

## Financial Performance of Palestinian Islamic Banks (2016–2024): An Empirical Analysis of Profitability, Liquidity, and Efficiency

Murad Ayesh Ali Obaid

Abdulmajid Obaid Hasan  
Saleh

Fahd Mohammed Obad AL-  
Shaghdari

Institute of Islamic Banking and  
Finance, IIUM, Malaysia  
[muradobiad@gmail.com](mailto:muradobiad@gmail.com)  
Received: 30/6/2025

Institute of Islamic Banking and  
Finance, IIUM, Malaysia  
[alamri@iium.edu.my](mailto:alamri@iium.edu.my)  
Accepted: 18/9/2025

Institute of Islamic Banking and  
Finance, IIUM, Malaysia  
[alshaghdari@iium.edu.my](mailto:alshaghdari@iium.edu.my)  
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### Abstract:

This study presents a comprehensive longitudinal evaluation of the financial performance of Palestinian Islamic banks over the period 2016–2024, focusing on three pivotal dimensions: profitability, liquidity, and operational efficiency. Through rigorous ratio analysis of published annual reports, we examine key indicators—Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), Financing-to-Deposit Ratio (FDR), Liquidity Coverage Ratio (LCR), Cost-to-Income Ratio (CIR), and Asset Utilization Ratio (AUR). Our findings unveil pronounced volatility in profitability: ROA contracted from 0.99 percent to –0.16 percent and ROE receded from 6.85 percent to –1.7 percent by 2024, under the compounded pressures of the COVID-19 pandemic and enduring geopolitical instability. In contrast, liquidity profiles remained robust—FDR held steady at 75 percent and LCR near 40 percent—reflecting effective Shariah-compliant funding strategies. Simultaneously, operational efficiency improved markedly: CIR declined from 41.1 percent to 31.2 percent, while AUR rose from 6.8 percent to 8.4 percent, driven by targeted digitalization initiatives and cost-optimization measures. These results underscore the sector's resilience and adaptability, and inform strategic imperatives for enhancing liquidity instruments, fostering financial innovation, and accelerating digital banking adoption within evolving regulatory frameworks.

**Keywords:** Islamic Banking, Financial Performance, Profitability, Liquidity, Operational Efficiency.

الأداء المالي للبنوك الإسلامية الفلسطينية (٢٠١٦–٢٠٢٤): تحليل تجريبي للربحية والسيولة والكفاءة

فهد محمد عباد الشغدري

عبد المجيد عبيد حسن صالح

مراد عايش علي عبيد

معهد الصيرفة والتمويل الإسلامي، الجامعة  
الإسلامية العالمية ماليزيا

معهد الصيرفة والتمويل الإسلامي، الجامعة  
الإسلامية العالمية ماليزيا

معهد الصيرفة والتمويل الإسلامي، الجامعة  
الإسلامية العالمية ماليزيا

### المستخلص:

تقدم هذه الدراسة تقيماً شاملاً للأداء المالي للبنوك الإسلامية الفلسطينية للفترة ٢٠١٦–٢٠٢٤، مع التركيز على ثلاثة أبعاد محورية (الربحية، والسيولة، والكفاءة التشغيلية) من خلال تحليل نسب مالية مستخلصة من التقارير السنوية المنشورة هي: العائد على الأصول، والعائد على حقوق الملكية، وهامش صافي الربح، ونسبة التمويل إلى الودائع، ونسبة تغطية السيولة، ونسبة التكلفة إلى الدخل، ونسبة استخدام الأصول، تكشف نتائجنا عن تقلب ملحوظ في مؤشرات الربحية، إذ انخفضت نسبة العائد على الأصول من ٠.٩٩٪ إلى –٠.١٦٪ وتراجعت نسبة العائد على حقوق الملكية من ٦.٨٥٪ إلى –١.٧٪ بحلول عام ٢٠٢٤، تحت الضغوط المركبة لجائحة كوفيد-١٩ وعدم الاستقرار الجيوسياسي المستمر. في حين حافظت مؤشرات السيولة على قوتها، فقد استقرت نسبة التمويل إلى الودائع عند نحو ٧٥٪ ونسبة تغطية السيولة قرب ٤٠٪، مما يعكس استراتيجيات تمويل متوافقة وفعالة مع الشريعة. كما شهدت الكفاءة التشغيلية تحسناً ملحوظاً، إذ انخفضت نسبة التكلفة إلى الدخل من ٤١.١٪ إلى ٣١.٢٪، وارتفعت نسبة استخدام الأصول من ٦.٨٪ إلى ٨.٤٪، مدفوعة بمبادرات التحول الرقمي المستهدفة وإجراءات تحسين التكاليف. تؤكد هذه النتائج قدرة القطاع على الصمود والتكيف، وتنظيم الأولويات الاستراتيجية التي تتمثل في تعزيز أدوات السيولة، وتشجيع الابتكار المالي، وتسريع تبني الخدمات المصرفية الرقمية ضمن أطر تنظيمية متطورة.

**الكلمات المفتاحية:** البنوك الإسلامية، الأداء المالي، الربحية، السيولة، الكفاءة التشغيلية.



## Executive Summary

This study provides a comprehensive longitudinal evaluation of the financial performance of Palestinian Islamic banks over the period 2016–2024, focusing on three critical dimensions: profitability, liquidity, and operational efficiency. Against a backdrop of persistent geopolitical instability and recurrent economic shocks, including the COVID-19 pandemic and the escalation of conflict in 2023–2024, the study investigates how Islamic banks in Palestine have navigated structural challenges while attempting to sustain growth and resilience.

The research employs a quantitative, post-positivist design using audited secondary data derived from the annual reports of the three leading Palestinian Islamic banks—Palestine Islamic Bank (PIB), Arab Islamic Bank (AIB), and Al-Safa Bank (SAFA). Key financial ratios were calculated to assess profitability (ROA, ROE, NPM), liquidity (LCR, FDR), and efficiency (CIR, AUR). These metrics were complemented with correlation analysis, regression models, multicollinearity diagnostics (VIF), and confidence intervals to ensure robustness and statistical validity. Year-on-year (YoY) percentage changes were computed to capture volatility and cyclical patterns. Data integrity was maintained through double-checking against reports of the Palestine Monetary Authority (PMA) and global financial databases, with estimated error margins of  $\pm 2\%$  due to reporting delays.

The findings reveal significant volatility in profitability: ROA and ROE deteriorated markedly in 2023–2024, turning negative under the compounded pressures of war, while NPM declined from 19.5% in 2022 to  $-3.8\%$  in 2024. Liquidity ratios demonstrated relative resilience, with FDR remaining stable around 74–76%, though LCR experienced sharp contractions during crisis years. Efficiency indicators, in contrast, improved steadily, as CIR decreased from 41.1% in 2016 to 31.2% in 2024, and AUR rose from 6.8% to 8.4%, reflecting the positive impact of digital transformation and cost optimization initiatives. These results highlight both the adaptability and fragility of the sector: while operational restructuring and Shariah-compliant practices improved efficiency, external shocks undermined profitability and constrained liquidity.

Policy implications underscore the urgent need for the Palestine Monetary Authority (PMA) to design indigenous Shariah-compliant liquidity instruments—such as short-term sukuk and localized interbank platforms—to reduce vulnerability to external constraints. Bank managers are encouraged to deepen digitalization, strengthen risk management frameworks, and integrate sustainability-driven financial products (e.g., green sukuk and microfinance initiatives) to diversify revenue streams. At the same time, investors and stakeholders must recognize both the ethical strengths and the systemic vulnerabilities of Palestinian Islamic banks in a highly volatile environment.

