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The Effect of Risk on Profitability in Islamic Banking

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Abstract

This research focuses on the impact of credit and market, capital, and liquidity risk factors on the efficiency of Islamic banks operating under Government-Linked Companies (GLCs) in Malaysia. Based on Bank Islam Berhad, CIMB Islamic Berhad, and Maybank Islamic Berhad, this study examines how these variables affect profitability, measured by Return on Assets (ROA). Through a quantitative approach, the findings in this study show that although each component of risk has varying degrees of significance, they all make a significant contribution to overall profitability. The study contributes to the Islamic financial literature by offering practical recommendations to improve risk management and ensure financial sustainability in the Islamic banking sector.

Keywords: Effect of Risk; Profitability; Islamic Banking

Abstrak

Penelitian ini berfokus pada dampak kredit dan faktor risiko pasar, modal, dan likuiditas terhadap efisiensi bank syariah yang beroperasi di bawah Perusahaan Terkait Pemerintah (GLC) di Malaysia. Berdasarkan Bank Islam Berhad, CIMB Islamic Berhad, dan Maybank Islamic Berhad, penelitian ini mengkaji bagaimana variabel-variabel tersebut mempengaruhi profitabilitas, diukur dengan Return on Assets (ROA). Melalui pendekatan kuantitatif, temuan dalam studi ini menunjukkan bahwa meskipun masing-masing komponen risiko memiliki tingkat signifikansi yang bervariasi, semuanya memberikan kontribusi yang signifikan terhadap profitabilitas secara keseluruhan. Studi ini memberikan kontribusi terhadap literatur keuangan syariah dengan menawarkan rekomendasi praktis untuk meningkatkan manajemen risiko dan memastikan keberlanjutan keuangan di sektor perbankan syariah.

Kata Kunci: Efek Risiko; Profitabilitas; Perbankan Syariah

INTRODUCTION

In the operational practice of Islamic banking, financing risk is the main challenge that has a direct impact on the level of profitability.[1] One of the most dominant forms of risk is the high level of non-performing financing (NPF), especially in profit-sharing contracts such as *mudharabah* and *mushararakah*.[2] Although these contracts are designed in accordance with

[1] Marliana Abdullah, Shahida Shahimi, dan Abdul Ghafar Ismail, "Operational risk in Islamic banks: examination of issues," *Qualitative Research in Financial Markets* 3, no. 2 (2011): 131–151.

[2] Awin Rahma Zulvia, Oyong Lisa, dan Djuni Farhan, "The Effect of Musharakah and Murabaha Financing on Profitability with Non-Performing Financing as a Moderating Variable (in Sharia Business Units Registered with the

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sharia principles because they emphasize fairness and risk sharing between banks and customers, their implementation in the field often faces various obstacles. Many customers, especially micro, small, and medium enterprises (MSMEs), do not have an adequate financial recording system, making it difficult for banks to monitor and evaluate business performance objectively.[3] In addition, there is a moral hazard phenomenon where some customers are not honest in reporting their business profits, so that the bank's revenue from the profit-sharing scheme is not optimal.[4] On the other hand, Islamic banks often experience limitations in conducting intensive supervision and assistance to customer businesses due to limited human resources.[5] The accumulation of these risks leads to an increase in NPF, which ultimately reduces the profitability of Islamic banks, reflected in the decrease in the Return on Assets (ROA) and Return on Equity (ROE) ratios.[6] This problem is clear evidence that the high risk of financing, if not managed effectively, can erode the financial performance of Islamic banks as a whole.

The banking industry have a crucial role in fostering country’s economic growth and improving societal welfare.[7] As financial intermediaries, banks are responsible for channelling funds from parties with surplus capital to those in need of funding at a specific time. Public trust in depositing funds in banks is significantly influenced by the institution's financial health, which is assessed, among other metrics, through financial performance.[8] Profitability, measured using Return on Assets (ROA), is a one key indicator of a bank’s financial performance.[9] ROA reflects management's ability to generate profits from every asset owned. The more higher result for the ROA, it means the better the companies have a good performing financial.

In banking operations, profitability is influenced by several factors, such as credit risk, market risk, capital, and liquidity.[10] Credit risk arises when borrowers fail to fulfil their obligations. This risk is represented by the Non-Performing Loan (NPL) ratio, which compares

Financial Services Authority),” *Indonesian Interdisciplinary Journal of Sharia Economics (IIJSE)* 7, no. 3 (2024): 8367–8388.

