Risk Management and Financial Performance Of Indonesia Sharia Banks

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Abstract : The purpose of this study was to obtain empirical evidence risk management, including financing risk, operational risk, liquidity risk, market risk, and return risk in improving the financial performance of Sharia Banks in Indonesia. The sample selection in this study used the purposive sampling technique for Indonesia Sharia Banks in 2017-2019. The results of this study indicated that operational risk and market risk significantly improved the performance of Indonesia Sharia Banks. Meanwhile, financing risk, liquidity risk, and return risk had not significantly improved the financial performance of sharia banks in Indonesia.

Keyword : Risk Management, Financial Performance, Sharia Banks

1. INTRODUCTION

Bank financial performance is a description of a bank's financial condition in a certain period both in raising funds and channeling funds. To measure financial performance, a ratio can be used. That ratio is the profitability ratio, namely ROA (return on assets). ROA is to describe a bank's ability to generate profits. With ROA, it can be seen whether a company has been efficient in using its assets in operational activities to generate profits. To increase profitability, a company or bank is able to analyze the occurred risks. With a quality system, maximum profitability can be achieved by minimizing the occurrence of the risk. Figure 1 below illustrates the ability of sharia banking to generate profits for the 2014-2018 period. The statistical data in Figure 1 shows the ability of sharia banks to earn profits shows an upward trend, but not maximally.

Source: Sharia Banking Statistics, 2018

In 2019, the performance of sharia banking, such as Bank Syariah Mandiri, Bank BNI Syariah, Bank BCA Syariah, and Bank BRI Syariah tended to decline. This was due to global and domestic economic instability. The decline in the financial performance of sharia banks makes this study concern for the factors that can affect the ups and downs of sharia bank financial performance.

To be able to maximize the level of profitability, banks must know the factors that have an influence on profitability. These factors can affect profitability according to (Fasa, 2016), which

can be affected by several factors such as external factors and internal factors. Internal factors that can affect the performance of Sharia banks can be seen from the growth of third-party funds, credit growth, risk of financing, and liquidity (Fasa, 2016), while external factors are influenced by economic conditions.

Banks' business activities are often exposed to risks that are closely related to their own function as a financial intermediary institution. The rapid development of sharia banking has resulted in an increasingly complex risk of business activities. Banks must be able to adapt to their environment by implementing risk management in accordance with Sharia Principles. In Bank Indonesia Regulation Number 13/23 / PBI / 2011, the application of risk management in sharia banking can be adjusted to the size and complexity of the business and the capacity of the bank. It is hoped that risk management will be able to detect the maximum loss that will arise in the future as well as to know the need for additional capital in the event of a loss projection impact which results in the amount of capital being below the minimum required by the supervisory authority of Bank Indonesia.

Financing risk is the risk arising from the failure of a customer or other party that participates in fulfilling obligations to the bank in accordance with the agreed agreement. The indicator used to assess the risk of this financing is the NPF ratio. This NPF (Non-Performing Financing) ratio is the risk between financing having problems and the total financing channelled by sharia banks with the criteria set by Bank Indonesia. This ratio can show the performance of management in the management of financing provided by the bank. Therefore, if the higher the NPF ratio, the worse the bank credit will cause a large number of problem loans, in other words, the bank is in an unstable condition (Nurvarida 2017; Anggun Anggraini, 2019).

Operational risk is the risk caused by the unavailability of funds and/or an external event that affects bank operations. The indicator for assessing the presence of operational risk uses the ratio of BOPO (*Bahasa: Biaya Operasional Pendapatan Operasional*) or Operating Expenses to Operating Income. This ratio can measure the level of efficiency and ability of a bank in carrying out its operational activities. The smaller the value of the BOPO ratio means the more efficient the operational costs incurred by the bank because each increase in operating income results in reduced profit or profit before tax, which results in a decrease in the profitability (ROA) of the bank (Ulfiyah, 2019; Asnawi and Rate, 2018; Mardiana,2018).

