“Key drivers of bank financial performance: Insights from the Arab Levant region”

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KEY DRIVERS OF BANK FINANCIAL PERFORMANCE: INSIGHTS FROM THE ARAB LEVANT REGION

Abstract

This study investigates the key determinants of bank financial performance in the Arab Levant region from 2017 to 2023, focusing on profitability and market valuation, while analyzing internal and external factors, including inflation, capital adequacy, and bank size, amid the unique regional economic dynamics post-Corona Virus Disease in 2019. The study sample comprises 15 Jordanian, 6 Palestinian, 5 Lebanese, and 13 Syrian banks. A descriptive analytical method and STATA were used for the hypothesis testing. The results reveal that inflation, bank type, country, bank size, and capital adequacy positively influence profitability, whereas liquidity ratio negatively affects profitability. Other variables, such as gross domestic product growth rate, country, bank age, operational efficiency, coronavirus, and financial inclusion, have no significant impact on profitability. Additionally, the pandemic and financial inclusion had a statistically negative effect on market valuation, whereas the other variables had no significant influence. This study provides fresh insights into bank performance in the rarely studied Middle Eastern markets by exploring profitability and market valuation within a unique pre- and post-pandemic context, thus enriching our understanding of bank performance in emerging economies. It offers actionable strategies for policymakers and managers to enhance profitability, market value, and resilience by focusing on fintech and equitable financial practices to support societal resilience and economic stability in conflict-affected, emerging economies.

Keywords banking performance, economic stability, financial resilience, liquidity, operational efficiency, capital adequacy, inflation rate, stakeholder theory, market valuation

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INTRODUCTION

Financial performance (FP) is a cornerstone of business sustainability and a critical indicator of an institution's capacity to thrive amid market dynamics and regulatory pressures. In the banking sector, FP reflects a bank's profitability, efficiency, and value creation, serving as a benchmark for internal management, investor confidence, and regulatory oversight (Masa'deh et al., 2024; Abusharbeh et al., 2023; Samara & Nassar, 2023). It enables decision-makers to establish operational targets, align strategic priorities, and evaluate risk exposure in a rapidly shifting global financial environment. Consequently, FP is not only a measure of organizational success but also a tool to guide capital allocation and policy reforms (Demirhan & Anwar, 2014; Pham et al., 2018; Kayed et al., 2025). Banks play a pivotal role in driving national development by facilitating credit, promoting savings, and enabling investments. Their performance is essential to financial system stability, especially in developing and conflict-affected regions (Khan et al., 2023; Nguyen & Stewart, 2013; Said & Ali, 2016). In the Arab Levant, the banking sector has undergone major transformations amid prolonged political instability, macroeconomic volatility, and global disruptions such as the COVID-19 pandemic. Additionally,

Islamic banks have introduced new financial paradigms based on Sharia-compliant principles like profit-sharing and ethical investing (Ledhem & Mékidiche, 2020), reshaping conventional approaches to banking performance.

The scientific problem of this study is examining the impact of economic and bank-specific factors on bank performance in the Arab Levant. Therefore, the importance of this study lies in its ability to bridge a key knowledge gap and provide context-specific insights into the drivers of financial performance in a high-risk, economically and politically unstable, and under-researched region. While financial performance has been widely examined in developed and stable markets, there is a lack of integrative studies investigating how internal and external determinants collectively influence bank FP in conflict-affected and transitional economies such as those in the Arab Levant. Most prior research has treated these factors in isolation or within narrow economic contexts, failing to account for the compounded effects of political instability, regulatory variation, fintech adoption, and global health crises. Furthermore, conflicting findings exist regarding the impact of variables like capital adequacy and inflation on FP, reflecting contextual differences that are often overlooked (Herlambang et al., 2020; Febriyanti et al., 2024; Abusharbeh, 2025). This study responds to these inconsistencies by using a panel of 41 banks and recent data (2017–2023) to offer a holistic analysis that is both timely and regionally relevant. The findings of this study are anticipated to provide significant insights and valuable implications for regulators, policymakers, and bank executives regarding the protection of banks from risks.