[3] Kirana Ikhtiari, Muslim Muslim, dan Nurfadila Nurfadila, “Improving MSME Accounting Financial Recording Skills Based on Android Applications,” *Advances in Community Services Research* 2, no. 2 (2024): 62–73.

[4] M. N. Aslam, “Profit and Loss Sharing Finance–Application, Risk Management and Theories of Capital Structure” (PhD Thesis, City, University of London, 2024), https://openaccess.city.ac.uk/id/eprint/34000/.

[5] Faizi Faizi, “How Are Islamic Banking Products Developed? Evidence from Emerging Country,” *Cogent Economics & Finance* 12, no. 1 (31 Desember 2024): 2378961, doi:10.1080/23322039.2024.2378961.

[6] SAZANA BINTI AB RAHMAN, “DETERMINANTS OF MALAYSIAN ISLAMIC BANK DEPOSITS PERFORMANCE,” 2024, https://etd.uum.edu.my/11610/2/s904598_01.pdf.

[7] Ivana Bozic dan Ahec Bozic, “Commercial banking and financial stability: evaluating internal and external determinants,” *Journal of Business and Economic Options* 8, no. 1 (2025): 1–14.

[8] Olusola Enitan Olowofela, Hermann Azemtsa Donfack, dan Celestin Wafo Soh, “Sustainable banking and bank stability in Nigeria: Empirical evidence from deposit money banks,” *Journal of Risk and Financial Management* 18, no. 4 (2025): 211.

[9] Rita Mulyani, Retno Fuji Oktaviani, dan Nurul Khansa Fauziyah, “The Effect of Key Financial Indicators on Bank Profitability,” *Shafin: Sharia Finance and Accounting Journal* 5, no. 1 (2025): 96–110.

[10] Julia Hartaty Damanik, “The Influence of Credit Risk Level, Liquidity Risk on Profitability with Operational Efficiency Level as an Intervening Variable (Case Study on Conventional Commercial Banks KBMI 3 and KBMI 4 Listed on the IDX in 2021-2024),” *Formosa Journal of Multidisciplinary Research* 4, no. 4 (2025): 1893–1912.

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non-performing loans to total loans disbursed.[11] High NPL ratios increase the provisioning burden and negatively impact a bank's financial performance.[12] Market risk, proxied by the Net Interest Margin (NIM), reflects the net interest income from productive assets. A high NIM indicates optimal interest income, contributing positively to ROA.

Several previous studies have examined the relationship between risk and profitability in Islamic banking. For example, research by Laurina Trisnaning Putri Khoirin and Barianto Nurasri Sudarmawan found that financing risk significantly affects the profitability of Islamic banks in several Middle Eastern countries, where the high level of Non-Performing Financing (NPF) contributes to a decline in Return on Assets (ROA).[13] In addition, research by Aqsa Iqbal et. al., confirms that good risk management, especially credit risk and operational risk, can improve the financial performance of Islamic banks in Southeast Asia.[14] Another study by Abdulrahim Amrullah also showed that the implementation of effective risk management in Islamic banks is able to reduce profit volatility, thereby supporting the sustainability of profitability in the long term.[15] These studies consistently confirm that risk is a key factor that must be taken seriously by Islamic banks to maintain and increase their profitability. However, more in-depth studies are still needed that integrate different types of risk in different market contexts, in order to provide a more comprehensive picture of the impact of risk on the profitability of Islamic banking.

Research conducted by Mongi Lassoued also shows that financing risk has a significant negative impact on the profitability of Islamic banks in Malaysia. They found that high credit risk resulted in increased provision costs and decreased profit sharing margin income, thereby depressing Return on Equity (ROE).[16] Meanwhile, a study by Zaphaniah A. Maaka identified that liquidity risk and market risk also play an important role in influencing the financial performance of Islamic banks in the Kenya. Zaphaniah A. Maaka emphasized that banks that are able to manage liquidity risk efficiently tend to have a more stable level of profitability.[17] In addition, research by Aishatu Usman Muhammad dan Murni Yusoff in Africa shows that operational risks arising from product non-conformity with sharia principles can lead to

[11] Dorcas Ndegwa Nyambura, "Relationship between credit risk management practices and non-performing loans among deposit taking savings and credit societies in Nairobi county Kenya." (PhD Thesis, Cuk, 2024), https://repository.cuk.ac.ke/xmlui/handle/123456789/1631.