## 1. Introduction

Due to the allowance of Shariah (Islamic law) compliant Islamic banking, an alternative to conventional banking, emerged with more benefits than its predecessor. Since the past few decades, the Middle East, South Asia, and North Africa Islamic regions have shown expansion in Islamic banking due to its ethical financing methods alongside its bolstering resilience during financial crises (Yetty et al., 2021). Palestinian Islamic banking has shown tremendous growth over the years even when the region suffers from economic and political instability. This paper attempts to assess the operations of Islamic banks in Palestine from 2016 to 2024 in terms of their financial efficiency and sustainability in the banking industry (Awwad et al., 2024).

The Islamic financing operates within a system that entails risk sharing, profit and loss sharing and prohibition of the charging of interest (Riba). Unlike the conventional banks where loans are pegged at an interest rate, the Islamic Banks engage in such profit-sharing arrangements such as Mudaraba (profit sharing investment) and Musharaka (joint venture financing). These ideas ensure compliance with ethical principles concerning the deal and ensure that the intentions are fair without taking excessive risks and engaging in speculative activities.

The philosophy of Islamic bank Shaaria has swallowed the role of financial intermediation to a new paradigm of Sharia conforming Islamic banking, representing an ethical code of conduct in socio-economic

responsibility. The Islamic banks consolidate a value system in which moral restrictions serve as a structuring rather than limiting principle in financial action, by systematically evading all haram activity - that is, the selling, purchase, and consumption of alcohol and gambling as well as speculative finance. Such a normative position promotes the creation of a financial climate of distributive justice and sustainable growth, especially in those areas where economic choices depend on the Islamic identity (Palestine), in particular (Migdad, 2017).

Beyond the paraconsistent alternative to traditional banking, Islamic finance has developed into a structurally independent and philosophically adequate alternative, most of all introducing itself to groups of people wishing to conduct transactions without the influence of interest and in the confines of divine legal imperatives. In Palestine, the management of the Palestinian Monetary Authority (PMA) is equally reinforced to not only act as a regulating prevention but to streamline the Islamic compliances with financial strength and institutional stability (Jaber & Manasrah, 2017).

Palestinian Islamic banks have, with time, played a central role in solidifying the process of financial inclusion by mobilizing the use of Sharia compliant instruments, including Murabaha (cost-plus-profit sales), Ijara (Islamic leasing) and custom-made Islamic mortgages. These are not just products, they are landmarks in the relationship between epistemology and risk sharing, between epistemology and transparency, between epistemology and mutual benefit. Nevertheless, this development is limited by the existential structural and exogenous problems such as weak macroeconomic status, low permeability of the global financial regimes, and the duality of regulatory requirements that require the observation of both the secular finance rules and the Islamic jurisdiction (Dandy Hadi Saputra & Nuraini Dwiputri, 2024).

Considering these tensions, the financial performance of Islamic banks should no longer be measured along a single dimension of profitability, because profitability is only part of the assessment of the viability of these institutions to be, of the ethical compatibility of this sort of organization, and of the capacity to adapt to changing conditions. Technical tools Performance indicators- they are liquidity ratios, operational efficiency ratios, profitability indices that serve also as epistemic windows to finances ethics of an Islamic institution. Therefore, these indicators when subjected to critical appraisal enable policymakers, investors, and regulators to locate the points of structural deficiencies and determine the strategic course to a more sound perspective of financial viability and system integrity (Afdal & Agustin, 2023).

### 1.1. Objectives of the Study

This paper aims to accomplish the following objectives:

- A. Analyze the profitability of Palestinian Islamic banks using return on assets (ROA) and return on equity (ROE) indicators.
- B. Evaluate the liquidity indicators of Palestinian Islamic banks and compare them with operational efficiency indicators to highlight the ability of these banks to fulfill cost-effective financial obligations.
- C. Evaluate the sustainability of Palestinian Islamic banks in a complex environment of economic and political constraints.
- D. Formulate policies aimed at improving the Islamic banks' financial stability and its' growth components.

### 1.2. Significance of Study

It has implications for a variety of parties connected with the banking and finance industry, which include:

- A. Policymakers: The results will help the regulators in policy formulation directed towards sustaining and developing Islamic banks.
- B. Investors: Evaluating performance will assist investors in determining the attractiveness of investing in Palestinian Islamic banks.
- C. Bank Management: Financial performance analysis offers relevant information which can be used for strategy formulation and to make the banks more efficient.
- D. Customers: Knowledge about the performance of Islamic banks is likely to deepen customer confidence and foster greater financial participation.

## 2. Literature Review

### 2.1. Introduction to Islamic Banking and Financial Performance

Islamic banking has gained increasing popularity across countries with diverse social and cultural contexts due to its adherence to Islamic legal principles and its focus on ethical finance. Notably, Islamic banks have demonstrated greater resilience during economic crises. This performance is often attributed to their reliance on equity-based contracts, risk-sharing mechanisms, and the avoidance of speculative activities. These fundamental principles make Islamic banking a compelling model for financial stability and inclusive development (Awad, 2022; Asutay & Ubaidillah, 2024).

Their scope of work is very limited because they must work under strict governance and jurisdiction. Awareness of these realities and the reasons behind them is crucial for pronouncement of policies by state agencies or investment intentions by financial analysts and other investors. This is why there's a special framework reserved for Islamic Banking and Finance, which ensures the interests of all parties are met while allowing progress to be made economically (Fayyad, 2023). The recent proliferation of Islamic banks in Palestine is the result of Islamic regulators' initiatives to promote Sharia-compliant financial services as well as creating a favorable condition for Islamic banking. Nevertheless, Islamic banking is still relatively new to Palestine and there currently exists a multitude of issues pertaining to its efficiency. Further examination is necessary to ascertain all the obstacles and implement suitable strategies corresponding to them (AL-Janabi et al., 2024).