1. LITERATURE REVIEW

The Efficiency Structure Theory (EST) states that operational efficiency (OE) enables firms to offer products at a discount, boosting sales, and generating profits. According to EST, enhanced leadership in banks results in OE, lowers costs, and boosts financial results (Yampolskiy, 2013). EST contends that commercial banking institutions with more extensive operations pay less, resulting in increased profits, faster growth, and better financial outcomes (Njoki & Nyamute, 2023). Banks with superior managerial and operational effectiveness generate more income (Samara et al., 2025). By contrast, Nguyen and Stewart (2013) investigated how bank efficiency and concentration affect FP in Vietnam and found no evidence to support this. Agency expenses may be incurred when executives are motivated to perform in their best interests. Interest differences between principals and agents are dealt with using agency theory (Rashid, 2012). Balancing the interests of managers and owners to meet their needs has become a hot topic in economics and finance (S. Baykara & B. Baykara, 2021). Furthermore, the initial definition of the principal-agent relationship, agreements between employers (principals) and workers (agents), was initiated by Jensen and Meckling (1976); Ross (1973) provided an initial definition of the principal-agent relationship. These costs can potentially adversely affect both the profitability of the business and the shareholders' financial status. Consequently, it has become more critical to evaluate how well corporate and agency cost control mechanisms are functioning (Jensen & Meckling, 1976). Stakeholder theory begins by asking what a firm's goal is, which encourages leaders to describe how their primary stakeholders collaborate and view the generated value (Freeman, 1994). This promotes business expansion and yields outstanding outcomes, as evaluated by the organization's goals and financial metrics in a competitive environment. The second question posed by this theory is the obligation to administer to stakeholders (Pfajfar et al., 2022). Many companies have been built and operated in ways very close to the principles of stakeholder theory. Even though each of these businesses values its performance and shareholders, none bases its decisions solely on profitability. Additionally, these businesses view the significance of values and stakeholder relationships as essential for their continued success and performance (Pererva et al., 2021).

The dependent variable, Financial Performance (FP), is a field of study that has drawn interest and attention from various stakeholders, including executives in companies, investigators, monetary analysts, and members of the wider society (Al Frijat et al., 2025). A firm's FP can be assessed

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in terms of its asset base, capital employed, sales turnover, profitability, liquidity, solvency, and dividend growth (Alslaibi & Abdelkarim, 2024; Alslaibi, 2024a). Nonetheless, disagreements persist regarding the best way to assess a firm's FP and the variables that affect it (Khan et al., 2023). FP is regarded as a crucial pillar for the survival and expansion of businesses (Alslaibi, 2024b). It helps management to make the best decisions and objectives that specify the business's operations and guide staff on how to reach them (Pham et al., 2018). Consequently, assessing the success of an organization has gained importance in the corporate finance literature. However, little emphasis has been placed on this, particularly in developing economies, even though these companies act as middlemen and help allocate the capital that best supports economic activities (Hoang et al., 2019). In addition, analyzing a bank's FP or prosperity helps determine the banking sector's safety and, ultimately, its resilience (Ledhem & Mékidiche, 2020).

