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# The Effect of Financing Risk on Sharia Compliance Performance and Profitability Performance

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***Abstrak***

*Tujuan dari penelitian ini adalah untuk menguji dan menganalisis Pengaruh Risiko Pembiayaan yang dipresentasikan dengan risiko pembiayan mudharabah, risiko pembiayaan musyarakah, dan risiko pembiayaan murabahah terhadap kinerja kesesuaian sharia dan kinerja profitabilitas. Populasi penelitian adalah seluruh bank umum sharia yang di Indonesia periode tahun 2011-2015. Metode pengambilan sampel yang digunakan adalah dengan metode purposive sampling. Jumlah sampel yang diuji sebanyak 7 bank umum sharia dengan 35 unit analisis yang menjadi objek pengamatan. Alat analisis yang digunakan adalah SPSS 21. Penelitian ini menganalisi laporan tahunan bank umum sharia dengan metode analisis regresi linear sederhana. Hasil penelitian menunjukan bahwa variabelrisiko pembiayaan mudharabah dan murabahah tidak berpengaruh terhadap kinerja kesesuaian sharia sedangkan variabel risiko pembiayaan musyarakah berpengaruh positif signifikan terhadap kinera kesesuaian sharia. Sementara itu variabel risiko pembiayaan mudharabah, musyarakah dan murabahah berpengaruh terhadap kinerja profitabilitas bank unit sharia yang ada di Indonesia. Berdasarkan hasil penelitian dapat disimpulkan bahwa hanya risiko pembiayaan musyarakah yang berpengaruh terhadap kinerja kesesuaian sharia dan masing-masing risiko pembiayaan mudharabah, musyarakah dan murabahah berpengaruh terhadap kinerja profitabilitas.*

**Abstract**

The purpose of this study is to examine and analyze the Influence of financing risks presented with mudharabah financing risk, musyarakah financing risk, and murabahah financing risk to sharia conformity and profitability performance. The study population is all sharia commercial banks in Indonesia of 2011-2015 period. Sampling method used purposive sampling. The number of samples tested were 7 sharia banks selected with 35 units of analysis that became the object of observation. The analysis used SPSS 21. This study analyzes the annual report of sharia banks helped by simple linear regression analysis method. The result of the research showed that mudharabah and murabahah financing risk variables did not have an effect on sharia conformity while the musyarakah financing risk variable had a significant positive effect on sharia conformity. Meanwhile, the variables of mudharabah, musyarakah and murabahah financing risks influenced to profitability performance of sharia bank in Indonesia. Based on the result of the research, it can be concluded that only musyarakah financing risk affecta the performance of sharia conformity and mudharabah, musyarakah and murabahah financing risk had effect on profitability performance.



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## INTRODUCTION

The performance of sharia banks in Indonesia is developed using measurement indicators based on conventional financial ratios mainly are liquidity, profitability ratios and others. According to (Iqbal dan Mirakhor, 2014) assessment on Islamic banks using conventional financial ratios is regarded irrelevant to the objectives of sharia banks which are established as Islamic financial institutions that are obliged to provide competitive banking products and services in accordance with sharia principles. Therefore, the guarantee of fulfilment assessment of sharia compliance from all customer fund management activities by sharia bank is very important in sharia bank business activity (Wardayati, 2011). The existence of sharia compliance is expected to be able to provide assurance on the fulfilment of all sharia principles in all activities that are done as a form of the characteristics of Islamic financial institutions. According to (Umam, 2015) explains that in carrying out its operations, sharia financial institutions must have conformity with the principles of sharia.

Islamic Banks in Indonesia was first established in 1990 with the establishment of PT Bank Muamalat Indonesia. Growth of sharia banks include the number of branches opened, total assets, third party funds and financing distributed to the community (Ekaputri, 2014). The development of Islamic banks is seen from the number of increased banks, office networks, third party funds and financing provided. In 2015 the number of sharia commercial banks (BUS) amounted to 12, and 22 units of sharia business (UUS). The purpose of Islamic banks is to maintain the viability of the bank through business to achieve profit. The aspect of income or profitability can assess the performance of bank in generating profits and predict the condition of bank in the future. The majority of Muslims today are not only concerned about how they benefit, but more importantly, where their money will be invested (Aisjah and Hadianto, 2013). Business made by sharia banking to gain profitability is to do financing. The increase in sharia bank financing will increase financing risk because the financing product is included in natural uncertainty contracts products.

