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AL-AMWAL

Determinants of Financial Performance on Islamic Banks in ASEAN for Period 2019-2023

Shelda[1], Fatih Fuadi[2], Ahmad Hazas Syarif[3]
Raden Intan State Islamic University Lampung[123]
Email: *srishelda6@gmail.com[1], fatihfuadi@radenintan.ac.id[2], hazassyarif@radenintan.ac.id[3]*

Abstract

Islamic banks in ASEAN have a strategic role in supporting regional economic stability, but they also face various challenges in managing risks that can affect their financial performance. This study aims to analyze the determinants of the financial performance of Islamic banks in ASEAN, especially the influence of financing risk, liquidity risk, and capital adequacy on Return on Assets (ROA) as an indicator of financial performance. This study uses a purposive sampling method with a sample of five Islamic banks in ASEAN, namely Bank Muamalat Indonesia, Bank Islam Brunei Darussalam, Amanah Islamic Bank Philippines, Bank Islam Malaysia Berhad, and Bank Islamic Thailand, using annual data for the 2019-2023 period. The analysis was carried out with a panel data regression model using the EViews 10 program. The independent variables in this study include financing risk (NPF), liquidity risk (FDR), and capital adequacy (CAR). The results showed that partially, FDR had a significant negative influence on ROA with a value of Sig. 0.04 < 0.05, while NPF showed a positive significant influence with a value of Sig. 0.00 < 0.05. In contrast, CAR had no significant effect on ROA with a value of Sig. 0.5651 > 0.05. Simultaneously, FDR, NPF and CAR have a significant effect on the ROA of Islamic Banks in ASEAN for the 2019-2023 period.

Keywords*: Liquidity Risk (FDR), Financing Risk (NPF), Capital Adequacy (CAR), Financial Performance, Islamic Banks, ASEAN.*

Abstract

Bank syariah di ASEAN memiliki peran strategis dalam mendukung stabilitas ekonomi kawasan, namun mereka juga menghadapi berbagai tantangan dalam mengelola risiko yang dapat memengaruhi kinerja keuangannya. Penelitian ini bertujuan untuk menganalisis determinan kinerja keuangan bank syariah di ASEAN, khususnya pengaruh risiko pembiayaan, risiko likuiditas, dan kecukupan modal terhadap Return on Assets (ROA) sebagai indikator kinerja keuangan. Penelitian ini menggunakan metode purposive sampling dengan sampel lima bank syariah di ASEAN, yaitu Bank Muamalat Indonesia, Bank Islam Brunei Darussalam, Amanah Islamic Bank Filipina, Bank Islam

Malaysia Berhad, dan Bank Islamic Thailand, menggunakan data tahunan periode 2019-2023. Analisis dilakukan dengan model regresi data panel menggunakan program EViews 10. Variabel independen dalam penelitian ini meliputi risiko pembiayaan (NPF), risiko likuiditas (FDR), dan kecukupan modal (CAR). Hasil penelitian menunjukkan bahwa secara parsial, FDR memiliki pengaruh signifikan negatif terhadap ROA dengan nilai Sig. 0.04 < 0.05, sedangkan NPF menunjukkan pengaruh signifikan positif dengan nilai Sig. 0.00 < 0.05. Sebaliknya, CAR tidak memiliki pengaruh signifikan terhadap ROA dengan nilai Sig. 0.5651 > 0.05. Secara simultan, FDR, NPF dan CAR berpengaruh secara signifikan terhadap ROA pada Bank Syariah di ASEAN Periode 2019-2023.

Kata kunci: Risiko Likuiditas (FDR), Risiko Pembiayaan (NPF), Kecukupan Modal (CAR), Kinerja Keuangan Bank Syariah, dan ASEAN.

INTRODUCTION

The sharia economy continues to show significant development, both globally and regionally, especially in the Southeast Asian region. The rapid and stable growth of the Islamic finance industry has made Southeast Asia an important part of global Islamic finance, with countries in the region *The Association of Southeast Asian Nations* (ASEAN) has different variations in its development. The increase in public interest in products based on sharia principles is one of the main drivers of this rapid development. Not only limited to the banking sector, sharia economic growth also includes other sectors such as the sharia capital market, sharia insurance, and the halal-based real sector. (Pamuji and Supandi 2021; Wartoyo & Haida, 2024).

