

Analysis of Banking Risk Effect on The Profitability of Islamic Commercial Banks in Indonesia

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Abstract

This research aims to analyze the effect of banking risk consisting of credit risk, liquidity risk and operational risk on banking profitability. Credit risk is proxied by Net Performing Finance (NPF), liquidity risk is proxied by Finance to Deposit Ratio (FDR), and operational risk is proxied by Operating Expenses and Operating Income (BOPO), while Net Returns measure profitability. The method used is panel data analysis with the Gretl application using data from Islamic Commercial Banks in Indonesia that meet specific criteria. The data observation period is from quarter 4 of 2013 to quarter 3 of 2023, so there are 200 observations. The research results show that credit risk and operational risk significantly negatively affected profitability, while liquidity risk had no effect. This research implies that Islamic banking should channel the funds that have been successfully collected to be distributed to debtors, especially those operating on an MSME scale so that the level of banking liquidity risk can be more stable and prospect to have an impact on increasing banking profitability.

Keywords: NPF, FDR, BOPO, Net Reward

JEL Codes: M10, M54, F31

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1. Introduction

In most countries, especially developing countries, banks play an important role in financing the economy and driving economic growth (Djebali & Zaghdoudi, 2020). However, the role of Islamic banking in Indonesia is still relatively small in the Indonesian economy when compared to conventional banking. Meanwhile, Islamic banking is mean to be superior compared to conventional banking operations, due to Islamic banking guarantees the implementation of justice values for economic actors, and definitely the fulfillment of sharia values (Munandar, 2020).

The recent data showed that the percentage of the market share of Islamic banking is 7.09%, while 92.91% is controlled by conventional banking (OJK, 2022). Is there a minimal role for Islamic banking in relation to the profitability of Islamic banking companies? Meanwhile, the bank's profitability capability has a significant impact on the growth and development of Islamic banking (Fatmawati & Hakim, 2020).

Banking profitability can be seen from the Net Interest Margin (Angraini & Prastiwi, 2020; Căpraru & Ihnatov, 2014; Cheng et al., 2020; Islam & Shohel Rana, 2019; Mbekomize & Mapharing, 2017), because the higher this ratio indicates the higher the banking profitability (Hidayat et al., 2021). NIM in conventional banking is called Net Reward in Islamic banking (Nurdiani et al., 2023). Net Balance is a ratio used to measure bank performance in generating profits (Surat Edaran Otoritas Jasa Keuangan Nomor 10/SEOJK.03/2014, 2014).

The following figure shows the level of profitability of Islamic Commercial Banks in Indonesia with the Net Return indicator.

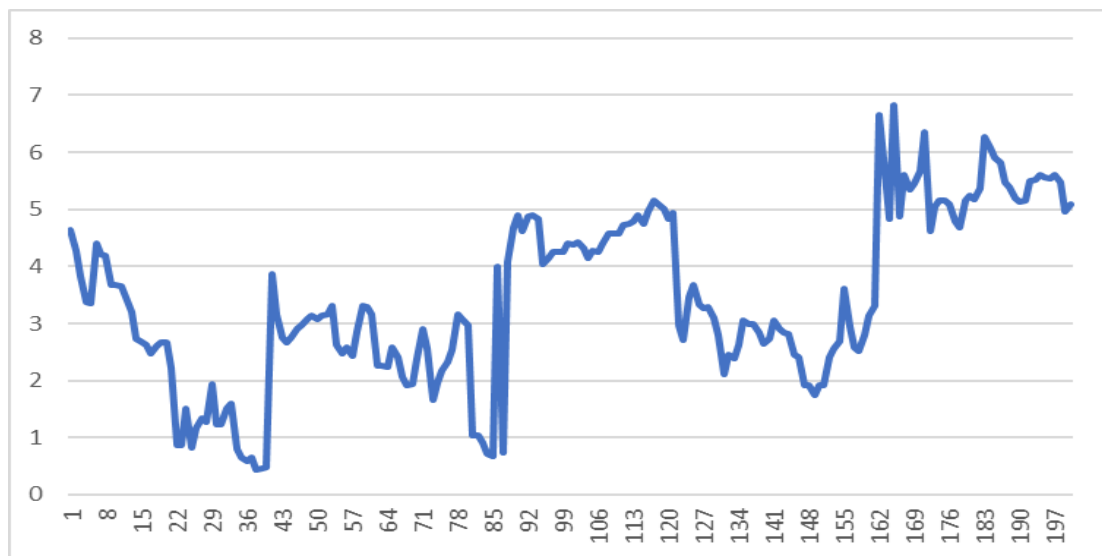


Figure 1. Quarterly Profitability of Islamic Commercial Banks in Indonesia
for the Period 2015 – 2023