So far in the research literature on the performance of sharia banks in Indonesia mostly only use measurement indicators based on conventional financial ratios mainly profitability (Asrori, 2014). The assessment of Islamic bank performance is much more complex that is not only seen from the level of profitability, but assessed based on adherence to the principles of sharia (Kuppusamy *et al*, 2010). The study using this model not only uses conventional financial measurement ratios, profitability but also uses 3 financial indicators owned by all sharia banks to measure Sharia compliance is by calculating the average of sharia investment ratio, kosher income ratio and profit-sharing ratio.

The disclosure of sharia banking performance in Indonesia is mainly related to the performance of sharia compliance and profitability performance is still not maximized. As quoted from http: /porosnews.com/kasus/bank/muamalat.htm in which occur internal problems and miss management in PT Bank Muamalat Indonesia. Bank Muamalat Indonesia also provides working capital financing to PT Rockit Aldeway and PT Bintang Jaya Proteina which directly facing credit problems. In addition PT Bintang Jaya Proteina turns out to be a company engaged in the field of pig feed livestock and industry. This resulted in a problem in PT Bank Muamalat Indonesia because it is not in accordance with the principles of sharia in its financing.

Several previous studies related to the performance of Islamic banks show inconsistent results, research conducted by (Asrori, 2014) shows that the implementation of Islamic corporate governance of DPS duties and responsibilities performance as board of Sharia advisory and supervisors has a positive effect on the Islamic performance of Islamic banking companies which is measured based on sharia conformity indicator with financial ratios of profit sharing and zakat financing. Research of (Afif and Mawardi, 2014) with the results of problematic financing has no effect on the profit of sharia commercial banks. The result of research conducted by (Liliani and Khairunnisa, 2015) shows that Non Performing Finance has a significant influence on the financing of profit sharing of sharia commercial banks. In addition, studies related to financing risks to profitability performance are still experiencing inconsistent results. Research conducted by (Fahrul *et al*, 2012), (Afrianandra and Mutia, 2014) which state that the level of musyarakah financing risk and murabahah financing risks affect the level of profitability. Research conducted by (Mawaddah, 2015) shows the same result where NPF financing risk affects ROA. While research conducted by (Purbaningsih, 2014) and (Andika, 2015) the financing risk of mudharabah and murabahah NPF have no effect on profitability. So this study aims to examine whether the risks of mudharabah, musyarakah and murabahah financing affect the performance of sharia compliance and profitability performance of sharia banks in Indonesia. In addition, in the research, the ratios used are combining between conventional financial ratios and Islamic financial ratios that are still rare in Indonesia in calculating the performance of Islamic banks in Indonesia.

Grand theory of this research is used to strengthen the relationship between variables in the model where in this research there are 3 theories, namely Sharia Enterprise Theory, risk management theory and Al-Wala 'theory. Sharia Enterprise Theory is used to support Sharia compliance performance variable. Sharia Enterprise Theory considers that everything must be accounted for to God who is a major stakeholder in the company (Triyuwono, 2011). Theory of risk management is used to support the relationship between Islamic bank financing risk and the performance of sharia compliance and profitability performance, risk management theory is the implementation of management functions in risk management (Djojosoedarsono, 2003). Theory of Al-Wala 'is used to explain the variable of financing risk to the performance of profitability, theory of Al-Wala (loyalty) considers that the attitude of loyalty to the entity while maintaining control of all the energy and mind then the banking activities are still running despite the risks that exist (Jayanto, 2016).