The Southeast Asian region is one of the strategic regions in the growth of the Islamic banking industry, which is also home to most of the Muslim population in the world. Malaysia and Indonesia are the top two countries in ASEAN that have aggressively established Islamic banks, followed by Brunei Darussalam. Malaysia is the fastest country in developing this industry, until now 16 Islamic banks have been operating in Malaysia. This development is driven by proactive government policies and clear regulations, which play a role in maintaining stability and encouraging the growth of the Islamic banking sector. However, although the Islamic banking industry is showing positive growth, there are specific challenges that need to be overcome, such as liquidity risk management, financing risk, and capital adequacy. Liquidity risk is one of the main problems faced by Islamic banks. Considering the nature of asset-based Islamic financing, banks must ensure a balance between liquidity and profitability. Financing risk reflected in the high ratio *Non-Performing Financing* (NPF) is also an obstacle, especially in maintaining the quality of the financing portfolio that aligns with sharia principles. In addition, the adequacy of capital measured by the *Capital Adequacy Ratio* (CAR) is an important indicator to ensure the ability of Islamic banks to absorb risks and support financial growth. Increasingly fierce competition in the financial services industry harms the performance of Islamic banks. Therefore, several problems such as limited capital, funding sources, and human resources have become obstacles for Islamic banks in ASEAN. (Iqbal, Kusuma, and Sunaryati 2022)**.** Meanwhile, in Indonesia, despite the support of proactive regulations, low financial literacy, and uneven market penetration are still the main obstacles. Similar conditions are also faced by other ASEAN countries, including Malaysia, Brunei Darussalam, the Philippines, and Thailand, which have made the issue of risk management a critical factor in maintaining the sustainability of Islamic banks' financial performance (Juliana et al. 2022)

Based on the 2019-2022 Islamic Finance Development Report published by the *Islamic Financial Services Board* (IFSB), the amount or total of submerged financing in the last 4 years is shown in the following graph:

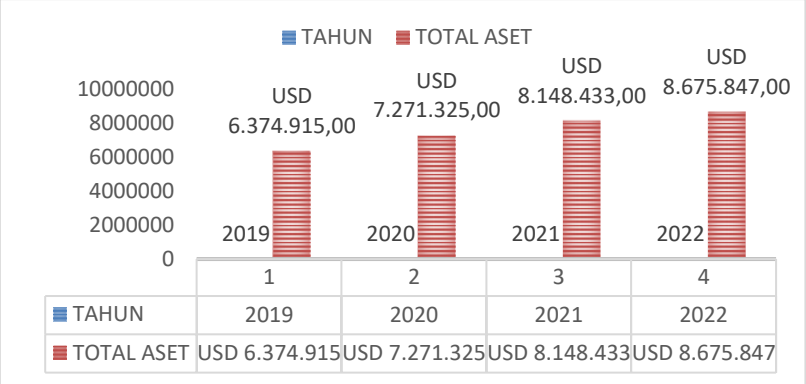


Figure 1. Asset Growth Percentage
Source: IFSB Secretariat workings based on PSIFIs

Based on figure 1. It was explained that the total assets of Islamic banks globally showed a consistent upward trend during the period 2019 to 2022. In 2019, total assets were recorded at USD 6,374,915.00 and continued to increase to USD 7,271,325.00 in 2020, reflecting a growth of approximately 14%. This growth continued in 2021, with total assets reaching USD 8,148,433.00, an increase of 12% from the previous year. However, in 2022, although total assets increased to USD 8,675,847.00, the growth rate slowed to 6%. This upward trend shows positive developments in the Islamic finance industry, despite the slowdown in the growth rate in the last year. This can be attributed to various factors, such as global economic conditions affected by the COVID-19 pandemic or the internal dynamics of the Islamic financial sector. Nonetheless, the steady growth of total assets during this period reflects the potential and resilience of the Islamic banking industry as an important part of the global financial system (Wartoyo et al, 2022).

Beyond the development of Islamic banking, the ASEAN Economic Community (AEC) or ASEAN *Economic Community* is a strategic step to strengthen economic integration between countries in the Southeast Asian region. MEA aims to create a safe and dynamic region, with equitable and sustainable development. The MEA has four main characteristics, namely: a single market and a production base, a highly competitive economic zone, a region with equitable economic development and a region that is fully integrated with the global economy. One of the efforts to improve the region's competitiveness is through cooperation in the financial sector, which allows ASEAN countries to strengthen this sector, so that more solid economic stability and growth can be realized in the Southeast Asian region. (Listiyanti and Shofawati 2019)

Islamic banking is one of the financial institutions that has an important role in the community's economy. Banks function as intermediary institutions that manage public funds and provide sources of financing. Over time, banks have become an important part of everyday life. Islamic banks provide an alternative solution for people to transact halal without the elements of riba, gharar, or maysir that are often found in the conventional banking system. With the principle of justice upheld, Islamic banking offers a sense of security and comfort in transactions, because it operates by Islamic law. In this context, Islamic banking plays the role of an institution that not only functions as a

repository of funds but also as a source of financing that pays attention to ethical and fair aspects. (Irawan, and Mulya 2021)

With a large Muslim population and strong policy support, the ASEAN region has great potential to continue to develop Islamic banking so that it becomes one of the important centers for this industry in the future and a pioneer and mecca for the development of Islamic finance in the world. This is not an impossible dream, but is based on several factors, including: a large Muslim population as a potential customer of the Islamic finance industry, a bright economic outlook reflected in high economic growth and a strong economic fundamentals, an increase in the ranking *sovereign credit rating* which can attract investors to invest in the domestic financial sector, including in the Islamic finance industry, as well as abundant natural resources that can be used as the basis for transactions in Islamic finance (Setiawan et al. 2023; Wartoyo & Haerisma, 2022).