This study addresses six independent variables. First, according to Waqar et al. (2019), liquidity is an investment that can be easily and quickly converted into money with no significant loss in value. Moreover, to ensure effective operations, support growth, and mitigate financial risks, businesses must maintain their best liquidity levels (Demirgüneş, 2016). Several studies have tested the effect of liquidity on firms' FP (Durrah et al., 2016) and discovered that FP, represented as return on equity and assets (ROE and ROA) (Alslaibi & Abdelkarim, 2024), is positively correlated with liquidity measures such as quick and current ratios. Hoang et al. (2019) show that, because liquidity and FP are positively correlated, insurance firms should increase their current assets and reduce their current liabilities. Firm liquidity has a substantial impact on insurance companies' FP. In contrast, Fajaria and Isnalita (2018) proposed that, while a moderate level of liquidity might boost entrepreneurial performance, an excessive amount might have the opposite effect. They determined that liquidity had no discernible impact on financial success. Second, Bank Size (BS) is an important element in considering its impact on financial health, as it signifies the resources of the bank, and targets can be easily met by large banks with well-organized resources and top-notch machinery (Sasidharan et al., 2023). As defined by Adewale et al. (2023), bank size is based on the market value. Thus, a bank's size can be determined by its total assets, sales, and market capitalization. According to a previous study by Pham et al. (2018), larger banks operate more effectively, while Flamini et al. (2009) indicated that larger banks can turn a larger profit margin than smaller banks by better utilizing the advantages of scale in their transactions. Adewale et al. (2023) mentioned that a bank's performance improves as its size increases. Furthermore, previous studies indicate that financial success and bank size have a beneficial relationship and that larger banks are likely to compete more effectively because they have easier access to funds (Pervan & Dropulić, 2020; Zoghlami & Bouchemia, 2021). Other researchers have discovered that bank size has little effect on FP (Tzelepis & Skuras, 2004). They concluded that there is no clear correlation between bank size and FP. Third, Operational Efficiency (OE) refers to the efficient methods and techniques used to accomplish a firm's goals by providing high-quality services affordably (Musah et al., 2019). Furthermore, Ta et al. (2022) asserts that the OE of a business is the main factor affecting sustainability over time. Also, Almaqtari et al. (2018) examine the connection between enhanced performance and a bank's operational efficiency. Dietrich and Wanzenried (2011) mention that banks with higher OE also exhibit higher profits than those with lower OE. However, a study of Pakistani banks by Cheng et al. (2018) found an inverse relationship between OE and FP in Pakistani banks. OE and ROA were investigated by Shah and Jan (2014), who found a positive correlation between operational efficiency and asset management, affecting bank performance. Fourth, a company's capability to respond to its obligations on time and other risks, such as credit and operational risks, is determined by its capital adequacy (CA) (Aladwan et al., 2024; Durrah et al., 2016). Regulators rely on the capital adequacy ratio to maintain bank soundness and financial stability because it provides a clear picture of banks' ability to handle unforeseen financial situations (Herlambang et al., 2020). According to Alnajjar and Othman (2021), who examined how capital regulations affect intermediation costs and profitability, banks perform better when their capital adequacy ratio is higher. Studies by Ali (2020), Almaqtari et al. (2018), and

Homaidi et al. (2019) used the equity-to-assets ratio as a stand-in for the capital adequacy ratio. In a comparative analysis, Majeed and Zainab (2021) found that Islamic banks outperform conventional banks in terms of capital adequacy ratio and risk management. Fifth, Inflation is the slow erosion of buying power and price increases. The speed at which buying power decreases can be calculated by averaging the price increases of a selected basket of items and services over a particular period (Moyo & Tursoy, 2020). Economic literature has shown that financial health and inflation are negatively correlated, and this correlation affects economic expansion. Bilalli and Sadiku (2023) assert that increasing inflation rates negatively impact financial conditions, thereby impeding economic development. Furthermore, inflation reduces FP, particularly by impairing the functioning of financial markets, which is confirmed by Boyd et al. (2001). According to Febriyanti et al. (2024), inflation does not affect firm performance. Sixth, the Gross Domestic Product Growth (GDPR) is the yearly rate of change in the total economic output at market prices based on the constant currency of the nation for a given national economy over a given time period, as defined by Hong and Razak (2015). Worku et al. (2024) show that GDP is a key performance determinant; as a result, real GDP and economic performance have a negative but critical connection. In addition, Burca and Batrinca (2014) investigated the factors influencing the FP of Romanian insurance companies and found no meaningful relationship between real GDP growth and insurers' FP. As a result, they reached the uncertain conclusion that the GDP growth rate did not affect banks' FP.

Given the inconclusive findings regarding macroeconomic variables such as GDP growth, this study aims to explore whether internal bank-specific factors have a more substantial and consistent impact on the financial performance of banks in the Arab Levant region. Specifically, the study focuses on key internal determinants including liquidity, bank size, and operational efficiency, within the unique context of the post-COVID-19 economic landscape from 2017 to 2023. Accordingly, the following hypotheses were developed:

H01: Liquidity has a significantly positive impact on FP.

H02: BS has a significant positive impact on FP in banks.

H03: Operational efficiency has a significant positive impact on FP.

H04: Capital adequacy significantly and positively affects FP in banks.

