HOW GEOPOLITICAL, CREDIT AND FINANCIAL RISKS DEFINE ASEAN BANKS' PERFORMANCE?

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ABSTRACT

The banking sector is essential to the global economy, functioning as a central financial hub responsible for allocating funds, providing essential services, and assessing economic health. However, this pivotal role exposes banks to various risks, including geopolitical, credit, and financial risks. These risks arise from the banking sector's role as a financial facilitator, its global reach, and its handling of complex financial instruments. A quantitative approach is employed in this research, utilizing multiple regression analysis to analyze the impact of geopolitical, credit and financial risks on bank performance in the ASEAN region. The data analyzed from 2013 to 2022, using a purposive sample yielding 690 samples, reveals that geopolitical risk, credit risk, and financial risk have a negative impact on bank performance. These findings offer valuable insights for policymakers and regulators, informing the development of targeted regulations to address the specific risk landscape faced by banks and potentially enhancing financial stability.

Keywords : Geopolitical Risk; Credit Risk; Financial Risk; Bank Performance

ABSTRAK

Sektor perbankan sangat penting bagi perekonomian global, berfungsi sebagai pusat keuangan yang bertanggung jawab dalam mengalokasikan dana, menyediakan layanan keuangan, dan mengukur kesehatan ekonomi. Namun, peran penting ini membuat bank rentan terhadap berbagai risiko, termasuk risiko geopolitik, kredit, dan keuangan. Risiko-risiko ini muncul dari peran sektor perbankan sebagai fasilitator keuangan, jangkauannya yang global, dan pengelolaan instrumen keuangan yang kompleks. Penelitian ini menggunakan pendekatan kuantitatif, dengan menerapkan analisis regresi berganda untuk menganalisis dampak risiko geopolitik, kredit, dan keuangan terhadap kinerja bank di wilayah ASEAN. Data yang dianalisis dari tahun 2013-2022, dengan menggunakan purposive sampling yang menghasilkan 690 sampel, mengungkapkan bahwa risiko geopolitik, risiko kredit, dan risiko keuangan memberikan dampak negatif terhadap kinerja bank. Penelitian ini memberikan pengetahuan bagi pembuat kebijakan dan regulator, yang dapat digunakan untuk merancang regulasi guna mengatasi risiko bank dalam meningkatkan stabilitas keuangan.

Kata Kunci : Risiko Geopolitik; Risiko Kredit; Risiko Keuangan; Kinerja Bank

INTRODUCTION

The banking sector is essential to the global economy, functioning as a central financial hub responsible for allocating funds, providing essential services, and

assessing economic health. However, this pivotal role exposes banks to various risks, including geopolitical, credit, and financial risks. These risks arise from the banking sector's role as a financial facilitator, its global reach, and its handling of complex financial instruments (Lehmann, 2022; Mario et al., 2023). Geopolitical risks can heighten the risks associated with banks' debt rollovers and increase their funding expenses. This, in turn, may result in higher interest rates on government bonds and a decrease in the value of banks' assets (Mario et al., 2023). Furthermore, these geopolitical risks can spill over into the real economy, causing disruptions in supply chains and commodity markets that can worsen banks' market losses and credit risk, ultimately impacting their profitability and capital reserves. Additionally, banks must contend with credit risk stemming from their lending activities and financial risk due to their involvement with complex financial instruments (Lehmann, 2022).

Increased global tensions and instances of terrorism across different countries contribute to a rise in Geopolitical Risk (GPR) for nations, triggering heightened worries about inflation and economic expansion. As risk perceptions heighten, banks are reassessing their credit policies, both globally and domestically, leading to a noticeable slowdown in credit extension. This rising Geopolitical Risk (GPR) has made international commercial banks less inclined to finance large-scale cross-border projects. Moreover, the elevated GPR undermines the capacity of nations and financial institutions to draw in foreign direct investments. Therefore, the economic resilience of countries plays a crucial role in deterring security threats and enabling swift responses when needed (Yildirim & Ayberk, 2022).