Liquidity risk is a risk experienced by a bank due to its inability to meet its short-term obligations. Liquidity risk in sharia banks can be divided into two, namely a lack of liquidity in which financial institutions are forced by liquid assets to obtain obligations and bonds. Second, when needed, sharia banks cannot lend or raise funds at a suitable fee because they do not have access to it. The indicator used to assess this risk is the FDR ratio or financing to deposit ratio. In conventional banks, it is called the LDR. FDR is one of the liquidity ratios for banks that have a slightly long-term. It can be concluded that the FDR is a ratio that can describe the level of ability of an Sharia bank to return funds to the public. The size or size of this FDR ratio affects bank profitability (Nurvarida, 2017; Setiawan, 2019; Anggun Anggraini, 2019).

Market risk is a risk of loss resulting from changes in market conditions, such as changes in interest rates and changes in currency exchange rates. Net Operating Margin (NOM) is a ratio that can be used to measure the difference between the total interest cost of funding and the total loan interest (Aprilia, 2019; Nurvarida, 2017; Setiawan, 2019).

Return Risk based on Bank Indonesia Regulation Number 13/23 / PBI / 2011 is an additional risk that must be added in the management of Sharia Bank Management, as a differentiator between sharia banks and conventional banks. The Return Risk itself is almost similar to the interest rate risk found in conventional banks, but there are several differences between the Return Risk and risk (Hidayati, 2018; Al Arif & Rahmawati, 2018).

This research is important to do in the future because the growth of sharia banking in Indonesia has not been matched by its ability to earn profits. What caused this to happen, is it related to the ability of banks to manage banking risk management? So this research will examine

whether the risk management of Sharia improvements can improve the performance of sharia banking in Indonesia.

2. LITERATURE REVIEW

2.1 Financial performance

Bank financial performance is a description of a bank's financial condition in a certain period, both in terms of raising funds and channeling funds. Financial performance is an important factor that shows the effectiveness and efficiency of sharia banking in achieving its objectives. This performance reflects the bank's operational capabilities.

The information used to measure financial performance is financial information, management accounting information, and other financial accounting information such as profit or profit before tax, and so on. Information on financial position and financial performance in previous periods is often used as a basis for predicting future performance, such as dividend payments, price movements of securities, or the ability of banks to fulfill their commitments when they fall due. With this it can be concluded that financial performance is the company's ability to manage and control a company's resources.

The ratio used to measure the financial performance of banks in this study is the ratio of profitability, namely the ratio to assess the company's ability to seek profit in a certain period. The profitability ratio in this study uses the ROA (return on assets) ratio which describes the bank's ability to generate profits. Bank Indonesia sets the standard ROA is above 1.5%. The greater the ROA value of the bank, the greater the profit level achieved by the bank and the better the position of the bank in terms of asset use.

2.2 Risk management

The Financial Services Authority in 2016 defines risk management as a series of methodologies and procedures used to identify, monitor, measure and control risks arising from all existing activities (Rustam, 2019). Risk management can also be defined as a comprehensive risk management system faced by an organization that aims to increase company value. Indonesian banking risk management is supervised by Bank Indonesia, which is the central bank, through Bank Indonesia Regulation No. 5/8 / PBI / 2003 concerning the implementation of bank risk management. The purpose of risk management is to manage risk that includes the procedures and methodologies used, so that the bank's operational activities remain in a controlled state at an acceptable limit (Ulfiyah, 2019).

According to Bank Indonesia Regulation No. 5/8 / PBI / 2003 Article 2 paragraph (2), the implementation of risk management must at least include the following:

1. Oversight of the Board of Commissioners and the Board of Directors, especially in identifying, measuring and controlling every type of risk that may occur.
2. Adequacy of policies, procedures, and determination of limits. All written policies and procedures are required to reflect the risks arising from all bank business activities. The procedure must also provide detailed guidelines for implementing the daily strategy of the company, which must include limits designed to protect the bank from non-prudent risks.
3. Adequacy of procedures for identification, measurement, monitoring, and risk assessment with a risk management information system. Measurement of risk refers to the process used to quantify the content of risk.

