

Impact Of Financial Risks and Inflation On Financial Performance Of Sharia Banks (Empirical Study on Islamic Commercial Banks in Indonesia 2016-2020 Period)

Agus Afandi¹, Endri Purnomo², Aris Budianto³

¹Fakultas Ekonomi dan Bisnis, Pamulang University, dosen02508@unpam.ac.id

²Fakultas Ekonomi dan Bisnis, Pamulang University, dosen02645@unpam.ac.id

³Fakultas Ekonomi dan Bisnis, Pamulang University, dosen02646@unpam.ac.id

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Abstract

The purpose of this study was to examine the effect of financial risk and inflation on financial performance. The sample of this study is Islamic banking companies registered with the financial services authority (OJK) during the 2016-2020 research period. The data analysis method used is multiple linear regression analysis with eviews 12.0 application tools. The results showed that (1) liquidity risk proxied by financing to deposit ratio (FDR) did not significantly affect return on assets (ROA), (2) credit risk proxied by non-performing financing (NPF) had a negative and significant effect on return on assets (ROA), (3) capital risk proxied by the capital adequacy ratio (CAR) has a positive and significant effect on return on assets (ROA), (4) inflation does not significantly affect return on assets (ROA).

INTRODUCTION

Banking is everything related to banks including institutional business activities and processes in running their business. Bank is a financial institution whose function is to collect funds from the public and channel them back to the community. Based on law no. 10 of 1998, in carrying out its business activities in Indonesia, banks carry out their business activities conventionally or based on sharia principles. Islamic banks are financial institutions that in carrying out their business use sharia principles and avoid matters related to the practice of usury and do so on the basis of profit sharing (Suryakusuma & Wahyuni, 2018).

.The phenomenon of Islamic banking in Indonesia is that Islamic banks can survive and even continue to grow in the conditions of the COVID-19 pandemic,

while the majority of other industrial sectors have experienced a decline, especially conventional banking. Quoted from *Bisnis.com* on December 29, 2020, the Minister of Finance, Mrs. Sri Mulyani Indrawati, said that the performance of Islamic banking in the country recorded stable growth, even growing higher than conventional banking in the midst of the Covid-19 pandemic. *Bisnis.com* also said that not only at this time, the higher resilience of Islamic banking was also seen during the 2008 crisis. In very stressful conditions due to Covid-19, national banking intermediation tends to decline, but Islamic banking performance is stable and grows higher than conventional banks. This phenomenon shows that the performance of Islamic banks is more resistant to crises than conventional banks, so the question is, how is the financial performance of Islamic banking and what factors affect the financial performance. Banking is a business that manages public funds, it must be able to manage its financial risks in order to improve its financial performance.

Another phenomenon of Islamic banking in Indonesia is that the population of Indonesia, which is predominantly Muslim, does not necessarily make Islamic banks dominate or are superior in market share compared to conventional banks. Islamic bank which is an alternative solution for the Muslim community for problems related to the MUI fatwa regarding the prohibition of bank interest. The Muslim population in Indonesia is the majority, with the dominance of the Muslim population in Indonesia, Islamic banking should experience superior development than conventional banks, but the fact is that this is not the case, the financial services authority in IDX Cahnel dated 23 April 2021 noted that the banking market share Currently, sharia banking in Indonesia has only reached 9.96%, this shows that the market share of Islamic banking is still lagging behind conventional banks and the majority of Muslim communities in Indonesia do not guarantee support for Islamic banking. Indonesian people have not fully chosen Islamic finance, even though the majority of Indonesian people are Muslims. This is an opportunity as well as a challenge for Islamic banking to improve its performance and services compared to conventional banks.

One indicator of banking performance is financial performance as measured by return on investment or return on assets (ROA). ROA is the ratio between profit before tax and total assets, the higher the ROA, the more effective and

efficient the company is in managing its assets and the higher the profitability of the company. In carrying out its operations, banks are faced with risks. Risk is a condition of uncertainty in the future that will have a negative impact on the company, so banks need to implement good risk management to avoid losses. Among the risks that will be faced by banks are market risk, credit risk, operational risk and liquidity risk. Credit and liquidity risk is a financial risk that must be faced by banks as well as capital adequacy risk. Risk factors have an impact on bank profitability, theoretically increasing risk should increase company profits. The ability of banks to manage risk is also a positive signal from depositors that banks are able to manage funds collected from the public prudently.

