

## Factors Affecting the Risk Non-Performing Sharia Commercial Bank Financing

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**ABSTRACT:** *This study aims to examine and analyze the influence of internal and external factors on the risk of problem financing in Islamic commercial banks in Indonesia. This research uses a quantitative type. Data comes from the Financial Services Authority (OJK) and Bank Indonesia for the 2015-2022. The data were first tested using the classical assumption test, which included the normality test, multicollinearity test, and autocorrelation test and then analyzed using multiple linear regression analysis. The Robust Least Squares method is used in multiple linear regression analysis to overcome the problem of heteroscedasticity. The results show that the internal factors that are taken into account are the efficiency ratio (BOPO), capital adequacy ratio (CAR) and financing-to-savings ratio (FDR). At the same time, the external factor that is taken into account is the inflation rate. Based on the results of testing the hypothesis using the z test, it is concluded that only CAR and FDR significantly contribute to problem financing. In contrast, efficiency and inflation do not significantly affect problem financing in Islamic Commercial Banks in Indonesia.*

Penelitian ini bertujuan untuk menguji dan menganalisis pengaruh faktor internal dan juga faktor eksternal terhadap risiko pembiayaan bermasalah pada bank umum syariah di Indonesia. Penelitian ini menggunakan jenis kuantitatif. Data bersumber dari Otoritas Jasa Keuangan (OJK) dan Bank Indonesia periode 2015-2022. Data diuji dengan menggunakan uji asumsi klasik terlebih dahulu yang meliputi uji normalitas, uji multikolinieritas, dan uji autokorelasi kemudian dianalisis dengan menggunakan analisis regresi linier berganda. Metode *Robust Least Squares* digunakan dalam analisis regresi linier berganda untuk mengatasi masalah heteroskedastisitas. Hasil penelitian menunjukkan faktor internal yang diperhitungkan berupa rasio efisiensi (BOPO), rasio kecukupan modal (CAR) dan rasio pembiayaan terhadap simpanan (FDR). Sedangkan faktor eksternal yang diperhitungkan adalah tingkat inflasi. Berdasarkan hasil pengujian hipotesis dengan menggunakan uji z diperoleh kesimpulan bahwa hanya CAR dan FDR yang memiliki kontribusi signifikan terhadap

pembiayaan bermasalah, sedangkan efisiensi dan inflasi tidak memiliki pengaruh yang signifikan terhadap pembiayaan bermasalah pada Bank Umum Syariah di Indonesia.

**Keywords:** *Efficiency Ratio, OEOI, Capital Adequacy Ratio (CAR), Financing to Deposits Ratio (FDR), Non-performing Financing (NPF).*

## I. INTRODUCTION

The risk of problematic loans in the banking industry has always been a frightening spectre. In fact, the risk of problematic loans, often described by the NPL (Non-Performing Loans) ratio in 2007, was closely related to the financial crisis in Asia (Endut et al., 2013). Non-performing financing is a phenomenon that always exists in banking industries because one of the main activities of banking is as a distributor of financing, in addition to collecting funds.

**Table 1. The expansion of Islamic banking in Indonesia**

Sharia Commercial Bank				
Indicators	2019	2020	2021	2022
Total Asset (in Billion Rp)	350.364	397.073	441.789	531.860
Amount of banks	14	14	12	13
Amount of office	1.919	2.034	2.035	2.007
Amount of employer	49.564	50.212	50.708	50.708
Sharia Business Unit				
Indicators	2019	2020	2021	2022
Total Asset (in Billion Rp)	174.200	196.875	234.947	250.240
Amount of banks	20	20	21	20
Amount of office	381	392	444	438
Amount of employer	5.186	5.326	5.590	5.590

Source: OJK – Islamic Banking Statistic 2022

In Indonesia, The Islamic banking industry is growing rapidly. According to data from the Financial Services Authority, there are currently 13 National Banks categorized as Sharia Commercial Banks (BUS), with the number of offices (KC / KCP / KK) reaching 2,007 units. In addition, 20 conventional bank institutions operate Sharia Business Units (UUS), with the number of offices (KC / KCP / KK) reaching 438 units. The Sharia Banking Industry can absorb more than 56 thousand employees, with the total assets of both BUS dan UUS amounting to more than 750 trillion rupiahs at the end of 2022 (OJK, 2022).

