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Effect of Financing Risk and Liquidity Risk on Financial Performance in Islamic Commercial Banks in Indonesia

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Abstract

Purpose– This study aims to analyze the effect of financing risk and liquidity risk on financial performance in Sharia commercial banks in Indonesia in 2020-2024.

Methodology— This study uses a quantitative approach. Saturated sampling is a sampling method used by researchers. Therefore, there are 60 sets of financial statement data for the Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF), and Return on Assets (ROA) in 2020-2024, which are used in this study.

Findings – The results showed that financing risk consistently negatively and significantly impacted financial performance in both time periods, while liquidity risk was only negatively significant in the short term. However, these two risks have been shown to significantly influence financial performance in both the short and long term.

Implications – Consistent and effective management of financing risk is crucial to the company's financial performance in the short and long term. Liquidity risk requires special attention, especially for short-term financial stability, and both risks significantly impact the company's performance across all periods.

Originality—This study showed that financing risks persistently and significantly negatively affect financial performance across all time horizons, whereas liquidity risks affect performance only in the short term; collectively, these two risks remain the main determinants of financial performance.

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1. Introduction

Banks play a very important role in propelling the economy (Lestari, 2021). A bank is an institution that engages in lending and accepting deposits from the public (Monnet & Velde, 2021). Banks can be divided into two types: Islamic and conventional. Islamic banks are financial institutions that operate in accordance with the principles of Islamic law. Meanwhile, conventional banks operate within the conventional banking system, without reference to Sharia principles. Conventional banks are established on capitalist principles and operate on an interest system, which

is prohibited in Islamic law (Mulyani & Jamilah, 2022). Therefore, Muslims tend to choose to establish financial institutions that operate in accordance with Islamic principles.

Islamic banking's rapid growth has not yet been able to compete with conventional banks, which have a much larger potential market. However, according to the latest data from the Financial Services Authority, Islamic banks are showing significant growth. In 2022, the market share of Islamic banks reached 7.09% (OJK, 2022). According to a report from the Royal Islamic Strategic Studies Centre (RISSC), Indonesia has the world's largest Muslim population, accounting for 86.7% of the national population and representing a potential market for Islamic banking. However, with most of the population being Muslims, it is not yet guaranteed that Islamic banks will be an option. Overall, Islamic banking intermediation operations remained successful despite increased funding and relatively high costs compared with conventional banking. As the driving force of the economy to date, banks remain the main source of funding, alongside stocks and bonds. Therefore, if bank performance is unhealthy, the economy is not optimal. To see whether a company or bank is performing financially. Financial performance analysis assesses the extent to which a company has applied the principles of financial management correctly and in accordance with the rules. Financial performance refers to the condition of finances, based on sound financial principles. Each company evaluates its financial performance to assess how effective management is in running its operations (Sari & Giovanni, 2021).

According to Farida (2024), financial performance is influenced by Capital Structure, Company Size, and total asset turnover. Meanwhile, the bank's true financial performance is influenced by its capital structure and the company's growth (Sari, 2023). Financial performance refers to the set of financial activities that occur in each period and are reported in the financial statements. This report serves as a tool to assess the company's financial condition, providing useful information on its past, present, and future financial state. In analyzing financial performance, there are several types of ratios, namely liquidity ratios, solvency ratios, activity ratios, and profitability ratios (Dangnga & Haeruddin, 2018).

In this study, financial performance is measured by the profitability ratio of Return on Assets (ROA). Return on assets is a benchmark for assessing asset profitability, expressed as a percentage, and indicates how efficiently a bank manages its assets (Zulkifli et al., 2023). If the ROA is in a large bank, the bank's profitability will also be higher, so its asset utilization can be considered good. Conversely, if the ROA declines, it indicates that a bank's management ability is reduced when managing assets to increase profits and reduce costs (Saleh, 2021). The profit earned by Islamic banks can be attributed to both internal and external factors. Internal aspects are caused from within the company (Islamic banks), such as business Segmentation, Cost Control, and revenue control. While external factors are beyond the company's control (e.g., competition in Islamic banks' areas of operation and the state of the economy), the company cannot be controlled (Nungcahyani & Wahyudi, 2024). Several factors can affect a bank's financial performance (Return on Assets), namely, financing risk (Non-Performing Financing) and Liquidity Risk (financing-to-deposit ratio). In this study, the research object is the Islamic Commercial Bank (BUS), a large Islamic bank. The following is a graph of the return on assets (ROA) ratio for Indonesian Sharia commercial banks from 2020 to 2024.

