Risk Management and Sharia Conformity and Profitability Performance with Moderating Effect from Third Party Fund

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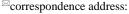
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Abstract
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This research analyzes the influence of financing, liquidity, and operational efficiency risks on the performance of Sharia compliance and profitability of Islamic commercial banks by involving the moderating effect of third-party funds. The study focuses on Islamic commercial banks in Indonesia from 2020 to 2023. A total of 160 Islamic commercial banks are selected through purposive sampling. The research employs a quantitative approach, using panel data regression analysis to assess the relationships between the variables. The best model chosen for this research is the Fixed Effects Model (FEM), which is suitable for analyzing data with individual heterogeneity. The result states that financing risk significantly negatively affects Sharia conformity but does not affect profitability. Liquidity risk does not affect both Sharia conformity and profitability. Operational efficiency risk does not affect Sharia conformity but significantly negatively affects profitability. TPF can moderate the influence of financing risk on Sharia conformity and operational efficiency risk on profitability. Based on these results, Sharia commercial banks should pay more attention to implementing financing risk management and operational efficiency risks to improve their Sharia conformity and profitability performance. Apart from that, Sharia commercial banks must also enhance their ability to collect TPF to support more optimal bank performance. Further research is recommended to examine other factors, such as corporate governance, which this study has not examined.

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INTRODUCTION

An analysis of banking financial performance is conducted to see how banks can carry out their business activities correctly and adequately according to economic principles (Apriani, Kusnendi, & Firmansyah 2020). Based on the Global Islamic Finance Report (GIFR), Indonesia's Islamic Financial Index 2022 is ranked third after Saudi Arabia and Malaysia. This achievement is still quite good even though it had decreased from 2021 when it managed to occupy first place. These results indicate progress in the Indonesian Sharia banking and finance world, which can compete internationally (Kristianingsih, Wardhana, & Setiawan, 2021).

The performance of Sharia banks in several years also shows a positive trend. The Sharia financial development report shows growth in total assets, deposits, and financing, where Sharia banks recorded growth exceeding conventional banking (Otoritas Jasa Keuangan, 2023). However, this performance cannot be said to be optimal. This is because the market share of Islamic banks is still small, so a slight increase can look large compared to conventional banks (Walfajri, 2021). The market share of Sharia banks is only around 7.44% compared to conventional banking, which reaches 92.56%. This indicates that the performance of Islamic banks is still weak compared to that of Islamic financial institutions (Asrori, 2014).

On the other hand, Islamic banking is not an industry that only prioritizes materialistic elements (Amalia, 2022). Performance evaluation is carried out not only towards conventional performance but also towards performance in compliance with Sharia principles, which are the foundation of the bank activities themselves (Apriani, Kusnendi, & Firmansyah 2020).

Most Islamic bank performance literature today uses indicators based on conventional financial ratios that prioritize profitability performance (Asrori, 2014). Conventional measurement tools, such as the CAMEL ratio, are inappropriate for describing bank sharia compliance parameters (Rosmanidar, Hadi, & Ahsan, 2021). This understanding encourages the development of Islamic bank performance measurement models with the primary objective, namely Sharia compliance. One of the measurement methods developed is the Sharia Conformity and Profitability (SCnP) model.

Performance assessment based on the Sharia Conformity and Profitability (SCnP) model involves two measurement dimensions: Sharia compliance and profitability performance. The SCnP model divides bank performance based on four quadrant areas, namely Upper-Right Quadrant (URQ), Lower-Right Quadrant (ULQ), Upper-Left Quadrant (LRQ), and Lower-Left Quadrant (LLQ). Combining profitability indicators is important because Islamic banks are not religious institutions but business institutions aiming at profit. These two indicators are interrelated, describing two socio-economic orientations, making this model more complex and effective as a bank performance measurement (Muchtar & Rofi, 2020).

Literature measuring the performance of Sharia conformity and profitability in Sharia commercial banks shows that performance is not yet optimal. Some Sharia commercial banks show high profitability performance but have low Sharia compliance performance. Meanwhile, others show high Sharia compliance performance, but their profitability competitiveness is still low. This can be seen in the assessments carried out by Muchtar, & Rofi (2020), Siregar, & Shifa (2021), and Janah, & Muharammi (2024).

Sharia conformity performance, which is less than optimal, is caused by the Profit Sharing Ratio (PSR) indicator, which is still low, causing BUS to be located in the ULQ and LLQ quadrants (Ratnaputri, 2013). Most Sharia banks in Indonesia have a low profit-sharing ratio compared to the Sharia investment and income ratios. This is due to the distribution of profit-sharing financing, which has a lower portion than buying, selling, and leasing financing. In other words, Islamic banks have not been able to commit to prioritizing the principles of social justice and welfare through the distribution of profit-sharing financing, which is the primary goal of Islamic banks (Kristianingsih, Wardhana, & Setiawan, 2021).

