

## Measuring the Impact of Commitment to Apply Banking Governance Mechanisms In Reducing Budget Risks

<b>Abdul Raman M. S. Rash wan</b> Assistant Professor	<b>University College of Science and Technology, Gaza Palestine</b>	<b>abdrashwan@yahoo.com</b>
<b>Eitedal M. S. Alhelou</b> Assistant Professor	<b>College of Business Administration, University of Palestine, Gaza, Palestine</b>	<b>alhelou@yahoo.com</b>
<b>Mohammed Abdullah Abu Rahma</b> Assistant Professor	<b>College of Business Administration, University of Al-Isra'a, Gaza, Palestine</b>	<b>abutareqr_2009@hotmail.com</b>

### Abstract:

This research aims to measure the impact of applying bank governance mechanisms in reducing the financial risks of banks listed on the Palestine Stock Exchange, and to answer research questions and test hypotheses for the study, researchers adopted the descriptive and analytical approach, and data were collected from the annual financial reports of the banks listed on the Palestine Exchange during the period between (2009-2018), as a time series for the purpose of finding, analyzing and measuring the effect between the study variables during this period by (60) views for each of the study variables, using the statistical analysis program views(9) to enter, process and analyze the data. The results of the study proved that there is a statistically significant effect of bank governance mechanisms on the risks (credit, capital, and liquidity) of the banks listed on the Palestine Exchange. The study recommends the necessity of identifying and measuring financial risks and mitigation measures, reporting and controlling them in the sense of subjecting these risks to governance mechanisms, adopting these procedures to apply appropriate strategies and practical procedures, and preparing the necessary internal measures and data on these risks in proportion to the scope, extent and nature of banks' business.

**Keywords:** Banking Governance, financial Risk, Palestine Exchange

### Introduction:

Banking governance is an important supervisory tool in which banks improve their ability through their mechanisms, address risks to achieve their goals, improve the decision-making process, improve the credibility of data and achieve ease of understanding.

The commitment to apply sound governance mechanisms in banks is important in achieving an effective policy in reducing risks, whereas banks differ in the application of governance from other institutions according to their peculiarities and the peculiarities of the environment in which they operate, and given the importance of role it plays in providing credit and liquidity, and the heavy reliance on it in the economies of countries to finance projects and run the payments system, basing on this ,banks are regulated at the national and international levels and more than others, it needs to implement sound and good governance mechanisms and the commitment to apply the governance mechanisms requires an understanding of the risks that face banks which means that the risks are within the framework approved by the banks' board of directors taking into account that the expected return is proportional to the degree of risk, and resources are allocated in proportion to the level of risks and the multiple departments bear the risks therefore, banks should pay special attention to set up Financial risk management, therefore, it is necessary to know and determine the size of these risks and identifying all appropriate measures in order to set limits for the negative effects resulting from them that may face banks in their various forms, whether it is credit risks, liquidity risks, capital risks, exchange rate risks and operational risks and analyzing and monitoring these risks in order to demonstrate and mitigate their negative effects on banks and working a long-term strategy to address such risks in their various forms, and

Financial risks and mitigation measures should be identified and measured and reporting and controlling it which means subjection these risks to governance mechanisms and adopt these procedures to apply appropriate strategies and practical procedures and preparation of the necessary internal measures and data on these risks in proportion to the scope, extent and nature of banking business.

### Study problem

The problem of the study lies in the deficiencies in the proper application of governance mechanisms in banks listed on the Palestine Exchange and the lack of awareness of the benefit of the proper application of banking governance mechanisms to reduce the Financial risks that face these banks and from this point of view, the study problem can be formulated through the following research questions.

### The main question:

Is there a statistically significant relationship between banking governance mechanisms and financial risks for banks listed on the Palestine Exchange?

And from the main question, the following sub-questions are branched out:

Is there a statistically significant relationship between the higher executive management and the financial risks of the banks listed on the Palestine Exchange?

Is there a statistically significant relationship between the control system and the external auditor and the financial risks of the banks listed on the Palestine Exchange?

Is there a statistically significant relationship between disclosure and transparency about banking governance and the financial risks of the banks listed on the Palestine Exchange?

Is there a statistically significant relationship between risks management methodologies and the financial risks of the banks listed on the Palestine Exchange?

### Objectives of the study:

The study mainly aims to identify the measurement of impact of applying banking governance mechanisms in reducing the financial risks of the banks listed on the Palestine Exchange and which the following objectives are branched from it:

1. Identifying the relationship between the senior executive management and the financial risks of the banks listed on the Palestine Exchange.
2. Identifying the relationship between the control system and the external auditor and the financial risks of the banks listed on the Palestine Exchange?
3. Identifying the relationship between disclosure and transparency about banking governance and the financial risks of the banks listed on the Palestine Exchange?
4. Identifying the relationship between risks management methodologies and the financial risks of the banks listed on the Palestine Exchange.

**The importance of study:** The importance of the study is divided into two parts:

#### 1. The scientific importance

- The study lies in being one of the first studies to the two researchers' knowledge that took and linked between the governance mechanisms and financial risks of the banks listed on the Palestine Exchange.
- The importance of banking governance comes as it works to supply the scientific library with this kind of researches and encouraging the researchers who are interested in this field.
- The scientific importance stems from being one of the recent studies that searches in measuring the impact of commitment with the application of governance mechanisms in reducing the financial risks and thus, this study may contribute in increasing the researchers' knowledge So that he can rely on them and seek the necessary information in preparing their future related studies.

## 2. Practical importance

- The application of banking governance mechanisms helps in reducing Financial risks, which leads to an increase in the ability of banks to analyze and monitor these risks in order to demonstrate and mitigate their negative effects on banks, and to work out a long-term strategy to address such these risks in their various forms.
- This study derives its practical importance from the fact that it is conducted on an important and vital sector, which is the banking sector, which plays an important role in the economic development of the Palestinian community, and it is hoped that the results and recommendations of this study will be used to present them to the higher administrations in the banks listed on the Palestine Stock Exchange, and work to implement these Recommendations to improve its financial and administrative performance.

### Study hypotheses:

In light of the study problem and its objectives, the study hypotheses were formulated as follows

#### Main hypothesis

There is no statistically significant effect between banking governance mechanisms and financial risks for banks listed on the Palestine Exchange.

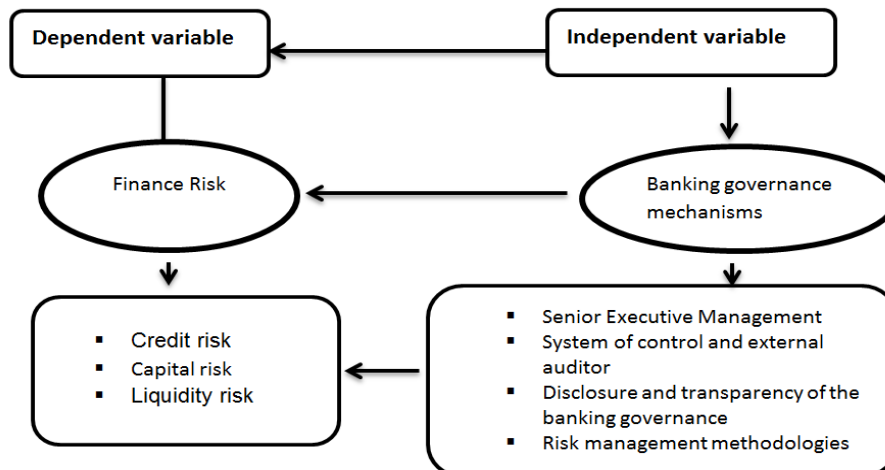
The following sub-hypotheses are branched from this main hypothesis:

The first sub-hypothesis: There is no statistically significant impact of bank governance mechanisms on the risks of credit for banks listed on the Palestine Exchange.

The second sub-hypothesis: There is no statistically significant impact of bank governance mechanisms and capital risks for banks listed on the Palestine Exchange.

The third sub-hypothesis: There is no statistically significant impact of the mechanisms of bank governance and risks of liquidity for the banks listed on the Palestine Exchange.

#### Study form:



Source: Prepared by the researchers

### Study variables

The study includes four mechanisms for the governance of public joint-stock companies, which represent the independent variable. It also includes three measures of financial risk for banks listed on the Palestine Exchange, which represent the dependent variable.

