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Market Risk Exposure in the Implementation of Profit Equalization Reserves in the Islamic Banking Industry

Lisa Yuni Lestari, S.E,¹ M. Nanang Febrianto, S.E,² Dr. Rokhmat Subagiyo, M.E.I,³
Dr. Muhammad Aswad, M.A,⁴ Dr. Binti Nur Asiyah, M.Si⁵

¹²³⁴⁵Pascasarjana UIN Sayyid Ali Rahmatullah Tulungagung

¹lisayuni026@gmail.com, ²mnanangfebrianto10@gmail.com, ³rokhmatsubagiyo@uinsatu.ac.id,

⁴MuhammadAswad@uinsatu.ac.id, ⁵binti.nur.asiyah@uinsatu.ac.id

ABSTRACT :

Islamic banking has faced market risks due to exchange rate fluctuations and changes in external conditions that can affect stability and profitability. Profit Equalization Reserve (PER) is applied as an instrument to minimize market risk. This study aims to analyze the role of PER in market risk exposure, the application of PER in Islamic banking in Indonesia and Malaysia, and assess the competitiveness of Islamic banks with conventional banks. The method used in this research is a qualitative method with a comparative approach based on secondary data from OJK, BNM, and Islamic bank financial reports to compare the two countries, Malaysia and Indonesia. The results reveals that PER is effective in stabilizing customer returns and minimizing market risk, including exchange rate and interest rate fluctuations. The application of PER in Malaysia is more structured with a maximum limit of 30% of investment profits, while in Indonesia it is still adjusted to the bank's internal policies. Islamic banks show strong competitiveness through third party funds stability, efficient profitability, and adaptive risk management strategies compared to conventional banks. Further research is expected to analyze in depth the exposure to market risk in the sustainability of the Islamic Banking Industry and the underlying regulations.

Keywords: *Exposure, Islamic Banking, Market Risk, PER.*

INTRODUCTION

The banking industry plays an important role in performing its function as a place to gather money from the general population and return it to the economy. Indonesia has two banking systems that are almost the same in terms of operations but differ in principle, namely conventional banks and Islamic banks. The Islamic Banking System is also implemented in Malaysia to encourage the development of an Interest-Free Banking Scheme. Ultimately, Malaysia's Islamic banking sector began to grow rapidly and become increasingly competitive, encouraging banks from around the world to establish branches or offices in the country.¹ The banking system that is currently developing more rapidly is conventional banking, where banks operate using an interest rate system. This system applies a reference interest rate set by Bank Indonesia to help stabilize the country's economy, control inflation, and maintain the rupiah exchange rate. When conventional interest rates increase significantly, the profit sharing rate at Islamic banks may appear

¹ Ari Susanto, Adiana Novita, and Deni Alatas, "Analisis Perkembangan Perbankan Syariah Di Kabupaten Subang," *Jurnal Perbankan Syariah Indonesia (JPSI)* 2, no. 1 (2023): 36–45, <https://doi.org/10.57171/jpsi.v2i1.70>.

less competitive to some customers, especially those who are oriented towards short-term profits. This situation is known as displaced commercial risk, which is the risk of third-party funds moving from Islamic banks to conventional banks due to differences in rates of return. If the returns received by customers are lower than those offered by conventional banks, some customers tend to move their funds, which in turn creates liquidity risk and reputational risk.²

The decline in third-party funds in Islamic banks can disrupt banking intermediation functions, suppress financing performance, and reduce public confidence in the Islamic financial system.³ Reserve (PER) management, which is the reservation of a portion of profits aimed at stabilizing customer profits while maintaining the competitiveness of sharia banking. Profit Equalization Reserve (PER) is expected to be a balancing instrument that upholds the principles of fairness and benefit in the relationship between customers and financial institutions.⁴ Before the income generated is divided between the Islamic bank as *mudharib* and the customer as *rabbul mal*, a portion of the previously agreed income is set aside and allocated to the Profit Equalization Reserve (PER) account.⁵ Through the PER reserve, Islamic banks can maintain the attractiveness of their products without violating sharia principles, as well as strengthen public confidence in the stability of the Islamic financial system.

According to the Accounting and Auditing for Islamic Financial Institutions (AAOIFI) standards, the Profit Equalization Reserve (PER) is a portion of gross income and *mudharabah* income that is deducted or set aside before being allocated to the *Mudharib*.⁶ One form of external pressure that often affects the performance of Islamic banking is the fluctuation of the rupiah exchange rate against the US dollar (USD/IDR). The instability of the rupiah exchange rate has a significant impact on import-based financing, especially in *murabahah* contracts used to finance capital goods, production machinery, or raw materials imported from abroad. In a *murabahah* contract, the Islamic bank purchases the goods needed by the customer, then resells them with an agreed-upon profit margin. However, when the rupiah weakens against the dollar, the price of

² Ahmad Mohammad Barau, Saiful Azhar Rosly, and Zulkarnain Mohammad Sori, "Risk Sharing Between Unrestricted-Investment-Account-Holders and Shareholders of Islamic Banks: Implications on Stability and Resilience," *Journal of Islamic Monetary Economics and Finance* 9, no. 3 (2023): 379–96, <https://doi.org/10.21098/jimf.v9i3.1639>.