However, Islamic banking also faces major challenges related to risk management that can affect its performance and stability. Liquidity risk, financing risk and capital adequacy are things that need to be seriously considered. Liquidity risk, which is reflected in *Financing to Deposit Ratio* (FDR), measures the bank's ability to meet short-term or immature obligations. (Margaretha, Ariani, and Maharani Wibowo 2023). This risk is a serious threat to banks, because many banks experience bankruptcy due to liquidity problems. (Anam and Khairunnisah 2019). Meanwhile, financing risks are reflected in *Non Performing Financing* (NPF), measures the ability of management to manage non-performing loans from all loans provided by banks whose collectibility is less current, doubtful and bad than the loans provided as a whole. (Gultom and Siregar 2022). This risk arises when the debtor or other party is unable to fulfill financial obligations to the bank, which means that the customer of the Islamic bank fails to fulfill its responsibilities. (Judge 2021). Financial performance is also influenced by capital adequacy which is reflected in *Capital Adequacy Ratio* (CAR), capital adequacy is defined as the ability of bank management to supervise and control the risks that occur, which can affect the amount of bank capital. If the bank has adequate capital, it can carry out its operational activities efficiently, and will provide profits to the bank.(Muarif et al, 2021)

Given the importance of risk management in the banking world, especially Islamic banks, from the perspective of Islamic economics, the risk management approach applied must prioritize the principles of prudence, fairness, transparency, and not conflict with sharia principles. In the Islamic banking system, risk management is not only concerned with financial profits, but must also pay attention to the moral and ethical dimensions contained in Islamic teachings. (Syahrir et al. 2023). More specifically, in Islamic economics, the risk management of Islamic banks must focus on efforts to create justice in the distribution of financing and the distribution of funds, as well as minimize risks that can harm the ummah or violate sharia principles. In this case, the financing provided by Islamic banks must be productive and have a positive impact on the economic growth of the community without causing inequality or exploitation of weaker parties. Therefore, Islamic banks must consider social and environmental impacts in every financing decision, as well as prioritize transparency and clarity in every transaction. (Muarif et.al 2019)

By paying attention to the perspective of Islamic economics, Islamic banks are expected to minimize risks and continue to operate stably despite maintaining uncertain global economic resilience. Risk management based on sharia principles is expected to increase the resilience of Islamic banks in facing economic crises and provide a sense of

security and fairness for all stakeholders, including customers and the community. Therefore, Islamic banks not only play the role of financial institutions that generate profits, but also as agents that contribute to social welfare and sustainable economic development (Wartoyo et al, 2024; Inarawi et al, 2024).

Based on research on the influence of liquidity risk, financing risk and capital adequacy on financial performance, several previous researchers have carried out, one of which is by (Oktaviani and Maya Apriyana 2023) found that liquidity risk is measured using the ratio *Financing to Deposit Ratio* (FDR), has a significant influence on the financial performance of Islamic banks. Then, research conducted by (Koyyimah, Tanjung, and Ayuniyyah 2023) shows that the financing risk measured by *Non-Performing Financing* (NPF), does not have a significant effect on the financial performance of banks. These results are in line with the results of research conducted by (Widodo 2021), which states that the ratio of *Non-Performing Financing* NPF has no effect on the financial performance measured using *Return on Assets* (ROA). Meanwhile, research conducted by Nabilah Febriyane Prasetyo Widodo shows that the CAR ratio has a significant effect on financial performance as measured by ROA. The results of this study are consistent with the results of the study (Quan et al. 2019) which shows that capital adequacy has a significant effect on the performance of Islamic banks.

Overall, this study underscores the importance of applying sharia principles in risk management in Islamic banks so that this banking system not only focuses on profitability but also on social responsibility and morality which are the basis of the Islamic economic system. Thus, risk management by sharia is expected to create a fairer, more transparent, and sustainable banking system, and can contribute to more inclusive and equitable economic growth in the ASEAN region.

LITERATURE REVIEW

Resources-Based Theory (RBT)

Resource theory *Resources-Based Theory* (RBT) emphasizes that a company's competitive advantage depends on the management of internal resources that are unique and difficult to replicate. In the context of Islamic banks, resources such as liquidity, capital and financing management are key in creating competitiveness and improving financial performance. This resource optimization is in line with RBT's goal of achieving long-term excellence. (Suryati, Murwaningsari, and Mayangsari 2022). By *Resource-Based Theory* (RBT), every company including Islamic banks can achieve competitive advantage and superior performance through effective internal resource management. (Farihah and Setiawan 2020).

Signalling Theory

Meanwhile, *signaling theory* explains the importance of banks in providing clear signals to stakeholders through transparent financial statements. Good performance, such as healthy liquidity ratio (FDR), financing risk (NPF), and capital adequacy (CAR), provides positive signals to investors and the public, which ultimately increases the trust and attractiveness of Islamic banks. (Valentina and Rasyid 2022). Providing transparent information to external parties is very important so that potential investors can assess the health and performance of bank management. If the health and performance of bank management are good, people tend to invest or deposit their funds. On the other hand, if the bank's management performance is not good, including the high financing risk reflected in the *Non-Performin Financing* (NPF), people will be reluctant to place their

funds in the bank. Thus, the signals given through good financial performance greatly influence people's investment decisions. (Cahya et al. 2020)

Financial Performance

Financial performance reflects the effectiveness of the bank's resource management in generating profits. Financial performance is an analysis carried out to see to what extent the company has implemented its use rules for good and correct financial implementation. (Maulida et al. 2021) *Return on Assets* (ROA) is used to measure the efficiency of asset use in generating profits. *Return on Assets* (ROA) indicates good performance, while *Return on Assets* Low ROA reflects less effective management. (Ridwansyah and Sy 2022).