In order to measure the indicators of Financial risks for the banks listed on the Palestine Exchange, statistical models were used, which are: Simple Linear Regression and Multiple Linear Regression

The results of these models were extracted based on data of the financial statements of these banks

### Method of measuring study variables

In line with the objectives of the study, some of the rules for corporate governance commitment contained in the Corporate Governance Code in Palestine in 2009 were used, which represent the independent variable for this study. Three measures of financial risk were used for the banks listed on the Palestine Stock Exchange, which represent the dependent variable for this study

### Method of measuring independent variables

The two researchers developed a scale with the aim of measuring the extent of adherence to the governance mechanisms of the banks listed on the Palestine Stock Exchange, and with the aim of ensuring the safety of the scale, it was presented to a group of academics to guide their experience, The scale was distributed among several paragraphs related to the commitment of the higher executive management, the control system and the external auditor, disclosure and transparency of the bank's governance, risk management methodologies

The evaluation was done by monitoring the disclosure of compliance with the governance mechanisms related to the paragraph within the scale, and the variable (1) is placed in the case of disclosure of the commitment related to the paragraph, and the variable (0) in the case of non-disclosure of the commitment related to the paragraph, so that all the paragraphs have the same degree Importance.

### Method of measuring dependent variables

The following shows the dependent variables represented by the financial risks of the banks listed on the Palestine Stock Exchange, and the method of their measurement.

#### Credit risks

##### Credit risks = total loans / total assets

A decrease in this indicator indicates a decrease in credit risk, considering the decrease in non-performing loans to total loans

#### Capital risks

##### Capital risks= Equity / Total Assets

#### Liquidity risk:

##### Liquidity risk = total loans / total deposits

The next increase in the index indicates a rise in liquidity risk, considering that this increases the percentage of loans that cannot be liquidated with liquidity when liquidity is needed

On the other hand, the increase in the loan-to-deposit ratio indicates the bank's need to increase new cash sources to meet new lending requests

#### Limitations of the study:

**Temporal limit:** This study was applied from the year 2009 to the year 2018, and this period was chosen due to the availability of data published by most of the banks in the study population during this period.

**Spatial limit:** The application of this study is limited to the banks listed on the Palestine Exchange

**The objective limit:** a study of measuring the impact of applying bank governance mechanisms in reducing financial risks for banks listed on the Palestine Exchange.

#### Study literature:

**1-A study (Abdel Razzaq and Shaaban, 2013), entitled: "The role of banking governance in formulating an effective policy for risk management in the banking sector - a special reference to the case of Algeria.**

The aim of this study is to clarify the peculiarities of sound corporate governance in banks as an important approach in achieving an effective policy for banking risk management, and the results of the study concluded that the specificity of sound corporate governance in banks makes it

difficult to formulate an effective policy for banking risk management, but it is mainly related to the field of risk. The broad spectrum that characterizes banking activity and the study also recommended the necessity of using market mechanisms for banking supervision. These elements represent the essence of the work entrusted to the board of directors and the top management of the bank to formulate an effective policy for risk management

### **2-A study Monki, et al., 2014, entitled: "Risk Management Tools Practiced in Islamic Banks: A Guide in the Middle East and North Africa Region".**

The study aimed at how to measure and disclose risk management by focusing on credit and market risks and qualification in Islamic banks in the Middle East countries. The results of the study concluded that Islamic banks are similar in the different types of risks they face, such as the most important liquidity risk followed by the risk of non-compliance with laws and then credit risk And operational risks, while market risks were less important, with Islamic banks realizing the importance of effective risk management in reducing costs and improving their performance

### **3- A study (Luu, 2015, entitled: "Corporate governance behavior, regulation and risks in the development of Asian countries."**

The study aimed to identify the effects of corporate governance and its regulation on the risk behavior of banks operating in Asian countries, and the study concluded that the corporate governance mechanism has a strong influence on the level of risks borne by banks and the number of owners in banks is linked to high risk. That is, the larger the number of owners the higher the risk, while the size of the board of directors is negatively related to the level of risk of the banks, indicating that the larger the size of the board of directors, the less risk the banks are willing to take. Additionally, the study results also indicate that executive management of more powerful banks tends to engage in less risky activities. Meanwhile, increasing board independence is forcing banks to take more risks

The results of the study also showed that the executive management of banks in developing Asian countries does not affect the risk levels of the banks nor the rates of capital adequacy. However, raising the working capital adequacy ratio, rather than forcing banks to reduce the level of risk, stimulates them to take risks. Consequently, banking supervision systems do not appear to be effective in developing Asian countries, and the size of the bank does not have a direct effect on shaping the risk behavior of banks

### **4-A study (Khuntouch, 2016), entitled: "The Role of Banking Governance in Reducing Risks and Achieving Effective Performance for Commercial Banks - A Case Study of a Sample of Banking Agencies in Ain Mellila".**

The study aimed to highlight the importance and role of applying the principles of governance in reducing risks and achieving the effectiveness of banks 'performance. The results of the study concluded that individuals' attitudes towards the axis of risk reduction were positive to a large degree, which indicates the importance of reducing risks and managing them for banks and their employees, and there is good risk management in The banks under study, which confirms the continuous decline in the level of risk year after year, and the study found that the Bank of Algeria pays special attention to encouraging banks to apply the principles of banking governance in them, and to initiate the issuance of a guide to the basic rules of banking governance, which contributes to encouraging banks to optimally and effectively apply the principles of governance in a manner that It fits with the Algerian economic and legislative environment.

### **5- A study (Al-Hawari, 2016), entitled: "The role of governance mechanisms in controlling banking risks".**

The study aimed to find out the extent of Egyptian banks 'commitment to effectively implementing governance mechanisms, and to study and test the relationship between the

effective application of bank governance mechanisms and controlling banking risks, As well as identifying the most important mechanisms that can affect this relationship in Egyptian banks, the results of the study concluded that the boards of directors of banks and the higher management adopt the activation of the principles and mechanisms of the governance of the banking sector within the framework of adherence to the instructions of the Central Bank of Egypt as a supervisory authority. The study also recommended that the risk management in the bank should follow up on the risk management policies and controls by the responsible authorities, and define the role of the Board Bank management and executive management and the extent of responsibility of the supervisory authorities in controlling such risks.

#### **6- A study (Tsorhe, et al., 2016, entitled: "Corporate Governance and Bank Risk Management in Ghana"**

The study aimed to identify corporate governance and bank risk management in Ghana, and the impact of stakeholders in Ghanaian banks on managing bank capital risks, credit risks, and liquidity risks, the study concluded that there are no statistically significant differences between the strengths of boards of directors of banks in Ghana, and the strength of the board of directors does not have a significant impact on capital risk, credit risk or liquidity risk, Also, the behavior of depositors affects only the management of liquidity, while there is no role for shareholders to act in a way that reduces credit risk by banks, and we also conclude that the efficiency of the executive management is represented in reducing the capital likely to be kept by banks, while the total assets of banks are important. Only in managing capital risk, banking methods are important for managing credit risk

#### **7- A study (Al-Najjar and Aqel, 2016), entitled: "Measuring the Impact of Compliance with the Application of Banking Governance Rules on Financial Performance - An Applied Study on Public Shareholding Banks Listed on the Palestine Stock Exchange"**

The study aimed to measure the impact of adherence to the rules of governance of banks in Palestine on the financial performance of the public shareholding banks listed on the Palestine Exchange. To demonstrate the impact of this on the financial performance measures represented by the return on assets, the rate of sales growth, the book value of the share, and the market value of the bank, and knowing which of them is more bank governance rules issued by the Bank Governance Code in Palestine in 2009, and the study found a positive impact of bank governance rules on accounting measures (return on assets, book value per share, and the market value of banks),and there is no effect of bank governance rules on the rate of sales growth, and the study recommended that public shareholding bank departments increase compliance with the requirements of bank governance in order to reach the best optimum rate for the application of bank governance rules, in order to ensure the positive impact of governance rules on financial performance

#### **8- A study (Bin Makhlof, 2016), entitled: "Governance Mechanisms for Banking Risk Management and Enhancement - Financial stability - a case study of a sample of commercial banks operating in Algeria"**

The study aimed at enriching scientific knowledge in the field of developing a proposed practical framework based on best banking practices in banking risk management, as well as knowing the extent to which banks operating in Algeria are aware of the importance of governance mechanisms in accordance with international standards adopted in risk management and come up with suggested recommendations that help banks to apply them, and the study found that applying the principles of governance will increase the ability of banks to grant financing, as the borrowing entities will deal with the bank in a more transparent manner, and then the risk level will decrease when dealing with them, In addition to the fact that the bank will be more accurate

in studying the cases of borrowers and thus reduce the default that affects the consequence on its profits, and the study recommended the necessity for the bodies organizing the Algerian banking business to prepare and develop a guide to the principles and standards of banking governance and the mechanisms for their proper application, while making use of regional and international experiences In this area, and the participation of professionals and academics in developing and developing this guide in proportion to the Algerian environment, which contributes to enhancing the efficiency of the banking system and ensuring the interests of customers to achieve the greatest possible extent of the transparency of financial data, which would enhance confidence in the banking system and its units.

