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Impact of Risk Management on Financial Performance of Jaiz Bank Plc

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Abstract

This paper investigated the impact of risk management on financial performance of Jaiz Bank Plc. Using simple linear regression analysis; the study examined the relationship between risk management and financial performance proxied by Return on Assets (ROA). The data were obtained from the published financial statements of the Jaiz bank Plc in Nigeria from 2013 to 2023. The SPSS software package version 26 was used to carry out the analysis. Descriptive statistics and regression analysis are employed to analyze the data. The study found that capitalization (CAP) has a significant impact on ROA. It is therefore, recommended that Jaiz Bank Plc should improve capitalization strategies through retaining a portion of its earnings to boost the bank's capital reserves, implement stronger capital planning as well as issuing new shares to existing or new investors to enhance ROA.

Keywords: Financial Performance, Jaiz Bank Plc, Return on Asset, Risk Management.

1. Introduction

The financial performance of a bank is crucial for stakeholder's assessment of its viability and sustainability. This study focuses on Jaiz Bank Plc, Nigeria's pioneer Islamic bank, and investigates how risk management influences its financial performance. The research examines risk management factor (capitalization), to understand its impact on Jaiz Bank's financial performance. Capitalization remains a critical component of risk management and a determinant of bank financial performance, as underscored in recent empirical studies. According to Kunt and Detragiache (2020), well-capitalized banks exhibit greater resilience to financial shocks, which translates into more stable profitability and reduced insolvency risk. This is particularly vital for emerging markets, including Nigeria, where banking systems face heightened operational and credit risks.

Furthermore, Adegboye et al. (2022) find a positive and significant relationship between capital adequacy and bank profitability in Nigerian banks, emphasizing that adequate capitalization enhances banks' capacity to absorb losses and sustain operations during economic volatility. Their results align with the Capital Buffer Theory, which posits that sufficient capital cushions financial distress and preserves earnings. From a risk management perspective, Nguyen and Nguyen (2023) highlight that capital adequacy ratios are a robust indicator of how effectively banks manage credit and market risks, directly influencing return metrics like ROA. In the context of Islamic banking, Hassan et al. (2021) argue that capitalization strategies must be tailored to the unique profit-and-loss sharing frameworks, making the assessment of capital impact on performance particularly crucial for institutions like Jaiz Bank.

Financial performance encompasses various aspects of a business operation and is assessed through metrics such as Return on Assets (ROA). A recent study by Cuervo (2023) underscores the significance of Return on Assets (ROA) as a comprehensive indicator of financial performance. The research emphasizes that ROA effectively captures both income statement performance and the assets required to run a business, offering a holistic view of a company's efficiency in utilizing its assets to generate profits. This makes ROA a valuable metric for assessing financial performance across various industries.

Jaiz Bank operates based on Shariah principles, emphasizing ethical investment practices and profit-and-loss sharing arrangements. Risk management in Islamic banking involves adherence to specific guidelines and principles, including the prohibition of interest-based transactions and the establishment of Shariah Supervisory Boards (Mohd Ariffin, 2022).

The concept of risk, in finance has evolved over time and in Islam, it aligns with the principles and teachings of Islam. In this system, risk is considered as an unavoidable part of life, and people are encouraged to trust in Allah and accept the exposure or occurrence as Qadr (destiny) but, devise ways to manage the aftermath of such occurrences. The Quran also recognizes the existence of risk in some verses, emphasizing the importance of taking precautions and seeking protection from harm. As time goes on, Islamic scholars formulated a set of guidelines and principles for managing risk in business and financial transactions. An essential principle within this system is the prohibition of interest-based transactions which is evident in Q2:282 - 286 where Allah (SWT) permitted trade and forbidding interest. Instead, Islamic finance encourages sharing of profits and losses among investors and entrepreneurs with transparency.