Return on assets in Islamic commercial banks fluctuated between 2020 and 2024. A significant decrease occurred in February 2021 to 2.15%, then decreased again in December 2021 to 1.55%, rose in March 2023 to 2.18%, decreased again in December 2023 to 1.88%, and continued to fluctuate through 2024. In 2021, when Indonesia was still affected by the Covid-19 pandemic, Sharia commercial banks began to maintain profits, as evidenced by high ROA levels. Many factors affect the level of financial performance (Return on Assets) in Islamic commercial banks, including financing risk (Non-Performing Financing).

Non-Performing Financing is defined as the return on funds where the depositor's funds are stuck in the bank; in other words, NPF is the amount of funds that are not performing. NPF is known for calculating long-term funds relating to total funds. If the NPF is low, the bank will earn higher profits, but if the NPF ratio is high, the bank will suffer losses or even go bankrupt due to poor credit performance (Fauziah et al., 2022). NPF is used to assess the bank's ability to manage

troubled financing. The risk of financing received by the bank is one of the bank's business risks, arising from uncertainty about its returns or from non-repayment of financing provided to the debtor (Moorcy et al., 2020).

The risk of financing received by the bank is one of the bank's business risks, arising from uncertainty about its return or from non-repayment of financing provided to the customer, and there is a possibility that it cannot be billed. Banks with high NPF tend to be less efficient, whereas banks with low NPF tend to be more efficient. In accordance with Bank Indonesia rules, the NPF for a good is below 5%. Banks with lower NPFS can channel funds to customers, resulting in higher profitability (Wahyuningtyas & Utami, 2021). NPF and ROA have fluctuated from 2020 to 2024. In January 2021, NPF increased by 3.20%, and ROA increased by 2.15%. In December 2024, NPF decreased to 2.08%, and ROA decreased to 2.07%. This means that the higher the NPF value in a bank, the greater its impact on the profitability of Islamic commercial banks. A high or low NPF value can affect the bank's net income from asset management. This is due to funds that cannot be collected or repaid on the bank's credit, which will affect the bank's profitability. In addition to Non-Performing Financing (NPF) factors that allegedly affect financial performance (ROA), the Financing-to-Deposit Ratio (FDR) is one such factor. FDR can be interpreted as the bank's ability to fully fund all depositor withdrawals by maximizing liquidity, namely by allocating a portion of the funds it provides to the DPK. It is known that the higher the funding-to-savings ratio (FDR), the more money will be sent to the DPK. The FDR ratio positively affects ROA because deposit distribution can significantly increase it (Fauziah et al., 2022).

Financing-to-Deposit Ratio (FDR) is a measure of how much of a bank's ability to repay withdrawals by depositors depends on financing as a source of liquidity. The higher the FDR, the higher the company's profit. Increasing the company's profits will also improve its performance. The higher the FDR, the higher the bank's profit, assuming it can channel its funds effectively (Safvrizal & Habib, 2023). If the bank can distribute all collected funds, it will be profitable, but this depends on the risk that, at any time, the owner withdraws the funds, or the user cannot return the borrowed funds. According to the previous definition, FDR is the ratio of the total amount of financing provided by the bank to the funds received by the bank (Pangestu & Santoso, 2021). This ratio measures a bank's ability to meet its short-term debt obligations, repay its depositors, and meet public financing requests in a timely manner. FDR and ROA in 2020-2024 have fluctuated. In January 2021, FDR had a ratio of 76.59%, and ROA had a ratio of 1.79%. In December 2024, FDR increased the ratio to 80.81%, and ROA increased to 2.07%. This means that if FDR goes up, ROA will go up, and if ROA goes down, FDR will go down. In Islamic commercial banks, ROA and FDR are positively or negatively related, depending on the phenomena and problems faced by the Islamic Bank.