[12] Sushma Yadav, "Impact of non-performing loan on the performance of commercial bank of Nepal (with reference to RBB, NBL, NABIL and NIBL)" (PhD Thesis, Shanker Dev Campus, 2024), https://elibrary.tucl.edu.np/items/4d1e9344-367e-4a61-98f1-d5144fdde032.

[13] Laurina Trisnaning Putri Khoirin dan Barianto Nurasri Sudarmawan, "Shariah Banking dynamics: Financial performance and stability amid middle east conflict," *Al-Infaq: Jurnal Ekonomi Islam* 1, no. 1 (2024): 49–68.

[14] Aqsa Iqbal dkk., "Optimizing Resilience: Impact of Credit Risk Management on Financial Performance in Islamic Banking," *Zakariya Journal of Social Science* 4, no. 1 (2025): 01–16.

[15] Abdulrahim Amrullah, "Profitability and Resilience: Comparative Analysis of the Performance of Islamic and Conventional Insurance Companies in the GCC Region" (Master's Thesis, Hamad Bin Khalifa University (Qatar), 2024), https://search.proquest.com/openview/f7c477d68d49f7928493ecd01e7fdbc2/1?pq-origsite=gscholar&cbl=2026366&diss=y.

[16] Mongi Lassoued, "Comparative study on credit risk in Islamic banking institutions: The case of Malaysia," *The Quarterly Review of Economics and Finance* 70 (2018): 267–278.

[17] Zaphaniah A. Maaka, "The relationship between liquidity risk and financial performance of commercial banks in Kenya" (PhD Thesis, University of Nairobi, 2013), https://erepository.uonbi.ac.ke/handle/11295/60295.

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additional costs and reputational losses, which ultimately negatively impact the profitability of Islamic banks.[18] These findings reinforce the importance of comprehensive risk management to maintain the financial health and sustainability of the Islamic banking business.

Capital plays a vital role in ensuring the stability and sustainability of banking operations. It serves as a financial cushion that allows banks to absorb unexpected operational losses, safeguard against risks, and maintain solvency during adverse economic conditions. The Capital Adequacy Ratio (CAR) is a critical metric for evaluating a bank's capital strength. It is calculated as the ratio of a bank's capital to its risk-weighted assets, indicating the institution's ability to withstand financial shocks and support business expansion without compromising its financial health. A higher CAR reflects a robust capital structure, enabling banks to manage operational risks effectively, fulfil regulatory requirements, and gain the confidence of investors and depositors. Additionally, a strong CAR allows banks to undertake strategic growth initiatives, such as entering new markets or expanding product portfolios, while mitigating the risks.

Liquidity, on the other hand, is another fundamental aspect of banking operations, reflecting a bank's ability to meet its short-term obligations and ensure smooth day-to-day functioning. It is commonly measured using the Loan to Deposit Ratio (LDR), which represents the proportion of a bank's loans to its total deposits. An ideal LDR range, as stipulated by regulators, balances the efficient use of depositor funds with the bank's ability to maintain adequate liquidity reserves. A well-managed LDR enables banks to optimize revenue generation from credit disbursement while maintaining sufficient liquidity to handle withdrawal demands and other financial commitments. If the LDR is too high, it may indicate aggressive lending practices that could strain liquidity, whereas an excessively low LDR might suggest underutilized resources, which could limit profitability. Therefore, achieving an optimal LDR is crucial for maximizing income, maintaining financial stability, and ensuring regulatory compliance.

Malaysia, as a global hub for Islamic finance, has a unique banking system with the presence of Islamic banks under the umbrella of Government-Linked Companies (GLCs). These banks play a strategic role in supporting national economic development while promoting the implementation of Shariah-compliant financial principles. In this study, the focus is on Bank Islam Berhad, CIMB Islamic Berhad, and Maybank Islamic Berhad, all of which operate under GLCs. These banks are crucial in aligning Islamic economic goals with the country's economic growth but face distinct challenges in managing risks that impact their financial performance.