Risk management according to the Sharia perspective is something that is very important to do, good risk management indicates that humans are trying to maintain the trust of Allah SWT on assets. Failure to manage risk has a direct impact on humans who have failed to manage these risks. Risk is seen as a positive thing in the Sharia economic paradigm, risk has to do with the concept of justice, that is, every result of business profit must be generated from involvement in

facing risks in business. The existence of risk management has very important objectives including:

1. Providing various risk information to regulatory authorities.
2. Minimizing the possibility of losses from various uncontrolled risks.
3. Measuring exposure and risk concentration.
4. Allocating capital and limiting risk.

According to the Financial Services Authority Regulation No. 65 / POJK.03 / 2016 concerning the Implementation of Risk Management in Sharia Commercial Banks and Sharia Units, it consists of 10 types of risk including market risk, credit risk, liquidity risk, return risk from investment risk, operational risk, legal risk, reputation risk, strategic risk and compliance risk. However, indicators that can be measured from the ten risks are required by BI regarding the Rating of Commercial Banks to be managed using 4 risks, including credit or financing risk, liquidity risk, operational risk, and market risk.

2.2.1 Financial Risk

Financing risk is a risk that arises due to the failure of other parties to fulfill their obligations to financial institutions that provide credit in accordance with the agreed agreement (Rustam, 2019). This risk usually comes from various business activities of companies that operate as financial institutions. Apart from lending, financial institutions also face financing risks from various financial instruments, such as interbank transactions, marketable securities, and contingent obligations and commitments.

In general, financing risk can be related to the risk of default on customers. This risk refers to the potential loss faced by the bank when the financing it provides fails to pay, meaning that at that time the debtor is unable to fulfil his obligations to control the financing funds that have been provided by the bank. Besides the risk of default, financing risk also sometimes refers to credit risk when using the term used by Bank Indonesia in Bank Indonesia regulation Number 13/23 / PBI / 2011. However, the term credit risk is more suitable for conventional banks. This is based on a financing scheme that uses the credit concept.

Non-Performing Financing or NPF is a condition when the customer is no longer able to pay all or part of his obligations to the bank as promised. Therefore, it can be concluded that problematic financing is a financing condition where there are irregularities in the repayment that cause delays in control. NPF describes the management's ability in managing the financing provided by the bank. So that if the higher this ratio, the worse the quality of bank credit, which causes the number of problem loans to get bigger, in other words, the bank is in an unhealthy condition.

2.2.2 Liquidity Risk

Liquidity risk is the risk arising from the inability of the company to meet maturing obligations from cash flow funding sources or high-quality liquid assets that are pledged. This inability to obtain funding sources creates liquidity risk (Rustam, 2019). There are several sources of the occurrence of a corporate liquidity risk, namely the composition of assets, liabilities, and administrative account transactions, and so on. The main objective of liquidity risk management is to minimize the possibility of the company's inability to obtain funding sources. More specifically, the objectives of liquidity risk management are as follows:

1. To maintain adequate liquidity of the company or bank so that at maturity it can fulfil the company's obligations.
2. To maintain adequate liquidity of the company or bank in supporting the sustainable growth of company assets.
3. To maintain optimal company liquidity so that the costs of managing liquidity are within tolerable limits.
4. To maintain customer trust in the funding system.

There are two aspects that underlie liquidity risk, namely the transformation of maturity and liquidity inherent in assets. The two elements of liquidity are closely related. Banks do not need to worry about a maturity transformation if they have enough assets to sell without incurring losses. Liquidity risk not only affects the financial performance of the bank, but also its reputation (Al Arif & Rahmawati, 2018).

One of the liquidity ratios that can be used to measure liquidity risk in assessing the performance of a bank is the Financing to Deposit Ratio (FDR) (Al Arif & Rahmawati, 2018). This FDR ratio is a comparison between the financing provided by the bank and public funds in the form of demand deposits, time deposits, or savings accounts.

For sharia banks that have an FDR ratio of below 65%, Bank Indonesia will impose a penalty in the form of additional paid-in capital to Bank Indonesia in the form of additional statutory reserves. A high FDR value indicates that Sharia banking has performed its intermediary function well, but on the other hand, the high FDR value also indicates the amount of liquidity risk faced by Sharia banking (Al Arif & Rahmawati, 2018).

