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-RESEARCH ARTICLE-

THE ROLE OF SHAREHOLDERS' RETURN AND UNRESTRICTED DEPOSITORS' RETURN ON THE CREDIBILITY OF ISLAMIC BANKS IN JORDAN

Samer Zakarneh

Deanship of Scientific Research at
Zarqa University Jordan
Email: szakarneh@zu.edu.jo

─Abstract─

Banks' credibility is a key issue due to the impact of environmental difficulties on poorer returns, which requires the attention of academics. Thus, the present study investigates the effect of shareholder returns and unlimited depositor returns on the trustworthiness of Islamic banks in Jordan. The study also utilized return on assets, liquidity, and solvency ratio as control variables. From 2001 through 2020, this article compiles secondary data from the financial statements of Islamic banks in Jordan. Methods of Moments-Quantile-Regression (MMQR) were employed to examine the relationship between variables. Results showed that shareholder return, unrestricted depositor return, return on assets, liquidity, and solvency ratio have a positive and significant relationship with the credibility of Islamic banks in Jordan. This article recommends to Islamic banks regulators on adopting rules to enhance the banks' reputation by increasingshareholder and unrestricted depositor returns.

Keywords: Shareholders return, unrestricted depositors return, return on assets, liquidity ratio, solvency ratio, Islamic banks' credibility

1. INTRODUCTION

In recent decades, the Islamic banking system has garnered considerable interest, particularly in the Islamic world. Investors interested in investing in Islamic banks have two primary options: purchasing shares of the Islamic bank to receive dividends (cash and non-cash,i.e., stock dividends) as well as an appreciation of the share price or placing their funds

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in unrestricted investment accounts with the Islamic bank to receive profits that will be distributed for their accounts at the end of the period result for the bank investing these funds. This is because the customer's unrestricted investment accounts have been placed with Islamic banks based on the sharia accepted Mudharabah contract, which does not guarantee any predetermined specific level of return for the owners of these funds and does not even guarantee the principal amount invested. These two investment options are comparable in terms of risks to which the investor may be exposed, but they yield different rates of return. Shareholders are exposed to the risk of share pricefluctuations in the financial market, however, because a rational investor normally seeks an investment opportunity that is expected to provide him with a level of returncommensurate with the level of risk he holds (Massadeh, 2021; Tobin, 2020).

The banking business substantially impacts the allocation of economic resources across nations. The banking system substantially affects the organization of social and economic life cycles in economies around the world. It is an indication of social and economic development. To identify an advanced financial system, a modern, sophisticated financial system that aids in maintaining economic equilibrium must also be present. The banking system's ability to the state also encourages local and foreign investment. The objective of the banking system is to attract local and international savings and to invest these funds profitably.

Consequently, this facilitates the process of economic and social development and facilitates investment activity (Al Qaisi et al., 2020). With the birth of Islamic finance, a new paradigm in the financial industry was developed. TheIslamic banking industry has undergone a dramatic shift in recent years. As a result, therewas an increase in the number of financial transactions utilizing Islamic financing formulas, whether for project finance, personal borrowing, or Islamic bank savings.It has been seen that Islamic bank work with others, especially when offering services for investments with a medium-term horizon. Therefore, Islamic banks can encourage society's citizens to save, but they should instead seek to increase deposits so they can be re-invested in various ways (Mahadin et al., 2019). Figures 1 and 2 depict Jordan Islamic banks' return on investment and equity, respectively.