It is widely known that risk management is an important aspect that is inseparable from a company's success, including in the financial sector, namely banking. The Sharia banking industry is considered to have high risk. Al-Tamimi (2015) revealed that Islamic banks face risks that conventional banks face, such as financing, liquidity, and operational efficiency risks. However, implementing risk management becomes more complex due to the characteristics of banks that prioritize Sharia compliance. Khan (2010) also states that profit-sharing schemes prioritizing equal risk and return distribution have higher risk consequences for Islamic banks than conventional banks. Risk management plays an important role in the successful performance of Islamic banks.

Several previous studies have examined the influence of risk management on bank performance but have obtained inconsistent results. Kristianingsih, Wardhana, & Setiawan. (2021) found that liquidity risk and third-party funds significantly positively affected the Islamicit, performance index. However, financing and operational efficiency risks did not have a significant effect. Salamah & Kusumaningtias (2019) found that financing risk had an adverse effect, while liquidity risk did not affect the Islamicity performance index.

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Susilowati, & Falikhatun (2023) found that operational efficiency risk had a positive effect, while financing and liquidity risks did not affect the profit-sharing ratio. In addition, on profitability performance, Murtiningsih & Tohirin (2023) found that financing risk and operational efficiency risk had an adverse effect, while liquidity risk and third-party funds positively affected profitability. Wahyudi et al., (2021) found that operational efficiency risk had an adverse effect, while financing and liquidity risks did not affect profitability. Ichsan et al. (2021) found that financing, liquidity, and operational efficiency risks had no effect on profitability.

In contrast to several previous studies by Kristianingsih, Wardhana, & Setiawan (2021), Nugroho et al., (2021), and Susilowati, & Falikhatun (2023), who examine Islamic bank performance factors based on the Islamicity Performance Index model, this research uses the Sharia conformity and profitability performance. In previous research by Angraini & Sumantri (2019), Aprilia & Mahardika (2019), Kristianingsih, Wardhana, & Setiawan (2021), Murtiningsih & Tohirin (2023), and Firmansyah et al. (2023), the third party fund variable is used as an independent variable. It has consistent results that influence bank performance. Therefore, the researcher modified the model in this study by placing third-party funds as a moderating variable, which had not been found in previous research. Adding the TPF variable as a moderating variable is likely to strengthen or weaken the relationship between financing risk, liquidity risk, and operational efficiency risk variables on Sharia conformity and profitability performance to improve the performance of Sharia commercial banks in Indonesia.

METHOD

This quantitative research involves statistical analysis tools in treating and analyzing data. Secondary data was obtained from the quarterly financial reports of Sharia commercial banks for 2020-2023, which were sourced from the company website and the OJK website. The population in this research is Islamic commercial banks in Indonesia registered with the Otoritas Jasa Keuangan (OJK) in 2020-2023. The purposive sampling technique used in this research involves selecting samples based on specific criteria established by the researcher to ensure the data's accuracy, relevance, and precision. In the context of this study, which focuses on Islamic commercial banks (ICBs) in Indonesia from 2020 to 2023, the following inclusion and exclusion criteria were applied:

1. Islamic commercial banks (icbs): only banks officially classified as islamic commercial banks are included in the population.
2. Registered with and supervised by the financial services authority (ojk), the banks must be listed and monitored by ojk throughout 2020–2023.
3. Availability of complete quarterly financial reports for 2020–2023 to ensure consistent longitudinal data and avoid missing values.
4. No significant structural changes (e.g., merger or acquisition): banks that underwent major restructuring were excluded to maintain data consistency and reliability.

based on these criteria, several islamic commercial banks were included in the final sample. the following table presents the selected banks, their status, the availability period of financial reports, and the number of quarterly observations that were included in the study:

Table 1. Research Sample of Islamic Commercial Banks in Indonesia Based on Purposive Sampling

No	Name of Islamic Commercial Bank	Status (OJK Registered)	Period of Available Financial Reports	Sample Status	Number of Observations
1	Bank Muamalat Indonesia	Yes	Q1 2020 – Q4 2023	Included	16
2	BCA Syariah	Yes	Q1 2020 – Q4 2023	Included	16
3	Bank Mega Syariah	Yes	Q1 2020 – Q4 2023	Included	16
4	Bank Panin Dubai Syariah	Yes	Q1 2020 – Q4 2023	Included	16
5	Bank BJB Syariah	Yes	Q1 2020 – Q4 2023	Included	16
6	Bank NTB Syariah	Yes	Q1 2020 – Q4 2023	Included	16
7	Bank Aceh Syariah	Yes	Q1 2020 – Q4 2023	Included	16
8	Bank Sumut Syariah	Yes	Q1 2020 – Q4 2023	Included	16
9	Bank Kalbar Syariah	Yes	Q1 2020 – Q4 2023	Included	16
10	Bank Kalsel Syariah	Yes	Q1 2020 – Q4 2023	Included	16

The research model used in this study is a panel data regression model, which is described by the following equation:

Model 1

$$Y_{1it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{1it} * Z_{it} + \beta_5 X_{2it} * Z_{it} + \beta_6 X_{3it} * Z_{it} + e_{1it}$$

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Model 2
$$Y_{2it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{1it} * Z_{it} + \beta_5 X_{2it} * Z_{it} + \beta_6 X_{3it} * Z_{it} + e_{1it}$$

Data analysis method used in this research were descriptive statistical analysis and inferential statistical
analysis using E-views12 software.