The amount of financing provided to customers, makes banks have to be able to compensate by meeting the need for withdrawal of funds by depositors. FDR is a ratio that describes the company's inability to return funds to customers through profits obtained from financing used by banks. According to Dendawijaya in his book (2005), FDR is the ratio between all loans provided by a bank and the funds received by the bank. The size of this ratio will affect the profitability of the bank. Bank Indonesia sets the LDR / FDR standard at 78% -92%. The greater the funds distributed to customers in the form of credit, the less unused funds will be so that the income earned will increase.

2.2.3 Operational Risk

Operational risk is a result that arises from inadequate or malfunctioning internal processes, system failure, or events that affect company operations (Rustam, 2019). Operational risk is necessary to pay attention to because this risk affects all operational activities. This risk is inherent in the implementation of operational activities. The indicator that can be used to measure this risk is the BOPO ratio. This ratio is a ratio that compares operating costs to operating income. This ratio is used to measure a level of efficiency and capacity of a bank in carrying out its operational activities (Dendawijaya, 2005). Bank Indonesia has set the standard for this BOPO ratio, which is below 92%.

2.2.4 Market Risk

The Financial Services Authority Regulation Number 65 / POJK.03 / 2016 concerning the Implementation of Risk Management for Sharia Commercial Banks and Sharia Business Units, explains that market risk is a risk in balance sheet positions and administrative accounts due to changes in market prices, namely the risk of changes in the value of assets that are can be traded or leased.

The four standard market risk factors are capital risk, rate of return risk, currency risk and commodity risk. The main objective of market risk in particular is to minimize the possibility of negative impacts arising from changes in market conditions on bank assets and capital (Al Arif and Rahmawati, 2018).

In sharia banks do not recognize the term interest, the NIM in sharia banks is called Net Income Margin, which is the ratio of net income for the results to productive assets. NIM is the ratio used to determine the ability of productive assets to generate profits. SEBI Number 9/24 / DPBS Year 2007 stipulates that Sharia banks which are ranked first in the assessment of bank soundness are sharia banks that have a NOM value of more than 3%.

2.2.5 Risk-Return

This risk is a risk that arises due to changes in the rate of return paid by banks to customers that occur due to changes in the rate of return from distribution of funds, so that it can affect the behavior of bank customers of third party funds caused by changes in expectations of the level of returns received from Sharia banks. . This can be caused by several internal factors such as a decrease in the value of bank assets or external factors, such as an increase in the return offered by other banks.

Based on POJK No. 8 / POJK 03/2014 concerning Rating of Soundness of Sharia Commercial Banks and Sharia Business Units of Sharia banks are required to conduct an individual assessment as referred to in Article (2) paragraph (3), with the scope of assessment of factors such as risk profiles. This Risk Profile as referred to in Article 6 paragraph (1) letter a and Article 6 paragraph (2) is an assessment of the 10 risks held by Sharia commercial banks. Then the risk profile assessment according to the Risk Based Bank Rating Concept consists of 5 rating categories (Grad), namely: Rank 1 (Low), Rank 2 (Low to moderate), Rank 3 (moderate), Rank 4 (moderate to high) and Ranking. 5 (high).

2.3 Hypothesis

Based on the theoretical basis, previous research, and a frame of mind, the research hypothesis is proposed as follows:

2.3.1 The Effect of Financing Risk on Sharia Banking Financial Performance

The role of Sharia banks as a financial institution cannot be separated from the problem of financing, providing financing is the main activity of Sharia banks as a financial institution. The amount of financing that has been channeled will determine the profit of the bank concerned. The development of the provision of financing does not provide good news for the bank if if the credit it provides turns out to be problematic credit, this can be due to the failure of the debtor to fulfill its obligation to pay mutually agreed upon loan principal installments (Dendawijaya, 2009). NPF of a bank can be categorized as good or healthy if it is not more than 5%. In Anggraini's research (2019) states that the results of credit risk affect ROA. So with this the following hypothesis can be drawn:

H_1: Financing risk has a significant effect on sahria banking financial performance.

