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THE IMPACT OF FINANCIAL RISKS MANAGEMENT ON JORDANIAN COMMERCIAL BANKS PERFORMANCE

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ABSTRACT

Jordanian commercial banks' financial risk management is examined in this study. The study examines how financial risk management influences bank performance using secondary data from the annual financial reports of 13 Jordanian commercial banks listed on the Amman Stock Exchange (ASE) from 2014 to 2023. The main analysis is hypothesis testing utilizing Panel Estimated Generalized Least Squares (EGLS) and E-Views. These measures ensure financial risk indicator-bank performance findings are reliable. This extensive analysis employs E-Views statistical analysis to investigate Jordanian commercial banks' financial performance and how financial risk management (liquidity, credit, and market risk) affects ROA and NIM. These methodologies guarantee indicator-financial performance study accuracy. Managing liquidity risk with net working capital improves ROA. Financial performance is harmed by gearing ratio credit risk. Interest rate-based market risk management reduces ROA. Finally, gearing ratio credit risk boosts NIM finances. The study gives confidence for strategic decisions. Banks can manage risk and mitigate it by understanding potential dangers. Banks can improve risk management, operations, and financial stability by knowing their risks.

KEYWORDS: Financial Risk Management – Bank Performance – Jordanian Commercial Banks – Financial Stability – Profitability.

1. INTRODUCTION

Financial risk management is essential for assessing the long-term sustainability of banks in the context of increasing economic challenges. Jordanian commercial banks face heightened pressure to adopt effective financial risk management practices, encompassing liquidity risk, credit risk, and market risk management, in light of ongoing global and local economic changes (Khawaldeh & Abdullah, 2023). The present financial environment necessitates increased adaptability to emerging risks and proactive strategies to reduce their effects on banks' financial performance (Al-Majali & Al-Hassan, 2023).

Managing financial risks is a critical component of the banking system, significantly affecting the stability and performance of institutions. Following the 2008 global financial crisis, the significance of effective financial risk management has intensified as banks globally have dealt with diverse economic uncertainties (Al-Tamimi & Al-Mazrooei, 2023). Effective risk management, including liquidity, credit, and market risks, is crucial for Jordanian commercial banks to sustain financial stability, improve profitability, and ensure sustainability amid a volatile economic landscape (Shariah & Al-Ma'aitah, 2023).

The performance assessment of the Jordanian banking sector is fundamentally linked to its capacity for effective financial risk management. In a region marked by economic volatility at both regional and global scales, these banks depend on robust risk management practices to safeguard assets, ensure capital adequacy, and promote sustainable growth (Abu Shihab, 2023).

Bank performance is generally assessed using indicators including capital adequacy, profitability, and shareholder equity. Banks implement various strategies and tools to enhance their performance. Key initiatives involve enhancing the Net Interest Margin (NIM) and Return on Assets (ROA), while concurrently addressing or eliminating emerging risks (Pidada et al., 2018).

Bank-related risks are typically categorized into eight primary types: The assessment of commercial banks' performance involved a thorough analysis of credit and market risks, along with a quantitative measurement of their variability. The success of a bank is indicative of its robust capital, profitability, and operational efficiency. Banks utilize various financial instruments to improve their competitiveness and attain success in the market. They continue to encounter various challenges, such as economic and financial crises, rapid advancements in communication technology, and insufficient

oversight of financial and administrative operations (Alkhazali et al., 2021).

Enhancing bank performance requires improvement. Metrics such as net interest margin (NIM) and return on assets (ROA) are key instruments for assessing the financial performance of banks. While reducing or removing potential risks. Return on Assets (ROA) is defined as the ratio of net income to total assets. Net Interest Margin (NIM) represents the difference between interest income generated from loans and other interest-earning assets and the interest paid to depositors and creditors, expressed as a percentage of interest-earning assets (Alkhazali et al., 2021).

