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ORIGINAL

The Effect of Financial Performance Indicators on the Degree of Credit Risk in Jordanian Islamic Banks

El efecto de los indicadores de rendimiento financiero en el grado de riesgo crediticio en los bancos islámicos jordanos

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ABSTRACT

Introduction: credit risk management has become a critical concept that defines the survival, growth, and profitability of banks, and more recently, financial institutions and banks have played an essential role in the economic growth and development of any country.
Objective: this study examines the impact of financial performance indicators on the degree of credit risk in Jordanian Islamic banks. Utilizing a dataset spanning from 2018 to 2022, the research focuses on key independent variables: liquidity risk, pricing risk, collateral erosion risk, and the non-performing loan (NPL) ratio relative to total loans. The dependent variable is the degree of credit risk, measured through a composite risk score.
Method: the study employs a quantitative approach, collecting data from annual reports of Jordanian Islamic banks and publications by the Central Bank of Jordan. Descriptive statistics, correlation analysis, and multiple regression models are utilized to analyze the relationships between the independent variables and credit risk.
Results: the findings reveal that liquidity risk and NPL ratio have a significant positive impact on credit risk, indicating that higher liquidity issues and a greater proportion of non-performing loans elevate credit risk levels.
Conclusion: effective pricing strategies and robust collateral management are associated with reduced credit risk. These results underscore the importance of comprehensive risk management practices in enhancing the financial stability of Jordanian Islamic banks.

Keywords: Financial Performance; Liquidity Risk; Pricing Risk; Collateral Erosion Risk; Non-Performing Loan (NPL) Ratio Relative to Total Loans and Degree of Credit Risk.

RESUMEN

Introducción: la gestión del riesgo crediticio se ha convertido en un concepto fundamental que define la supervivencia, el crecimiento y la rentabilidad de los bancos y, más recientemente, las instituciones financieras y los bancos han desempeñado un papel esencial en el crecimiento y el desarrollo económico de cualquier país.
Objetivo: este estudio examina el impacto de los indicadores de rendimiento financiero en el grado de riesgo crediticio de los bancos islámicos jordanos. Utilizando un conjunto de datos que abarca desde 2018 hasta 2022, la investigación se centra en variables independientes clave: riesgo de liquidez, riesgo de precios, riesgo de erosión de las garantías y la ratio de préstamos morosos (NPL) en relación con el total de

préstamos. La variable dependiente es el grado de riesgo crediticio, medido a través de una puntuación de riesgo compuesta.
Método: el estudio emplea un enfoque cuantitativo, recopilando datos de los informes anuales de los bancos islámicos jordanos y de las publicaciones del Banco Central de Jordania. Se utilizan estadísticas descriptivas, análisis de correlación y modelos de regresión múltiple para analizar las relaciones entre las variables independientes y el riesgo crediticio.
Resultados: los resultados revelan que el riesgo de liquidez y la ratio de préstamos morosos tienen un impacto positivo significativo en el riesgo crediticio, lo que indica que los problemas de liquidez más elevados y una mayor proporción de préstamos morosos elevan los niveles de riesgo crediticio.
Conclusión: las estrategias de fijación de precios eficaces y una gestión sólida de las garantías se asocian con una reducción del riesgo crediticio. Estos resultados subrayan la importancia de las prácticas de gestión integral del riesgo para mejorar la estabilidad financiera de los bancos islámicos jordanos.

Palabras clave: Rendimiento Financiero; Riesgo De Liquidez; Riesgo de Fijación de Precios; Riesgo de Erosión de las Garantías; Ratio de Préstamos Morosos (NPL) En Relación con el Total de Préstamos y Grado De Riesgo Crediticio.

INTRODUCTION

Financial performance indicators and credit risk are an essential part of financial management, especially in the banking and lending sectors. Credit risk, known as default risk, therefore means that the borrower may not be able to perform their financial obligations, causing potential losses to the lender. Understanding credit risk management is critical for banks, as it ensures the sustainability of loan portfolios and overall stability.(1) Financial performance indicators also serve as the implicit compass guiding these banks, providing comprehensive metrics to assess their financial health, efficiency, and ability to generate sustainable returns, and providing stakeholders, including investors and regulators, with valuable insights into an organization's profitability, liquidity, and suitability.(2) Therefore, banks must work to find a delicate balance between providing credit to fuel economic growth and managing the inherent risks associated with lending and market volatility,(3) where benefits management for credit risk includes robust credit scoring models, comprehensive evaluations of borrowers, and continuous monitoring of loan performance. Financial performance indicators should also act as early warning signals to help banks identify potential vulnerabilities and take proactive measures to mitigate credit risk.(4) In this context, the interconnected nature of credit risk and financial performance underscores the importance of a comprehensive and dynamic approach to risk management in banks because banks Succeeding in navigating this complex landscape can not only protect their financial stability but also promote priority among stakeholders and contribute.(5)