Although numerous studies have explored the relationship between risk and bank financial performance, a research gap remains, particularly in the context of Islamic banks operating under government-linked companies (GLCs) in Malaysia. Key risks such as credit risk, market risk, capital adequacy, and liquidity require deeper investigation regarding their impact on profitability, as measured by return on assets (ROA). Therefore, this study aims to

[18] Aishatu Usman Muhammad dan Murni Yusoff, "ISLAMIC BANKS IN AFRICA: THE RISK OF SHARIA NON-COMPLIANCE AND FINANCIAL PERFORMANCE.," *International Journal of Business & Society* 24, no. 3 (2023), https://publisher.unimas.my/ojs/index.php/IJBS/article/view/6419.

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examine the influence of credit risk (NPL), market risk (NIM), capital adequacy (CAR), and liquidity (LDR) on the financial performance of Bank Islam Berhad, CIMB Islamic Berhad, and Maybank Islamic Berhad. Additionally, this research seeks to provide insights into effective risk management strategies that align with Shariah principles, contributing to the profitability and sustainability of Islamic banks. Furthermore, it aims to evaluate the regulatory and strategic role of GLCs in supporting the stability and performance of Islamic banking institutions in Malaysia. By addressing these objectives, this study is expected to make empirical contributions to the literature on Islamic finance while offering practical recommendations for risk management in the Islamic banking sector.

RESEARCH METHOD

Quantitative research approaches have been adopted in this research to assess the risk management elements that curb or facilitate the profitability of Islamic banks owned by Government- Linked Companies (GLCS) in Malaysia.[19] This methodology aims to enable the evaluation of the dynamics present between key risk indicators and the financial performance of Islamic banks in a more detailed manner. The research framework is illustrated in the diagram below showing the relationship between the independent variables and dependent variable in the study:

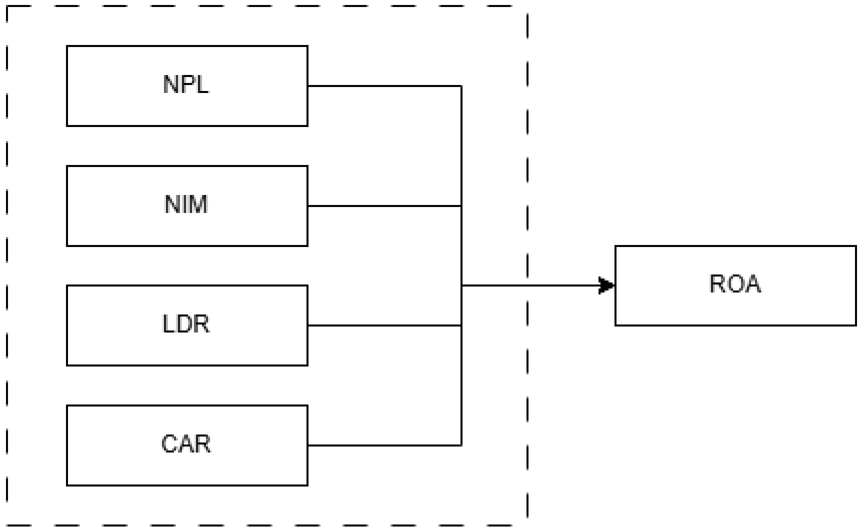

Diagram Description, Dotted Lines (Simultaneous): Represent all independent variables that have an effect on the dependent variable at the same time. Straight Lines (Partial): Shows the effect of the single independent variable on the dependent variable. Each of these lines represents the action of one independent variable on the dependent variable. The key variables in this study consist of independent and dependent variables. The independent variables include Non-Performing Loans (NPL) as a proxy for credit risk, Net Interest Margin (NIM) as a proxy for market risk, Loan to Deposit Ratio (LDR) as a proxy for liquidity management, and

[19] Lan Lerche, *Quantitative Methods* (Elsevier, 2012), https://books.google.com/books?hl=id&lr=&id=bfSqNcHv1goC&oi=fnd&pg=PP1&dq=quantitative+method&ots=i9d3-Y0dxT&sig=s8gF6NzGHbxhCTg5Q8ph7UyYFtQ.

