“The effect of credit risk on the cash dividend policy of banks listed on the Palestine Stock Exchange”

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THE EFFECT OF CREDIT RISK ON THE CASH DIVIDEND POLICY OF BANKS LISTED ON THE PALESTINE STOCK EXCHANGE

Abstract

This study aims to examine the impact of credit risk on the cash dividend policies of banks listed on the Palestine Stock Exchange from 2015 to 2021. Credit risk is measured using the ratio of non-performing loans to total loans and the ratio of total loans to total assets as key indicators. The study also explores the effect of other factors, such as return on assets, return on equity, profit margin, bank size, and bank age, as additional determinants of dividend policies. OLS with multiple regression analysis was used to evaluate the relationship between the independent variables and the dependent variable. The results showed no statistically significant effect of credit risk on dividend distributions, indicating that financial performance indicators play a more crucial role in dividend decisions. A weak positive relationship between credit risk ratios and dividend distributions was observed, but it was not statistically significant, suggesting that credit risk is not a fundamental determinant of dividend policies. These findings align with signaling theory, suggesting that dividends in the Palestinian banking sector do not clearly reflect credit risk due to market inefficiencies. The study highlights the importance of financial indicators in determining dividend policies, the stability of dividend distributions in older banks, and the need for strong regulatory frameworks, while recommending further research on other determinants such as ownership structure and digital transformation.

Keywords risk, credit, dividend policy, banks

JEL Classification D81, G32, G35, G21

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INTRODUCTION

The financial sector is a fundamental pillar of economic stability and growth, with banks playing a central role in supporting economic activities through credit facilities, which serve as their primary source of revenue. However, as banks engage in lending activities, they face significant challenges, most notably credit risk, which arises when borrowers fail to meet their financial obligations. Credit risk directly impacts a bank's profitability, liquidity, and risk management strategies, particularly in emerging markets like Palestine, where economic and political uncertainties add layers of complexity to financial decision-making.

In this context, the cash dividend distribution policy is one of the most critical financial and strategic decisions made by banks, as it affects the balance between shareholder interests and the institution's financial sustainability. This policy serves as an indicator of a bank's stability and strategic priorities, yet it is heavily influenced by risks, particularly credit risk, which can impose constraints on a bank's ability to distribute dividends or require it to retain earnings to mitigate financial challenges. Despite the significance of this issue, the impact of credit risk management on the cash dividend distribution policy of banks listed on the Palestine Stock Exchange remains an underexplored area, highlighting a research gap that warrants in-depth investigation.

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Accordingly, this study aims to explore the relationship between credit risk management and cash dividend distribution policies by analyzing the effect of non-performing loans and the size of credit facilities on dividend-related decisions in Palestinian banks. Understanding this relationship is essential not only for enhancing decision-making processes among executive management and boards of directors but also for developing more effective financial policies that strike a balance between generating returns for shareholders and maintaining financial stability in an environment fraught with risks and challenges.

1. LITERATURE REVIEW AND HYPOTHESES

The banking sector plays a crucial role in driving economic development by mobilizing funds from depositors and channeling them into investment projects to finance various activities (Awwad, 2022). This function supports the growth of economic and investment activity within the country. When banks adopt a flexible policy in granting credit, it accelerates the pace of investment (Razia et al., 2023). The income generated from interest on granted facilities is the primary source of bank revenue and profit. The term "bad debt" refers to amounts owed to a business that are unlikely to be collected, often due to a customer's inability to pay. Bad debt is recognized as an expense in accounting, impacting the net income of an organization (Awwad & Alkabaji, 2021). The Basel Committee (2000) defines credit risk as "the loss of the facilities granted, either partially or entirely, due to customer default." Credit risk is recognized as one of the key factors influencing a bank's financial performance (Soliman & Obi, 2017; Awwad & Razia, 2022).

Dividend distribution policy is the management decision that determines how much of a company's profits will be distributed to shareholders and how much will be retained for future reinvestment (Awwad & Salem, 2019). This policy involves deciding whether to reinvest the profits into new projects and activities to increase the company's market value or to distribute them to shareholders through various methods, such as cash dividends or issuing free shares to boost the company's paid-up capital (Hafsi, 2016).