Return on Assets (ROA) is widely recognized as a key indicator of financial performance, reflecting a bank's efficiency in utilizing its assets to generate profits (Cuervo, 2023). In this study, capitalization is used as the proxy for risk management due to its critical role in strengthening a bank's financial buffer against losses and reducing insolvency risk. Recent empirical evidence highlights a positive relationship between capital adequacy and ROA, showing that better-capitalized banks tend to perform more profitably while maintaining lower risk profiles (Adegboye et al., 2022; Nguyen & Nguyen, 2023). This linkage underscores capitalization as not only a regulatory requirement but a strategic tool for enhancing bank performance.

Jaiz Bank Plc operates in the dynamic Nigerian banking sector, characterized by economic uncertainties, heightened credit risks, and stringent regulatory requirements. Despite being a pioneer Islamic bank in Nigeria, Jaiz Bank has reported fluctuating profitability and challenges in maintaining adequate capital buffers as noted in its 2023 financial statements (Jaiz Bank Annual Report, 2023). These issues pose significant risks to its financial stability and growth prospects.

This study is motivated by the need to empirically investigate the impact of capitalization on Jaiz Bank's financial performance. By focusing on the relationship between capital adequacy and ROA, the study aims to provide insights into how improved capitalization can serve as an effective risk management strategy to mitigate financial vulnerabilities and boost profitability, while adhering to the unique principles of Islamic banking.

ROA is selected as the performance metric because it comprehensively captures how effectively a bank leverages its asset base to generate returns, integrating operational efficiency and profitability. Capitalization, as a risk management measure, reflects the bank's capacity to absorb shocks, comply with regulatory capital adequacy standards, and maintain customer and investor confidence. This makes capitalization an appropriate proxy to assess risk management effectiveness in relation to financial outcomes.

The 2023 annual report of Jaiz Bank reveals periods of unstable ROA, attributed largely to non-performing loans and capital adequacy concerns. Additionally, regulatory feedback has emphasized the need for enhanced capitalization to ensure the bank's compliance with Basel III standards and maintain financial soundness (Jaiz Bank Annual Report, 2023). These challenges justify the focus on capitalization

as a vital factor influencing the bank's financial performance. The study anticipates that by strengthening capitalization, Jaiz Bank can improve its risk absorption capacity, reduce credit and market risks, and thus stabilize or increase its ROA. Effective capitalization aligns with both regulatory expectations and Shariah-compliant banking principles, providing a robust framework for the bank's sustainable growth and enhanced financial performance.

2. Literature Review

Concept of Risk Management

Risk management is defined as a systematic approach aimed at minimizing or avoiding losses (William et al., 1998). In the context of banking, effective risk management ensures that risks within business activities are maintained within acceptable and beneficial limits for the institution. According to Tampubolon (2004), implementing risk management offers multiple advantages: it enhances shareholder value, provides bank managers with foresight into potential future losses, and improves the accuracy and efficiency of information-based retrieval processes. Additionally, risk management serves as a foundation for more precise assessment of bank performance, facilitates the evaluation of risks associated with complex financial instruments and activities, and helps establish a resilient infrastructure that bolsters the bank's competitive position.

According to Falkner, Rahman, and Hiebl (2015), the risk management process in banks involves several critical stages. It begins with the identification of risks, followed by a thorough analysis to understand their nature and potential impact. Subsequently, appropriate techniques are selected to address the identified risks, and strategic decisions are made to manage or mitigate them effectively. The process concludes with ongoing control measures to monitor risks and ensure that management strategies remain effective over time.

Risk Management in the Qur'an

There are many *Qur'an* verses that guide mankind to practice risk management in wealth and financial affairs. Those verses precisely show the significance of strategic planning to control and mitigate anticipated risks. The absence of efficient risk management will harm certain parties to the extent that the risk most likely endangers one's life. It is stated in surah Yusuf:

قال تزرعون سبع سنين دأبا فما حصدتم فذروه في سنبله إلا قليلا مما تأكلون (47)
ثم يأتي من بعد ذلك سبع شداد يأكلن ما قدمتم لهن إلا قليلا تحصنون (48)ثم يأتي من بعد ذلك عام فيه يغاث الناس وفيه يعصرون (49)

[Joseph] said, "You will plant for seven years consecutively; and what you harvest leave in its spikes, except a little from which you will eat. Then will come after those seven difficult [years], which will consume what you saved for them, except a little from which you will store. Then will come after that a year in which the people will be given rain and in which they will press [olives and grapes]" (Qur'an, 12:47-49).