Liquidity Risk (FDR)

Liquidity risk occurs when banks are unable to meet short-term obligations due to liquidity limitations. In this situation, the bank may be forced to sell productive assets at a price lower than the actual value, even incurring losses. (Rahmawati 2020). This is because the more financing is channeled, the greater the bank's revenue from profit sharing (ratio). With this increase in revenue, the bank's profitability will also increase, which means the bank has better financial performance. Meanwhile, the lower this ratio indicates the more liquid the bank and shows that banks do not utilize deposit funds effectively, thus potentially reducing profitability.(Maharani, Kurniawan, and Pratomo 2024). The liquidity risk measured through FDR is related to the signaling theory because FDR signals the health of bank liquidity to external parties. An excessively high FDR reflects liquidity risk, while an optimal FDR indicates good liquidity management. In the Resource-Based Theory (RBT), FDR reflects the ability of banks to effectively utilize internal resources to support financing and improve financial performance.

Previous research conducted by Violita Oktaviani found that liquidity risk, measured through *the Financing to Deposit Ratio* (FDR), has a significant effect on ROA. This research is in line with the results of Maya Apriyani's research which shows that an increase *in the Financing to Deposit* Ratio (FDR) that is well-managed will have a positive impact on increasing *Return on Assets (ROA).* Based on the theory used and the results of previous research, the hypothesis proposed in this study is:

H1: Liquidity Risk has a positive effect on the Performance of Islamic Banks in ASEAN in 2019-2023.

Financing Risks

Financing risk reflects the bank's ability to manage non-performing loans. *Non-Performing Financing* (NPF) shows the bank's ability to manage non-performing financing related to its productive assets, or financing that cannot be returned by customers in accordance with the agreement. (Indriani, Nurmalia, and Putri 2023). The lower the value *Non-Performing Financing* (NPF), the better the bank's financial performance, because this shows that the bank's management can manage credit risk effectively. On the contrary, the height *Non-Performing Financing* (NPF) shows that the quality of banks is getting worse and declining. This can lead to an increase in the number of non-performing loans which has an impact on the bank's poor condition. (Regina Arthamevia and Husin 2023). Financing risk is related to the signaling theory because NPF signals financing quality, high NPF indicates credit risk, while low NPF reflects good management. In RBT, financing risk management shows the use of internal resources to improve the bank's performance and competitiveness.

Previous research conducted by (Rahmi and Sari 2020) found that *Non-Performing Financing* (NPF) has a significant negative influence on *Return on Assets* (ROA). Based on the description above, the following hypothesis can be formulated:
H2 = Financing Risk has a negative effect on Financial Performance of Islamic Banks in ASEAN in 2019-2023.

Capital Adequacy

Capital Adequacy Ratio (CAR) measures the bank's ability to face risk with available capital. The larger the ratio *Capital Adequacy Ratio* (CAR), then the bank's capital position is stronger, which shows that the bank is in a healthy condition. Conversely, the lower the ratio *Capital Adequacy Ratio* (CAR), banks are increasingly vulnerable to financial risks, which indicates that their financial condition is not healthy. (Astuti 2022). Capital adequacy is related to the signaling theory because CAR signals the bank's ability to face risk, a high CAR indicates healthy finances. In RBT, capital adequacy reflects the use of internal resources to support performance and competitiveness.

Previous research conducted by Nabilah Febriyane Prasetyo Widodo showed that *the Capital Adequacy Ratio* (CAR) had a significant effect on *Return on Assets* (ROA), and this is consistent with the research of Lee Jun Quan et al., which also found a significant influence of capital adequacy on the performance of Islamic banks. Based on the theory used and the results of previous research, the hypothesis proposed in this study is:
H3: Capital Adequacy has a positive effect on Financial Performance as measured by Islamic Banks in ASEAN in 2019-2023.