³ Renaldy Trisna Erlanda and Diah Krisnaningsih, "Pengaruh Dana Pihak Ketiga (Dpk) Dan Pembiayaan Tijarah Terhadap Profitabilitas Yang Ada Pada Bank Panin Dubai Syariah," *Jurnal Tabarru': Islamic Banking and Finance* 6, no. 2 (2023): 773–84.

⁴ Nurjannah et al., "Analisis Implementasi Mudharabah Dalam Lembaga Keuangan Syariah," *INNOVATIVE: Journal Of Social Science Research* 4, no. 4 (2024): 1770–84, <https://j-innovative.org/index.php/Innovative%0AAAnalisis>.

⁵ Mohammad Bilal Khan et al., "Justifying the Need for Smoothing Tools by Islamic Banks," *El Barka: Journal of Islamic Economics and Business* 4, no. 1 (2021): 18–41, <https://doi.org/10.21154/elbarka.v4i1.2446>.

⁶ AAOIFI, *Shari'ah Standards* (Bahrain: King Fahd National Library Cataloging in Publication Data, 2015).

imported goods denominated in rupiah will increase.⁷ The increase in the price of goods has a direct impact on the financing costs that banks must bear. The increase in the price of goods has a direct impact on the financing costs that banks must bear. This leads to an increase in operational expenses and credit risk, as debtors may experience difficulties in meeting their payment obligations. In addition, the increase in financing costs can also affect the interest rates offered, thereby potentially reducing the attractiveness of financing products in the market. Banks need to manage this risk with the right strategy in order to maintain profitability and business continuity.

Data from the Financial Services Authority (OJK) for the 2023 period shows that the profitability of Islamic banks in Indonesia is experiencing a positive growth trend.⁸ This increase is driven by growth in financing, operational efficiency, and increased public literacy regarding Islamic financial services. However, despite showing fairly good performance, the profitability of Islamic banks still faces vulnerabilities to liquidity pressures and declining profit margins, especially amid the dynamics of benchmark interest rates and fluctuations in the rupiah exchange rate. In this context, the implementation of the Profit Equalization Reserve (PER) has a strategic role. On the one hand, the contract value becomes greater, but on the other hand, the previously determined profit margin cannot be adjusted because murabahah contracts are fixed margin contracts. As a result, the net profit of Islamic banks may decline, while the risk of loss increases if exchange rate fluctuations are sharp. In Indonesia and Malaysia, this condition reflects market risk, namely the potential for losses arising from changes in economic factors that impact the bank's financial situation include interest rates, exchange rates, and commodity prices.⁹ Both utilize reserve formation through PER in market risk mitigation. When income declines due to rupiah depreciation or rising import prices, banks can utilize PER balances to increase customer returns in order to remain stable and competitive compared to conventional products.

The establishment of PER can reduce reported profits in the short term because some of the profits must be retained as reserves. However, on the other hand, this policy provides long-term benefits for Islamic bank's financial stability. In Indonesia, Profit Equalization Reserve (PER) regulations only regulate aspects of Islamic banking risk management without specifying the amount of reserves, so that each bank's internal policies manage market risk.¹⁰ Meanwhile, Malaysia clearly regulates the amount of PER through official guidelines, enabling Islamic banks to better

⁷ Alfina Putri Satyatama, "Analisis Dampak Melemahnya Nilai Rupiah Terhadap Harga Barang Impor, Inflasi, Dan Indeks Harga Konsumen (IHK) Di Indonesia Tahun 2020-2024," *Community Engagement & Emergence Journal* 6, no. 3 (2025): 1905–14.

⁸ Otoritas Jasa Keuangan (OJK), *Laporan Perkembangan Keuangan Syariah Indonesia, Otoritas Jasa Keuangan* (Jakarta Pusat, 2023).

⁹ Jean-marie Tremblay et al., "Buku Ajar Manajemen Risiko," *Educacao e Sociedade* 1, no. 1 (2022): 1689–99, http://www.biblioteca.pucminas.br/teses/Educacao_PereiraAS_1.pdf%0Ahttp://www.anpocs.org.br/portal/publicacoes/rbcs_00_11/rbcs11_01.htm%0Ahttp://repositorio.ipea.gov.br/bitstream/11058/7845/1/td_2306.pdf%0Ahttps://direitofma2010.files.wordpress.com/2010/.

¹⁰ Bank Indonesia No 13/23/PBI/2011, "Peraturan Bank Indonesia," *Peraturan Bank Indonesia* 1 (2011): 1–43, www.bi.go.id.

stabilize customer returns and reduce market risk. This is viewed as a tool for stabilizing long-term profitability that supports the principle of prudential banking in Islamic finance.¹¹ In a volatile market situation, the stability of profit sharing rates is a key factor in retaining third-party funds (DPK). If profit sharing rates fluctuate, customers tend to move their funds to more stable or profitable instruments, including conventional banks. Based on these conditions, stability and risk in Islamic Banking can be explained through Financial Intermediation Theory, in which banks act as financial intermediaries that channel third-party funds and reduce information asymmetry and mitigate risk through intermediation mechanisms.¹² This theory reinforces efforts to maintain the sustainability of intermediation functions so that they remain stable amid market risks in the formation of the Profit Equalization Reserve. Thus, this study can clearly analyze the role of PER in market risk exposure in Islamic banking; the application and regulation of PER in Islamic banking in Indonesia and Malaysia; and the competitiveness of Islamic banks compared to conventional banks in facing market pressures.