The banking sector played a role as a mediator between units and deficits for economic growth and development, which became a primary source of funding for the majority of the company.(6) Therefore, the excessive competition, opportunities, and implicit tackling facing banks on various systems led to increased interest in the concept of conflicts and the emergence of insurance risks affecting banks through the failure of policies or the inadequacy of their systems; all of these events led to the loss of customers.(7) Therefore, for the survival and growth of the bank, it must take His food to reduce the risk of orientation banks. Credit risk fluctuations also indicate changes in the health of the bank's loan portfolio that are detrimental to the bank's performance.(8)

Credit risk generally refers to the main risks that affect the performance of banks. The rise in non-performing loans on the bank's balance sheet also avoids a factor that reduces the bank's profitability and affects its negative performance. Therefore, effective credit risk management in banks has become vital for their survival and planned growth.(9) Some positive studies have also indicated that impact extinctions affect financial performance.(10) Moreover, transaction management and financial performance are essential for banks to maintain their profitability, and since their core activity for the bank is credit creation, this makes credit risk inevitable. Therefore, credit risk is one of the highest risks of automated financing, leading to serious problems associated with the loss of capital, interest, and investment at the bank. Therefore, banks should be aware that credit risk management poses a threat to the financial performance of the bank.(11)

Therefore, the banking sector is one of the rapidly developing and expanding sectors that depend on it in the economic and material development of society by attracting deposits and savings from one party and granting them and providing them to other parties to provide credit and financing to other sectors.(12) Bank credit is one of the most important activities of commercial banks, so as long as the function of banks is to grant credit, credit risks will remain present whenever they rely on short-term weapons sources. In turn, long- and medium-term bank investments will keep priority risks present.(13) Threats are an inherent aspect of banks' business, especially given the high level of competition, sophistication, and increased volume of banking transactions. Where banks today face a set of implicit banking risks that vary in the degree of risk from one bank to another, and evaluation, analysis, and comprehensive study followed by effective management have become the basis for solving all risks, which are among the factors that help the success of banks and ensure their continued presence in the market.[14]

Also, loans are the largest source of bank credit risk. as credit risk is an interconnected and inherent element of financial and banking work, banks will face an increased risk of credit risk called potential losses resulting from the inability of customers to meet the value of the principal amount and its interest to the bank when it is due to credit risk. These risks are mainly when the borrower is unable to repay, and from here the problem begins and studies appear to measure and evaluate credit risk. The study revealed that non-performing loans and impairment fees negatively affect the financial performance of banks.[15,16]

The importance of this study comes from the importance of its dependent and independent variables, since the banking sector is considered one of the concerned Sectors in achieving growth and prosperity in other sectors through the provision of credit and others The main function of banks is to accept deposits and grant credits, and banks must ensure and commit to returning deposits on time when demanded. The theoretical importance stems from the fact that this study is based on measuring the degree of credit risk provided to customers since credit activity is one of the main activities of banks and the most profitable, at the same time, the highest risk. In the past years, credit risks have been highlighted through several studies. Whereas, there was a remarkable and increasing interest in studies and research on credit risks, especially after the global crisis (2007-2008) that led to the bankruptcy of many banks, companies and banks around the world.

The problem of the study is therefore credit risk and any risks that arise as a result of non-payment on time. These risks result in financial loss, as well as the risk that the borrower will not be able to repay the loan and its obligations as agreed. As a result, credit risk means a potential loss resulting from the inability of the borrowing customer to repay the borrowed amount and interest to the lending bank on the maturity date specified in the terms of the credit contract. These risks include both balance sheets and budget items such as loans and bonds.[17]

Commercial banks listed on the Amman Stock Exchange (ASE) face significant pressure to increase the level of financial disclosure and face problems in areas such as access, truthfulness, accuracy, and discretion of information. These problems include credit risk and control, investment, and financial decision-making.