The banking sector has encountered several difficulties in recent years due to geopolitical events. For example, when sanctions are imposed on countries or entities, it can result in frozen assets and limitations on financial transactions. Additionally, trade tensions can disrupt the movement of goods and services, which can have consequences for banks involved in international trade finance. Political conflicts or civil unrest in regions with a significant banking presence can jeopardize the safety of bank assets, employees, and operations. Moreover, given the banking system's global interconnectedness, geopolitical risks can set off a chain reaction, affecting the directly involved banks and those with connections to impacted institutions or regions (Mario et al., 2023).

Geopolitical risks pose distinctive challenges and uncertainties for banks in ASEAN. For example, the South China Sea disputes, where heightened tension and territorial conflicts can impact international trade and banking activities. The Philippines and Vietnam actively engage in territorial disputes within the South China Sea (Asia Report, 2021). These disputes have the potential to impact the stability of their banking sectors as they navigate the geopolitical tensions related to these conflicts (Góes & Bekkers, 2022). Thailand and Myanmar have faced periodic political instabilities and conflicts. These issues can pose security threats to banking operations and influence investor confidence, affecting the financial sector's performance (Maber, 2016). The competition between major regional powers presents a complex situation for banks as they must carefully manage their relationships with these influential nations. Moreover, political unrest and internal conflicts in certain ASEAN countries can introduce security risks that affect both banking operations and the safeguarding of assets. Furthermore, ASEAN's economic progress relies on its capacity to draw foreign investments and boost international trade (Murphy, 2017). Geopolitical risks can influence the willingness of international banks to provide financing for large-scale projects and deter foreign direct investment.

In the context of this research, alongside geopolitical risks, credit risk is another significant factor that can affect the banking sector's performance. In its operational activities, banks face significant potential risks. According to Idroes & Sugiarto (2006), credit risk refers to the potential financial loss that arises when a borrower (counterparty) fails to meet their repayment obligations as scheduled. This risk can emanate from various factors, such as economic downturns, changes in borrower circumstances, or shifts in the global economic landscape. This risk can also arise from different origins, including individuals, businesses, or governments. In the ASEAN region, where the banking sector faces a range of influences, comprehending the significance of credit risk is crucial (Ekananda, 2023). The bad loans on the bank's balance sheet reduce its profitability and performance (Ekinci & Poyraz, 2019). In the banking industry, the term "non-performing loan" (NPL) is commonly used, indicating a measure of a bank's ability to effectively manage loans that are not being repaid (Dendawijaya, 2009)

During the Asian financial crisis of the late 1990s, Indonesia encountered significant credit risk challenges that profoundly impacted its banking sector

performance. The rapid increase of NPLs had a direct and adverse impact on the stability of Indonesia's banking sector. Many banks faced financial distress, some on the brink of insolvency. The loss of confidence in the banking system led to deposit withdrawals and capital flight, further exacerbating the sector's instability (Prawira & Wiryono, 2020). Malaysia also had its share of credit risk issues during the Asian financial crisis. Non-performing loans increased, affecting the performance of the banking sector (Basel Committee, 2001). The surge in NPLs had a direct and adverse impact on the performance of Malaysia's banking sector. Financial institutions were required to allocate substantial provisions to cover potential losses associated with the mounting NPLs. This eroded banks' profitability and capital positions, affecting their financial health (Khamisah et al., 2020; Khoirunisa et al., 2022).

When evaluating the banking sector's performance, it's crucial to recognize another important aspect: financial risk. Financial risk refers to the potential for financial losses that banks may encounter due to various uncertain factors. These factors encompass market volatility, economic conditions, regulatory changes, and internal elements affecting banks' financial stability and soundness. During periods of financial distress or crises, the impact of financial risk on banks can be particularly pronounced (Rizqiyani et al., 2024). Bank failures, severe losses, and even bankruptcy become real possibilities, with dire implications for the banks and their customers, investors, and the broader financial system (Devy & Manunggal, 2023; Tsai, 2014). The Philippines, particularly during the 2008 global financial crisis, experienced financial risk. The interconnectedness of its banking sector with global markets meant that the leverage-related challenges influenced ROA as banks faced difficulty maintaining profitability.

