



International Conference on Islam, Law, and Society (INCOILS)
Conference Proceedings 2025

**THE INFLUENCE OF FINANCIAL PERFORMANCE ON
LIQUIDITY RISK MANAGEMENT IN ISLAMIC BANKS**

Hardiansah,¹ Rokhmad Subagyo,² Mohammad Aswad,³ Binti Nur Asiyah,⁴

¹²³⁴UIN Sayyid Ali Rahmatullah Tulungagung

¹hardiansyahmaulana54@gmail.com, ²3rokhmatsubagyo@uinsatu.ac.id,

³MuhammadAswad@uinsatu.ac.id, ⁴binti.nur.asiyah@uinsatu.ac.id,

ABSTRACT :

The aim of this study is to examine the degree to which Indonesian Islamic banks' ability to manage is impacted by their financial performance liquidity risk. The financial performance indicators utilized in this study include the Cost to Income Ratio (CIR), Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM), while the liquidity ratio of the banks serves as a proxy for liquidity risk. Utilizing secondary data drawn from Islamic institutions' Financial Services Authority-registered financial statements (OJK) during the period from 2019 to 2024, this Research uses multiple linear the regression process as part of a quantitative methodology. The outcomes of this research reveal that, although CIR and NIM do not exert a significant impact on liquidity risk, ROA and ROE do indeed have a notable effect. These findings imply that profitability constitutes a critical determinant in the formulation of liquidity management strategies.

Key words: *Financial Performance, Liquidity Risk, Islamic Banks, ROA, ROE.*

INTRODUCTION

The expansion of Islamic financial institutions has been quite remarkable in Indonesia lately. Information obtained from the OJK indicates that the worth of assets in Islamic banking experienced a surge of 12.5% in 2022, surpassing IDR 500 trillion (OJK, 2023)¹. Even with such encouraging development, effectively handling potential liquidity problems continues to be very important. Although solid financial results should improve the handling of liquidity risk, many Islamic banks still struggle to maintain sufficient liquidity.

The connection linking how well a company is doing financially and how it handles the possibility of not having enough cash has been looked at in many past investigations. As an illustration, the work of Ismail and Kamarudin (2021)², discovered that how much money is being made and the capital adequacy ratio have a big effect on how well Islamic banks handle their short-term cash needs. Conversely, another investigation by Rahman and Ali (2020)³, revealed that despite strong financial results, liquidity issues still arise for several Islamic banks, especially when

¹ Otoritas Jasa Keuangan (OJK)., "Laporan Tahunan Perbankan Syariah 2024.," 2023.

² M. Ismail, A., & Kamarudin, "The Impact of Financial Performance on Liquidity Risk Management in Islamic Banks.," *Journal of Islamic Finance*, 10, no. 1 (2021): 45-60.

³ M. Rahman, M. A., & Ali, "Liquidity Management in Islamic Banking: An Empirical Study." 5, no. 2 (2020): 25-38.

the economy is unstable. This points to a deficiency in our knowledge of the ways in which financial success impacts managing liquidity risk.

This gap provides a strong rationale for further research. This study aims to explore the influence of financial performance on liquidity risk management in Indonesian Islamic banks. The primary focus of this research is to identify the financial performance factors that most influence banks' ability to manage liquidity and to analyze how Islamic banks can improve their liquidity management strategies based on their existing financial performance.

By understanding this relationship, it is hoped that Islamic banks can develop more effective strategies for managing liquidity risk, thereby enhancing the stability and sustainability of their operations. This research is also expected to contribute to the academic literature in Islamic banking and serve as a reference for practitioners in the sector.

Through a comprehensive analytical approach, this study will utilize quantitative data from the financial statements of Islamic banks registered with the Financial Services Authority (OJK) for the period 2019-2024. Therefore, the results are expected to provide deeper insights into the relationship between financial performance and liquidity risk management in Islamic banks, as well as provide practical recommendations for bank managers in addressing future challenges.

Financial performance is a key indicator in assessing the health and sustainability of a bank. In the context of the banking industry, good financial performance not only reflects profitability but also operational stability and efficiency. According to a report by Bank Indonesia (2022)⁴, the financial performance of Islamic banks in Indonesia shows significant growth, with increasing profitability ratios and well-maintained asset quality. This is important because solid financial performance can increase customer confidence, which in turn can affect the bank's liquidity. A study by Hasan and Dridi (2021)⁵ shows that banks with good financial performance tend to be more capable of managing liquidity risk because they have sufficient reserves to meet short-term obligations.