The figure above shows the profitability of Islamic Commercial Banks in Indonesia in a decade, where several Islamic Commercial Banks depicted in the display are Quarterly Net Rewards data from Bank Muamalat, Bank Bukopin Syariah, Bank BCA Syariah, Bank Victoria Syariah and Bank BJB Syariah. In Figure 1, it can be seen that the Net Rewards of Islamic Commercial Banks fluctuate, which indicates an unstable Net Rewards level and tends to decline in recent years.

Profitability and risk is side by side and in line in the banking business (Gargouri & Boujelben, 2014). Banking profitability is generally influenced by the risks faced by banking sector companies. In banking companies there are several risks, including credit risk, liquidity risk (Hunjra et al., 2022) and operational risk (Sunaryo et al., 2021) which can affect banking profitability (Fahrul & Rusliati, 2016; My & Quoc, 2022; Roy & Bandopadhyay, 2022).

As in previous research, in this study credit risk is proxied by Non Performing Finance (NPF)

(Damanhur et al., 2018; Priyadi et al., 2021; Syamlan & Jannah, 2019). Credit risk can have a negative effect on the profitability of banking companies, this statement in accordance with previous research which proved that there was a negative and significant relationship between the credit ratio and profitability (Eko Muliansyah & Nurmala, 2023; Menicucci & Paolucci, 2016; Oluwaseyi Ebenezer et al., 2016; Purbaningsih & Fatimah, 2018; Rinofah et al., 2022). However, other studies proved that credit risk had no effect on banking profitability (Fahrul & Rusliati, 2016).

Liquidity risk is proxied by Finance to Deposit Ratio (FDR) (Sutrisno & Panuntun, 2023; Syamlan & Jannah, 2019). Prior research results proved that liquidity risk had an impact on banking profitability (Eko Muliansyah & Nurmala, 2023; Saleh & Abu Afifa, 2020). However, there is inconsistency in the research results, where other research results prove that liquidity risk did not affect the profitability of banking companies (Krisna Aji & Suria Manda, 2021; Pracoyo & Imani, 2018; Syarif Alamsyah et al., 2022).

The results of prior research show that there was a positive and significant relationship between operational risk and banking profitability (Sunaryo et al., 2021). Meanwhile, the results of other studies proved that operational risk had a significant negative effect on profitability (Capriani & Dana, 2019; Sukma et al., 2019).

The purpose of this study is to analyze the effect of banking risk on profitability. Banking risk in this study consists of credit risk proxied by Non Performing Financing (NPF), liquidity risk proxied by Financing to Deposit Ratio (FDR) and operational risk proxied by Operating Expenses Operating Income (BOPO). There had been many studies that analyzed the relationship or influence of the above banking risks on profitability, but the use of Islamic banking profitability indicators using Net Rewards has almost never been done.

2. Literature Review

2.1 Islamic Banking

Islamic banks or in Indonesia called sharia banks are financial institutions that function to facilitate economic mechanisms in the real sector through business activities (investment, buying and selling, or others) based on sharia principles, namely agreement rules based on Islamic law between banks and other parties for the storage of funds and/or financing of business activities, or financing of business activities, or activities that are stated to be in accordance with sharia values that are macro and micro in nature (Ascarya, 2013).

Islamic Bank is an intermediary institution and financial service provider that works based on Islamic ethics and value systems, especially those that are free from interest (riba), free from non-productive speculative activities such as gambling (maysir), free from unclear and doubtful things (gharar), based on the principle of justice, and only finances halal business activities. Islamic Bank is often equated with interest-free bank. Interest-free bank is a narrower concept than Islamic bank, when a number of its instruments or operations are interest-free. Islamic Bank, in addition to avoiding interest, also actively participates in achieving the goals and objectives of Islamic economics that are oriented towards social welfare (Rivai & Arifin, 2010).