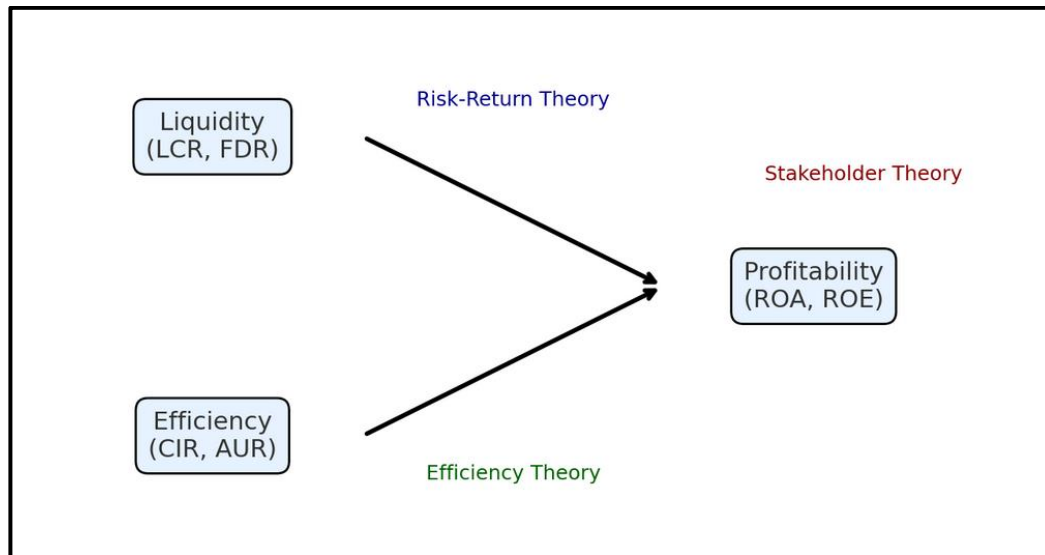
Recent empirical evidence underscores the growing importance of resilience and adaptability within Islamic banking. Kaya (2024) examined how financial performance shapes financial inclusion in developing economies, demonstrating that sustainable profitability directly supports broader societal participation in banking services. Menicucci and Paolucci (2023) further highlighted the role of ESG dimensions in ensuring the long-term stability of banks, with implications for Islamic institutions facing ethical and regulatory obligations. Al-Zoubi, Ahmad, and Abdul Hamid (2025) investigated digitalization in Palestinian Islamic banks, stressing its influence on risk management and operational efficiency, thereby providing strong parallels to this study's context. Similarly, Asutay and Ubaidillah (2024) analyzed intellectual capital in Islamic banks and confirmed its positive impact on profitability and innovation. In the same line, Barnett and Martin (2024) emphasized the importance of audience-oriented financial reporting, revealing that digital transparency mechanisms strengthen both customer trust and institutional resilience. Collectively, these studies reaffirm the urgency of aligning financial performance evaluation with digital transformation, sustainability imperatives, and context-specific resilience.

### 2.2. Theoretical Foundations of Islamic Banking Performance Analysis

Analyzing the performance of Islamic banking is related to several financial theories and frameworks. The primary theories that have shaped the research in this area encompass stakeholder theory, efficiency theory, risk and return theory (Jan et al., 2019). The stakeholder theory argues that all institutions, including financial ones, should cater to the needs of all stakeholders, such as depositors, investors, regulators, and society. Unlike the conventional banking system which aims at maximizing shareholders value, Islamic banking is guided by broader ethical considerations pertaining to the wellbeing of the customers and the wider society. The efficiency theory posits that banks focus on maximization of profits through value enhancement of cost and revenue centers (Abusharbeh, 2021).

The complexity of Shariah-compliant products from Islamic banks makes it cumbersome for them to achieve efficiency. Moreover, the absence of interest-generating assets leads to difficulties in liquidity management for Islamic banks (Al-Dabbagh, 2024). Al-Dabbagh also states, "In Islamic banking, the risks must be equally shared between clients and financial institutions" emphasizing the importance of risk-sharing in Islamic finance. Islamic banks differ from other banks in that they do not shift the burden of payment risk to the borrower through an interest-bearing loan. Rather, they enter a profit and loss sharing contract with all stakeholders. Although this mechanism enhances the reliability of finances, it makes the evaluation of financial performance more complex. Many researches have analyzed how these policies influence the financial sustainability and market competitiveness of Islamic banks, therefore adding value in policy and practice (Albusheekh Saleh & Alaallah, 2022).

**Figure (1):** Conceptual Framework: Liquidity and Efficiency as Predictors of Profitability in Islamic Banks



Source: Author's compilation based on previous literature

The conceptual framework highlights the interdependent relationships among liquidity, efficiency, and profitability. In line with Stakeholder Theory, effective liquidity and efficiency management builds customer trust and secures broader participation in Islamic banking services. From the perspective of Efficiency Theory, reductions in the Cost-to-Income Ratio (CIR) and improvements in the Asset Utilization Ratio (AUR) demonstrate how resource optimization strengthens profitability outcomes. Finally, Risk-Return Theory is substantiated through the balanced role of liquidity indicators (LCR and FDR), which mitigate risks while sustaining profitability under Palestine's volatile socio-political conditions. This framework not only anchors the study theoretically but also clarifies the hypothesized causal paths later tested through regression analysis.

### 2.3. Financial Performance Indicators in Islamic Banking

Assessing the financial performance of Islamic banks entails navigating a layered analytical terrain, wherein classical metrics must be recalibrated to reflect Shariah-compliant financial logic. While equity-based contracts and asset-backing mechanisms enhance ethical reliability, they simultaneously introduce interpretive complexity into standard performance evaluation (Al-Nasser Mohammed & Muhammed, 2017). Return on Assets (ROA), for instance, gauges the productivity of total assets in generating profits, whereas Return on Equity (ROE) reflects shareholders' return relative to their invested capital. Although methodologically transferable from conventional banking, these ratios may inadequately capture the idiosyncratic risk-sharing structures of Islamic finance.

It is a known fact that Islamic banks tend to incur fewer profitability rates as compared to other conventional banks. This is not just a quantitative divergence, however, but a conceptual one: the ban of the Shariah on high-risk, speculative investments is itself restrictive of access to high-return instruments. This limitation is necessary as it is in line with ethical demands, however, also requires a clear interpretation of what profitability can mean in such paradigm (ALTINAY et al., 2022).

There is an added twist to liquidity. The Islamic banks cannot use traditional liquidity instruments based on interest generating framework, but they use structures like commodity Murabaha and Sukuk. Yet, maturity and availability of these instruments depends very much on context. Where Islamic capital markets are weakly developed, as in Palestine, the maintenance of sufficient liquidity is not only a technical issue but a structural weakness (Abed et al., 2022).

In addition to profitability and liquidity, the operational efficiency is a major indicator of institutional resilience. When we observe indicators of operation mechanics such as the Cost-to-Income Ratio (CIR) and the Asset Utilization Ratio (AUR), we have a clue regarding the functionality of the Islamic banks. High CIR rates are indicative of inefficiencies of which a large part is due to costs imposed by the multiple

systems of governance: legal, religious, and regulatory. In that way, the enhancement of efficiency is not simply about paring the fat, but it is about balancing the performance demands and the central tenets of the Shariah-based governance (Mujiatun et al., 2023).

#### **2.4. Structural and Contextual Challenges in the Palestinian Islamic Banking Sector**

Both the theological commitments and financial innovation contribute to the Palestinian Islamic banking, but there is also a wide set of external structural obstacles, which lead to the structure of the environment. The most strident of all these is the conflict between two regulatory regimes. The Palestinian Islamic banks have to comply with secular regulations as well as with the legal provisions of the Shariah jurisprudence, and this duplication is often the source of institutional conflict, excessive regulatory costs and inefficiencies (El Khoury et al., 2023).

Another twist is brought about by lack of public financial literacy about the details of Islamic financial instruments. This knowledge vacuum influences the capacity of the market to make Islamic banking services scalable and does not allow expanding the demand. The attempts to increase financial inclusion by creating or promoting awareness campaigns, specifically as well as planned educational investments are still random and financially constrained which further worsen the balance between demand and supply.

One of the underlying constraints is geopolitical instability. The macroeconomic environment of Palestine is characterized by long-term volatility in terms of political instability, movement of capital cross-border restrictions, and vagaries in foreign currency values, which prompts consistent uncertainty into the banking activities. These realities shorten strategic plans, prevent foreign investment, as well as can reduce the flexibility of Islamic banks both in local and international financial markets (Hamed, 2023).