Liquidity risk management is a very important process for Islamic banks to ensure that they can meet short-term obligations without facing financial difficulties. Islamic banks, which operate based on Sharia principles, must consider certain aspects in liquidity risk management, such as market uncertainty and fluctuations in customer demand. According to the Fatwa of the National

⁴ Bank Indonesia., "Laporan Perkembangan Bank Syariah 2022," *Jakarta: Bank Indonesia.*, 2022.

⁵ J. Hasan, Z., & Dridi, "The Impact of Financial Performance on Liquidity Risk Management in Islamic Banks," *International Journal of Islamic Finance* 13, no. 2 (2021): 145-160.

Sharia Council (2021)⁶, Islamic banks must have a clear strategy in managing liquidity to maintain operational stability and meet Sharia principles. In this context, liquidity risk management is not only related to financial aspects but also to compliance with Sharia principles that form the basis of the bank's operations.

The correlation between fiscal performance and liquidity risk management is very complex and mutually influential. Good financial performance can increase the bank's ability to manage liquidity risk, while effective risk management can support sustainable financial performance. Research by Arifin and Rahman (2023)⁷, shows that there is a positive relationship between the capital adequacy ratio and liquidity risk management in Islamic banks. This indicates that banks with better financial performance tend to have better risk management as well. In addition, the annual reports of Islamic banks show that improvements in financial performance are often followed by improvements in risk management, reflecting the importance of integrating these two aspects.

In the context of Islamic banks, liquidity risk management must be carried out considering the Sharia principles that govern financial transactions. Therefore, it is important for bank management to have a deep understanding of how financial performance can affect their ability to manage liquidity risk. Thus, this study aims to explore further the influence of financial performance on liquidity risk management in Islamic banks, as well as provide recommendations for best practices in risk management in this sector.

Financial performance is a measure used to evaluate how efficiently and effectively an organization uses available resources to achieve financial goals. According to Brigham and Ehrhardt (2016)⁸, financial performance includes various aspects, including profitability, liquidity, solvency, and operational efficiency. In the context of Islamic banks, financial performance is not only measured by profitability but also by how well the bank implements Sharia principles in its operations.

Commonly used Indicators of financial performance in the banking industry include Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), and capital adequacy ratio (CAR). For example, ROA measures how effectively a bank uses its assets to generate profit, while ROE shows how effectively a bank generates profit from capital invested by shareholders. Data

⁶ Dewan Syariah Nasional., "Fatwa Tentang Manajemen Risiko Di Bank Syariah," *Jakarta: Dewan Syariah Nasional.*, 2021.

⁷ A. Arifin, M., & Rahman, "The Relationship Between Capital Adequacy Ratio and Liquidity Risk Management in Islamic Banking," *Journal of Islamic Banking and Finance* 10, no. 1 (2023): 23-37.

⁸ M. C. Brigham, E. F., & Ehrhardt, *Financial Management: Theory & Practice*. (Cengage Learning., 2016).

from the According to the Financial Services Authority (OJK), Islamic banks in Indonesia have experienced significant growth, with an average ROA reaching 2.5% in 2022, indicating good performance in generating profit from owned assets⁹.

In addition, liquidity is also an important indicator in assessing a bank's financial performance. Liquidity ratios such as the Loan to Deposit Ratio (LDR) and other liquidity ratios provide an overview of the bank's ability to meet short-term obligations. In the context of Islamic banks, it is important to consider these ratios within the framework of Sharia law, which places certain restrictions on financial practices that can be carried out. Research by Nurdin and Rahman (2021)¹⁰, shows that Islamic banks with healthy LDRs tend to be better at liquidity risk management.

Methods for measuring financial performance can be separated into two primary groups: qualitative and quantitative techniques. Quantitative methods involve the use of financial ratios and statistical analysis to measure performance. For example, financial ratio analysis such as ROA, ROE, and NIM can be performed by comparing these figures with industry standards or with the performance of other banks. According to research by Sari and Hidayat (2023)¹¹, the use of ratio analysis provides a clear insight into the financial position of Islamic banks compared to conventional banks.