Methods

The method used in this study is a qualitative method with a comparative research type that compares practices, performance, and risk management strategies between Islamic Banking and Conventional Banking in two countries, namely Indonesia and Malaysia. Qualitative methods are used to analyze data in depth in relation to the meaning within a study.¹³ Comparative analysis is used to make it easier for researchers to compare domains and social contexts between one another.¹⁴ This method allows researchers to collect data on risk exposure in Islamic banking in Indonesia and Malaysia through detailed document studies that map similarities and differences, thereby making the research findings more contextual and informative.

The main secondary sources of research are the annual financial reports of Islamic banks from the Otoritas Jasa Keuangan (OJK), CIMB Islamic, and Bank Negara Malaysia from 2020 to 2024. Important financial metrics including profit reserves, third party funds, return on assets, assets quality, and capital adequacy are analyzed in depth using the Profit Equalization Reserve (PER) and applicable regulations. Official documents related to Profit Equalization regulations were accessed from the Islamic Banking and Takaful Department to ensure that the regulations applied to date are clear and structured. This period was chosen because it is sourced from credible official institutions and reflects the actual state of Islamic finance. In addition, this period was chosen for

¹¹ Islamic Banking and Takaful Department, *Guidelines on Profit Equalisation Reserve*, 2021.

¹² La Verne and Umar A Oseni, "Risk Management in Islamic Financial Instruments Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation (COMCEC)," no. September (2014), www.comcec.org.

¹³ Zuchri Abdusamad, *Metode Penelitian Kualitatif, Eduacacao e Sociedade*, vol. 1, 2021, http://www.biblioteca.pucminas.br/teses/Educacao_PereiraAS_1.pdfhttp://www.anpocs.org.br/portal/publicacoes/rbcs_00_11/rbcs11_01.htmhttp://repositorio.ipea.gov.br/bitstream/11058/7845/1/td_2306.pdf<https://direitofma2010.files.wordpress.com/2010/>.

¹⁴ Nazar Naamy, *Metode Penelitian Kualitatif Dasar-Dasar & Aplikasinya, Rake Sarasin*, 2022, [https://repository.uinmataram.ac.id/2853/1/buku Metode Penelitian.pdf](https://repository.uinmataram.ac.id/2853/1/buku%20Metode%20Penelitian.pdf).

its relevance in analyzing the application of the Profit Equalization Reserve (PER) to market risk and the stability of Islamic banking in Indonesia and Malaysia.

This analysis aims to compare the consistency of banking practices with sharia objectives and ethical standards in dealing with market risk exposure with ethical standards. In addition, the analysis is used to explore how ethical principles, regulatory frameworks, and the financial performance of Islamic banking interact in two countries, namely Indonesia and Malaysia. This method is expected to produce relevant data and new discussions related to macrofinance.¹⁵

Result

The Role of Profit Equalization Reserve (PER) in Reducing Market Risk

Based on the 2023 Otoritas Jasa Keuangan (OJK) report, banks have significant market risk. This condition stems from external factors affecting Islamic banking, where market fluctuations are so sharp that they tend to be beyond the control of banks.¹⁶ In market risk, changes or movements in exchange rates on bank earnings and losses cause the rupiah's value relative to other currencies to decrease. If the Profit Equalization Reserve (PER) does not meet market expectations or cannot achieve its objectives, the Profit Equalization Reserve is not applied by Islamic Banking. When the Indonesian or Malaysian currency weakens, it indicates a high market exposure to global economic dynamics. However, the profitability of Islamic banking in Indonesia and Malaysia is still maintained with an increase in Return on Assets (ROA), which shows the resilience of this industry to exchange rate changes and market pressures. Stable growth in ROA reflects the effective risk management strategies implemented by Islamic banks. In addition, it demonstrates the sector's ability to adapt to external shocks while continuing to generate sustainable returns for stakeholders.

This kind of performance strengthens investor confidence and supports the further expansion of Islamic finance in the region.

Table 1. Profitability of Indonesian Islamic Banking

Profitability (%)	2020	2021	2022	2023	2024
ROA	1.52	1.72	1.90	1.86	2.04
BOPO	83.63	81.01	77.48	78.97	76.34
FDR	82.40	76.33	81.10	84.94	84.77

¹⁵ W. P. Zayu, H. Herman, and G. Vitri, "Studi Komparatif Pelaksanaan Tugas Besar Perencanaan Geometrik Jalan Secara Daring Dan Luring," *Jurnal Penelitian Dan Pengkajian Ilmiah Eksakta* 2, no. 1 (2023): 92–96.

¹⁶ Otoritas Jasa Keuangan, "Surat Edaran Nomor 25/SEOJK.03/2023 Tentang Penerapan Manajemen Risiko Bagi Bank Umum Syariah Dan Unit Usaha Syariah," *Otoritas Jasa Keuangan* no. (2023): 1–23.