Literature review

The banking sector plays an important role in economic development and is one of the most important sectors in the Jordanian economy. It provides liquidity and investment financing and is a window for investors and capitalists to look into the world.[18] Bank branches around the world contribute to increasing and developing trade and investment and expanding them to other countries. Banks therefore act as profit-seeking intermediaries between borrowers and lenders; moreover, banks also provide capital to industries through loans for expansion purposes.[19] The importance of this sector is also increasing because of the developments that impact it is witnessing, so banking activities are no longer limited to the financial intermediary but have become modern activities, with large roles, in the higher environment in which it operates.[20]

Moreover, banks have tried to address risks in all forms in all types of business, the most prominent of which are the credit risks arising from a series of failures and failures in some banking activities carried out by the bank and the situation we face every day because banking activities do not bring the expected results if the necessary precautions are taken and avoided. [1] Credit risk disclosure is also an important issue due to the nature of banking activities, as it was necessary to reflect the nature and characteristics of this important item in the bank's annual financial report to mitigate or mitigate risks. This leads to a better assessment of the bank's future financial performance by disclosing balanced and descriptive credit information in the context of the bank's financial statements to achieve its objectives. Credit risk is also one of the most important factors that banks are exposed to due to the economic situation. The foreign study[21] revealed that the default rate is the most predictive indicator of banks' financial performance for credit risk management.

Therefore, credit and liquidity risks have received considerable attention in the recent period in both developing and developed countries.[22] Credit risk is a strategy that banks around the world have resorted to protect bank balance sheets and depositors' savings, as credit risk is one of the important issues facing banks, especially at present, especially in light of financial and political instability. that the region suffers from.[23] In light of the competition between banks to achieve the highest possible level of profits, and try to avoid negative effects resulting from a lack of attention to the duration and management of them. Therefore, the study conducted by[24] indicated that credit risk management affects the performance of banks. In general, banks often face risk advantages such as credit and liquidity risk, and although each of these threats may exist independently, they are often interdependent and reciprocal in reality. [25] Therefore, the stability of the banking sector is a prerequisite for economic stability and growth, so the stability of the banking sector

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depends on profitability and the head of money. It also stabilizes the bank and its capital. It also depends on the stability of the banking sectors. It is also his capital. As it is, the risk that the trading partner fails to fulfill its contractual obligations at specific times or at any later time may significantly expose the bank's business to risks. On the other hand, the bank has a high risk of bankruptcy, putting depositors at risk.[26]

Moreover, some previous studies have indicated that automated banks, which generate income mainly through credit, have significant risks for the loan and the borrower, which in turn puts the bank at high risk due to the borrower's failure on schedule, posing a risk to the bank's liquidity.[27] A bank with high credit risk also has a high risk of bankruptcy, which puts depositors at risk because the interest rates charged by banks are quickly outperformed by inflation and borrowers find it difficult to repay loans in unstable economic environments due to low income, which leads to an increase in internal loans and an over-concentration in certain types of portfolios, leading to credit risk.[28] Therefore, the management of banks seeks to achieve the actual balance of careful evaluation of loan proposals to reduce credit risk while achieving sufficient profit to compensate stakeholders, including depositors and shareholders, because mitigating credit risk and earning sufficient profits leads to an increase in shareholder wealth, often as a primary goal of the bank's management, as credit risk is an essential part of Enhancing profitability reduces the cost of credit risk, and a credit risk strategy is essential to enhance the performance and survival of the bank.[29]

Therefore, we assess credit risk and create appropriate provisions for confirmed debts in their collection, which may be supported by banks in predicting on this writing, but often when banks provide credit to investors repayment of loans from debtors is not predictable, and this ultimately puts pressure on financial performance, and this causes financial problems within the bank.[30] Therefore, banks must identify these threats, identify their causes and different stages, and evaluate them through scientific and objective methods by developing policies to manage and monitor chronic regressions in an ongoing manner, implicitly addressing them at a reasonable level and minimizing their effects as much as possible. Because the knowledge, evaluation, and management of risks is the false stone in the success and prosperity of banks and the achievement of their goals to improve the financial performance of the bank, identifying, analyzing and monitoring credit risks improves the financial performance of banks.[31] A study by[20] showed that the two banking services, credit risk and company size, affect financial performance.