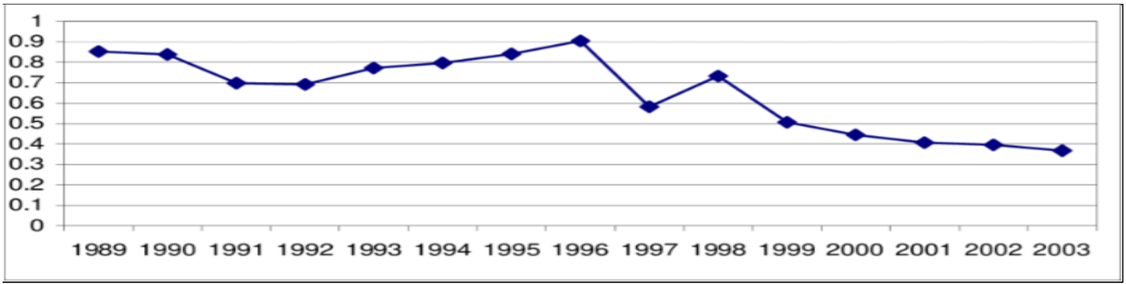

Figure 1: Return on Investment for Jordan Islamic Bank

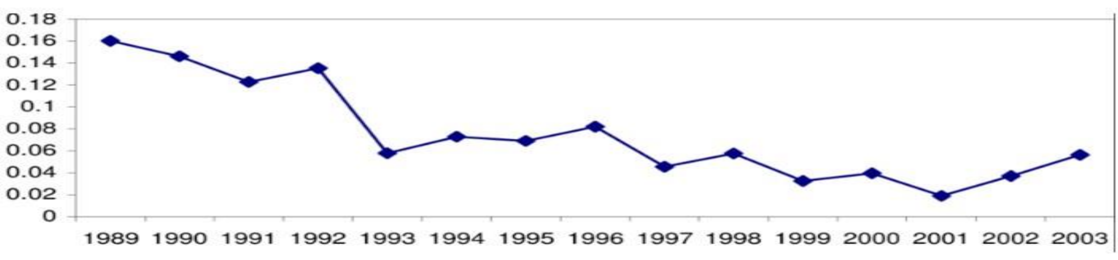

Figure 2: Return on Equity for Jordan Islamic Bank

The past literature gaps that the present study will address are as follows: 1) Islamic banking system is considered to be very important, especially in the Muslim world economy, but it has not yet reached its peak as a number of its aspects remain unexplored; 2) Eti (2020) investigated the effect of Islamic banking on economic development, whereas the present study will investigate the effect of Islamic banking on economic development. The significance of the present study is threefold: 1) the present study will highlight the significance of Islamic Banking, particularly in Jordan; 2) the present study will also assist professionals in upgrading their policies to enhance the Islamic banking system and performance; and 3) even though several Islamic banking aspects have been unearthed to date, there are still many aspects that remain hidden; thus, the present study will also uncover these hidden aspects.

The first chapter will provide a structural introduction to the study, covering the research gap and significance. The second part will present evidence regarding banks' credibility, shareholders' return, unrestricted depositors' return, return on assets, liquidity, and solvency concerning previous research. The collecting of data about banks' credibility, shareholders' return, unrestricted depositors' return, return on assets, liquidity, and solvency will be described in the third chapter of the study. Following this, the data's validity will be evaluated. In the fourth chapter, the data analysis findings will be provided. The study will conclude with a discussion of its conclusion, ramifications, and recommendations.

2. LITERATURE REVIEW

It is widely acknowledged that the banking sector is crucial to a nation's wealth and development. The primary source of profit for the banking sector is client deposits. There are two primary options for investors interested in placing their funds in Islamic banks: buying shares of the bank to receive dividends (both cash and non-cash, or stock dividends), in addition to the increase in share value, or placing their funds in unrestricted investment accounts with the bank to receive profits that the bank will distribute to their accounts at the end of the period as a result of investing these funds. Return on investment is regarded as one of the essential market elements. As the company's investors are the shareholders, the company's investment depends on them. The shareholders are regarded as one of the institution's most important credibility-

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building aspects. The improvement of the company's performance leads to the enhancement of its credibility. Therefore, any aspect that improves the firm's performance will ultimately affect its trustworthiness. It is usual for return and risk to be correlated, and shareholders desire low risk returns to play it safe. In this regard, Li and Vermeulen (2021) examined whether innovation-related risk variables affect the firm's reputation via performance.