The topic of dividend distribution policy remains a subject of debate in financial and banking sciences. Some researchers believe there is a positive relationship between cash dividend distribution and the company's market value, while others find a negative correlation (Awad, 2015). Companies adopt various dividend distribution policies: some follow a fixed policy by distributing a set percentage of annual net profits, while others may retain profits within the retained earnings account or distribute a high percentage of profits (Salem & Awwad, 2019). Some companies choose to distribute dividends at a lower percentage and invest the remaining profits, which can positively impact shareholder wealth by increasing the market value of the shares (Kimunduu et al., 2017; Awwad & AlKabaji, 2014).

Many studies have directly investigated the relationship between credit risk and dividend policy, particularly within the banking sector. For example, Al-Najjar and Kilincarslan (2016) investigated dividend policies in emerging markets, revealing that firm-specific factors such as profitability, firm size, and leverage are more influential in determining dividend decisions compared to risk-related metrics. Similarly, Zameer et al. (2013) examined the impact of corporate financial performance and credit risk on dividend policies within Pakistani banks. Their results indicated that non-performing loans (NPLs) negatively influence dividend payouts, but only when NPL ratios become unsustainable.

Gill et al. (2010) provided further evidence on the determinants of dividend payouts in U.S. firms. They concluded that financial performance metrics such as return on equity (ROE) and profitability are significant predictors of dividend decisions, whereas credit risk proxies, including the ratio of total loans to total assets, showed no significant impact. Moreover, Kumar (2016) highlighted the role of corporate governance and financial stability in shaping dividend decisions in developing markets. His findings underscore that credit risk factors are indirectly significant only through their influence on a firm's financial stability. Taha (2013) examined the role of commercial banks in

managing credit risks associated with loan issuance. The study revealed that banks mitigate credit risks by diversifying their loans and facilities based on various criteria, such as loan size, type of activity, and borrower characteristics. This approach helps reduce expected credit risks while aiming to protect assets and increase profitability.

Hajj Ahmed and Al-Hunaiti (2018) investigated the impact of financial risks on dividend policy within Islamic banks in Jordan, Palestine, Qatar, and Bahrain. The research focused on eleven Islamic banks adhering to the standards set by the Accounting and Auditing Organization for Islamic Financial Institutions. Key variables included liquidity risk, credit risk, and capital risk, with dividend policy as the dependent variable, measured by the ratio of dividends to net profits. The findings revealed a negative correlation between financial risk levels (liquidity, credit, and capital risks) and cash dividend policies, suggesting that increased financial risks lead to reduced dividend payouts. Similarly, Ahmad and Muqaddas (2016) also found a negative relationship between credit risk and cash dividend distribution. Their study indicated that higher credit risk results in lower cash dividends for shareholders and investors.

Athari (2021) extended this analysis to banks in emerging markets, examining various risks, including financial, commercial, credit, and default risks at the bank level, as well as financial, economic, and political risks at the state level. The study, covering the period from 2007 to 2016, concluded that increased economic difficulties led banks to lower dividend payouts. This negative relationship between risk levels, especially credit risk, and dividend distribution was consistent, with global economic conditions, including the impact of the COVID-19 pandemic, further exacerbating the reduction in dividends.

In contrast, Sogomi et al. (2024) explored commercial banks listed in Nairobi from 2006 to 2015. They found a negative relationship between the ratio of non-performing loans and the cash dividend distribution policy. However, they observed a positive relationship between loan loss provisions and dividend distribution. Additionally, the size of the bank's assets was found to mediate the relationship between credit risk and dividend distribution.

The study by Senakosava (2015) examined the relationship between various types of bank risks (market, credit, operational, and liquidity risks) and dividend distribution. It found no statistically significant relationship between dividends and liquidity, credit, or market risks. However, there was a significant negative relationship between operational risks and dividend distribution policy, indicating that higher operational risks lead to reduced dividends. This aligns with Onali's (2014) study, which confirmed that high risk often leads to lower dividend payout ratios in banks, but general guarantees could create a positive relationship between dividends and risk.