According to Law Number 10 of 1998 concerning Banking, it is explained that Banking is everything related to banks, including institutions, business activities, and methods and processes in carrying out its business activities. While a Bank is a business entity that collects funds from the public in the form of savings and distributes them to the public in the form of credit and/or other forms in order to improve the standard of living of the people.

According to Law Number 21 of 2008 concerning Islamic Banking, an Islamic Bank is a bank that carries out business activities based on sharia principles, or Islamic legal principles regulated in the fatwa of the Indonesian Ulema Council such as the principles of justice and balance ('adl wa tawazun), welfare (maslahah), universalism (alamiyah), and does not contain gharar, maysir, usury, zalim and forbidden objects.

2.2 Banking Profitability

Profitability is a company's ability to generate profits during a certain period (Yunita, 2016). Profitability, also known as the rentability ratio, is used to measure the level of business efficiency and profitability achieved by the bank itself (Kasmir, 2014: 327), or bank profitability is a ratio used to measure a bank's ability to generate profits from its normal business activities (Hery, 2015: 226).

Company profitability can be known from Net Interest Margin (Angraini & Prastiwi, 2020; Căpraru & Ihnatov, 2014; Cheng et al., 2020; Islam & Shohel Rana, 2019; Mbekomize & Mapharing, 2017), because the higher this ratio indicates the higher the banking profitability (Hidayat et al., 2021). NIM in conventional banking is called Net Reward in Islamic banking (Nurdiani et al., 2023).

NI or Net Rewards is a ratio used to understand the ability of a bank's productive assets to generate profits or returns by comparing operational income minus the average rewards and bonuses for productive assets (Awintasari & Maulida Nurhidayati, 2021).

According to the Circular Letter of the Financial Services Authority (OJK) Number 10/SEOJK.03/2014 Net Rewards are measured by comparing the Income from Fund Distribution After Profit Sharing minus rewards and bonuses with the Average Total Productive Assets. Income from fund distribution includes all income from fund distribution, while the return expense includes all profit sharing expenses, rewards, and bonuses from fund collection. The productive assets that are calculated are assets that generate profit sharing, rewards, and bonuses both on the balance sheet and on the TRA.

2.3. Banking Risk

In banking companies there are several risks, including credit risk (Abbas & Ali, 2022), liquidity risk (Hunjra et al., 2022) and operational risks (Sunaryo et al., 2021) which can affect banking profitability (Fahrul & Rusliati, 2016; Roy & Bandopadhyay, 2022). Maintaining the level of banking risks such as credit risk and liquidity risk is very important for the stability of banking companies (Djebali & Zaghdoudi, 2020).

2.4. Credit Risk

Credit risk arises from the possibility of default by the debtor—that is, the promised cash flows on the underlying securities held by the bank may not be paid in full (How et al., 2005). Credit risk is proxied by Non Performing Finance (NPF) (Damanhur et al., 2018; Priyadi et al., 2021; Syamlan & Jannah, 2019).

Non Performing Finance (NPF) is one of the performance assessment instruments of a sharia bank which is an interpretation of the assessment of productive assets, especially in the assessment of problematic financing (Popita, 2013). Non Performing Financing (NPF) is a ratio that compares total problem loans to total loans distributed in percentage form. (Rosidah, 2018), in this study, credit in conventional banks is equated with financing in Islamic banks. NPF is a ratio used to measure the level of efficiency of a bank's ability to run its operations. The higher

this ratio, the worse the level of efficiency of Islamic banks (Sitompul & Nasution, 2019).

In this study, NPF is divided into two types, namely Gross NPF and Net NPF. According to Bank Indonesia Regulation Number 6/10/PBI/2004, Financing that falls into the special attention, substandard, doubtful and problematic categories is called gross NPF, while net NPF is financing that falls into the substandard, doubtful and problematic categories.

2.5. Liquidity Risk

Liquidity risk is the risk resulting from the bank's inability to meet maturing obligations from cash flow funding sources and/or from high-quality liquid assets that can be pledged, without disrupting the Bank's activities and financial condition (Peraturan Otoritas Jasa Keuangan Nomor 65 /POJK.03/2016 Tentang Penerapan Manajemen Risiko Bagi Bank Umum Syariah Dan Unit Usaha Syariah, 2016). Liquidity risk is the risk that arises due to the bank's inability to fulfill its obligations when they fall due (Ghenimi et al., 2021).