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Capital Adequacy Ratio (CAR) as a proxy for capital sufficiency. Meanwhile, the dependent variable is Return on Assets (ROA), which serves as a measure of profitability. The data collection in this study focuses on the largest Islamic banks in Malaysia, namely Bank Islam Berhad, CIMB Islamic Berhad, and Maybank Islamic Berhad. These banks are selected due to their status as Government-Linked Companies (GLCs) and their significant role in the development of Islamic banking in Malaysia. The study relies on secondary data obtained from the financial statements of these three government-linked Islamic banks, providing a comprehensive basis for analysis.[20]

The study employs multiple regression analysis to examine the relationship between the independent variables—Non-Performing Loans (NPL), Net Interest Margin (NIM), Capital Adequacy Ratio (CAR), and Loan to Deposit Ratio (LDR)—and the dependent variable, Return on Assets (ROA). Several tests are conducted to ensure the robustness of the analysis. The normality test, using the Jarque-Bera test, assesses whether the residuals follow a normal distribution. The t-test evaluates the individual effect of each independent variable on ROA, while the F-test determines their collective impact. Additionally, the R-squared analysis measures the explanatory power of the model in capturing variations in ROA. To enhance the accuracy and reliability of the analysis, statistical software is utilized for data processing. These tools help in managing complex calculations, improving efficiency, and ensuring the validity of results. By leveraging advanced statistical techniques, the study provides a structured approach to understanding financial performance in the context of Islamic banking. This methodological framework offers a systematic way to analyze the dynamic interaction between risk management strategies and financial outcomes, particularly within Malaysian Islamic banks. By integrating theoretical insights with empirical findings, the study aims to present practical strategies to enhance the efficiency and sustainability of these banks in a competitive financial landscape.

RESULTS AND DISCUSSION

Data Analysis Test

The results of this study show that various types of risks faced by Islamic banking, such as financing risk, liquidity risk, and operational risk, have a significant influence on the bank's profitability level. Financing risk is proven to have the most dominant negative impact on profitability, indicating that the quality of assets and the level of non-performing financing should be a major concern in risk management. Meanwhile, liquidity risk shows a negative but moderate relationship, underscoring the importance of third-party fund management and the availability of liquid reserves. On the other hand, operational risk has a more varied influence depending on the efficiency of internal processes and the governance implemented. These findings affirm the importance of implementing a comprehensive risk management system in order to maintain stability and sustainability of profitability in the Islamic banking sector.

[20] Kane Meissel dan G. T. L. Brown, "Quantitative research methods," *Research methods for education and the social disciplines in Aotearoa New Zealand*, 2023, 83–97.

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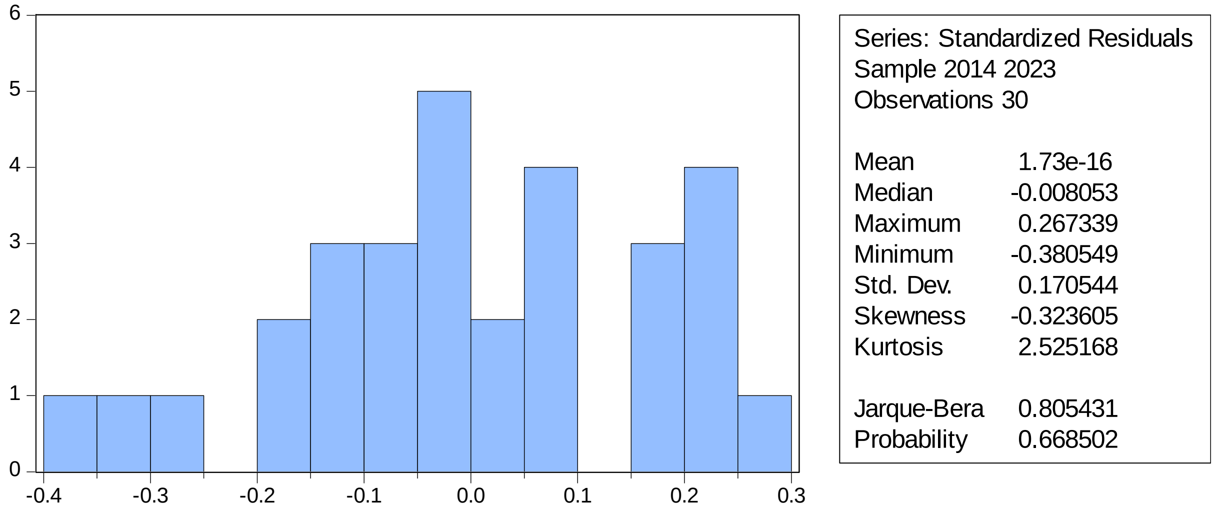
1. Normality Test



The Jarque-Bera test was used to determine whether the regression model's residuals were normally distributed as part of the normality test. The test results showed a Jarque-Bera value of 0.805431 with a probability (p-value) of 0.668502. The residuals in this model can be said to be normally distributed since the p-value is higher than the significance level of 0.05. Thus, the assumption of residual normality is met, proving the viability of using the regression model for additional analysis.