While Kanas (2013) explored the relationship between dividend payout policy and banking risks in the United States from 1984 to 2011, the study, considering regulatory changes and transformations, found a negative relationship between the risks banks face, especially credit risks, and their cash dividend distribution policy.

More recent empirical evidence enhances the understanding of the credit risk–dividend dynamics in the banking sector. Rawal and Gopalkrishnan (2024) found that financial distress negatively affects dividend payouts in Indian banks, with the debt-to-equity ratio playing a moderating role. Bi and Bao (2024) illustrated how AI-driven credit risk management tools more accurately predict and mitigate non-performing loans. Acharya and Steffen (2020) explored the trade-offs of dividend restrictions during crises, highlighting their stabilizing effect on bank capital. Moreover, a 2023 ECB report revealed that limiting dividend distributions during the COVID-19 pandemic boosted lending without increasing credit risk, especially for SMEs in emerging economies.

Lastly, Al-Youssef (2016) studied the impact of credit risks, including non-performing debts and provisions for credit losses, on the stock prices of banks listed on the Damascus Stock Exchange. The study concluded that there was no statistically significant impact of credit risk ratios on the dividend distribution policy of these banks.

This study relied on the signaling theory to explain the relationship between the variables. Signaling theory suggests that companies use dividend dis-

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tributions as a way to signal their financial health to the market. According to Bhattacharya (1979), when a company increases its dividend payouts, it sends a positive signal to investors that the management is confident about the company's future earnings and cash flow. This theory assumes that there is information asymmetry between managers and shareholders, with managers having more information about the company's prospects. As explained by Miller and Rock (1985), dividends serve as a tool to bridge this gap and reduce uncertainty. For instance, in the context of the Palestine Stock Exchange (PEX), banks might use dividends to signal stability to investors despite high credit risk or uncertain market conditions. Investors may interpret higher dividends as a sign that the bank's credit risk is well-managed.

The theoretical framework of signaling theory is also supported by Farinha (2003), who argued that dividends often signal financial health rather than credit risk. However, Sinha and Kumar (2024) highlighted that in emerging markets, market inefficiencies limit the ability of dividends to effectively signal underlying risks.

Accordingly, this study aims to test the effect of credit risk on the cash dividend policy of banks listed on the Palestine Stock Exchange, and based on the results of previous literature and in support of signaling theory, the hypotheses of the current study can be formulated as follows:

H01: There is no statistically significant effect of credit risk management on the cash dividend distribution policy in banks listed on the Palestine Stock Exchange.

The following sub-hypotheses are derived from this main hypothesis:

H01-1: There is no statistically significant effect of the ratio of non-performing loans to total loans on the cash dividend distribution policy in banks listed on the Palestine Stock Exchange.

H01-2: There is no statistically significant effect of the ratio of total loans to total assets on the cash dividend distribution policy in banks listed on the Palestine Stock Exchange.

H02: There is no statistically significant effect of credit risk management with the Control variables (ROA, ROE, profit margin ratio, Bank age, and Bank size) on the cash dividend distribution policy in banks listed on the Palestine Stock Exchange.

2. METHOD

The study focused on all banks listed on the Palestine Stock Exchange, totaling seven institutions: three Islamic banks (Palestine Islamic Bank, Arab Islamic Bank, and Al-Safa Bank) and four conventional banks (Bank of Palestine, Palestine Investment Bank, National Bank, and Al-Quds Bank). Note that Al-Safa Bank was excluded from the sample due to a lack of comprehensive data for all years, as it was established in 2016. The banking sector was chosen for its significant role in economic development in Palestine and its strong connection with various economic sectors through the provision of essential financing for projects. The study covered the period from 2015 to 2021. The study period ends in 2021 to avoid the potential bias in financial reporting and dividend policies caused by the exceptional conditions of the COVID-19 pandemic and the unstable political environment in Palestine.

To measure the variables, a set of different indicators was used.

Regarding the dependent variable, the cash dividend policy was measured by the dividend per share.