Liquidity risk is a risk that arises due to the inability of banks to pay their obligations to customers or the ability of banks to return withdrawals from depositors whose funds have been directly distributed by banks to the public by way of loans. If the bank's liquidity level is low, the bank suffers a loss because it must quickly sell assets at a low price if the customer withdraws funds. Liquidity risk also has an effect on the reputation of the bank, a bank may lose the trust of depositors if funds are not disbursed in a timely manner, therefore it is very important for banks to maintain their liquidity level. Capital Adequacy Ratio (CAR) is a bank performance ratio to measure the capital adequacy owned by a bank to support assets that contain or generate risk. Capital is one of the important factors in developing a business and accommodating the risk of loss, the higher the CAR, the stronger the bank's ability to bear the risk of any risky productive loan/asset.

The external risk that is thought to have an impact on the financial performance of Islamic banks is inflation. In macroeconomic theory, inflation is always related to the amount of money in circulation and the monetary policy taken by the government through the central bank (Haramain et al., 2020). The government can control the money supply by creating money and regulating interest rates, through this interest rate it can affect investment spending, aggregate demand and price levels, thus setting interest rates to control inflation will affect the performance of Islamic banking. Banks as intermediary institutions between parties with surplus funds and those with deficit funds are very vulnerable to inflation risk, this is related to the movement of funds in the

community. If a country has high inflation, it causes an increase in consumption so that it will affect the pattern of saving and financing in the community (Haramain et al., 2020). This will affect the performance of Islamic banking because the funds collected from the community are reduced, so that the bank's ability to generate profitability decreases.

From various previous studies that examine the effect of non-performing financing (NPF), financing debt to ratio (FDR), capital adequacy ratio (CAR) and inflation on financial performance in Islamic banks and conventional banks, there are inconsistencies. (Fahlevi & Manda, 2021) conducted a study on the effect of risk management on the financial performance of private banks, finding the results that net performing loans (NPL) have a negative and significant effect on return on assets (ROA) while liquidity risk is measured by the loan to deposit ratio (LDR) has a positive but not significant effect. Research conducted by (Wibisono & Wahyuni, 2017) found different results in Islamic banking non-performing financing (NPF) a positive but not significant effect on return on assets (ROA), which means an increase in credit risk does not have a negative effect on return on assets on the contrary has a positive relationship although not significant, financing debt to ratio (FDR) has a significant negative effect on ROA while the capital adequacy ratio (CAR) has an insignificant negative effect on ROA. (Suryakusuma & Wahyuni, 2018) conducted a study on the impact of macroeconomic factors and internal factors on the financial performance of Islamic commercial banks in Indonesia and found that macro factors proxied by inflation did not significantly affect ROA but had a positive relationship, while internal NPF factors had an effect significant negative effect on ROA, and FDR has a negative but not significant effect on ROA. Inflation has a positive and significant effect found in research (Said & Ali, 2016) in their journal entitled "An analysis on the factors affecting the profitability level of Sharia banking in Indonesia", meaning that an increase in inflation will actually increase the ability of banks to generate profits with their assets. , other factors such as NFF, FDR and CAR do not significantly affect ROA, which means that the bank's internal financial risk does not significantly affect the return on assets. Another study conducted by (Setiawan & Indriani, 2016) concluded that in Islamic banks studied during the period 2011-2015 the variable capital adequacy ratio (CAR) had a negative but not significant effect on ROA, the variable non-performing financing

(NPF) had a negative effect and significant to ROA which means that an increase in credit risk will reduce bank profitability as measured by return on assets (ROA). Based on the results of these studies do not always find the same results regarding the impact or influence of financial risk, namely NPF, LDR, CAR and inflation on financial performance (ROA), so it is necessary to do further research as additional consideration. From the description of the background of the problem above, the author determines the title of this research is "The Impact of Financial Risk and Inflation on the Financial Performance of Islamic Banks (Empirical Study on Islamic Commercial Banks in Indonesia for the 2016-2020 Period)"