Previous research has shown that FDR, NPF, and CAR have a significant influence on ROA. However, the results vary depending on the bank's internal risk management and country policies. Therefore, this study aims to analyze the determinants of financial performance in Islamic banks in ASEAN, especially during the 2019-2023 period. Based on the variables tested and the hypothesis that has been formulated, the relationship between the variables tested in this study is shown in the form of a research model:

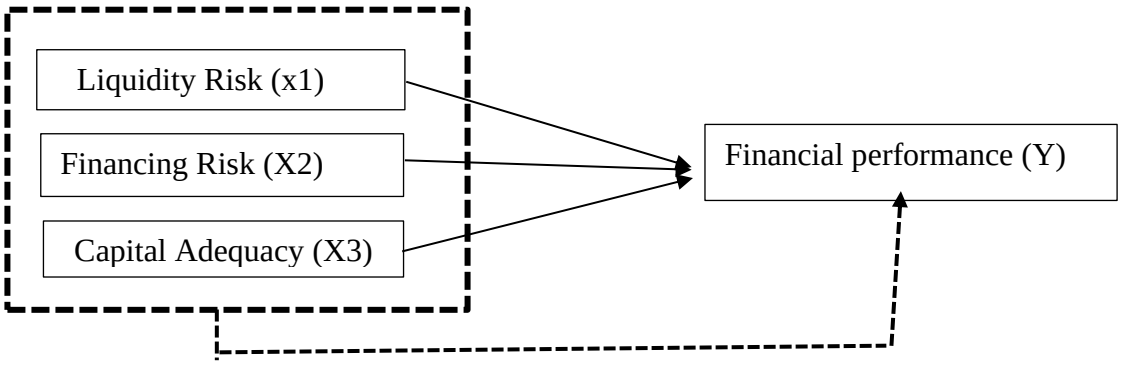


Figure 2

Framework of thought

METHOD

This study uses a quantitative approach, by utilizing data in the form of numbers to measure the extent to which liquidity risk, financing risk and capital adequacy affect the financial performance of Islamic banks in the ASEAN region. The data used is ratio data with fixed intervals and absolute values, obtained from the financial statements of Islamic banks in ASEAN. This research uses this type of research as follows: *Explanatory Research*, which aims to analyze the relationship between variables or identify how one variable affects another. (Hendra Setiawan et al. 2023). This research uses secondary data in the form of financial statements accessed from the official websites of Islamic banks in ASEAN. The population of this study consists of 32 Islamic banks in the ASEAN region which were published in 2019-2023.

The sampling technique uses *Purposive Sampling*, with the following criteria: (1) Sharia Commercial Banks located in the ASEAN Region, namely Brunei Darussalam, the Philippines, Indonesia, Malaysia, and Thailand, (2) Sharia Commercial Banks that were established for the first time in the ASEAN region, (3) and Sharia Commercial Banks that consistently published financial statements during the research period. Based on these criteria, this study selected 5 Islamic banks, they are Bank Muamalat Indonesia, Bank Islam Brunei Darussalam, Amanah Islamic Bank Philippines, Bank Islam Malaysia Berhad, and Bank Islamic Thailand. The selection of these five banks is based on the availability of complete and consistent data, the representation of countries that have a developed Islamic banking system, and the significant role of these banks in the Islamic financial system in their respective countries. This makes the five banks relevant to reflect the financial performance of Islamic banking in the ASEAN region. In testing the hypothesis proposed in this study.

The researcher used an analysis method assisted by Eviews 10 software. In this study, the research model used is panel data regression, which allows the analysis of cross-temporal data and data between units simultaneously. The panel data regression method was chosen because it has advantages in capturing the dynamics of data changes between time and between entities, increasing the number of observations, and being able to reduce the problem of multicollinearity that often appears in cross-time data or data *cross-section* Separately. The panel data regression method consists of three approaches, namely CEM (*Common Effect Model*), FEM (*Fixed Effect Model*), and REM (Random Effect Model). To choose the most appropriate model, several tests are carried out. The first test is the Chow test, which is used to determine whether the CEM or FEM model is more appropriate for estimating panel data. The second test is the Hausman test, which is used to determine whether the FEM or REM model is more appropriate. Based on the test results, the fixed securities model (FEM) was chosen because it was able to capture the specific influence of each Islamic bank that was the research sample. The FEM model is considered more suitable than REM because the characteristics of this study sample are heterogeneous and cannot be randomly taken from the population. In other words, FEM can accommodate specific differences that remain between banks during the study period, which REM cannot accommodate.

RESULT AND DISCUSSION

1. Selection of Panel Data Regression Model Accuracy

a. Chow Test

Table 1
Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	*Statistics*	*D.F.*	*Prob.*
Cross-section F	55.38305	(4,17)	0.0000
Cross-section Chi-square	66.03227	4	0.0000

Source: E-Views 10, Secondary Data, Processed by researchers, 2024

Based on Table 1. it is explained that the *cross-section prob* value F is 0.0000 < 0.05, then H0 is rejected and H1 is accepted, this means that *the fixed effect model* is better than the *common effect model*.

b. Housman Test

Table 2
Housman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	*Chi-Sq. Statistics*	*Chi-Sq.d.f.*	*Prob.*
Cross-section random	59.71338	3	0.0000

Source: E-Views 10, Secondary Data, Processed by researchers, 2024

Based on table 2. it is explained that, the value of Prob. *cross-section random* of 0.0000 < 0.05, then H1 is accepted and H0 is rejected, this means that the suitable model for this study is a regression with a *fixed effect model approach*.

c. *Lagrange Multiplier Test*

Based on the *Chow test* and *Hausman test* that have been carried out previously, the *Lagrange multiplier test* does not need to be done. The results of the above test show that the best method based on *the Chow test* and *the Hausman test* is *the fixed effect model* (FEM)

2. Classical Assumption Test

The selected model is *a fixed effect model*, therefore a classical assumption test must be performed. The classical assumption test used is multicollinearity and heteroscedasticity (Basuki 2017).

a. Multicollinearity Test

The multicollinearity test aims to test whether in the regression model there is a high or perfect correlation between independent variables in a multiple linear regression model. To test the problem of multicollinearity, we can look at the

correlation matrix of the independent variable, if there is a correlation of more than 0.80, then there is multicollinearity.