For the independent variables, the ratio of loans to total assets and the ratio of non-performing loans to total loans were used.

As for the control variables, Return on Assets (ROA) was calculated by dividing net income for the period by total assets, and Return on Equity (ROE) was calculated by dividing net income after tax by equity. Additionally, administrative efficiency (profit margin ratio) was calculated by dividing net income after tax by total assets. Bank size was measured by the natural logarithm of total assets at the end of the year, while bank age was calculated as the difference between the current period and the date of incorporation.

The values for the study variables were obtained from the annual reports of the banks listed on the Palestine Stock Exchange. Secondary reports were selected as the data source because annual reports are official documents issued by banks to detail their financial position, activities, plans, and key decisions.

Additionally, the study utilized the descriptive method, drawing on studies, research, and master's theses related to the topic of the current research.

3. RESULTS

Reviewing the results of Table 1, the following statistics appear. The study variables were analyzed, and the following descriptive statistics were obtained: the mean dividend per share is 0.0403, with a standard deviation of 0.039, a minimum value of 0.00, and a maximum value of 0.135. The ratio of non-performing loans to total loans has a mean of 0.035, a standard deviation of 0.023, a minimum value of 0.002, and a maximum value of 0.113. The ratio of loans to total assets has a mean of 0.543, a standard deviation of 0.097, a minimum value of 0.054, and a maximum value of 0.667. The return on assets has a mean of 0.0430, a standard deviation of 0.0082, a minimum value of 0.023, and a maximum value of 0.061. Return on equity has a mean of 0.0813, a standard deviation of 0.043, a minimum value of 0.009, and a maximum value of 0.203. The profit margin has a mean of 0.009, a standard deviation of 0.004, a minimum value of –0.004, and a maximum value of 0.020. Bank size has a mean of 9.213, a standard deviation of 0.372, a minimum value of 8.634, and a maximum value of 9.852. Lastly, bank age has a mean of 51.83, a standard deviation of 23.408, a minimum value of 19, and a maximum value of 99.

Pearson's correlation coefficients for the study variables were calculated and are presented in Table 2. This coefficient measures the strength and direction of the relationships between variables, with values ranging from +1 to –1. The correlation coefficient between Dividend per Share and the Ratio of Non-Performing Loans to Total Loans was found to be 0.093. In contrast, the correlation coefficient between Dividend per Share and the Ratio of Loans to Total Assets was 0.138. Additionally, there was a Positive relationship between the Ratio of Non-Performing Loans to Total Loans and the Ratio of Loans to Total Assets, with a coefficient of 0.176.

The results of the correlation analysis for the control variables show that the relationship between (Return on Assets, Return on Equity, Profit Margin) and Dividend per Share is positive and statistically significant (.133*, .295*, .137*). Meanwhile, the relationship between (Return on Assets, Return on Equity, Profit Margin) and Non-performing Loans to Total Loans, Loans to Total Assets is negative and statistically significant (–.031*, –.171*, –.207*).

Moreover, Table 2 shows that the relationship between (Bank Size, Bank Age) and Dividend per Share is positive but not statistically significant (.235, .190). However, it is positive and statistically significant with Loans to Total Assets, with values of .073* and .507**, respectively. On the other hand, it is negative and statistically significant with Non-performing Loans to Total Loans, with values of –.275* and –.411**.

Table 2 displays the Pearson correlation matrix, illustrating the relationships between the independent variables and the dependent variable.

Table 1. Descriptive analysis of study data

Variables	Mean	Std. Deviation	Minimum	Maximum
Dividend per share	0.042	0.039	0.000	0.135
Non-performing loans to total loans	0.034	0.023	0.002	0.113
Loans to total assets	0.543	0.097	0.054	0.667
Return on assets	0.043	0.008	0.023	0.061
Return on equity	0.081	0.043	0.009	0.203
Profit margin	0.009	0.004	–0.004	0.020
Bank size	9.213	0.372	8.634	9.852
Bank age	51.83	23.408	19	99

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Table 2. Correlation matrix of study variables