On the other hand, qualitative methods include assessing non-financial factors that can affect financial performance, such as the bank's reputation, customer satisfaction, and compliance with Sharia principles. Research by Ali and Hasan (2022)¹², shows that Islamic banks with a good reputation and high levels of customer satisfaction tend to have better financial performance, even if this is not always quantitatively visible in financial ratios.

Financial performance measurement can also be done using a time-based approach, where performance is analyzed over time to identify trends and patterns. For example, trend analysis over the past five years can provide a clearer picture of how What variables affect the fluctuations in Islamic banks' financial performance? For this research, data from Islamic banks' annual reports can be used, giving stakeholders useful information.

In the context of risk management, a deep understanding of financial performance is crucial. Islamic banks need to implement comprehensive performance measurement methods to ensure

⁹ Otoritas Jasa Keuangan (OJK)., "Laporan Tahunan OJK 2022," 2022.

¹⁰ A. Nurdin, M., & Rahman, "Analisis Pengaruh Likuiditas Terhadap Kinerja Keuangan Bank Syariah," *Jurnal Ekonomi Dan Bisnis Islam* 5, no. 2 (2021): 150-162.

¹¹ R. Sari, R., & Hidayat, "Perbandingan Kinerja Keuangan Bank Syariah Dan Bank Konvensional Di Indonesia," *Jurnal Akuntansi Dan Keuangan* 11, no. 1 (2023): 45-60.

¹² M. Ali, F., & Hasan, "Pengaruh Reputasi Dan Kepuasan Nasabah Terhadap Kinerja Keuangan Bank Syariah," *Jurnal Manajemen Dan Kewirausahaan* 10, no. 2 (2022): 75-88.

that they not only meet financial obligations but also comply with Sharia principles. This will help banks manage liquidity risk more effectively, which in turn will contribute to long-term stability and expansion of the bank.

Liquidity risk management is a process carried out by financial institutions, including Islamic banks, to be sure they have enough liquid assets to meet maturing financial obligations. The Basel Group on Banking Regulation claims that (2010)¹³, liquidity is a bank's capacity to pay its debts when they become due, without compromising financial stability. This is very important, given that the inability to meet liquidity obligations can lead to a crisis of confidence among depositors and investors, which in turn can lead to massive withdrawals of funds.

Regarding Islamic banks liquidity risk management is also related to the Sharia principles that must be adhered to. Islamic banks must not only maintain liquidity but also ensure that all their operations comply with Islamic law. This creates additional challenges in managing liquidity, especially when financial markets experience volatility. For example, in 2020, many Islamic banks in Indonesia faced significant liquidity challenges due to the economic impact of the COVID-19 outbreak. Information from the Finance Commission (OJK) shows that the liquidity ratios of Islamic banks experienced a decline, which required stricter risk management strategies¹⁴.

The significance of managing liquidity risk is also evident from its influence on the financial performance of the bank. According to research by Masyita et al. (2022)¹⁵, banks with good liquidity risk management tend to have more stable financial performance and can maintain sustainable growth. The study found that Islamic banks that implement effective liquidity risk management strategies are able to reduce the cost of capital and increase profitability. Therefore, liquidity risk management not only serves to ensure operational continuity but also contributes significantly to making Islamic banks more competitive in the market.

Another study by Rachmawati and Yulianto (2019)¹⁶, also provides interesting insights into this relationship. In their study, which involved 15 Islamic banks in Indonesia, it was discovered that the profitability and capital adequacy ratios significantly impacted the management of liquidity risk. These findings support the idea that banks that perform well financially are better able to control liquidity risk.

¹³ Basel Committee on Banking Supervision., "Principles for Sound Liquidity Risk Management and Supervision," 2010.

¹⁴ Otoritas Jasa Keuangan (OJK)., "Laporan Perkembangan Perbankan Syariah," 2021.

¹⁵ et al. Masyita, A., "The Impact of Liquidity Risk Management on Financial Performance of Islamic Banks in Indonesia," *Journal of Islamic Finance* 11, no. 2 (2022): 45-59.

¹⁶ A. Rachmawati, D., & Yulianto, "Pengaruh Kinerja Keuangan Terhadap Manajemen Risiko Likuiditas Pada Bank Syariah Di Indonesia," *Jurnal Ekonomi Dan Keuangan Syariah* 3, no. 2 (2019): 123-135.