Table 3
Multicollinearity Test

	X1	X2	X3
X1	1.000000	0.110521	-0.259078
X2	0.110521	1.000000	-0.859557
X3	-0.259078	-0.859557	1.000000

Source: E-Views 10, Secondary Data, Processed by researchers, 2024

Based on Table 3. It was explained that the correlation coefficients of X1 and X2 were 0.110521< 0.85, X1 and X3 were -0.259078 < 0.85, and X2 and X3 were -0.859557< 0.85. So it can be concluded that it is free from multicollinearity symptoms or passes the multicollinearity test.

b. Heterokedasticity Test

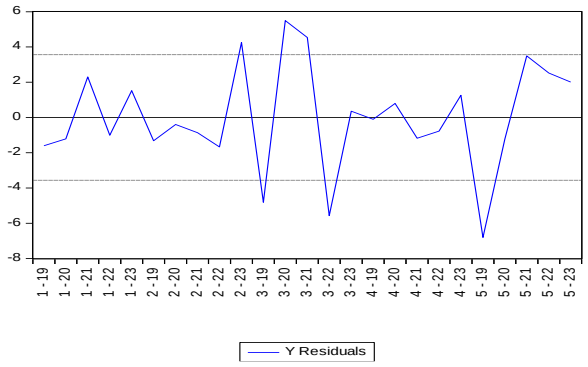


Figure 2
Heterokedasticity Test

Based on figure 2. It is explained that the residual (blue color) can be seen not to cross the limit (500 and -500), meaning that the residual variant is the same. Therefore, there are no symptoms of heteroscedasticity or passing the heteroscedasticity test.

3. Hypothesis submission

a. Regression test results

Based on the model selection test carried out, the *fixed effect model* used in estimating the panel data in this study.

Table 4
Fixed *Effect Model Regression Test Results*

Variable	*Coefficint*	*Std. Error*	*t-Statistic*	*Prob.*
C	-40.26526	10.43567	-3.858426	0.0013
FDR	-0.201069	0.093448	-2.151660	0.0461
NPF	2.197456	0.236566	9.288987	0.0000
CAR	-0.089273	0.152170	-0.586666	0.5651

Effects Specification			
Cross-section fixed (dummy variables)			
R-squared	0.937414	*Mean dependent var*	-3.639600
Adjusted R-squared	0.911643	*S.D. dependent var*	11.98944

Based on table 4. It is explained that the equation of the panel data regression model is as follows:

Y = -40.26526367 - 0.201069118534*FDR + 2.19745635176*NPF - 0.0892727268581*CAR

The interperformance of the above regression is as follows:

1) The Constant value of -40.26 means that without the variables of liquidity risk (FDR), financing risk (NPF), and capital adequacy (CAR), the financial performance variable (ROA) will increase by -4026%.
2) The value of the beta coefficient of the liquidity risk variable (FDR) is -0.20, if the value of other variables is constant and the liquidity risk variable (FDR) increases by 1%, and vice versa, if the value of other variables is constant and the liquidity risk variable (FDR) decreases by -0.20, then the financial performance variable (ROA) will decrease by -20%.
3) The value of the beta coefficient of the financing risk variable (NPF) is 2.19, if the value of other variables is constant and the financing risk variable (NPF) increases by 1%, and vice versa, if the value of other variables is constant and the financing risk variable (NPF) decreases by 2.19, then the financial performance variable (ROA) will decrease by 219%.
4) The value of the beta coefficient of the capital adequacy variable (CAR) is -0.08, if the value of other variables is constant and the capital adequacy variable (CAR) increases by 1%, and vice versa, if the value of other variables is constant and the capital adequacy variable (CAR) decreases by -0.08, then the Y variable will decrease by -8%.

b. Partial (T-Test)

Based on the table of regression results of panel data with the Fixed Effect Model approach, it can be seen as follows:

1) Liquidity Risk (FDR)
   Based on the results of the panel data regression test, the t-calculated value of -2.151660 > from the t-table was obtained which was 2.068658, and the value of Sig. 0.04 < 0.05. Therefore, it can be concluded that liquidity risk harms the financial performance of Islamic banks in ASEAN for the 2019-2023 period.
2) Financing Risk (NPF)
   Based on the results of the panel data regression test, a t-value of 9.288987 > from the t-table was obtained which was 2.068658, and a Sig. value of 0.0000 <0.05. Therefore, it can be concluded that financing risk has a positive effect on the financial performance of Islamic banks in ASEAN for the 2019-2023 period.
3) Capital Adequacy (CAR)