2.3.2 The Effect of Liquidity Risk on Sharia Banking Financial Performance

Liquidity risk is the risk arising from the inability of the company to meet maturing liabilities from cash flow funding sources or high-quality liquid assets that are pledged. This inability to obtain funding sources creates liquidity risk (Rustam, 2019). The liquidity ratio is often used as a tool to assess the performance of a bank is the Financing to Deposit Ratio (FDR). The Financing to Deposit Ratio is a comparison between financing provided by a bank and public savings in the form of deposits, or current accounts and savings that are mobilized by the bank. With this it can be concluded that the lower the FDR value indicates the lack of effectiveness of the bank in financing channelled and the resulting income will be low due to the lack of financing channelled. On the other hand, if the higher the FDR, it indicates the higher the financing channelled and it will cause higher income. In research conducted by Yusuf (2017), the results show that FDR has an effect on financial performance. This is in line with research by Ulfiyah (2019) which also found that the FDR ratio has an effect on ROA in proving financial performance. So with this the following hypothesis can be drawn:

H_2: Liquidity risk has a significant effect sharia banking financial performance.

2.3.3 The Effect of Operational Risk on Sharia Banking Financial Performance

Operational risk is a result that arises from insufficient or malfunctioning internal processes, system failures, or events that affect company operations (Rustam, 2019). Operational risk is

necessary to pay attention to because this risk affects all operational activities. The BOPO ratio is a ratio that compares operating costs to operating income. This ratio is used to assess and measure the level of efficiency and ability of the bank in carrying out its operational activities. This ratio is expected to have a small value because the costs incurred are expected to be covered by the operating income generated by the bank. So, the smaller the BOPO ratio, the more efficient the operational costs incurred by the bank, and each increase in operating income will result in reduced profit before tax which ultimately reduces the profit or the bank (Karimah and Nuraeni: 2018, Anggraini: 2019). So with this, the following hypothesis can be drawn:
H_3: Operational Risk has a significant effect on the financial performance of sharia banking.

2.3.4 The Effect of Market Risk on Sharia Banking Financial Performance

Market risk is the risk arising from changes in prices in balance sheet positions and off-balance-sheet transactions, including derivative transactions, due to changes in market conditions, including the risk of changes in option prices (Indonesian Banker Association, 2015). In sharia banks do not recognize the term interest, the NIM in Sharia banks is called Net Income Margin, which is the ratio of net income for the results to productive assets. Bank Indonesia No.6 / 23 / DPNP of 2004 stated that the criteria for NIM were if the NIM was> 3% then the bank was said to be healthy and if the NIM was <1% then the bank was in an unhealthy condition. In sharia banks used NOM (Net Operating Margin). NOM is a ratio that shows management's ability to manage its productive assets in order to generate net operating income. So, the greater this ratio will be the higher the revenue sharing on productive assets. Thus, it allows a bank in problematic conditions to be smaller. Research conducted by Wenten (2018) shows that this variable has a significant effect on profitability (ROA). Then in Anggraini's research (2019) also found that NOM has an effect on ROA. So, the following hypothesis can be drawn:
H_4: Market Risk has a significant effect on sharia banking financial performance.

2.3.5 The Effect of Risk-Return on Sharia Banking Financial Performance

In 2011, Bank Indonesia issued a new regulation regarding the application of risk management as stipulated in Bank Indonesia Regulation Number 13/23 / PBI / 2011, which requires Sharia banks to add two risk management risks from eight to 10 risks, namely by adding risk management. return (rate of return risk) and investment risk (equity investment risk). The Return Risk is a risk that arises as a result of changes in the rate of return received by the Bank from channelling funds, which can affect the behavior of third-party fund customers sharia banking. This contradicts the theory which states that return risk is the risk arising from changes in the rate of return that can affect customer behavior, which explains that if customers switch to other financial institution products due to poor bank Return Risk management this will affect the profit level or profits earned by the bank. So, the researcher is interested in examining the effect of the risk of returns with the Grading method on the financial performance of Sharia banking. So, the following hypothesis can be drawn:
H_5: Return Risk has a significant effect on the financial performance of sharia banking.