Source: (Otoritas Jasa Keuangan, 2023)¹⁷

Based on the data above, the profitability of Islamic Banking from 2020 to 2024 shows a positive trend. This indicates that many Islamic banks are more efficient and better able to generate profits from their operational activities. The Return on Assets (ROA) column tends to increase, despite a slight decline in 2023. This increase shows that Islamic banks are better at managing their assets to generate profits. This means that every rupiah of assets owned has the ability to generate a higher rate of return each year. This condition reflects the efficient use of assets in bank operations, which can increase profitability. In addition, high returns also demonstrate management's ability to optimize the investment portfolio. With good management, banks can strengthen their financial position and provide added value to shareholders and customers.

Meanwhile, over the previous five years there has been a tendency for the ratio of operating expenses to operating income to decrease. The decline in BOPO indicates that Islamic banks are able to control their operating expenses relative to their income. This condition shows an increase in efficiency in cost and operational management as well as an increase in overall industry profitability. Then, during the same period, the Financing to Deposit Ratio showed that the level of financing distribution to third-party funds ranged from 76% to 85%. Although the FDR declined in 2021 as a result of economic conditions after the pandemic, it returned to increase to 84.77% in 2024, indicating that the intermediary function of Islamic banks has returned to its best condition.

Table 2. Profitability of Malaysia Islamic Banking

Profitability	2020	2021	2022	2023	2024
ROE (%)	2.1	8.1	10.2	10.7	11.2
Profit before taxation and zakat (RM'000)	1,530,329	5,789,478	8,371,010	9,540,731	10,395,928

Source: Commerce International Merchant Bankers¹⁸

The profitability of Islamic banking increased rapidly between 2020 and 2024. The increase in the return on equity (ROE) ratio indicates an increase in the effectiveness of capital utilization to generate profits, supported by an increase in profits before zakat and taxes. Better financial performance is demonstrated by increased operational efficiency, expansion, and good risk management.

Application of PER in Islamic Banking

¹⁷ Otoritas Jasa Keuangan (OJK), *Laporan Perkembangan Keuangan Syariah Indonesia*.

¹⁸ Commerce International Merchant Bankers, *Integrated Annual Report 2024 CIMB Celebrates 100 Years*, 2024.

Profit Equalization Reserve (PER) is used in the Islamic Banking system as a profit balancing reserve created from a portion of gross investment profits before being distributed between banks and fund owners. The main purpose of establishing PER is to maintain a stable rate of return for investment fund owners, reduce fluctuations caused by changes in market conditions, and reduce displaced commercial risk that arises when returns decrease. Based on OJK Circular Letter No. 25/SEOJK.03/2023 concerning the Application of Risk Management for Islamic Business and Commercial Banks Units, it is emphasized that internal bank policies are very important to reduce variations in returns and maintain a balance between the interests of Islamic banks and customers. Therefore, the establishment of profit equalization reserves is flexible. The amount of the Profit Equalization Reserve is not strictly determined by the regulator but is adjusted to the policies of each Islamic bank based on its risk profile and portfolio performance.¹⁹ The implementation of risk management in Indonesian banking can complement the regulations set forth in Bank Indonesia Regulation No. 13/23/PBI/2011 concerning the Application of Risk Management for Islamic Business Units and Islamic Commercial Banks.²⁰

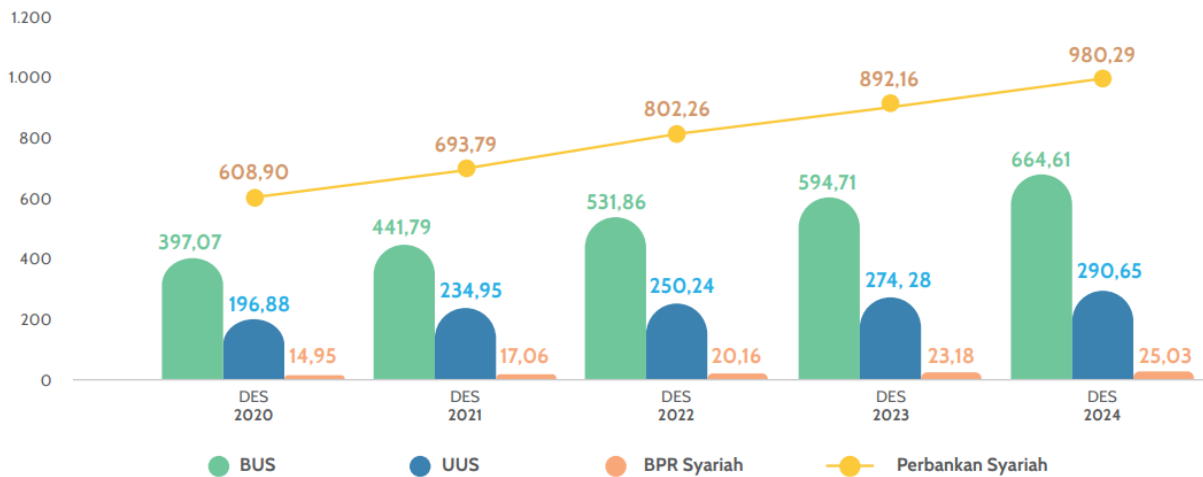
Unlike Indonesia, under the supervision of Bank Negara Malaysia (BNM), Malaysia has officially and measurably implemented PER through the Guidelines on Profit Equalization Reserve (BNM/GPS1), which came into effect in July 2011. Gross PER investment earnings are divided between *mudharib* (banks) and *rabb al-mal* (customers). The aim is to stabilize the returns received by depositors, reduce income fluctuations caused by the market, and ensure that Islamic financial institutions remain competitive compared to the conventional banking system. BNM's regulatory policy stipulates that PER cannot exceed 30% of total investment profits, and the joint rights between banks and depositors can be recorded as liabilities.²¹ Islamic banking in Indonesia and Malaysia has a high level of stability and is supported by strong capital, well-structured risk management, and strong regulatory support. The availability of adequate capital enables Islamic banks to withstand various external pressures and maintain their operational continuity. The implementation of comprehensive risk management helps identify and control potential risks proactively. Consistent regulatory support from financial authorities also ensures that Islamic banking practices are carried out in accordance with Sharia principles while maintaining the stability of the financial system as a whole. This is evidenced by the increasing level of asset growth over several periods.