The update of this research compared to previous research is that several previous studies tested the influence of internal Islamic banking factors such as npf, fdr, bopo and other internal factors on financial performance, meanwhile in this study, researchers combined macroeconomic factors and company internal factors such as liquidity risk, risk finance and capital risk and examine their effect on the financial performance of Islamic banking. Another update is data processing or data analysis in this study using evIEWS software, the evIEWS software was chosen because this research data is panel data and the evIEWS software provides panel data processing and with evIEWS software it can be tested and the best regression model selected.

METHODS

Research Approach

In this study, the authors use quantitative methods with associative analysis, because of the variables that will be studied in relation to it and its purpose is to present an overview of the relationship between the variables studied. According to (Sugiyono, 2017) quantitative research is: "Research methods based on the philosophy of positivism, used to examine certain populations or samples, data collection using research instruments, quantitative or statistical data analysis, with the aim of testing predetermined hypotheses" . Causal relationship is a causal relationship, one variable (independent) affects the other variable (dependent). If there is a relationship, it will also be investigated how far the level of influence (significance) of one variable will affect other variables.

Population and Sample

The population used in this study is all Islamic banks in Indonesia registered with the OJK during the 2016-2020 research period. The data used is secondary data in the form of annual reports and financial reports. The sample selection method is by using purposive sampling method. Purposive sampling method is a sampling technique with several criteria based on certain considerations to obtain a substantial sample (Sugiyono, 2014, p. 149)

The following are the criteria used for the purposive sampling method in this study;

1. Sharia Commercial Banks and Sharia Business Units registered with OJK during the period 2016 – 2020
2. Sharia Commercial Banks registered with OJK during the 2016 – 2020 period
3. Islamic Commercial Banks that present and report complete financial statements for the period 2016 – 2020
4. Sharia Commercial Banks with complete research research variables indicators during 2016 – 2020

Research Variables

Dependent Variables

The dependent variable in this study is financial performance. Banking financial performance is the bank's ability to generate profits using its assets, the greater the profits obtained by the bank, the better its financial performance. In this study, banking financial performance was measured using return on assets (ROA). ROA is a ratio used to measure a bank's ability to earn profits (earnings before tax) resulting from the total assets (total assets) of the bank concerned (Wibisono & Wahyuni, 2017). This ratio can be formulated as follows (Setiawan & Indriani, 2016) :

$$ROA = \frac{Earning\ Before\ Tax}{Total\ Assets} \times 100\%$$

Independent Variables

- 1) Liquidity Risk

Financing to Deposite Ratio (FDR) merupakan indikator untuk mengukur risiko likuiditas bank. FDR dapat digunakan sebagai rujukan untuk mengukur

stabilitas keuangan perusahaan dalam melaksanakan kegiatan usahanya. FDR diukur dari perbandingan antara jumlah pinjaman yang diberikan terhadap jumlah dana pihak ketiga (Wibisono & Wahyuni, 2017) :

$$FDR = \frac{\text{Total Loans}}{\text{Total Deposits}} \times 100\%$$

2) Credit Risk

Credit risk occurs because one or more customers experience default or bad credit. The customer's inability to pay off credit will have an impact on the bank's financial performance, because bank funds are embedded in bad loans. Non Performing Loan (NPF) is a ratio used to measure the ability of bank management in managing non-performing loans provided by banks. In this research, the NPF used is NPFT-1. NPFT-1 can be calculated by the formula (Setiawan & Indriani, 2016) :

$$NPFT - 1 = \frac{\text{Non Performing Loans}}{\text{Total Loans}} \times 100\%$$