Research examining the impact of financing risk (NPF) and liquidity risk (FDR) on financial performance (ROA) has been conducted by numerous scholars. Some studies indicate that financing risk positively influences financial performance (ROA). Conversely, other research suggests that financing risk negatively affects financial performance (ROA) (Foe et al., 2024). Additionally, the influence of liquidity risk on financial performance (ROA) has been reported by some researchers to be positive, while others have found a negative impact. There is a gap in the literature on the effects of financing and liquidity risks on the financial performance of Islamic commercial banks in Indonesia, particularly for the period 2020-2024, which encompasses post-pandemic developments and the integration of large Islamic banking institutions. Although prior studies have explored this relationship, many have utilized proxy ratios such as problem financing ratios (NPFS) and third-party funds-to-financing ratios (FDRs). Recent data and contextual factors underscore the necessity for further investigation. This gap arises from discrepancies in empirical findings across previous periods, methodological differences—including the use of performance measures such as ROA, ROE, or EVA—and the insufficient consideration of moderation or mediation effects by internal factors such as Shariah governance or post-merger strategic business initiatives. These elements may modify the relationship between risk and performance, especially amid a volatile economic environment and increasingly competitive landscape.

The primary objective of this study is to analyze and empirically assess the impact of financing and liquidity risks, both collectively and individually, on the financial performance of Islamic commercial banks in Indonesia from 2020 to 2024. This research aims to provide the most recent and valid evidence on the significance and direction of the relationship between these variables in the context of post-pandemic macroeconomic conditions and the restructuring of the Islamic banking sector. The findings are intended to serve as a valuable reference for regulators and management of Islamic commercial banks in developing effective risk mitigation strategies to ensure stability and profitability.

2. Literature Review

2.1 Signal Theory

The idea of signals was first proposed by Spencer in 1973, which revealed that the sending party (owner of the information) sends signals or signals are information that represents a business that provides benefits for the recipient (investor) (Meliana, 2022). Signal theory explains why businesses are motivated to give external parties access to Financial Statement Information, and how owners (principals) should be notified when Management (agents) succeed or fail. According to signal theory, management's desire to publish financial data should signal prosperity to the owner or shareholder (Investor).

Signal theory in relation to the company's financial performance can be seen from the wider disclosure given; positive signals can be received by individuals with an interest in the company. The more information provided, the more information received about the company. Consequently, this can foster confidence among investors when considering investment in the company. The high level of trust established encourages investors to respond positively, often resulting in an increase in the company's stock price movements (Hendra et al., 2025).

In this framework, financial ratios such as NPF and FDR serve as signals from management to the market about the quality of the bank's internal management. High NPF values send a negative signal about weak credit risk management and potential losses that will erode profitability, thus lowering public confidence and investment prospects. Conversely, an optimal FDR ratio can signal the bank's efficiency in the intermediation function, which will ultimately translate into strong financial performance (Almi & Aziz, 2023). Therefore, strong financial performance, supported by sound NPF and FDR Risk Management, serves as a credible signal that attracts investors and helps maintain stability amid post-pandemic economic dynamics and Islamic banking consolidation.

2.2 Return On Asset (ROA)

Return on assets is included in the financial performance ratio. Financial performance is a ratio that shows the results of using bank assets to generate total profits. That is, it is used to determine how much profit is generated from each rupiah of assets, including a portion of the total assets (Ningrum et al., 2024). The high return on assets means that the profit that each fund generates from its total assets is proportional to the higher return on assets. On the other hand, a lower return on assets results in a profit of every rupiah less than the capital invested in total assets (Hery & Si, 2016). The more effectively a company uses assets to create profits, the higher the Roa. Investors are attracted to companies with high profits because the return is higher (Erin & Devi, 2021).