**9- A study (Sahel, 2018), titled: “Corporate Governance for Venture Capital Financed Companies: A theoretical Study of the relationship between risk and working capital”.**

The study aimed to present some concepts related to risk capital, highlight its importance and its financing role, and present some of the proposed mechanisms for risk governance with working capital in light of these theories capital, and the study concluded that the financing process related to risk capital creates a distinct relationship linking risk to capital with the continuity of the funding institution, and that risk should contribute to capital actively and ultimately lead to value creation, and this is by granting him some freedom and involving him in making strategic decisions for the institution, and the study concluded that it is imperative to develop mechanisms in place for governance to determine the relationship that arises between the venture capital institution and the financing institution during the financing process, where governance problems are generated, they should be controlled or avoided as much as possible in order for the financing process to be successful.

**10- A study (Augusto, et al., 2018, entitled: "The Impact of Corporate Governance on Banking Risks in Light of the Financial Crisis”.**

The study aimed to identify the effect of corporate governance mechanisms on banks' risks in light of the financial crisis using agency theory. The results of the study also showed that corporate governance mechanisms affected banks' risks in light of the financial crisis, also, the various governance mechanisms can reduce or increase the severity of the agency conflict between shareholders and directors, and the results of the study recommended that other researchers study the effect of the size of the bank, and individuals working on the rules that restrict acquisitions and the activities of appointing board members internally.

**11- A study (Abu Aqleh, 2018), entitled: “Banking governance and its role in reducing operational risks - a field study on some Sudanese banks”.**

The study aimed at reducing operational risks, attracting investments, supporting economic performance, and tightening control over liquidity risks. The study population consists of all organizational levels in Sudanese banks in the state of Khartoum and the island, where they represent the directors and heads of departments, accountants and internal auditors who are related to the subject of study and occupy administrative, technical and applied positions according to the records of the General Administration of Human Resources for the various branches of banks ,and the study sample was chosen from a simple random sample, where (200) questionnaires were distributed to all the target population. And the results of the study concluded that banking governance helps reduce risks of fraud and fraud, and also helps bank governance to maintain the efficiency of internal operations. The study also recommended the need to issue a law requiring all banks to activate banking governance, and to work on continuous training to work with the risk system.

**Commenting on the previous studies:****1. Aspects of agreement and difference between the current study and previous studies:**

Previous studies have dealt with the issue of governance mechanisms from more than one side, as the current study is in agreement with both (Khentoush, 2016), (Al-Hawari, 2016), (Ben Makhoul, (2016), (Augusto, et al., 2018, in Determine the mechanisms and rules of governance.

The current study differed with previous studies in Financial risks, as none of the previous studies spoke about Financial risks, while it agreed with a study (Sahel, 2018) regarding some risks (capital risks) ,and they differed in some factors (liquidity risk, capital risk), while it agreed with the study (Monki, et al., 2014) in (credit) risk, but it differed with it in other risks (market risk, operational risk), And as agreed with the study (Tsorhe, et al., 2016) in some risks such as (liquidity risk, capital risk), but differed in (capital risk), and most previous studies talked about the financial risks of banks

**2. What distinguishes the current study from previous studies?**

The current study is distinguished from the previous studies because it is one of the first studies that were used that talked about the **Financial** risks of banks listed on the Palestine Stock Exchange, which brought together the two variables (banking governance mechanisms, Financial risks), in order to measure the impact of applying bank governance mechanisms in reducing Financial risks For banks listed on the Palestine Exchange

**3. How the current study can benefit from the previous studies:**

- The current study benefited from the previous studies, as it was a starting point for the subject of this study, which enriched this study through the information included in these studies.
- Previous studies helped researchers prepare the theoretical framework.
- Previous studies helped the researchers in building and applying the study tool

**The theoretical framework of research:****First: the concept of governance mechanisms:**

(Yaqoub, 2010, p. 7) defined the mechanisms of bank governance as: "The set of practices that ensure the bank has control over the variables of its internal environment, and adaptation to the variables of its external environment with high disclosure and clear transparency to fulfill the demands of all stakeholders in the bank.

(Al-Haizan, 2008, p. 295) defines it as: "The set of external mechanisms for bank governance includes laws and regulations issued by the regulatory authorities. These external mechanisms of governance represent the control exercised by the bank's external stakeholders and the pressures exerted by international professional organizations. This source constitutes one of the major sources. And generating pressure to apply the rules of good governance.

**Second: Companies Governance Mechanisms**

There are five basic mechanisms to consolidate the rules of governance developed by the Organization for Economic Cooperation and Development in addition to the sixth principle, which was developed after reviewing these principles related to (Center for International Private Enterprise, 2004, p. 80):

**1. Shareholders' Rights:**

This principle includes a set of rights that guarantee secure ownership of shares, full disclosure of information, voting rights, and participation in decisions to sell or amend the assets of the corporation, including mergers and issuance of new shares.

**2. Equitable treatment of shareholders:**



The corporate governance framework must guarantee equal treatment for all shareholders, including small shareholders and foreigners, and all shareholders should have the opportunity to obtain effective compensation in the event their rights are violated

### 3. The role of stakeholders in corporate governance

The corporate governance framework must include recognition of the rights of stakeholders as defined by the law, and also work to encourage communication between companies and stakeholders in the field of wealth creation and job opportunities, and to achieve sustainability for projects based on sound financial foundations.

### 4. Disclosure and Transparency

A corporate governance framework should ensure the accurate and timely disclosure on all matters related to company incorporation, including financial condition, performance, ownership, and the manner in which power is exercised.

### 5. Responsibilities of the Board of Directors:

The corporate governance framework should provide the strategic guidelines to direct institutions, and it should also ensure effective follow-up of executive management by the board of directors, and that the board of directors be held accountable by the institution and shareholders.

### 6. Ensuring the necessary basis for activating the corporate governance framework:

This principle states the necessity of providing the necessary foundations to activate the corporate governance framework in order to raise the level of transparency and that the governance structure conforms to the legal framework and precisely defines the responsibilities of the various bodies responsible for supervision and control.

**It is also possible to clarify some of the mechanisms that the Palestinian Monet Authority has put in place and compel banks to adhere to, which are:**

1. These mechanisms clarify the basic functions of the board of directors, the responsibilities of the board of directors, the formation of the board of directors and the committees of the board of directors and their independence, and details about the formation, tasks and composition of the audit committee and the nomination and remuneration committee, and meetings of the Board of Directors and the agenda, remuneration and compensation of members of the Board, and conflict of interest in the Board of Directors (the Financial Market Authority, Corporate Governance Regulations.
2. The corporate governance framework must ensure proper and timely disclosure of all important information related to the company, including financial position, performance, property rights, and corporate governance, and falls under this principle:
  - A. Disclosure should include, but not be limited to, basic information related to:
    - The financial and operating results of the company
    - The goals of the company
    - Board members and senior managers, and their salaries and incentives
    - Concrete risk factors for the foreseeable future
    - Key issues related to employees and other stakeholders
    - The structure and policies of corporate governance practices
  - B. Information should be prepared, reviewed, and disclosed in accordance with accounting, financial and non-financial standards for disclosure and review.
  - C. The annual audit should be conducted by an independent auditor in order to verify that there is an external and objective assurance about the method used in preparing and presenting the financial statements.

The information transmission channels must allow users of that information to access it in a fair, timely and cost-effective manner. The channels for transmitting information have the same importance as the information content itself.