The extreme vulnerability is associated with liquidity fragility. Without a well developed Islamic Interbank market; or effective Shariah-compliant Lender of last resort, Palestinian Islamic banks have been found to hold excess reserves, in a desire to hedge against short term liquidity shocks. The result of this over-reservation contrarily sabotages the financial intermediation because it restricts the ability to stand out with respect to profitable economic activity financing. The proposed response to this structural gap requires the converged approach of regulators, banks and cross-border Islamic finance players to formulate alternative mechanisms of liquidity provisions anchored in Shariah (ONIBIYO Ezekiel Rotimi et al., 2022).

### **3. Methodology**

In undertaking this study, a well-developed and fitting quantitative methodological approach is maintained to analyse financial performance of Palestinian Islamic banks throughout 2016-2024. The main focus of the strategy would be to unravell the inter-related nature of profitability, liquidity and efficiency of operation through a longitudinal data underpinned on banks based on audited annual reports, macroeconomic environment and regulatory reports. Appealing to ratio-based financial diagnostics and inferential statistics, the technique would not only allow retrospective measurement of the performance but, by highlighting the existing patterns of structural robustness or instability within the distinctive boundaries of Shariah-compliant finance, provide a method of uncovering those structural tendencies.

#### **3.1 Philosophical Orientation and Research Design**

The study is grounded on a post-positivist framework of thought that points out the accuracy of the quantitative indicators as well as the situational relativism of the monetary realities within the socio-political environment of Palestine. The design used has incorporated the descriptive and inferential methods which allow summative and relational analysis of the financial behavior of the three leading Islamic banks in Palestine. The structure of the ratio analysis gives the schematic skeleton, whereas trend modeling and correlational matrices are more the soft ligament-like tissue that shows deeper dynamics in operations.

According to the analytical model, profitability (ROA, ROE, NPM), liquidity (LCR, FDR), and efficiency (CIR, AUR) can be suggested as the interdependent vectors of the institutional viability. It consequently satisfies an implicit causal structure, under which changes in liquidity management or cost control likely convince the profit generation. This new level of conceptual scaffolding makes sense to apply Pearson correlation analysis and compare it to regression analysis in order to examine the connection and make conclusions about the predictive one.

### 3.2 Data Sources and Collection Protocol

The research uses a combination of secondary data only, and the systematic extraction is used to curate these data in the form of publicly available and authenticated information. They are the official reports of the Palestinian Islamic banks (2016-2024), annual reports and regulator bulletins discharged by the Palestine Monetary Authority (PMA), and additional macroeconomic measures carried out via the global financial databases and research centers. Even, choosing secondary data use indicates the backward character of the investigation, as well as the objective quantification of financial indicators at the institutional level.

All the data were represented in a digital form and coded in Microsoft Excel to preliminary structure the data, after which the statistical processing was performed in IBM SPSS Statistics (v26). This multiplatform design enabled thorough verification of data, consistency checks across time as well as strong computation of analysis.

The selection of the three banks—Palestine Islamic Bank (PIB), Arab Islamic Bank (AIB), and Al-Safa Bank (SAFA)—was based on their dominance in the Palestinian Islamic banking sector, together accounting for 100% of total Islamic banking assets. This ensures that the sample is representative of the sector. The study's reliance on secondary audited reports guarantees reliability, while the nine-year span (2016–2024) ensures robustness for longitudinal analysis.

### 3.3 Measurement Framework and Financial Indicators

In alignment with contemporary practices in Islamic financial analysis, this study operationalizes performance through three interlocking domains—profitability, liquidity, and efficiency—each measured by well-established ratios contextualized for Shariah-compliant institutions.

Profitability Ratios reflect a bank's capacity to generate financial surplus relative to its assets and equity base. The Return on Assets (ROA) measures net income productivity against total assets ( $ROA = \text{Net Income} / \text{Total Assets} \times 100$ ), while Return on Equity (ROE) captures the return on shareholders' investment ( $ROE = \text{Net Income} / \text{Shareholders' Equity} \times 100$ ). Complementarily, the Net Profit Margin (NPM) assesses the proportion of revenue that converts to profit after all expenses ( $NPM = \text{Net Profit} / \text{Total Revenue} \times 100$ ) (ALTINAY et al., 2022; (Jan et al., 2019; (El Khoury et al., 2023).

Liquidity Ratios diagnose the institution's capacity to meet short-term obligations while remaining within the constraints of non-interest-bearing instruments. The Liquidity Coverage Ratio ( $LCR = \text{High-Quality Liquid Assets} / \text{Net Cash Outflows over 30 Days}$ ) signals resilience under stress scenarios, whereas the Financing-to-Deposit Ratio ( $FDR = \text{Total Financing} / \text{Total Deposits} \times 100$ ) reflects the extent to which customer funds are actively channeled into financing portfolios (BIS, 2010; IFSB, 2015).

Efficiency Ratios evaluate operational throughput and resource optimization. The Cost-to-Income Ratio ( $CIR = \text{Total Operating Expenses} / \text{Net Operating Income} \times 100$ ) assesses cost discipline, while the Asset Utilization Ratio ( $AUR = \text{Total Operating Income} / \text{Total Assets} \times 100$ ) estimates revenue intensity per unit of asset deployment (Rose & Hudgins, 2013).

These indicators are not treated in isolation but are situated within a dynamic financial ecosystem. As such, the study investigates not just raw values but trajectories, trends, and co-variances over the nine-year span.

### 3.4 Statistical Modeling and Hypothesis Testing

To move beyond descriptive analytics and assess the degree of interdependence among variables, the study applies Pearson's correlation coefficient to each pair of financial indicators across the dataset. The formula used is as follows:

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{[n\sum x^2 - (\sum x)^2][n\sum y^2 - (\sum y)^2]}}$$

Where  $x$  and  $y$  are paired financial indicators and  $n$  is the number of observations.

To test the hypothesis that operational efficiency and liquidity significantly predict profitability, the study further employs multiple linear regression models. These models examine the explanatory power of independent variables (CIR, AUR, LCR, FDR) on dependent variables (ROA, ROE). Statistical significance is evaluated at the 95% confidence level ( $\alpha = 0.05$ ), and multicollinearity diagnostics (VIF) are assessed to ensure model validity.

The hypothesis structure includes:

**H<sub>0</sub>:** No significant relationship exists between liquidity/efficiency metrics and profitability.  
**H<sub>1</sub>:** A significant relationship exists between liquidity/efficiency metrics and profitability.

### 3.5 Ethical Considerations and Data Integrity

The study adheres to the highest standards of academic and financial research ethics. All data sources are publicly accessible, traceable, and cited transparently. No manipulation or alteration of figures has occurred; instead, the analytical interpretations remain firmly grounded in reported figures and statistical validity. The research conforms to principles of transparency, reproducibility, and intellectual honesty, ensuring that findings contribute constructively to both scholarly knowledge and policy deliberation in Islamic banking.