H05: IR has a significant effect on FP.

H06: GDPR significantly influences FP in banks.

2. METHODOLOGY

2.1. Selection of banks

The study population includes 48 banks, from which a sample of 39 banks was selected, representing approximately 81% of the population. This high level of coverage ensures robust representation and minimizes sampling bias. The study sample consisted of (15) Jordanian, (6) Palestinian, (5) Lebanese, and (13) Syrian banks. Some banks were excluded from the study due to limited data availability, overlap with primary headquarters reporting (Jordan-based institutions operating branches in Palestine). A full list of the selected banks and their key characteristics is provided in Appendix A.

2.2. Data collection

To investigate the variables influencing banks' FP, the secondary data required for this study were obtained from publicly available financial reports of Jordanian, Palestinian, Syrian, and Lebanese banks for 2017–2023. Since collectively, the data were available only up to the year 2023. Although data beyond 2023 were not accessible, the results remain highly relevant, as they capture the immediate post-pandemic economic recovery period and provide meaningful insights into ongoing financial performance trends in the Arab Levant region. The use of data up to 2023 reflects the most recent and complete secondary financial information available at the time of this study submission. The data were analyzed using a descriptive analytical method, and the hypotheses were tested using a statistical analysis program (STATA).

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2.3. Study variables

This study measures the independent variables (BS, OE, CA, IR, and GDPR) and their effects on the dependent variables of ROA and Tobin's Q. Prior research generally supports the idea that Tobin's Q is a more dependable measure of a firm's true worth than other accounting metrics. Tobin's Q is believed to reflect a firm's long-term value (Krause & Tse, 2016). Table 1 lists the variables and the designated measurements used in this study.

2.4. Regression model

To identify the factors influencing FP, the following model was examined using multiple regression analysis.

$$FP_{it} = \beta 0 + \beta 1 LiqR_{it} + \beta 2 BS_{it} + \beta 3 OE_{it} + \beta 4 CA_{it} + \beta 5 IR_{it} + \beta 6 GDPR_{it} + \beta 7 Controls_{it}. \quad (1)$$

From the above-mentioned regression equation, two models were developed as follows:

Model 1

$$ROA_{it} = \beta 0 + \beta 1 LiqR_{it} + \beta 2 BS_{it} + \beta 3 OE_{it} + \beta 4 CA_{it} + \beta 5 IR_{it} + \beta 6 GDPR_{it} + \beta 7 Controls_{it}, \quad (2)$$

Model 2

$$TQ_{it} = \beta 0 + \beta 1 LiqR_{it} + \beta 2 BS_{it} + \beta 3 OE_{it} + \beta 4 CA_{it} + \beta 5 IR_{it} + \beta 6 GDPR_{it} + \beta 7 Controls_{it}. \quad (3)$$

3. RESULTS

The data were subjected to both descriptive and analytical methods to verify the predictions. The results of this study, along with the relevant analyses, are presented below.

3.1. Descriptive analysis (DA)

Table 2 presents the standard (DA), in which all variables consist of 273 observations. OE had higher standard deviations than those of the other variables.

Table 2. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Tobins2MarketAssets	273	.059	.059	0	.324
ROA	273	.024	.06	–.126	.482
IR	273	.293	.457	-.02	1.712
GDPR	273	0	.043	-.214	.07
Type	273	.795	.405	0	1
Palestine	273	.154	.361	0	1
Jordan	273	.385	.487	0	1
Syria	273	.333	.472	0	1
Lebanon	273	.128	.335	0	1