Mudharabah financing is a risky financing because *sahibulmal* as the owner of the fund is not allowed to intervene in fund management. Meanwhile, the profit earned is divided according to the rules that have been made together. Business to minimize the risk, *sahibulmal* must ensure that the business run by *mudharib* in accordance with sharia. Sharia enterprise theory (Triyuwono Iwan, 2011) explains that the implementation of management duties and responsibilities must be in accordance with the existing sharia rules which in this case *mudharib* undertakes business activities entrusted in accordance with the principles of sharia. The role of *mudharib* with the principle of prudence is needed primarily in carrying out operational activities in accordance with applicable regulations so that the existing risks can be minimized and the division of results and goals to be achieved by the organization can be met. This is in line with the research conducted by (Liliani & Khairunnisa, 2015) which states that the risk of financing affects the profit sharing of sharia commercial banks.

$H_1$: *Mudharabah* Financing Risk has a positive effect on Sharia Compliance Performance

Musyarakah financing scheme is a financing that involves between *shahibul mal* and *mudharib* with the sharing of capital together in accordance with the agreement that has been made. Musyarakah financing in return of profit sharing ratio required a solid cooperation between each party concerned. It proves that musyarakah financing has a high risk so that it needs good risk management. Risk management theory explains that risk management is the implementation of management functions in risk mitigation (Djojosoedarsono, 2003). The operational activities of sharia banking must keep maintaining and following the agreed rules in accordance with the applicable sharia compliance. Sharia compliance performance in accordance with sharia regulations and good risk management will give a positive impact that can increase the rate of return on investment made. The higher the rate of return on the investment made show that the better the performance is done. The better performance done based on common consensus shows a positive influence on the level of the sharia compliance performance which is executed. This is in line with the research of Mausen et al (2016) which states that the risk of financing affects the level of profit sharing of Islamic banks.

$H_2$: *Musyarakah* Financing Risk has a positive effect on Sharia Compliance Performance.

Murabahah in fiqh terms is the contract of sale and purchase on certain goods. In the sale and purchase transaction, the seller clearly states the goods traded including the purchase price and the profit taken. Banks obtain mutually agreed trading profits. The selling price of the bank is the purchase price of the suppliers plus the agreed (mark up / margin) profit. Thus, the customer knows the profit / earn taken by the bank. As long as the contract has not expired, the sale price will not change, in the event of any change, the contract becomes void, the payment method and the mutually agreed term, may be direct or in instalments. Risk management is required in murabahah financing. Risk management theory (Djojosoedarsono, 2003) implies that the implementation of management functions in risk management. The existence of good risk management can minimize the risks that may occur such as a cancelled contract or problematic financing. According to (Akhmiatun and Nurkhin, 2017) murabahah problematic financing affects the performance of Islamic banks due to errors in banking analysis that resulted in losses to customers.

$H_3$: *Murabahah* risk financing has a positive effect on Sharia Compliance Performance

Mudharabah financing scheme has a high risk because in this financing is only based on trust. Efforts to prevent such losses, sahibulmal must ensure that the business run by mudharib in accordance with sharia. Sharia enterprise theory (Triyuwono Iwan, 2011) explains that the implementation of management duties and responsibilities must be in accordance with the existing sharia rules which in this case mudharib undertakes business activities entrusted in accordance with the principles of sharia. Mudharabah financing risk can be calculated by comparing the number of troubled mudharabah financing with total mudharabah financing as a whole. Mudharabah financing is an uncertain financing. The relationship occurs between mudharabah financing risk and the level of profitability is a negative or opposite relationship. This is in accordance with the concept which states that if the NPF (Non Performing Finance) level of bad credit high, profitability will decrease. According to (Fahrul et al, 2012) the level of financing risk (NPF) will automatically affect the operating income becomes lower and vice versa. The result of research conducted by (Riyadi and Yulianto, 2014) reveals that Non Performing Finance does not affect the ROA of foreign exchange Islamic Band. It can be interpreted that any increase or decrease in NPF will not affect the increase or decrease of ROA. In addition, research (Andika *et al*, 2015) obtain the result that NPF mudharabah financing ratio has no significant effect on the level of profitability. The inconsistency of this result has become one of the basic for the researcher to examine the effect of mudharabah financing risk on profitability.