2. LITERATURE REVIEW

Financial intermediation theory explains banks' transaction cost and saver-borrower asymmetry reduction. Accepting deposits and lending to businesses and individuals puts banks at credit risk. To retain depositor and investor trust, banks must perform. Risk control deficiencies can limit loan flow, intermediation, and financial system stability (Bhattarai, 2020). A company efficiently uses its resources to achieve strategic and operational goals. Banking organizations must manage financial resources to stay profitable and competitive, making it essential to business evaluation. Rabiou (2023) defines firm performance as the organization's ability to achieve goals cost-effectively employing financial, human, and technology resources. Financial institution performance is monitored by accounting and market metrics. ROE, ROA, and total revenue/profit are examples. Ajufunbaya (2023) states that financial performance analysis measures goals and strategies in dollars, demonstrating operational efficiency and economic strength. Financial performance is assessed by analyzing an organization's income statement and balance sheet. Internal decision-making, financial health evaluation, and industry comparisons benefit from this research. Banking sustainability and competitive advantage depend on financial performance (Hacini, Boulenfad, & Dahou, 2021). Banks have massive financial risk and leverage. Bank-specific measures are used to evaluate their performance. Bank generates net revenue from assets. Profitability depends on asset usage (Al-Abdalat, 2019). Net Interest Margin (NIM) compares interest gained to interest paid to assess bank interest-earning asset management (Puspitasari et al., 2021). Customer satisfaction, service quality, regulatory compliance, and risk management efficiency also affect bank performance. The most objective and accurate

indicator of banking organizational efficiency is financial. Finally, commercial banks must perform successfully to weather market turmoil, satisfy stakeholders, and enhance national economic progress. A measurement of an institution's financial, strategic, and operational health. Financial performance must be examined using several measures that encompass diverse aspects of the bank's operations and risk. Operating efficiency, liquidity, solvency, and profitability. Success depends on core activity profitability. Gross Income, Net Profit Margin, and Return on Assets are popular. These indicators assess the bank's asset and capital earnings. Successful financial management and market competition lead to high profitability. However, declining profitability may suggest inefficiencies, rising costs, or financial risk. Operations efficiency assesses how successfully a bank controls internal procedures and operational expenses relative to revenue. The Cost-to-Income Ratio, which compares operational costs to income, is often used here. An efficient bank converts resources into revenue at a lower ratio. Efficiency helps banks reduce waste, streamline operations, and invest in innovation and customer service for long-term success. Poor liquidity. Banks need liquidity, defined by ratios, to fund new loans, handle withdrawal requests, and comply with laws. Poor liquidity management can damage reputation and violate regulations if immediate financial obligations cannot be satisfied. The Capital Adequacy Ratio assesses financial shock-resistant solvency. High leverage and borrowing increase financial risk, while capital buffers boost resilience during recessions. Regulators monitor solvency. Four interconnected dimensions show bank performance. Good liquidity and solvency are needed to sustain high profitability and income production. Analyzing financial performance across multiple dimensions helps stakeholders make educated decisions and strengthens the banking system, according to Lyimo and Hussein (2022). The costs With an average ROA of 2%, commercial banks in Sub-Saharan Africa (SSA) have outperformed the rest of the globe for two decades (Flamini et al., 2009). governments. Commercial bank success depends on internal and external factors (Al-Tamimi, 2010; Aburime, 2005). Macroeconomic and internal bank aspects are included. Sector- or country-wide external factors affect bank profitability (Ongore & Kusa, 2013). Trust from investors and depositors: Profitability and solvency reassure stakeholders that their money is safe and the bank is well-managed. Growth: increase credit technologies and branches to enhance the economy. Compliance with