Signal theory explains that management companies with superior internal information are motivated to send signals to external parties, such as investors and creditors, to reduce uncertainty and influence their investment decisions. In the context of financial performance, ROA, a profitability ratio that measures how effectively a company generates profits from its assets, serves as a strong signal from management. A high ROA indicates that the company is efficient in managing its assets to generate a large net profit, which is a positive signal that attracts investor interest, increases stock prices, and increases the company's value. Conversely, a low or declining

ROA is a negative signal that can erode market confidence in the company's management's prospects and efficiency.

2.3 Non-Performing Financing (NPF)

This ratio is a way of calculating the percentage of risk of problem financing in an Islamic bank when a customer fails to pay installments on time (L. Ermawati, 2025). The high percentage of problematic financing is one of the causes of the difficulty of banking institutions in carrying out redistribution. Banks should always maintain the NPF percentage. Below 5% as required by the rules of the Financial Services Authority. The bank's management's expertise in managing problem financing that can be covered by productive assets is measured by the ratio of non-performing financing. Due to low-quality bank financing, non-performing financing is higher. Non-Performing Financing (NPF) is a ratio that shows the risk of financing in Islamic banks by comparing problem financing with total financing.

Signal theory is relevant to explain the relationship between Non-Performing Financing and market or stakeholder reactions to Islamic commercial banks. According to this theory, the NPF serves as a signal from Islamic commercial bank management to external parties, such as investors, depositors, and regulators, about asset quality and the effectiveness of the bank's internal risk management. When the NPF ratio increases, it signals that the bank has high credit risk, less selective financing distribution practices, or weaknesses in the collection process (Nasution et al., 2024). These negative signals are likely to cause adverse information asymmetries that can depress a bank's stock price, increase funding costs, and overall adversely impact a bank's reputation and financial performance. Conversely, low and controlled NPFS broadcast positive signals about stability and good governance practices, thus attracting trust and investment.

2.4 Financing to Deposit Ratio (FDR)

Financing-to-Deposit Ratio, according to Dendawijaya, is the ratio of the total volume of credit or financing disbursed by the bank to the amount of funds received from various sources. Under the provisions of the Financial Services Authority, the funds raised by the bank in applying the ratio are public or third-party funds, and the bank's core capital (Dendawijaya, 2009). According to Hasibuan (2023) the revealed FDR, it is a ratio that tests banking expertise to meet financing by utilizing third-party funds. When banks are unable to channel their financing and the funds collected are substantial, they will experience losses. One indicator of a bank's soundness in providing financing is the Financing to Deposit Ratio (FDR). The high and low FDR ratios indicate the state of bank liquidity.

According to signal theory, bank management will use certain financial actions or ratios as signals to reduce information asymmetry between internal and external parties. FDR acts as a dual signal. A positive signal appears when the FDR is at an optimal level, indicating that the bank is efficient in channeling third-party funds into profit-generating financing, which in turn attracts investors. However, if the FDR is too high, it signals high liquidity risk and that the bank may have trouble meeting sudden withdrawals. Therefore, an ideal FDR level serves as a critical signal from Islamic commercial banks' management to the market, indicating a careful balance between profitability and solvency/liquidity, which ultimately affects investment decisions and public confidence.

2.5 Hypothesis

2.5.1 Effect of financing risk (NPF) on financial performance (ROA)

Non-Performing Financing reflects the risk of financing, the higher this ratio, the worse the quality of Islamic bank financing. Financial management is essential for banks, given that financing is the largest revenue contributor to Islamic banks; the health of financing also affects the achievement of bank profits. The increase in non-performing financing will result in a loss of revenue for the bank from customer financing and will affect the Return on assets (Fauziah et al., 2022). Signal theory explains that companies in this context, Islamic commercial banks will send

signals about their quality or prospects to outsiders due to information asymmetry. Regarding financing risks and financial performance, the NPF ratio is a strong negative signal. When the NPF ratio increases, it signals to the market that the bank is less effective at managing credit risk, has greater potential for losses from bad financing, and is expected to experience a decline in revenue. Investors and depositors who receive this signal tend to revise their profitability expectations downward, which directly affects their assessment of the bank's performance. As a result, the declining ROA due to high NPF is not just a reflection of operating losses but also a market response to signals of poor asset management quality, which can ultimately damage the bank's reputation and limit its ability to attract capital or third-party funds in the future. Non-Performing Financing has a negative effect on Return on Assets. Then the hypothesis can be formulated as follows:
H_1: Non-Performing Financing negatively affects ROA