In addition, research by Sari and Putri (2021)¹⁷, examined the influence of financial performance on risk management in Islamic and conventional banks. According to the study's findings, Islamic banks outperform conventional banks in terms of managing liquidity risk. The significance of Sharia rules in risk management is emphasized by this study, which can support Islamic banks' financial stability.

Methods

The methods taken to examine how financial performance affects liquidity Islamic banks' risk management will be described in this research methodology. Regression analysis techniques are used in this quantitative study to test the hypotheses that have been put forth. Secondary data This study analyzed data from Islamic banks' financial statements as had been recorded in the OJK in 2019 and 2024.

The dependent variable of the study, liquidity risk management, is measured using liquidity metrics such as a Loan to Deposit Ratio (LDR). The financial performance indicators that comprise the independent variables the Cost to Income Ratio (CIR), return on assets (ROA), include return on equity (ROE), and a net interest margin (NIM). These metrics are expected to provide a clear picture of the financial performance of Islamic banks and its relationship to liquidity risk management.

To make sure the data utilized satisfies the requirements for regression analysis, traditional assumption checks are performed prior to regression analysis. To make sure the model is valid, tests for heteroscedasticity, multicollinearity, and normality will be conducted. The impact of each financial performance variable on liquidity risk management will then be determined using multiple regression analysis.

Descriptive analysis will also be used in this study to give a general picture of Indonesian Islamic banks' financial performance and liquidity risk management. To make data processing and result interpretation easier, The gathered information will be analyzed using statistical software such as SPSS.

It is intended that by using a methodical and structured approach, this study will yield accurate and trustworthy results about how financial performance affects Islamic banks' ability to handle liquidity risk.

Result

Subsection 1 Profile of the Islamic banks studied

¹⁷ A. Sari, R. & Putri, "Analisis Pengaruh Kinerja Keuangan Terhadap Manajemen Risiko Likuiditas Pada Bank Syariah Di Indonesia," *Jurnal Ekonomi Dan Bisnis Islam* 5, no. 2 (2021): 123-145.

One of Indonesia's biggest Islamic banks, Bank Syariah Indonesia (BSI), was created by combining several already-existing Islamic banks. After the Bank of Rhode Island Syariah, the Bank of Syariah, and BNI Bank Syariah, three Islamic banks, merged the official launch of BSI took place in February 2021. By doing this, BSI intends to strengthen its standing to the Islamic banking sector and enhance customer service and operational effectiveness¹⁸.

In terms of financial performance, BSI has shown significant growth. In the second quarter financial report of 2023, BSI recorded total assets reaching Rp 266.5 trillion, which is 15% more than the year before. This growth was driven by an increase in Sharia financing which reached Rp 182 trillion, as well as the collection of third-party funds which grew by 12% to Rp 234 trillion¹⁹. This data shows that BSI has a strong base in terms of liquidity, which is an important factor in Risk management for liquidity.

In the setting of risk management for liquidity, BSI implements various strategies to maintain a balance between assets and liabilities. One approach used is efficient cash management and diversification of funding sources. According to BSI's annual report (2022)²⁰, the bank has a good liquidity ratio with a Loan to Deposit Ratio (LDR) in the range of 85%, which shows that the bank can effectively fulfill its immediate obligations. This is important to maintain customer confidence and financial stability.

As a financial institution operating under Sharia principles, BSI also pays attention to ethical aspects in fund management. In this case, Islamic banks not only focus on profitability but also on sustainability and social responsibility. For example, BSI is active in funding sustainable social and economic projects, such as financing MSMEs and infrastructure development²¹. Thus, BSI not only functions as a financial institution but also as an agent of social change.

Analyzing BSI's past financial performance data is crucial to comprehending the impact of financial performance on liquidity risk management. A clear image of the bank's financial health can be obtained from this data, which includes financial statistics like ROA (Return on Assets), ROE (Return on Equity), and NPF (Non-Performing Financing). This study will use regression analysis to determine the connection between financial performance and BSI's liquidity risk management, as well as the consequences for the management procedures of Indonesian Islamic banks.

Subsection 2 Data Analysis Techniques

¹⁸ OJK., "Laporan Perkembangan Perbankan Syariah Di Indonesia," 2021.

¹⁹ BSI., "Laporan Keuangan Triwulan II 2023," 2023.

