



VOLUME 2

# ECONOMY AND THE SUSTAINER

*Edited by*

Muhammad Hakimi Mohd. Shafai  
Abdul Ghafar Ismail  
Achmad Tohirin

Organization of Islamic Economic Studies and Thoughts

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Volume II

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*Muhammad Hakimi Mohd. Shafiai  
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ECONOMY AND THE SUSTAINER VOLUME II

*Muhammad Hakimi Mohd. Shafiai*

*Abdul Ghafar Ismail*

*Achmad Tohirin*

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# CHAPTER 12

## THE EFFECT OF RISK ON FINANCIAL PERFORMANCE OF ISLAMIC BANKS IN INDONESIA

*Nurul Lailia*  
*Achmad Tohirin*

### 1. INTRODUCTION

In developing a financial sector, the Government has created financial institutions, one of them is Islamic banking. The main activities of Islamic banking are collecting funds and channeling funds in the form of financing. The process of lending uses a variety of contracts that apply in Islamic banking. In selecting the contract, there is a profit-sharing agreement between the bank and the customer. So that the bank as *Shahibul Mal* and the customer as *Mudharib*.

In Islamic banking, many challenges and strategies are facing Islamic banking. Therefore, it is necessary to have a marketing strategy and innovation to face competition among Islamic banks and competition with conventional banks and other Islamic financial institutions to increase the profitability of Islamic Banking. The profitability of Islamic Banking is

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defined as how the bank maximizes profit with the funds it owns. Maximizing profit is the same as maximizing the financing provided. The more funds thrown into the community, the more profit is obtained (Notoatmojo, 2018).

Islamic banking itself is based on Islamic Commercial Banks (ICB) in the form of full-fledged banks, which include collecting customer funds in demand deposits, savings, channeling customer funds, or other forms as long as they do not conflict with sharia principles. In addition, there is also a form of Islamic bank in the form of Islamic Business Units (IBU) from conventional commercial banks. It indicates how ICB and IBU can increase their profitability by facing possible risks because, in practice, the Islamic Business Unit is a work unit under Conventional Commercial Banks which carries out activities based on sharia principles.

In their operating activities to gain profit, bank managers always choose the option, namely meeting the needs of debtors by channeling financing with a reasonably high risk. Trimulato (2017) states that Islamic business has a higher sensitivity to possible risks because it has an uncertain profit level. Risk in the banking context is a potential event, both predictable and unpredictable, which will harm bank income and capital.

The risk that usually occurs in Islamic banking is financing risk. Financing risk is a risk of failure or the inability of the customer (entrepreneur) to repay the loan/financing received from the bank under the specified period. If this risk is not immediately resolved or a solution is found, it can continue and can harm the financial health of Islamic banks, resulting in banks experiencing events known as financial distress and bankruptcy (Kurnia et al., 2017).



Based on PBI No. 13/23 / PBI / 2011, Operational risk is caused by the risk of loss caused by inadequate internal processes, internal processes, human error, system failure, and external events that affect the bank's operations. Capital is one of the critical factors in developing a business and accommodating the risk of loss; the higher the CAR (Capital Adequacy Ratio), the stronger the bank's ability to bear each risky financing / productive asset. Operational risk generally uses BOPO (Operating Expenses to Operating Income) as an indicator of research. BOPO shows the ability of bank management to control operating costs on operating income (Capriani & Dana, 2016).

Liquidity risk is essential to maintain banking viability. Financing to Deposit Ratio (FDR) is a ratio that compares financing with third-party funds or deposits. FDR influences profitability because of the more significant this ratio, the greater the financing, affecting the increase in income (Nugraheni & Alam, 2014). In addition, Market Risk is the risk of loss in the balance sheet and off-balance sheet positions due to overall changes in market conditions (Trimulato, 2017). Net Operating Margin (NOM) reflects market risk arising from changing market conditions, which can cause losses to the bank. The greater the NOM achieved by a bank, the higher interest income on productive assets managed by the bank concerned, so that the bank's profit (ROA) will increase (Wibisono & Wahyuni, 2017).

