ABSTRACT

This study aims to analyze the effect of risk management on the performance of Islamic banking in Asia during the 2019–2024 period. Islamic banking performance is proxied by Return on Assets (ROA), while risk management is represented by financing risk proxied by Non-Performing Financing (NPF), liquidity risk proxied by Financing to Deposit Ratio (FDR), strategic risk proxied by Funding Structure Ratio (FS), reputational risk proxied by Shareholder Reputation Score (SRS), and operational risk proxied by Cost to Income Ratio (C/I). This study was conducted due to the importance of risk management in maintaining the stability, profitability, and sustainability of Islamic banking amid the dynamics of the global financial industry.

This study employs a quantitative approach using secondary data obtained from the annual financial reports of Islamic banks in Asia during the 2019–2024 period. The research sample consists of 33 Islamic banks selected through purposive sampling techniques. The data were analyzed using panel data regression with the assistance of IBM SPSS 23 and EViews 12 software. Based on the model selection results through the Chow test and Hausman test, the Fixed Effect Model (FEM) was determined to be the most appropriate model for explaining the relationship between the independent and dependent variables. The total number of observations used in this study was 151 unbalanced panel observations.

The results indicate that financing risk (NPF), strategic risk (FS), and operational risk (C/I) have a negative and significant effect on Islamic banking performance as proxied by ROA. Meanwhile, liquidity risk (FDR) and reputational risk (SRS) do not have a significant effect on ROA. Among all significant variables, strategic risk (FS) is the variable with the most dominant negative effect on Islamic banking performance, as indicated by the largest absolute standardized coefficient. These findings suggest that funding structure, operational efficiency, and financing quality are the primary factors determining the profitability of Islamic banks in Asia. Therefore, strengthening integrated risk management practices is an essential step toward enhancing the stability and sustainability of Islamic banking performance.

Keywords: Risk Management, Islamic Banking, Return on Assets, Non-Performing Financing, Fixed Effect Model.