Table 1. Variable descriptions

Variable	Acronym	Description	Reference
Dependent variables			
Return on Assets	ROA	Net profit is divided by total assets	Bansal (2025); Deitiana and Habibuw (2015)
Tobin's Q	TQ	(Market Value + Book Value) divided by total assets	Singh et al. (2018)
Independent variables			
Liquidity Ratio	LiqR	Liquid assets are divided by total assets	Abu Khalaf and Awad, (2024), Deitiana and Habibuw (2015)
Bank Size	BS	Natural logarithm of total assets.	Adewale et al. (2023)
Operational Efficiency	OE	Administrative expenses divided by profit before tax	Khan et al. (2023)
Capital Adequacy	CA	Total equity is divided by total assets	Sasidharan et al. (2023)
Inflation Rate	IR	Annual inflation rate	Khan et al. (2023)
GDP Growth Rate	GDPR	Yearly growth of GDP	Khan et al. (2023)
Control Variables			
Bank Age	BAge	Number of years since the bank was founded	Authors' creation
Bank Type	BT	Dummy variable: Conventional = 1; Islamic = 0	Authors' creation
Covid-19	CV	Dummy variable: Year during COVID-19 = 1; year before COVID-19 = 0	Authors' creation
Country	C	Dummy variable for each Arab Levant country	Authors' creation
Fintech Adoption	FA	Dummy variable: Year of adoption plan = 1 onwards; no plan = 0	Authors' creation

Table 2 (cont.). Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Age	273	1.492	.265	1.114	1.964
LiqR	273	.238	.142	.038	.843
BS	273	9.361	.635	7.767	10.672
OE	273	3.1	28.151	-42.222	444.626
CA	273	.208	.192	.049	.831
CV	273	.731	.422	0	1
FA	273	.449	.487	0	1

3.2. Assumptions for panel data analysis

A multicollinearity matrix was used to assess the level of order to test the power of correlation among the study variables and evaluate the level of multicollinearity; a crucial level of 80% was considered. Table 3 presents the results where no adjustments were required (Gujarati, 2009). The Variance Inflation Factor (VIF) was calculated to further assess the presence of multicollinearity; the outcomes were lower than the threshold of ten (Chatterjee & Simonoff, 2012). The Breusch-Pagan/Cook-Weisberg test was used to assess heteroscedasticity to check whether the variance of the errors in the models was constant (homoscedasticity) or varied (heteroscedasticity) (Cook & Weisberg, 1983). The data show evidence of heteroscedasticity in both models. The autocorrelation in the panel data was tested using the Wooldridge test, which is widely used to determine the existence of autocorrelation in panel data models. This is beneficial because it is robust to the specific structure of the error terms, and a serial correlation was found between the two models (Wooldridge, 2002). Consequently, OLS coefficients are likely to be biased, inconsistent, and inefficient. Moreover, R^2 estimates a good fit. Generalized Least Squares (GLS) is designed to handle the issues of heteroscedasticity and autocorrelation in regression models, and we can obtain more efficient and unbiased estimates (Greene, 2000). Given that this study employs panel data analysis, it offers a choice between two panel estimator approaches: fixed effects models and random effects models, for which the Hausman Test is utilized (Hausman, 1978). The results of the Hausman test in Table 4 clearly indicate the use of random effects, as the p-value was >5%.

Table 4. Hausman (1978) specification test

Test Summary	Model 1	Model 2
	Coef.	Coef.
Chi-square test value	17.914	1.794
P-value	.22	.987

3.3. Robustness check using alternative measurements of FP

Alternative FP measurements were used to ensure the robustness of the results. Tobin's Q was measured using two formulations: (market value/total assets) and (market value/equity). Additionally, ROE is used as an alternative profitability measure to ROA. Across all of these variations, the results exhibited consistent R-squared (R^2) values and variable significance. The consistency of the outcomes supports the reliability of the measurements and findings and underscores the robustness of the relationships established in the analysis.

Table 3. Multicollinearity matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) TQ	1	–	–	–	–	–	–	–	–	–	–	–
(2) ROA	–0.209	1	–	–	–	–	–	–	–	–	–	–
(3) IR	–0.523	0.472	1	–	–	–	–	–	–	–	–	–
(4) GDPR	0.335	0.06	–0.345	1	–	–	–	–	–	–	–	–
(5) Type	–0.047	0.07	0.074	–0.099	1	–	–	–	–	–	–	–
(6) Age	0.398	–0.37	–0.227	–0.112	0.196	1	–	–	–	–	–	–
(7) LiqR	–0.545	0.071	0.539	–0.379	–0.09	–0.185	1	–	–	–	–	–
(8) BS	0.218	–0.179	0.043	–0.213	0.043	0.76	0.051	1	–	–	–	–
(9) OE	–0.035	–0.035	–0.045	0.016	0.036	–0.059	–0.024	–0.114	1	–	–	–
(10) CA	–0.014	0.299	0.045	0.118	–0.348	–0.163	–0.096	–0.171	–0.025	1	–	–
(11) CV	–0.611	0.151	0.383	–0.271	0.052	–0.267	0.391	–0.106	0.022	–0.015	1	–
(12) NA	0.612	–0.236	–0.556	0.303	–0.075	0.386	–0.552	0.235	–0.028	–0.004	–0.318	1