Table 2. Operational Definition od Variables

No.	Variable	Operational Definition	Measurement
1.	Sharia Conformity (Y1)	Performance is used to measure the extent to which sharia banking carries out its operational activities in accordance with applicable sharia provisions (Dzulkarnain & Asrori, 2017)	$PSR = \dfrac{Mudharabah + Musharakah}{Total\ Financing}$ (Kristianingsih, Wardhana, & Setiawan, 2021)
2.	Profitability (Y2)	The ability of a company to obtain profits from its operational activities (Dzulkarnain & Asrori, 2017)	$ROA = \dfrac{Net\ Profit}{Total\ Asset}$ (Wahyudi et al., 2021)
3.	Financing Risk (X1)	The measurement used to determine the risk of credit disbursed by banks is by comparing bad credit to total credit t (Kasmir, 2017)	$NPF = \dfrac{Non\ Performing\ Financing}{Total\ Financing}$ (Salamah & Kusumaningtias, 2019)
4.	Liquidity Risk (X2)	The measurement of the risk faced by a bank if it fails to fulfill its obligations to its depositors using its liquid assets (Kasmir, 2017)	$FDR = \dfrac{Total\ Financing}{Third\ Party\ Fund}$ (Susilowati & Falikhatun, 2023)
5.	Operational Efficiency Risk (X3)	Measurements used to measure the efficiency of business carried out by banks (Kasmir, 2017)	$BOPO = \dfrac{Operational\ Exp.}{Operational\ Inc.}$ (Kristianingsih, Wardhana, & Setiawan, 2021)
6.	Third Party Fund (Z)	Funding that comes from the public, both individuals and business entities, is obtained by the bank through various savings products offered by the bank (Firmansyah, & Herdidewayanti)	$LOGTPF = LOG(Giro + Sv. + Dep.)$ Kristianingsih, Wardhana, & Setiawan, 2021

The data analysis method used in this research included descriptive and inferential statistical analysis
using E-Views 12 software. For the inferential analysis, a panel data regression model was applied, which is
particularly suitable for data that includes multiple entities (in this case, Islamic commercial banks) observed
over time (from 2020 to 2023). Panel data regression allows for the analysis of cross-sectional data (differences
across banks) and time-series data (changes over the quarterly periods).In this study, three types of panel data
models were considered (Sugiyono, 2013; Wahyudin, 2015):
1. Standard Effects Model (CEM): This is the simplest form of panel data regression where all observations
   are pooled together, assuming that there are no individual effects across banks or over time. CEM assumes
   that the intercept is the same across all entities and periods, meaning it does not account for any
   heterogeneity between banks or over time. While useful for fundamental analysis, this model is typically
   less appropriate when unobserved heterogeneity exists.
2. Fixed Effects Model (FEM): The Fixed Effects Model is used when the individual-specific effects (the
   characteristics of each bank) are assumed to be correlated with the explanatory variables. FEM accounts
   for unobserved heterogeneity that varies across banks but remains constant over time. It effectively
   controls for variables that do not change over time (e.g., bank-specific factors like size, location, or
   management) by differencing them out in the model, making it a good choice when those factors are
   assumed to influence the dependent variable.
3. Random Effects Model (REM): The Random Effects Model assumes that the individual-specific effects
   are not correlated with the explanatory variables and treats them as random. REM is used when the
   unobserved heterogeneity is considered random and unrelated to the independent variables. This model is
   more efficient than FEM when the assumptions hold, as it uses both within-entity and between-entity
   variations.

A Hausman test was conducted to determine the most appropriate model. The Hausman test compares
the estimators from the Fixed Effects Model and the Random Effects Model. The Fixed Effects Model is
preferred if the test suggests that the individual-specific effects are correlated with the explanatory variables.
If the test shows no significant correlation, the Random Effects Model is used.

This study investigates the influence of various risk factors—namely, financing risk, liquidity risk, and
operational efficiency risk—on two key performance indicators of Islamic commercial banks in Indonesia:

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Sharia Conformity (Model 1) and Profitability (Model 2). Moreover, this study also examines the moderating role of Third Party Funds (Z) in these relationships. The development of the hypotheses is grounded in financial intermediation theory and supported by relevant empirical research.