Based on the results of the panel data regression test, a calculated t-value of -0.586666 < from the t-table was obtained which was 2.068658 and a Sig. value of 0.5651 > 0.05. Therefore, it can be concluded that capital adequacy has no effect on the financial performance of Islamic banks in ASEAN for the 2019-2023 period.

c. Simultaneous (Test F)

Table 5
Test F (Simultaneous)

R-squared	0.937414	*Mean dependent var*	3.639600
Adjusted R-squared	0.911643	*S.D. dependent var*	11.98944
S.E. of regression	3.563851	*Akaike info criterion*	5.633898
Sum squared resid	215.9176	*Black criterion*	6.023938
Log likelihood	-62.42372	*Hannan-Quinn criter.*	5.742079
F-statistic	36.37502	*Durbin-Watson stat*	2.066315
Prob(F-statistic)	0.000000		

Source: Data processed, 2024

Based on the regression in Table 5 with the FEM method, the F-value is calculated as 36.37502 > F-table 3.072467 and the Sig. value of 0.000000 < 0.05, then Ho is rejected and Ha is accepted, meaning that the variables of liquidity risk (FDR), financing risk (NPF) and capital adequacy (CAR) have a combined effect on the dependent variables of financial performance (ROA).

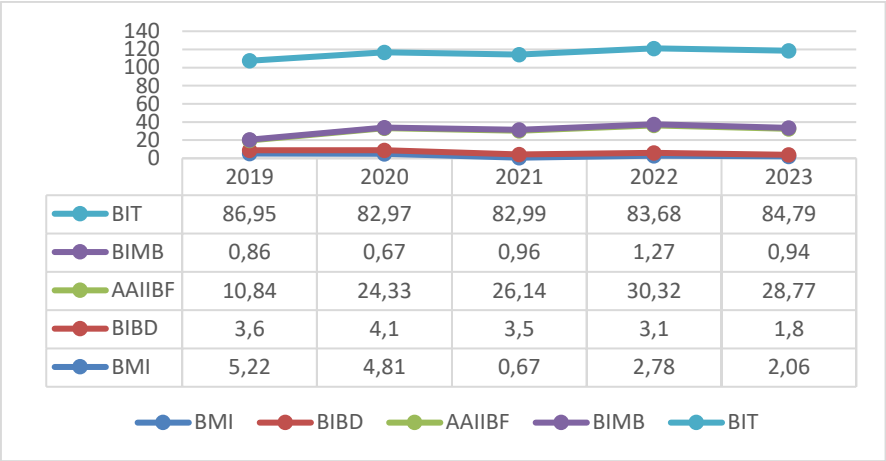
DISCUSSION

Based on the results of the first hypothesis test, liquidity risk (FDR) has a significant negative effect on the financial performance (ROA) of Islamic banks in ASEAN. The results of this study show that the FDR variable has a significant negative effect on financial performance (ROA). The results of this study are not in line with the research (Oktaviani and Maya Apriyana 2023). The more financing is channeled, the greater the bank's revenue from profit sharing (ratio). With this increase in revenue, the bank's profitability will also increase, which means the bank has better financial performance. Meanwhile, the lower this ratio indicates the more liquid the bank and shows that banks do not utilize deposit funds effectively, thus potentially reducing profitability (Maharani, Kurniawan, and Pratomo 2024).

The effect of liquidity risk (FDR) on the financial performance (ROA)

The results of this study show that the FDR is high but does not guarantee the high income obtained by the bank due to non-performing financing, and the financing provided is not managed properly. This causes a large number of receivables that have not been received, thereby reducing income from the financing proceeds that have been disbursed which should have been received at the time of maturity but with problematic financing so that the bank has not received it, this causes a negative relationship with ROA. The FDR results are not significant due to the amount of financing distributed by Islamic banks in ASEAN to the community but are not balanced by the amount of return on the financing. This result is because banks do not have enough funds to meet short-term obligations. This is also reinforced by NPF data which shows that some Islamic banks in

ASEAN tend to be more vulnerable than conventional banks, due to limited asset diversification and dependence on Islamic financing. This emphasizes the importance of effective liquidity management.



	2019	2020	2021	2022	2023
BIT	86,95	82,97	82,99	83,68	84,79
BIMB	0,86	0,67	0,96	1,27	0,94
AAIIBF	10,84	24,33	26,14	30,32	28,77
BIBD	3,6	4,1	3,5	3,1	1,8
BMI	5,22	4,81	0,67	2,78	2,06

Figure 3. Non-Performing Financing (NPF) Ratio of Islamic Banks in ASEAN

Based on Figure 3. above, it can be seen that the movement of *Non-Performing Financing* indicates a decline in financing quality, which ultimately reduces net interest income and increases the burden of allowances for non-performing financing. This condition shows that although the high *Financing to Deposit Ratio* (FDR) reflects a large financing allocation, the low quality of financing reduces the bank's profitability. In addition, a high *Financing to Deposit Ratio* (FDR) can also cause liquidity pressure, especially if not accompanied by adequate financing risk management, banks with limited reserves will find it difficult to meet their liquidity needs while non-performing financing continues to increase. Therefore, these results confirm the importance of liquidity risk management and financing quality in maintaining the bank's financial stability and performance.