$H_4$: *Mudharabah* Financing Risk has a negative effect on Profitability Performance.

Musyarakah financing is a contract of cooperation between two or more parties for a particular business in which each party contributes funds with the provision that the profit is divided based on the agreement while the loss based on the contribution of funds. Based on the theoretical review and conceptual framework, the level of financing risk/ non performing financing (NPF) on financing that has been distributed by sharia banks can affect the profitability level of sharia banks. Each party certainly takes into account every investment made and all risks that may occur. In line with theory of Al Wala', the implementation of Al-Wala's attitude towards entities is by planning, coordinating, implementing and controlling all the energy and mind to increase the productivity of the Islamic entity so that the activities of the entity can be beneficial to the benefit of customers and society and the environment (Jayanto, 2016). Research conducted by (Fahrul et al., 2012) explains that the level of musyarakah financing risk affects the profitability level of Sharia banks.

$H_5$: Musyarakah financing risk has a positive effect on profitability performance.

Murabahah financing risk can be seen from the problematic financing, because the return is not in accordance with the agreements which has been negotiated with the total financing as a whole, this will affect on the profits to be gained by the bank. (Kusumawati, 2010) explains that the high level of NPF (Non Performing Financing) in an Islamic bank shows the quality of an unhealthy bank.

Troubled financing is a loan that has difficulty repayment due to intentional factors and or due to external factors beyond the capability / control of borrower customers.

The occurrence of this financing risk will automatically give impact on sharia banking because it will affect the operating income which is lower. Thus, it will greatly affect the profitability that will be obtained by companies that are running its activities. The nature of mutual need is required in this case. In line with theory of Al-Wala' (loyalty) the existence of loyalty attitude to the entity while maintaining control of all energy and mind, banking activities are still running despite the risks exist (Jayanto, 2016). The result of the study (Fahrul et al, 2012) indicates that murabahah financing risks positively affect on profitability. The bigger the risk the smaller the profit will be, this will make it difficult for the company to distribute the financing again.

$H_6$: Murabahah financing risk has a positive effect on profitability performance

Based on the description above, the framework of this research can be illustrated in Figure 1

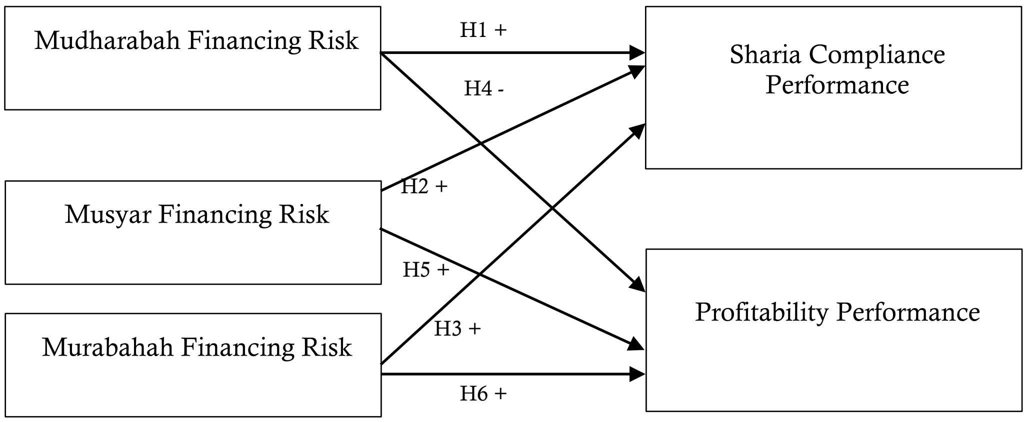


**Figure 1**. Research Model

## METHODS

The type of this research was quantitative research, the data used is secondary data derived from the annual report in the form of annual financial statements published by Islamic Banks (BUS) during the year 2011 until 2015. The population used in this study was all BUS in Indonesia. Based on the Statistical data of Islamic Banking, the number of BUS was 13 units. The observation time of the research was from 2011 to 2015 period. Sample selection in this study used non-probability sampling method namely the selection of samples not randomly using purposive sampling, in accordance with the criteria that have been determined by researchers.