¹⁹ Otoritas Jasa Keuangan, "Surat Edaran Nomor 25/SEOJK.03/2023 Tentang Penerapan Manajemen Risiko Bagi Bank Umum Syariah Dan Unit Usaha Syariah."

²⁰ Putri Dewi Anggraini and Manik Mutiara Sadewa, "Penerapan Manajemen Risiko Perbankan Syariah Di Indonesia, Malaysia Dan Brunei Darussalam," *Indonesian Journal of Applied Accounting and Finance* 4, no. 1 (2024): 133–56, <https://doi.org/10.31961/ijaaf.v4i1.14352>.

²¹ Islamic Banking and Takaful Department, *Guidelines on Profit Equalisation Reserve*.

Graphic 1. The Development of Islamic Banking Assets in Indonesia



Source: (Otoritas Jasa Keuangan, 2023)²²

The graph showing the development of Indonesian Islamic banking assets from 2020 to 2024 indicates a stable and sustainable growth trend. The total assets of Islamic banking increased rapidly from Rp608.90 trillion in December 2024, representing a 61% increase over the past 5 years. All segments of Islamic banking, including Islamic Commercial Banks, Islamic Business Units, and Islamic Financing Banks, showed an increase in assets.

Table 3. Capital Allocation Indonesia and Malaysia

Country	2024 RWA (%)	2030	2030 Capital Allocation		
			Commercial	Wholesale	Consumer
Indonesia	19	Accelerate	Accelerate	Maintain Growth	Accelerate
Malaysia	54	Maintain Growth	Accelerate	Maintain Growth	Accelerate

Source: Commerce International Merchant Bankers²³

The data above shows that the strategies and risk profiles of Islamic banking in Indonesia and Malaysia are different. Indonesia's Islamic banking risk-weighted assets ratio of 19% in 2024 indicates a more conservative asset structure. In contrast, Malaysia has risk-weighted assets of 54%, indicating a broader and higher-risk portfolio due to its significant involvement in corporate financing and large projects.

Competitiveness of Islamic and conventional banks

²² Otoritas Jasa Keuangan (OJK), *Laporan Perkembangan Keuangan Syariah Indonesia*.

²³ Commerce International Merchant Bankers, *Integrated Annual Report 2024 CIMB Celebrates 100 Years*.

Liquidity strength and public confidence in the banking system are determined by Third Party Funds in Indonesia and Malaysia. Customer deposits in Malaysian Islamic Banking are more stable and diversified with the effectiveness of fund collection strategies through Islamic financial innovation. The following is data from third parties in Indonesia during the 2024 period, which shows that the resilience of Islamic banks has declined but remains above that of conventional banks in terms of figures.

Table 4. Third Party Funds in Indonesian Islamic Banking

Third Party Funds (%) tahun 2024			
Islamic Banking	10.49	10.41	10.09
Conventional Banking	3.29	8.27	4.00

Source: (Otoritas Jasa Keuangan, 2023)²⁴

The percentage of third-party funds in Islamic banking declined from the beginning to the end of the year, indicating a slowdown in the amount of funds collected. However, this percentage is still quite high compared to conventional banks. This condition may indicate that customer preferences have changed or that Islamic banks have changed the way they collect funds due to variations in interest rates and market liquidity. Conversely, conventional banks exhibit more pronounced fluctuations, with a rise at the start of the year and a fall at the conclusion and indicating instability in cash flow and society.

Table 5. Customer Deposit in Perbankan Malaysia

Third Party Funds (%)		
Year	2023	2024
Deposit	9.12	95.7
Deposit (EOP)	158	171

Source: Commerce International Merchant Bankers²⁵

Two types of indicators related to third-party funds in Malaysian banking are deposits and EOP (End of Period) deposits. The percentage of deposit data shows the growth rate or contribution of deposits to the total third-party funds, with a high value indicating that deposits are the main source of bank funds. Meanwhile, the EOP deposits at the conclusion of the reporting period is displayed in the EOP deposit figure, which rises as a result of a growth in third party funds during the period.