**Table 2. The Average of Gross NPF Ratio for Islamic Commercial Banks in Indonesia 2018-2022**

No	Year	Average of Gross NPF Ratio
1.	2018	4,28%
2.	2019	3,42%
3.	2020	3,32%
4.	2021	3,11%
5.	2022	2,58%

Source: OJK – Islamic Banking Statistic 2022 (Processed Data)

The performance of the Islamic banking industry has consistently shown improvement and growth. In terms of financing, in 2019, the average NPF (Non-Performing Financing) ratio of Islamic Commercial Banks was recorded at 3.42%. Meanwhile, in 2022 there was a decline in the average NPF of Islamic Commercial Banks to only 2.58%. (OJK-Statistik Perbankan Syariah 2022). This decline in the average NPF ratio shows that the performance of Islamic Commercial Banks in the financing sector is improving. As the NPF ratio increases, company profitability is likely to decline. Declining profitability causes the company's capability to expand its business and financing to become feeble (Destiana, 2018). The NPF ratio of Islamic Commercial Banks is generally still lesser than the provisions of Bank Indonesia, which states that the NPL standard set is a maximum of 5% to enter the criteria for a good level of financing health. Thus, the condition of Islamic commercial bank financing in Indonesia is in an ideal condition.

Problematic financing in the banking industry occurs due to internal and external factors. Internal variables which affect the NPF ratio include the Financing to Deposit Ratio (FDR), Capital Adequacy Ratio (CAR) and the ratio of Operating Expenses to Operating Income (OEOI). The OEOI ratio, or the efficiency ratio, is a division of operating costs that become bank expenses with operating income as bank revenue. The higher the OEOI ratio, the worse the bank's efficiency feat in its operational activities. Basically, the function of the bank is as a mediator, namely as a party that collects and distributes customer funds. Thus, the amount of costs and revenues comes more from financing activities (Purnamasari & Musdholifah, 2016). The level of bank efficiency will affect the bank's proficiency in providing financing. It will also have an impact on the risk of non-performing financing. The greater the operational costs the bank must bear will cause the bank to increase the percentage of profit sharing of its financing. As a result, the profit-sharing rate obtained by customers receiving funds will be smaller, so it will have consequences on the customer's interest and ability to return the loan (Prayitno & Sudaryanto, 2016).

CAR is a ratio that represents the sufficient capital that can be used to bear the exposure of losses that the bank may encounter. CAR is measured based on the ratio of the amount of capital to the value of risk-weighted assets (RWA). CAR become a parameter of the bank's capability to protect against the decline in assets because of various misfortune that the bank must bear. As the CAR value increases, meaning the lower the potential for misuse of financing, which can lead to the risk of problematic financing (Sarkasih et al., 2023). According to Bank Indonesia regulation No. 10/15/PBI/2008, the bottom-level capital that banks must provide is 8% of RWA.

Another internal factor affecting the amount of non-performing financing is the FDR or Financing to Deposit Ratio, which is measured by banks' high and low liquidity. If the bank has a high level of liquidity, the more possibility for the bank to launch financing. The larger the financing that is launched, the higher the risk of non-performing financing (Riannasari, 2017). The FDR value standard set by Bank Indonesia, as stated in PBI Number 15 of 2013, is 78% for the minimum limit of the LDR rate, while the upper limit of the LDR rate is set at 92% and is valid from December 2, 2013. The bank must strictly maintain this FDR ratio to be moderate, not excessively high or excessively low. A high FDR value presents the low level of liquidity of a bank. However, the high FDR ratio indicates that banking performance is increasingly optimal in developing its business

industry. This high level of FDR ratio means the bank is well-of to properly channel financing from public savings funds (Lestari, 2021).