Leverage is indeed a key component of financial risk. It represents using borrowed funds or debt to amplify the potential returns on an investment or to support business operations (Javed et al., 2015). Debt-to-equity ratios are a key measure for assessing the extent of leverage employed by banks. These ratios are crucial in understanding the scale of funds financed through debt. They also help gauge the proportion of capital in large companies funded through debt and equity. When a company borrows funds, it must consider the interest expenses associated with those loans. This is where the interest coverage ratio comes into play, assessing the company's capacity to cover the interest costs of its borrowings (Javed et al., 2015).

Financial leverage has become one of corporate finance's most hotly debated topics, significantly influencing a company's financial performance (Kizildag, 2015).

This study investigates how geopolitical risk, credit risk, and financial risk affect the performance of banks in the ASEAN region. This study adds geopolitical risk factors, which have received limited attention in previous research (Afriyie Nyamekye et al., 2022; Ekinci & Poyraz, 2019; Yildirim & Ayberk, 2022). Considering the tightly connected global financial system and the possibility of far-reaching effects from geopolitical events, banks must incorporate geopolitical risk management into their risk management and business strategies. Neglecting to do this can result in substantial negative impacts on banking sector performance and overall financial stability. This research has the potential to equip policymakers and regulators with valuable insights, enabling them to craft targeted policies and regulations that address the specific risk landscape faced by banks in the ASEAN region. This could lead to the development of more robust regulatory frameworks that ultimately enhance financial stability. Additionally, the study offers practical guidance for the banking sector itself, suggesting more effective risk management strategies. By implementing these strategies, banks can strengthen their resilience against external shocks and navigate periods of uncertainty with greater confidence.

REVIEW LITERATURE AND HYPOTHESIS DEVELOPMENT

Signaling Theory

Signaling theory, bridging economics and information theory, explores how signals are used for communication. It focuses on situations where one party has more information than the other (asymmetric information). In these scenarios, signals act as messages to convey the hidden information to the less informed party. Signaling theory is a valuable tool for explaining behaviour in situations where two parties, whether they be individuals or organisations, possess varying levels of information. In a communication process, the sender is responsible for deciding whether and how to provide information, while the receiver is responsible for deciding how to understand the conveyed message (Connelly et al., 2011).

According to signaling theory, businesses that provide accurate information have an advantage over those who don't have any good news. These organizations convey to the market that they are doing well now and that they will likely perform well going

forward. However, it could be difficult for businesses with a track record of underwhelming financial performance to win over the market to their possibilities (Wolk et al., 2017). Signaling theory suggests that a bank's financial performance can serve as a signal to various stakeholders, influencing their decisions and perceptions. It can impact investor confidence, risk assessment, competitive positioning, regulatory relationships, and even opportunities for growth and expansion through mergers and acquisitions. When banks consistently demonstrate a strong Return on Asset (ROA), it signals to investors and stakeholders that the bank is efficiently utilizing its assets to generate profits. This can boost confidence and attract investment. Banks with a superior ROA may use it to signal their competitive advantage in the market. This can attract customers looking for stable and reliable banking services (Bini et al., 2012).

Bank Performance

Bank performance is defined as the primary driver of profits generated from their activities and is the foundation and objective of any banking operation (Ferrouhi, 2018). Bank performance is a crucial indicator of its ability to provide financial services, maintain financial stability, and contribute to economic growth. Globally, a common ratio like return on assets (ROA) is utilized to assess bank performance. In financial analysis, that ratio relies on accounting values based on historical costs, which can introduce a delay in performance measurement compared to market values. For those seeking timely insights, market indices provide a more accurate gauge of a firm's performance, especially for investors who prioritize market value over the internal activities reflected in ROA (Quoc Trung, 2021).

Geopolitical Risk

Geopolitical risk refers to the potential threats and uncertainties stemming from political, social, and economic factors and conflicts within and between nations (Shabir et al., 2023). These uncertainties can profoundly affect a wide range of global and local matters, from commerce and international trade to financial markets. Geopolitical risk has recently gained traction as a distinct method for assessing political uncertainty. This approach stands apart from traditional methods of gauging political instability and macroeconomic risks in several key ways (Alsagr & Almazor, 2020). Geopolitical risk analysis offers a broader perspective compared to traditional methods. Firstly, it considers both domestic and international events, not just internal political issues.