Previous research conducted by Capriani & Dana (2016) stated that financing risk (NPF) has a positive and insignificant effect on profitability. Operational risk (BOPO) has a significant negative effect on profitability. Liquidity risk (FDR)

has a significant positive effect on profitability. In addition, Mulyaningsih & Fakhruddin's (2016) research shows that NPF mudharabah has a positive effect on profitability while NPF musharakah does not affect the profitability of Islamic banks. In another study conducted by Nugraheni & Alam (2014), the results show that FDR and LTA variables positively affect profitability, whereas LAD harms profitability.

Research on the profitability of Islamic banking has been widely researched. This study was conducted to retest and develop research to re-examine several risk variables with different conditions and times by comparing the profitability of ICB and IBU.

## **2. RESEARCH METHODS**

This research is a quantitative study that uses a population and sample of all Islamic Commercial Banks and Islamic Business Units registered with the Financial Services Authority. The data used are secondary monthly time series data from January 2015 to December 2019 from [www.ok.go.id](http://www.ok.go.id). The analytical tool used in this research is the Autoregressive Distributed Lag (ARDL) method which is processed using Eviews Version 09.

Autoregressive Distributed Lag (ARDL) is a regression method that involves the lag of two dependent and independent variables simultaneously. The advantages of the ARDL model is makes the estimate consistent with a good long-run coefficient regardless of whether the explanatory or regressive variable is  $I(0)$  or  $I(1)$ . Another advantage of ARDL is that it is unbiased and efficient because it can be used with a small sample. With



the ARDL method, long-term and short-term estimates can be obtained simultaneously. The equation of the ARDL model for equation can be written as follows:

$$\begin{aligned} \Delta ROA_t = & a_0 \sum_{i=1}^n a_{1i} \Delta Y_{t-1} + \sum_{i=1}^n a_{2i} \Delta NPF MUDH_{t-1} + \sum_{i=1}^n a_{3i} \Delta NPF MUSY_{t-1} \\ & + \sum_{i=1}^n a_{4i} \Delta NPF MUR_{t-1} + \sum_{i=1}^n a_{5i} \Delta NPF QARDH_{t-1} \\ & + \sum_{i=1}^n a_{6i} \Delta NPF ISTISNA'_{t-1} + \sum_{i=1}^n a_{7i} \Delta NPF IJARAH_{t-1} \\ & + \sum_{i=1}^n a_{8i} \Delta CAR_{t-1} + \sum_{i=1}^n a_{9i} \Delta BOPO_{t-1} + \sum_{i=1}^n a_{10i} \Delta FDR_{t-1} \\ & + \sum_{i=1}^n a_{10i} \Delta NOM_{t-1} + \theta_1 NPF MUDH_{t-1} + \theta_2 NPF MUSY_{t-1} \\ & + \theta_3 NPF MUR_{t-1} + \theta_4 NPF QARDH_{t-1} + \theta_5 NPF ISTISNA'_{t-1} \\ & + \theta_6 NPF IJARAH_{t-1} + \theta_7 CAR_{t-2} + \theta_8 BOPO_{t-1} + \theta_9 FDR_{t-1} \\ & + \theta_{10} NOM_{t-1} + e_t \end{aligned}$$

$$\begin{aligned} \Delta ROE_t = & a_0 \sum_{i=1}^n a_{1i} \Delta Y_{t-1} + \sum_{i=1}^n a_{2i} \Delta NPF MUDH_{t-1} + \sum_{i=1}^n a_{3i} \Delta NPF MUSY_{t-1} \\ & + \sum_{i=1}^n a_{4i} \Delta NPF MUR_{t-1} + \sum_{i=1}^n a_{5i} \Delta NPF QARDH_{t-1} \\ & + \sum_{i=1}^n a_{6i} \Delta NPF ISTISNA'_{t-1} + \sum_{i=1}^n a_{7i} \Delta NPF IJARAH_{t-1} \\ & + \sum_{i=1}^n a_{8i} \Delta CAR_{t-1} + \sum_{i=1}^n a_{9i} \Delta BOPO_{t-1} + \sum_{i=1}^n a_{10i} \Delta FDR_{t-1} \\ & + \sum_{i=1}^n a_{10i} \Delta NOM_{t-1} + \theta_1 NPF MUDH_{t-1} + \theta_2 NPF MUSY_{t-1} \\ & + \theta_3 NPF MUR_{t-1} + \theta_4 NPF QARDH_{t-1} + \theta_5 NPF ISTISNA'_{t-1} \\ & + \theta_6 NPF IJARAH_{t-1} + \theta_7 CAR_{t-1} + \theta_8 BOPO_{t-1} + \theta_9 FDR_{t-1} \\ & + \theta_{10} NOM_{t-1} + e_t \end{aligned}$$

### 3. RESULTS AND DISCUSSION

#### *STATIONARITY TEST (UNIT ROOT TEST)*

The stationary test (Unit Root Test) was conducted in this study to determine whether the data is stationary or not. Table 1 shows the result of the test.