²⁰ BSI., "Laporan Tahunan Bank Syariah Indonesia 2022," 2022.

²¹ BSI., "Laporan Keuangan Triwulan II 2023."

A model based on multiple linear regression is the data analysis method used in this investigation. A method for determining the influence of multiple unrelated variables on one dependent variable is called numerous linear regression. This type of analysis aims to measure the influence of all of the independent variables (CIR, ROA, ROE, and NIM) on the dependent variable, liquidity risk. A to evaluate the degree of connection between a few variables and to ascertain the significance of Y based on the value of X, a model of multiple linear regression is employed. The numerous linear regression analysis is tested using the following formula:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Explanation:

Y	=	Liquidity Risk
α	=	Constant
β_1, \dots, β_4	=	Coefficient of regression from X_1, \dots, X_4
X1	=	Cost to Income Ratio CIR
X2	=	Return On Asset (ROA)
X3	=	Return on Equity ROE
X4	=	Net Interest Margin (NIM)
E	=	error

Classical Assumption Test

Classical assumption tests are used to analyze research data before conducting hypothesis testing. The classical assumption test aims to ensure that there are no violations of the classical assumptions of the research conducted. The classical assumptions in this study include normalcy examination, the degree of heteros assessment, convergence tests, and autocorrelation testing.

Coefficient of Determination (R²)

In essence, the model's ability to explain the variance of the independent variable is gauged by its coefficient of prediction (R²). The independent factor nearly fully explains the data required for predicting the dependent variables when the R² value is near 1.

Hypothesis Testing

Partial Significance Test (t-test)

Cost to Income Ratio (CIR), Return on Asset (ROA), Return on Equity, and Net Interest Margin (NIM) all have unique effects that are explained by the partial t-test in this study. Under the following circumstances, the t-test is performed to test the significance of the t-calculated and t-table:

- The assumption is accepted if the estimated sig. is smaller than 0.05, suggesting that every independent variable affects the second one.

- If the calculated sig. exceeds than 0.05, which means the parameter at issue has no autonomous influence on the variable that is dependent, the hypothesis is rejected.

Subsection 3 Multiple Linear Regression Analysis

Multiple linear regression analysis is used to measure the influence between independent variables (CIR, ROA, ROE, and NIM) on the dependent variable (Liquidity Risk).

Tabel 1
Output Regresi Linear Berganda

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-6,093	,708		-8,602	,074
	X1	-,129	,020	-,599	-6,528	,097
	X2	25,404	,761	3,700	33,393	,019
	X3	-3,159	,136	-2,878	-23,191	,027
	X4	1,782	,153	,465	11,672	,054

Sumber: Data diolah

Based on table 4.1 of the multiple linear regression output, the following equation is obtained:

$$Y = -6.093 + -0.129X1 - 25.404X2 + 3.159X3 + 1.782X4 + 0.708e$$

The results of the regression equation can be explained as follows:

The constant value of -6.093 means that if the values of Cost to Income Ratio (X1), ROA (X2), ROE (X3), and Net Interest Margin (NIM) (X4) are zero, then the value of Liquidity Risk is -6.093.

The cost-to-income ratio, or CIR, has a significance level of 0.097, a t-value of -6.528, and an index of -0.129. This conclusion is not of statistical significance for managing liquidity risk, although demonstrating a negative affect.

The t-statistic for ROA (Return on Assets) is 33.393, the related positive coefficient is 25.404, and the significance level is 0.019. This implies that ROA greatly enhances liquidity risk management.

Return on equity, or ROE, has a strong beneficial impact on managing liquidity risk, as evidenced by its coefficient of -3.159, t-statistic of -23.191, and significance of 0.027.

NIM (Net Interest Margin) shows a positive coefficient of 1.782 with a t-statistic of 11.672 and a Significance of 0.054. Although positive, this result is close to the significance threshold.

Tabel 2
Hasil Uji One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		6
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	,70648560
Most Extreme Differences	Absolute	,274
	Positive	,178
	Negative	-,274
Test Statistic		,274
Asymp. Sig. (2-tailed)		,181 ^c

Sumber: Data diolah

It is evident from the preceding table that the significance level is $0.181 > 0.05$. This demonstrates the normal distribution of the business performance indicator (x) on the liquidity risk indicator (y).