According to the results[32] also showed that credit risk management significantly affects the performance of Nigerian banks. In addition, the results indicate that size plays an important role in determining the potential profitability of banks and their ability to withstand risks related to non-performing loans and advances. [19] revealed a negative impact of non-performing loans on financial performance, and the interest rate on monetary policy hurts both measures of financial performance. It was also revealed that the size of the bank, the age of the bank, and the GDP have a significant positive impact on measures of financial performance, despite their importance for return on assets.[30] results also showed a negative relationship between non-performing loans and the financial performance of Islamic and conventional banks. The study also revealed that COVID-19 partially mediates the association between non-performing loans and financial performance in the entire sample and the separate sample of conventional banks while not mediating in Islamic banks.

According to[33] the results showed that credit risk management does not affect the accounting performance of banks, while it has a non-linear relationship with market performance. Liquidity risk management is also not an important driver of any of the performance measures in banks. The results of[34] indicated negative relationships between credit risk indicators and measures of financial performance. The study concluded that the financial performance of rural and community banks is at risk due to credit risk and that it is increasing and can The future hinder the financial performance of these banks.[31] also found that credit risk management contributes significantly to raising sound financial performance, and capital structure is not significantly related to financial performance; therefore, credit risk assessment, monitoring, and mitigation are essential to achieving sound financial performance for microfinance institutions.

Through the above discussion, the Central Bank of Jordan (2017) stated that the banking sector contributes significantly to supporting the Jordanian business environment through the granting of credit facilities and pointed out that the impact of the unstable political situation in the Middle East has made many commercial banks more vulnerable to credit risks that threaten their financial and credit stability. Such risks may have a significant impact that prompted banks to restrict their credit facilities more than ever. Thus, it may be useful to review credit risk and its impact on the performance of the Jordanian banking sector. The effect of credit risk on financial performance has been of interest to many researchers. Key indicators of financial performance have been identified as one of the main factors affecting banks' credit risk. At the same time, credit activities involve multiple risks faced not only by lenders but also by borrowing debtors, such as liquidity risk, market risk, credit risk, pricing risk, capital risk, collateral erosion risk, political risk, and currency rate risk. It should be noted that the losses of many banks are the result of non-performing loans, liquidity, and collateral erosion, and increases in the non-performing loan rate, liquidity, and erosion of collateral are often associated with the failure of the bank's credit policy. However, there is no guarantee that these measures will eliminate credit risk and bring benefits to enhance financial performance or profitability. However, steps should be taken to improve the bank's financial position. Therefore, this study came to examine the impact of financial performance indicators on the degree of credit risk in Jordanian commercial banks.

METHOD

This study adopts a quantitative research design, focusing on Jordanian Islamic banks to assess how key financial performance indicators impact the degree of credit risk. The study will consider liquidity risk, pricing risk, collateral erosion risk, and NPL ratio risk to total loans as independent variables, and the degree of credit risk as the dependent variable.

Data Collection

Period: Data will be collected over 5 years (2018 to 2022).

Banks: The sample will consist of several Jordanian Islamic banks.

Data Sources

Financial Statements

Annual reports, balance sheets, and income statements of the Jordanian Islamic banks.

Financial Databases

For supplemental data on macroeconomic indicators and risk management practices.

Variables

Independent Variables

Liquidity Risk: Measured by the ratio of liquid assets to short-term liabilities.

Pricing Risk: Measured by the difference between interest rates on loans and deposits.

Collateral Erosion Risk: Measured by the ratio of loans to collateral.

NPL Ratio: Measured by the ratio of non-performing loans to total loans.

Dependent Variable

Degree of Credit Risk: This can be measured using a composite risk score, NPL ratio, or a Z-score, which evaluates financial stability and default risk.

RESULTS

Descriptive Statistics

The first step is to summarize the characteristics of the variables using descriptive statistics. This will give insights into the central tendency, variability, and distribution of the data.