Variables	Dividend per share	Non-performing loans to total loans	Loans to total assets	Return on assets	Return on equity	Profit margin	Bank size	Bank age
Dividend per share	1	.390	.381	.133*	.137*	.295*	.235	.190
Non-performing loans to total loans	.390	1	.176	–.031*	–.171*	–.207*	–.275*	–.411**
Loans to total assets	.381	.176	1	499.–**	.042	.166	.073*	.507**
Return on assets	.133*	–.031*	499.–**	1	–.176	.455**	–.107	.596**
Return on equity	.137*	–.171*	.042	–.176	1	.273*	.414**	–.209
Profit margin	.295*	–.207*	.166	.455**	.273*	1	.757**	.239
Bank size	.235	–.275*	.073*	–.107	.414**	.757**	1	.454**
Bank age	.190	–.411**	.507**	.596**	–.209	.239	.454**	1

The researchers applied the Kaiser-Meyer-Olkin (KMO) test to assess the adequacy of the sample. The sample is considered adequate if the KMO value falls between 0.50 and 1. According to Table 3, the KMO value is 0.63, which is within this range, indicating that the sample size is sufficient.

The Kolmogorov-Smirnov test was used to determine if the data follow a normal distribution. According to this test, if the significance value exceeds the threshold of 0.05, it indicates that the data are normally distributed. Table 4 shows that the significance values for all variables are above 0.05, confirming that they follow a normal distribution.

The Durbin-Watson (DW) test is utilized to identify autocorrelation. A DW value that falls between the minimum and maximum critical values of the test suggests that there is no conclusive evidence of autocorrelation. According to Table 5, the DW test value is 2.176, indicating no significant autocorrelation between the variables.

Table 3. Sample adequacy test

KMO	df	p-value
63.0	7	**.304**

Table 4. Normal distribution test

Descriptive Statistics and Normality Test	Dividend per share	Non-performing loans to total loans	Loans to total assets	Return on assets	Return on equity	Profit margin	Bank size	Bank age
N	48	48	48	48	48	48	48	48
Mean	.042	.034	.543	0.043	0.081	0.009	9.213	51.83
Std. Deviation	.039	.023	.097	0.008	0.043	0.004	0.372	23.408
K-S test	.218	.103	.134	.079	.094	.095	.063	.095
P-value.	.086	0.200	312.0	0.540	.0640	0.083	0.568	.4230

Table 5. Durbin-Watson (DW) test

DW	Adjusted R-squared	R Square	Correlation coefficient
2.176	0.862	**0.880**	0.872

Table 6. Variance inflation coefficient

Variables	Tolerance	VIF
Non-performing loans to total loans	0.857	1.167
Loans to total assets	0.648	1.542
Return on assets	0.674	1.484
Return on equity	0.526	1.901
Profit margin	0.656	1.521
Bank size	0.398	2.512
Bank age	0.677	1.478

The variance inflation factor (VIF) is used to assess multicollinearity and identify which variables may be causing it. Table 6 shows that the VIF values for the independent variables are all below 10, indicating that the model does not suffer from multicollinearity issues.

The study used OLS with multiple regression analysis to examine the impact of independent variables and control variables on the dependent variable, with a significance level of 0.05 to determine whether to accept or reject the study hypotheses.

H01: There is no statistically significant effect of credit risk management on the cash dividend distribution policy in banks listed on the Palestine Stock Exchange.

Table 7 presents the results of a multiple regression analysis examining how various study variables influence the cash distribution ratio.

Table 7 reveals that the coefficient of determination is 0.032, indicating that the independent variables – the ratio of non-performing loans to total loans and the ratio of loans to total assets – account for only 3.2% of the variance in dividend per share. Additionally, the significance level is 0.489, which exceeds the study's threshold of 0.05, suggesting that the study variables do not have a statistically significant effect on the dependent variable, dividend per share.

Table 8 indicates a positive but statistically insignificant relationship between the ratio of non-performing loans to total loans and the cash dividend distribution policy, with a significance level of 0.877 and a beta value of 0.040. Similarly, it shows a positive but not statistically significant relationship between the ratio of loans to total assets and dividend per share, with a significance level of 0.235 and a beta value of 0.107.