3) Capital Risk

Capital adequacy risk in this study is measured by CAR (Capital Adequency Ratio). CAR is a capital adequacy ratio that shows the ability of banks to provide funds used to overcome possible risk of loss (Suryakusuma & Wahyuni, 2018). CAR is also a bank performance ratio used to measure the adequacy of capital owned by the bank to support assets containing or generate risks, for example loans provided (Wibisono & Wahyuni, 2017). CAR can be calculated by the formula (Setiawan & Indriani, 2016) :

$$CAR = \frac{\text{Capital}}{\text{Risk Weighted Assets}}$$

4) Inflation

Inflation is an event that describes a situation and condition where the price of goods has increased and the value of the currency has weakened, and if this happens continuously, it will result in a worsening of overall economic conditions and be able to shake the political stability of a country (Fahmi, 2012). p. 186) :

$$INF_n = \frac{IHK_n - IHK_{n-1}}{IHK_{n-1}}$$

IHKn : consumer price index

Data Analysis Methods

The data analysis method used in this study uses multiple regression analysis models (multiple regression). The level of confidence in this study is 95% or a significance level of 5% ($\alpha = 5\%$). Data analysis in this study using software views 12.

The structural equations of the model in this study are as follows :

$$ROA = \alpha + b_1FDR + b_2NPF + b_3CAR + b_4INF_n$$

Keterangan :

ROA : *Return On Asset (ROA)*

FDR : *Financing to Deposit Ratio*

NPF : *Non Performing Finance*

CAR : *Capital Adequacy Ratio*

INF_n : *Inflation*

The steps of the statistical method were descriptive statistics, normality test, multicollinearity test, autocorrelation test, heteroscedasticity test, multiple linear regression analysis, hypothesis testing and drawing conclusions.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1. Descriptive Statistics

Date: 08/12/22 Time: 17:34
Sample: 2016 2020

	ROA	FDR	NPF	CAR	INF _N
Mean	0.013960	0.782677	0.035555	0.230083	0.028320
Median	0.010250	0.839700	0.024750	0.203400	0.030200
Maximum	0.135800	1.117100	0.220400	0.494400	0.036100
Minimum	-0.107700	0.028900	0.003200	0.115100	0.016800
Std. Dev.	0.036829	0.248248	0.037495	0.087768	0.006487
Skewness	0.561138	-2.224745	3.144989	1.178099	-0.771001
Kurtosis	7.773630	7.386705	14.45855	3.830828	2.495703
Jarque-Bera	60.11762	97.60285	427.1554	15.60486	6.580220
Probability	0.000000	0.000000	0.000000	0.000409	0.037250
Sum	0.837600	46.96060	2.133300	13.80500	1.699200
Sum Sq. Dev.	0.080024	3.635991	0.082947	0.454487	0.002483
Observations	60	60	60	60	60

Source: Processed Data Results Eviews 12

Based on the results of the descriptive statistical analysis test in table 1, it shows that the number of research samples (observations) is 60. This number is the total sample of banking companies for 5 years during observations in the study from 2016 to 2020 where every year there are 12 banking companies sharia as the research sample. The explanation of each research variable based on table 1 is as follows :

1) Return On Assets (ROA)

Stock return variable / Return (Y) as the dependent variable has an average value (mean) of 0.013960, a maximum value of 0.135800, a minimum value of -0.107700, a standard deviation of 0.036829.

2) Financing to Deposit Ratio (FDR)

Financing to Deposit Ratio (FDR) as a proxy for liquidity risk has an average value (mean) of 0.782677, a maximum value of 1.117100, a minimum value of 0.028900, a standard deviation value of 0.248248.

3) Non Performing Financing (NPF)

The Non Performing Financing (NPF) variable as a proxy for credit risk has an average value (mean) of 0.035555, a maximum value of 0.220400, a minimum value of 0.003200, a standard deviation value of 0.037495.

4) Capital Adequacy Ratio (CAR)

The variable Capital Adequacy Ratio (CAR) as a proxy for capital risk has an average value (mean) of 0.230083, a maximum value of 0.494400, a minimum value of 0.115100, a standard deviation value of 0.087768.

5) Inflation

The Inflation Variable (INFN) has an average value (mean) of 0.028320, a maximum value of 0.036100, a minimum value of 0.016800, a standard deviation value of 0.006487.

Normality Test

After performing a logarithmic transformation on the dependent variable, it can be seen in Figure 1 the results of the Jarque-Bera test, the probability value is $0.648149 > (0.05)$ which means H_0 is accepted and the data is normally distributed.