In addition to internal factors, the magnitude of the NPF ratio is also affected by external factors, one of which is inflation. The inflation rate serves as an indicator of general price increases in a particular region over a sustained period of time. High inflation has the potential to increase the NPF ratio, leading to an elevation of non-performing financing exposure. The high NPF ratio measures the bank's downfall in managing financing for business activities. This can impact the bank's overall performance.

Based on the above explanation, we are interested in researching to analyze the factors affecting the incidence of non-performing financing in Islamic Commercial Banks in Indonesia due to internal factors stemming from the operational aspects of the bank itself, which is reflected in its financial appearance, as well as external factors that encompass aspects beyond banking, including macroeconomic factors shaped by fiscal and monetary activities by the state. The problem statement of this research can be formulated as follows: How do internal and external factors affect the risk of non-performing financing at Islamic Commercial Banks in Indonesia?? While the purpose of this research is to examine the impact of factors on the risk of non-performing financing in Islamic Commercial Banks in Indonesia. This study specifically focuses on the internal factors, which include the OEIO ratio, CAR, and FDR. Meanwhile, the external factor considered was the inflation level, and the data used for the analysis spans from 2015 to 2022.

## II. METHOD

This research utilizes quantitative data, specifically relying on secondary data sources in the form of time series data covering the period from 2015 to 2022. Data for OEIO ratio, CAR, FDR and NPF ratios is extracted from the monthly report on Islamic Banking Statistics published by the Financial Services Authority (OJK) from 2015 to 2022. The monthly inflation rate data was sourced from the website of Bank Indonesia. Thus, the total data for each variable is 95 after adjustment.

This research seeks to analyze the impact of both internal and external factors on the risk involved in non-performing financing where the variables taken into account are the efficiency ratio / OEIO Ratio (X1), CAR (X2) and FDR (X3) (internal factors) and also the inflation rate (X4) (external factors) as the independent variables and the NPF ratio as a dependent variable. Data processing using Eviews 9 application uses multiple linear regression analysis with the Robust Least Square method. This approach is utilized to address the issue of heteroscedasticity problems in the classical assumption test results.

In data processing that uses multiple linear regression analysis, conducting tests of classical assumptions is necessary to ensure that the regression equation model obtained meets the criteria of BLUE (Best Linear Unbiased Estimator). The BLUE model is a regression model that has precise, unbiased, efficient, and consistent estimators. Four types of tests for classical assumptions are commonly used: multicollinearity, normality, autocorrelation, and heteroscedasticity.

The coefficient of determination ( $R^2$ ) is utilized as a means to quantify the level of influence exerted by the independent variable on the dependent variable. The coefficient of determination, which ranges between 0 and 1, signifies the strength of the influence exerted by the independent variable(s) on the dependent variable. A value closer to 1 indicates a more pronounced impact, while a value closer to 0 suggests a weaker effect. When multiple independent variables are utilized in the research, the adjusted R-squared value serves as the coefficient of determination.

The z-test and F-test statistics are also used to assess the significance of the impact exerted by the independent variable on the dependent variable. To determine the individual or partial significance of each independent variable (X) on the dependent variable (Y) by using the z-test statistic. On the other hand, the F-test statistic is used to determine the simultaneous or joint significance of all the considered independent variables (X) on the dependent variable (Y). The significance level for these tests is typically set at 0.05 or 5%. If the p-value result from the t-test or F-test is greater than 0.05, it means that there is no significant effect from the independent variable(s) (X) to the dependent variable (Y). However, suppose the resulting p-value from the t-test or F-test is less than 0.05. In that case, it indicates that the independent variable(s) significantly influence the dependent variable.