Discussion

The role of the Profit Equalization Reserve (PER) in reducing market risk

²⁴ Otoritas Jasa Keuangan (OJK), *Laporan Perkembangan Keuangan Syariah Indonesia*.

²⁵ Commerce International Merchant Bankers, *Integrated Annual Report 2024 CIMB Celebrates 100 Years*.

According to a report by the Otoritas Jasa Keuangan (OJK), Islamic banking faces market risks caused by exchange rate fluctuations and external circumstances beyond its control.²⁶ This is followed by an increase in the profitability of Islamic banking in Indonesia and Malaysia, as indicated by an increase in ROA and ROE during 2020 to 2024. Islamic Banking's profitability in Malaysia and Indonesia has increased consistently over five years, demonstrating the industry's efficiency and resilience to global economic dynamics. The increase in ROA and decrease in BOPO in Indonesia indicate improved operational efficiency, and the increase in pre-zakat profits in Malaysia indicates effective capital management. Overall, both countries have successfully maintained their profitability by using risk management and asset optimization strategies that are in line with Islamic finance principles. Despite continued pressure on the rupiah and ringgit exchange rates, Islamic banking has remained capable of maintaining performance stability and operational efficiency in line with market fluctuations.

Provide a comprehensive view of the performance of Islamic banks. Many Islamic banks combine asset-based Islamic instruments and place Islamic funds to be more stable and liquid.²⁷ Islamic banking intermediation has returned to fairly good conditions, as demonstrated by the effectiveness of risk management policies and the application of the Profit Equalization Reserve (PER) in maintaining financial stability and profitability.²⁸ These findings are in line keeping with earlier studies that through CAMEL analysis, the health of a bank can be evaluated using five main indicators, namely capital, profitability, liquidity, asset quality, management, and market risk sensitivity, which can be combined with the concept of maqashid sharia. The Sharia Maqashid Index emphasizes that governance and risk management are crucial to preserving the Islamic Financial system's stability.²⁹ This principle is in line with the application of the Profit Equalization Reserve (PER), which aims to minimize market risk, especially that caused by fluctuations in investment returns.³⁰ Market risks that arise can include a weakening of the currency exchange rate against the dollar. PER serves as a reserve that maintains the stability of the company's profits in the long term. With PER, companies can better manage market uncertainty

²⁶ Otoritas Jasa Keuangan (OJK), *Laporan Perkembangan Keuangan Syariah Indonesia*.

²⁷ Yani Dahliani, Faqih El Wafa, and Supendi, "The Paradox of Risk and Sharia Compliance Analyzing Islamic Bank Strategies in Navigating Global Economic Uncertainty," *International Journal for Science Review* 2, no. 5 (2025): 320–28, <https://doi.org/10.71364/ijfsr.v2i5.28>.

²⁸ Yomna Daoud, "Funding, Risk and Regulatory Framework in Islamic Banking: Organizational Perspectives on an Evolving Financial Landscape," *International Journal of Multidisciplinary Research and Growth Evaluation* 4, no. 3 (2025): 39–46, <https://doi.org/10.54660/ijmor.2025.4.3.39-46>.

²⁹ Efri Syamsul Bahri, Frida Tis'a Zam-zamiyah, and Nursanita Nasution, "The Measurement of The Financial Performance of Islamic Commercial Banks in Indonesia With The Maqashid Sharia Index and Comparative Performance Index Approach," *MALLA: Journal of Islamic Banking and Finance* 6, no. 2 (2022): 131, <https://doi.org/10.21043/malia.v6i2.16634>.

³⁰ Novi Riswanti et al., "Evaluating the Performance of Bank Syariah Indonesia Using the Maqashid Syariah Index," *Asean International Journal of Business* 4, no. 1 (2025): 31–46, <https://doi.org/10.54099/aijb.v4i1.1239>.

and maintain the trust of shareholders and customers. In addition, PER also helps companies allocate profits proportionally without causing pressure due to sudden market changes. Although Islamic banking faces market risks due to exchange rate changes and unpredictable external factors, their profits in Indonesia and Malaysia have increased consistently over the past five years. In fact, the phenomenon of exchange rate depreciation can make it difficult for banks to carry out their obligations as state financial institutions.³¹

Improvements in operational efficiency and efficient capital management in accordance with Islamic finance principles are demonstrated by increases in ROA and decreases in BOPO in Indonesia, as well as increases in pre-zakat profits in Malaysia. Sharia-based risk management and asset optimization strategies, including the implementation of Profit Equalization Reserves (PER), have proven to help Islamic banks maintain stable performance despite market pressures and fluctuations in investment returns. Islamic banking uses the Profit Equalization Reserve (PER) to minimize market risk, particularly from fluctuations in investment returns, and to maintain stability and profitability. Islamic banks' Profit Equalization Reserves (PER) can balance the distribution of profits between banks and customers, while maintaining liquidity during exchange rate pressures or unstable external conditions. PER can maintain and preserve customer confidence in the stability of sharia investment products.