The results of this study are strengthened by Resource-Based Theory (RBT) and Signaling Theory. RBT emphasizes that good liquidity management and financing can create a competitive advantage, while Signaling Theory suggests that a high FDR should be a positive signal, but in this case, the increase in NPF reflects high risk and less than optimal asset management. This confirms that without good risk mitigation, a high FDR does not always reflect positive financial performance. The results of this study support the findings (Rahmavati 2020) that FDR has a significant negative influence on ROA. Therefore, Islamic banks in ASEAN need to maintain the FDR ratio in the range of 80%-110% in accordance with Bank Indonesia standards and consider the latest economic conditions to maintain financial stability and performance.

The effect of financing risk (NPF) on the financial performance (ROA)

The results of the second study show that financing risk (NPF) has a significant positive effect on financial performance (ROA). The results showed that *Non-Performing Financing* (NPF) has a positive influence on financial performance measured using *Return on Assets* (ROA). These findings are not in line with the results of the study (Rahmi and Sari 2020) found that *Non-Performing Financing* (NPF) has a significant negative influence on *Return on Assets* (ROA). Theoretically, the increase in NPF reflects

higher financing risks, which should negatively impact the bank's profitability and efficiency. However, this positive result can be explained by several factors, such as effective risk management, successful financing restructuring policies, or the contribution of other revenues that can cover potential losses from non-performing financing. In addition, this condition can also illustrate that Islamic banks have a risk mitigation mechanism that can maintain financial performance despite an increase in NPF.(Siti Nur and Tri 2019). Despite the increase in NPF, Islamic banks can manage non-performing financing risks well, such as restructuring financing or optimizing non-interest income (*fee-based income*). In addition, Islamic Banks in ASEAN can still overcome problematic financing by covering the cost of loss allowance or allowance for the elimination of productive assets from the financing disbursed. Therefore, although in general high NPF can be interpreted as a bad indication, good risk management can make its impact positive on the performance of Islamic banks. These findings provide a new perspective that the relationship between NPF and financial performance is not always linear and requires a more in-depth study to understand the supporting factors.

The results of this study support the results of the research (Gusmawanti et al. 2020) which shows that NPF has a non-significant positive effect on ROA. In the *signaling theory* because the NPF ratio with a positive value shows that a high NPF does not directly provide a decrease in ROA, this signals to investors that to invest to get a profit share, there is no need to worry too much if the NPF is high, because in a certain period a high NPF can be overcome by Sharia Commercial Banks by closing it from the loss reserve.

The effect of capital adequacy (CAR) on the financial performance (ROA)

The results of the third hypothesis test, CAR did not affect ROA. The results of this study are in line with the research (Valentina and Rasyid, 2022), (Rifai and Suyono 2019), and (Syahrir et al. 2023). This result is because although a high CAR indicates sufficient capital to cover risks, the capital is often not optimally utilized for productive financing activities. This means that existing capital is more focused on fulfilling obligations such as the Mandatory Reserve Account (GWM) and covering non-performing financing from the previous period, rather than being allocated to investments that can increase profitability. The size of capital does not determine the amount of profit generated, if banks are careful in distributing their funds, then *Capital Adequacy Ratio* (CAR) does not affect profitability even though banks have capital and ratios *Capital Adequacy Ratio* (CAR). (Rifai and Suyono 2019)

In the perspective of Resource-Based Theory (RBT), large capital ownership is not always a competitive advantage if it is not optimized for profitable business expansion. Meanwhile, according to Signaling Theory, a high CAR should give a positive signal about the bank's financial stability to investors and stakeholders. However, if the CAR increase is only used to meet regulations and mitigate risks without an effective capital utilization strategy, then the impact on profitability will be insignificant. Therefore, the results of this study confirm that CAR does not affect ROA because capital is more focused on risk management and regulatory compliance, not on activities that directly improve the bank's financial performance.

CONCLUSION

Research conducted on Islamic Banks in ASEAN for the 2019-2023 period, found that the results of Liquidity Risk (FDR) partially had a negative effect on Financial Performance (ROA) with a probability value of 0.04, which means that the hypothesis is accepted. Meanwhile, Financing Risk (NPF) partially has a positive effect on Financial Performance (ROA) with a probability value of 0.00, which means that the hypothesis is accepted. On the other hand, Capital Adequacy (CAR) has no effect on Financial Performance (ROA) with a probability value of 0.56, which means that the hypothesis is rejected. Simultaneous analysis of this study showed that both FDR, NPF, and CAR together had a significant influence on ROA.

Based on this conclusion, it is hoped that Islamic banks in ASEAN can improve liquidity management by closely monitoring and managing liquidity ratios to prevent the inability to meet short-term obligations. In addition, banks need to be more careful in distributing financing by ensuring the quality of financing provided so as not to increase financing risks. Islamic banks also need to strengthen capital management by maintaining sufficient capital to face economic pressures and improve overall financial performance. Finally, banks need to improve the quality of human resources (HR) to support better risk management and performance.

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