international frameworks like Basel III depends on financial success. Capital buffers, risk coverage, and liquidity ratios. (Gautam & Gautam (2021) note that financially strong banks may survive economic downturns. Financial system trust and economic stability increase. Comparing bank financial performance over time shows operational strengths and weaknesses. This tool compares banks' financial performance to industry averages or top competitors. Trend analysis reveals whether banks' finances are improving, stable, or declining. Management can evaluate if previous policies enhanced performance and decide what to do next. Popular benchmarks for comparing institutions, sectors, and countries of different sizes are ROA, ROE, and NIM. Al Zaidanin & Al Zaidanin (2021) found that UAE loan ratios with higher capital outperformed those with lower-quality assets. Authors' data suggest credit risk management and capital strength differentiate banks' performance. Risk management safeguards bank assets, ensures compliance, and stabilizes income. If banks don't manage credit risk, loan defaults diminish income and boost provisioning costs. Lack of liquidity risk management can cause bank runs and cash shortages. Investment income depreciation lowers bank assets if market risk like interest rate swings is not handled. Risk management protects earnings, strategic goals, and institutions. Banking risk management may make operations less precarious even in chaotic and uncertain workplaces. Economic and financial stability improves with lower risk. Controlling unsystematic financial risks including internal inefficiencies and client defaults improves bank performance, according to Ismail & Ahmed (2023). Risk-aware banks can grow, adapt, and benefit all. Risk measures the possibility that an event or action may affect an organization's goals, encompassing both the loss (threat) and the gain (opportunity) of uncertainty. Risk is inherent in banking. Financial organizations only trade, lend, and invest, therefore the money, credit, and investment products they offer consumers are often exposed to economic swings, which increase uncertainty and risk for both borrower and lender. Much of the risk is outside banks' control. Due to their leverage, banks take significant risks. Since banks borrow more than they possess, they are more susceptible to external shocks such interest rate changes, credit defaults, liquidity limitations, and regulatory changes (Al-Husainy & Jadah, 2021). Banks have more liabilities (savings) than other industries, thus they must manage them carefully to avoid a liquidity crisis, which will harm banks' aims and lead depositors to lose faith because they can

withdraw their deposits at any time. Banks today do more than take deposits and lend money. Investment banking, asset management, international trade financing, and technology-driven financial services make banks competitive and non-traditional. This has increased risk exposures, with a single transaction or service involving credit, market, operational, and legal issues (Achimugu et al., 2021). jobs, and increase productivity with timely and sufficient loans (Bhattarai, 2020). Profit-driven commercial banks worry about financial stability and growth. Banks accept deposits, lend, finance, and invest. To deliver these benefits, banks must cover operational costs with interest and other profits. Thus, a commercial bank must efficiently deploy mobilised resources to maintain profitability and stakeholder confidence (Alkhazali et al., 2021). Client loan and advance interest is a bank's principal revenue stream. A bank's profitability depends on its net interest income, which is the difference between its lending and deposit or borrowing revenue. Profitability involves risk management, cost efficiency, and regulatory compliance, not just more money. Failure to generate appropriate returns on deployed resources misallocates financial resources and lowers investor trust, harming a bank's financial health and the economy (Bhattarai, 2020; Al-Ardah & Al-Okdeh, 2022). Through money supply, interest rates, and lending, commercial banks transmit monetary policy. Their adaptability to central bank policy boosts financial system liquidity and macroeconomic stability. Banks facilitate international trade, foreign exchange, and financial inclusion, supporting national development goals (Al Dabbas, 2023). CSP financial metrics present challenges: Multiple Investment Options: CSP investors confront trade-offs. Pollution management may require sacrificing energy saving or philanthropy. These projects need clear financial criteria to make educated judgments. Without reliable measures, these investments are challenging to prioritize. Assessing CSP Initiative Financial Returns: Stakeholders may evaluate CSP investments for clear financial returns. Programmes can be affected by public opinion, economic cycles, and leadership without financial evidence (Epstein & Roy, 2001).

3. METHODOLOGY

This systematic study uses the same variables to analyze how financial risk management indicators affect Jordanian commercial banks. An acceptable research technique examines liquidity, credit, market, and financial performance using ROA and