Hypotesis Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
NPL	-0.353401	0.426533	-0.828544	0.4155
NIM	0.889247	2.079597	0.427606	0.6728
LDR	2.857789	1.946051	1.468507	0.1550
CAR	6.030680	3.651479	1.651572	0.1116
ROA	2.653618	0.872952	3.039820	0.0056
C	-38.21557	22.10687	-1.728674	0.0967

Determination Coefficient Test

The determination coefficient test aims to measure how much the independent variables (NPL, NIM, LDR, and CAR) can explain the variation of the dependent variable (ROA). According to the regression results, the independent variables in the model account for about 37.56% of the variation in ROA, as indicated by the R-squared value of 0.375575. This indicates that the model has a moderate ability to explain the relationship between the independent variables and ROA, whereas other variables not included in this model have an impact on the remaining 62.44%. To ascertain whether the independent factors concurrently have a significant impact on the dependent variable, the F test is used. The regression results show that the probability (p-value) is 0.035274 and the F-statistic value is 2.887070. It is possible to conclude that the NPL, NIM, LDR, and CAR variables all significantly affect ROA at the same time because the p-

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value is less than 0.05. This demonstrates the applicability of the regression model in explaining the relationship between the independent and dependent variables.

Each independent variable's partial impact on the dependent variable (ROA) is ascertained using the t-test. The analysis's findings indicate the following. The results of the analysis show that the NPL variable has a coefficient of -0.353401 with a p-value of 0.4155, which is greater than the significance level of 0.05. This indicates that NPL does not have a significant effect on ROA. The negative coefficient indicates that an increase in NPL has the potential to reduce ROA, but the impact is not strong enough to be considered significant. Theoretically, an increase in NPL reflects deteriorating credit quality, so that banks must reserve funds to cover bad debts, which ultimately reduces profitability. However, in the context of this data, it is likely that there are other factors that mitigate the impact of NPL on ROA, such as efficient credit management or good income diversification. Therefore, although the direction of the relationship is consistent with the theory, the effect of NPL on financial performance is not significant. With a p-value of 0.6728 and a coefficient of 0.889247, the NIM variable is likewise not significant ($p>0.05$). The positive coefficient indicates that theoretically, an increase in NIM, which reflects the bank's efficiency in generating net interest income, can increase ROA. However, this relationship is not statistically strong enough in the model. This result indicates that although NIM is considered a leading indicator of bank operational efficiency, in the context of the analysed data, other factors may be more dominant in influencing profitability. For example, fluctuating market interest rates or a suboptimal investment portfolio may reduce the direct effect of NIM on ROA.

With a coefficient of 0.889247 and a p-value of 0.6728, the NIM variable is likewise not significant ($p > 0.05$). The positive coefficient indicates that theoretically, an increase in NIM, which reflects the bank's efficiency in generating net interest income, can increase ROA. However, this relationship is not statistically strong enough in the model. This result indicates that although NIM is considered a leading indicator of bank operational efficiency, in the context of the data analysed, other factors may be more dominant in influencing profitability. For example, fluctuating market interest rates or a suboptimal investment portfolio can reduce the direct effect of NIM on ROA.

The coefficient for the LDR variable is 2.857789 with a p-value of 0.1550, which means that the relationship between LDR and ROA is not statistically significant. However, the positive coefficient indicates that an increase in LDR has the potential to increase ROA. Theoretically, LDR reflects the extent to which banks utilize third-party funds to be channelled into credit. If liquidity management is carried out efficiently, an increase in LDR can generate higher interest income, thereby driving increased profitability. Nevertheless, the impact of LDR on ROA is not sufficiently significant in this data. This may be due to the risks associated with too low liquidity, such as the risk of default by debtors or an imbalance between assets and liabilities.

