, Islamic banks in Palestine should be urged to expand the volume of investment in financial leasing assets. The study confirms that Islamic banks in Palestine should establish and promote Islamic financial companies concerned with the activity of financial leasing. It is also vital for Islamic banks in Palestine to achieve diversification in the fields of financial leasing in line with the principles of Islamic Sharia.

In conclusion, Islamic banks should raise awareness and motivate all individuals and institutions in the Palestinian society about the role and importance of financial leasing. Because it achieves benefits for all parties in return for the benefits achieved by Islamic banks. It is also vital to benefit from the experiences of advanced Islamic banks especially Malaysian Islamic banks and Sudanese Islamic banks which are related to financial leasing operations and activities. This assists in improving Islamic products offered through financial leasing activities and developing them in line with international development.

Acknowledgement

Special thanks to Palestine technical university - Kadoorie for their valuable support.

REFERENCES

- Abbad, G.M., & Khasawneh, I.S. (2019). The impact of financial leasing on the profitability of Islamic and commercial banks in Jordan. *The Arab Journal of Management*, 1(39).
- Abu Orabi, M. (2015). The impact of leasing decisions on the financial performance of industrial companies. *Global Journal of Management and Business Research*, 14(2), 25-44.
- Aib.ps. (n.d.). Arab Islamic Bank. Retrieved from <http://aib.ps>.
- Alkhazaleh, A.M.K., & Al-Dwiry, M. (2018). To what extent does financial leasing has impact on the financial performance of Islamic banks: A case study of Jordan. *Academy of Accounting and Financial Studies*, 22(1).
- Al-Saadi, O.M. (2015). The extent of application and success of financial leasing in Libyan banks: a study on the Development Bank. *The Journal of Economic Sciences*, 38(10), Siirt, Libya
- Al-Tarawneh, M.A.R. (2016). The impact of financial leasing on the financial performance of Jordanian Islamic banks. Amman, Jordan: Middle East University.
- Asuquo, A. (2020). Effect of lease financing on corporate performance of deposit money banks in Nigeria (2005-2016). University of Calabar International Conference Centre.
- Awad, A.W. (2013). The effect of using the financial leasing tool of Palestinian Islamic banks on financial indicators: an applied study during the period 2008-2011. *The Arab Journal of Administrative and Economic Studies*, 3, 21-41
- Cut, F., Muhammad, A., & Shabri, M. (2017). The effect of Murabahah, Istishna, Ijarah, Mudharabah and Musyarakah financing on the profitability of Sharia commercial banks in Indonesia. *Journal of Accounting Administration*, 6, 3.
- Dabban, H.K. (2015). The financial leasing contract and its contemporary applications. Gaza, Palestine: The Islamic University.
- Islamicbank.ps. (n.d.). Retrieved from <https://islamicbank.ps/>.
- Khan, M.M.S., Ijaz, F., & Aslam, E. (2014). Determinants of Profitability of Islamic Banking Industry: An Evidence from Pakistan. *Business and Economic Review*, 6(2), 27-46.
- Moubayed, M.M. (2010). Ijarah and Ijarah Muntahia Bittamleek: According to Islamic Accounting Standard No. 8 compared to International Accounting Standard No. 17. Aleppo, Syria: University of Aleppo.
- Nouri, R.S. (2018). Measure the profitability of the company using financial indicators. Al-Qadisiyah University. Iraq: College of Administration and Economics.
- Razia, B., Larkham, P., & Thurairajah, N. (2019). Risk assessment and risk engagement in the construction industry within conflict zones. *Proceedings of the 35th Annual AR- COM Conference: Leeds, UK.*

Retrieved from https://nrl.northumbria.ac.uk/id/eprint/41102/1/RISK_ASSESSMENT_AND_RISK_ENGAGEMENT.pdf.

Razia, B., Thurairajah, N., & Larkham, P. (2017). Understanding delays in construction in conflict zones. International Research Conference: Shaping Tomorrow's Built Environment. Retrieved from https://www.researchgate.net/publication/335661600_Understanding_Delays_in_Construction_in_Conflict_Zones.