According to the investigation's findings, shareholder risk is one of the most influential variables of the firm's success and trustworthiness. Frequently, the return processing strategies result in an improvement of the company's credibility. The return is prepared to entice the shareholder to the company. Therefore, Espinosa, Stock, Ortinau, and Monahan (2021) investigated return processing approaches that affect the firm's trustworthiness via performance. A business with a more innovative processing strategy typically attracts more investors, enhancing its credibility. The stock is a component of the capital structure; hence, it affects the firm's credibility. The stockholders want a company with a solid capital structure.

Moreover, a company with a solid capital structure receives greater market respect. Nelson and Peter (2019) evaluated the effect of capital structure on firm performance. The research was conducted in Nigeria using the 10-year data set from 2009 to 2018. According to the study's findings, the capital structure influences the firm's performance, affecting its trustworthiness.

Typically, there are two sorts of returns in the banking industry—the returns with and without restrictions. The unrestricted returns are the returns received from opened and active bank accounts. Fadhilah and Tohirin (2021) examined the return on the Mudharabah alongside the return on equity in this instance. The Islamic bank study was undertaken in Indonesia. The five-year data collection from 2011 to 2016 was collected and evaluated. The analysis indicated a statistically significant difference between the return on the Mudharabah and the return on equity, with the return on the Mudharabah typically being lower than ROE. Return on assets, total equity/total assets, total deposits/total assets, total financing/total assets, bank size, and the total number of Mudharabah deposit accounts all had an impact on return on Mudharabah variability.

In contrast, excluding Mudharabah deposit accounts, the same variables affected return on equity. As a result of this discovery, Islamic banks in Indonesia must evaluate their governance to identify Mudharabah contracts as a type of equity participation, like a contract with shareholders, to comply with the Islamic economic framework by doing ethical business as there is the risk connected with every investment kind. The same holds for investments in banking. Hkimi and Boulila Taktak (2022) focused on managing investment deposits in Islamic banking in this setting. The research was conducted on 300 Islamic financial institutions in 50 locations. The study indicated that the correct administration of investment deposits in Islamic banking enhances the trustworthiness

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of the financial institution. Customers are more confident in a company's ability the more they are assisted with deposits.

According to all stakeholders, return on assets is one of the most highly regarded aspects of a company's financial structure. Return on assets is the financial ratio that demonstrates how profitable a company's assets are inside the banking system. A company with greater assets typically has lower possibilities of insolvency and greater credibility. Shareholders and investors favor the company with the highest return on investments. Marito and Sjarif (2020) evaluated the effect of various ratios, including current, debt to equity, and return on assets, on stock return. Typically, investors place a great deal of emphasis on this ratio since it serves as their signal of investment in the company. Therefore, they favor the company with the highest return on assets. The research was conducted in Indonesia using the four-year data set from 2012 to 2016. According to the study's findings, a company with a high return on assets typically offers a high stock return on the market. The return on assets ratio also reveals how a company utilizes its assets to generate net income. Profitability is the company's ultimate objective, its shareholders, and its investors. Therefore, a company with a strong return on assets influences the stock returns positively (Jufrizen, 2020). The stock process is the most important component for investors to consider. Typically, investors favor low stock prices, but they also seek out strong profits. In this instance, Hidayat et al. (2020) examined the impact of return on assets and earnings per share on Indonesian stock prices. The research was conducted over two years, from 2015 to 2017. According to the study's findings, a company with high earnings per share and return on assets affects stock prices.

The primary objective of investors is to protect their money. On the other side, the company ensures maximum effort and investment for high profit to be paid to its shareholders, enhancing its market credibility, and attracting future investors. The shareholders assessed the company in many ways to protect their investment in the market. The company with the highest liquidity is proposed. Liquidity influences the firm's value, which in turn influences its credibility. Thus, a company with strong liquidity is credible. Batten and Vo (2019) examined the relationship between liquidity and business credibility as measured by performance. The research was conducted in Vietnam using the eight-year data set from 2008 to 2014. Compared to the firm with low liquidity, the firm with high liquidity in Vietnam demonstrates superior performance. It attracts more investment due to its positive reputation on the market, as liquidity is the firm's arrangement of funds when required.