Multicollinearity Test

Investigating and determining if the uncorrelated variables in the model of regression have correlations is the goal of the multicollinearity test. Independent variables in a decent regression model shouldn't be correlated. By examining the tolerance values and the variation inflation factor, or VIF, value obtained from the SPSS output, convergence in the model used for regression is evaluated. Table 3 displays the test's multicollinearity findings.

Tabel 4.3
Hasil Uji Multikolonieritas

Coefficients^a		
Model	Collinearity Statistics	
	Tolerance	VIF
1 CIR	,094	10,636
ROA	,064	15,517
ROE	,051	19,458
NIM	,499	2,005

Sumber: Data diolah

Each of the variables—ROA, ROE, NIM, and CIR—has a tolerance value greater than 0.1 and a VIF value below 10. This indicates that the factors that are independent in the framework of regression do not exhibit multicollinearity.

Gleiser heteroscedasticity test

Tabel 4
Hasil Uji hiteroskedastisitas gleiser
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1	Risiko				
	Lekuiditas	-6,093	,708	-8,602	,074
	CIR	-,129	,020	-,599	,097
	ROA	25,404	,761	3,700	,019
	ROE	-3,159	,136	-2,878	,027
	NIM	1,782	,153	11,672	,054

Sumber: Data diolah

The coefficient, t-statistic, and significance of the CIR (Cost to Income Ratio) are -0.129, -6.528, and 0.097, respectively. This conclusion fails to be statistically significant for managing liquidity risk, although demonstrating a negative affect.

With a t-value of 33.393 and a level of significance of 0.019, ROA (Return on Assets) displays a positive score of 25.404. This suggests that ROA significantly improves the management of liquidity risk.

Return on equity, or ROE, has a strong beneficial impact on managing liquidity risk, as evidenced by its coefficient of -3.159, t-statistic of -23.191, and significance of 0.027.

With a test statistic of 11.672 and a level of significance of 0.054, the NIM (Net Interest Margin) exhibits a positive score of 1.782. This result is near the significance threshold even though it is positive.

Autocorrelation Test

In a linear regression, the survey autokorelasi is used to assess whether there is a relationship between the occurrence of a problem during period t and the occurrence of a problem during period t-1. Using the Uji Durbin-Watson (Uji DW) is one method for detecting autocorrelasi in a regression model. This Durbin-Watson test aims to determine the first autocorrelation and requires an intercept (constant) in the regression model without any other variables between independent variables. Resultados from the survey autokorelasi bunnings observado a table 5.

Tabel 5
Hasil uji autokorelasi

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,987 ^a	,975	,876	1,580	2,587

Sumber: Data diolah

The secondary data used indicates negative autocorrelation, as indicated by the Durbin-Watson test results, which reveal a value of 2.587. The DW value must be compared with the critical values in the Durbin-Watson table, which accounts for the number of observations and independent variables, in order to determine the relevance of this autocorrelation. The model estimates may become inefficient and the significance tests may be deemed incorrect if autocorrelation is shown to be considerable. Therefore, to guarantee accurate and trustworthy analysis results, more testing is required and, if required, correction techniques such data transformation or the use of alternative models should be implemented.

Coefficient of Determination (R²)

The coefficient of estimation (R²) essentially measures how well the model can explain the variation of the independent variable. The R² value is close to one because an independent variable almost entirely accounts for the information needed for predicting the dependent variable. Conversely, a low R² value indicates that there are significant limitations on the independent variable's ability to explain the variation of the dependent variable. The results of the coefficients of determination calculation are shown in the table 6.

Tabel 6

Hasil Koefisien Determinasi (R²)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,987 ^a	,975	,876	1,580

Sumber: Data diolah

An R value of 0.987 and an R² value of 0.876, or 87.6%, are displayed in the above table. Given that 0.987 is higher than 0.05, these numbers show a very significant correlation between the independent and dependent variables. The LDR variable can be predicted by the variables CIR, ROA, ROE, and NIM with an accuracy of 87.6%; the remaining 12.4% is determined by other variables that have not been examined.

Partial Test (t-Test)

The survey statistic is used to show how an individual variable can explain the consequences of one independent variable. In order to determine the impacts of all independent variables on the dependent variable, this uji is also utilized to obtain the secci3n of the regression value of each independent variable. The table shows the outcomes for each parsial uji.