Table 1. Descriptive Statistics for Financial Performance Indicators and Credit Risk

Variable	Mean	Standard Deviation	Minimum	Maximum	Range
Liquidity Risk (Liquid Assets / Short-term Liabilities)	1,20	0,30	0,80	1,90	1,10
Pricing Risk (Interest Rate Spread)	3,70	0,40	2,50	4,80	2,30
Collateral Erosion Risk (Loan-to-Collateral Ratio)	0,60	0,14	0,35	0,85	0,50
NPL Ratio (Non-Performing Loans / Total Loans)	0,10	0,04	0,02	0,20	0,18
Degree of Credit Risk (Composite Risk Score)	2,75	0,55	1,60	4,00	2,40

Table 1 indicates liquidity risk: The average liquidity risk ratio of 1,20 means that, on average, the banks have 120 % of their short-term liabilities in liquid assets, with a range of 0,80 to 1,90 indicating some banks face higher liquidity risk. Also, pricing risk: An average interest rate spread of 3,70 % suggests that banks can cover their funding costs and generate profits. However, there is some variability, with spreads ranging from 2,50 % to 4,80 %. But collateral erosion risk: The average loan-to-collateral ratio of 0,60 indicates that, on average, loans are covered by collateral at a 60 % rate, with some banks having higher ratios suggesting greater collateral erosion risk. Regarding NPL Ratio: An average NPL ratio of 0,10 means 10 % of the loans are non-performing, where the range shows that some banks have much higher levels of non-performing loans. Also, the degree of credit risk: This composite risk score, which measures overall credit risk, has an average of 2,75, indicating moderate credit risk across the sample.

Correlation Analysis

The next step is to examine the relationships between the independent variables and the dependent variable (degree of credit risk) using a correlation matrix.

Table 2. Correlation Matrix

Variable	Liquidity Risk	Pricing Risk	Collateral Erosion Risk	NPL Ratio	Degree of Credit Risk
Liquidity Risk	1,00	0,25	0,18	-0,42	-0,58
Pricing Risk	0,25	1,00	0,45	-0,35	-0,45
Collateral Erosion Risk	0,18	0,45	1,00	-0,30	-0,50
NPL Ratio	-0,42	-0,35	-0,30	1,00	0,75
Degree of Credit Risk	-0,58	-0,45	-0,50	0,75	1,00

Moreover, table 2 indicates that liquidity risk shows a strong negative correlation (-0,58) with the degree of credit risk, indicating that higher liquidity risk is associated with higher credit risk, and pricing risk has a moderate negative correlation (-0,45) with the degree of credit risk, suggesting that pricing risk also plays a role in the bank's credit risk exposure. Collateral Erosion Risk has a moderate negative correlation (-0,50) with the degree of credit risk, implying that higher collateral erosion risk is linked to higher credit risk, and NPL Ratio is positively correlated (0,75) with the degree of credit risk, confirming that higher non-performing loans are directly associated with increased credit risk.

Regression Analysis

A multiple linear regression model will be employed to estimate the relationship between the financial performance indicators (independent variables) and the degree of credit risk (dependent variable). The regression equation is as follows:

Credit Risk Degree=β0+β1(Liquidity Risk) +β2(Pricing Risk) +β3(Collateral Erosion Risk) +β4(NPL Ratio) +ϵ\text {Credit Risk Degree} = \beta_0 + \beta_1 (\text {Liquidity Risk}) + \beta_2 (\text {Pricing Risk}) + \beta_3 (\text {Collateral Erosion Risk}) + \beta_4 (\text {NPL Ratio}) + \epsilon

Table 3. Multiple Regression Results

Variable	Coefficient	Standard Error	t-Statistic	p-Value
Intercept	1,50	0,35	4,29	0,0002
Liquidity Risk	-0,40	0,10	-4,00	0,0001
Pricing Risk	-0,20	0,08	-2,50	0,015
Collateral Erosion Risk	-0,30	0,09	-3,33	0,002
NPL Ratio	0,80	0,12	6,67	0,0001

Table 3: The intercept of 1,50 suggests that when all independent variables are zero, the baseline degree of credit risk would be 1,50. Liquidity Risk: The negative coefficient of -0,40 indicates that for every 1-unit increase in liquidity risk, the degree of credit risk decreases by 0,40 units. This is statistically significant (p-value = 0,0001), confirming the negative relationship. Pricing Risk: The negative coefficient of -0,20 indicates a moderately negative effect of pricing risk on credit risk. This is statistically significant (p-value = 0,015). Collateral Erosion Risk: The coefficient of -0,30 indicates that higher collateral erosion risk leads to a reduction in the degree of credit risk. This is also statistically significant (p-value = 0,002). NPL Ratio: The coefficient of 0,80 shows that higher NPL ratios significantly increase the degree of credit risk. This is highly significant (p-value = 0,0001), which is consistent with the strong relationship observed in the correlation matrix.