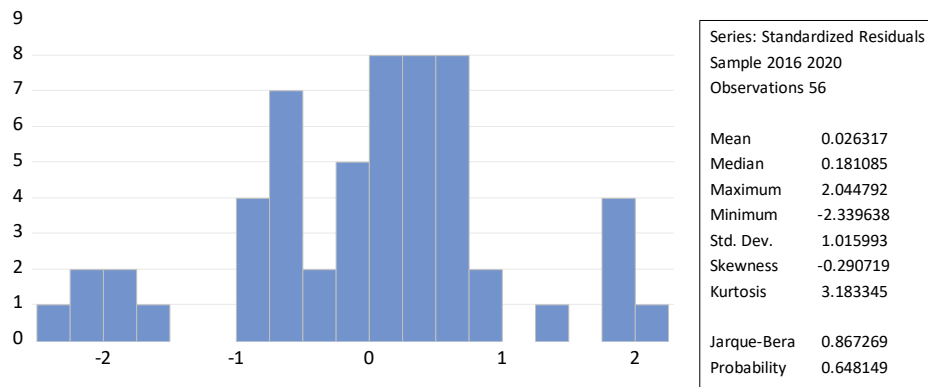


Figure 1. Normality Test Results

Source: Processed Data Results Eviews 12

Autocorrelation Test

Table 2. Autocorrelation Test Results

Breusch-Godfrey Serial Correlation LM Test:

Null hypothesis: No serial correlation at up to 2 lags

F-statistic	0.999753	Prob. F(2,52)	0.3749
Obs*R-squared	2.184665	Prob. Chi-Square(2)	0.3354

Source: Processed Data Results Eviews 12

In table 2 it can be seen that the value of Prob. Chi-Square (which is Obs*R-square) is $0.3749 > 0.05$ then there is no autocorrelation problem.

Multicollinearity Test

Table 3. Multicollinearity Test Results

	FDR	NPF	CAR	INFN
FDR	1.000000	0.194917	0.248161	0.040890
NPF	0.194917	1.000000	-0.363128	0.201191
CAR	0.248161	-0.363128	1.000000	-0.230182
INFN	0.040890	0.201191	-0.230182	1.000000

Source: Processed Data Results Eviews 12

Multicollinearity test of Output Correlation can be seen that the correlation value between independent variables is less than 0.8. This shows that there is no multicollinearity because the relationship between variables is very weak or less than 0.8.

Heteroscedasticity Test

Table 4. Heteroscedasticity Test Results

Heteroskedasticity Test: White

Null hypothesis: Homoskedasticity

F-statistic	1.181799	Prob. F(14,41)	0.3246
Obs*R-squared	16.10092	Prob. Chi-Square(14)	0.3072
Scaled explained SS	10.31548	Prob. Chi-Square(14)	0.7388

Source: Processed Data Results Eviews 12

Based on table 4 above, the value of Prob. Chi-Square (which is Obs*R-square) is $0.3246 > 0.05$ then there is no heteroscedasticity problem.

Panel Data Regression Test

Table 5. Panel Data Regression Test Results

Dependent Variable: ROA
 Method: Panel EGLS (Cross-section random effects)
 Date: 08/12/22 Time: 18:22
 Sample: 2016 2020
 Periods included: 5
 Cross-sections included: 12
 Total panel (balanced) observations: 60
 Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.005255	0.020320	-0.258637	0.7969
FDR	0.003483	0.019627	0.177446	0.8598
NPF	-0.589114	0.065101	-9.049210	0.0000
CAR	0.093773	0.037891	2.474825	0.0164
INFN	0.560031	0.291334	1.922295	0.0598

Source: Processed Data Results Eviews 12

Based on the table above, the results of the panel data regression test obtained the regression model equation between the dependent variable, namely return on assets (ROA) and the independent variable, namely financing to deposit ratio (FDR), non-performing financing (NPF), capital adequacy ratio (CAR) and inflation as following :

$$ROA = -0.005255 + 0.003483 FDR - 0.589114 NPF + 0.093773 CAR + 0.560031 INFN + e$$

Hypothesis Test Results

Table 6. Partial Test Results (T Test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.005255	0.020320	-0.258637	0.7969
FDR	0.003483	0.019627	0.177446	0.8598
NPF	-0.589114	0.065101	-9.049210	0.0000
CAR	0.093773	0.037891	2.474825	0.0164
INFN	0.560031	0.291334	1.922295	0.0598

Source: Processed Data Results Eviews 12

- 1) Effect of Financing to Deposite Ratio (FDR) on Return On Assets (ROA).