In the above verses, prophet Yusuf (PBUH) interpreted the dream of the king of Egypt that Egyptian would face seven years of drought after seven years of prosperity. Hence, he advised the king to develop an economic strategy in order to overcome the upcoming catastrophe. To be precise, Egyptians had to implement the proposition by actively planting crops during the first seven years and store much of the proceeds as a preparation to face seven years of drought, as interpreted by prophet Yusuf. As recommendations implemented, it resulted in the country surviving the seven years of drought (*Ibn Kathir*, (1988). In the following Qur'an verse, attestation by contracting parties in a financial transaction is required to manage risk, particularly the credit risk:

يا أيها الذين آمنوا إذا تداينتم بدين إلى أجل مسمى فاكتبوه وليكتب بينكم كاتب بالعدل ولا يأب كاتب أن يكتب كما علمه الله الحق وليتق الله ربه ولا يبخس منه شيئا

'O you, who have believed, when you contract a debt for a specified term, write it down. And let a scribe write [it] between you in justice. Let no scribe refuse to write as Allah has taught him. So let him write and let the one who has the obligation dictate. And let him fear Allah, his Lord, and not leave anything out of it….' (Qur'an, 2:282).

Attestation is a basic requirement in Islamic commercial law, whether it is an ordinary documentation at an individual level or an official documentation at an entity level. The core objective of attestation is to mitigate the risk of any party denying what was agreed upon, which may lead to a loss of capital. In case the financial transaction that involves debt is performed during a journey, Qur'an allows the creditor to receive collateral as the debt security. This is an example of risk management, i.e. mitigating credit risk due to the failure of the debtor in fulfilling his financial obligations. The aforementioned verse clearly gives an indication that if the trust of the counterparty is not sufficient an effective step must be taken to avoid fraudulent and unreasonable losses (Usmani, 1998).

In financial matters and business dealings, there is always a possibility of dispute and differences of opinion over the mutually agreed conditions. There is a need that such kinds of transactions involving money, land, rights, ownership, property and other articles of value should be recorded in the form of contract and signed by both parties in the presence of witnesses. A well-documented contract eliminates the risk of default and ensures to secure the rights of all concerned. Since evidence and witness are essential to reveal truth and justice, Allah commands people that they should not refuse to be witnesses when required:

ذلكم أقسط عند الله وأقوم للشهادة وأدنى ألا ترتابوا إلا أن تكون تجارة حاضرة تديرونها بينكم فليس عليكم جناح ألا تكتبوها وأشهدوا إذا تبايعتم

'That is more just in the sight of Allah and stronger as evidence and more likely to prevent doubt between you, except when it is an immediate transaction which you conduct among yourselves. For [then] there is no blame upon you if you do not write it. And take witnesses when you conclude a contract' (Qur'an, 2:282).

Interestingly, Islam does not only focus on reducing the risk of counter parties; it also ensures the safeguard of scribes and witnesses. The following Qur'an verse prohibits causing harm to the scribe or witnesses:

ولا يضار كاتب ولا شهيد وإن تفعلوا فإنه فسوق بكم واتقوا الله ويعلمكم الله والله بكل شيء عليم
'Let no scribe be harmed or any witness. For if you do so, indeed, it is [grave] disobedience in you. And fear Allah. And Allah teaches you. And Allah knows of all things' (Qur'an, 2:282**.**

Concept of Financial Performance
Numerous economists consider establishments and organizations, such as an engine in determining economic, social and political progress, continuous performance of the organizations is useful in the development and growth of the state (Enad, & Gerinda, 2022). Financial performance is an important factor for banks to evaluate their business operations based on past data, in order to obtain an overview to plan future business development effectively and efficiently (Lukman et al., 2022). According to Pavol (2021), evaluation of financial health is used to make plans and to predict the future of the company. Whereas Manalu (2019) explained that financial performance can represent the condition of a company, whether profitable or even heading for bankruptcy which must be watched out for so that business closures do not occur.