Banks are highly vulnerable to liquidity risk (Arif & Nauman Anees, 2012; Saleh & Abu Afifa, 2020). High liquidity in banking companies will increase the company's profitability (Rahman et al., 2015), while banking liquidity risk will have a negative impact on the company's profitability level (Abdelaziz et al., 2022).

Liquidity risk is proxied by Finance to Deposit Ratio (FDR) (Sutrisno & Panuntun, 2023; Syamlan & Jannah, 2019). FDR is a ratio used to measure a bank's ability to pay its short-term debts and repay its depositors (Sihotang, 2021), and fulfill credit requests submitted by the public in a timely manner (Pravasanti, 2018). FDR is a ratio to measure the amount of financing provided compared to the amount of funds received by the bank (Pudyastuti, 2018).

2.6. Operational Risk

Operational Risk is the risk resulting from inadequacy and/or non-functioning of internal processes, human error, system failure, and/or external events that affect the Bank's operations (Peraturan Otoritas Jasa Keuangan Nomor 18 /POJK.03/2016 Tentang Penerapan Manajemen Risiko Bagi Bank Umum, 2016). Banking operational efficiency is indicated by operational risk in the proxy with BOPO (Budianto & Dewi, 2023; Eko Muliansyah & Nurmala, 2023; Siregar & Pujiono, 2021). BOPO is a ratio used to measure the level of efficiency and ability of a bank to carry out its operational activities (Fadhilah & Suprayogi, 2019).

2.7. The Relationship between Variables and Research Hypothesis

Credit risk arises from the possibility of default by the debtor as indicated by the NPF ratio. The NPF ratio shows the percentage of problematic financing when compared to the total financing distributed by the bank. Previous research shows that NPF has a negative effect on banking profitability (Eko Muliansyah & Nurmala, 2023; Menicucci & Paolucci, 2016; Oluwaseyi Ebenezer et al., 2016; Purbaningsih & Fatimah, 2018; Rinofah et al., 2022). This means that the higher the NPF ratio will indicate the greater the risk of non-performing loans faced by the bank, which will have a negative impact on the bank's profitability level. Meanwhile, the profitability of Islamic banking can be measured by the NI ratio. (Surat Edaran Otoritas Jasa Keuangan Nomor 10/SEOJK.03/2014, 2014). Based on this, the following hypothesis is constructed:

H_{1 a} : NPF Gross have negative impact on NI

H_{1 b} : NPF Net have negative impact on NI

Liquidity risk shows the ratio used to measure a bank's ability to pay its short-term debts and repay its depositors. Liquidity risk in Islamic banking is measured by FDR. The FDR ratio shows the amount of financing distributed from the total third-party funds that have been collected. By distributing financing to the community, it is expected to obtain a return in the form of profit that has been targeted by the bank. Previous research shows that liquidity risk has an effect on banking profitability (Eko Muliansyah & Nurmala, 2023; Saleh & Abu Afifa, 2020). Based on this, the following hypothesis is constructed:

H₂ : FDR have negative impact on NI

Operational risk is a ratio used to measure the level of efficiency and ability of a bank in carrying out its operational activities. Operational risk is measured by BOPO. BOPO is the ratio between operational costs and operational income obtained by the bank. Previous research has shown that operational risk has a significant negative effect on profitability (Capriani & Dana, 2019; Sukma et al., 2019). This means that the higher the BOPO ratio, the lower the banking profitability because the operational costs incurred are getting higher. Based on this, the following hypothesis is constructed:

H₃ : BOPO have a negative impact on NI

3. Research Method

3.1 Research Design

This research is quantitative research, with the object of research being the financial performance ratio of Islamic Commercial Banks registered with the Financial Services Authority (OJK). The method used in determining the sample is the purposive sampling method, where the specified criteria are Islamic Commercial Banks that publish quarterly financial reports in a decade so that the sampling period is calculated from the 4th quarter of 2013 to the latest data, namely the 3rd quarter of 2023. Based on these criteria, five Islamic Commercial Banks were selected, namely Bank Muamalat. Bank Bukopin Syariah, Bank BCA Syariah, Bank Victoria Syariah and Bank BJB Syariah. Thus, there are 200-panel data analyzed using the Gretl application

3.2 Panel Data Estimation Model

The first step in conducting panel data analysis is to determine the most appropriate estimation model, namely the Common Effect Model, Fixed Effect Model, and Random Effect Model. To find out the appropriate estimation model, the Chow test, the Lagrange multiplier test, and the Hausman test must be carried out.