The results of the analysis show that CAR has a coefficient of 6.030680 with a p-value of 0.1116, which is close to significant ($p > 0.05$). An increase in CAR, which measures the sufficiency of bank capital, can raise ROA, according to a positive coefficient. Theoretically, banks with a high capital adequacy ratio have a better ability to absorb unexpected losses,

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increase investor and depositor confidence, and support credit growth. This conclusion highlights the significance of capital adequacy as one of the cornerstones of bank financial stability, despite the fact that the association is not statistically significant in the model. In this context, high CAR has the potential to improve bank financial performance, although its impact may be influenced by external factors such as macroeconomic conditions or regulations.

Regression Model

The findings of the analysis resulted in the development of the following regression model: ROA = -38.21557 – 0.353401 NPL + 0.889247 NIM + 2.857789 LDR + 6.03068 CAR. This equation indicates the relationship between Return on Assets (ROA) and the independent variables: Non-Performing Loans (NPL), Net Interest Margin (NIM), Loan to Deposit Ratio (LDR), and Capital Adequacy Ratio (CAR). The negative coefficient of NPL (-0.353401) suggests that an increase in credit risk negatively impacts profitability. In contrast, NIM (0.889247), LDR (2.857789), and CAR (6.03068) have positive coefficients, implying that higher market risk management efficiency, liquidity management, and capital adequacy contribute positively to ROA. The intercept (-38.21557) represents the baseline ROA when all independent variables are zero, though its practical interpretation is limited. This regression model serves as a quantitative representation of how financial risk factors influence the profitability of Islamic banks in Malaysia.

The intercept value of -38.21557 indicates that when all independent variables (NPL, NIM, LDR, and CAR) are zero, then ROA is predicted to be at a negative value of -38.21557. Economically, this illustrates that without the influence of the factors analysed, financial performance (ROA) tends to be very low, which may reflect unrealistic conditions or require further interpretation. The NPL coefficient of -0.353401 indicates that every one unit increase in NPL tends to decrease ROA by 0.353401 units, presuming that all other variables remain unchanged. This negative coefficient supports the idea that bank profitability will be hampered by an increase in non-performing loans. However, Due to the p-value of 0.4155, which indicates that the effect is not significant, it is not statistically trustworthy.

The NIM coefficient of 0.889247 indicates that every one unit increase If all other factors remain unchanged, NIM will raise ROA by 0.889247 units. This positive coefficient reflects that an increase in net interest margin can increase profitability. However, given an unsignificant p-value of 0.6728, this effect cannot be considered significant in the model.

The LDR coefficient of 2.857789 indicates that every one unit increase in LDR tends to increase ROA by 2.857789 units, assuming other variables are constant. This coefficient indicates a positive relationship between liquidity and profitability, where more optimal use of third-party funds can increase interest income. However, with a p-value of 0.1550 (not significant), this relationship is not strong enough to be declared significant.

The CAR coefficient of 6.030680 indicates that every one unit increase in CAR tends to increase ROA by 6.030680 units, assuming other variables are constant. This positive coefficient is in accordance with the theory that higher capital adequacy can increase a bank's ability to face risks, thereby boosting profitability. Although the p-value of 0.1116 is close to significant, its statistical influence is still not strong enough.

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Findings

The three banks studied, namely Maybank Islamic, Bank Islam Malaysia Berhad (BIMB), and CIMB Islamic, are significant Islamic banks in Malaysia that hold the designation of Government-Linked Companies (GLC).[21] This status indicates that the three banks have direct links to ownership or supervision by the Malaysian government through certain bodies. One of the key pillars supporting Malaysia's status as a major worldwide Islamic financial hub is the growth of the Islamic banking industry, which is one area in which GLC strategically contributes to the country's economic growth.[22] The study's findings show that although the variables of credit risk (NPL), efficiency (NIM), liquidity (LDR), and capital adequacy (CAR) are not significant partially, simultaneously these variables have a significant effect on financial performance (ROA). This reflects the importance of integrated risk management to ensure the stability of bank performance.