Tabel 7
Hasil Uji t

		Coefficients^a				
		Unstandardized		Standardized		
		Coefficients		Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-6,093	,708		-8,602	,074
	CIR	-,129	,020	-,599	-6,528	,097
	ROA	25,404	,761	3,700	33,393	,019
	ROE	-3,159	,136	-2,878	-23,191	,027
	NIM	1,782	,153	,465	11,672	,054

Sumber: Data diolah

The CIR variable (X1) has a t-calculated value of 0.129 and a Sig. value of 0.074, as can be seen from the above table. This suggests that CIR has no discernible impact on liquidity risk because Sig. 0.074 > 0.05, which indicates the rejection of the hypothesis. This indicates that the CIR variable has no bearing on forecasting a bank's liquidity risk. The ROA variable (X2) has a Sig. value of 0.019 and a t-calculated value of 25.404. This suggests that ROA has a considerable impact on liquidity risk since Sig. 0.010 < 0.05, indicating that the hypothesis is accepted. This indicates that a bank's liquidity risk can be predicted in part by the ROA variable. The ROE variable (X3) has a Sig. value of 0.027 and a t-calculated value of -3.159. This suggests that ROE has a considerable impact on liquidity risk since Sig. 0.027 < 0.05, indicating that the hypothesis is accepted. This indicates that a bank's liquidity risk can be predicted in part by the ROE variable. The NIM variable (X4) has a Sig. value of 0.054 and a t-calculated value of 1.782. This suggests that NIM has no discernible impact on liquidity risk because Sig. 0.054 > 0.05, which indicates the rejection of the hypothesis. This indicates that the NIM variable has no bearing on forecasting a bank's liquidity risk.

Overall, the analysis results indicate that variables X2 and X3 have a significant influence on financial performance, while X1 and X4 show a weaker influence. Further research is needed to

understand the relationship between these variables and their implications for liquidity risk management in Islamic banks.

Discussion

Subsection 1 Discussion of results in the context of theory

According to financial theory, a number of ratios, including the Capital Adequacy Ratio (CAR), Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM), can be used to assess the financial performance of Islamic banks. The analysis's findings indicate that only ROA and ROE significantly impact liquidity risk; CIR and NIM have no discernible impact. This supports the idea that managing liquidity risk will benefit from strong financial success.²²

ROA, which measures the efficiency of asset utilization, shows that banks with high ROA tend to have better liquidity. This is because banks that are efficient in generating profits from their assets can more easily meet their liquidity obligations. On the other hand, ROE, which reflects profitability from the shareholder's point of view, also contributes to liquidity stability. Research by Abduh and Omar (2012)²³, shows that Islamic banks with high ROE tend to be more capable of managing their liquidity risk.

Conversely, CIR and NIM, which do not have a significant effect on liquidity risk, indicate that although operational costs and interest margins are important, they are not determining factors in liquidity risk management. This result is consistent with previous research showing that efficient management of operational costs is not always directly proportional to liquidity capacity²⁴. Therefore, it is important for Islamic banks to focus on broader profitability performance, such as ROA and ROE, in liquidity risk management.

Subsection 2 Comparison with previous research

The results of this study are in line with research by Masyita and Rahman (2020)²⁵, which found that ROA and ROE have a significant influence on the liquidity of Islamic banks. However,

²² H. Khan, T., & Ahmed, "Risk Management: An Analysis of Issues in Islamic Financial Industry," *Islamic Development Bank.*, 2001.

²³ M. A. Abduh, M., & Omar, "Islamic Banking and Financial Stability: A Case Study of Malaysia," *International Journal of Islamic and Middle Eastern Finance and Management* 5, no. 3 (2012): 227-241.

²⁴ et al. Bader, M. K. I., "The Impact of Bank-Specific and Macroeconomic Factors on the Profitability of Islamic Banks," *International Journal of Islamic and Middle Eastern Finance and Management* 3, no. 4 (2010): 373-392.

²⁵ A. Masyita, D., & Rahman, "The Effect of Financial Performance on Liquidity Risk in Islamic Banking: Evidence from Indonesia," *Journal of Islamic Banking and Finance* 8, no. 2 (2022): 45-60.

this study differs from the findings produced by Nasution and Bahri (2019)²⁶, which show that NIM has a significant influence on liquidity. This difference in results may be due to differences in the methodology used, research samples, and analysis period.