The Chow test is conducted to determine the most appropriate model between the common effect model and the fixed effect model. The significant value $\alpha = 5\%$, if the value of $p < 5\%$ then the null hypothesis will be rejected and the decision fixed effect is the best model to use (Gujarati & Porter, 2012).

The Breusch-pagan test is a test used to compare the common effect model with the random effect model. The significant value $\alpha = 5\%$ if the value of $p < 5\%$, then the null hypothesis will be rejected and the random effect is the best model to use (Gujarati & Porter, 2012).

The Hausman test compares fixed effect and random effect models to determine the best model to use as a regression model on panel data. The significant value $\alpha = 5\%$ if the value of $p < 5\%$ then the null hypothesis will be rejected and fixed effect is the best model to use (Gujarati & Porter, 2012).

3.3 Research Variables Operationalization

Banking profitability is measured by Net Rewards. NI or Net Rewards is a ratio used to understand the ability of a bank's productive assets to generate profits or gains by comparing operating income minus the average rewards and bonuses of productive assets (Awintasari & Maulida Nurhidayati, 2021). NI can be measured using the following formula:

$$NI = \frac{\text{Income from Fund Distribution After Profit Sharing} - (\text{Rewards and Bonuses})}{\text{Average Productive Assets}}$$

(Source: (Surat Edaran Otoritas Jasa Keuangan Nomor 10/SEOJK.03/2014, 2014)

The NI criteria based on OJK Regulation Number 8/POJK.03/2014 are: $NI \geq 10\%$ = “very healthy”; $8\% \leq NI < 10\%$ = “healthy”; $6\% \leq NI < 8\%$ = “quite healthy”; $4\% \leq NI < 6\%$ = “less healthy”; $NI < 4\%$ = “not healthy”.

Credit risk is measured by Non Performing Finance (NPF). Non Performing Financing (NPF) is a ratio that compares total problem loans to total loans distributed in percentage form (Rosidah, 2018). NPF can be measured using the following formula:

$$NPF \text{ Gross} = \frac{\text{The amount of bad financing}}{\text{Total Financing}} \quad (\text{Source: OJK, 2023a})$$

$$NPF \text{ Net} = \frac{\text{The amount of bad financing} - \text{CKPN for the amount of bad financing}}{\text{Total Financing}}$$

(Source: OJK, 2023a)

Kriteria NPF based on SEBI No. 13/ 24/ DPNP/2011 are: $NPF < 2\%$ = “very healthy”; $2\% \leq NPF < 5\%$ = “healthy”; $5\% \leq NPF < 8\%$ = “quite healthy”; $8\% \leq NPF < 12\%$ = “less healthy”; $NPF \geq 12\%$ = “not healthy”.

Liquidity risk is measured by FDR, where this ratio measures the amount of financing provided compared to the amount of funds received by the bank. The FDR formula is as follows:

$$FDR = \frac{\text{Total Financing to Non-Bank Third Parties}}{\text{Total Third Party Funds}} \quad (\text{Source: OJK, 2023a})$$

FDR Criteria based on Bank Indonesia Circular Letter No.6/ 23/ DPNP 2004 are: $FDR \leq 75\%$ = “very healthy”; $75\% < FDR \leq 85\%$ = “healthy”; $85\% < FDR \leq 100\%$ = “ quite healthy”; $100\% < FDR \leq 120\%$ = “less healthy”; $FDR > 120\%$ = “not healthy”.

Operational risk is measured by BOPO. BOPO is a ratio used to measure the level of efficiency and ability of a bank in carrying out its operational activities. The BOPO formula is as follows:

$$BOPO = \frac{\text{Total Operating Expenses}}{\text{Total Operating Income}} \quad (\text{Source: OJK, 2023a})$$

BOPO criteria based on OJK Regulation Number 8/POJK.03/2014 are: $BOPO \leq 94\%$ = “very healthy”; $94\% < BOPO \leq 95\%$ = “healthy”; $95\% < BOPO \leq 96\%$ = “quite healthy”; $96\% < BOPO \leq 97\%$ = “less healthy”; $BOPO > 97\%$ = “not healthy”.