The mechanisms that define the policies and procedures related to disclosure in the report of the board of directors, and from what is included in the regulation include that disclosure must be made in the report of the board of directors about the composition of the board and the classification of its members into an executive, non-executive or independent board member, and a brief description of the terms of reference and tasks of the Board of Directors committees, such as the Audit Committee and the Nominations and Remuneration Committee with mentioning the names of these committees, their chairmen and members and the number of their meetings (the Capital Market Authority, Corporate Governance Regulations), the governance system must ensure the accurate disclosure of information opportunely, especially issues related to the establishment of the company, financial position, performance, ownership, and the manner of exercising authority.

The corporate governance framework must ensure the strategic direction and guidance of the company, the effective control of the board of directors, and the accountability of the board of directors for their responsibility to the company and the shareholders according to the following:

1. Acting in good faith, and taking care of the interest of the company and the shareholders.
2. Treating the shareholders equally.
3. The Commitment of the ethical and legal standards, and taking care of the interests and rights of stakeholders.
4. Carrying out the following main tasks:
  - Establishing the company's strategy, risk policy, financial, annual work plans and objectives, monitoring implementation, overseeing major capital expenditures, acquisitions, and divestment.
  - Following up and supervising the effectiveness of corporate governance practice, and make adjustments when needed.
  - Selecting and determining remuneration and salaries, so that they are proportional to the executive directors and members of the board of directors, the interests of the company and the shareholders, supervising the company's senior executives, and replacing them when necessary.
  - Providing transparency in the nomination and election process of the Board of Directors.
  - Controlling over the conflicts of interests of the company's management, members of the board of directors, and shareholders, including misuse of the company's assets.
  - Providing integrity and safety of financial reports and company accounts, and systems for preparing its financial statements, including independent review, the existence of a control system, and compliance with the law and relevant standards.
  - Supervising the disclosure and means of communication.
5. Judging objectively and independently on the affairs of the company as follows:

- Assigning a number of members of the board of directors who are not employees of the company and have the ability to exercise independent judgment, to carry out tasks that may have a conflict of interest.
  - Disclosure of board committees, their powers, and their work procedures.
  - The Board of Directors must devote them to fulfilling their responsibilities in an effective manner.
6. Easy access to accurate, relevant and timely information to complete their tasks to the fullest.

### Third: Financial Risks

Risks and their relationship to the financial statements: The financial statements are a set of financial statements, which are represented in the balance sheet, income statement, and cash flow statement. All these statements contain multiple and varying risk items, so the height of a Financial item such as loans is considered a kind of risk, also, the very high income of an item of the income statement, such as provisions or administrative expenses, is considered a kind of risk, all items in the financial statements are affected by some kind of risks and are called financial statements risks, which the investor must be aware of the size of these risks by referring to the financial statements and knowing the common methods of accounting manipulation which is called (creative accounting), and knowing the methods of analyzing the risks of the items that appear outside the balance sheet in order to be aware of the size of these risks and not be limited to reading some items, especially the initial company announcements that are published by the Saudi Capital Market Authority and are information about the profit per share, net profit, operating profit, gross profit And others, accordingly, the investor must read the detailed financial statements and ensure that there are no types of risks in the financial items and be aware of them with a high degree of certainty to avoid any risks to his investments.

### Financial risk includes the following risks:

#### 1. Credit risk

The board of directors should set the overall strategies for credit risk by demonstrating the bank's desire to distribute credit according to sectors, geographical areas, terms, or profitability, and to do so, The board of directors should take into account credit quality objectives and returns, the growth of assets and the balance between risk and return within the framework of the bank's activities. The credit risk strategy should also be circulated to the bank's employees. Banks must have a system for continuous management of investment portfolios that contain credit risks. The proper management of credit requires that the bank do its work in the area of follow-up of risk documents, And contractual requirements, legal obligations, and mortgages effectively, It also requires immediate reporting and scrutiny to management, taking into account its policies and procedures, and other applicable laws and regulations, and banks must work according to sound and specific standards to grant credit so that a comprehensive assessment of the real risks of the borrowers or other parties to the financing contract can be made in order to avoid the problem of wrong selection of borrowers, and banks need different information about borrowers, including: the purpose of financing, the sources of repayment and the risks associated with borrowers, the degree of sensitivity of these risks to market movement and economic variables, the borrower's past performance and his current ability to return loans and the viability of the guarantees provided or the commitment of the guarantors for implementation. It is important that banks have a clear and formal method for assessing and approving credit whether when granting new loans or when extending existing loans, and any new request for borrowing must be subject to careful analysis by a credit analyst with the purpose of providing information for internal evaluation

and classification and this analysis can be used in the process of evaluating the applications of loans and deciding whether to accept or reject them. Members of the bank's board of directors and senior executive management must obtain independent periodic reports, and this is in order to ensure that there is control over credit risk within the limits of the controls set by the supervisory standards and internal procedures for each bank, and internal control mechanisms must be in place to ensure compliance with credit policies. These mechanisms may include conducting periodic reviews of credit risk to identify weaknesses in the credit management process, and once credit difficulties are identified, banks must have a clear policy and a credit management system that involves problems, and banks must have effective work programs to manage risks in their credit portfolios.

## 2. Liquidity risk

The problem of liquidity management primarily arises from the fact that there is a trade-off between liquidity and profitability, and that there is a discrepancy between the supply of liquid assets and the demand for them, while the bank cannot control the sources of its money from deposits, it can control the uses of these funds, and accordingly, there is a priority given to the liquidity position when employing the resources and in view of the opportunity cost of liquid resources, banks are required to enter into return-bearing investments after they have sufficient liquidity, and we find that most banks now maintain protective reserves in addition to the usual reserves and determine the supervisory requirements or expectations of the size of regular reserves, while the size of the preventive reserves depends on the bank's management assessment of liquidity risk, It is necessary for liquidity management decisions to be taken in view of the tasks of all the bank's departments and the services they provide. The person in charge of liquidity management in the bank must carefully record the activities of all the bank's divisions working in collecting or employing liquidity, and he must also coordinate between all those activities, the bank should devise a mechanism to measure and monitor its surplus funds by evaluating the incoming and outgoing cash flows that will be in exchange for the bank's obligations. The bank's off-Financial obligations such as letters of guarantee and credit must also be taken into account, t is important to evaluate the bank's future needs for financial resources. The important element in managing liquidity risk is to assess the bank's needs for liquidity. There are several methods developed to estimate banks 'liquidity needs. Among these methods: Method of sources and uses of funds, method of structure of funds and method of liquidity index, the bank must also have internal control mechanisms to manage liquidity risk, as these mechanisms are part of the internal control system that the bank follows, and if this system is effective, there will be a solid control environment and an adequate mechanism for identifying and assessing liquidity risk, and the bank must have an information system suitable for extracting regular reports. It is independent and assists in knowing the extent of adherence to the policies and procedures of bank liquidity management and the internal audit undertakes the task of regular auditing of the liquidity management process with the aim of identifying any difficulties or weaknesses in the bank's liquidity, and enabling the bank's management to take the required action in a timely manner to address these difficulties.

## 3. Exchange rate risk:

Exchange rate risk is the financial risks of changing the value of an investment due to changes in currency exchange rates, also known as currency exchange risk and foreign exchange risk, and this also indicates the risks that the investor faces when he needs to close a long-term or short-term position in the foreign currency upon loss, and that Because of the negative movement in exchange rates.

Foreign exchange risk usually affects companies that export and / or import their products, services, and supplies, as well as investors who make international investments. For example, if money must be converted into another currency to make a specific investment, then any changes in the exchange rate will now Cause the investment to fall in value or rise when the investment is sold and converted into the original currency

banks are exposed to foreign exchange risks, if they have accounts receivable and accounts payable, whose value is directly affected by currency exchange rates, and contracts concluded between two different companies in different local currencies set specific rules, and these contracts provide specific prices for services and accurate delivery dates, however -These contracts are faced with changing exchange rate risks between the currencies involved before they provide services or before they settle transactions.

Banks face foreign exchange risks due to economic risks, also referred to as expected risks, if their market value is affected by unexpected currency fluctuations, and currency fluctuations may affect the position of the company compared to its competitors, its value and its future cash flows, and it may have these changes in the currency rate Good effects on banks.

All banks prepare financial statements, as this data is created for reporting purposes, which provide multinational shareholders, and they need it to transfer important numbers from local currency to another currency, currency transfer faces foreign exchange risk , and as there can be changes in foreign exchange rates, the conversion of the currency from the local currency to another currency, and although the risk of converting the currency may not affect the cash flow of the banks, the total profits reported for the company can change, which affects the price of its share. (<https://trading-secrets.guru/>).