NIM. The quantitative design measures independent dependent and control variables and tests the main and sub hypotheses using Jordanian commercial banks' 2014–2023 annual reports' numerical financial data. All Jordanian traditional commercial banks can study how liquidity credit and market risks affect financial performance due to their role in the banking system and similar regulatory and financial settings. The 10-year study samples only companies with complete financial data to assure data reliability and eliminate gaps. Audited bank financial statements, Central Bank of Jordan publications, and bank websites give data. These reports include precise net income, total assets, interest income, interest expense, current assets, current liabilities, equity, and debt data for ROA NIM Net Working Capital Gearing Ratio and Interest Rate computations. Secondary data ensures objectivity and helps the study analyze bank performance across economic situations like inflation and market volatility, improving analysis over time. The study model evaluates financial performance using ROA and NIM, while liquidity, credit, and market risk are independent factors. The inflation-controlled approach separates financial risk management from macroeconomic fluctuations and accurately represents risk indicators and financial performance. The hypothetical model comprises two main hypotheses and several sub hypotheses on how financial risk indicators affect performance measurements, per the study questions. ROA and NIM may not be affected by NWC, GR, IR, liquidity, credit, or market risk management. Panel data from various banks over multiple years is needed to evaluate these predictions for financial performance and risk exposure changes over time and institutions. Bank stability and profitability improve with financial risk management? Studies quantify variable interactions' relevance and amplitude using statistics. To measure financial performance using conventional operational criteria, ROA is Net Income divided by Total Assets and NIM is Interest Income minus Interest Expense divided by Total Assets. Current Assets minus Current Liabilities—Net Working Capital—measures a bank's short-term obligations and liquidity risk. Credit risk management uses Gearing Ratio—Total Debt/Total Equity—to assess leverage and default risk. Market risk management focuses on interest rate swings since they affect banks' revenue and asset value, especially in volatile economies. Using inflation as a control variable enables you assess economic performance because it influences fund costs and consumer borrowing. The study is limited to Jordan

for ten years, but it is enough time to record various economic stability and instability phases and assess financial risks and bank performance. Islamic banks are omitted for methodological coherence and comparison due to diverse financial systems. To help Jordanian policymakers and stakeholders make decisions about financial stability and sustainable

development, this methodology provides a comprehensive and structured assessment of how liquidity credit and market risks affect commercial banks' financial performance and empirical evidence.

4. RESULTS

Table (1): Descriptive Analysis Results.

Variable	Mean	Maximum	Minimum	Std. Dev.	Observations
ROA	0.010172	0.020466	-0.002	0.004794	130
NIM	1.351499	3.367844	0.837717	0.391648	130
NWC	219776413.023	1169249313	-172743465	252752486.435	130
GR	6.905735	12.32484	0.629324	1.854180	130
IR	1.62E-11	1.35E-10	3.49E-13	3.97E-11	130
IFR	0.000444	0.001092	9.00E-06	0.000377	130

Where: ROA (Return on Assets) serves as a dependent variable representing financial performance, and NIM (Net Interest Margin) is also used as a measure of performance represents a dependent variable, NWC: Net working capital Indicator to measure liquidity risk represents an independent variable, GR: Gearing ratio to measure credit risk represents an independent variable, IR: Interest Rate to measure market risk represents an independent variable, IFR: Inflation Rate represents

an control variable.

Table (1) shows the results of the descriptive analysis of the study variables, which aimed to measure the impact of financial risk management on the performance of Jordanian commercial banks. Arithmetic means and standard deviations were calculated, in addition to the highest and lowest values for each variable, providing an initial understanding of the characteristics of the data and its distribution during the study period (2014–2023).

Table (2): Results of The Normal Distribution Test for The Study Data

Variable	Jarque-Bera	Probability
ROA	4.0406	0.132609
NIM	1.9333	0.096226
LOGNWC	3.9025	0.117985
GR	2.0372	0.361087
IR	5.0729	0.161087
IFR	1.7139	0.072638

Where: ROA (Return on Assets) and NIM (Net Interest Margin) are both considered dependent variables, LOGNWC: Natural Logarithm of Net working capital Indicator to measure liquidity risk represents an independent variable, GR: Gearing ratio to measure credit risk represents an independent variable, IR: Interest Rate to measure market risk represents an independent variable, IFR: Inflation Rate represents a control variable.

Table (2) shows the results of the Jarque-Bera test,

which was used to assess the extent to which the study variables conform to a normal distribution. This statistical test is one of the basic tools in standard analysis to ensure the validity of the data used in analytical models. This test relies on measuring kurtosis and skewness from the normal distribution and is used to determine whether the data for variables follow a normal distribution based on the associated probability value.

Table (3): Unit Root Test Results for Study Variables in Jordanian Industrial Companies.