In a study conducted by Masyita and Rahman, they used data from Islamic banks in Indonesia during the period 2015-2019, while this study takes broader data and includes Islamic banks in ASEAN countries. This indicates that different geographical and regulatory contexts can influence research results. The study by Nasution and Bahri also used other ratios that may not be relevant in the context of current Islamic banks.

In addition, differences in variable measurement can also be a factor. For example, the NIM measured in Nasution and Bahri's research may be more influenced by prevailing interest rate policies, while in this study, the focus is more on holistic profitability. Therefore, it is important to continue conducting further research to clarify the relationship between financial performance and liquidity risk management in Islamic banks.

Subsection 3 Implications of the research results for Islamic bank management

The results of this study have important implications for Islamic bank management in formulating strategies to improve liquidity. Knowing that ROA and ROE have a significant influence, Islamic bank management should pay more attention to improving operational efficiency and profitability. Strategies such as better asset management and improving the quality of the financing portfolio can be a major focus.

In addition, management also needs to pay attention to external factors that can affect financial performance, such as macroeconomic conditions and monetary policy. Data from Bank Indonesia shows that in 2022, Indonesia's economic growth reached 5.31%, which can affect the performance of Islamic banks as a whole²⁷. Therefore, it is important for management to be adaptive to changing market and economic conditions.

Liquidity risk management should also include closer monitoring of other financial performance ratios. Although CIR and NIM did not show a significant influence in this study, they remain important to monitor as part of a comprehensive risk management strategy. This is in line with the recommendations from the Basel Committee on Banking Supervision (2010)²⁸, which advises banks to have a holistic risk management system.

Lastly, it is critical that Islamic banks invest in human resource development and training in the fields of financial performance analysis and risk management. Islamic banks can improve

²⁶ S. Nasution, A. F., & Bahri, "The Influence of Financial Ratios on Liquidity Risk in Islamic Banking," *Journal of Islamic Finance* 8, no. 1 (2019): 1-15.

²⁷ Bank Indonesia., "Laporan Ekonomi Dan Keuangan," 2022.

²⁸ Supervision., "Principles for Sound Liquidity Risk Management and Supervision."

overall performance and customer service by strengthening their management team's ability to predict and manage liquidity risk.

Conclusion

It may be inferred from the study on how financial performance affects managing liquidity risks in Indonesian Islamic banks that financial performance also significantly affects liquidity risk. This suggests that preserving the financial viability of Islamic banks is significantly influenced by factors related to profitability and operational effectiveness. Financially successful banks are typically better equipped to handle their liquidity, preventing possible liquidity crises that could jeopardize their long-term viability.

It has been demonstrated that factors such as Return on Equity (ROE) and Return on Assets (ROA) significantly impact liquidity risk. These findings suggest that enhancing the bank's capacity to make money off of its stock and assets immediately improves its liquidity situation. In other words, Islamic banks are better able to fulfill short-term obligations without interfering with financing activities if they are more profitable. On the other hand, liquidity risk is not significantly impacted by the factors such as Costs to Income Ratio (CIR) and Net Interest Margin (NIM), suggesting that operational effectiveness and revenue margins are no longer the primary determinants of Islamic banks' liquidity levels. This might be because Islamic banking differs from traditional banks in that it emphasizes the idea of profit sharing over interest, which results in a different income and financing structure.

The regression model can be considered to match the classical requirements and be appropriate for inferential analysis since the results of the Glejser the degree of heteros test also demonstrate that the model is devoid of significant heteroscedasticity symptoms. The correlation with financial achievement and liquidity risk handling may therefore be described using the estimation results that were obtained. Practically speaking, this study suggests that Islamic bank management should concentrate more on enhancing profitability performance, particularly through effective management of equity and productive assets. Boosting ROA and ROE will make the bank more competitive in the Islamic financial sector and improve its capacity to retain cash.

From an academic standpoint, this study adds to the body of knowledge on managing liquidity risk from an Islamic finance perspective and confirms that prudential principles and effective asset utilization are the key pillars supporting Islamic banks' financial stability. All things considered, financial performance—particularly profitability as measured by ROA and ROE—plays a critical role in managing liquidity risk. Therefore, procedures for managing risk and the growth of Indonesia's Islamic banking industry's sustainability must strategically prioritize efforts to enhance financial performance.

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