Secondly, it can identify infrequent, high-impact events that might otherwise remain undetected for long periods. Interestingly, the assessment of geopolitical risk itself can have a more significant negative impact than the actual events. This might be because the assessment process highlights potential uncertainties, while the resolution of the event itself brings clarity (Dissanayake et al., 2019). Geopolitical risk plays a crucial role in a country's economic decision-making (European Central Bank, 2017). Geopolitical risk is connected to potential challenges in the banking sector, including changes in investor sentiment, slower growth in bank credit, profit volatility, and an elevated risk of bank failure (Kuncoro & Ashsifa, 2023; Shabir et al., 2023).

Credit Risk

According to The Basel Committee on Banking Supervision, credit risk is the likelihood of losing part or all of a loan due to delayed or non-payment (Basel Committee, 2001). When credit risk goes up, it leads to higher costs for borrowing money through debt or selling equity. Consequently, the cost of a bank's funding rises. Moreover, as a bank's exposure to credit risk grows, the likelihood of the bank facing a financial crisis also increases (Ekinci & Poyraz, 2019). When a significant portion of loans becomes non-performing, meaning that borrowers fail to make payments as agreed, it can lead to non-performing loans (NPLs) accrual. Non-Performing Loan (NPL) serves as the metric to gauge credit risk within a bank. The volume of NPLs significantly impacts a bank's ability to generate profits. A surge in NPLs can lead to substantial bank losses (Naili & Lahrichi, 2022). Consequently, it is essential for banks to work on mitigating the increase in NPLs to safeguard their profitability. High levels of NPLs indicate a significant number of non-performing loans, which, in turn, hamper bank performance and result in inefficiencies due to irregular principal and interest payments (Khamisah et al., 2020; Prawira & Wiryono, 2020).

Financial Risk

Financial risk refers to the potential hazards and uncertainties associated with financial decisions and investments. Financial risk arises from future commitments related to borrowed capital and is closely tied to a company's financial leverage. The Debt-to-Equity Ratio (DER) assesses a company's financial leverage and is computed by dividing the company's total liabilities by its shareholder equity (Luoma & Spiller, 2002). An important component of a company's financial structure is the Debt-to-

Equity Ratio (DER), which measures how much a business depends on debt to support its operations. A high DER can raise financial risk because it results in higher interest costs. Increased interest costs can lower the net profit of a business. A company's bottom line may be further impacted by excessive interest costs, particularly when interest rates are high (Julyus & Safri, 2023; Roy & Bandopadhyay, 2022).

Hypothesis Development

Geopolitical Risk and Bank Performance

Tensions and terrorist incidents across countries contribute to a rise in Global Political Risk (GPR) for those nations. This heightened GPR raises concerns about inflation and economic growth (Yildirim & Ayberk, 2022). Geopolitical tensions pose a threat to financial stability. As tensions rise, the increased uncertainty and the outflow of cross-border credit and investments could raise the risk for banks, making it more expensive to roll over their debts (Mario et al., 2023). As the perception of risk increases, banks are reassessing their domestic and international lending policies. This reassessment often results in a reduction in lending, which is especially noticeable in the form of a credit slowdown (Alsagr & Almazor, 2020).

The increases in GPR also negatively impact international commercial banks' willingness to provide financing for large-scale projects that cross borders. Additionally, it hinders the ability of countries and banks to attract foreign direct investments. Consequently, a country's economic strength plays a crucial role in safeguarding against security threats and responding effectively to such challenges (Yildirim & Ayberk, 2022). Increases in GPR results in banks reducing their lending, which, in turn, diminishes their overall profitability. Geopolitical risk weakens the stability of banks, and when the geopolitical risk index increases, it has a negative effect on the profitability of banks (Phan et al., 2022).

Signaling theory suggests that banks may use certain signals or actions to effectively communicate their ability to manage and navigate geopolitical risks. Banks operating in regions with elevated geopolitical risk may employ signaling strategies to demonstrate their competence in managing such risks. These signals can include transparent risk management practices, strong compliance with international regulations, and robust financial reserves to withstand geopolitical shocks. By sending these signals, banks aim to assure stakeholders, including investors and depositors, of their capability

to handle geopolitical challenges. Yildirim & Ayberk (2022) and Alsagr & Almazor (2020) show that geopolitical risk negatively impact firm performance.