H01-1: There is no statistically significant effect of the ratio of non-performing loans to total loans on the cash dividend distribution policy in banks listed on the Palestine Stock Exchange.

Simple regression analysis was conducted to examine the impact of the ratio of non-performing loans to total loans on dividend per share. According to Table 9, the coefficient of determination is 0, indicating that this ratio does not account for any variation in cash dividends. The significance level is 0.969, which is higher than the study's threshold of 0.05, suggesting that there is no statistically significant effect of the ratio of non-performing loans to total loans on the dividend per share.

Table 9 shows the results of a simple regression analysis evaluating how the ratio of non-performing loans to total loans affects the dividend per share.

H01-2: There is no statistically significant effect of the ratio of total loans to total assets on the cash dividend distribution policy in banks listed on the Palestine Stock Exchange.

Simple regression analysis was used to assess the effect of the ratio of loans to total assets on divi-

Table 7. Regression model summary

R	R Square	Adjusted R-squared	Standard error	F-Statistic	p-value
.179	.032	−.012	.039231	.727	.489

Table 8. Multiple regression coefficients analysis

Variables	B	t-Statistic	p-value
α	−.017	−.326	.746
Non-performing loans to total loans	.040	.156	.877
Loans to total assets	.107	1.205	.235

Table 9. Simple regression results: NPL ratio and dividend per share

R	R Square	Adjusted R-squared	Standard error	F-Statistic	p-value
.006	.000	-.022	.039	.002	**.969b**

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Table 10. Simple regression results: loans/assets ratio and dividend per share

R	R Square	Adjusted R-squared	Standard error	F-Statistic	p-value
.238	.056	.036	.038389	2.750	**.104b**

dend per share. Table 10 indicates that the coefficient of determination is 0.056, meaning that the ratio of loans to total assets explains 5.6% of the variation in dividend per share. The significance level is 0.104, which is above the study's threshold of 0.05, indicating that the ratio of loans to total assets does not have a statistically significant effect on the dividend per share.

Table 10 shows the results of a simple regression analysis evaluating how the ratio of loans to total assets affects the dividend per share.

H02: There is no statistically significant effect of credit risk management with the control variables (ROA, ROE, profit margin ratio, Bank age, on the cash dividend distribution policy Bank size) in banks listed on the Palestine Stock Exchange.

The results presented in Table 11 provide a clear statistical interpretation regarding the relationship between credit risk management, control variables, and the cash dividend distribution policy in banks listed on the Palestine Stock Exchange.

Firstly, the rejection of the null hypothesis, coupled with the acceptance of the alternative, suggests that credit risk management and the included control variables (ROA, ROE, profit margin ratio, bank age, and bank size) collectively have a significant impact on the banks' dividend distribution policies. The p-value (F-statistic) of 0.000 indicates that the overall model is statistically significant, meaning that these variables are not random in their influence on the outcome variable (cash dividend distribution policy). Furthermore, the model's R-squared value of 0.880 suggests a very strong explanatory power, meaning 88% of the variance in dividend distribution can be explained by the model's variables.

However, when looking specifically at credit risk management, the p-values (t-statistic) for both non-performing loans to total loans (0.590) and total loans to total assets (0.501) exceed the conventional 5% significance level. This indicates that these two measures of credit risk management do not have a statistically significant direct effect on the cash dividend distribution policy.

On the other hand, the control variables, particularly Return on Assets (ROA), Return on Equity (ROE), and Profit Margin, show statistically significant relationships with the cash dividend distribution policy, with p-values well below the 5% threshold (0.000 and 0.003). These results suggest that the financial performance indicators (ROA, ROE, and Profit Margin) play a critical role in influencing the banks' dividend policies.

Lastly, bank size and bank age were found to have no significant effect on the dividend distribution policy, with p-values (0.248 and 0.064, respectively) higher than the 5% significance level. Although bank age approaches marginal significance, it is not enough to confidently conclude an effect.

Table 11 shows the results of a multiple regression analysis evaluating how the credit risk management with the control variables affects the cash dividend distribution.