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3.4. Regression

Table 5 shows the results of the GLS regression. The Random-effects GLS regression results for the study sample of 15 Jordanian, six Palestinian, 5 Lebanese, and 13 Syrian banks are displayed in Table 5. The same table also shows that the variables in Model 1 represent (48%) the variation in banks' FP, and that Model 1 employed is statistically significant at the 1% level. The results of the analysis also demonstrate that LiqR has a statistically significant negative influence on banks' FP because the T-test value and p-value, respectively, reached –2.52 and .012, which are less than 0.05, indicating a statistically significant association at the level of 5%. The same table for Model 1 shows positive correlations between IR, BT, BS, CA, and ROA at the 1% level. Table 5 Model 2 variables represent 71% of the variation in Tobin's Q, and Model 2 is statistically significant at the 1% level. In Model 2, both CV and FA were negatively associated with Tobin's Q at the 1% significance level.

4. DISCUSSION

The results in Table 5 show an adverse significant effect of LiqR on ROA at the 5% level in Model 1 but no statistical significance in Model 2. Febriyanti et al. (2024) confirm that liquidity significantly and negatively affects FP as measured by ROA. Furthermore, a study by Al Nimer et al. (2015) on firms listed on the Egyptian and Indonesian Stock Exchanges showed that liquidity positively impacts ROA. The study by Zuhroh (2019) showed that liquidity has an insignificant effect on companies' FP on the Indonesian stock exchange. The study by Fajaria and Isnalita (2018) also shows that liquidity reduces the value of industrial companies listed on the stock exchange, and thus reflects their FP. The results confirm hypothesis (*H01*) for Model 1 but are rejected for Model 2.

The BS variable has statistically positive significance at the 1% level for Model 1 and no effect in Model 2. A study by Adewale et al. (2023), applied to Nigeria, showed a strong relationship between bank size and ROA. Azmi and Setyowati (2023)

Table 5. Random-effects GLS regression

Variables	Model 2				Model 1			
	Coef.	St.Err.	t-value	p-value	Coef.	St.Err.	t-value	p-value
IR	.001	.003	0.20	.842	.065	.008	7.71	0***
GDPR	.038	.029	1.34	.179	.126	.078	1.63	.104
BT	.006	.014	0.41	.681	.034	.008	4.37	0***
Palestine	.131	.026	5.05	0***	.063	.02	3.15	.002***
Jordan	.105	.019	5.45	0***	.031	.019	1.64	.101
Syria	.025	.032	0.79	.431	.07	.018	3.83	0***
Age	.046	.045	1.03	.301	–.036	.024	–1.48	.138
LiqR	–.014	.018	–0.79	.431	–.073	.029	–2.52	.012**
BS	.002	.005	0.50	.62	.028	.008	3.63	0***
OE	0	0	–0.05	.963	0	0	–0.71	.475
CA	.026	.024	1.05	.292	.098	.016	5.98	0***
CV	–.019	.003	–5.78	0***	–.003	.009	–0.29	.772
FA	–.026	.004	–6.00	0***	–.001	.012	–0.05	.96
Constant	–.081	.088	–0.93	.354	–.276	.077	–3.61	0***
Mean dep. var	0.059				0.024			
SD dep. var	0.060				0.063			
Overall r-squared	0.71				0.483			
Obs.	273				273			
Chi-square	224				241.598			
Prob > chi2	0.000				0.000			
R-squared within	0.370				0.345			
R-squared between	0.74				0.835			

Note: *** $p < .01$, ** $p < .05$, * $p < .1$.

showed that BS did not significantly affect FP. The study by Alkhatib and Harasheh (2012) showed that bank size significantly influences the FP of listed commercial banks using Tobin's Q. Ali (AlAli, 2020) also showed that bank size has an inverse relationship with the FP of Kuwaiti banks, but this relationship was not statistically significant. The analysis outcomes accepted the second hypothesis for Model 1 and rejected it for Model 2.