The hypothesis formulated for this research can be presented as follows

- H1: The impact of the Operational Expenses to Operational Income (OEOI) ratio is statistically significant on the level of NPF ratio in Islamic Commercial Banks operating in Indonesia.
- H2: CAR significantly affects the ratio of NPF in Islamic Commercial Banks located in Indonesia.
- H3: FDR demonstrates a statistically significant influence on the NPF ratio at Islamic Commercial Banks in Indonesia.
- H4: The level of inflation has a significant effect on the ratio of NPF at Islamic Commercial Banks operating in Indonesia.
- H5: The collective impact of the OEOI Ratio, CAR, FDR, and Inflation on the ratio of NPF at Islamic Commercial Banks in Indonesia is statistically significant.

### III. RESULT AND DISCUSSION

#### Non-Performing Financing (NPF)

Non-performing financing refers to a condition where loans or financing provided by banks encounter difficulties in repaying the principal loan amount and the associated interest/profit-sharing after the agreed-upon maturity date, either due to intentional actions by the borrower or unforeseen circumstances beyond their control. This problematic financing is commonly referred to as Non-Performing Loans (NPL) in conventional banks, while in Islamic banking, it is termed as Non-Performing Financing (NPF). Based on Bank Indonesia Circular Letter No. 9/24/DPbS regarding guidelines for financial ratio calculation, the determination of the non-performing financing ratio is

achieved by comparing the value of problematic financing to the total financing issued by the bank as the following formula:

$$\text{NPF Ratio} = \frac{\text{Problematic Financing}}{\text{Total Financing}} \times 100\%$$

The utilization of the NPF ratio serves as a gauge for assessing the soundness of banking performance. The ratio of NPF set by Bank Indonesia is a maximum of 5% to obtain a good predicate in its financial/financing performance. This means the bank must maintain a non-performing financing ratio of no more than 5% of its total financing. The smaller of NPF ratio, the lower risk of non-performing financing that must be borne by the bank. Bank Indonesia, through circular letter number .9/24/DPbS, 2007, sets the criteria for the health level of financing based on the NPF ratio as follows:

**Table 3. The soundness level of financing based on the NPF ratio**

Rating	NPF Ratio	Predicate
1.	< 2%	Excellent
2.	2% - 5%	Good
3.	5% - 8%	Fair
4.	8% - 12%	Poor
5.	>12%	Bad

Source: [www.bi.go.id](http://www.bi.go.id)

#### **Efficiency Ratio / OEOI (Operating Expenses-Operating Income)**

A bank's financial performance efficiency ratio can be assessed through the OEOI ratio. The OEOI ratio is a divide between the operating costs value (Operational Expenses) and the value of operating revenue (Operational Income). The formula is:

$$\text{OEOI Ratio} = \frac{\text{Operational Expenses}}{\text{Operational Income}} \times 100\%$$

The high operational costs incurred by banks can have an impact on decreasing net income from banks. This, in turn, can predispose the amount of funds disbursed by the bank for financing purposes (Prasetyandari, 2021).

#### **Capital Adequacy Ratio / CAR**

Capital Adequacy Ratio (CAR) is a financial ratio used as an indicator to determine whether the capital held by a bank is adequate to cover the potential risks and losses it may face. The CAR is calculated by comparing the capital value to the RWA. The capital itself is composed of two main components: Tier 1 capital, often referred to as core capital, along with Tier 2 capital, which is classified as supplementary capital. The value of the supplementary capital considered in formulating the CAR cannot exceed 100% of the core capital. The RWA is calculated by multiplying the accumulated depreciation or provisions for capital or Impairment Loss Reserve (ILR) by the risk weights, which Bank Indonesia determines. The equation utilized to determine the CAR is as stated below:

$$\text{CAR} = \frac{\text{Total Capital Value}}{\text{Risk-Weighted Assets (RWA)}} \times 100\%$$

The Bank for International Compliance (BIS) sets the minimum standard of this CAR ratio at 8%. The provisions of the BIS are non-binding. However, almost all central banks in the world have adopted these provisions, including Bank Indonesia. B.I. implements the determination of the CAR ratio into the Minimum Capital Adequacy Requirement (KPMM) through PBI, whose amount of which shall be adjusted to the situation and conditions of banks in Indonesia and the world (Riyadi, 2014).