**Table 12.1: Stationarity test using  
Augmented Dickey-Fuller**

No	Variable	ICB		IBU	
		Level	Fist Difference	Level	Fist Difference
1	NPF MUDHARABAH	0,030	0,000	0,490	0,000
2	NPF MUSYARAKAH	0,397	0,016	0,406	0,000
3	NPF MURABAHAH	0,720	0,000	0,706	0,000
4	NPF QARDH	0,576	0,000	0,143	0,000
5	NPF ISTISNA	0,180	0,000	0,100	0,000
6	NPF IJARAH	0,946	0,000	0,389	0,000
7	CAR	0,836	0,000	0,836	0,000
8	BOPO	0,884	0,000	0,545	0,000
9	FDR	0,801	0,000	0,161	0,000
10	NOM	0,562	0,000	0,012	0,000
11	ROA	0,630	0,000	0,117	0,000
12	ROE	0,455	0,000	0,009	0,000

***AUTO-REGRESSIVE DISTRIBUTED LAG MODELS  
(ARDL)***

In Islamic Commercial Banks (ICB), several independent variables significantly influence ROA, although some lags are not significant. It can be concluded that the ARDL model can describe the empirical behavior of ROA, which is described in the adjusted R2 value of 0.9999%, which means that the

regression model building explains around 99% of the ROA variable. Meanwhile, from the results of the AIC selection, the best ARDL model for the research that the author did was the ARDL on the ROA Islamic Commercial Bank (ICB) (4, 2, 2, 3, 4, 4, 4, 4, 4, 2, 4). At the same time, the ROE on the best model Islamic Commercial Bank (ICB) is (4, 4, 4, 4, 3, 3, 4, 4, 4, 4, 4). Estimated results are presented in Table. 12.2.

**Table 12.2: Auto-Regressive Distributed Lag Models  
ROA ICB**

Selected Model: ARDL(4, 2, 2, 3, 4, 4, 4, 4, 4, 2, 4)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
Y1_ROA(-1)	0.671962	0.334165	2.010866	0.0792
Y1_ROA(-2)	0.188865	0.332971	0.567211	0.5861
Y1_ROA(-3)	-0.542144	0.349408	-1.551609	0.1594
Y1_ROA(-4)	1.285825	0.379119	3.391609	0.0095
R-squared	0.999944	Mean dependent var		1.011250
Adjusted R-squared	0.999616	S.D. dependent var		0.421599
S.E. of regression	0.008266	Akaike info criterion		-6.984909

Selected Model: ARDL(4, 4, 4, 4, 3, 3, 4, 4, 4, 4, 4) ROE ICB

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
Y2_ROE(-1)	-0.133365	0.374579	-0.356040	0.7454
Y2_ROE(-2)	0.446008	0.515809	0.864677	0.4508
Y2_ROE(-3)	-1.347380	0.984563	-1.368507	0.2646
Y2_ROE(-4)	0.213966	0.483517	0.442519	0.6881



In addition, in Islamic Business Units (IBU), several independent variables significantly affect ROA, although some lags are not significant. Meanwhile, from the AIC selection results, the best ARDL model for the research that the author did was ARDL in Islamic Business Units (IBU) (4, 4, 4, 4, 4, 4, 4, 4, 4, 4, 4). Meanwhile, the best ROE in Islamic Business Units (IBU) model is (4, 2, 4, 4, 4, 4, 4, 4, 4, 4, 4). Estimated results are presented in Table. 12.3