Financial performance is a multidimensional concept that reflects how well a firm uses its resources to generate profits and create value for stakeholders. In banking research, Return on Assets (ROA) is widely employed as a key indicator of financial performance because it captures the efficiency with which a bank utilizes its total assets to produce net income (Cuervo, 2023). ROA is particularly useful in the banking sector as it integrates both profitability and asset management effectiveness, providing a holistic view of operational success. The choice of ROA as the dependent variable in this study aligns with the consensus in current literature emphasizing its reliability and comparability across banks, regardless of size or capital structure (Adegboye et al., 2022; Nguyen & Nguyen, 2023). By reflecting the percentage of profit generated from total assets, ROA offers insight into how well Jaiz Bank Plc manages its asset base to maximize returns, which is crucial in a risk-sensitive industry like banking.

Moreover, ROA is sensitive to changes in risk management practices. Studies indicate that improved risk management, particularly through capitalization and control of credit risks, positively influences ROA by reducing losses and enhancing profitability (Nguyen & Nguyen, 2023; Hassan et al., 2021). Given that Jaiz Bank operates under Islamic banking principles, where risk sharing and avoidance of uncertainty are central, ROA provides an effective measure to assess the impact of risk management strategies on financial outcomes. Thus, using ROA enables this study to empirically assess how capitalization as a proxy for risk management affects Jaiz Bank's financial efficiency and overall performance in the Nigerian banking environment.

Concept of Capitalization

In the context of Islamic banking, Ilyas (2018) argued that effective and efficient capital management is an important factor to obtain optimal results. While the source of bank capital comes from two sources, namely: (1) core capital obtained from bank owners, namely shareholders, retained earnings, reserves, *mudharabah* profit sharing funds and (2) deposit funds with *Al-wadiah* contracts in the form of *wadi'ah yad al-amanah.*

In relation to the capitalization of a bank, CAP (also known as the minimum capital requirement) can be used to describe a bank's ability to reduce the risk of default in credit transactions so as to practically assist in improving financial stability Sujianto et al. (2022). Thus, the CAR that tends to increase indicates that the bank is getting stronger and healthier in its business operations (Abbas, 2020; Asraf et al., 2019; Sang, 2021). However, Sang (2021) in his study in Vietnam found that a CAP that is too high in value has a negative impact on banks because banks are no longer efficient, especially in utilizing their capital and have a negative impact on financial stability and profitability.

Capitalization and Financial Performance

One of the most important findings in the study of Alia and Oudatb (2020), is that capital risk is the greatest important form of risk. A lot of studies have found that there is an influence of bilateral governance on the banking instrument. The key common findings of Tarawneh, (2016), Almashhadani 2021a, 2021b and 2021c, is that, that a bank that owns capital, deposits or trusts, and high financial performance makes better profits than banks that do not possess high ratios of assets and financial performance.

Empirical Review

Empirical studies have increasingly explored the complex relationship between various dimensions of risk management and financial performance, particularly within Nigeria's banking sector. Bello et al. (2024) provide one of the most comprehensive examinations by analyzing the impact of key financial risks, liquidity risk, interest-rate risk, and operational risk, on the profitability of twelve listed Nigerian deposit money banks (DMBs). Utilizing panel-corrected standard error regression over a ten-year period (2013–2022), their findings revealed a statistically significant and positive effect of liquidity and operational risk management on return on assets (ROA). Interestingly, while interest-rate risk also had a positive association with performance, the relationship was not statistically significant. This study provides useful empirical grounding for examining Jaiz Bank Plc, particularly because liquidity and operational risks are crucial under Islamic banking principles, where liquidity instruments are non-interest-based and operational risks can arise from the structuring of Shariah-compliant products.

In a related but more conceptual approach, Ramalan et al. (2025) proposed a framework that integrates inflationary trends as a moderating variable in the relationship between financial risk factors, such as credit risk, leverage risk, liquidity risk, market risk, and operational risk, and financial performance. Though the study did not provide empirical results, its framework is particularly relevant for banks operating in volatile macroeconomic environments like Nigeria. For Jaiz Bank, which operates within a dual-banking environment and under strict regulatory requirements, this framework offers insights into how inflation might distort or reinforce the effects of internal risk management strategies on profitability metrics such as ROA or Tobin's Q.