The results of the hypothesis test (t test) in table 6 show the FDR probability value of 0.8598, the probability is greater than the 5% significance level ($0.8598 > 0.05$), this result rejects the H_1 hypothesis and accepts H_0 . The

FDR regression coefficient is positive at 0.003483, a positive regression coefficient value indicates a unidirectional relationship between FDR and return on assets. So it can be concluded that the financing to deposit ratio (FDR) has no significant effect on Return on Assets (ROA). The results of the study are supported by (K.H. & Wahyuni, 2018) who found that FDR had no significant effect on ROA. The results of this study are not in line with (Wibisono & Wahyuni, 2017b) and (Riyadi & Yulianto, 2014b) who found that FDR significantly affects ROA.

Financing to Deposit Ratio (FDR), which is a comparison between the financing provided by the bank and third party funds that have been collected by the bank (K.H. & Wahyuni, 2018). The higher the FDR ratio means more financing to customers compared to the funds collected by the bank from the public. The high FDR ratio does not guarantee that the credit or financing provided can produce good financial performance, because there is a risk factor for bad loans. So the results of this study indicate that the FDR ratio does not significantly affect financial performance through return on assets (ROA).

2) Effect of Non Performing Financing (NPF) on Return On Assets (ROA).

Hypothesis testing (t test) shows that the hypothesis H_2 is accepted and H_0 is rejected, this can be seen from the probability value of ROA of 0.0000 which is smaller than the 5% significance ($0.000 < 0.05$). The regression coefficient of the NPF variable has a negative value of -0.589114. So it can be concluded that NPF has a negative and significant effect on return on assets (ROA). An increase in the NPF ratio will reduce ROA and conversely a decrease in the NPF ratio will have an impact on a significant increase in ROA. The results of this study are in line with research (K.H. & Wahyuni, 2018) which found that NPF had a negative and significant effect on ROA. The results of this study contradict research (Wibisono & Wahyuni, 2017b) which concludes that a positive NPF is not significant to ROA. Another study conducted (Riyadi & Yulianto, 2014b) found that NPF did not significantly affect ROA but had a negative relationship.

Non Performing Financing (NPF) is the ratio of total non-performing financing to total financing, NPF is the ratio used to measure non-performing

loans in Islamic banks, the higher the NPF ratio indicates the more non-performing loans experienced by banks. If non-performing loans are not resolved, it will have an impact on the bank's financial performance because the bank has to pay operational costs while the incoming cash flow is hampered by non-performing loans. In line with the Stewardship theory that managers are motivated to achieve organizational goals or principles, in this case NPF has a negative and significant relationship to return on assets, managers must be motivated to reduce bad loans or suppress NPF so that return on assets which is financial performance will increase.

3) Effect of Capital Adequacy Ratio (CAR) on Return On Assets (ROA).

Hypothesis testing (t test) on the CAR variable shows a probability value of 0.0164 less than 0.05, so the hypothesis H_3 is accepted and H_0 is rejected. The CAR regression coefficient is positive at 0.093773, which means that the relationship between CAR and return on assets (ROA) is unidirectional. So it can be concluded that the capital adequacy ratio (CAR) has a positive and significant effect on return on assets (ROA). An increase in the CAR ratio will significantly increase ROA and vice versa, a decrease in the CAR ratio will have an impact on a significant decrease in ROA. The results of this study are in line with research (K.H. & Wahyuni, 2018) which found that CAR had a positive and significant effect on ROA. The results of this study are not in line with (Nuha et al., 2016), (Wibisono & Wahyuni, 2017b) which found that CAR had an insignificant negative effect on ROA, as well as research (Kurniawati et al., 2018) which concluded that the effect of CAR on ROA is positive but not significant.