#### 4. Operational risk:

The board of directors and senior management must develop general policies and plans for managing operational risks, and since operational risks may arise as a result of human errors, or due to the adopted systems or technology, managing these risks is of a degree of difficulty and the higher management needs to establish standards for risk management and for clear confrontations that are done. Their application to reduce operational risks and to create these standards and guidelines ,It must be taken into account all the money related to operating risks such as bank employees, the technology used, methods and controls of work as these can be sources of operational risks and due to the complex nature of operational risks and due to the complex nature of operational risks, it is difficult to determine their size and most of the operational risk measurement tools are not developed and are subject to experience. Operating plans, error rates, etc., and a careful review of these documents will reveal gaps that may be a source of potential risks. The information available from the reports can then be classified to determine the internal and external factors of risks, then converting it into an indicator of the likelihood of losses occurring for the organization and can shelter from some operational risks and includes tools for assessing, monitoring and managing risks periodic review, tensile testing, and employing the appropriate amount of economic capital, the operational risks for banks are as follows:

- Human resource policies operational risks: which can be minimized by having a distinguished group of motivated, highly trained workers?
- Operational risks related to policies and procedures: represented in the clarity and comprehensiveness of policies and procedures as an integral part of exploratory control.
- Information operational risks: Information and information systems are especially vital to the risk management process

**Fourth: The relationship between banking governance and Financial risks:**

Banking governance is important because, through its mechanisms, it addresses the risks resulting from losses that arise from the inefficiency or failure of internal processes, individuals and systems, or that arise due to external events. This is represented in fighting internal corruption resulting from the failure of the internal control system.

Ensuring integrity and impartiality, reducing fraud, fraud and breach of trust, achieving integrity and preventing deviation, reducing errors, deficiencies and losses that result in the bank's communication systems and electronic operating systems, achieving the effectiveness of external auditing. Governance aims through its mechanisms to address risks and improve the ability of banks to achieve their goals, improve the decision-making process in the bank, improve the credibility of data and achieve ease of understanding.

**The applied study:****Study Approach**

To test the hypotheses of the study, and to achieve the objectives of the study, the researchers used a recognized methodology based on description and then testing the real data published by the companies, as the study relied on the descriptive approach that is based on describing the characteristics of a specific phenomenon and gathering information about it without bias, and this is done through a comprehensive survey, which aims to provide data and facts about the problem under study, in order to interpret it and find out its implications. The historical methodology has also been adopted in reviewing previous studies, and the nature of the study is an applied study, where a scale was developed in order to measure the extent of commitment to apply mechanisms Bank governance in reducing financial risks in the banking sector listed on the Palestine Stock Exchange.

**Second: Methods of gathering information:**

A set of prim and second data was used to obtain special data to achieve the objectives of the study, as follows:

**Primary sources:** These are the audited and published annual financial statements of the banks listed on the Palestine Stock Exchange, the financial and non-financial reports published on the websites of the listed companies, and the data and information published about the banks listed on the Palestine Stock Exchange website.

**Secondary sources:** Arab and foreign references from books and periodicals, doctoral and master's theses, articles and scientific symposia dealing with the subject of study.

In order to reach the necessary data to measure the degree of compliance with the governance rules, and after that, appropriate statistical tests were used in order to reach valuable indications and indicators that support the study.

**Study population:**

The study population is represented in all the (6) banks listed on the Palestine Exchange, which are (Bank of Palestine, Palestinian Islamic, Arab Islamic, Palestinian Investment Bank, Al-Quds Bank, and the National Bank). The number of views (60) views (10 years x 6 banks = 60 views).

**Fourth: Statistical treatment:**

To analyze the objectives of the study and analyze the collected data, simple linear regression analysis and multiple linear regression were used to demonstrate the impact of the independent variables represented by the mechanisms of bank governance on the dependent variables represented by the Financial risks of the listed banks In Palestine Exchange, expressed in various financial indicators, this was done through the use of statistical programs (Eivews) to study the impact and the statistical relationship. The results of the analysis are as follows:

Table 1: statistical analysis of the study variables according to the dependent variables:

Statistical analysis	Financial risk indicators		
	Credit risk	Capital risk	Liquidity risk
Mean	0.416	0.146	0.587
Max Value	0.642	0.872	0.884
Min Value	0.032	0.006	0.045
Standard deviation	0.172	0.138	0.214

**From the previous table it is found:**

The highest percentage of credit risk in banks listed on the Palestine Stock Exchange was (41.6%), and it was in Al Quds Bank in 2016, while the lowest percentage was (3.2%), and it was in the Palestine Investment Bank in 2011, and it came with an average of (41.6%).

The highest risk of capital risk in the banks listed on the Palestine Stock Exchange was (87.2%), and it was in the Arab Islamic Bank in 2011, while the lowest percentage was (0.6%), and it was in the Palestinian Islamic Bank in 2015, and it came with an average of (14.6%).

The highest percentage of liquidity risk in banks listed on the Palestine Stock Exchange was (88.4%), and it was in the Arab Islamic Bank in 2012, while the lowest percentage was (4.5%), and it was in the Investment Bank in 2009, and it came with an average of (58.7%).

**Descriptive statistical analysis of the study variables according to the bank:**

Table 2: Descriptive statistical analysis of the studied variables according to the bank

Bank	Variable	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Mean
Palestine bank	Credit risk	4.23	12.96	54.75	48.71	47.00	47.50	49.86	53.74	5.16	57.70	38.16
	Liquidity risk	5.51	16.57	76.54	62.64	60.94	59.58	60.02	65.49	6.29	69.66	48.32
	Capital risk	11.71	10.57	2.15	11.02	10.73	11.55	10.98	9.80	9.21	8.94	9.67
Palestinian Islamic Bank	Credit risk	29.72	47.85	47.72	49.50	53.52	59.30	47.86	22.93	20.23	64.16	44.28
	Liquidity risk	33.16	38.00	56.99	59.40	63.55	69.06	53.33	26.75	70.74	70.58	54.15
	Capital risk	12.16	13.44	11.72	11.15	4.23	0.81	0.57	10.11	8.73	0.59	7.35
Arab Islamic Bank	Credit risk	31.39	6.70	20.48	21.70	18.38	23.26	47.86	53.03	53.88	64.16	34.08
	Liquidity risk	63.34	25.61	82.32	88.38	81.85	88.11	73.10	84.71	67.09	86.79	74.13
	Capital risk	17.02	8.55	87.16	74.05	5.99	6.38	10.61	9.50	10.28	10.20	23.97
Investment Bank	Credit risk	3.30	35.97	3.24	36.77	34.41	31.84	43.22	51.45	47.50	47.95	33.57
	Liquidity risk	4.50	48.14	5.10	58.98	50.15	44.79	61.76	73.38	65.36	66.89	47.90
	Capital risk	24.87	23.58	26.45	25.49	23.56	21.39	22.42	22.69	20.51	21.45	23.24
Jerusalem Bank	Credit risk	47.54	46.64	61.69	60.90	54.03	50.22	53.77	64.20	61.22	57.53	55.77
	Liquidity risk	47.08	65.69	85.61	79.48	67.55	59.54	63.72	76.90	75.79	70.90	69.23
	Capital risk	14.67	11.82	11.68	12.06	12.22	10.54	9.57	9.28	9.55	9.19	11.06
National Bank	Credit risk	25.97	27.19	30.84	40.69	43.11	43.94	48.98	54.26	60.58	60.19	43.57
	Liquidity risk	28.38	46.39	41.89	57.93	59.74	58.69	68.85	71.15	77.96	75.10	58.61
	Capital risk	16.87	18.17	11.83	14.63	10.38	11.77	10.95	9.66	9.04	8.52	12.18
Mean	Mean	23.41	27.99	39.90	45.19	38.96	38.79	40.97	42.72	37.73	47.25	

Source: Prepared by researchers:

**From the previous table it was found that:**

The highest percentage of credit risk in Bank of Palestine was in 2018 with a rate of (57.7%), while the lowest degree of credit risk was in 2009 with a rate of (4.23%), with an average arithmetic for the years (38.16%).

The highest percentage of liquidity risk in Bank of Palestine was in 2011, at a rate of (76.54%), while the lowest degree of credit risk was in 2009 with a rate of (5.51%), with an average arithmetic for the years (48.32%).