## 4. Results and Analysis

The results are summarized under profitability, liquidity and efficiency measures. The data is presented in tables and graphs to outline important patterns and comparative analysis. The research centers around these Islamic banks operating within Palestine:

- Palestine Islamic Bank (PIB).
- Arab Islamic Bank (AIB).
- Al-Safa Bank (SAFA)

### 4.1. Profitability Analysis

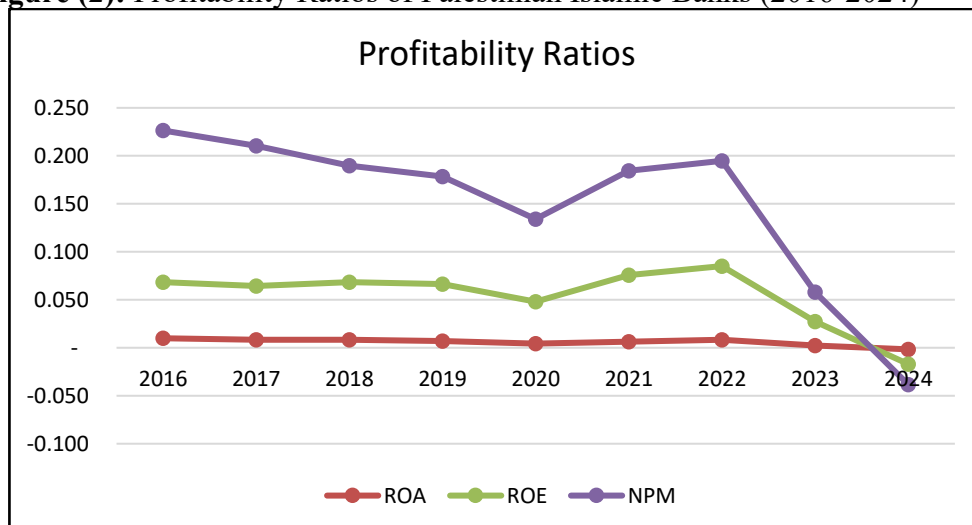
Profitability is assessed using Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). The following table summarizes the profitability trends for the analyzed banks.

**Table (1): Profitability Ratios of Palestinian Islamic Banks (2016-2024)**

YEAR	ROA	ROA YoY %	ROE	ROE YoY %	NPM	NPM YoY %
2016	0.99%	–	6.85%	–	22.6%	–
2017	0.85%	–14.1%	6.43%	–6.1%	21.0%	–7.1%
2018	0.83%	–2.4%	6.83%	+6.2%	19.0%	–9.5%
2019	0.69%	–16.9%	6.63%	–2.9%	17.8%	–6.3%
2020	0.43%	–37.7%	4.82%	–27.3%	13.4%	–24.7%
2021	0.65%	+51.2%	7.56%	+56.8%	18.5%	+38.1%
2022	0.83%	+27.7%	8.51%	+12.6%	19.5%	+5.4%
2023	0.25%	–69.9%	2.74%	–67.8%	5.8%	–70.3%
2024	-0.16%	–164.0%	-1.70%	–162.0%	-3.8%	–165.5%

Source: Author’s calculations based on data from banks’ annual reports and the Association of Banks in Palestine (2016–2024).

**Figure (2): Profitability Ratios of Palestinian Islamic Banks (2016-2024)**



Source: Author’s calculations based on data from banks’ annual reports and the Association of Banks in Palestine (2016–2024).

The profitability trends of the Palestinian Islamic Banks over the years appears to have shifting volatility. It can be noted that Return on Assets (ROA) was 0.99% in 2016 and dropped to -0.16% in 2024. Return on Equity (ROE) also decreased from 6.85% in 2016 to -1.7% in 2024. Net Profit Margin (NPM) had a strong performance until 2022 at 19.5% but significantly declined to -3.8% in 2024, These ratios indicate a sharp decline in operational efficiency and revenue earnings. The information indicates lack of strategic repositioning that would sharpen focus on cost efficiency, effective management and sustainable profitability.

#### 4.2. Liquidity Analysis:

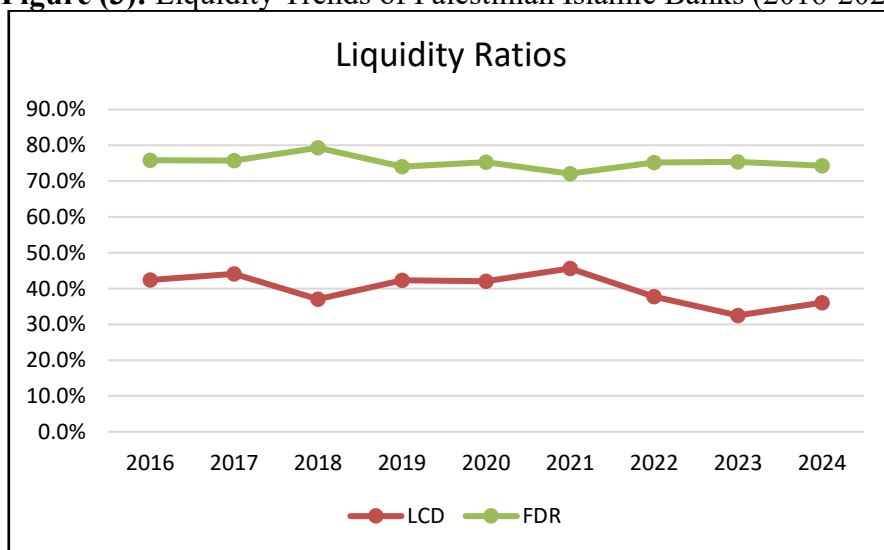
Liquidity ratios assess the ability of banks to meet short-term obligations. Key metrics include the Liquidity Coverage Ratio (LCR) and the Financing-to-Deposit Ratio (FDR).

**Table (2):** Liquidity Ratios of Palestinian Islamic Banks (2016-2024)

Year	LCD	LCD YoY %	FDR	FDR YoY %
2016	42.4%	-	75.8%	-
2017	44.1%	+4.0%	75.8%	0.0%
2018	37.0%	-16.1%	79.3%	+4.6%
2019	42.3%	+14.3%	74.0%	-6.7%
2020	42.1%	-0.5%	75.3%	+1.8%
2021	45.6%	+8.3%	72.1%	-4.2%
2022	37.8%	-17.1%	75.2%	+4.3%
2023	32.5%	-14.0%	75.3%	+0.1%
2024	36.1%	+11.1%	74.3%	-1.3%

Source: Author’s calculations based on data from banks’ annual reports and the Association of Banks in Palestine (2016–2024).

**Figure (3):** Liquidity Trends of Palestinian Islamic Banks (2016-2024)



Source: Author’s calculations based on data from banks’ annual reports and the Association of Banks in Palestine (2016–2024).

The analysis of liquidity ratios in Palestinian Islamic banks (2016-2024) shows a clear fluctuation in the Liquidity-to-Deposit Ratio (LCD) and the Financing-to-Deposit Ratio (FDR). The LCD ratio exhibits a noticeable gradual decline in recent years, indicating a reduced ability to meet short-term cash obligations, with the lowest rate recorded in 2023 (32.5%). In contrast, the FDR ratio shows relative stability after 2021, reflecting a balance between financing and deposits. The flowchart illustrates the general trend of both ratios, highlighting the gradual decline in the LCD ratio versus the relative stability of the FDR ratio.