OE variable output was not statistically significant in the other models. A study by Baik et al. (2013) supports this result, as they show that operational efficiency is not a significant predictive factor for companies that affect their FP. A study by Koross et al. (2018) showed that operational efficiency significantly affects FP in Nakuru County, Kenya. However, Musah et al. (2019) show that operational efficiency inversely affects the FP of firms listed on the Ghanaian Stock Exchange. Thus, the third hypothesis was rejected for both models.

The fourth hypothesis is accepted for Model 1 at the 1% level, while it is rejected for Model 2, which stems from capital adequacy helping banks mitigate potential losses, thereby bolstering their financial stability; however, this is not recognized by the market. Yusuf and Musse (2019) support this result as they show that capital adequacy significantly and positively affects the profitability and FP of Islamic banks. The Alnajjar and Othman (2021) study showed that there is a statistically significant negative effect of the capital adequacy ratio on both the performance index and return on assets in Islamic commercial banks in Middle Eastern and North African countries. Chandrasegaran (2020) also shows a strong positive effect of capital structure on the performance and profitability of banks in Sri Lanka.

Furthermore, the IR variable has a statistically significant influence on banks' FP in Model 1, since the T-test value and p-value (.000) both reached 6.96, at the 1% level. Therefore, hypothesis five is accepted for Model 1 and rejected for Model 2. This outcome can be explained by the possibility that IR will raise the bank's IR, raising the cost of borrowing, thus affecting the bank's capacity to pay off debt. The study by Bilalli and Sadiku (2023) supported this result as they proved the existence of an apparent effect of IR on FP in Western Balkan countries. The study by Bambe et al. (2022) also showed that inflation significantly increases firm performance. The study by Adu et al. (2016) showed that IR in the Ghanaian economy continues to positively impact the development of the financial sector's performance. Moyo and Tursoy (2020) also show a statistically significant inverse association between IR and FP of commercial banks in South Africa. The same table shows that the GDPR has no statistically significant influence on bank FP. Thus, the sixth hypothesis of this study (*H06*) is rejected for both models. This result clarifies that the FPs of these banks are unaffected by GDP growth. This result is supported by a study by Hong and Razak (2015), which proved that the GDP growth rate does not affect Islamic banks in Malaysia. The study by Purwohandoko and Iriani (2021) also showed that GDP significantly and positively affects the FP of private banks listed on the stock market. The results of Saymeh and Orabi (2013) show that the GDP growth rate impacts the growth rate of companies' performance in Jordan. The study by Shair et al. (2021) also showed that GDP growth rate is one of the most critical factors determining financial institutions' performance.

CONCLUSION

This study examines the factors affecting FP in banks operating from 2017 to 2023 in the Arab Levant Region to address the gaps in the literature. Financial data were obtained from banks' annual reports. Model 1 results show that the variables (IR, Type, Country: Palestine and Syria, LiqR, BS, and CA) significantly influence FP, while others do not. Model 2 (Tobin's Q) results indicate that the variables (Country: Palestine and Jordan, CA, COVID, National) significantly influence FP, while others have no statistically significant impact.

This study provides key insights for banks, policymakers, and regulators in the Levant. Interest rate (IR) positively affects profitability but is not crucial for market valuation, suggesting the need for stable IR policies. The GDP growth rate (GDPR) is insignificant in both models, highlighting challenges in

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translating economic growth into banking opportunities. Bank type (BT) shows conventional banks outperform Islamic banks in profitability, but market valuation remains unaffected. The country effect is consistent for Palestine and Jordan, reflecting similar economic and regulatory conditions. Bank size (BS) enhances profitability but does not impact market valuation, emphasizing the importance of operational efficiency (OE). Capital adequacy (CA) boosts profitability but is undervalued by markets, necessitating regulatory focus. Crisis vulnerability (CV) and fintech adoption (FA) negatively impact profitability, requiring resilient strategies and long-term fintech investments. Overall, banks should optimize operations, while policymakers should promote financial stability and investor awareness.