The highest risk of capital risk in Bank of Palestine was in 2009 with a rate of (11.71%), while the lowest degree of capital risk was in 2011 with a rate of (5.51%) with an average arithmetic for the years (9.67%).

The highest percentage of credit risk in Palestine Islamic Bank was in 2018 at a rate of (64.16%), while the lowest degree of credit risk was in 2017 by (6.7%) with an arithmetic average for the years (38.16%).

The highest percentage of liquidity risk in Palestine Islamic Bank was in 2017, at a rate of (70.74%), while the lowest degree of credit risk was in 2016, at (26.75%), with an average for the years (54.15%).

- The highest risk of capital risk in Palestine Islamic Bank was in 2010 with a rate of (13.44%), while the lowest degree of capital risk was in 2015 with a rate of (57. %) with an average arithmetic for the years (7.35%).

The highest percentage of credit risk in the Arab Islamic Bank was in 2018 with a rate of (64.16%), while the lowest degree of credit risk was in 2010 by (6.7%), with a mathematical average for the years (34.08%).

The highest percentage of liquidity risk in the Arab Islamic Bank was in 2012 at a rate of (88.38%), while the lowest degree of credit risk was in 2010 by (25.61%) with an average arithmetic for the years (74.13%).

The highest risk of capital in the Arab Islamic Bank was in 2011 at a rate of (87.16%), while the lowest degree of capital risk was in 2013 by (5.99%) with an arithmetic average for the years (23.17%).

The highest percentage of credit risk in the investment bank was in 2016, at a rate of (51.45%), while the lowest degree of credit risk was in 2011 with a rate of (3.24%), with a mean arithmetic for the years (33.57%).

The highest percentage of liquidity risk in the investment bank was in 2016 by (73.38%), while the lowest degree of credit risk was in 2010 by (4.50%) with a mean arithmetic for the years (47.9%).

The highest risk of capital risk in the investment bank was in 2011 at a rate of (26.45%), while the lowest degree of capital risk was in 2017 by (20.51%) with an average arithmetic for the years (23.24%).

The highest percentage of credit risk in the Al-Quds Bank was in 2016 with a rate of (64.20%), while the lowest degree of credit risk was in 2010 by (46.64%), with an average arithmetic for the years (55.77%).

The highest percentage of liquidity risk in the investment bank was in 2011 with a rate of (85.61%), while the lowest degree of credit risk was in 2009 with a rate of (47.08%) with an average arithmetic for the years (69.23%).

The highest risk of capital in the investment bank was in 2009 by (14.67%), while the lowest degree of capital risk was in 2018 by (9.19%) with a mean arithmetic for the years (11.06%).

The highest percentage of credit risk in the National Bank was in 2017 by (60.58%), while the lowest degree of credit risk was in 2009 by (25.97%) with a mean arithmetic for the years (43.57%).



The highest percentage of liquidity risk in the National Bank was in 2011 by (77.96%), while the lowest degree of credit risk was in 2009 by (28.38%) with an average arithmetic for the years (58.61%).

The highest risk of capital risk in the investment bank was in 2010 at a rate of (18.17%), while the lowest degree of capital risk was in 2018 by (8.52%) with an arithmetic average for the years (12.18%).

#### Fifth: testing hypotheses:

Quantitative analysis is considered one of the most important methods used in explaining various economic phenomena, which are the most important tools of which are linear models, whether simple or multiple, Linear regression is one of the statistical methods that are used to measure the relationship between two or more variables in the form of a function relationship, one of the variables is called (dependent variable) and the other (independent variable) and it is the cause of the change of the dependent variable, and in this research the focus was on simple linear regression and multiple linear regression In measuring the relationship between variables according to the following equation.

#### The simple linear model

$$Y_t = \alpha + \beta x_i + e_i \quad i=1,2,\dots,n$$

#### . Multiple linear model:

$$Y_t = \alpha + \beta_1 x_{1i} + \beta_2 x_{2i}, \dots, \beta_n x_{ni} + e_i \quad i=1,2,\dots,n$$

Where it is  $\alpha$ ,  $\beta$  are the model parameters and  $e$  the random error component was added in consideration of the probability characteristic of the model and represents the difference between the actual values and theoretical values, and therefore its value may be positive or negative.

#### Sixth: Results of the study hypotheses:

**The first sub-hypothesis:** There is no statistically significant impact of bank governance mechanisms on the credit risk of banks listed on the Palestine Exchange.

**Table 3: the results of the simple regression model of the effect of banking governance mechanisms on banks' credit risk**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.038108	0.153896	0.247619	0.8053
Banking governance mechanisms	0.401833	0.161846	2.482807	0.0159
R-squared	0.0961	F-statistic		6.164
Adjusted R-squared	0.080	Prob(F-statistic)		0.016

A simple regression model was prepared that showed the impact of commitment to apply banking governance mechanisms on credit risk for banks listed in Palestine Exchange, we found that the probability value of the regression coefficient is equal to (0.016), which is less than the significance level ( $\alpha \leq 0.05$ ), which indicates the rejection of the hypothesis and the confirmation of the existence of a statistically significant impact of the mechanisms of bank governance on the credit risk of banks listed in Palestine Exchange, it has also been found that the determination coefficient is equal to (0.080) and this explains what (8%) of the changes in credit risk is due to the commitment to apply banking governance mechanisms, and the rest is due to other factors, and it

## Measuring the Impact of Commitment to Apply Banking Governance Mechanisms In Reducing Budget Risks

was found that the value of a test for the predictive power is high, which indicates the validity of the model. (F-statistic) to use.

**Table 4: the results of the multiple regression model of the impact of banking governance mechanisms on banks' credit risk**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.186	0.186	0.997	0.323
X1	0.210	0.079	2.650	0.011
X2	-0.125	0.200	-0.625	0.535
X3	0.101	0.118	0.854	0.397
X4	0.074	0.068	1.087	0.282
R-squared	0.166	F-statistic	2.730	
Adjusted R-squared	0.105	Prob(F-statistic)	0.038	
Durbin-Watson stat	1.49	Jarque- Bera	5.68	

A multiple regression model was prepared among the most powerful independent variables that affect the credit risk of banks listed on the Palestine Stock Exchange, which are (commitment to senior executive management, supervision system and external auditor, Disclosure and transparency about bank governance, risk management methodologies), we have found that the probability value of regression transactions is equal to (0.038) and it is less than the significance level ( $\alpha \leq 0.05$ ), which indicates the rejection of the hypothesis and the assertion of the existence of a statistically significant effect among the mechanisms of bank governance in Credit risk for banks listed on the Palestine Exchange, It was also found that the modified coefficient of determination is equal to (0.105) and this explains (10.5%) of the changes in credit risk due to the commitment to apply banking governance mechanisms, and the rest is due to other factors, and it was found that the value of a test for predictive power is high, which indicates validity. Form (F-statistic) to use, It turns out that the model does not suffer from the self-correlation problem because the value of Durbin Watson is equal to (1.49) greater than the lower bound which is equal to (1.44) and less than the upper limit (1.73) and it is close to (2) as well as indicating the correctness of the relationship between the variables in the model, likewise, the error distribution of the model is naturally distributed because the probability value of the (Jarque-Bera) test is equal to (0.058) and it is greater than the level of significance ( $\alpha \leq 0.05$ ). The model also does not suffer from the multiple correlation problems because the VIF value is less than (5).

**The second sub-hypothesis:** There is no statistically significant impact of bank governance mechanisms on the capital risks of banks listed on the Palestine Exchange.

**Table 5: the results of the simple regression model of the impact of banking governance mechanisms on banks' capital risks**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.024004	0.128171	0.187281	0.8521
Banking governance mechanisms	0.130438	0.134793	0.967696	0.3372
R-squared	0.0159	F-statistic	0.936	

## Measuring the Impact of Commitment to Apply Banking Governance Mechanisms In Reducing Budget Risks

Adjusted R-squared	-0.0011	Prob(F-statistic)	0.337
--------------------	---------	-------------------	-------

A simple regression model was prepared that showed the impact of compliance with the application of banking governance mechanisms on the capital risks of banks listed in Palestine Exchange. we have found that the probability value of the regression coefficient is equal to (0.337), which is greater than the level of significance ( $\alpha \leq 0.05$ ), which indicates the acceptance of the hypothesis and the assertion that there is no statistically significant impact of bank governance mechanisms on the capital risks of banks listed in Palestine Stock Exchange, it was also found that the determination coefficient is equal to (-0.0011) and this explains (-0.11%) of the changes in capital risks due to the commitment to apply banking governance mechanisms, and the rest is due to other factors, and it was found that the value of a test for predictive ability is very low which indicates that the (F-statistic) model is not usable.