As GLCs, Maybank Islamic, BIMB and CIMB Islamic operate under the strict supervision of Bank Negara Malaysia (BNM), which is accountable for keeping the nation's financial system stable.[23] Maybank Islamic, as part of the Maybank Group, is one of the largest Islamic banks in the world with a broad focus on domestic and international markets.[24] Meanwhile, BIMB is positioned as a pioneer of Islamic banking in Malaysia with a primary focus on domestic Islamic financial inclusion . On the other hand, CIMB Islamic leverages its extensive regional network to expand Islamic services in the ASEAN region.[25] These three banks are not only competing commercially but also have a responsibility to fulfil the government's mandate to expand financial inclusion and support Islamic economic growth.

The association of these three banks with Government-Linked Company (GLC) status provides them with distinct advantages, particularly in the form of government support when navigating market risks and maintaining financial liquidity. Unlike fully private institutions, GLCs often have access to stabilizing mechanisms and policy-driven assistance, allowing them to remain resilient during economic fluctuations. This structural backing gives the banks a level of security that enhances investor confidence and contributes to greater financial stability. In addition to financial resilience, government supervision ensures that these banks adhere to high standards of accountability and transparency. This oversight positions them not only as leaders within Malaysia's Islamic financial sector but also as regional benchmarks across ASEAN. Their compliance with regulatory standards and alignment with national policy

[21] Wan Amir Shafiq Bin Ab. Nasir, Rusni Hassan, dan Ibrahim Musa Tijani, "Malaysian's Government Linked Investment Companies: Is There a Need for Shariah Governance Framework? (Syarikat Pelaburan Berkaitan Kerajaan Malaysia: Adalah Adakah Perlu Rangka Kerja Tadbir Urus Syariah?)," *Journal of Islam in Asia (E-ISSN 2289-8077)* 17, no. 2 (September 2020): 198–222, doi:10.31436/jia.v17i2.961.

[22] Kamal Ab Hamid, Shahrizal Badlishah, dan Abdul Rahman Jaaffar, "Malaysia in Global Ratings: Position and Dynamics," dalam *Modeling Economic Growth in Contemporary Malaysia* (Emerald Publishing Limited, 2021), 127–34, doi:10.1108/978-1-80043-806-420211011.

[23] Ibid.

[24] Nailah Nailah dan Aam Slamet Rusydiana, "EFFICIENCY AND STABILITY OF ISLAMIC BANKING IN ASEAN: DEA WINDOW ANALYSIS," *Tazkia Islamic Finance and Business Review* 14, no. 1 (Desember 2020), doi:10.30993/tifbr.v14i1.211.

[25] Hamid, Badlishah, dan Jaaffar, "Malaysia in Global Ratings: Position and Dynamics."

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objectives reinforce their role as models of good corporate governance in the Islamic banking industry.

Moreover, the strategic role of GLCs in promoting financial stability aligns closely with Malaysia's broader vision to be recognized as a leading global hub for Islamic finance. By anchoring key Islamic banking institutions with government-linked ownership, Malaysia is able to ensure consistent policy execution, foster innovation in Islamic financial products, and uphold global credibility in this sector. Finally, the combined efforts of Bank Negara Malaysia's (BNM) strong governance framework and the government's long-term economic policies further enhance the contributions of these banks. Their performance not only supports national financial inclusion and sustainability goals but also plays a vital role in achieving Malaysia's long-term economic aspirations. Through this synergistic relationship, the three GLC-linked Islamic banks are central to Malaysia's continued leadership in the global Islamic finance landscape.

CONCLUSION

This particular research investigates the impacts of different risk factors on the performance of Islamic banks managed by GLCs in Malaysia within the parameters of Bank Islam Berhad, CIMB Islamic Berhad, and Maybank Islamic Berhad. Per risk factor, credit risk represented with NPL, market risk illustrated by NIM, capital risk depicted by CAR, and liquidity by LDR, had different degrees of significance for profitability measured with ROA. In conjunction with this, all the above factors significantly contributed to ROA, and that's why it is also crucial to carry out risk management in a broader context. Given the positive effect of capital adequacy and liquidity, it is important to ensure that there are adequate capital levels and that funds are allocated effectively to enhance performance. In the end – although these banks encounter different issues in managing their risks, the fact that they are GLCs comes with advantages, for instance, support from the government and strict regulatory control. Thus, there is reason to believe that they will play a significant role in accomplishing the aspiration of Malaysia to be a global center for Islamic finance.

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