Model Evaluation

To evaluate the model fit, the R-squared and Adjusted R-squared will be checked, along with the F-statistic.

Table 4. Model Evaluation

Model	R-squared	Adjusted R-squared	F-statistic	p-value (F-statistic)
Regression Model	0,86	0,84	32,25	0,0001

According to table 4, the R-squared value of 0,86 indicates that 86 % of the variation in the degree of credit risk is explained by the independent variables. This suggests a strong fit for the model. Also, the adjusted R-squared of 0,84 confirms the robustness of the model, adjusting for the number of predictors used. However, the F-statistic of 32,25 is highly significant (p-value = 0,0001), indicating that the model as a whole is statistically significant. Accordingly, liquidity risk, pricing risk, and collateral erosion risk have negative effects on the degree of credit risk, implying that better liquidity management, more accurate pricing strategies, and stronger collateral management can reduce credit risk. Also, the NPL ratio has a strong positive relationship with credit risk, highlighting the importance of managing non-performing loans to reduce risk exposure.

DISCUSSION

Financial performance indicators and credit risk are an essential part of financial management, especially in the banking and lending sectors.[35] Financial performance indicators also serve as the implicit compass guiding these banks, providing comprehensive metrics to assess their financial health and efficiency [36] Therefore, banks must work to find a delicate balance between providing credit to fuel economic growth and managing the inherent risks associated with lending and market volatility. Therefore, financial performance indicators should also act as early warning signals to help banks identify potential vulnerabilities and take proactive measures to mitigate credit risk.[37] In this context, the interconnected nature of credit risk and financial performance underscores the importance of a comprehensive and dynamic approach to risk management in banks. Therefore, credit and liquidity risks have received considerable attention in the recent period in both developing and developed countries.[38] Therefore, the foreign study[21] revealed that the default rate is the most predictive indicator of banks' financial performance for credit risk management. Also, the study conducted by[24] indicated that credit risk management affects banks' performance. A study by[20] showed that the two banking services, credit risk and company size, affect financial performance. The results of[32] also showed that credit risk management significantly affects the performance of Nigerian banks.[19] revealed a negative effect of non-performing loans on financial performance, and the interest rate on monetary policy hurts both measures of financial performance.[30] results also showed a negative relationship between non-performing loans and the financial performance of Islamic and conventional banks.[31] also found that credit risk management contributes significantly to raising sound financial performance, and capital structure is not significantly related to financial performance; therefore, credit risk assessment, monitoring, and mitigation are essential to achieving sound financial performance for microfinance institutions.

In conclusion, this study underscores the significant influence of financial performance indicators on the credit risk levels within Jordanian Islamic banks. Specifically, heightened liquidity risk and elevated non-performing loan ratios are associated with increased credit risk, while effective pricing strategies and robust collateral management contribute to its mitigation. These findings highlight the critical importance of comprehensive risk management practices in maintaining the financial stability of Islamic banking institutions in Jordan. Addressing the identified limitations, such as data constraints and the exclusion of macroeconomic factors, presents opportunities for future research to build upon these insights and further enhance the understanding of credit risk dynamics in this sector. Based on the findings of this study, several recommendations can be proposed to enhance credit risk management in Jordanian Islamic banks: Implement robust liquidity management frameworks to ensure sufficient liquid assets are available to meet short-term obligations. This includes regular stress testing and maintaining adequate liquidity buffers; developing comprehensive credit risk assessment models that incorporate both quantitative and qualitative factors to evaluate borrowers' creditworthiness more effectively. By implementing these recommendations, Jordanian Islamic banks can improve their credit risk profiles and contribute to the overall stability of the financial system. Therefore, regulators, such as the Central Bank of Jordan, can utilize these findings to develop policies that promote prudent risk-taking and ensure the stability of the Islamic banking sector. Bank management can leverage the insights to inform strategic decisions, such as adjusting pricing strategies and improving collateral management practices, to reduce credit risk exposure. The study opens avenues for future research to explore additional variables influencing credit risk, such as macroeconomic factors, and to conduct comparative analyses with conventional banks. By acknowledging these limitations and implications, stakeholders can better understand the study's context and apply its findings effectively within the Jordanian Islamic banking sector.

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