Several theoretical contributions can be extracted from this study's results, which extend EST by showing that size-related advantages are critical for internal FP and emphasizing the need for banks to complement OE with strategies that enhance market trust and innovation. These findings support agency theory by demonstrating how structural differences (BT) and robust CA policies mitigate agency-related inefficiencies and enhance profitability. Although this study provides insights into the financial performance of banks in the Arab Levant region, it has several limitations. It focuses on a limited number of countries, restricting the generalizability of the results to other countries or banking systems. Using only two dependent variables to measure FP may overlook other vital dimensions, such as ROE. The period under consideration may not fully reflect long-term trends or the impact of structural changes in the banking industry, particularly after the pandemic. Relying on publicly available data may introduce bias, as it does not account for qualitative factors, such as management practices or internal governance mechanisms, that could influence bank performance.

AUTHOR CONTRIBUTIONS

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APPENDIX A

Table A1. List of banks and their core characteristics

Bank Name	Core Characteristics
Syria (DSE)	
BEMO Saudi Fransi Bank	Private joint venture; retail and investment services
Al Ahli Trust Bank	Commercial and retail banking; limited market presence
International Bank for Trade and Finance	Specializes in trade finance and corporate lending
Syria International Islamic Bank	Sharia-compliant; Islamic retail and investment services
Qatar National Bank – Syria	Subsidiary of QNB Group; full-service retail and corporate banking
Arab Bank – Syria	Branch of Arab Bank Group; retail, corporate, and institutional banking
Bank of Syria and Overseas	Leading private bank with diverse banking products
Byblos Bank – Syria	Lebanese-origin; commercial and SME banking
Bank of Jordan – Syria	Jordanian branch; strong in SME and retail banking
Al Sharq Bank	Private bank; smaller market share; retail and commercial banking
Fransabank – Syria	Lebanese-origin; trade finance and corporate banking
Al Cham Bank	Islamic bank; Sharia-compliant services
Al Baraka Bank	Fully Islamic; part of Al Baraka Group
Jordan (ASE)	
Arab Bank (PLC)	Regional leader; strong international presence; corporate and retail banking
Arab Banking Corporation (Jordan)	Subsidiary of Bahrain-based ABC; corporate and retail focus
Arab Jordan Investment Bank	Focus on investment, private banking, and trade finance
Bank Al Etihad	Technology-driven; SME and women-focused banking
Bank of Jordan	One of the oldest; wide retail network and loan services
Cairo Amman Bank	Innovative digital banking; regional presence
Capital Bank of Jordan	Corporate banking and trade finance; acquired Société Générale Jordan
Invest Bank	Mid-sized; commercial and investment services
Islamic International Arab Bank	Fully Sharia-compliant Islamic banking
Jordan Islamic Bank	Largest Islamic bank in Jordan; part of Al Baraka Group
Jordan Ahli Bank	Full-service; corporate, retail, and private banking
Jordan Commercial Bank	Focus on SME financing and business development
Jordan Kuwait Bank	Wide financial offerings; backed by Kuwaiti groups.
Safwa Islamic Bank	Sharia-compliant; formerly Jordan Dubai Islamic Bank
The Housing Bank For Trade And Finance	One of Jordan's largest; regional banking reach
Palestine (PESC)	
Bank of Palestine	Largest Palestinian bank; full services and strong CSR
Arab Islamic Bank	Islamic subsidiary of Bank of Palestine; Sharia-compliant products
Palestine Islamic Bank	First Islamic bank in Palestine; Murabaha and Mudaraba products
Quds Bank	SME support, digital banking, and community initiatives
The National Bank	Modern bank; innovation, SME, and women's banking
Palestine Investment Bank	Investment and development banking; supports national projects
Lebanon (BSE)	
Bank Audi	Major retail and investment bank; downsized foreign operations post-crisis
BLC Bank	SME and women empowerment focus; acquired by Fransabank Group
Bank of Beirut	Trade finance and international corporate banking
Byblos Bank	Diversified services; international operations
BLOM Bank	Historically one of Lebanon's top banks; retail and private banking