There are two ways to arrange cash: 1) converting assets to cash and 2) converting debt to equity. The market forces feel that a company that can convert its assets into cash more efficiently has a lower probability of failing. Liquidity is one of the primary contributors to the company's enhanced credibility. In addition, Chia, Lim, and Goh (2020) examined the impact of liquidity on company performance. The research was conducted in Malaysia on a 15-year data collection from 2000 to 2015. The study's findings indicated that investors have a higher confidence level in a company with high liquidity and that such a company performs better on average than one with low liquidity. Liquidity is one of the factors contributing to the enhancement of a company's credibility.

Numerous aspects influence the trustworthiness of banks, but solvency is the most influential. The institutions devote great care and effort to securing their market position and excellent reputation. When making investment decisions, investors assess various criteria, including the firm's performance, credibility, and liquidity. In addition, several financial studies are based on ratio computations, such as debt to equity and return on assets. In this context, Nurwulandari (2020) examined if a firm's solvency influences its reputation via performance. The data for the five years 2015-2019 was collected and evaluated. According to the study's findings, a company's solvency influences its reputation via performance. Solvency refers to a company's ability to meet its short- and long-term financial obligations. Solvency is a key measure of a company's financial health since it demonstrates its ability to manage its operations soon. Therefore, Dahiyat, Weshah, and Aldahiyat (2021) investigated whether the management of liquidity and solvency impacts the firm's performance. The research was performed in Jordan. The 20-year data collection from 2010 to 2019 was collected and evaluated. According to the findings of the study, the liquidity and solvency of an organization have a significant impact on its performance. Thus, there is a relationship between a company's liquidity, solvency, and performance.

Additionally, Arif and Batool (2022) investigated the relationship between liquidity and solvency management and company performance. The research was performed in Pakistan. The five-year data collection from 2016 to 2020 was collected and evaluated. The study indicated that the right management of liquidity and solvency positively impacts a company's performance.

3. RESEARCH METHODS

This study investigates the effect of shareholder return, unrestricted depositor return, return on assets, liquidity ratio, and solvency ratio on the credibility of Jordan's Islamic banks. From 2001 through 2020, this article compiles secondary data from the financial statements of Islamic banks in Jordan. Using the variables listed below, the following equation has been derived for the research:

$$BC_{it} = \alpha_0 + \beta_1 SR_{it} + \beta_2 UDR_{it} + \beta_3 ROA_{it} + \beta_4 LQ_{it} + \beta_5 SV_{it} + e_{it} \quad \textbf{(1)}$$

Where;

BC	=	Banks Credibility
t	=	Time Period

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i	=	Countries
SR	=	Shareholders Return
UDR	=	Unrestricted Depositors Return
ROA	=	Return on Assets
LQ	=	Liquidity
SV	=	Solvency

The study used the banks' credibility as the dependent variable and measured the ratio of new deposits to total deposits. In addition, two predictors were used: shareholders' return measured with {(current price - purchase price) + dividends} ÷ purchase price and unrestricted depositors' return measured with the rate of return on deposits. Finally, the study also used return on assets measured with the ratio of net income to total assets, liquidity measured with the current assets to current liabilities, and solvency ratio measured with (Net income – depreciation) ÷ total liabilities as the control variables. These measurements of the constructs are mentioned in Table 1. The study has applied descriptive statistics to check the complete details of the variables. In addition, the study also applies the correlation matrix to investigate the directional association among variables. Moreover, the study also applies the variance inflation factor (VIF) to investigate the multicollinearity, and the equations are given below:

$$R^2_Y \Longrightarrow Y_{it} = \alpha_0 + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + e_{it} \quad \textbf{(2)}$$