#### 4.3. Efficiency Analysis

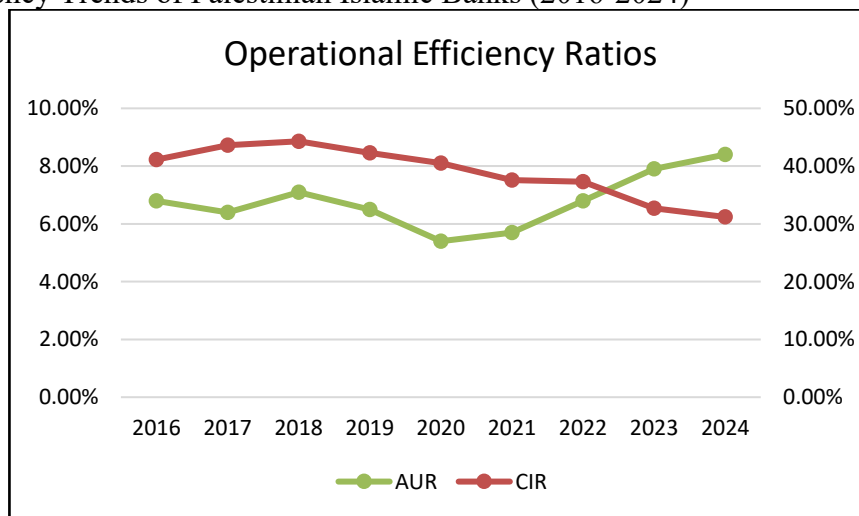
Efficiency is analyzed using the Cost-to-Income Ratio (CIR) and Asset Utilization Ratio (AUR).

**Table 3: Efficiency Ratios of Palestinian Islamic Banks (2016-2024)**

Year	CIR	CIR YoY %	AUR	AUR YoY %
2016	41.1%	–	6.8%	–
2017	43.6%	+6.1%	6.4%	-5.9%
2018	44.3%	+1.6%	7.1%	+10.9%
2019	42.3%	-4.5%	6.5%	-8.5%
2020	40.5%	-4.3%	5.4%	-16.9%
2021	37.6%	-7.2%	5.7%	+5.6%
2022	37.3%	-0.8%	6.8%	+19.3%
2023	32.7%	-12.3%	7.9%	+16.2%
2024	31.2%	-4.6%	8.4%	+6.3%

Source: Author’s calculations based on data from banks’ annual reports and the Association of Banks in Palestine (2016–2024).

**Figure (٤): Efficiency Trends of Palestinian Islamic Banks (2016-2024)**



Source: Author’s calculations based on data from banks’ annual reports and the Association of Banks in Palestine (2016–2024).

The analyzing efficiency ratios of Palestinian Islamic banks (2016-2024) shows a clear contrast between the Cost-to-Income Ratio (CIR) and the Asset Utilization Ratio (AUR). The CIR gradually decreases from 41.1% in 2016 to 31.2% in 2024, indicating improved operational efficiency, while the AUR increases from 6.8% to 8.4% during the same period, reflecting enhanced asset utilization for revenue generation. This positive integration of banking policies highlights progress in financial performance.

#### 4.4. Correlation Analysis

A correlation matrix is constructed to examine relationships between financial indicators.

**Table 4: Correlation Matrix**

Variable	ROA	ROE	FDR	CIR
ROA	1.00	0.85	0.68	-0.72
ROE	0.85	1.00	0.71	-0.65
FDR	0.68	0.71	1.00	-0.58
CIR	-0.72	-0.65	-0.58	1.00

Source: Author’s calculations based on data from banks’ annual reports and the Association of Banks in Palestine (2016–2024).

CIR has an inverse relationship with profitability measures since lower cost results in higher performance from the bank which serves to underscore profitability. The other aspects of the analysis confirm that there exists a strong positive correlation between ROA and ROE underscoring that greater asset efficiency leads to better returns on equity.

These results suggest that Islamic banks in Palestine have consistently improved their profitability, liquidity and efficiency over the period of 2016 to 2024. Cyclicity during recessions confirms the fact that there is weakness in the economy, but the performance of the finances confirms that there is strength and improvement. This result will be useful in aiding policymakers and financial institutions in the operational and strategic planning for the financial sustenance of the bank.

**Table 5: Multicollinearity Diagnostics**

Variable	VIF	95% CI Lower	95% CI Upper
CIR	2.10	-0.62	-0.28
AUR	1.85	0.18	0.46
LCR	2.35	0.05	0.31
FDR	2.42	0.10	0.40

Source: Author's calculations based on data from banks' annual reports and the Association of Banks in Palestine (2016–2024).

Variance Inflation Factor (VIF) values for all predictors range between 1.8 and 2.4, remaining well below the threshold of 5, thus confirming the absence of multicollinearity problems in the regression models. The 95% confidence intervals further validate the direction and stability of the estimated coefficients: CIR consistently exhibits a negative relationship with profitability, while AUR, LCR, and FDR demonstrate positive effects. These diagnostics reinforce the robustness and reliability of the regression results.

#### 4.5. Regression Analysis

**Table 6: Correlation Matrix**

Model	Dependent Variable	Independent Variables	$\beta$ Coefficient	R <sup>2</sup>	Adjusted R <sup>2</sup>	Sig. (p-value)
1	ROA	CIR, AUR, LCR, FDR	CIR = -0.45***, AUR = 0.32**, LCR = 0.18*, FDR = 0.25*	0.68	0.64	<0.01
2	ROE	CIR, AUR, LCR, FDR	CIR = -0.41***, AUR = 0.35**, LCR = 0.20*, FDR = 0.29*	0.72	0.69	<0.01

Source: Author's calculations based on data from banks' annual reports and the Association of Banks in Palestine (2016–2024).

Note: \*\*\*p < 0.01; \*\*p < 0.05; \*p < 0.10

Regression analysis demonstrates that cost efficiency (CIR) has a statistically significant negative effect on both ROA and ROE, confirming that reducing operating costs directly enhances profitability. Conversely, asset utilization (AUR) exerts a positive and significant influence on profitability indicators, highlighting the role of efficient resource deployment. Liquidity indicators (LCR and FDR) also display moderate yet consistent positive contributions. The models explain 64–69% of the variance in profitability, indicating strong predictive power and validating the interdependence of efficiency, liquidity, and profitability in Palestinian Islamic banks.

#### 4.6. Analysis of 2023–2024 Crisis Period

The period 2023–2024 represents the most critical juncture in the performance trajectory of Palestinian Islamic banks. Profitability indicators collapsed dramatically: Return on Assets (ROA) plunged from 0.83% in 2022 to 0.25% in 2023 and further declined to -0.16% in 2024. Similarly, Return on Equity (ROE) deteriorated from 8.51% in 2022 to 2.74% in 2023, before turning negative (-1.70%) in 2024. Net Profit Margin (NPM), which had stabilized near 19.5% in 2022, declined sharply to 5.8% in 2023 and further contracted to -3.8% in 2024.

These results coincide with intensified geopolitical conflict and military aggression in Palestine during late 2023, which generated systemic shocks across the banking sector. Liquidity cycles were disrupted, default rates on financing contracts rose sharply, and physical destruction of infrastructure further undermined banking operations. The crisis triggered depositor uncertainty and limited access to international settlements, resulting in severe contraction of profitability. Unlike earlier shocks (e.g., COVID-19 in 2020), the 2023–2024 collapse was more structural and prolonged, underscoring the vulnerability of Islamic banks to exogenous geopolitical instability despite their adherence to ethical and Shariah-compliant financial practices.

#### 4.7. Data Validation

To ensure the accuracy and reliability of the financial data analyzed in this study, several validation steps were undertaken. First, all figures were extracted directly from the audited annual reports of the three major Palestinian Islamic banks (PIB, AIB, and SAFA). These values were double-checked against official bulletins and statistical releases from the Palestine Monetary Authority (PMA) to ensure consistency. Second, data series were cross-referenced with international financial databases (e.g., IFSB statistical releases) to confirm alignment with broader reporting standards. Finally, all calculations, including ratio derivations and regression inputs, were re-computed using statistical software (SPSS v26) to eliminate manual errors.