3. METHOD

3.1 Sample

The sampling technique in this study used a purposive sampling method. With the provisions, Sharia banks that operate and published complete in financial reports in 2017-2019.

3.2 Study Variables

3.2.1. Return on Assets

The dependent or dependent variable in this study was financial performance. ROA (Return on Assets) had the following formula:

$$ROA = \frac{\text{Net Profit}}{\text{Total Aset}} x\ 100$$

3.2.2. Financial Risk

NPF used to measure management's ability to manage non-performing loans provided by banks. The formula according to Dendawijaya (2009) was as follows:

$$NPF = \frac{\text{non-performning loans}}{\text{Total loans}} x\ 100$$

3.2.3 Liquidity Risk

The liquidity ratio was measured using the FDR ratio or the Financing to Deposit Ratio. This ratio can describe the capacity of the sharia bank's ability to return funds to customer deposits. The formula according to Dendawijaya (2009) was as follows:

$$FDR = \frac{\text{Total Financing}}{\text{Third-party funds}} x\ 100$$

3.2.4 Operational Risk

This ratio was able to measure the level of efficiency and the ability of the bank in carrying out its operational activities. The formula according to Dendawijaya (2009) was as follows:

$$BOPO = \frac{\text{Total Operating Expend}}{\text{Total Operating Income}} x\ 100$$

3.2.5 Market Risk

This risk was measured using the NOM (Net Operating Margin) ratio, which was the ratio of net income to the earning assets. The formula according to Dendawijaya (2009) was as follows:

$$NOM = \frac{\text{Net Operating Income}}{\text{Total Operating Income}} x100$$

3.2.6 Return of Risk

This Risk Profile as intended in Article 6 paragraph (1) letter a and Article 6 paragraph (2) is an assessment of the 10 risks owned by the general sharia bank. Therefore, the risk profile assessment was in accordance with the Risk-Based Bank Rating Concept consists of 5 ranking categories (Grade) namely:

1. Rank 1 (Low)
   At this level, the business activities carried out by the bank had a very low possibility of loss during a certain period of time.
2. Rank 2 (Low to moderate)
   At this level, the business activities carried out by the bank had a low probability of loss during a certain period of time.
3. Rank 3 (Moderate)
   At this level, the business activities carried out by the bank had a relatively high probability of loss during a certain period of time.
4. Rank 4 (Moderate to high)
   At this level, the business activities carried out by the bank had a relatively high probability of loss during a certain period of time.
5. Rank 5 (High)
   At this level, the business activities carried out by the bank had a very high possibility of loss during a certain period of time

3.3 Data analysis method

Methods of data analysis used statistical analysis with stages, including descriptive statistics, classical assumption of data test, test of determinant coefficient (R^2). Hypothesis testing was done by multiple linear regression, F test, and t test.

4. RESULTS AND DISCUSSION

4.1 Descriptive Analysis

This study used data contained in 11 sharia banks in Indonesia, with a three-year observation period, so that the total n was 33. The results of descriptive statistics for data was seen in table 4.1. The results of descriptive statistics showed that the data was in the appropriate mean and standard deviation.

Table 4.1 Descriptive Statistic Result

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	33	-.112	.091	.00882	.033570
NPF	33	.000	.443	.04888	.075113
BOPO	33	.347	2.582	.97036	.438269
FDR	33	.721	.957	.84897	.075133
NOM	33	-.400	.313	.00812	.145108
GRADING	33	1	3	2.06	.348
Valid N (listwise)	33				

Source: Processed SPSS Data

4.2. Classic Assumption Test

The results of the normality test showed that the Kolmogorov-Smirnov Z value was 0.846 with an asymp value. Sig. (2-tailed) of 0.471. From these results it can be seen that the significant number (Sig) for the dependent variable in the Kolmogorov-Smirnov test was obtained 0.471> 0.05. Thus it can be concluded that the data is normally distributed and the research can be continued.