2.5.2 Effect of liquidity risk (FDR) on financial performance (ROA)

Financing to Deposit Ratio (FDR) measures the extent to which third-party deposits are used to finance. The assumption is that the higher the FDR ratio, the greater the distribution of third-party funds channeled to customers. Conversely, a lower FDR indicates banks' lack of effectiveness in financing. If FDR increases, profit will also increase, so financial performance measured by ROA will rise (Safvrizal & Habib, 2023). In this theory, the implication is that the distribution of profits is not only for the parties concerned but also for those who are indirectly interested. In this context, bank management uses the FDR rate as a signal sent to external parties, such as investors and depositors, regarding the operational efficiency and profitability potential of the bank (Nugrahaeni & Nugraeni, 2024). A high but still within reasonable limits FDR can signal that the bank is aggressive and successful in channeling its funds into income-generating financing, which in turn will increase ROA. Conversely, an excessively high FDR would signal excessive liquidity risk and the potential inability of banks to meet short-term obligations, thereby raising market risk perception and potentially depressing ROA due to higher funding costs or deposit withdrawals. Therefore, FDR functions as a dual indicator: a measure of profitability efficiency at an optimal threshold and a gauge of liquidity risk at an extreme point. This is supported by research results Kurnia & Wahyudi (2022) and Zikri et al. (2023), which indicate that the FDR variable has a positive and significant effect on ROA. Then the hypothesis can be formulated as follows:
H2: *Financing Deposit Ratio has a positive effect on ROA*

3. Research Methods

Because it is presented as numbers, this study uses a quantitative approach. A quantitative method is a positivist-based research approach used to examine a specific population or sample. It involves using research instruments to collect data and analyzing quantitative data to test hypotheses. A quantitative method is used to test a particular theory by conducting research on the relationship between variables. In addition, because this approach is concrete, objective, measurable, logical, and systematic, it complies with scientific principles and rules and is therefore considered a scientific method (Syahroni, 2022). Understanding the influence or relationship between two or more variables is the objective of this type of associative research (Tairas & Taroreh, 2024). As it aims to ascertain the influence and relationship between two or more variables, this study still qualifies as an associative type of research. The Independent variables are liquidity risk (FDR) and Financing Risk (NPF), and the dependent variable is financial Performance (ROA).

The monthly financial statements of Indonesian Sharia commercial banks in 2021-2024 are the population time series used in this study. To ensure that research findings can be generalized to the wider population, sample selection is essential (Adil, 2023). The characteristics that make up the sample are also present in the entire population from which the research data are drawn. Saturated sampling is a sampling method used by researchers. Therefore, there are 48 sets of financial statement data for the Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF), and Return on Assets (ROA) in 2020-2024, which are used in this study. Any variable, in

whatever form the researcher chooses to study, used to collect data and draw conclusions, is called a research variable.

Table 1. Variables Measurement

Variable	Definition	Indicator	Scale
Financing Risk	NPF is a ratio that serves as an indicator in the assessment of financing risk. NPF is calculated by dividing the amount of problematic financing by the total financing provided (Kuncoro & Anwar, 2021).	NPF= Troubled Financing/ Total Financing ×100%	Ratio
Liquidity Risk	It is a ratio used to calculate and compare the total financing provided by the bank with the total deposits received by the bank (Stie & Bogor, 2024).	FDR= Financing/Third Party Funds ×100%	Ratio
Financial Performance	It is a ratio used to measure profitability, which describes the comparison between profit before tax and the total assets of a bank. In addition, this ratio also reflects the level of efficiency of the bank in managing its assets (Yulianah & Seno Aji, 2021).	ROA= Net Profit/Total Assets ×100%	Ratio