**Table 12.3: Auto-Regressive Distributed Lag Models  
ROA IBU**

Selected Model: ARDL(4, 4, 4, 4, 4, 4, 4, 4, 4, 4, 4)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.*
Y1ROA(-1)	-0.580060	0.170399	-3.404125	0.1819
Y1ROA(-2)	-0.324209	0.079535	-4.076289	0.1532
Y1ROA(-3)	0.300351	0.091335	3.288457	0.1879
Y1ROA(-4)	-0.150706	0.151113	-0.997305	0.5009
Selected Model: ARDL(4, 2, 4, 4, 4, 4, 4, 4, 4, 4, 4) ROE IBU				
Variable	Coefficient	Std. Error	t-Statistic	Prob.*
Y2ROE(-1)	-0.745024	0.725828	-1.026446	0.3802
Y2ROE(-2)	0.302644	0.502141	0.602706	0.5892
Y2ROE(-3)	-1.753302	1.267203	-1.383600	0.2605
Y2ROE(-4)	0.664935	0.617235	1.077281	0.3603

## **COINTEGRATION TEST (BOUND TESTING APPROACH)**

Cointegration test is to test the presence or absence of long-term variables or other words; if the variables are cointegration, then the data has a long-term relationship. In this study, the Bound Test Cointegration test was used by comparing the F-Statistical value with the Bound Test.

**Table 12.4: Cointegration Test (Bound Testing Approach) ICB**

ROA ICB			ROE ICB		
F Statistic Value	4,300		F Statistic Value	2,607	
Significance	I0 Bound (Lower Bound)	I1 Bound (Upper Bound)	Significance	I0 Bound (Lower Bound)	I1 Bound (Upper Bound)
10%	1,76	2,77	10%	1,76	2,77
5%	1,98	3,04	5%	1,98	3,04
2,50%	2,18	3,28	2,50%	2,18	3,28
1%	2,41	3,61	1%	2,41	3,61

Based on Table 12.4, the Bound Test cointegration results on the ROA of Islamic Commercial Banks show the comparison between the F-Statistical value > Lower Bound and Upper Bound values at a significance of  $\alpha$  1%, called with a result of 4.300% > 2.77%. It means rejecting  $H_0$  to establish a long-term relationship between the dependent variable and the independent variable. Called ROA is influenced by NPF Mudharabah, NPF Musyarakah, NPF Murabahah, NPF Qardh, NPF Istisna, NPF



Ijarah, CAR, BOPO, FDR and NOM. The results of the Bound Test cointegration on the ROE of Islamic Commercial Banks show the comparison between the F-Statistical value > Upper Bound at a significant  $\alpha$  of 10%, which is 2.607% < 2.77%. It means accepting  $H_0$  so that there is no long-term relationship between the dependent and independent variables.

**Table 12.5: Cointegration Test (Bound Testing Approach) IBU**

ROA Islamic Banking Units (IBU)			ROE Islamic Banking Units (IBU)		
F Statistic Value	26,237		F Statistic Value	5,281	
Significance	I0 Bound (Lower Bound)	I1 Bound (Upper Bound)	Significance	I0 Bound (Lower Bound)	I1 Bound (Upper Bound)
10%	1,76	2,77	10%	1,76	2,77
5%	1,98	3,04	5%	1,98	3,04
2.50%	2,18	3,28	2.50%	2,18	3,28
1%	2,41	3,61	1%	2,41	3,61

Based on Table 12.5, The results of the Bound Test cointegration on the ROA of the Islamic Business Units show the comparison between the F-Statistical value > Lower Bound and Upper Bound values at a significance of  $\alpha$  1%, called with a result of 26.237 > 3.61%, Meanwhile the results of the Bound Test cointegration on the ROE of the Islamic Business Unit showed a comparison between the F-Statistical value > Lower Bound and Upper Bound values at a significance of  $\alpha$  1%,

called with the results of  $5.281\% > 3.61\%$ . It means rejecting  $H_0$  so that there is a long-term relationship between the dependent variable and the independent variable on ROA and ROE Islamic Business Units. It changes in IBU profitability are influenced by variables, called NPF Mudharabah, NPF Musyarakah, NPF Murabahah, NPF Qardh, Istisna NPF, NPF Ijarah, CAR, BOPO, FDR and NOM.