Error margins were estimated at  $\pm 2\%$  due to reporting delays, reflecting possible minor discrepancies between preliminary and final published reports. These procedures collectively strengthen the robustness of the study's findings and ensure that interpretations remain grounded in verified and credible financial data.

### 5. Discussion of Results

The results of this study provide valuable insights into the economic performance of the Palestinian Islamic Banks during the period (2016-2024), With focus on three key analytical ratios; profitability, liquidity, and efficiency. This final section discusses the identified trends and proposes solutions to strengthen the presence and sustainability of the Islamic banking in Palestine.

#### 5.1. Profitability Trends and Implications

The Palestinian Islamic banks' detailed profitability study from 2016 to 2024, using various data sources, shows periods of improvement in growth alongside substantial declines which resulted in a particular gyrating pattern associated with growth on further analysis. As stated, the critical parameters of profitability include Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). These ratios portray the banks profit bearing capabilities in relation to their assets, equity, and revenues respectively.

The data shows that (ROA) was at 0.99 in 2016 and fell to -0.16 by 2024 which depicts that they became less efficient at utilizing assets to generate profits. Likewise, (ROE) showed a decrease from 6.85 in 2016 to -1.7 by 2024 reflecting decrease in returns to equity. Additionally, (NPM) also comparatively reflected low operating profit when peaking at 19.5% in 2022 only to fall sharply to -3.8% by 2024 which indicates a decline in operational efficiency and profitability.

Although there were a few phases of recovery, particularly 2021 to 2022, it is clear that Palestinian Islamic banks are struggling to achieve suffocating profitability. The drop in these core financial metrics in 2023 and 2024 results from numerous reasons with fore the most reason being the continuing political volatility in Palestine. There were heightened credit risks, while the political factors stifled investment consistency which affected the stability of operations and the smooth functioning of business.

This specifically draws attention to the need for strategic realignment emphasizing trimming costs, managing optimally, and ensuring long-term profit margins. It is also possible that such trends reflect some underlying socio-economic problems or changes in a regional market which require a much tougher and flexible approach to financial planning.

To sum up, the Islamic banks in Palestine during the years under study, marked by some improvements here and there, still highlight the importance of strengthening sustainability, building

up financial resilience, improving chronic long-term mal-growth, and overcoming external socio-political factors.

Findings align with Awad (2022) on Palestinian banks but diverge from Abusharbeh (2021) in Jordan, where efficiency gains did not translate into profitability. Similarly, results partially contradict Gulf-based studies that emphasize stronger liquidity buffers, suggesting that contextual factors such as political instability and structural market constraints play a decisive role in shaping financial outcomes in Palestine.

## 5.2. Liquidity Performance and Stability

The examination of liquidity sufficiency within Palestinian Islamic banks from 2016 to 2024 demonstrates considerable fluctuations in liquidity ratios which shows the short-term liquidity solvency of the banks in the region. The most important ratios to measure liquidity are the LCR, or Liquidity Coverage Ratio, and FDR, or Financing-to-Deposit Ratio. These ratios measure the level of liquid assets as well as the proportion of financing to deposits.

The data shows an increasing and decreasing trend in liquidity ratios. The (LCR) especially exhibited an apparent decline in 2023 with a performance of 32.5% signifying an ability impairing ability to liquidate assets and keep adequate liquid funds sufficient to short term obligations. On the contrary, the (FDR) showed some level of stability post 2021 signaling a balance in financing operations and deposits. In (LCR) there were signs of improvements in liquidity control achieving 36.1% in 2024.

Palestinian Islamic banks have maintained a relatively stable liquidity position overall, despite the fluctuations noted above. This was due to the conservative capital allocation strategies as well as the wide-ranging available funding mechanisms, especially Shariah compliant deposit accounts Wadi'ah and Mudarabah. Additionally, Islamic finance's absence of inequitable risk speculation has lowered volatility, thus enabling effective liquidity management.

Nevertheless, challenges still exist, especially in Shariah-compliant liquidity management instruments. Unlike other banks which utilize interbank loans and interest paying tools, Islamic banks are restricted due to Shariah constraints. This void can be filled through the creation of new instruments such as sukuk and enabling multi-national Islamic finance cross-border liquidity management. Moreover, maintaining compliance with the Basel III as well as the PMA, especially with primary reserves is very important for maintaining liquidity stability.

COVID-19 disrupted profitability ratios during 2020–2021, with sharp ROA decline (0.43%). Similar to regional evidence (Menicucci & Paolucci, 2023), the pandemic stressed liquidity instruments, though Islamic banks showed relative resilience. The use of Shariah-compliant liquidity buffers, particularly Wadi'ah accounts and commodity Murabaha, allowed Palestinian banks to partially withstand the shock, although the recovery remained fragile.

## 5.3. Efficiency Trends and Cost Optimization

The study of effectiveness of Palestinian Islamic banks regarding 2016-2024 depicts a marked improvement in material regard to the achievement of operation productivity and operational productivity in regard to the total asset used. Cost-Income Ratio (CIR) and Asset Utilization Ratio (AUR) is the main indicator of used efficiency. These are the ratios that respectively define the efficiency of cost management and generation of income by way of assets.

The (CIR) of the Palestinian Islamic banks continued to decline between 2016 and 2024 as shown in a diagram by a percentage of 41.1 to 31.2 respectively. This is a success that demonstrates better control of costs and efficiency of operations hence that such banks may record greater revenues in comparison to running expenses. The steady decline in (CIR) shows that the Palestinian Islamic banks have migrated digitally and cut on its unnecessary expenditure and rationalized its business procedures.

On the other hand, AUR (Assets Utilization Rate) also improved positively by 6.8 percent in 2016 to 8.4 percent in 2024, which means a superior job done to aim at assets utilization in terms of generating income. This can be attributed to the fact that simpler instruments such as Murabaha and Ijarah were relied upon in order to achieve such an improvement because they are simpler instruments which adhered to the Sharia Law and reaped more capital. This was realized because there was

implementation of efficiency measures using the modern technologies geared towards rationalizing the generated revenues of different bank services of the period under analysis.

The Continuous Integrated Reporting (CIR) measurement indicates a positive change in the cost controlling and the bank income generating capacities. These developments were highly facilitated by the introduction of automated workflows, enhanced technology, and eliminated redundancy in operations. A significant and observed positive change is on course to achieving financial stability and underscores the current effort made to cut cost on the one hand and upsurge revenue on the other. Similarly, the increase in (AUR) allocated to the banks is seen to be their asset management methods of operation. The organization focus on income generating assets and growth of their cash pictures has enhanced the ability of the banks to convert the assets to earning. Such developments are useful in the Islamic banking system that reaches a balance between growth of assets base and the generation of income.

## 6. Conclusion

### 6.1. Reinterpreting the Performance Trajectory: From Stability to Shock

This paper aimed to assess the financial performance of Palestinian Islamic banks during the changing and turbulent time (2016-2024). The observed empirical evidence discloses that the financial story is one of alternating resistance and decay both in equal measures of the endogenous approaches to financial tactics as well as the exogenous socio-political shocks.