This study uses multiple linear regression with the Ordinary Least Squares (OLS) method, using EViews 10. Before making an estimate, a series of tests is carried out. The stationarity test using the augmented Dickey-Fuller (ADF) method ensures that the time series data has a constant mean, variance, and covariance. Furthermore, classical assumption tests include normality (using the Jarque-Bera or Kolmogorov-Smirnov tests) to ensure normally distributed residuals, multicollinearity (using the VIF test) to detect correlations among independent variables, heteroscedasticity (using the White test) to check for unequal residual variances, and autocorrelation (using the Durbin-Watson test) to detect correlations among confounding errors. After the assumptions are met, the hypothesis test is carried out through a Partial Test (t-test) to see the influence of individual independent variables on the dependent variable, a simultaneous test (F test) to test the influence together, and the coefficient of determination test (R2) to measure how much variation the dependent variable can be explained by the model. The common estimation equation models used for this type of study are:

$$ROA = a + \beta_1 NPF_1 + \beta_2 FDR_2 + e$$

In this model, Y represents the level of gain or ROA; α is the constant; β1 and β2 are regression coefficients indicating the direction and magnitude of the Influence of the independent variables NPF and FDR; and e represents the error term or other variables outside the model.

4. Results and Discussion

4.1 Unit Root Test

Stages before doing regression with ECM test, first do stationarity test to find out whether the variable used has been stationary or not if the data is not stationary then it will be obtained a false regression (spurious), and vice versa if the data to be used has been stationary, then it can use

OLS regression, but if it is not stationary, the data needs to be seen stationary through the degree of integration test. At this stage, because all variables are stationary at the level of Dickey-Fuller's Augmented stationarity Test at the level of the first difference. The results of the Dickey-Fuller Augmented stationarity Test at the first difference level can be seen in the following table:

Table 2. Dickey-Fuller at the level of the first difference

Variable	Statistical value of the ADF test	Probability	Description
NPF	-6,647968	0,000	Stationerity
FDR	-7,358507	0,000	Stationerity
ROA	-7,097169	0,000	Stationerity

According to Table 2, it is evident that the probability values for all variables, namely NPF, FDR, and ROA, are less than 0.05. This indicates that, at the first difference level, all variables are stationary.

4.2 Short-Term Relationship Model

The ECM results will show the short- and long-term relationships. In this study, the ROA variable is used as the dependent variable, while the NPF and FDR variables are independent variables. The short-term ECM estimation results can be seen in the following table:

Table 3. Short-term ECM regression results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.061044	0.408951	9.930393	0.0000
NPF	-0.349239	0.035864	-9.737893	0.0000
FDR	-0.015990	0.004679	-3.417642	0.0012
ECT (-1)	0.771077	0.083536	9.230516	0.0000

The F-test used in this study aims to test whether all independent variables significantly affect the dependent variable. Specifically, if the F-statistic is less than the significance level ($\alpha = 5\%$), then the independent variables together significantly affect the dependent variable. In looking at the simultaneous effect of the hypothesis test, with the estimated value of the probability of the F-statistic being smaller than the significance level of Alpha ($0.00000 < 0.05$), then Ho is rejected, and Ha is accepted, meaning that together NPF and FDR variables in the short term significantly affect the variable ROA.

The t-test employed in this study evaluates whether each independent variable significantly influences the dependent variable, provided that the p-value is less than the significance level, $\alpha = 10\%$. According to Table 3, the results of the statistical t-test are presented, which assess the partial effects of each variable at an alpha level of 0.05. The degrees of freedom are calculated as $df = 60 - 2 - 1 = 57$, and the critical T value from the T table is 1.67203. The following explanations are provided: The calculated t value exceeds the critical value ($9.737893 > 1.67203$) with a probability of 0.0000, indicating that the NPF variable has a negative and statistically significant effect on ROA in the short term. Similarly, the t value for the FDR variable is 3.417642, which exceeds the critical value ($3.417642 > 1.67203$) with a probability of 0.0012, signifying a negative and significant effect on ROA in the short term. Lastly, the t statistic for the residual error correction term (ECT) is 9.230516, which is greater than the critical value ($9.230516 > 1.67203$) with a probability of 0.0000, implying that the ECT variable has a positive and significant effect on ROA in the short term.