Additionally, Korolo and Korolo (2023) investigated the relationship between corporate sustainability reporting and the financial performance of Nigerian deposit money banks over the period 2013–2022. Using panel least squares

regression, the study found that while economic sustainability reporting had a negative and statistically insignificant effect on financial performance, social sustainability reporting had a negative and statistically significant effect. Interestingly, environmental sustainability reporting had a positive but statistically insignificant effect. These findings suggest that while sustainability practices are important, their direct impact on financial performance may vary, and further research is needed to understand the underlying factors influencing these outcomes.

Ehiedu and Nwaokocha (2024) examined deposit money banks and found that specific risk management practices, such as appointing a chief risk officer, establishing a risk committee, and employing derivative instruments to hedge foreign exchange risk, have a positive and significant impact on ROA. This underscores the role of effective risk governance and financial instruments in enhancing bank profitability.

Similarly, Ademola and Ismaila (2022) investigated listed deposit money banks in Nigeria and reported that financial risk negatively affects the financial stability of these institutions, highlighting the detrimental impact poor risk management can have on performance. In contrast, Winarto and Chariri (2022) studied manufacturing firms listed on the Indonesia Stock Exchange and found that while certain elements of enterprise risk management, including risk committee and implementation framework, negatively influenced ROA; risk management remains a critical factor in firm performance assessment.

Horvey and Ankamah (2020) extended this investigation to the Ghanaian equity market, employing robust econometric models to reveal that risk management positively influences firm performance, including ROA, return on equity, and Tobin's Q. Their findings reinforce the notion that effective risk management practices contribute to improved financial outcomes across different markets and sectors.

While these studies collectively affirm the importance of risk management in enhancing financial performance, most focus on conventional banking or non-banking firms and general risk management frameworks. There remains a gap regarding how specific risk management proxies, such as capitalization, affect the financial performance of Islamic banks like Jaiz Bank Plc, which operate under distinct Shariah-compliant principles and risk-sharing mechanisms. This study aims to fill that gap by examining the impact of capitalization on ROA within the context of Islamic banking in Nigeria.

Theoretical Framework and Hypothesis Development

This study is underpinned by Agency Theory, which provides a useful lens for understanding the relationship between capitalization and financial performance in banking institutions. According to Scott (2015), Agency Theory explores the dynamics between principals (such as shareholders) and agents (such as bank managers), highlighting how differences in their interests may result in suboptimal decisions. In the banking context, managers are tasked with making critical financial decisions on behalf of shareholders, including those related to capital structure and risk management. However, managers may pursue personal objectives, such as job security or short-term performance bonuses that conflict with shareholder interests, especially in the absence of strict monitoring mechanisms.

One area where such conflicts manifest is in the decision on capitalization. Managers may choose to over-capitalize to reduce risk exposure and protect their positions, even if it leads to underutilization of capital and reduced returns. Alternatively, under-capitalization may occur when managers take on excessive risks to achieve higher profits, potentially jeopardizing the long-term financial health of the bank. Both scenarios suggest that agency-related inefficiencies in capital decisions can negatively impact financial performance, particularly measured through ROA.

Therefore, this study applies Agency Theory to examine how capitalization used as a proxy for risk management affects the financial performance of Jaiz Bank Plc. This theoretical framework supports the hypothesis that agency conflicts may lead to inefficient capitalization strategies, which in turn have a negative impact on ROA. The use of

this theory helps to explain the mechanism through which internal governance and decision-making structures influence profitability in a Shariah-compliant banking environment.

3. Methodology

This study will adopt a quantitative research design which is Ex-post Facto Research to investigate the relationship of risk management on financial performance in Jaiz bank plc. The research design will involve the use of annual report of Jaiz Bank Plc from 2013 to 2023, to analyze the risk management practices and financial performance of the organization under study.