The application of PER in maintaining the stability and profitability of Islamic banks

Based on data on Islamic banking regulations in the two countries studied, Islamic banks in Indonesia and Malaysia use a Profit Equalization Reserve (PER), which can be adjusted according to each bank's risk profile and portfolio performance, to stabilize customer returns and reduce market fluctuations. In Malaysia, the Profit Equalization Reserve (PER) is officially applied with a maximum limit of 30% of total investment profits according to BNM guidelines.³² In Indonesia, however, it is an internal bank policy in accordance with regulations.³³ With a 61% increase in assets over the past five years, Indonesian Islamic banking has demonstrated the effectiveness and stability of its risk management. The risk-weighted asset (RWA) ratio shows differences in risk profiles, with Indonesia being conservative at 19% and Malaysia more aggressive at 54%. This is due to different portfolio strategies but still supports the Islamic banking system

Sharia banking is a financial institution based on the principle of partnership, not a relationship between creditor and debtor like conventional banks.³⁴ Depositors earn profits

³¹ Eko Sudarmanto, Astuti Astuti, and Iskandar Kato, *Manajemen Risiko Perbankan* (Penerbit Yayasan Kita Menulis, 2021).

³² Islamic Banking and Takaful Department, *Guidelines on Profit Equalisation Reserve*.

³³ Otoritas Jasa Keuangan (OJK), *Laporan Perkembangan Keuangan Syariah Indonesia*.

³⁴ Daoud, "Funding, Risk and Regulatory Framework in Islamic Banking: Organizational Perspectives on an Evolving Financial Landscape."

through a profit-sharing mechanism or profit distribution in accordance with a ratio that has been determined at the beginning of the contract, such as in *mudharabah* or *musyarakah* contracts. Through these contracts, Islamic banks cannot equalize prices when financing the ownership of a product.³⁵ This is due to the principles of fairness and transparency, which require that every transaction reflect market conditions and the true value of the product. In addition, price flexibility is also necessary to accommodate the different risks and operating costs associated with each financing arrangement. This system reflects the principles of fairness and risk sharing that form the basis of Islamic finance, as customers also bear the investment risk as partners. Previous research confirms that Bank Isam will choose to give *mudharib* to investors for commercial reasons.³⁶ It is impossible for Islamic banks to pay competitive interest rates according to Displaced Commercial Risk. Therefore, when compared to conventional banks, Islamic banks have lower liquidity in terms of profit sharing, which can cause fund flight due to higher interest rates. PER can provide more income to account holders and shareholders. This income is used to cover the lower rate of return compared to regular bank interest rates.³⁷ This income can be used to cover rates that are lower than regular bank interest rates, thereby helping Islamic banks maintain the competitiveness of their investment products in the market. PER will ensure that profit payments remain stable despite fluctuations in investment returns due to volatile market risks. Indirectly, this will increase customer loyalty to Islamic banks. Displaced Commercial Risk can be minimized by putting in place profit reserves such the Investment Risk Reserve (IRR) and Profit Equalization Reserve (PER).³⁸ These two reserves can serve as tools to stabilize investment returns so that they remain competitive. The Profit Equalization Reserve and Investment Risk Reserve (IRR) play a role in supporting the growth of Islamic banks as price takers that must compete with conventional banks.

Interest rate risk can arise indirectly, so comparing yields with conventional interest rates can be a challenge in the growth of the Islamic banking sector. Market risk can be mitigated with a Profit Equalization Reserve (PER) by maintaining stable yields and protecting the profit margins of Islamic banks. The Profit Equalization Reserve PER policy in Indonesia is still in the process of adjustment and adaptation to the risk exposure of each bank, while Malaysia has implemented the policy systematically under the supervision of the Bank Negara Malaysia (BNM). This

³⁵ Lia Wardati et al., "Implementasi Manajemen Risiko Dalam Pembiayaan Mudharabah Dan Musyarakah," *Absan: Jurnal Ilmiah Keislaman Dan Kemasyarakatan* 2, no. 1 (2025): 160–74.

³⁶ Srianti Permata and St Hadijah Wahid, "Analisis Displaced Commercial Risk Pada PT BPRS Sarana Prima Mandiri Pamekasan," *Urmal Ekonomi Dan Bisnis Islam* 8, no. 1 (2023): 130–40, <https://www.journal.uiad.ac.id/index.php/adz-dzahab/article/view/2712/1163>.

³⁷ Nurjannah et al., "Analisis Implementasi Mudharabah Dalam Lembaga Keuangan Syariah."

³⁸ Barau, Rosly, and Sori, "Risk Sharing Between Unrestricted-Investment-Account-Holders and Shareholders of Islamic Banks: Implications on Stability and Resilience."

difference shows that consistent and measurable regulations, such as those in Malaysia, can provide stronger profit stability, while Indonesia is still in the process of establishing appropriate policies. The process of adjusting the Profit Equalization Reserve (PER) policy itself takes time to accommodate local market characteristics and needs. This process will enable Islamic banks to effectively implement the Profit Equalization Reserve (PER) without disrupting liquidity and profitability. Meanwhile, in Malaysia, structured regulations and strict government supervision can increase market confidence and the stability of the Islamic Banking sector comprehensively.