$$j = R^2_Y, R^2_{X1}, R^2_{X2}, R^2_{X3}, R^2_{X4}, R^2_{X5} \quad \textbf{(3)}$$

$$Tolrance = 1 - R^2_j \quad VIF = \frac{1}{Tolerance} \quad \textbf{(4)}$$

Table 1: Measurements of the Constructs

S#	Variables	Measurement	Sources
01	Banks' Credibility	The ratio of new deposits to total deposits.	Financial Statements of Islamic banks
02	Shareholders Return	{(current price - purchase price) + dividends} ÷ purchase price.	Financial Statements of Islamic banks
03	Unrestricted Depositors Return	Rate of return on deposits.	Financial Statements of Islamic banks
04	Return on Assets	The ratio of net income to total assets.	Financial Statements of Islamic banks
05	Liquidity	The ratio of current assets to current liabilities.	Financial Statements of Islamic banks
06	Solvency	(Net income + depreciation) ÷ total liabilities	Financial Statements of Islamic banks

In addition, the study has applied the MMQR technique to examine the association among variables. The researchers have adopted this technique because it is recently

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introduced by Machado Machado et al. (2019) and has the ability of robust outlies. Moreover, this technique also allows conditional heterogeneous covariance effects" of banks' credibility to disturb whole distribution in several panel quantile regression that permits shifting means (Adebayo et al., 2022). Thus, it is a suitable technique that includes nonlinear associations, all together directing endogeneity and heterogeneity (Ike et al., 2020). Hence, the conditional quantile $Qr(r/X)$ for the "locational-scale alternate model" is mentioned below:

$$Y_{it} = \alpha_i + X_{it}\beta + (\delta_i + Z_{it}\lambda)U_{it} \tag{5}$$

Where, $P\{\delta_i + Z_{it}\lambda > 0\} = 1.$ shows the probability. In addition, α, β, λ *and* δ shows the parameters that need to be measured. While α_i, δ_i i $= 1, \ldots . . ,$ n shows a definite fixed effect, and z shows the k-vector. Hence, the components are altered with component 1, which is mentioned below:

$$Zl = Zl\ (X), l = 1, \ldots \ldots, k \tag{6}$$

Where, U_{it} presents orthogonal to X_{it}. Hence, in equation (5), the conditional quantile of Y is mentioned below:

$$Qr(r/X_{it}) \ = (\alpha_i + \delta_i q(r)) + X_{it}\beta + Z_{it}\,\lambda\, q(r) \tag{7}$$

Where, X_{it} shows the independent constructs such as SR, UDR, ROA, LQ, SV and Y_{it} is the dependent variable, such as BC. The heterogeneous effects are allowable for modification across the quantiles of construct Y due to time invariants. Thus, $Q(r)$ is given below:

$$Min_q = \textstyle\sum_t \sum_i pr\,(R_{it} - (\delta_i + \ Z_{it}\,\lambda\,)q) \tag{8}$$

4. RESEARCH FINDINGS

The study uses descriptive statistics to examine all the variables' specifics. The results showed that the average value for BC was 0.232 percent, the average value for SR was 5.018 percent, and the average value for UDR was 3.652 percent. In addition, the results indicated that the average ROA value was 4.873%, the average LQ value was 1.875%, and the average SV value was 17.902%. Table 2 contains these values.

In addition, the correlation matrix is used to explore the direction of the link between variables. Results showed that shareholder return, unconstrained depositor return, return on assets, liquidity, and solvency ratio have a positive and significant relationship with the credibility of Islamic banks in Jordan. Table 3 contains these values.