Financing risk refers to the possibility of loss due to the failure of customers to finance repayments. In Islamic banking, high financing risk may pressure banks to compromise their Sharia-based contracts to maintain profitability (Rosly & Bakar, 2003). This is especially critical because the fundamental principle of Islamic banking is risk-sharing and transparency. The increase in non-performing financing (NPF) may also reduce the ability of banks to uphold Islamic principles due to restructuring pressures.

H1: Financing Risk (X_1) Has a Significant Effect on Sharia Conformity (Y_1)

Liquidity risk arises when a bank cannot meet its short-term obligations due to insufficient liquid assets. In the context of Islamic banks, liquidity management is more complex due to the limited availability of Sharia-compliant instruments. As noted by Hidayat & Trinanda (2019), poor liquidity conditions may force Islamic banks to use instruments that are not fully compliant with Sharia principles.

H2: Liquidity Risk (X_2) Has a Significant Effect on Sharia Conformity (Y_1)

Operational efficiency in Islamic banking ensures that resources are utilized effectively to maintain Sharia compliance across all functions. Inefficiencies can increase the likelihood of procedural errors, delays, or mismanagement, which may result in deviations from sharia rules. According to Ramly & Nawi (2016), Islamic banks with high operational efficiency show better compliance with Islamic law.

H3: Operational Efficiency Risk (X_3) Has a Significant Effect on Sharia Conformity (Y_1)

Third-party funds reflect public trust and are the primary source of Islamic bank financing. A higher volume of third-party funds provides greater liquidity and financial flexibility, which may help banks manage financing risks more effectively without violating Sharia rules. Gitman & Zutter (2012) suggest that increased fund availability enhances institutional resilience against financial pressure.

H4: Third Party Fund (Z) Moderates the Effect of Financing Risk (X_1) on Sharia Conformity (Y_1)

Sufficient third-party funds help maintain liquidity and allow Islamic banks to fulfill obligations without using non-sharia-compliant instruments. The negative impact on Sharia conformity can be mitigated when liquidity risk is coupled with strong fund mobilization. This aligns with the theory that financial buffers reduce compliance pressures (Gitman & Zutter, 2012).

H5: Third Party Fund (Z) Moderates the Effect of Liquidity Risk (X_2) on Sharia Conformity (Y_1)

Operational risks can be better managed if a bank has sufficient funding to invest in technology, human resources, and compliance infrastructure. Third-party funds provide the capacity to improve operations and sustain Sharia-compliant practices. Ramly & Nawi (2016) emphasize that resource availability supports better governance and internal control systems.

H6: Third Party Fund (Z) Moderates the Effect of Operational Efficiency Risk (X_3) on Sharia Conformity (Y_1)

Financing risk, mainly reflected in non-performing financing (NPF), directly affects a bank's earning ability. High NPF reduces interest income and increases provisioning costs, decreasing profitability. According to Alqahtani, Mayes, and Brown (2017), Islamic banks have a significant negative relationship between financing risk and profitability.

H7: Financing Risk (X_1) Has a Significant Effect on Profitability (Y_2)

Liquidity risk impacts a bank's ability to invest in profitable opportunities or cover its short-term obligations. Islamic banks with better liquidity management can generate returns from investments. Bougatef & Mgadmi (2016) found that lower liquidity risk is associated with better profitability in Islamic financial institutions.

H8: Liquidity Risk (X_2) Has a Significant Effect on Profitability (Y_2)

Operational efficiency influences a bank's cost structure and service quality. Banks with high operational inefficiencies often face higher overhead costs, reducing profitability. Yudistira (2004) found that cost efficiency positively affects the profitability of Islamic banks across countries.

H9: Operational Efficiency Risk (X_3) Has a Significant Effect on Profitability (Y_2)

The availability of third-party funds provides a cushion against financing losses, enabling banks to absorb shocks from default risks without heavily impacting their profitability. Adequate funds enhance financial intermediation, which mitigates the adverse effects of financing risk (Iqbal & Mirakhor, 2011).

H10: Third Party Fund (Z) Moderates the Effect of Financing Risk (X_1) on Profitability (Y_2)

With more third-party funds, banks can ensure adequate liquidity and optimize asset allocation, thus reducing liquidity pressure and sustaining profitability. High deposits enhance investment capacity (Nimalathasan & Pratheepkanth, 2012), which can buffer the impact of liquidity shortages.

H11: Third Party Fund (Z) Moderates the Effect of Liquidity Risk (X_2) on Profitability (Y_2)

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Third-party funds support operational improvements, such as investment in technology, staff development, and process optimization. When such funds are adequately managed, the adverse effect of inefficiencies on profitability may be reduced (Ramly & Nawi, 2016).