The CAR ratio plays a crucial role in assessing a bank's performance. The calculation of the CAR ratio is utilized to determine the bank's performance in bearing or covering potential losses, fulfilling long-term capital requirements, and measuring the capacity of the banks to produce profitability. A higher CAR value signifies an enhanced capability of a bank to endure the risk associated with non-performing financing.

### Financing to Deposit Ratio (FDR)

Financing to Deposit Ratio (FDR) is the ratio which is obtained by dividing the aggregate value of financing disbursed by the bank by the overall sum of third-party funds (deposits) received by the bank. The FDR ratio indicates the extent to which a bank can manage and channel funds derived from public deposits into financing activities. The following formula can be utilized to compute the FDR ratio:

$$\text{FDR} = \frac{\text{Total Financing}}{\text{The total amount of Third-Party Funds}} \times 100\%$$

FDR also indicates liquidity conditions at banks. When banks are in good liquidity conditions, banks tend to be more flexible in providing financing despite an increase in bad financing (Sari, 2016). A higher FDR corresponds to a reduced level of liquidity held by the bank. However, the higher FDR ratio also indicates the bank is effectively able to carry out its function as funding intermediation optimally. However, it is also important to remember that the larger deployment of financing, means that the risk of problematic financing becomes higher as well.

### Inflation Rate

The term "inflation" relates to the general increase in prices of goods and services during a specific period. A continuous upward movement in prices characterizes inflation. Suppose the increase in price only occurs for one or two specific items. In that case, it does not necessarily indicate inflation unless the price increases of those items lead to widespread price increases for other goods and services (BI, 2023). For example, an increase in fuel prices can trigger a chain reaction, leading to an increase in transportation costs and subsequently resulting in a wider increase in the prices of other goods. This is an example of how inflation can occur due to the interconnectedness of various sectors and the ripple effects of price changes.

Inflation has a significant impact on the banking sector. High inflation can lead to a decrease in borrowers' ability to repay loans. When there are soaring prices of goods, people may react by diverting the allocation of funds originally for business capital to consumptive spending. Consequently, the risk of problematic financing in banks is increasing.

Based on the outcomes of the classical assumption test, the subsequent findings were obtained as follows:

## Multicollinearity Test

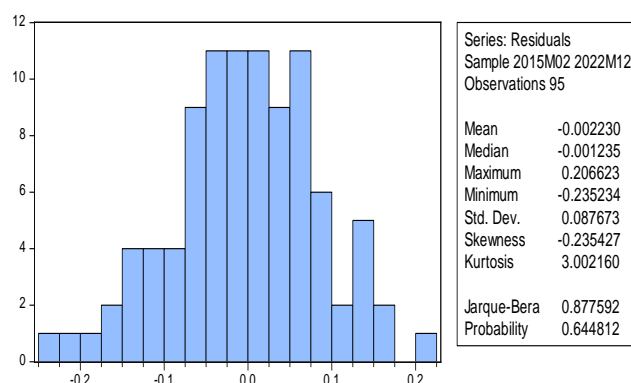
**Table 4. Multicollinearity test**

Variance Inflation Factors  
Date: 03/25/23 Time: 08:51  
Sample: 2015M01 2022M12  
Included observations: 95

Variable	Coeff. Var.	Uncentered VIF	Centred VIF
OEOI	0.305971	1242.077	1.439898
CAR	0.094953	174.4430	1.626546
FDR	0.378090	1469.498	1.208660
Inflasi	0.006404	2.703982	1.070382
C	0.345398	4098.373	NA

From the multicollinearity test results, it is known that the centred VIF values are below 10, indicating that there is no multicollinearity issue in the processed data.

## Normality Test



**Figure 1. Diagram of normality test results**

The normality test was conducted using the Skewness and Kurtosis test or the Kolmogorov-Smirnov (K.S.) test. The outcome of the Jarque-Bera test revealed a probability value of 0.64, which is higher than the significance level of 0.05. Therefore, it can be inferred that the data is normally distributed.