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Table 2: Descriptive Statistics

Variable	Obs	Mean	Std.Dev	Min	Max
BC	200	0.232	0.056	0.192	0.361
SR	200	5.018	1.012	3.001	8.102
UDR	200	3.652	0.034	2.812	4.772
ROA	200	4.873	1.202	3.203	6.091
LQ	200	1.875	0.644	0.712	2.021
SV	200	17.902	1.102	14.298	19.106

Table 3: Matrix of Correlations

Variables	**BC**	**SR**	**UDR**	**ROA**	**LQ**	**SV**
BC	1.000					
SR	0.541	1.000				
UDR	0.291	0.382	1.000			
ROA	0.663	0.399	0.432	1.000		
LQ	0.549	0.410	0.310	0.544	1.000	
SV	0.654	0.322	0.430	-0.229	0.628	1.000

Moreover, the study also applies the VIF to investigate multicollinearity. The results indicated that the VIF values are lower than five, its reciprocals are higher than 0.20 and no multicollinearity issue. These values are given in Table 4.

Table 4: Variance Inflation Factor

	VIF	**1/VIF**
SR	3.543	0.282
UDR	3.091	0.324
ROA	2.890	0.346
LQ	1.722	0.580
SV	1.102	0.980
Mean VIF	2.469	.

The results of the MMQR demonstrated that shareholder return, unrestricted depositor return, return on assets, liquidity, and solvency ratios have a positive and significant relationship with the credibility of Islamic banks in Jordan. The results also showed that SR has a strong relationship with BC in quantiles 1 to 7, whereas UDR has a significant lineage with BC in quantiles 1 to 8, and ROA has a significant lineage with BC. In addition, the results showed that LQ has a substantial connection with BC in quantiles 1 to 5, 7, and 9 and that SV has a significant linkage with BC in quantiles 1 to 5 and 7 to 8. Table 5 contains these values.

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5. DISCUSSIONS

Results demonstrated a favorable relationship between shareholder return and bank confidence. According to a prior study by Miralles-Quirós, Miralles-Quirós, and Redondo Hernández (2019), if a company distributes a considerable portion of its profits to its shareholders, it demonstrates that it is aware of its responsibilities to its shareholders and is generating bigger profits. This enhances the image of the companies in the eyes of the public. Therefore, shareholder returns are strongly and positively correlated with bank reputation. Also consistent with Azis, Hidayati, and Adhimursandi (2020). This prior study demonstrates that the growth in shareholder returns over a given period indicates the company's enhanced financial performance, ethical business practices, and effective internal rules. Therefore, it enhances the bank'strust with its stakeholders.

The results demonstrated a favorable relationship between unrestricted depositor returns and bank credibility. These results concur with Danisewicz, Lee, and Schaeck's (2022) conclusion that a bank's creditworthiness among clients improves when it discloses to its stakeholders that it can pay a higher return on deposits.These outcomes are also consistentwith McIntyre and Zhang (2020). This prior study demonstrates that a rise in the returns to unrestricted depositors boosts the bank's credibility that it can repay funds to depositors at the end of a specified time or on demand.

Thus, the preceding analysis demonstrates that unrestricted depositor returns have a favorable effect on bank confidence. The results indicated a favorable relationship between return on assets and bank trustworthiness. These outcomes correspond to the research of Adler, Lama, and Medina (2019). According to a recent study, stakeholders have a favorable perception of a bank's creditworthiness if it utilizes its assets more efficiently and generates substantially greater returns. These results are also consistent with Wang, Lin, and Luo's (2019) theory that stakeholders are pleased by banks that enhance efficiency and make greater profits from the same assets and that bank trust improves among stakeholders. The results demonstrated a favorable relationship between liquidity and bank credibility. These results align with the research of Hommes and Lustenhouwer (2019). Their findings indicate that banks' liquidity affects their ability to pay back lenders, return on deposits and shares, and engage in business transactions. The increase in its liquid assets boosts the bank's credibility. These results are also consistent with a previous study by Bertrand, Klein, and Soula (2021), which demonstrates that an increase in banking liquidity enhances the confidence of baking among stakeholders.