H₁: Geopolitical risk has a negative impact on bank performance

Credit Risk and Bank Performance

Credit risk is often described as the most significant risk that can impact bank performance (Boffey, 1995). When a bank's balance sheet contains a high level of non-performing loans, it reduces the bank's profitability and overall performance. Credit risk is a more prevalent concern for banks compared to other types of risks. Therefore, effective credit risk management has become crucial for the survival and growth of financial institutions (Afriyie & Akotey, 2011). Credit risk is an internal factor that directly influences bank performance. Consequently, the way banks manage this risk affects their profitability. By implementing credit risk management practices, banks achieve a dual benefit. They not only safeguard their own financial health and profitability, but also contribute to the stability and efficiency of the entire economic system. This is achieved through the careful allocation of capital, ensuring it reaches creditworthy borrowers who can fuel economic growth (Psillaki et al., 2010).

An increase in unsecured assets necessitates banks to set aside more money for anticipated credit losses. As a result, the rise in unsecured assets reduces the profitability of banks. Furthermore, the capital banks have for their investments and operations decreases, impacting their overall profits. This outcome can be attributed to credit risk, which has an adverse effect on the financial performance of banks (Ekinci & Poyraz, 2019).

Banks use specific signals or indicators to communicate their creditworthiness to external stakeholders. Signaling theory explores how banks strategically manage their credit risk to convey information that can positively influence their perceived financial health and, in turn, impact their overall performance. The core idea behind signaling theory is that banks can employ various methods and practices to signal their credit quality, making them more attractive to investors, depositors, and other financial market participants. Effective credit risk management and transparent communication of these efforts can enhance a bank's reputation and standing in the financial industry. Ekinci & Poyraz (2019), Khamisah et al. (2020), and Tangngisalu et al. (2020) show that credit risk negatively impacts firm performance.

H$_2$: Credit risk has a negative impact on bank performance

Financial Risk and Bank Performance

Financial risk is a tangible threat that organizations must deal with. If not handled properly, it can lead to significant problems. If a financial crisis happens, it can put a business in financial trouble or even bankruptcy. This can result in substantial losses for the company, investors, and others, impacting the overall economy (Ashsifa et al., 2023; Tsai, 2014). Leverage refers to the use of borrowed capital to amplify or increase the potential returns and risks of an investment or financial operation. In essence, it involves using borrowed funds to boost the size of an investment, with the expectation that the returns generated will exceed the cost of borrowing (Javed et al., 2015; Widianingsih et al., 2022). When companies face financial challenges, they often resort to borrowing money with the hope that they can use it to expand their business or make investments that will increase their revenue and, consequently, theifr profits, particularly the Return on Assets (ROA). However, if the company doesn't manage the borrowed capital properly, it can lead to significant losses. In such cases, the company still has to repay the borrowed money along with the interest, which reduces its revenue and has a negative impact on its performance (Julyus & Safri, 2023). If a bank's operating income is insufficient to cover its obligations, it results in reduced profitability, a lower ROA, and potentially, financial instability with far-reaching consequences.

Signaling theory involves the idea that banks use signals or indicators to convey their financial health and risk management strategies to external parties. This theory comprehends how banks strategically handle financial risk to communicate their strength and risk mitigation efforts, ultimately impacting their overall performance. Banks employ various methods and practices to signal their financial stability and risk management competence to investors, regulators, and other stakeholders. Effective financial risk management and transparent communication of these efforts can enhance a bank's reputation and standing in the financial industry, potentially attracting more investors and customers. Julyus & Safri (2023) and Mardaningsih et al. (2021) show that financial risk negatively impacts firm performance.

H$_3$: Financial risk has a negative impact on bank performance

RESEARCH METHODS

This study employs a quantitative approach to thoroughly examine how geopolitical, credit, and financial risks impact bank performance within ASEAN. Using EViews software, multiple regression analysis is conducted on financial data from 2013 to 2022. Sample selection follows a purposive sampling approach. Table 2 details the measurement of the research variables, with Return on Asset (ROA) serving as the dependent variable representing bank performance. Independent variables include the GPR Index for geopolitical risk, Non-Performing Loan (NPL) for credit risk assessment, and Debt-to-Equity Ratio (DER) for financial risk measurement.

