

## The Relationship between Financial Risks and Commercial Banks' Performance in Malaysia

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### ABSTRACT

This research examines the relationship between financial risks and the performance of commercial banks in Malaysia from 2018 to 2022. Financial risks considered include operational risk, credit risk, and liquidity risk. The study aims to identify how these risks impact the efficiency and stability of commercial banks, and how such risks influence investor confidence and capital inflows. Using data from various Malaysian commercial banks, this study employs regression analysis to assess the significance and strength of the relationships between different types of financial risks and bank performance. The findings contribute to a better understanding of the financial dynamics within the Malaysian banking sector, providing valuable insights for investors and financial analysts to make informed decisions. This research is crucial given the increased financial uncertainties and economic challenges in the post-COVID-19 era.

**Keywords:** Financial Risks, Bank Performance, Operational Risk, Credit Risk, Liquidity Risk, Malaysian Commercial Banks, Investor Confidence, Economic Challenges.

### INTRODUCTION

During the last five years, the banking sector in Malaysia has successfully managed a constantly changing environment characterised by a series of challenges that had a significant impact on financial risks and the overall performance of financial institutions. The industry faced numerous kinds of complex challenges, including prominent financial scandals, worldwide economic disruptions, political instabilities, and rapid technological progress. This analysis provides a clear understanding of the main challenges encountered by Malaysian banks in the years spanning from 2018 to 2022. It offers valuable observations on the changing financial and operational environment in the country. The resilience and adaptability of Malaysia's banking sector have been tested by the reverberations of the financial scandal, the unprecedented impacts of the COVID-19 pandemic, and ongoing geopolitical tensions. These challenges have influenced the trajectory of the banking sector in a rapidly changing global environment.

Malaysian banks struggled to navigate the complexities of global economic uncertainties. Malaysia has been impacted by the economic tensions between the world's two largest economies, the United States and China, resulting in the US-China trade war in 2019. According to Iwamoto (2019), the Malaysian economy experienced a slowdown in the initial quarter of 2019 due to the adverse impact of the ongoing trade tensions between the United States and China on the country's exports. Due to its significant reliance on international trade, Malaysian banks had to navigate the difficulties arising from the potential consequences on worldwide economic growth, trade patterns, and the profitability of loans associated with export-oriented industries.