4.3 Long-Term Relationship Model

The ECM results will indicate a long-term relationship. In this study, the ROA variable is the dependent variable, and the NPF and FDR variables are the independent variables. The long-term ECM estimation results are shown in Table 4.

Table 4. Long-term ECM Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.624004	0.643073	5.635445	0.0000
NPF	-0.316095	0.055527	-5.692682	0.0000
FDR	-0.011454	0.007390	-1.549949	0.1267
R-squared	0.364408	Mean dependent var		1.885833
Adjusted R-squared	0.342106	S.D. dependent var		0.238614
S.E. of regression	0.193541	Akaike info criterion		-0.397946
Sum squared resid	2.135118	Schwarz criterion		-0.293228
Log likelihood	14.93837	Hannan-Quinn criter.		-0.356985
F-statistic	16.34008	Durbin-Watson stat		0.446213
Prob(F-statistic)	0.000002			

Based on the results in Table 4 for the long-term analysis, the following interpretation can be provided: A constant value of 3.624004 indicates that, when the independent variables (the number of NPF and FDR) are held at zero and remain unchanged, the dependent variable ROA is fixed at 3.624004. A regression coefficient of -0.316095 indicates that for a 1 percent increase in the NPF variable, ROA decreases by 0.316095. Similarly, a regression coefficient of -0.011454 indicates that for a 1 percent increase in FDR, the ROA decreases by 0.011454.

4.4 Discussion

4.4.1 Effect of Financing Risk on Financial Performance

In the short term, financing risk has a significant negative effect on financial performance, as it does in the long term. In the short term, financing risk has been shown to significantly affect an entity's financial performance. This happens because when the financing risk increases, for example, with an increase in the ratio of bad debts or the debtor's failure to fulfill its obligations, the burden of losses that must be borne by the entity will increase (Andriyani & Tanjung, 2018). This increase in expenses directly erodes profitability and liquidity, which are key indicators of short-term financial performance. The impact could be seen in a decrease in interest income, an increase in financing loss reserves, and potential pressures on working capital and operating cash flows.

Similarly, in the long term, financing risks continue to have a significant negative influence on financial performance. On an ongoing basis, the risk of uncontrolled financing can damage the entity's financial foundations. Recurring losses due to default can drain capital, limit an entity's ability to expand or invest, and even threaten business continuity. An entity's reputation can also be tarnished, reducing investor and customer confidence and ultimately hindering long-term revenue and value growth. Therefore, effective financing risk management is the key to maintaining the stability and sustainability of financial performance in both the short and long term (Suryati et al., 2025).

Based on Signal theory, the finding that financing risks consistently and significantly negatively affect financial performance in both the short and long term can be interpreted as a strong negative signal to the market. This indicates that a high level of ongoing financing risk is considered an indicator of poor financial stability, which in turn can reduce investor and creditor confidence. These negative signals can further affect a company's valuation, access to future financing, and cost of capital, as the market anticipates potential losses or higher volatility in financial performance due to such risks.

It is supported by (Fatimatuz et al., 2024), who found that Non-Performing Financing hurts Return on Assets. These results reveal that rising non-performing financing ratios, reflecting the deteriorating quality of financing assets and the potential for higher losses due to customers' failure

to consistently meet obligations, will suppress profits earned by Islamic commercial banks. This negative impact occurs because banks are forced to set aside larger reserves to cover potential losses, which directly reduces net income and ultimately lowers Return on assets, confirming that poor financing risk management is a critical determinant of the profitability and efficiency of Islamic banks' assets.