The dataset underwent panel data analysis, employing multiple regression techniques. This study applies three distinct panel regression methods: common effects, fixed effects, and random effects models. To validate these models, Chow and Hausman tests will be performed. EViews version 12 was used as the software tool for data processing in this research. The research analysis model is represented by the following formula: $ROA_{it} = \beta_0 - \beta_1 GPR_{it} - \beta_2 CR_{it} - \beta_3 FR_{it} + e_i$

RESULTS AND DISCUSSION

Table 3 presents descriptive statistics for the variables in this study. Bank performance, measured by return on assets (ROA), exhibits a mean of 0.008873, with a maximum value of 0.107900 and a minimum of -0.224500. The standard deviation is 0.2768. Geopolitical risk, proxied by the GPR Index, shows a mean of 0.034934, along with a maximum of 0.152232, a minimum of 0.015833, and a standard deviation of 0.020350. Credit risk, represented by non-performing loans (NPL), shows a mean 0.041371, with a maximum value of 0.969300, a minimum of 0.000000, and a standard deviation of 0.065438. Financial risk, indicated by the Debt-to-Equity Ratio (DER), exhibits a mean of 0.207506, with a maximum of 6.250800, a minimum of 0.032800, and a standard deviation of 0.332909.

The subsequent phase includes choosing the optimal method, whether it be the common effect (pooled least squares), fixed effect, or random effect. Within the regression analysis, both the Chow test and Hausman tests are conducted. The Chow test aids in selecting the superior model between the fixed effect and common effect models. The results of this assessment are presented in Table 4. A probability value less

than 0.05 favors the fixed effect model, while a probability value greater than 0.05 suggests preference for the common effect model.

Table 4 shows that the Chow test statistics yield a probability value of 0.0000, indicating significance (0.0000 < 0.05). Thus, the model selected based on the Chow test is the fixed effect model. The Hausman test is then employed to make the definitive choice between the fixed effect model and the random effect model. If the probability value is below 0.05, the fixed effect model is favored. Conversely, if the probability value exceeds 0.05, the random effect model is deemed preferable.

Table 5 presents the results of the Hausman test, showing a probability value of 0.0005, which is below the significance level of 0.05 (0.0005 < 0.05). Therefore, according to the Hausman test, the preferred model is the fixed effect model (FEM). As a result, the test concludes successfully, confirming that the selected panel data regression model is indeed the panel data regression model with the fixed effect model (FEM).

Hypothesis Testing

The coefficient of determination test aims to assess how effectively the model explains the collective impact of independent variables on the dependent variable. The R-squared value indicates this effectiveness. According to the data in Table 6, the R-squared value is 0.454. This result signifies that when we consider all the independent variables together (geopolitical risk, credit risk, financial risk), they contribute to 45.4% of the impact on bank performance. In contrast, the remaining 54.6% can be attributed to factors and variables that were not analyzed or examined within the scope of this study. The simultaneous test, represented as the F test in Table 6, indicates a value of 0.00000, which is below the significance threshold of 0.05. It shows that geopolitical risk, credit risk, and financial risk simultaneously impact bank performance.

T-test (Partial Test)

The Fixed Effect Model (FEM) is chosen as the most suitable for this research. A partial test (t-test) is utilized to evaluate the impact of each independent variable. A p-value less than 0.05 indicates a significant effect of the respective independent variable on the dependent variable. Table 7 provides insight into the impact of different risk factors on bank performance. Geopolitical risk (GPR) has a probability value of 0.0023, which is less than the significance level of 0.05 (0.0023 < 0.05). The

associated t-statistic is -1.289455, and β (the coefficient) is -0.010734. This indicates that geopolitical risk has a negative impact on the bank performance, thus H_1 is accepted. Similarly, the credit risk (NPL) variable exhibits a probability value of 0.0001, which is also less than 0.05 (0.0001 < 0.05). The t-statistic value is -4.014927, and the coefficient β is -0.010734, further confirming that credit risk negatively impacts the bank performance, leading to the acceptance of H_2. Furthermore, the financial risk (DER) variable shows a probability value of 0.0497, slightly below the 0.05 threshold (0.0497 < 0.05). The t-statistic is -1.966368, and β is -0.005368, suggesting that financial risk has a negative impact on bank performance, thus H_3 is accepted.