Model Specification

The econometric model used in this study is specified as follows:

$ROAit=\alpha+\beta0+\beta1CAPit+\varepsilon it$

Where:

Symbol	Description
ROAit	Return on Assets for bank *i* at time *t* — a measure of financial performance.
A	Constant term (intercept), representing baseline financial performance.
β0	Coefficient represents the intercept effect or average value of ROA without CAP.
β1	Coefficient measuring the effect of capitalization (CAP) on ROA.
CAPit	Capitalization for bank *i* at time *t*, used as a proxy for risk management.
Eit	Error term capturing other factors affecting ROA not included in the model.

Variable Definitions and Measurements

Variable	Definition	Measurement	Expected Sign	Source
ROA (Return on Assets)	Financial performance: Indicates how efficiently the bank uses its assets to generate profit.	Net Income/Total Assets	—	Jaiz Bank Annual Reports; Cuervo (2023)
CAP (Capitalization)	Proxy for risk management: Reflects the financial buffer a bank maintains to absorb risks.	Tier 1 + Tier 2 Capital / Total Risk-Weighted Assets	± (Theoretical)	CBN Prudential Guidelines; Adegboye et al. (2022)

Note: *The expected sign of the relationship between CAP and ROA is ambiguous (±) because higher capitalization may increase financial stability (positive effect) or indicate conservative management and lower asset utilization (negative effect), as debated in empirical literature.*

Technique of Data Analysis

This study adopts a quantitative research approach to analyze the impact of risk management on the financial performance of Jaiz Bank Plc. Data is obtained from the audited annual financial statements of the bank for the

period 2013 to 2023. The variables of interest include Return on Assets (ROA) as a measure of financial performance and capitalization (CAP) as a proxy for risk management. To provide a preliminary understanding of the data, descriptive statistics such as the mean, standard deviation, minimum, and maximum are computed. Descriptive analysis aids in summarizing the key characteristics of the dataset and detecting potential anomalies (Sekaran & Bougie, 2016). The study employs simple linear regression analysis to determine the effect of capitalization on ROA. This method is appropriate when the objective is to examine the direction and strength of a linear relationship between one independent and one dependent variable (Gujarati & Porter, 2009). In this context, the regression model quantifies how variations in capitalization influence financial performance over time.

The analysis is conducted using Statistical Package for the Social Sciences (SPSS), version 26, which is a widely used and robust software tool for conducting econometric and statistical analyses in social science and financial research (Pallant, 2020). The choice of ROA is justified as it reflects the efficiency with which a bank utilizes its assets to generate profit, making it a reliable indicator of performance (Cuervo, 2023). Similarly, capitalization is selected as a key risk management variable because it indicates a bank’s ability to absorb losses and maintain solvency, in line with Basel III and CBN regulatory standards (CBN, 2020).

4. Results and Discussion

Descriptive Statistics

Table 1 presents the descriptive statistics for the key variables, Return on Assets (ROA) as a proxy for financial performance, and capitalization (CAP) as a proxy for risk management, for Jaiz Bank Plc over the period 2013 to 2023.

Table 1

Descriptive Statistics for Return on Assets (ROA) and Capital Adequacy (CAP)

Variable	Mean	Standard Deviation	N
ROA	0.06	0.09	11
CAP	0.59	1.15	11

Note. Descriptive statistics were generated using IBM SPSS Statistics Version 26.

The descriptive statistics is interpreted as follows: 0.061 (or 6.1%) shows the average return on assets over the time. This means that for every N1 of assets, the bank, on average, gets the profit of 6.1 kobo. 0.09 (or 9%) reflects the variability or dispersion of the ROA around the mean. A higher standard deviation indicates more fluctuation in the bank's return on assets. Samples of 11 observations were used in the analysis. 0.59 (or 59%) represents the average capitalization. This ratio measures the bank’s financial strength, indicating that, on average, 59% of the bank's assets are financed by its capital. 1.15 suggests considerable variability in the capital adequacy ratio, indicating fluctuations in how well the bank is capitalized over time. The data shows that Jaiz Bank's ROA has a modest mean of 6.1% with relatively high variability (9%), implying inconsistent profitability over the period. Meanwhile, the capitalization has a mean of 59% with significant variability (1.15), suggesting fluctuations in the bank's financial leverage and stability over time.