4. Result and Discussions

4.1 Descriptive Statistic

Table 1. Statistics Data

Variable	Mean	Median	S.D.	Min	Max
NPFGross	4,80	4,35	4,15	0,100	22,3
NPFNet	2,68	3,00	1,89	0,000	13,5
FDR	88,8	89,8	19,5	38,3	197
BOPO	97,0	96,4	13,3	71,2	180
NI	3,43	3,17	1,48	0,440	6,83

Source: Gretl application, 2024

The table above shows that the Gross NPF is 4.8% on average, indicating that almost 5% of the total financing is problematic or bad financing. This figure still shows that the bank is in the "healthy" category in overcoming problematic financing. However, the maximum Gross NPF figure reached 22.3%, which means that there was a period when banking faced problematic financing of more than one-fifth of the total financing.

On average, the FDR of Islamic Commercial Banks in Indonesia in the last decade was 88.8%, indicating that the liquidity risk faced by the bank was "quite healthy". The minimum FDR figure is 38.3%, showing that only 38.3% of financing disbursement was carried out by the bank compared to the total third-party funds that were successfully collected. This means that there was a period when banking had an unhealthy performance and the liquidity risk faced was very high.

BOPO is at 97%, indicating that Islamic General Banks' operational risk is quite large and in the "unhealthy" category. This figure shows that the operational costs incurred are 97% of the operational income obtained.

On average, the Net Return of Islamic Commercial Banks studied in one decade is 3.43, where this figure shows that the performance index of Islamic Commercial Banks in terms of profitability (NI) is in the "unhealthy" category because it is below 4%. However, the maximum NI value with a level of 6.83% shows that there is a period in certain Islamic Commercial Banks that are able to achieve a level of company profit between 6% - 8% with a "healthy" category.

4.2 Panel Data Estimation Model Selection Results

Based on the results of the Chow test, the value of $p = 5.1078e-26 > 0.05$ was obtained, so it was decided that the common effect model is better to use than the fixed effect model. The Breusch-pagan test is a test used to compare the common effect model with the random effect model. Which results show a value of $p = 3.06509e-140 > 0.05$, therefore it was decided that the common effect model is better to use than the random effect model. The results of the Hausman test showed a value of $p = 0.415242 > 0.05$. Therefore, it was decided that the random

effect model is better to use than the fixed effect model. Based on various test results to determine the best model, it was decided that the best model for processing panel data in this study was the common effect model.

4.3 Diagnostic Test

Based on the panel data estimation model performed, the best model used in this study is the common effect model, so that diagnostic tests are needed, each consisting of a normality test, a heteroscedasticity test, and a multicollinearity test.

The normality test uses Kolmogorov-Smirnov. Data is normally distributed if the probability or significance number is greater than 0.05 or more than 5%. The results of the normality test show a value of $p = 0.517902 > 0.05$ so it can be concluded that the data in this study are normally distributed.

The heteroscedasticity test uses the White Test. If the significance level is greater than 5% (> 0.05) then it can be concluded that there is no heteroscedasticity. The results of the White Test show a value of $p = 4.65918e-11 > 0.05$ so it can be concluded that there is no heteroscedasticity.

Multicollinearity test with Variance Inflation Factor (VIF), if the VIF value > 10 then multicollinearity occurs. Meanwhile, the results of the multicollinearity test show that the VIF values of all variables are less than 10, so it is concluded that there is no multicollinearity.

4.4 Hypothesis Test Results

The following table shows the results of the hypothesis test:

Table 2. Hypothesis Test Results

<i>Independent Variable</i>	<i>coefficient</i>	<i>t-ratio</i>	<i>p-value</i>	<i>Decision</i>
<i>NPF Gross</i>	<i>0,143796</i>	<i>4,418</i>	<i>1,65e-05</i>	<i>No effect</i>
<i>NPF Net</i>	<i>-0,261876</i>	<i>-3,826</i>	<i>0,0002</i>	<i>Significant negative impact</i>
<i>FDR</i>	<i>0,0220138</i>	<i>4,300</i>	<i>2,70e-05</i>	<i>No effect</i>
<i>BOPO</i>	<i>-0,0285928</i>	<i>-3,294</i>	<i>0,0012</i>	<i>Significant negative impact</i>