Variable	T-Statistic	Prob	Result
ROA	-2.83062	0.0023	Stationary at Level
NIM	-1.98426	0.0418	Stationary at Level
LOGNWC	-2.12146	0.0036	Stationary at Level
GR	-2.33791	0.0097	Stationary at Level
IR	-2.20171	0.0138	Stationary at Level
IFR	-7.70630	0.0000	Stationary at Level

Where: ROA: Return on Assets (ROA) and Net

Interest Margin (NIM) are both treated as dependent

variables, serving as key indicators of financial performance in the study, LOGNWC: Natural Logarithm of Net working capital Indicator to measure liquidity risk represents an independent variable, GR: Gearing ratio to measure credit risk represents an independent variable, IR: Interest Rate to measure market risk represents an independent variable, IFR: Inflation Rate represents an control variable.

Table (3) presents the outcomes of the unit root test conducted for the study variables using the Im, Pesaran, and Shin W-stat test, which is a common method for analyzing the stability of panel data. Negative statistical values for all variables, along with a p-value for each of them below the significance

level (0.05), indicate that the null hypothesis of a unit root is rejected. For example, ROA recorded a p-value of 0.0023, and GR recorded a p-value of 0.0097, indicating that they are stationary at the level.

Recent studies indicate the importance of ensuring that economic models are free of multicollinearity problems, as this has a direct impact on the accuracy of the analysis and the effectiveness of the recommendations derived (Baltagi & Kao, 2022).

In light of this, these tests were applied to the study variables that aim to analyze the determinants of foreign direct investment flow in Jordan. Table (4) below displays the results:

Table (4): Linear Correlation of Study Models.

Variable		Multicollinearity
		VIF
Model (Financial Risks Management)	LOGNWC	1.001139
	GR	1.007336
	IR	3.612249
	IFR	1.230325

Where: LOGNWC: Natural Logarithm of Net working capital Indicator to measure liquidity risk represents an independent variable, GR: Gearing ratio to measure credit risk represents an independent variable, IR: Interest Rate to measure market risk represents an independent variable, IFR: Inflation Rate represents a control variable.

Therefore, to support the previous results and ensure that there is no high correlation between the variables in the first model, which focuses on financial risk management, Correlation Matrix analysis was used, which accurately shows the nature of the relationship between each pair of independent variables, as shown in the following table:

Table (5): Table Presents the Correlation Matrix Outlining the Relationships Among the Study Variables in The First Model.

Correlation t-Statistic Probability	ROA	NIM	LOGNWC	GR	IR	IFR
ROA	1.000000					

NIM	-0.537972	1.000000				
	-6.932542	-----				
	0.0000	-----				
LOGNWC	0.222369	-0.108704	1.000000			
	2.477579	-1.187871	-----			
	0.0146	0.2373	-----			
GR	-0.441449	0.548055	0.031216	1.000000		
	-5.344294	7.117528	0.339260	-----		
	0.0000	0.0000	0.7350	-----		
IR	-0.405838	0.030396	-0.005739	0.040308	1.000000	
	-4.823630	0.330336	-0.062347	0.438211	-----	
	0.0000	0.7417	0.9504	0.6620	-----	
IFR	0.250014	0.103485	-0.006486	0.011028	-0.391234	1.000000

	2.804924	1.130199	-0.070461	0.119807	-4.617982	----
	0.0059	0.2607	0.9439	0.9048	0.0000	----

Where: ROA (Return on Assets) and NIM (Net Interest Margin) both serve as dependent variables, reflecting different aspects of financial performance.", LOGNWC: Natural Logarithm of Net working capital Indicator to measure liquidity risk represents an independent variable, GR: Gearing ratio to measure credit risk represents an independent variable, IR: Interest Rate to measure market risk represents an independent variable, IFR: Inflation Rate represents a control variable.

The results of the correlation matrix in Table (5) show a number of important relationships between the dependent, independent and control variables.

The first study model was designed to examine the impact of financial risk management measured by (The natural logarithm of the Net Working Capital (NWC) indicator to measure liquidity risk (LOGNWC), Gearing ratio to measure credit risk (GR), Interest Rate to measure market risk (IR), Inflation Rate represents a control variable (IFR), with regard to financial performance, as indicated by ROA.