CAR is a bank performance ratio that is used to measure the adequacy of capital owned by a bank to support assets that contain or generate risks, for example loans (Wibisono & Wahyuni, 2017b). The higher the CAR ratio, the less risky the bank is, the lower the CAR ratio, the more risky the bank's capital is. In this research, the average CAR of Islamic banking companies is 0.230083 or 23%, the CAR figure is above the minimum 8% set by BI. The CAR ratio of banking companies in this study is measured very well, the higher the CAR value makes the bank's confidence in increasing its financing activities, because the bank has the ability to bear the risks that may occur and

the bank will take advantage of these conditions to maximize the benefits of financing (Nuha et al. ., 2016), so this study succeeded in proving that CAR significantly affects financial performance (ROA) positively.

4) Effect of Inflation on Return On Assets (ROA).

In the hypothesis test (t test) the inflation variable has a probability value of 0.0598 greater than the 5% significance level ($0.0598 > 0.05$), then the H_4 hypothesis is successfully rejected and H_0 is accepted. The inflation regression coefficient is positive at 0.560031 which means that there is a unidirectional relationship between the inflation variable and return on assets. So it can be concluded that inflation has no significant effect on return on assets (ROA). The results of this study are in line with (K.H. & Wahyuni, 2018), (Kurniawati et al., 2018) which found that inflation had a positive but not significant effect on ROA. The results of this study are not in line with (Haramain, Syifa Fadrizha Nanda, et al., 2020) which found that inflation had an insignificant negative effect on ROA, as well as research (Hidayati, 2014) which concluded that inflation had a positive and significant effect on ROA.

Inflation is an event that describes situations and conditions where the price of goods has increased and the value of the currency has weakened (Fahmi, 2012, p. 186). In this study, inflation does not significantly affect the financial performance of banks. The explanation of the results of the study is that customers save in banks through various savings products expecting returns above the inflation rate with the aim of protecting the value of their money from inflation, the more customers who are motivated to save their money in Islamic banks will increase bank funds so that banks are able to manage the funds and make a profit. However, the inflation that occurred in this study is classified as controllable or in other words the average inflation is quite low, namely 0.028320 or 2.8% while the standard deviation is 0.006487 or 0.65%, because the standard deviation is smaller than the average inflation, there is no sufficient fluctuation. large on the inflation variable. So in this study inflation does not affect the financial performance (ROA) of Islamic banking.

CONCLUSION

Conclusions

Based on the results of the analysis, it can be concluded that liquidity risk proxied by financing to deposit ratio (FDR) does not significantly affect return on assets (ROA), credit risk proxied by non-performing financing (NPF) has a negative and significant effect on return on assets (ROA). , capital risk proxied by capital adequacy ratio (CAR) has a positive and significant effect on return on assets (ROA) and macroeconomic factors, namely inflation does not significantly affect return on assets (ROA)..

Suggestions

Based on the results of the study, the authors provide the following suggestions:

1. For Companies

The results of this study indicate that NPF has a negative and significant effect on return on assets, while FDR has no significant effect on return on assets. So from these results the company must review the financing provided to customers and minimize non-performing loans, because in this study the amount of FDR or the ratio of total financing to total third party funds does not significantly affect ROA but NPF which is the ratio of non-performing financing to total financing. has a negative and significant effect on ROA, the higher the ratio of non-performing financing will reduce financial performance (ROA). Islamic banking companies are advised to increase the CAR ratio (capital adequacy ratio) because in this study CAR has a positive and significant effect on financial performance (ROA).

2. For Prospective Investors

Based on the results of the study, it can be seen that the factors that affect the financial performance of Islamic banking are high CAR will have an impact on improving financial performance (ROA) and low NPF will improve financial performance (ROA). So that investors can make investment decisions based on these two variables.

3. For further researchers

- a. Further researchers are expected to be able to examine other banking sector companies such as conventional bank companies or regional development

bank companies.

- b. For further research, it is expected to add other independent variables that may affect the financial performance of banks, including capital structure decisions, investment decisions, market risk, dividend policy and others.
- c. Further researchers can add a longer research period so that the research results are more accurate.

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