**Table 1.** Companies Samples

| Information | Number |
|---|---|
| Islamic Banks in Indonesia | 13 |
| Islamic Banks that met the criteria | 7 |
| Islamic Banks that did not meet the criteria | 6 |
| Number of Samples | 7 |
| Research Time Range (Year) | 5 |
| Number of Unit of Analysis (7x5) | 35 |

Source : Statistics of Islamic Banking, 2016

The variables used in this study consisted of dependent and independent variables. The dependent variables in this research were the performance of sharia compliance and profitability performance. The independent variables in this research were mudharabah financing risk, musyarakah financing risk and murabahah financing risk.

**Table 2.** Operational Definition of Variables

| No | Variable | Operational Definition | Measurement |
|---|---|---|---|
| 1 | Performance of Sharia Compliance (Y1) | The performance used to measure the extent to which sharia banking operated its operational activities in accordance with the regulations applied (Kuppusamy *et al*, 2010) | $\frac{(AIxRII)+(AIxRPI)+(AIxRPBH)}{3}$ (Asrori, 2014) |
| 2 | Profitability performance (Y2) | The ability of a company to gain an advantage over its operational activities (Kuppusamy *et al*, 2010) | $\frac{(AIxROA) + (AIxROE) + (AIxPM)}{3}$ (Asrori, 2014) |
| 3 | Mudhara bah Financing Risk (X1) | Mudharabah financing risk is the ratio between financing problem and total financing distributed by Islamic bank. The categories included in the NPF were sub-standard, doubtful and loss financing (Zaelani, 2016) | $NPF = \frac{KL + D + M}{\text{Total financing}} X\ 100\%$ (Zaelani, 2016) |
| 4 | Musyarakah Financing Risk (X2) | Musyarakah financing risk is the ratio between financing problem and total financing distributed by Islamic bank. The categories included in the NPF were substandard, doubtful and loss financing (Zaelani, 2016) | $NPF = \frac{KL + D + M}{\text{Total Financing}} X\ 100\%$ (Zaelani, 2016) |
| 5 | Murabahah Financing Risk (X3) | Murabahah financing risk is the ratio between financing problem and total financing distributed by islamic bank. The categories included in the NPF were substandard, doubtful and loss financing (Zaelani, 2016) | $NPF = \frac{KL + D + M}{\text{Total Financing}} X100\%$ (Zaelani, 2016) |

Source : Researcher's summary, 2017

Data collection technique used in this study is a documentary technique because the research data obtained from Annual Report and Islamic Banking Financial Statements in Indonesia, Central Bureau of Statistics and Bank Indonesia were included in the sample. Documentary technique was used if the required research information was available, whether in the form of a written, sound, image, or other document archive. Data analysis methods used in this research were descriptive statistical analysis and inferential statistical analysis using SPSS 21 software. Testing was done through several stages namely classical assumption test, test of coefficient of determination and hypothesis test.

## RESULTS AND DISCUSSIONS

Descriptive statistical analysis was used to provide information about the characteristics of research variables. Descriptive statistical analysis in this study was to describe the variables used namely, sharia compliance, profitability, mudharabah financing risk, musyarakah financing risk, and murabahah financing risk. Based on the descriptive statistical analysis, it could be seen the maximum value, minimum value, mean value, and standard deviation of these variables. The results of descriptive statistical test for all research variables could be seen in table 3. as follows:

**Table 3** Descriptive Statistical Analysis of all the Variables

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| NPF_Mudharabah | 35 | .00 | 1.00 | .0743 | .22944 |
| NPF_Musyarakah | 35 | .00 | .19 | .0556 | .04415 |
| NPF_Murabahah | 35 | .00 | .08 | .0295 | .02002 |
| Sharia Compliance | 35 | .38 | .99 | .6355 | .14217 |
| Profitability | 35 | .00 | .54 | .1028 | .11181 |
| Valid N (listwise) | 35 | | | | |