Table 11. Multiple regression results: credit risk and control variables impact on dividend policy

Variables	Dividend per share		
	B	t-Statistic	p-value
α	0.069	1.799	0.079*
Credit risk management			
non-performing loans to total loans	0.030	0.543	0.590
total loans to total assets	0.089	0.677	0.501
Control variables			
Return on assets	0.747	***11.84	0.000
Return on equity	0.597	8.48***	0.000
Profit margin	0.477	***3.18	0.003
Bank size	0.225	1.170	0.248
Bank age	0.280	1.901	0.064
R Square		0.880	
Adjusted R-squared		0.862	
F-Statistic		48.169***	
p-value (F-Statistic)		0.000	
Durbin-Watson		2.176	

Note: $p < 0.1$ (marginally significant); **$p < 0.01$ (highly significant).

4. DISCUSSION

This study examined the impact of credit risk on the cash dividend policy of banks listed on the Palestine Stock Exchange (2015–2021), using non-performing loans to total loans and total loans to total assets as indicators of credit risk, and dividend per share to measure cash dividends. The findings revealed no statistically significant effect of credit risk variables on dividend distributions, though a positive, non-significant relationship was observed. In contrast, control variables like Return on Assets (ROA), Return on Equity (ROE), and Profit Margin had a significant positive effect, emphasizing the role of financial performance in dividend decisions. Bank Age showed weak statistical significance, suggesting partial influence, while Bank Size had no significant impact. These results align with signaling theory, suggesting dividends are not effectively used as signals of credit risk due to market inefficiencies and external economic challenges. The study's findings corroborate prior research in some contexts but contrast with others, particularly regarding the relationship between credit risk and dividends, reflecting regional and market-specific dynamics.

This study's findings, which reveal no significant impact of credit risk on dividend policies, align with prior research showing mixed outcomes across regions and markets. Al-Najjar and Kilincarslan (2016) found firm-specific factors like profitability to be more influential than credit risk in emerging markets, while Zameer et al. (2013) observed a negative effect of non-performing loans on dividends in Pakistani banks under high credit risk. Similar results were noted by Ahmad and Muqaddas (2016) and Haj et al. (2018), who reported a negative correlation between credit risk and dividend policies in Islamic and conventional banks. In contrast, studies by Gill et al. (2010) and Senakosava (2015) found no significant relationship, consistent with this study. Athari (2021) highlighted external factors like economic challenges and regulations as mediators in the risk-dividend nexus, while Kanas (2013) and Al-Youssef (2016) emphasized market-specific dynamics. These findings underscore the nuanced role of credit risk, shaped by profitability, governance, and economic stability, in dividend decisions within the Palestinian banking sector.

CONCLUSION

This study aimed to investigate the relationship between credit risk management and cash dividend policies within the Palestinian banking sector. It was found that while a weak positive relationship exists between credit risk indicators (non-performing loans to total loans and total loans to total assets) and dividend distributions, this relationship is not statistically significant. Instead, financial performance indicators such as Return on Assets (ROA), Return on Equity (ROE), and profit margin were found to be the primary drivers of dividend decisions. This suggests that in the Palestinian banking sector, dividends are not effectively utilized as signals of credit risk, likely due to market inefficiencies, regulatory constraints, and external economic challenges.

These findings have important implications. Theoretically, they challenge the assumption that higher credit risk universally leads to lower dividend distributions, especially in emerging markets where strategic considerations beyond pure financial risk management may shape dividend policies. Practically, for bank executives, the results underscore the paramount importance of profitability and operational efficiency in guiding dividend policies. For policymakers, they suggest that regulatory frameworks should prioritize improving corporate governance and transparency rather than directly linking credit risk to dividend decisions. Investors should also focus on profitability and efficiency as key indicators of dividend stability in this market.

Despite these contributions, the study has limitations that open avenues for future research. Extending the study period beyond 2015–2021 would capture long-term effects. Future research could also explore the influence of other variables such as ownership structure, corporate governance, and digital transformation. Finally, comparative studies across different financial markets would provide deeper insights into the role of market-specific factors in shaping banking strategies.

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