H12: Third Party Fund (Z) Moderates the Effect of Operational Efficiency Risk (X_3) on Profitability (Y_2)

RESULT AND DISCUSSION

Descriptive statistical analysis in this research is to describe the variables used, namely sharia conformity, profitability, financing risk, liquidity risk, operational efficiency risk, and third party funds. Based on the results of descriptive statistical analysis, the highest value, lowest value and standard deviation of these variables are known. The results of descriptive statistical tests for all research variables can be seen in the following table:

Table 3. Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
PSR	160	0.024500	95.14110	55.11978	28.52895
ROA	160	-6.720000	13.58000	1.845579	2.900319
NPF	160	0.497900	10.92290	2.923897	2.062710
FDR	160	38.49130	196.7341	83.86343	22.62211
BOPO	160	54.84770	202.7417	85.83348	16.58273
DPK	160	811921	293775929	29126595	60948305

Based on Table 2, the descriptive statistical analysis provides an overview of the financial performance and operational characteristics of 171 Islamic banks in Indonesia. The Profit Sharing Ratio (PSR) shows a significant variation, with a mean of 55.12. The values range from a minimum of 0.0245 to a maximum of 95.1411, indicating diverse profit-sharing practices across the sample banks. The Return on Assets (ROA) has a mean of 1.85, with values ranging from -6.72 to 13.58, reflecting significant disparities in profitability among the banks, where some experienced negative returns while others achieved positive ones. The Non-Performing Financing (NPF) ratio, with a mean of 2.92, indicates a moderate level of non-performing financing, but the wide range from 0.4979 to 10.9229 suggests considerable variability across the banks. The Financing to Deposit Ratio (FDR) shows a mean of 83.86, with values ranging from 38.49 to 196.73, highlighting substantial differences in how banks balance financing activities relative to their deposits. The Operating Expense to Operating Income Ratio (BOPO) has a mean of 85.83, reflecting a significant variation in operational efficiency, with values ranging from 54.85 to 202.74. A higher BOPO suggests lower efficiency, where operating expenses are higher relative to income. Finally, Third Party Funds (DPK) exhibit a wide range, with a mean of 29,126,595, varying from 811,921 to 293,775,929, pointing to large disparities in the funds managed by the banks. Overall, these statistics underscore the diverse financial conditions and performance levels within the Islamic banking sector in Indonesia.

Table 4. Classical Assumption Test Results

Test	Hypothesis	p-value	Result
Normality Test (Jarque-Bera)	H_0: Data is normally distributed	0.423	Fail to reject H_0 (normal distribution)
Multicollinearity Test (VIF)	H_0: No multicollinearity	VIF < 10	No multicollinearity detected
Heteroskedasticity Test (Breusch - Pagan)	H_0: No heteroskedasticity	0.062	Fail to reject H_0 (no heteroskedasticity)
Autocorrelation Test (Durbin-Watson)	H_0: No autocorrelation	1.91	No autocorrelation detected

Based on the classical assumption tests, the regression model appears to meet the necessary requirements for reliable analysis. The normality test, with a p-value of 0.423 from the Jarque-Bera test, indicates that the residuals follow a normal distribution, confirming that the data satisfies the assumption of normality, which is essential for valid regression analysis. Additionally, the multicollinearity test shows that all Variance Inflation Factor (VIF) values are below 10, suggesting that there is no severe multicollinearity among the independent variables, ensuring that the regression coefficients are estimated accurately. The heteroskedasticity test results, with a p-value of 0.062 from the Breusch-Pagan test, indicate that we fail to reject the null hypothesis of no heteroskedasticity, meaning the variance of residuals is constant across observations. This supports the assumption of homoscedasticity, which is crucial for the reliability of regression estimates. Finally, the autocorrelation test, with a Durbin-Watson statistic of 1.91, suggests that there is no significant autocorrelation in the residuals, as the statistic is close to 2, confirming that the residuals

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are not correlated across observations. These results collectively affirm that the regression model adheres to the classical assumptions, ensuring the validity and reliability of the analysis.

Table 5. The Result of Hypothesis Test

	Hypothesis	β	Sig.	α	Result
	Intercept (Model 1)	5,67823	0,010	0,02	Accepted
	Intercept (Model **2**)	2,45312	0,005	0,01	Accepted
H1	Financing risk (NPF) has a negative significant effect on sharia conformity (PSR)	-11,46312	0.0042	0,05	Accepted
H2	Liquidity risk (FDR) has a positive significant effect on sharia conformity (PSR)	-0.168552	0.7220	0,05	Rejected
H3	Operational efficiency risk (BOPO) has a negative significant effect on sharia conformity (PSR)	1.314179	0.1771	0,05	Rejected
H4	Third party fund strengthens the influence of financing risk (NPF) on sharia conformity (PSR)	-1.871787	0.0026	0,05	Accepted
H5	Third party fund strengthens the influence of liquidity risk (FDR) on sharia conformity (PSR)	0.046595	0.5197	0,05	Rejected
H6	Third party fund strengthens the influence of operational efficiency risk (BOPO) on sharia conformity (PSR)	-0.189170	0.1834	0,05	Rejected
H7	Financing risk (NPF) has a negative significant effect on profitability (ROA)	-0.951541	0.1266	0,05	Rejected
H8	Liquidity risk (FDR) has a positive significant effect on profitability (ROA)	0.053545	0.4724	0,05	Rejected
H9	Operational efficiency risk (BOPO) has a negative significant effect on profitability (ROA)	-0.676549	0.0000	0,05	Accepted
H10	Third party fund strengthens the influence of financing risk (NPF) on profitability (ROA)	-0.158139	0.1015	0,05	Rejected
H11	Third party fund strengthens the influence of liquidity risk (FDR) on profitability (ROA)	-0,010845	0.3409	0,05	Rejected
H12	Third party fund strengthens the influence of operational efficiency risk (BOPO) on profitability (ROA)	-0.106789	0.0000	0,05	Accepted