Source: The Result of Data Processing with IBM SPSS 21.0, 2017

The result of descriptive analysis based on table 3 showed that the average of each variable was greater than the standard deviation value. This meant that the tendency of variables was on average because the average value was greater than the standard deviation value. Multicollinearity test showed that none independent variable had VIF value less than 1 and more than 10, the calculation results of tolerance value showed that there was no independent variable having tolerance value less than 0,1 which meant there was no correlation between independent variable either regression model 1 or 2. Autocorrelation test was obtained by using runs test, the test results showed probability value more than $\alpha$ = 0.05 that was 0.00387 for regression model 1 and -0.01451 with probability 0.085 and 0.996 not significant at 0.05 hence can be concluded free autocorrelation between residuals. Heteroscedasticity test used plot graph where each result showed scatterplot line which did not form clear pattern and spread above and below number 0 on Y axis so it could be concluded that there was heteroscedasticity in regression model 1 and 2. Normality test showed kolmogorov-smirnov value respectively, each regression model was 1.077 and 0.549 with the value (Asymp.Sig. 2-tailed) more than $\alpha$ = 0.05 ie 0.196 and 0924. This meant that the data in this study was normally distributed.

The result of coefficient of determination of regression model 1 showed that the coefficient of determination which was derived from Adjusted $R^2$ value was 0.327, it meant that 32.7% of dependent variable could be explained by three variables: Mudharabah NPF, Musyarakah NPF and Murabahah NPF, while the rest 67.3% explained by other factors outside the model. Meanwhile, the result of coefficient of determination of regression model 2 showed that the coefficient of determination from Adjusted $R^2$ value was 0.134, it meant that 13.4% dependent variable could be explained by three variables: Mudharabah NPF, Musyarakah NPF and Murabahah NPF, while the rest 86.6 % was explained by other factors outside the model.

**Table 4**. The Result of Partial Test

| | Hypothesis | β | Sig. | α | Result |
|---|---|---|---|---|---|
| H1 | Mudharabah Financing Risk positively affected the Performance of Sharia Compliance | -0.071 | 0.509 | 0.05 | Rejected |
| H2 | Musyarakah Financing Risk positively affected on the Performance of Sharia Compliance | -1.930 | 0.003 | 0.05 | Accepted |
| H3 | Murabahah Financing Risk positively affected on the Performance of Sharia Compliance | 2.159 | 0.062 | 0.05 | Rejected |
| H4 | Mudharabah Financing Risk was influential negative to Profitability performance | -0.053 | 0.583 | 0.05 | Accepted |
| H5 | Musyarakah Financing Risk was influential positive to Profitability performance | 1.133 | 0.044 | 0.05 | Accepted |
| H6 | Murabahah Financing Risk was influential positive to Profitability performance | -2.573 | 0.015 | 0.05 | Accepted |

The first hypothesis (H1) stated that the risk of mudharabah financing affected on the performance of sharia compliance was rejected. The result was not in line with the sharia enterprise theory that required every sharia banking activity must be in accordance with existing regulations to avoid possible risks occurred. The fact showed that when the value of mudharabah financing risk rose, it did not affect the value of Sharia compliance performance. Mudharabah agreement was an investment transaction based on trust, trust in mudharabah agreement was something that was very important. However, this could make the possibility of misuse committed by the fund manager because the owner of the funds should not interfere in the management of the company or project which was funded with funds from the owner and the information provided by the fund manager that was only limited. However, in murabahah financing, each party concerned had a high loyalty nature so that when there was risk, each party was still running its operational activities. This result was consistent with theory of Al-Wala (loyalty) which considered that the existence of loyalty attitude to the entity by keep controlling all energy and mind, so banking activities were still running despite the risks existed (Jayanto, 2016).