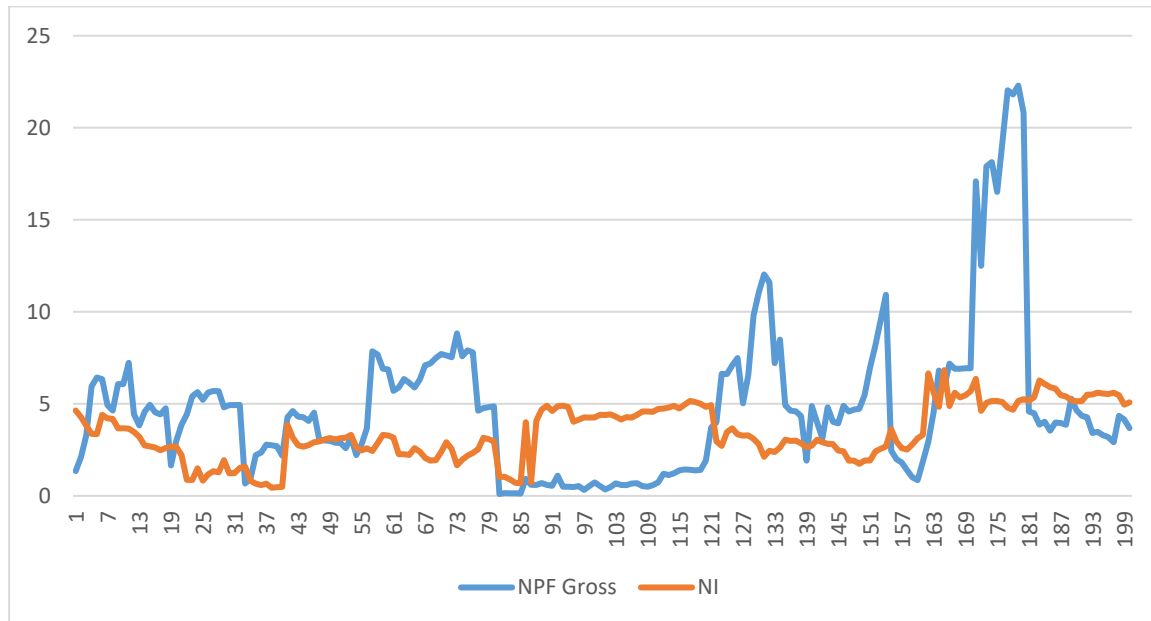
Source: Gretl App, processed data results (2024)

The R square value of the panel data regression model of 0.187566 shows that 18.75% of the dependent variables can be explained by the independent variables, while 81.25% is explained by other variables not examined in this research.

4.5 Discussion

The study's results indicate that credit risk as measured by Gross NPF does not affect profitability as measured by Net Reward. Gross NPF shows the total non-performing financing disbursed by the bank consisting of the financing included in the special attention category, substandard, doubtful, and problematic. In this study, Gross NPF. Gross NPF should affect NI because the higher Gross NPF indicates that the risk of non-performing financing faced by banks will be greater, which will cause the level of banking profitability to be smaller. This is because non-performing financing indicates that the debtor is unable to return the financing disbursed by the bank so the bank cannot obtain the expected profit from the distribution of the financing. The relationship between Gross NPF and Net Reward can be seen in the following

graph:



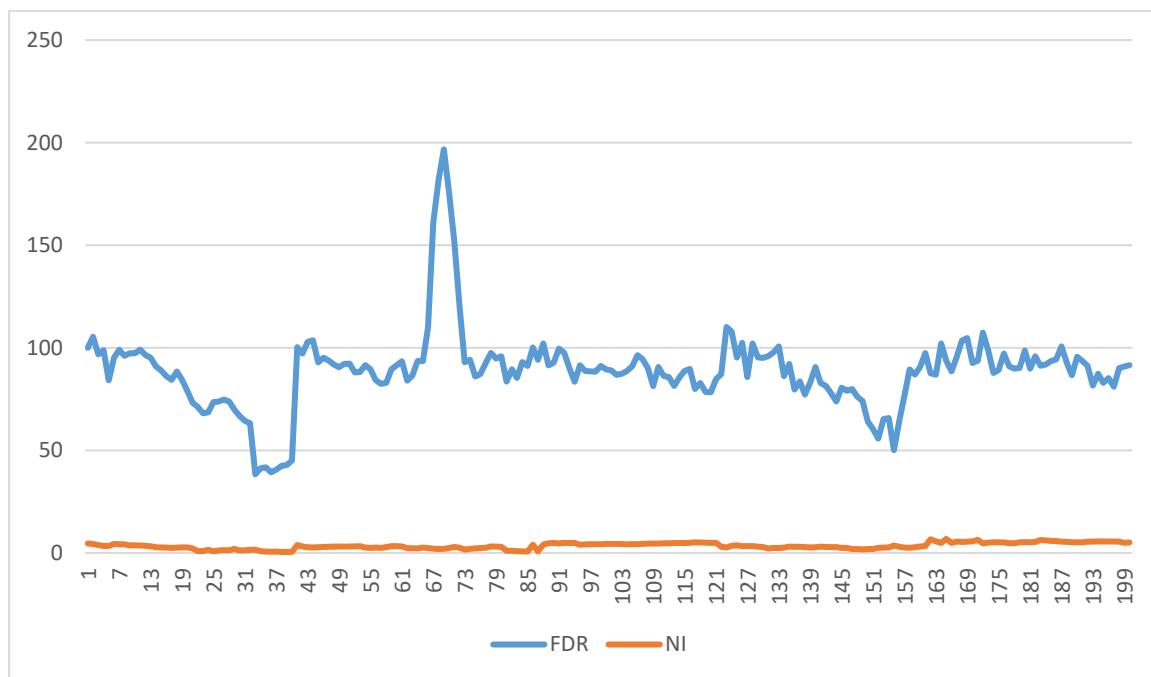
Graphic 2.

NPF Gross and Net Return of Islamic Commercial Banks Q4 2013 to Q3 2023

The graph above shows that gross NPF is more volatile with an increase in credit risk, which tends to increase, while when there is an increase in gross NPF, net rewards do not immediately increase. This means that the increase in Gross NPF in banking is not in line with the level of Net Rewards in banking. This illustrates that there is no relationship between Gross NPF and Net Rewards.

The results of the study indicate that Net NPF has a negative and significant effect on Net Rewards. This indicates that an increase in credit risk as measured by Net NPF will cause a decrease in banking profitability. The results of this study support the results of previous studies which prove that NPF has a negative effect on banking profitability (Eko et al., 2023; Menicucci & Paolucci, 2016; Oluwaseyi Ebenezer et al., 2016; Purbaningsih & Fatimah, 2018; Rinofah et al., 2022).

The results of the study indicate that liquidity risk as measured by FDR does not affect profitability as measured by Net Rewards. Banking liquidity shows the bank's ability to channel third-party funds that have been collected to be distributed in the form of financing. By distributing these funds to debtors, it is expected that the bank will make a profit. However, the results of the study indicate that there is no influence between FDR and Net Rewards. The relationship between FDR and Net Rewards can be seen from the following graph:



Graphic 3.

FDR and Net Return of Islamic Commercial Banks Q4 2013 to Q3 2023

The figure above shows that FDR in Islamic Commercial Banks is more volatile. An increase in FDR does not necessarily decrease or increase Net Rewards. Likewise, a decrease in FDR is not followed by an increase or decrease in Net Rewards. This shows that liquidity risk fluctuations in banking do not affect Net Rewards.

The study results show that operational risk as measured by BOPO significantly negatively affects profitability as measured by Net Rewards. BOPO shows the operational costs banks incur in obtaining operational income. The greater the proportion of operational income obtained with a low cost level, the greater the bank efficiency and the greater the ability to obtain profit. A high BOPO ratio indicates high banking operational risk, with greater operational costs. This means that if the operational risk is high, the level of profitability will be low, where the study results prove this. The results of this study are in line with previous studies that prove that operational risk has a significant negative effect on profitability (Capriani & Dana, 2019; Sukma et al., 2019).

5. Conclusion

The study's results prove that credit risk and operational risk significantly affect the profitability of Islamic Commercial Banks in Indonesia in the period from the 4th quarter of 2013 to the 3rd quarter of 2023. Meanwhile, liquidity risk does not show any effect on profitability. This is because the increase in liquidity risk as measured by FDR does not necessarily reduce banking profitability. The implication of this study is that Islamic banking should channel funds that have been successfully collected to be distributed to debtors, especially those operating on the MSME scale so that the level of banking liquidity risk can be more stable and can have an impact on increasing banking profitability.

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