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Table 5: Panel Quartile Estimation (MMQR)

Variables	Method of Moments Quantile Regression (MMQR)										
	Location	**Scale**	**Grid of Quartiles**								
			0.10	**0.20**	**0.30**	**0.40**	**0.50**	**0.60**	**0.70**	**0.80**	**0.90**
SR	0.542***	0.643*	0.642**	0.532**	0.433*	0.644**	0.643*	0.433*	0.641*	0.641	0.541
UDR	0.773**	0.225*	0.627**	0.194*	0.107*	0.532***	0.286**	0.227**	0.532**	0.227*	0.211
ROA	0.630***	0.109**	0.827**	0.437**	0.427*	0.432*	0.618*	0.619*	0.722*	0.134**	0.320
LQ	0.662*	0.320**	0.101*	0.293*	0.124**	0.290*	0.346*	0.723	0.192*	0.101	0.430*
SV	0.521*	0.218**	0.622*	0.037**	0.993***	0.388*	0.827*	0.190	0.633*	0.533*	0.419

***, **, and * represent significant level at 1%, 5%, and 10%, respectively

The findings revealed a positive relationship between bank solvency and credibility. These findings concur with Farooq and Mumtaz's (2020) assertion that a bank's trustworthiness improves when it records the timely repayment of obligations to lenders and debenture holders without bothering them. These results are also consistent with a previous study by Arnould, Avignone, Pancaro, and ochowski (2022), which asserts that an increase in the value of assets over the bank's total liability determines the bank's ability to repay its debts, assures stakeholders that these banks will engage in fair dealings. Increasing bank soundness bolsters their reputation.

6. IMPLICATIONS

Banks are financial organizations that play a crucial role in an economy by allowing businesses to manage their finances and business transactions successfully. The current study is of tremendous importance to any economy since it addresses bank credibility, a crucial factor in bank success. The study proposes that bank management formulate policies and conduct business operations to maximize shareholder return and, consequently, bank reputation. The study argues that banks must raise unrestricted depositor returns through good management procedures to enhance their trust. The report advises that banking institutions increase asset returns by modifying their policies and tactics to improve their trustworthiness.

Similarly, the bank must maintain a high solvency percentage to enhance its confidence. This article recommends to Islamic banks regulators on adopting rules to strengthen the banks' reputation by increasing shareholder and unrestricted depositor returns. The study indicates that the banking management must pay attention to liquidity and enhance it over time to sustain the institution's trust.

7. CONCLUSION

This study aims to examine the effects of shareholder and unrestricted depositor returns, return on assets, liquidity, and solvency on bank credibility. The authorssurveyed the credibility of Islamic banks in Jordan and gathered data on shareholder return, unrestricted depositor return, return on assets, liquidity, solvency, and bank reputation. Results indicated that shareholder return, unrestricted depositor return, return on assets, liquidity, and solvency are positively related to a bank's credibility. The results demonstrated that organizations exhibit improved financial performance, ethical business practices, and effective internal regulations when shareholder returns grow. Therefore, it enhances the bank's trust with its stakeholders. The results suggested that when banking institutions disclose their capacity to pay higher returns for deposits, their credibility among stakeholders increases. The findings indicated that stakeholders have a favorableview of their interactions with banks when financial institutions use their assets better and generate much higher returns. Increasing return on assets boosts the credibility of abank. According to the findings, liquidity enables banks to execute contracts and

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transactions effectively. It strengthens the bank's reputation. The banks can repay the debts to lenders and sukuk holders without upsetting them due to their solvency.

8. LIMITATIONS

There are numerous limitations involved with this study. In future works, authors can observe and eliminate these limitations. As credibility drivers, the current research investigates only a few variables, including shareholders' return, unconstrained depositors' return, return on assets, liquidity, and solvency. The investigation of limiting criteria for bank credibility restricts the scope of the inquiry. It is suggested that authors investigate additional elements for a full analysis. In addition, the findings of this study about the relationship between shareholders' return, unconstrained depositors' return, return on assets, liquidity, solvency, and bank credibility are based solely on data from Jordan. Consequently, the study is less generalizable, and the authors must collect data from additional nations.

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