### **SHORT TERM**

Short-term estimates can be seen from the error correction variable previously shown in the CointEq (-1) variable. Following are the short-term estimation results of ICB and IBU:

**Table 12.6: Short Term Estimate**

<b>Cointeq (-1)</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>Prob</b>
ROA ICB	0,604	0,054	0,000
ROE ICB	-1,820	0,150	0,001
ROA IBU	-1,754	0,028	0,010
ROE IBU	-2,530	0,147	0,000

Based on Table 12.6, the CointEq coefficient (-1) or Error Correction Term (ECT) value on ROA Islamic Commercial Banks (ICB) has a value of 0.604 and significant at 0.000. It shows a positive and significant. Meanwhile, CointEq (-1) on the ROE of Islamic Commercial Banks (ICB) has a value of



-1,820 and significant 0,001. These results are negative and significant. It can be interpreted that the ARDL model is valid and cointegrating between the dependent and independent variables.

The coefficient value of CointEq (-1) or Error Correction Term (ECT) ROA of Islamic Business Units has a value of -1,754 and is significant at 0,010. Meanwhile, the CointEq coefficient (-1) or Error Correction Term (ECT) on ROE Islamic Business Units has a value of -2,530 and is significant at 0,000. CointEq (-1) indicates negative and significance. It can be interpreted that the ARDL model is valid and cointegrating between the dependent and independent variables. It shows that the ARDL ECM model is valid and shows a correction of short-term errors that will affect the process of balancing profitability in the long run. In the short term, the profitability of Islamic Commercial Banks and Islamic Business Units is influenced by the dependent variable in this research. It shows how the imbalance due to the shock of the previous year is adjusted to the long-term balance this year.

### ***LONG TERM ESTIMATES***

A long-term conditional test is carried out to see the long-term relationship between the independent and dependent variables.

**Table 12.7: Long-term ROA Islamic Commercial Bank (ICB)**

Variable	ROA ICB			ROE ICB		
	Coeff	Prob	Prob/2	Coeff	Prob	Prob/2
X1_NPF_MUDH	-0,065	0,361	0,180	-10,863	0,411	0,205
X2_NPF_MUSY	0,026	0,563	0,281	-13,046	0,259	0,129
X3_NPF_MUR	-0,142	0,311	0,155	-14,982	0,569	0,284
X4_NPF_QARDH	-0,011	0,343	0,171	3,462	0,472	0,236
X5_ISTISNA	-0,153	0,639	0,319	-174,134	0,262	0,131
X6_IJARAH	-0,024	0,490	0,245	-12,485	0,556	0,278
X7_CAR	-0,061	0,314	0,157	-11,609	0,477	0,238
X8_BOPO	0,042	0,459	0,229	1,085	0,886	0,443
X9_FDR	-0,016	0,387	0,193	-5,042	0,417	0,208
X_10_NOM	1,134	0,020	0,010	46,350	0,514	0,257

Based on Table 12.7, ECM estimation results, in the long run, show that the increase in Return On Asset is influenced by market risk, which is proxied by the NOM, while other variables do not affect ROA in Islamic Commercial Banks. Islamic banks do not recognize interest rate risk, so banks do not experience the risks associated with this interest rate. Therefore, Islamic banks only need to manage the market risk associated with exchange rates that can cause losses for Islamic banks in the long term, While the ROE does not affect them. It is seen that the probability is more than 0,10%.



**Table 12.8: Long Term ROE Islamic Banking Units (IBU)**

Variable	ROA IBU			ROE IBU		
	Coeff	Prob	Prob/2	Coeff	Prob	Prob/2
X1_NPF_MUDH	-0,030	0,108	0,054	-0,912	0,012	0,006
X2_NPF_MUSY	-0,0718	0,274	0,137	1,013	0,413	0,206
X3_NPF_MUR	-0,021	0,625	0,312	-3,806	0,084	0,042
X4_NPF_QARDH	0,728	0,181	0,090	2,433	0,120	0,060
X5_ISTISNA	0,327	0,117	0,058	-9,924	0,036	0,018
X6_IJARAH	0,014	0,183	0,091	0,997	0,011	0,005
X7_CAR	-0,798	0,154	0,077	-2,640	0,090	0,045
X8_BOPO	-0,101	0,092	0,046	-3,585	0,027	0,013
X9_FDR	0,009	0,139	0,069	0,623	0,012	0,006
X10_NOM	-0,276	0,389	0,194	-50,577	0,014	0,007