Discussion

Based on hypothesis testing, geopolitical risk, credit risk, and financial risk negatively affect the bank performance. Geopolitical conflicts create a risk to financial stability. When these conflicts intensify, the resulting higher level of uncertainty and the movement of credit and investments across borders can increase the risk for banks. This, in turn, can lead to higher costs when banks need to extend the terms of their debts (Mario et al., 2023). Rising Geopolitical Risk (GPR) also affects how willing international commercial banks are to support big projects that involve multiple countries. When GPR goes up, banks tend to offer fewer loans, which then reduces their overall profits. This geopolitical risk weakens the stability of banks, and when the GPR goes higher, it has a detrimental impact on the profitability of banks (Phan et al., 2022). Geopolitical events can lead to sudden and big fluctuations in financial markets. This can cause the prices of assets, exchange rates for currencies, and interest rates to swing wildly. Banks frequently have different financial assets, like stocks and bonds, which can see their values change a lot during these unstable times. These market shifts can result in financial losses or reduce the value of assets owned by banks, which can hurt their return on assets (ROA). This study aligns with research done by Yildirim & Ayberk (2022) and Phan et al. (2022), which show that geopolitical risk has a negative impact on bank performance.

As a bank's exposure to credit risk grows, the probability of the bank encountering a financial crisis also increases (Ekinci & Poyraz, 2019). When credit risk is a concern, it often leads to increased provisions for bad debts or loan losses on the company's financial statements. This, in turn, reduces the net income, which is a

component of ROA. Additionally, heightened credit risk might lead to stricter lending policies, potentially reducing the company's interest income from loans and further impacting ROA. It's essential for businesses to manage and mitigate credit risk to maintain a healthy ROA. When a substantial portion of loans becomes non-performing, meaning that borrowers fail to make payments as agreed, it can result in the accumulation of non-performing loans (NPLs). Non-performing loans (NPLs) serve as a measure to assess the level of credit risk within a bank. The quantity of NPLs significantly influences a bank's capacity to generate profits. A surge in NPLs can lead to substantial losses for the bank (Naili & Lahrichi, 2022). When a bank expects a significant portion of its loans to turn into NPLs, it must set aside provisions to cover potential losses. These provisions reduce the income that contributes to the numerator of the ROA equation, thus decreasing ROA. The findings of this research align with previous studies conducted by Ekinci & Poyraz (2019), Khamisah et al. (2020), and Tangngisalu et al. (2020), they show that credit risk has a negative impact on bank performance.

When businesses encounter financial difficulties, they frequently turn to borrow funds with the expectation of using them to grow their operations or make investments that will boost their revenue and, subsequently, their profits, especially their Return on Assets (ROA). Nonetheless, if the company fails to handle the borrowed capital effectively, it can result in substantial losses. In such instances, the company is still obligated to repay the borrowed funds, including the interest, which diminishes their earnings and has an adverse effect on their overall performance (Julyus & Safri, 2023). Leverage is a financial strategy employed by banks to amplify their returns on equity, but it can also introduce higher financial risk. Financial leverage entails the use of borrowed funds to invest or operate in the hope of generating greater returns than the cost of the borrowed capital. In the banking sector, financial leverage is often employed to boost profits, but it can negatively affect Return on Assets (ROA). Research conducted by Julyus & Safri (2023) and Mardaningsih et al. (2021) show that financial risk negatively impacts bank performance; this is in line with the results of the study.

CONCLUSION

This study investigates the influence of geopolitical, credit, and financial risks on bank performance within the ASEAN region. The data analyzed from 2013 to 2022,

using a purposive sample yielding 690 samples. The research reveals a negative effect of geopolitical risk, credit risk and financial risk on bank performance. The findings contribute to both theoretical and practical knowledge. Theoretically, the research advances our understanding of the complex interplay between various risks and bank performance within the ASEAN context. This research offers a springboard for policymakers and regulators in the ASEAN region to craft more effective and targeted regulations that directly address the unique risk landscape faced by ASEAN banks. By understanding the detrimental impact of geopolitical tensions, credit risk, and financial instability on bank performance, regulators can implement a multi-pronged approach to enhance financial stability. This might involve establishing risk-based capital requirements, where banks hold higher capital reserves during periods of heightened geopolitical tensions or financial instability.