Model 1
$$Y_{1it} = 5,67823 - 11,46312X_{1it} - 0.168552X_{2it} + 1.314179X_{3it} - 1.871787X_{1it} * Z_{it} + 0.046595X_{2it} * Z_{it} - 0.189170X_{3it} * Z_{it} + e_{1it}$$

Model 2
$$Y_{2it} = 2,45312 - 0.951541X_{1it} + 0.053545X_{2it} - 0.676549X_{3it} - 0.158139X_{1it} * Z_{it} - 0,010845X_{2it} * Z_{it} - 0.106789X_{3it} * Z_{it} + e_{1it}$$

The results of the fixed effect test obtained a significance value for the financing risk variable (NPF) of 0.0042 (less than 0.05) with a coefficient value of -11.46312. Thus, the data in this study supports the statement of hypothesis 1 which states that financing risk (NPF) has a negative significant effect on sharia conformity (PSR). An increase in NPF will further increase the risk of failure in financing distribution (Salamah & Kusumaningtias, 2019). In such conditions, management will be selective by tending to reduce distribution of profit sharing financing because it has a higher risk of failure. These results are in accordance with research by Sitompul & Nasution (2019) and Primadhita, Primatami, & Budiningsih (2021).

The results of the fixed effect test obtained a significance value for the liquidity risk variable (FDR) of 0.7220 (more than 0.05) with a coefficient value of -0.168552. Thus, the data in this study does not support the statement of hypothesis 2 which states that liquidity risk (FDR) has a positive significant effect on sharia conformity (PSR). This indicates that sharia commercial banks still do not prioritize profit sharing agreements as their main financing (Moudud-Ul-Huq, et.al., 2018). Distribution of financing that is too aggressive, marked by a significant increase in FDR, can increase the risk of financing problems (Salamah & Kusumaningtias, 2019). On the other hand, Islamic commercial banks currently have a commitment to reduce the risk of profit-sharing financing in order to maintain bank income stability Nugroho, Nungraha, Badawi (2020). These results are in line with Salamah & Kusumaningtias (2019), Susilowati & Falikhatun (2023) , and Siregar (2021).

The results of the fixed effect test obtained a significance value for the operational efficiency risk variable (BOPO) of 0.1771 (more than 0.05) with a coefficient value of 1.314179. Thus, the data in this study does not support the statement of hypothesis 3 which states that operational efficiency risk (BOPO) has a negative significant effect on sharia conformity (PSR). The increase in efficiency which is marked by a

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decrease in the BOPO ratio has no effect on increasing the PSR ratio. The PSR trend which has increased in recent years shows that sharia commercial banks will continue to increase profit sharing financing regardless of the increase or decrease in their BOPO ratio (Sitompul & Nasution, 2019) So, it can be said that the management of the operational efficiency risks of sharia commercial banks is carried out with a different objective from the bank's sharia compliance performance, but so that the bank can increase its profits. These results are in line with (Winarsih & Asokawati, 2019)

The results of the fixed effect test obtained a significance value for the moderating effect from third party fund of 0.0026 (less than 0.05). The coefficient value of the financing risk and TPF interaction variable is -1.871787 while the coefficient of the financing risk variable is -11,46312. The negative interaction coefficient value which is getting closer to zero indicates that the third party funding variable is able to strengthen the influence of the financing risk variable and hypothesis 4 is accepted. Sharia commercial banks with a larger volume of deposits have more ability to diversify the economic sector through profit sharing financing, thereby reducing the impact of problematic financing that arises. This is because diversification in bank financing activities can improve bank performance (Moudud-Ul-Huq et al., 2018; Supriadi, et.al., 2021).