Table 12.8 shows the long-term estimation results in this research on the Islamic Business Units seen from the ROA that the NPF Mudharabah, NPF Qardh, Istisna NPF, Ijarah NPF, CAR, BOPO, and FDR variables affect ROA in the Islamic Business Units (IBU), While the long-term ECM estimation results on ROE. It can be seen that the NPF Mudharabah, Murabahah NPF, Qardh NPF, Istisna NPF, Ijarah NPF, CAR, BOPO, FDR, and NOM affect the ROE of the Islamic Business Units. It can be concluded that the risks in Islamic banking significantly affect the ROA and ROE of Islamic Business Units (IBU).

In the operational activities of Islamic Commercial Banks (ICB) and Islamic Business Units (IBU) to make a profit, bank managers are constantly faced with a choice, called meeting the needs of debtors through lending with a high enough risk. Considering that lending with a reasonably high risk, as a consequence, lending also carries a relatively high risk, so Islamic banks need to optimize risk management to overcome the risks that occur.

### ***THE RELATIONSHIP BETWEEN FINANCIAL RISK AS PROXIED BY NPF ON ROA AND ROE***

The results showed that the negative effect of the financing risk on Islamic Commercial Banks (ICB) is the NPF Musyarakah with the resulting coefficient value of  $-0,024$  and a probability of  $0,003 < 0,10$  customers use the bank for long-term investment. This result is in line with the concept that the higher the risk faced, the higher the rate of return received (high risk-high return) (Andika et al., 2015). In the Islamic Commercial Bank (ICB), financing Musyarakah is financing with high funds distribution. Return on equity which has a negative effect, is NPF Mudharabah with a coefficient value of  $-21,489$  and a probability of  $0,072 < 0,10$ . In the Mudharabah contract itself, the customer becomes the Mudharaib to manage the capital obtained from the bank. Moreover, the bank has complete confidence in customers with the hope of making a profit, and customers can return the loaned capital. However, if it fails, the risk contained in the customer's Mudharabah arises with several factors, namely using the funds not as stated in the contract, negligence and deliberate mistakes, moral hazard & asymmetric information.



Whereas in the Islamic Business Units, the most significant financing in Islamic Commercial Banks does not affect the financing process disbursed based on the Mudharabah, Musyarakah, Murabahah contract. It happens because the Islamic Business Unit is a work unit under Conventional Commercial Banks which carries out activities based on sharia principles, in which the movement of financing is less than that of Islamic Commercial Banks. The financing risk proxied by NPF based on the IBU contract from the perspective of Return On Asset, which has a negative effect is NPF Ijarah with a coefficient value of -0,003 and a probability of 0,086 < 0,10. The NPF Ijarah in financial report shows lower financing compared to Mudharabah, Musyarakah, Murabahah financing.

It can be concluded that Islamic Commercial Banks (ICB) have a higher risk financing than Islamic Business Units (IBU). Therefore supervision, mitigation risk, and managing risk must be optimized because the risk in Islamic banking has a higher risk than conventional. As well as the Islamic Business Unit is a work unit under Conventional Commercial Banks that carry out activities based on sharia principles, where the movement of financing is smaller than that of Islamic Commercial Banks.

### ***THE RELATIONSHIP BETWEEN OPERATIONAL RISK AS PROXIED BY CAR AND BOPO ON ROA AND ROE***

Operational risk seen in terms of capital with the CAR variable found that Islamic Commercial Banks are better than the Islamic Business Units. Because CAR has a positive and significant effect on the ROA of Islamic Commercial Banks, the CAR



coefficient is 0.024 and a probability of  $0.022 < 0.10$ , the bank's profitability will also increase when CAR has increased. Capital in a company is significant to anticipate the risk of loss. Capital is also used to maintain public confidence in bank performance. The increase in capital results in higher bank health associated with the capital ratio (CAR), the stronger the bank's ability to bear the risk of loss from any credit or risk asset (Aulia & Prasetiono, 2016), Meanwhile CAR has a negative and significant effect on ROA and ROE of Islamic Business Units. It can be because the Islamic Business Units operates the funds not optimally. The comparison of operational risk is better for ICB than for IBU.