## Autocorrelation Test

**Table 5. Autocorrelation test**

Dependent Variabel: NPF  
Method: Least Squares  
Date: 03/25/23 Time: 08:53  
Sample (adjusted): 2015M02 2022M12  
Included observations: 95 after adjustment.

Variable	Coefficient	Std. Error	t-Stat.	Prob.
OEOI	0.306946	0.553146	0.554909	0.5803
CAR	-1.192918	0.308144	-3.871297	0.0002
FDR	1.649967	0.614890	2.683352	0.0087

Inflasi	-0.052292	0.080026	-0.653439	0.5151
C	-0.574918	0.587706	-0.978242	0.3306
R-squared	0.344612	Mean dependent var	0.073571	
Adjusted R-squared	0.315484	S.D. dependent var	0.108149	
S.E. of regression	0.089478	Akaike info criterion	-1.938453	
Sum squared resid	0.720567	Schwarz criterion	-1.804038	
Log-likelihood	97.07652	Hannan-Quinn criteria.	-1.884139	
F-statistic	11.83082	Durbin-Watson stat	1.859894	
Prob(F-statistic)	0.000000			

The results of the autocorrelation test show that the Durbin-Watson (D.W.) statistic value is 1.859894, which is greater than the upper critical value (dU) of 1.7546. Additionally, the value of 4 - D.W. (2.140106) is also greater than dU. Therefore, it can be concluded that there is no positive or negative autocorrelation.

After processing the data using the statistical software Eviews9 and employing the Robust Least Squares method, the multiple linear regression analysis yields the following results:

### The Result of Multiple Linear Regression

**Table 6. Multiple Linear Regression**

Dependent Variabel: NPF  
Method: Robust Least Squares  
Date: 03/25/23 Time: 08:49  
Sample (adjusted): 2015M02 2022M12  
Included observations: 95 after adjustment.  
Method: M-estimation  
M settings: weight=Bisquare, tuning=4.685, scale=MAD (median centered)  
Huber Type I Standard Errors & Covariance

Variable	Coeff.	Std. Error	z-Stat.	Prob.
OEOI	0.331586	0.570395	0.581327	0.5610
CAR	-1.116661	0.317753	-3.514237	0.0004
FDR	1.528428	0.634065	2.410524	0.0159
Inflasi	-0.026342	0.082521	-0.319218	0.7496
C	-0.551233	0.606033	-0.909576	0.3630
Robust Statistics				
R-squared	0.253072	Adjusted R-squared	0.219875	
Rw-squared	0.361184	Adjust Rw-squared	0.361184	
Akaike info criterion	97.76289	Schwarz criterion	112.1576	
Deviance	0.622135	Scale	0.083426	
Rn-squared statistic	39.51272	Prob(Rn-squared stat.)	0.000000	
Non-robust Statistics				
Mean dependent var	0.073571	S.D. dependent var	0.108149	
S.E. of regression	0.089630	Sum squared resid	0.723011	

The Robust Least Squares method is used to address heteroscedasticity issues in the processed data. The result shows that the Prob (Rn-squared stat) value is 0.00, which is

less than 0.05. Hence, it can be inferred that the independent variables, the OEOI ratio, CAR, FDR, and Inflation, collectively exhibit a statistically significant influence on the NPF Ratio as a dependent variable.