The results of the fixed effect test obtained a significance value for the moderating effect from third party fund of 0.5197 (more than 0.05). The coefficient value of the liquidity risk and TPF interaction variable is 0.04659587 while the coefficient of the liquidity risk variable is -0.168552. From the coefficient value, it is known that the TPF variable changes the direction of liquidity risk influence to be positive, but there is weak significance. So it can be concluded that TPF is unable to strengthen the influence of liquidity risk on sharia conformity and the hypothesis 5 is rejected. TPF collected by sharia commercial banks is a deposit from the community which should be used to achieve better sharia compliance performance (Kartika, Jubaedah, & Astuti, 2020). But, in other hand, increasing financing will basically increase the risk of problematic financing emerging which could disrupt bank operational activities (Bougatef & Mgadmi, 2016; Dzulkarnain & Asrori, 2017). So banks often take less risk by channeling deposits into financing with other contracts such as murabahah.

The results of the fixed effect test obtained a significance value for the moderating effect from third party fund of 0.1834 (more than 0.05). The coefficient value of the operational efficiency risk and TPF interaction variable is -0.189170 while the coefficient of the operational efficiency risk variable is 1.314179. From the coefficient value, it is known that the TPF variable changes the direction of operational efficiency risk influence to be negative, but there is weak significance. So it can be concluded that TPF is unable to strengthen the influence of operational efficiency risk on sharia conformity and the hypothesis 6 is rejected. This is because deposits at Islamic commercial banks in Indonesia are dominated by deposits (Siregar, 2021; Sihotang, Hasanah, & Hayati, 2022). Savings in the form of deposits require higher operational costs than current and savings deposits. Therefore, an increase in TPF can also increase the risk of bank operational efficiency which will reduce profits (Wulandari, Usdeldi, & Nengsih, 2024).

The results of the fixed effect test obtained a significance value for the financing risk variable (NPF) of 0.1266 (more than 0.05) with a coefficient value of -0.951541. Thus, the data in this study does not support the statement of hypothesis 7 which states that financing risk (NPF) has a negative significant effect on profitability (ROA).This means that financing risk (NPF) has a weak correlation with bank profitability performance. This is due to preventive steps taken by the bank by establishing an Allowance for Earning Asset Losses (PPAP). PPAP is the formation or setting aside of funds assessed from the results of debtor financing evaluations (Rinanti, 2012). The formation of reserves aims to reduce the impact arising from problematic financing and does not directly burden the bank's profit and loss statement. The results of this research support previous research by Sitompul & Nasution (2019) and Wahyudi et al. (2021). In addition, this research rejects the results of previous research by Ramly & Nawi, (2017); Riyadi, et.al., (2021) which states that NPF has a negative significant effect on ROA.

The results of the fixed effect test obtained a significance value for the liquidity risk variable (FDR) of 0.4724 (more than 0.05) with a coefficient value of 0.053545. Thus, the data in this study does not support the statement of hypothesis 8 which states that liquidity risk (FDR) has a positive significant effect on profitability (ROA). The weak correlation between FDR and ROA can be caused by less than optimal distribution of financing. An increase in financing often increases the risk of losses due to financing failure to pay. Wahyudi et al. (2021) revealed that if financing expansion carried out by banks is not accompanied by good productive asset quality (NPF), it will not have an impact on bank profitability. This means that the success of bank financing expansion depends on controlling the accompanying financing risks. These results are in accordance with Ramly & Nawi (2016); Alqahtani, Mayes, & Brown (2017) who found that the FDR ratio had no significant effect on the ROA ratio and rejected the results of research byMurtiningsih & Tohirin (2023).

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The results of the fixed effect test obtained a significance value for the operational efficiency risk variable (BOPO) of 0.0000 (less than 0.05) with a coefficient value of -0.676549. Thus, the data in this study supports the statement of hypothesis 9 which states that operational efficiency risk (BOPO) has a negative significant effect on profitability (ROA). The lower the BOPO ratio, the higher the efficiency, where the income received is greater than the costs incurred, so the ROA ratio will also increase. With proper efficient risk management, sharia commercial banks will be able to reduce the costs required to obtain maximum operational income. An increase in operational costs can reduce profit before tax which will ultimately reduce ROA for the bank because the profit generated will be smaller (Murtiningsih & Tohirin, 2023).

The results of the fixed effect test obtained a significance value for the moderating effect from third party fund of 0.1015 (more than 0.05). The coefficient value of the financing risk and TPF interaction variable is -0.158139 while the coefficient of the financing risk variable is -0.951541. From the coefficient value, it is known that the TPF variable does not change the direction of financing risk influence instead of making it more negative. However, there is weak significance and it can be concluded that TPF is unable to strengthen the influence of financing risk on profitability and the hypothesis 10 is rejected. The majority of deposit growth in sharia commercial banks in Indonesia has shown an increase in the last few years, however the NPF ratio still shows fluctuating growth. This shows that the growth in deposits that occurs cannot contribute to financing risk management so that the results obtained are not significant to the bank's profitability performance. The results of this study are in line with Wulandari, Usdeldi, & Nengsih (2024) which states that financing risk in Islamic commercial banks in Indonesia is relatively healthy from year to year so that the impact on ROA is not significant.