The autocorrelation test results showed that the Durbin-Watson value was 2,075 with a significant table value of 5% (0.05), the sample size was 33 companies with 3 years of observation and the number of independent (k) is 6 (k = 6 so the k-1 value. = 5) then the Durbin-Watson value obtained dL values 1.127 and dU 2.075 so it can be concluded that d> dL where 2.075> 1.127 which means that there is no autocorrelation.

The multicollinearity test results showed that the value of Tolerance Value ≥ 0.10 or VIF ≤ 10, so there was no multicorrelation (Ghozali, 2017). This showed that there was no multicollinearity problem in the regression model.

Heteroscedasticity test results showed that the dots on the image did not form a clear pattern. The points spread above and below the number 0 on the Y axis, so it can be concluded that there is no heteroscedasticity in the regression model.

4.3 Hypothesis Testing Results

The results of the coefficient of determination can be seen as follows:

Table 4.2 R^2 Test Result

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.833[a]	.695	.624	.020581

a. Predictors: (Constant), Grading, NOM, NPF, FDR, BOPO, DPK
b. Dependent Variable: ROA

In the results of the R^2 coefficient of determination above, it showed that the Adjusted R Square was 0.624, which meant that the correlation or relationship between the dependent variable to be explained by the independent variable was 62.4%. It meant that 62.4% of the company's performance can be explained by the variables of financing risk, operational risk, liquidity risk, market risk, third party funds and risk of returns. The remaining 35.8% was influenced by other variables which were not examined in this study.

Model Feasibility Test (F Test)

Table 4.3 F Test Result

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.025	6	.004	9.856	.000[b]
	Residual	.011	26	.000		
	Total	.036	32			

a. Dependent Variable: ROA
b. Predictors: (Constant), Grading, NOM, NPF, FDR, BOPO

From table 4.3 above, it showed that the F count value was 9,856 while the F table was obtained through the F table (Dk: k-1, Df: nk) so that Dk: 6-1 = 5 and Df: 33-6 = 27. Then, the F table value was obtained 2.57 meant that Fcount> Ftable (9,856> 2.57) and a significant value of 0,000 <0.05. Thus, Ho was rejected and Hα is accepted. It concluded that the model was suitable for use in this study.

Hypothesis testing (T-test)

Table 4.4
T-test Result

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.032	.056		.577	.569
NPF	-.027	.061	-.061	-.446	.659
BOPO	-.049	.012	-.636	-4.173	.000
FDR	-.019	.056	-.044	-.348	.730
NOM	.100	.035	.431	2.836	.009
Grading	.019	**.012**	**.193**	1.523	.140

a. Dependent Variable: ROA

From table 4.4 above, it shows that the results for each variable are as follows:

1. The results for variable X1 Financing Risk (NPF) had a significant value of 0.659> 0.05. It stated that the Financing Risk has not significantly improved the Financial Performance of Sharia Banks.
2. The results for variable X2 Operational Risk (BOPO) had a significant value of 0000 <0.05. It stated that Operational Risk can improve the Financial Performance of Sharia Banks.
3. The results for the X3 variable Liquidity Risk (FDR) had a significant value of 0.730> 0.05. It stated that Liquidity Risk has not significantly improved the Financial Performance of Sharia Banks.
4. The results for the X4 variable Market Risk (NOM) had a significant value of 0.009 <0.05. It stated that Market Risk can increase the Financial Performance of Sharia Banks.
5. The results for variable X6 Return Risk (Grading) had a significant value of 1.523> 0.05. It stated that the Return Risk has not significantly improved the Financial Performance of Sharia Banks

4.4 Discussions

4.4.1 Financing Risk and Financial Performance of Sharia Commercial Banks

The results of hypothesis testing related to Financing Risk and financial performance indicated that the Financing Risk had not significantly improved the Financial Performance of Sharia Banks. According to Khasanah (2017), this was due to the addition or subtraction of one-unit NPF so it will not affect ROA. This showed that the bank will still be able to make a profit with the assets it owns, even though the NPF owned by the bank was experiencing an increase or a decrease. This was also due to the relatively small NPF of Sharia banks under the provisions of Bank Indonesia (5%) so that NPF did not affect bank profitability (ROA). The same results were also resulted with the results from Lemiyana and Litriani (2016) and Wibisono (2017). In further explained, the main cause was due to the increase in the number of non-performing Sharia bank loans followed by an increase in profit before tax.