Regression Analysis and Model Summary

To determine the effect of capitalization on financial performance, a simple linear regression analysis was conducted. The model $ROAit=\alpha+\beta 0+\beta 1CAPit+\varepsilon it$, assessed the relationship between CAP (independent variable) and ROA (dependent variable).

Table 2

Model Summary for the Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F Change	Sig. F Change	Durbin-Watson
1	0.65	0.43	0.36	0.07	6.72	0.03	2.41

Note. Results generated using IBM SPSS Statistics Version 26.

The regression results provided insight into the relationship between capital adequacy (CAP) and the financial performance of Jaiz Bank Plc, measured by return on assets (ROA). The findings revealed a moderately strong positive correlation between CAP and ROA, as indicated by a correlation coefficient (R) of 0.654. This suggests that improvements in capital adequacy are associated with increases in financial performance. The coefficient of determination (R^2) was 0.428, meaning that approximately 42.8% of the variability in ROA can be explained by changes in CAP. This indicates a moderate level of explanatory power. When adjusted for the number of predictors and sample size, the adjusted R^2 was 0.364, confirming that 36.4% of the variation in ROA is attributable to capital adequacy after adjusting for potential bias.

The standard error of the estimate (0.0724) reflects the average deviation of the predicted ROA values from the actual values and is relatively low, indicating a reasonably good fit of the model. The F-statistics further supported the model's validity, with a value of 6.723 and a corresponding p-value of 0.029. Since the p-value is less than the 0.05 threshold, the model is statistically significant. This result confirms that capital adequacy has a meaningful and statistically significant impact on the bank's financial performance. Additionally, the Durbin-Watson statistic was 2.405, suggesting no serious autocorrelation in the residuals. This reinforces the reliability of the model's estimates and suggests that the assumption of independence in the regression errors has not been violated.

The results support the hypothesis that capital adequacy positively influences the financial performance of Jaiz Bank Plc. The strength of the relationship, the moderate explanatory power, and the statistical significance of the model all indicate that capital adequacy is an important determinant of performance for the bank.

These findings are consistent with previous studies by Alabdullah (2016) and Alabdullah (2017), who highlighted the role of sound governance and board-related financial controls in enhancing firm performance, particularly in emerging markets. Their work supports the idea that capital structure and adequacy serve as buffers for financial risk and contribute to organizational stability and profitability.

However, not all prior studies align with these conclusions. For instance, Korolo and Korolo (2023) found that some corporate reporting dimensions, particularly economic sustainability disclosures, had either negative or statistically insignificant effects on the financial performance of Nigerian deposit money banks. While not directly examining capital adequacy, their findings imply that some financial strategies and compliance efforts do not always yield positive returns and may, in some cases, divert resources without improving performance outcomes. Nonetheless, the present study offers evidence that, at least for Jaiz Bank Plc, maintaining a strong capital position is beneficial to financial health.

Hypothesis Testing

The results revealed that capitalization (CAP) is positively meaningful while avoiding risk as it was (ROA) p-value = 0.029 (< 0.05), the model is statistically significant, meaning CAP has a significant impact on ROA. The F-statistics (6.723) confirm that CAP significantly contributes to explaining variations in ROA. As such, the alternative hypothesis is rejected.

5. Conclusion and Recommendations

This paper contributes to understanding the relationship between risk management practices and financial performance in Islamic banking, focusing on Jaiz Bank Plc. The findings provide insights into the impact of capitalization on return on assets and offer recommendations for enhancing risk management strategies to improve financial performance: CAP has a significant positive impact on ROA ($p = 0.029$), with a coefficient of 0.052, meaning higher capitalization leads to higher profitability. There is no multicollinearity problem (VIF = 1.000). The model suggests that improving capitalization strategies could enhance ROA for Jaiz Bank. Since CAP significantly impacts ROA, Jaiz Bank Plc should efficiently allocate its capital to high-yield Sharia-compliant investments. Additionally, enhancing capitalization through equity financing or issuing Sukuk could improve profitability too.

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