In Jordanian commercial banks. Table (6) below shows the results of testing the first main hypothesis and its sub-hypotheses:

Table (6): Results of Testing the First Main Hypothesis and Sub-Hypotheses.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGNWC	0.002115	0.000636	3.326606	0.0012
GR	-0.001192	0.000197	-6.039319	0.0000
IR	-0.651550	16040287	-4.061965	0.0001
IFR	1.916669	0.980420	1.954946	0.0530
C	0.000445	0.005373	0.082885	0.9341
R-squared	0.430902	Mean dependent var		0.010583
Adjusted R-squared	0.405941	S.D. dependent var		0.004739
S.E. of regression	0.003653	Akaike info criterion		-8.337991
Sum squared resid	0.001521	Schwarz criterion		-8.198616
Log likelihood	506.2794	Hannan-Quinn criter.		-8.281390
F-statistic	17.26337	Durbin-Watson stat		1.029746
Prob(F-statistic)	0.000000			

Where: ROA: Return on Assets represents a dependent variable, LOGNWC: Natural Logarithm of Net working capital Indicator to measure liquidity risk represents an independent variable, GR: Gearing ratio to measure credit risk represents an

independent variable, IR: Interest Rate to measure market risk represents an independent variable, IFR: Inflation Rate represents a control variable.

Table (7) below shows the results of testing the second main hypothesis and its sub-hypotheses:

Table (4.7): Results of Testing the Second Main Hypothesis and Sub-Hypotheses.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGNWC	-0.053642	0.032939	-1.628539	0.1062
GR	0.072497	0.010224	7.090652	0.0000
IR	7.51E+08	8.31E+08	0.903631	0.3681
IFR	63.68807	50.80401	1.253603	0.2126
C	1.197690	0.278435	4.301507	0.0000
R-squared	0.330471	Mean dependent var		1.266346
Adjusted R-squared	0.301105	S.D. dependent var		0.226409
S.E. of regression	0.189278	Akaike info criterion		-0.442492
Sum squared resid	4.084186	Schwarz criterion		-0.303118
Log likelihood	32.54954	Hannan-Quinn criter.		-0.385892
F-statistic	11.25377	Durbin-Watson stat		0.793174
Prob(F-statistic)	0.000000			

Where: NIM: Net Interest Margin represents a dependent variable, LOGNWC: Natural Logarithm of Net working capital Indicator to measure liquidity risk represents an independent variable, GR: Gearing ratio to measure credit risk represents an independent variable, IR: Interest Rate to measure

market risk represents an independent variable, IFR: Inflation Rate represents a control variable.

As shown in Table (7), the F-statistic is 11.25377 with a corresponding p-value of 0.000000, which is below the 5% significance level. This result confirms that the overall model is statistically significant. It

indicates that the set of independent variables has a meaningful impact on the financial performance of Jordanian commercial banks, as measured by Net Interest Margin (NIM).

Consequently, the main null hypothesis is rejected in favor of the following alternative hypothesis:

5. CONCLUSION

This study seeks to examine the impact of financial risk management on the performance of Jordanian commercial banks. The hypotheses were evaluated using both descriptive and analytical methodologies. The variables were measured using data obtained from the Amman Stock Exchange for the period from 2014 to 2023.

The research revealed that liquidity risk management, quantified by Net Working Capital, positively influences financial performance, as evidenced by Return on Assets (ROA). Conversely, credit risk, as shown by the Gearing Ratio, adversely affected financial performance, as assessed by ROA.

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Furthermore, market risk management, as assessed by interest rates, adversely affects financial performance as indicated by ROA. Ultimately, there exists a beneficial effect of credit risk, as indicated by the gearing ratio, on financial performance, as assessed by net interest margin (NIM).

The study would be beneficial to various stakeholders, particularly managers, by aiding in the enhancement of risk techniques that facilitate capital planning and inform decisions aimed at improving financial performance. Additionally, investors will find it beneficial for assessing the sustainability of their investments and providing an overview of a bank's performance regarding risk. Moreover, risk management specialists will find it beneficial to offer evidence-based solutions to improve risk models and include current risk trends. Ultimately, other researchers will find it beneficial, as they are prompted to undertake additional investigations for future advancement and comparative assessment.

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