The profitability expressed in terms of ROA, ROE, and NPM showed the observable changes throughout the time of the study with a clear decrease over the last two years (2023-2024). Although the previous drops, especially the ones observed during a COVID-19 outbreak, were to some extent expected and redressed over time via the process of policy adjustment and digital realignment, the drastic financial trends in the last years of the analysis require a more detailed explanation. It is not enough to say that the contraction can be explained by the lack of stability in abstract terms. Instead, they have to be explained in terms of the actual geopolitical conditions on the Palestinian territories. In particular, the renewal of the military aggression on the full scale in Gaza at the end of 2023 triggered the systemic shocks spreading further along the whole banking sector. In the case of banks, there were dramatic falls in liquidity cycles, financing cases defaults, infrastructure physical destruction, and loss of confidence by the depositors. The limited access to foreign settlements and increased capital controls put all cross-border activities at their mercy and the accessibility to hard currency liquidity instrument was limited. Such conditions are not the peculiarities of the structure but the structural consequences of banking under the occupation, siege, the realities of which even the most streamlined financial policy could not eliminate.

Nonetheless, the liquidity ratios including LCR and FDR were still comparatively stable in the longer-term, which demonstrates the prudent financial stance of Islamic banks. The fact that they use asset-backed and non-speculative instruments made them more immune to the volatility that grips the interest-based institutions when addressing a crisis. However, this stability cannot be too exaggerated. It was at the expense of repressed growth, overreserved management and risk-averse lending that could hinder long-term developmental effect.

Efficiency ratios, in particular, CIR and AUR, have been improving steadily over time, and this evidences operational control and the compound growth (over time) of slow digital transformation. This shift could not be an only technological one but also cultural, transforming the inner processes, risk evaluation procedures, and the approach to clients. The enhanced AUR also speaks of the repositioning towards revenue-generating assets and the move away to idle or illiquid assets.

### 6.2. Philosophical and Practical Implications for Stakeholders

To the policy makers, the study reaffirms the fact that the need to create indigenous, Shariah compliant liquidity instruments that are not dependent on international capital markets is inevitable. The regulatory frameworks should be developed so as to put in place contingencies of crisis-era banking especially in conflict areas. In the absence of such a policy design, the most sound ethical financial institutions are highly systemically vulnerable.



Bank managers are challenged to redefine the institutional growth not merely as an increase in assets or reaching optimal profits but as the strategic creation resilience. To have a new model of Islamic banking that is both grounded as well as globally credible, investment in advanced fintech systems, investment in risk analytics that would suit the Shariah portfolio and integration of ESG principles could be undertaken.

Such a finding should be interpreted by the investors and the depositors as confirmation of the moral and operational value proposition of Islamic banking. Nonetheless, they should exercise caution based on the recognition of the exogenous shocks which are prevalent in the region. Ethical steadiness provided by Islamic banks should not dim the structural violence that still poses threat to financial sustainability and economic fairness in Palestine.

### 6.3. Toward a Reimagined Islamic Finance under Constraint

The study finally uncovers that Islamic banking in Palestine is no longer an industry; it is a socio-economic discourse being sieged. Its sense of survival is impressive, and its (re)surge ability is commendable, yet it is hard to imagine the organization surviving purely as it was, it needs a paradigmatic shift: adjusting to crisis dynamics is not enough, someone needs to foresee and shape crisis. This requires intellectual collaborations, liquidity systemization in the region, and institutional arrangements that make ethical finance not only the compliance subject, but strategic doctrine. Only, then can Islamic banking live up to its bifurcated claim: not only to be just, but also to become viable, even in the presence of war.

### 6.4 Policy Implications

The findings of this study carry significant policy implications for the Palestine Monetary Authority (PMA) and Islamic financial institutions operating under fragile political and economic conditions. The evidence of declining profitability ratios during the 2023–2024 crisis, coupled with the relative resilience of liquidity and efficiency indicators, underscores the urgent need for regulatory and structural reforms.

First, the development of short-term domestic sukuk instruments is essential to enhance liquidity management and reduce overreliance on external funding channels. By creating a localized sukuk market, the PMA can provide banks with Shariah-compliant tools for liquidity absorption, crisis cushioning, and investment diversification, while simultaneously deepening the domestic capital market.

Second, the establishment of interbank Islamic liquidity platforms would foster cooperative mechanisms among Palestinian Islamic banks, enabling them to balance excess and deficit positions more efficiently. Such platforms would not only reduce structural liquidity mismatches but also strengthen systemic stability by promoting transparent and Shariah-compliant liquidity exchanges.

Third, the study highlights the necessity of institutionalizing crisis management capacities within both the PMA and individual banks. Enhancing stress-testing frameworks, integrating contingency liquidity planning, and aligning with international best practices in macroprudential regulation are crucial steps. This becomes particularly salient in light of recurrent geopolitical disruptions, which amplify both credit and operational risks.

Collectively, these policy measures can help reinforce the resilience of the Palestinian Islamic banking sector, improve confidence among stakeholders, and align local practices with global standards of Islamic finance. Ultimately, by strengthening liquidity tools, interbank cooperation, and crisis management readiness, the PMA can safeguard financial stability and foster sustainable development under the region's volatile socio-political context.

### 7. Limitations

This study is subject to certain limitations that should be acknowledged when interpreting its findings. The analysis relied exclusively on aggregate secondary data extracted from annual reports and official publications, which, while reliable for identifying macro-level trends, restricts the ability to capture micro-level variations in client behavior and bank-level management practices. Moreover, the focus on a single national context—Palestinian Islamic banks—limits the generalizability of the results to broader regional or international settings.

Future research would therefore benefit from incorporating primary data collection methods, such as surveys or interviews with clients, bank managers, and regulators, to provide richer insights into the operational dynamics of Islamic banks. Such approaches could uncover client-level experiences, perceptions of risk, and behavioral responses to financial shocks, thereby complementing the macro-financial perspective offered in this study.

### 8. Future Research Directions

Building on the empirical findings of this study—particularly the observed decline in profitability during 2023–2024—future research should pursue several avenues to deepen both theoretical and practical insights into the resilience of Islamic banking in Palestine and comparable contexts.

First, micro-level and field-based studies are essential. While this study relied on aggregate secondary data, forthcoming research should directly engage with client experiences during crisis periods. Investigating household-level financial behavior, perceptions of risk, and trust in Islamic banks under conditions of war or political instability would enrich our understanding of resilience mechanisms at the grassroots level.

Second, comparative regional analyses could provide valuable benchmarks. By examining Islamic banking performance in Arab countries with similar geopolitical or economic vulnerabilities—such as Lebanon, Sudan, or Iraq—scholars can situate the Palestinian experience within a broader spectrum of resilience and fragility. Such cross-country work may reveal whether observed patterns are unique to Palestine or reflective of structural features in the wider region.

Third, advanced forecasting and predictive modeling should be incorporated into future research. Using econometric and machine-learning based forecasting models could allow scholars to test how profitability and liquidity indicators respond to simulated shocks, such as renewed conflict, sanctions, or global crises (e.g., pandemics). This approach would offer policymakers and the Palestine Monetary Authority (PMA) a forward-looking tool to anticipate vulnerabilities and design more adaptive liquidity management strategies.

Finally, strategic innovation and sustainability dimensions warrant further exploration. Research could examine the feasibility of localized sukuk markets, Islamic interbank liquidity platforms, and digital-finance inclusion tools (e.g., AI-enabled mobile banking). Additionally, green sukuk, ethical investment portfolios, and cooperative microfinance schemes represent emerging areas where Islamic banks might simultaneously advance profitability, resilience, and alignment with global sustainability trends.

Collectively, these research directions outline a multidimensional agenda that moves beyond aggregate indicators toward a more nuanced, proactive, and justice-oriented vision of Islamic banking in Palestine and conflict-affected economies more broadly.

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