The results of the fixed effect test obtained a significance value for the moderating effect from third party fund of 0.3409 (more than 0.05). The coefficient value of the liquidity risk and TPF interaction variable is -0,010845 while the coefficient of the liquidity risk variable is 0.053545. From the coefficient value, it is known that the TPF variable changes the direction of liquidity risk to be negative. However, there is weak significance and it can be concluded that TPF is unable to strengthen the influence of liquidity risk on profitability and the hypothesis 11 is rejected. This means that the FDR ratio value which interacts with TPF has a weak correlation with changes in profitability (ROA). Sharia commercial banks tend to be careful in using TPF in financing distribution so as not to create a risk of failure (Khan, 2010). Banks with high TPF such as BSI Bank tend to have relatively low FDR ratios below 85%. This indicates that banks act carefully and are not too aggressive in distributing funds in order to maintain a healthy NPF ratio. These results contradict research by Wulandari, Usdeldi, & Nengsih (2024)which states that TPF is able to moderate the relationship between FDR and ROA.

The results of the fixed effect test obtained a significance value for the moderating effect from third party fund of 0.0000 (less than 0.05). The coefficient value of the operational efficiency risk and TPF interaction variable is -0.106789 while the coefficient of the operational efficiency risk variable is -0.676549. The negative interaction coefficient value which is getting closer to zero indicates that the third party funding variable is able to strengthen the influence of the operational efficiency risk variable and hypothesis 12 is accepted. This means that TPF in Islamic banks can moderate the relationship between operational efficiency risk and profitability. Banks can use the volume of deposits to develop products and services and increase the efficiency of operational activities. Thus, sharia commercial banks can increase their income potential which will also increase their profitability. Banks with larger deposit volumes are able to reduce operational costs better so they have healthy operational efficiency (Muchtar & Rofi, 2020).

CONCLUSION AND RECOMMENDATION

Based on the results of Model 1, the analysis reveals that Financing Risk (NPF) has a negative significant effect on Sharia Conformity (PSR), meaning that as financing risk increases, the adherence to sharia principles decreases. This highlights the critical role of effective risk management in financing activities to ensure compliance with sharia standards. In contrast, Liquidity Risk (FDR) and Operational Efficiency Risk (BOPO) do not show significant effects on Sharia Conformity (PSR). This suggests that these two factors, while relevant for financial stability, do not directly influence the level of sharia compliance. Additionally, the moderating effect of Third Party Funds (DPK) is significant only in the relationship between Financing Risk (NPF) and Sharia Conformity (PSR), indicating that external funds can help mitigate the negative effects of financing risk on sharia compliance. However, Third Party Funds (DPK) do not significantly moderate the effects of Liquidity Risk (FDR) or Operational Efficiency Risk (BOPO) on Sharia Conformity (PSR), pointing to the limited influence of external funds in moderating these factors.

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In Model 2, the analysis of Profitability (ROA) indicates that Financing Risk (NPF) does not have a significant effect on profitability. This suggests that while financing risk impacts sharia conformity, it does not directly affect profitability. On the other hand, Operational Efficiency Risk (BOPO) shows a negative significant effect on profitability, which indicates that inefficiencies in operations significantly reduce the firm's ability to generate profits. Moreover, Third Party Funds (DPK) are found to moderate the relationship between Operational Efficiency Risk (BOPO) and Profitability (ROA), indicating that external funds can help mitigate the negative impact of operational inefficiencies on profitability. However, Third Party Funds (DPK) do not moderate the relationships between Financing Risk (NPF) and Liquidity Risk (FDR) with Profitability (ROA), suggesting that these factors remain unaffected by the availability of external funds.

Based on the findings from both models, several key recommendations can be made. Firstly, Financial Institutions should focus on strengthening their Financing Risk Management strategies, as the negative impact of financing risk on Sharia Conformity (PSR) is significant. This can be achieved through stricter credit assessments, more robust risk control mechanisms, and enhanced due diligence in financing operations to ensure alignment with sharia principles. Secondly, Operational Efficiency should be a priority for institutions aiming to enhance Profitability (ROA). The significant negative relationship between Operational Efficiency Risk (BOPO) and profitability highlights the need for operational improvements to enhance financial performance. Financial institutions should invest in optimizing their operational processes, reducing inefficiencies, and leveraging technology to streamline operations.

Furthermore, the moderating role of Third Party Funds (DPK) in improving both Sharia Conformity (PSR) and Profitability (ROA) suggests that external funding sources can be crucial for mitigating risks. Institutions should strategically manage external funds to enhance risk management practices and boost profitability. Finally, while Liquidity Risk (FDR) does not have a significant effect on Sharia Conformity or Profitability, maintaining strong liquidity management practices is still important for overall financial health. Institutions should ensure they have sufficient liquidity to weather market fluctuations while focusing on other key risk areas to optimize performance. By implementing these strategies, financial institutions can improve their sharia compliance, financial performance, and risk management capabilities.

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