The study's limitations are confined to ASEAN nations, predominantly characterized as developing countries. Future research could overcome this limitation by extending the research scope to include developed countries, thereby diversifying the sample. Future research may add another independent variable. These additional variables could provide a more comprehensive understanding of the multifaceted relationship between risk factors and bank performance. Environmental, Social, and Governance (ESG) is one of the factors that can affect bank performance. ESG factors encompass a range of considerations, including environmental sustainability, social responsibility, and corporate governance. Banks need to consider their impact on the environment, such as how their lending and investment decisions affect climate change, resource usage, and pollution. Environmental considerations necessitate that banks assess their ecological footprint and the consequences of their financial decisions on climate change, resource usage, and pollution. Social responsibility involves addressing issues like income inequality, enhancing access to financial services, and actively participating in community development. Meanwhile, corporate governance stands as the bedrock of ethical and transparent banking practices, emphasizing governance structure, risk management, and compliance with laws and regulations (Rahman et al., 2023).

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FIGURES AND TABLES

Table 1. Sampling Criteria

Criteria	Total
Banking firms from ASEAN countries during the 2013-2022 period	117
Banking firms that did not publish annual reports from 2013 to 2022	(2)
Banking firms that lacked complete data	(46)
Number of samples that meet the criteria	69
Number of observations (10 years)	690

Table 2. Measurement of Variables

Variables	Definition	Measurement	Sources
Bank Performance	Bank performance refers to the main factor that determines the profits earned by a bank through its activities. It serves as the fundamental basis and goal of any banking activity.	Banking performance is measured using the return on assets (ROA) as a proxy. $$ROA = \frac{Net\ Income}{Total\ Assets}$$	(Ross et al., 2022)
Geopolitical Risk	Geopolitical risk refers to the possible threats and uncertainties arising from political, social, and economic causes and disputes within and among countries.	Geopolitical risk is measured using geopolitical risk index for the country of the year	(Caldara & Iacoviell, 2022)
Credit Risk	Credit risk refers to the potential financial loss that a lender or investor may experience as a result of a borrower's failure to repay a loan or fulfill their financial obligations.	Credit risk is measured using Non-Performing Loan (NPL) $$NPL = \frac{Total\ NPL}{Total\ Gross\ Loans}\ x\ 100\%$$	(Ross et al., 2022)

Variables	Definition	Measurement	Sources
Financial Risk	Financial risk refers to the potential hazards and uncertainties associated with financial decisions and investments.	Financial risk is measured using Debt-to-Equity Ratio (DER) $$DER = \frac{Total\ Debt}{Total\ Equity}$$	(Ross et al., 2022)

Table 3. Descriptive Statistics

Variables	Mean	Max	Min	Std. Dev
Bank performance (ROA)	0.008873	0.107900	−0.224500	0.022768
Geopolitical Risk (GPR)	0.034934	0.152232	0.015833	0.020350
Credit Risk (NPL)	0.041371	0.969300	0.000000	0.065438
Financial Risk (DER)	0.207506	6.250800	0.032800	0.332909

Table 4. The Chow Test

Effects Test	Statistic	Prob.
Cross-section F	4.385766	0.0000
Cross-section Chi-Square	318.793849	0.0000

Table 5. The Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	17.829425	3	0.0005

Table 6. Coefficient of Determination (R^2) and F-Test

R-squared	0.454931	Mean dependent var	0.008873
Adjusted R-squared	0.379377	SD dependent var	0.022768
SE of regression	0.017936	Sum squared resid	0.194956
F-statistic	6.021257	Durbin-Watson stat	2.040160
Prob(F-statistic)	0.000000	Log Likelihood	1843.326

Table 7. t-Test

Variable	Coefficient (β)	Std. Error	t-Statistic	Prob.
Constant	0.012770	0.001708	7.475808	0.0000
Geopolitical Risk (GPR)	-0.010734	0.037083	-1.289455	0.0023
Credit Risk (NPL)	-0.058212	0.014499	-4.014927	0.0001
Financial Risk (DER)	-0.005368	0.002730	-1.966368	0.0497