The competitiveness of Islamic banks against conventional banks

The amount of third party funds in Indonesian Islamic banks decreased somewhat between the start and conclusion of the year, but remained higher than conventional banks, which showed relative stability and adaptive fund collection strategies. Conventional banks in Indonesia showed sharper fluctuations, reflecting instability in fund flows and sensitivity to market conditions compared to Islamic banks. Meanwhile, from 2023 to 2024, the number of customer deposits in Malaysian Islamic banking increased rapidly, both in terms of contribution to total third party funds and end-of-period (EOP) position. This indicates effective fund-raising strategies, diversification, and high liquidity stability. Islamic banks and conventional banks have different mechanisms but still coexist. Both offer products and services with distinct advantages for raising funds from third parties.

Globally, Islamic finance has experienced 20% annual growth, which has led to fierce competition between conventional banks and Islamic banks.³⁹ Conventional banks are though to provide a variety of sharia-compliant products, forcing Islamic banks to be more innovative and differentiate their products and services. Islamic banks are more resilient to financial shocks due to their focus on ethical practices and risk sharing. However, due to their different circumstances, they need to employ unique risk management strategies. Market risk in Islamic banking is more resilient to market risk due to restrictions on derivative transactions, while conventional banking faces derivative market risk or higher risk than the Sharia banking system.⁴⁰ Market risk indicates the possibility that a bank will potentially lose money and incur losses due to fluctuations and changes in market variables. Market risk depends on how long the assets are sold, as the magnitude

³⁹ Willy Nurhayadi et al., "Peran Islamic Financial Services Board (IFSB) Dalam Meningkatkan Stabilitas Perbankan Syariah Di Indonesia," *Sanskara Akuntansi Dan Keuangan* 3, no. 03 (2025): 106–14, <https://doi.org/10.58812/sak.v3i03.559>.

⁴⁰ Afifi Marzuki Muslim et al., "Integration of Maqashid Sharia in the Implementation of Risk Management in Islamic Banking," *Formosa Journal of Sustainable Research* 4, no. 5 (2025): 813–24, <https://doi.org/10.55927/fjsr.v4i5.220>.

of market fluctuations tends to increase over a longer period of time.⁴¹ Market risk does indeed increase the longer the asset must be sold on the open market. Price fluctuations over a long period of time can cause the value of assets to become highly volatile, thereby increasing the potential for losses. This requires risk management to take into account the duration of asset ownership and market liquidity conditions in order to effectively anticipate changes in value. Mitigation strategies such as portfolio diversification and the use of hedging instruments, although limited in Islamic banking, are key to managing these risks in order to maintain financial stability.

Sharia banking has a more stable ability to maintain its third-party fund base, despite experiencing a slight decline at the end of the year. In contrast, conventional banking experienced more uncertainty in fund raising. This was also the case in Malaysian banking, where banks managed to strengthen their funding structure by increasing deposit balances at the end of the period, which contributed positively to liquidity and financial stability. This increase indicates an increase in public funds. Market risk exposure in Islamic banking tends to be more controlled due to the stable funding structure of a strong Third Party Funds (TPF) base. This stability allows Islamic banks to manage liquidity and market risk more effectively, thereby reducing the impact of significant market fluctuations. Conversely, conventional banks, which face uncertainty in fund raising, are more vulnerable to market changes and liquidity pressures. Thus, the ability of Islamic banks to maintain TFD not only strengthens their liquidity position but also reduces their exposure to volatile market risks.

Conclusion

Research on the performance of Islamic banking in Malaysia and Indonesia regarding Profit Equalization Reserve (PER) and its performance can produce several important findings on market risk reduction, regulatory implementation, and the competitiveness of Islamic banks with conventional banks, including: 1) The Profit Equalization Reserve (PER) maintains profitability stability and customer confidence by reducing market risks, such as changes in exchange rates, interest rates, and external conditions. This can be seen based on profitability measured using assets. Islamic banks in Malaysia and Indonesia have good profitability; 2) In Malaysia, the Profit Equalization Reserve (PER) is applied systematically with a maximum limit of 30% of investment profits, while in Indonesia, the Profit Equalization Reserve (PER) is regulated through the internal policies of each bank; 3) Both regulations help stabilize customer returns and bank liquidity. Although conventional banks offer competitive interest rates and products, Islamic banks are stronger in retaining third-party funds and profitability. The use of risk management strategies and PER enhances the competitiveness of Islamic banks amid market pressures and industry competition. Further research needs to examine effective market risk management that can be applied by financial institutions at the macro level, with a focus on the regulatory framework that serves as the main foundation. This approach is important to ensure that risk management policies

⁴¹ Kusnan Kusnan, "Bank Failure in Indonesia: An Analysis of the Century Bank Case and the Potential of Islamic Banking," *Multidisciplinary Research Studies in Social Sciences* 1, no. 1 (2025): 1–17, <https://doi.org/10.71312/mrscholar.v1i1.257>.

and practices are not only individual in nature, but also synergistic in maintaining the stability of the national financial system. An in-depth review of existing regulations can identify gaps and opportunities for improving rules to make them more adaptive to complex and volatile market dynamics.

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