Meanwhile, in terms of bank efficiency as seen from the BOPO, the BOPO variable is not significant and negative towards ROA and ROE Islamic Commercial Banks (ICB), with the value of the BOPO coefficient  $-0.005$  and probability  $0.240 > 0,10$  seen from ROA. Meanwhile, the ROE variable of BOPO is known to have a coefficient value of  $13,410$  and a probability of  $0.111 > 0.10$ . These results contradict research conducted by Aulia & Prasetiono (2016) and are not following the theory. The higher the BOPO ratio, the lower the efficiency of the bank. Meanwhile, the BOPO on Islamic Business Units has a negative and significant effect on return On equity. The BOPO ratio reflects the efficiency of a bank in carrying out its primary business. Especially loans, where profit sharing is the most considerable revenue sharing for Islamic banking. Banks' financing is very much needed, given financing as the most significant revenue contributor for Islamic banks. The smaller the BOPO, the more efficient the bank is in running its business activities. The higher the cost of bank income,

the more inefficient its operational activities are (Wibisono & Wahyuni, 2017).

### ***THE RELATIONSHIP BETWEEN LIQUIDITY RISK AS PROXIED BY FDR ON ROA AND ROE***

As seen from the FDR variable, liquidity risk is more stable for Islamic Business Units compared to Islamic Commercial Banks because FDR has a positive and significant effect on ROA and ROE for Islamic Business Units seen from Return On Assets of 0,016 and probability of 0,10 <0,10. While the FDR seen from the Return on Equity of IBU is 2,082 with a probability of 0,052 <0,10. It is in line with Aulia & Prasetiono (2016), Rafelia & Ardiyanto (2013). Meanwhile, ICB only affects in terms of its assets. The standard FDR set by Bank Indonesia, then the profit earned by the bank will increase (assuming the bank can channel its financing effectively). With the increase in profit, the Return On Equity (ROE) will also increase because profit is a component that forms Return On Equity (ROE) (Idrus, 2018). Supported by research conducted by Aulia & Prasetiono (2016), Rafelia & Ardiyanto (2013).

### ***THE RELATIONSHIP BETWEEN MARKET RISK AS PROXIED BY NOM ON ROA AND ROE***

Market risk positively influences Islamic commercial banks with a coefficient value of -1.141 and a probability of 0.006 <0.10. Rusdan (2016) argues that Islamic banks do not recognize interest rate risk, so banks do not experience risks associated with this interest rate. Therefore, Islamic banks only need to manage the market risk associated with exchange rates that can



cause losses for Islamic banks. Islamic banks can reduce the risk of foreign exchange rates by limiting or minimizing the position, or it can be avoided altogether if the bank is always in a square position. The NOM variable has a negative and significant effect on the Islamic Business Unit (IBU). The coefficient value is -0,328 with a probability of  $0,120 > 0,10$ . It contradicts the research of Wibisono & Wahyuni (2017). In the Islamic Business Unit, the amount of NOM achieved is less; of course, the profit generated is also a little, not to mention if there are risks related to exchange rates and others, which cause harm to the Islamic Business Units. In addition, IBU reorganization remains under conventional banks whose spread is not as wide as Islamic Commercial Banks. It shows that market risk has a better positive impact on Islamic Commercial Banks.

### **3. CONCLUSION**

The research found that Islamic Commercial Banks (ICB) has a higher financing risk than Islamic Business Units (IBU) because the Islamic Business Unit is a work unit under Conventional Commercial Banks which carries out activities based on sharia principles, where the movement of financing is more petite than Islamic Commercial Banks, Meanwhile, from an operational perspective, Islamic Commercial Banks are better than Islamic Business Units. In a more stable liquidity risk, the Islamic Business Unit is compared to an Islamic Commercial Bank because ICB only affects its assets. Meanwhile, in managing market risk, Islamic Commercial Banks are better because they can handle which has a positive impact on ICB.



The similarity and difference between BUS and UUS are a short-term relationship between the dependent and independent variables of Islamic Commercial Banks and Islamic Business Units. Meanwhile, the Islamic Commercial Banks (ICB) do not affect the long term in ROE. Then, in Islamic Business Units, the independent variable affects the dependent variable in the short and long term. So in developing Islamic banking, it is necessary to identify risks accurately by recognizing and understanding all existing risks and risks that arise and carefully mitigating risks that are likely to occur.

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