4.4.2 Operational Risk and Financial Performance of Sharia Banks

The results of hypothesis testing related to operational risk and financial performance indicated that operational risk was able to improve the financial performance of Sharia banks. This showed that the higher the operational costs, the higher the level of Sharia bank financial performance (ROA). This condition was caused by any greater increase in operating costs. It was resulted in an increase of profit before tax (Khasanah, 2017). The BOPO ratio reflected thar the efficiency of Sharia banks in carrying out their operational activities, especially loans, was the largest source of income for Sharia banks in profy sharing. The higher the cost of bank income, the more efficient its operational activities. With this, it can be said that BOPO has a significant effect on ROA. The same results were obtained by Adriel (2014) and Wibisono (2017).

4.4.3 Liquidity Risk and Financial Performance of Sharia Banks

The results of hypothesis testing related to Liquidity Risk and financial performance indicated that Liquidity Risk had not been able to significantly improve the Financial Performance of Sharia Banks. Financing to Deposit Ratio (FDR) was a comparison between the amount of credit extended by a bank to third party funds obtained from the public. A healthy bank was a bank that has a high FDR rate. This meant that the bank was quite active in extending credit to the public. According to Kustiyani (2019), the higher the FDR of a bank cannot be a measure of the success of the bank's management in obtaining high profits. In this study, it was known that FDR had no effect on ROA. It was indicated that the amount of credit extension was not supported by the right credit quality. Due to the high FDR value, the risk in financing distribution will be high which will

reduce the profitability (ROA) of Sharia Commercial Banks. Another thing was also conveyed by Tri Joko Prasetyo, doctorate at the Faculty of Economics and Business UGM (2017), stated that the problem of information asymmetry was higher than conventional banks, the absence of the effect of FDR on ROA can be caused because these banks (Sharia banks) minimize information related to information asymmetry related to provide financing. The same research results were obtained by Lemiyana and Litriabi (2016); Adiputra (2017); Sukmawati (2016); Rasidin (2016) ; Nuraini (2012).

4.4.4 Market Risk and Financial Performance of Sharia Banks

The results of hypothesis testing related to market risk and financial performance indicated that market risk can increase the financial performance of Sharia banks. Net Operating Margin (NOM) was a ratio used to measure the ability of bank management to generate revenue from profit sharing by looking at the financial performance of Sharia banks in channeling loans. In this study, it was known that the NOM variable had a significant effect on the financial performance of Sharia Commercial Banks. According to Wibisono (2017), this was due to the increase in net income from loans in profit sharing with increased profits. This caused the NOM variable to have a significant effect on ROA. This was in line with the research of Nurvarida (2017) and Mario et. al (2014).

4.4.5 Return Risk and Financial Performance of Sharia Banks

The results of hypothesis testing related to Return Risk and financial performance indicated that Return Risk had not significantly improved the Financial Performance of Sharia Banks. According to Al Arif and Rahmawati (2018), this was due to an increase or decrease in the Return Risk that had no impact on profitability. This was not in line with the hypothesis in the previous chapter which stated that if the risk of returns is waiting, customers will tend to invest or save their funds in other banks. However, some sharia banks carried out maintenance of the proportions related to investment customers through reserves aimed at smoothing income to investors and in case the return on risk returns below competitors. This implied that the reserve balance will increase in a number of years. The results of this study were in line with Hidayati's (2018) and Syaiful Bachriis (2013) research.

5. CONCLUSIONS

Based on the discussion, it concluded that Operational Risk and Market Risk were able to improve the financial performance of Sharia Banks. Meanwhile, Financing Risk, Liquidity Risk, and Return Risk had not been able to significantly improve the financial performance of sharia banks in Indonesia.

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