For the variable of the OEOI ratio, the probability value is  $0.56 > 0.05$ . Based on the analysis, it can be concluded that the OEOI ratio variable has a non-significant impact on the NPF variable, as indicated by a coefficient value of 0.344. With the CAR probability value of 0.0004, which is lower than 0.05, it can be inferred that the CAR variable significantly affects the NPF variable. The coefficient value of -1.116 for the CAR variable indicates a negative impact on NPF. This implies that an increase in CAR by 1% is associated with a decrease in the NPF value by approximately 1.116%. The FDR variable exhibits a probability value of 0.015, which is less than the significance level of 0.05. This suggests that FDR has a statistically significant impact on NPF. The coefficient value of the FDR variable is 1.528, meaning that the FDR variable positively affects the NPF value with the assumption that if FDR increases by 1%, the NPF value will also increase by 1.528%. And the probability value for inflation is  $0.749 < 0.05$ , which indicates that inflation does not significantly impact NPF. To determine the effect of OEOI ratio, CAR, FDR and Inflation together on NPF, it can be seen from the *Rw-squared* value, where the value of *Rw-squared* in the regression results table above is 0.361, which means that the OEOI ratio, CAR, FDR and Inflation variables simultaneously affect NPF by 36.1% while the rest is affected by variables that have not been considered in this research.

### Discussion of findings

The above results indicate that the effect of the OEOI ratio on the NPF ratio is not significant, which means that this research rejects the first hypothesis in this research. This result suggests that the financial efficiency factor in Islamic Commercial Banks does not directly affect the occurrence of NPF. This finding is consistent with the research carried out by (Destiana, 2018), where the causes of non-performing financing are more related to debtor obligations in repaying their debts and are not highly dependent on the operational efficiency factors of the institution. However, these research findings are not aligned with the research from (Prayitno & Sudaryanto, 2016);(Prasetyandari, 2021) where. The outcomes of their research reveal a significant and positive effect of the efficiency ratio variable on the NPF ratio.

The influence of the CAR variable on NPF is not significant, with a negative effect, which means that the second hypothesis of the research is accepted. When the CAR value experiences an upward, it causes a downward NPF ratio. The decrease in the NPF ratio indicates a lower risk of problematic financing faced by the banks. This is consistent with the background information where a higher CAR ratio reduces the potential for financing misuse, which can lead to the risk of NPF. This outcome is additionally supported by some research which is carried out by (Sarkasih et al., 2023);(Amelia, 2019);(Destiana, 2018), where their research findings showed a significant influence and negative effect of the CAR variable on NPF. However, this contradicts the results of the study conducted by (Maidalena, 2014) the research indicates a direct proportionality between CAR and NPF, implying a positive impact.

The findings of this research indicate a substantial positive impact of FDR on NPF, thereby confirming the third hypothesis that a higher FDR value corresponds to a higher NPF

ratio. The high value of FDR shows that banks are aggressively channelling their funds for financing. The upgrades amount of this financing certainly also increases the risk of problematic financing. This result is supported by research backed by (Prasetyandari, 2021);(Sari, 2016).

The inflation rate has no significant effect on the NPF ratio, which means rejecting the fourth hypothesis of this study. This means that inflation as an external factor does not necessarily become a factor causing the risk of NPF. The same results are also found in research verified by (Purnamasari & Musdholifah, 2016);(Perdani et al., 2019), where inflation or the augment in the price of commodities can actually increase the profit of the customer's business that receives Bank financing so that the process of returning the financing made by the customer becomes smoother.

Simultaneously, the OEOI ratio, CAR, FDR, and inflation rate significantly affect the ratio of NPF in Islamic Commercial Banks in Indonesia. This means that the findings of this research support the fifth hypothesis.

#### IV. CONCLUSION

Among the four variables considered for their impact on NPF ratio in Islamic Commercial Banks in Indonesia, only two variables significantly affect the ratio for NPF: CAR and FDR. A significant negative effect occurred by CAR variable, while FDR shows a significant influence and positive effect on NPF. On the other hand, the other two variables, the OEOI ratio and inflation, do not significantly impact the NPF ratio. The OEOI ratio has an insignificant and positive influence, while the influence of the inflation variable is not significant and has a negative effect on the NPF ratio. However, All four independent variables, namely the OEOI ratio, CAR, FDR, and inflation, collectively significantly influence the risk of non-performing financing in Islamic Commercial Banks in Indonesia when examined simultaneously.

This study still has great potential for further development because many other factors can influence the occurrence of problem financing in the banking industry, which were not considered in this study due to various limitations. Future studies can explore additional factors beyond the variables included in this study.

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