**Table 6:** the results of the multiple regression model of the impact of bank governance mechanisms on banks 'capital risks

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.066	0.142	0.464	0.645
X1	-0.001	0.061	-0.024	0.981
X2	0.385	0.153	2.520	0.015
X3	-0.354	0.090	-3.935	0.000
X4	0.045	0.052	0.871	0.388
R-squared	0.236	F-statistic	4.239	
Adjusted R-squared	0.180	Prob(F-statistic)	0.005	
Durbin-Watson stat	1.475	Jarque- Bera	4.636	

**From the previous table it is found:**

A multiple regression model was prepared among the strongest independent variables that affect the capital risks of the banks listed on the Palestine Exchange, which are (commitment to senior executive management, commitment to the higher executive management, the control system and the external auditor, disclosure and transparency about the bank's governance, risk management methodologies). The existence of a statistically significant impact between the mechanisms of bank governance on the capital risks of the banks listed on the Palestine Exchange, it has also been found that the modified coefficient of determination is equal to (0.180) and this explains (18%) of the changes in capital risks due to the commitment to apply banking governance mechanisms, and the rest is due to other factors. F-statistic, and it turns out that the model does not suffer from the self-correlation problem because the Durbin Watson value is equal to (1.475) greater than the lower bound which is equal to (1.44) and less than the upper limit (1.73) and it is close to (2) as well as indicating the correctness of the relationship between the variables in the model, likewpies, the error distribution of the model is naturally distributed because the probability value of the (Jarque-Bera) test is equal to (0.06) and it is greater than the level of significance ( $\alpha \leq 0.05$ ). The model also does not suffer from the multiple correlation problems because the VIF value is less than (5).

**The third sub-hypothesis:** There is no statistically significant impact of bank governance mechanisms, liquidity risk for banks listed on the Palestine Exchange.

**Table 7:** the results of the simple regression model of the effect of bank governance mechanisms on banks 'liquidity risk

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.04309	0.182724	-0.23581	0.8144
Banking governance mechanisms	0.670359	0.192164	3.488478	0.0009

## Measuring the Impact of Commitment to Apply Banking Governance Mechanisms In Reducing Budget Risks

<b>R-squared</b>	<b>0.173</b>	<b>F-statistic</b>	<b>12.170</b>
<b>Adjusted R-squared</b>	<b>0.159</b>	<b>Prob(F-statistic)</b>	<b>0.0009</b>

A simple regression model was prepared that showed the impact of compliance with the application of bank governance mechanisms on the liquidity risk of banks listed in Palestine Exchange, we have found that the probability value of the regression coefficient is equal to (0.0009), which is less than the level of significance ( $\alpha \leq 0.05$ ), which indicates the rejection of the hypothesis and the assertion of the existence of a statistically significant impact of bank governance mechanisms on the liquidity risk of banks listed on the Palestine Stock Exchange. Also, the determination coefficient is equal to (0.159), and this explains (15.9%) of the changes in liquidity risk due to the commitment to apply banking governance mechanisms, and the rest is due to other factors, and it was found that the value of a test for predictive power is high, indicating the viability of the (F-statistic) model for use.

**Table 8: the results of the multiple regression model of the impact of banking governance mechanisms on banks' liquidity risks**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.183	0.222	0.825	0.413
X1	0.261	0.095	2.762	0.008
X2	0.085	0.239	0.356	0.723
X3	-0.068	0.141	-0.482	0.632
X4	0.166	0.081	2.032	0.047
<b>R-squared</b>	<b>0.230</b>	<b>F-statistic</b>	<b>4.106</b>	
<b>Adjusted R-squared</b>	<b>0.174</b>	<b>Prob(F-statistic)</b>	<b>0.006</b>	
<b>Durbin-Watson stat</b>	<b>1.451</b>	<b>Jarque- Bera</b>	<b>5.690</b>	

**From the previous table it is found:**

A multiple regression model was prepared among the most powerful independent variables that affect the liquidity risk of the banks listed on the Palestine Stock Exchange, which are (commitment to senior executive management, supervision system and external auditor, disclosure and transparency about the bank's governance, risk management methodologies). We have found that the probability value of the regression transactions is equal to (0.006) and it is less than the level of significance ( $\alpha \leq 0.05$ ), which indicates the rejection of the hypothesis and the assertion of the existence of a statistically significant impact among the mechanisms of bank governance on the liquidity risks of the banks listed in Palestine Exchange, it was also found that the modified coefficient of determination is equal to (0.174) and this explains (17.4%) of the changes in liquidity risk due to the commitment to apply banking governance mechanisms, and the rest is due to other factors, it was found that the value of a test for the predictive power is high, which indicates the validity of the (F-statistic) model for use, and it was found that the model does not suffer from the self-correlation problem because the value of Durbin Watson is equal to (1.451) greater than the minimum, which is equal to (1.44) and less than the upper limit (1.73) which is close to (2), it also indicates the correctness of the relationship between the variables in the model, as well as the distribution of errors for the model naturally distributed because the probability value of the (Jarque-Bera) test is equal to (0.391) and it is greater than the level of significance ( $\alpha \leq 0.05$ ) and the model does not suffer from the multiple correlation problem because the value VIF is less than (5).

**Results and recommendations:****First: Results:**

- There is a statistically significant impact of bank governance mechanisms on the credit risk of banks listed on the Palestine Exchange.
- There is a statistically significant impact of banking governance mechanisms and capital risks for banks listed on the Palestine Exchange.
- There is a statistically significant impact on the mechanisms of bank governance and liquidity risks for the banks listed in Palestine Exchange.
- Governance rules (compliance with senior executive management, supervision and external auditor system, disclosure and transparency of bank governance, risk management methodologies) have significantly affected credit risks, liquidity risks, and capital risks for banks listed in Palestine Stock Exchange.
- Banking governance is an important monitoring tool. Banks listed in Palestine Exchange, through their mechanisms, address risks and improve their ability to achieve their goals, improve decision-making, improve the credibility of data and achieve ease of understanding.
- Banks listed in Palestine Stock Exchange are obligated to apply sound governance mechanisms in banks, which has led to the achievement of an effective policy in reducing risks, as banks differ in the application of governance from other institutions according to their specificities and the peculiarities of the environment in which they operate.

**Second Recommendations:**

- The commitment to implement governance mechanisms requires an understanding of the risks facing banks, meaning that the risks are within the framework approved by the bank's board of directors, bearing in mind that the expected return is proportional to the degree of risk, and resources are allocated in proportion to the level of risk.
- Banks should attach special importance to setting up a special department for Financial risks to know and determine the size of these risks, and to define all appropriate measures in order to set limits for the negative effects resulting from them that they may face in their various forms Risks (credit risk, liquidity risk, capital risk, exchange rate risk, operational risk) should be analyzed and monitored with a view to demonstrating and mitigating their negative effects on banks, and creating a long-term strategy to address such risks in its various forms.
- The necessity of identifying, measuring, reporting, and controlling Financial risks and mitigation measures, meaning subjecting these risks to governance mechanisms, adopting these procedures to implement appropriate strategies and practical procedures, and preparing necessary internal measures and data on these risks in line with the scope, extent and nature of banks' business.
- Banks listed in Palestine Stock Exchange must adhere more to the basic rules for banking governance issued by the Palestinian Monet Authority to contribute to encouraging them to implement the best and effective implementation of governance rules, in order to ensure the positive impact of governance rules on reducing financial risks.

**References**

1. Abu Aqleh, Hiyam Omar Muhammad Othman, and Yusef, as Muhammad, (2018), Banking Governance and its Role in Reducing Operational Risks - A Field Study on Some Sudanese Banks, Journal of Graduate Studies, Volume 11, Issue 42, College of Graduate Studies, El-Neelain University, Sudan, 252-264.