4.4.2 Effect of Liquidity Risk on Financial Performance

The results showed that short-term liquidity risk has a negative and significant effect on financial performance. On the other hand, liquidity risk variables in the long term do not have a negative effect and are not significant for financial performance. In the short term, liquidity risk significantly affects the company's financial performance. This means that the higher the risk that the company has of difficulty meeting its short-term obligations, for example, paying debts or daily operations, the worse its financial performance will be in that period. This can happen because the company is forced to sell assets at a discount, postpone important investments, or even go bankrupt if it cannot cope with short-term liquidity pressures (Sesri Sellina et al., 2025).

However, the study shows that long-term liquidity risk does not significantly and negatively affect financial performance. This implies that the company's ability to meet its long-term obligations does not significantly affect its overall financial performance. Most likely, in the long run, the company has more time and flexibility to adjust its strategy, manage its assets and liabilities, or find alternative sources of funding to address potential liquidity problems. Thus, temporary fluctuations or liquidity pressures tend to have a greater impact on financial performance than sustained liquidity conditions over the long term (Putri et al., 2025).

The results show that short-term liquidity risk has a significant negative effect on financial performance, whereas long-term liquidity risk does not, implying a misalignment with signal theory. Signal theory holds that companies tend to send positive signals to the market through their financial information, including information on risk management. In this context, if short-term liquidity risk provides a clear negative signal that adversely affects performance, then even long-term liquidity risk, which is also an indicator of financial health, provides a consistent signal to financial performance (Arzali & Amanah, 2024). The insignificance of long-term liquidity risk's influence may indicate that the market does not interpret this risk as a strong signal about the company's outlook or stability, or that other factors are more dominant in shaping the market's perception of long-term financial performance.

This is not in line with the results of the study (Kurnia and Wahyudi, 2022). (Zikri et al., 2023), who in the results of his research stated that the variable FDR has a positive and significant effect on ROA. This difference in results can be explained by several factors. First, the study covers the period 2020-2024, which was dominated by post-pandemic uncertainty and Islamic banking consolidation, during which high FDR levels may be perceived as excess risk in a limited capital environment, thereby suppressing profitability. Conversely, in stable periods, a high FDR reflects an optimal level of financing disbursement, which directly increases revenue and ROA. These studies may use different models or control variables that alter the pure relationship of FDR and ROA. Islamic commercial banks in the 2020-2024 period may rely more on expensive funds to finance assets, resulting in high FDR and higher funding costs, which ultimately depress ROA, in contrast to previous periods when increased FDR was supported by fund efficiency.

5. Conclusion

This study analyzes the impact of financing and liquidity risks on the financial performance of Sharia commercial banks in Indonesia during 2020-2024. The findings indicate that financing risk consistently exerts a negative and statistically significant Influence on financial performance in both the short and long term. In contrast, liquidity risk has a negative and significant effect on financial performance in the short term, whereas this effect diminishes in the long term. Collectively, the data demonstrate that, when considered together, financing risk and liquidity risk significantly influence financial performance across both timeframes. This research significantly contributes to the field by definitively establishing that financing risk is a critical factor that

persistently and adversely impacts financial performance, whereas liquidity risk is notably influential only in the short term. The results underscore the importance of implementing comprehensive management strategies that address these two risks concurrently to sustain the institution's financial stability.

This study has limitations because it only focuses on two specific risk variables, namely NPF Financing Risk and FDR liquidity risk, and ignores other important risk variables such as market risk, operational risk, and non-financing credit risk that also affect the performance of Islamic commercial banks during the 2020-2024 period. In addition, annual data may be insufficient to capture significant short-term fluctuations, especially amid the dynamics of monetary policy and the consolidation of the Islamic industry. Therefore, the next research suggestion is to include additional independent variables, particularly Market Risk and Sharia governance, to provide a more comprehensive picture. Use quarterly or monthly data for more in-depth analysis of short-term impacts and capturing rapid changes. And conduct comparative research between BUS and conventional commercial banks or examine the role of mediating or moderating variables in shaping the relationship between risk and performance.

Author Contributions

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Methodology: Biliyana
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Supervision: Biliyana
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Visualization: Biliyana
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