## Measuring the Impact of Commitment to Apply Banking Governance Mechanisms In Reducing Budget Risks

2. Al-Buqami, Mutab Ayesh, and Al-Bishtawi, Suleiman Hussein, (2014), The Reality of Accountability for Sustainable Development in Industrial Companies, an Applied Study in Jordanian Industrial Companies, Journal of Baghdad College of Economic Sciences, Special Issue of the Joint Scientific Conference, Iraq
3. Ben Makhlof, Amira, (2016), Governance Mechanisms to Manage Banking Risks and Enhance Financial Stability - A Case Study of a Sample of Commercial Banks Operating in Algeria, Unpublished PhD Thesis, College of Economic Sciences, Commercial Sciences and Management Sciences, Arabi Bin Mahidi University - Umm El Bouaghi , Algeria
4. Boulbah, Gharib, Baidiaf and Abdel-Baqi, (2013), The Role of Corporate Governance Mechanisms in Achieving Sustainable Development, International Scientific Forum on: "Mechanisms of Corporate Governance and the Requirements for Achieving Sustainable Development", Ouargla, Algeria.
5. Jamil Ahmed, Safir Mohamed, (2012), "Manifestations of Corporate Governance in Upgrading the Level of Transparency and Disclosure, National Forum, University of Mohamed Khoudir, Faculty of Economic and Commercial Sciences and Facilitation Sciences, Algeria
6. Jonathan, Sharkham, (2005), Guidance for Bank Board Members, translated by Center for International Private Enterprise, Global Forum on Corporate Governance
7. Hammad, Tarek Abdel-Aal, (2005), Corporate Governance, University House, 1st floor, Cairo, Egypt
8. Hanna, Ashraf, and Mikhael, (2005), Auditing Accounts and Its Parties in the Framework of the Corporate Governance System, a paper presented at the First Arab Conference on Internal Auditing in the Context of Corporate Governance, Cairo
9. Al-Hazan, Osama bin Fahd, (2008), Developing the Performance of the Internal Audit Function to Activate the Requirements of Governance, An Applied Study on Saudi Joint Stock Companies, Journal of Accounting, Management and Insurance, Faculty of Commerce, Cairo University, Issue 70, Part 1, 276-295
10. Khantoush, Hanan, (2016), The Role of Banking Governance in Reducing Risks and Achieving the Effectiveness of the Performance of Commercial Banks- A case study of a sample of banking agencies in Melilla, an unpublished master's thesis, Faculty of Economic Sciences, Commercial Sciences and Management Sciences, University of Oum El Bouaghi, Algeria
11. Romano, Donato, (2006), Environmental Economics and Sustainable Development, Food and Agriculture Organization of the United Nations
12. Sahel, Zainab Khalfa, (2018), Corporate Governance Funded by Venture Capital: A theoretical study of the relationship between risk and working capital, The Economic Researcher Journal, Volume 6, Issue 9, Algeria, 225-246.
13. Al-Saadani, Mostafa Hassan Bassiouni, (2007), The extent of transparency and disclosure related to banking governance, research presented to the conference Business Development and the Family of Companies, Administrative Foundations, International Accounting Standards, held Febru 10-11, 2007, Cairo, Egypt.
14. Abdel Razzaq, Habbar, and Shaaban, Farag, (2013), The role of banking governance in formulating an effective risk management policy in the banking sector - a special reference to the case of Algeria, the first international conference "Financial risk management and its implications for the economies of the world countries", Faculty of Economic Sciences Business and Management Sciences, University of Bouira, Algeria
15. Al-Armouti, Ahmad Adnan, (2013), The Impact of Sustainability Accounting on Financial Reporting in Jordanian Joint-Stock Industrial Companies Listed on the Amman Stock Exchange, Unpublished Master Thesis, College of Business, Middle East University, Amman, Jordan
16. Al-Ghamdi, Abdulaziz bin Saqr, (2006), Human Resources Development and the Requirements of Sustainable Development, a working paper presented to the Third Arab Forum for Education, Naif University for Science and Security, Riyadh, Saudi Arabia
17. Ghellab, Fatih, (2011), The evolution of the role of the audit function in the field of corporate governance to embody the principles and standards of sustainable development - a study of some industrial enterprises, an unpublished master's thesis, Faculty of Economic Sciences, Commercial Sciences and Management Sciences, Ferhat Abbas Setif University, Algeria.
18. Al-Fiqi, Muhammad Abdel-Qader, (2017), Pillars of Sustainable Development and Environmental Protection in the Prophetic Sunnah, a paper presented in the third international scientific symposium on the honorable hadith on civilizational values in the Prophet's Sunnah, General Secretariat of the Hadith Symposium, retrieved on 07/15/2017 at [www.nabialrahma.com](http://www.nabialrahma.com) website
19. Al-Fayoumi, Muhammad, (1998), Readings in Contempor Accounting Problems, 1st Edition, Modern University Office, Alexandria
20. Cortel, Fred, (2008), Corporate Governance: Leaders and Managers' Approach to Achieve Sustainable Development in the Arab World, Research presented to the First International Scientific Conference of the Faculty of Economics, Damascus University, Syria
21. Lotfi, Amin El-Sayed Ahmed, (2005), Environmental Review, University House, 1st floor, Alexandria, Egypt.
22. Center for International Private Enterprise, (2004), OECD principles in corporate governance, Cairo, Egypt

**Measuring the Impact of Commitment to Apply Banking Governance Mechanisms In Reducing Budget Risks**

23. Moschit, Fado Plus, (2000), Principles of Sustainable Development, translated by Baha Shaheen, 1st Edition, International Cultural Investment House, Cairo, Egypt.
24. Al-Mihy, Adel Abdel-Fattah, (2012), Financial Controller and Banking Governance, Accounting Journal, Saudi Accounting Association, Issue 54, Sixteenth Year, Riyadh, Saudi Arabia, 1- 23.
25. Al-Najjar, Jamil, and Aql, Ali (2016). Measuring the Impact of Commitment to Implementing Banking Governance Rules on Financial Performance - An Applied Study on Public Shareholding Banks Listed on the Palestine Exchange, Journal of Palestine University for Research, Volume 2, Issue, Gaza, Palestine, 15-40.
26. Al-Hawari, Nahid Muhammad Yusri, (2016), The Role of Governance Mechanisms in Controlling Banking Risks, The Scientific Journal of Economics and Trade, Issue 2, Egypt, 703-831.
27. Yaqoub, Faiha Abdullah, and Al-Ghanimi, Farqad Faisal Jadaan, (2010), The Impact of Applying Banking Governance Rules on the Credibility of Financial Reports in Determining the Income Tax Base - A study in the Companies Department of the General Tax Authority, Journal of Accounting and Financial Studies, Issue 5, Issue Tenth, University of Baghdad, Iraq.
28. Greet,H. (2004). Business Goals and coporate governancem Asia pacific Business review, Vol. 10, No.3-4, 1-25.
29. Llana, F. and Talalweh, M. (2015). Factors Determining Social and Environmental Performance of Islamic Companies: Analysis of Sustainability Related Reporting Practices, Jordan Journal of Business Administration, Vol.11, No.4, 981-996.
30. Michaela, Krechovska and Petra, Tausl. (2014). Sustainability and its Integration into Corporate Governance Focusing on Corporate Performance Management and Reporting, Procedia Engineering, Vol. 69, No. 1, 1144 – 1151.
31. Winchai, Oonakirakeku and Muttanachai, Suttipun. (2014). The Relationship between Corporate Governance, Sustainable Development Reporting and Corporate Performance: a Conceptual Study of Listed, Companies in the Stock Exchange of Thailand, Prince of Songkla University. Hatyai, Songkhla, Thailand.
32. Mokni, R. B., S. A., Echchabi, D., Azouzi, and H., Rachdi, (2014). Risk management tools practiced in Islamic banks: evidence in MENA region, Journal of Islamic Accounting and Business Research, Vol.5, No.1, 77-97.
33. Augusto, Felício, Ricardo Rodrigues ORCID Icon, Hugh Grove and Adam Greiner, Economic Research-Ekonomiska Istraživanja. (2018), The influence of corporate governance on bank risk during a financial crisis Vol.31, No.1, 1078-1090.
34. Tsorhe, Joan Selorm, Aboagye, Anthony Q. and Kyereboah-Coleman, Anthony, (2016), Corporate Governance and Bank Risk Management in Ghana, University of Ghana Business School, Ghana.
35. Luu, Hiep Ngoc. (2015). Corporate Governance, Regulation and Bank Risk-Taking Behaviour in Developing Asian Countries, Journal of Governance and Regulation, Vol.4, No.1, 201-223