The second hypothesis (H2) states that the risk of musyarakah financing affected on the performance of sharia compliance was accepted. The result was in line with the risk management theory where each party in managing the company must apply risk management in the company by obeying the law of God with respect to the rules applicable and the stakeholders should be careful in managing the financing and stick to the principle of sharia to avoid problematic financing which may result in harmed to certain parties.

The third hypothesis (H3) stated that murabahah financing risk affected on the performance of sharia compliance was rejected. The result was not in accordance with the risk management theory where risk management was a method in managing the risks faced in maintaining the trust from humans moreover the mandate from Allah SWT which was charged to humans. The cause of murabahah financing risk did not have effect was when in murabahah contract when the buyer could not repay the debt in accordance with the prescribed time the seller could still make a fine to the buyer in lieu of the losses suffered by the seller so that the operation was still running. However, the fines imposed must be fair because if excessive result in usury. The occurrence of risk in the murabahah agreement could also be overcome by the way the seller removed the remaining bills, helped to sell murabahah objects on the other party or restructure (Nurhayati, 2015).

The fourth hypothesis (H4) stated that the risk of mudharabah financing negatively affected on the performance of profitability was accepted. This result was not in accordance with the Sharia enterprise theory (Triyuwono Iwan, 2011) which explained that the implementation of management duties and responsibilities must be in accordance with the existing sharia rules which in this case mudharib run business activities entrusted in accordance with the principles of sharia so that the profitability desired could be fulfilled. The relationship between the Mudharabah financing NPF and the level of profitability was a negative or opposite relationship. This was in accordance with the concept which stated that if the level of NPF / bad credit was high then profitability would decrease. This result was consistent with the results of the study (Kusumawati, 2010) and (Andika *et al*, 2015) which stated that mudharabah financing risk did not have an effect on the profitability level of Islamic Banks.

The fifth hypothesis (H5) stated that musyarakah financing risk has an effect on profitability performance was accepted. In line with theory of Al-Wala' (loyalty) the existence of loyalty attitude to the entity while maintaining control of all energy and mind, then banking activities were still running despite the risks exist (Jayanto, 2016). The relationship between musyarakah financing risk and profitability (ROA) in this study was a positive relationship. The lower or decreased risk of musyarakah financing then the ROA would be generated further decline. This was due to an increase in pre-tax profit at the Sharia Commercial Bank was not balanced with the increase in asset value, where the value of assets has increased greater than profit before tax, thus causing ROA declined. This result was in line with the result of research conducted by (Fahrul *et al*, 2012) which stated that the level of musyarakah financing risk has an effect on the probability level of Islamic Bank. The relationship between musyarakah financing risk and the level of probability was positive or unidirectional.

The sixth hypothesis (H6) stated that murabahah financing risk has an effect on profitability performance was accepted. The relationship between mur*abahah* financing risk and probability level was positive relationship or accepted. This result was in line with the principle of *"high risk, high return*" (Trisnadewi in Afrianandra and Mutia, 2014) namely the higher risk of a investment type, the higher profit possible to be gained. In line with theory of Al-Wala' (loyalty) the existence of loyalty attitude to the entity while maintaining control of all energy and mind, then banking activities were still running despite the risks exist. This applied equally to murabahah financing, the bigger murabahah loan funds disbursed by Islamic banks would be the greater the profitability that may be obtained from the bank financing. Bank would not suffer losses from risky financing because the profit-sharing margin gained by the bank could cover the risk that was likely to occur so that in this study NPF murabahah financing had a significant effect on profitability. This result was in accordance with the results of the study (Afrianandra and Mutia, 2014) which states that murabahah financing risk affected on profitability

## CONCLUSIONS

Based on the results of research and discussion, it can be concluded that which can affect the performance of sharia compliance is the risk of musyarakah financing while the risk of financing Mudharabah and Murabahah have no effect on the Performance of Sharia Compliance. Meanwhile, Profitability performance is affected by the risk of Mudharabah, Musyarakah and Murabahah financing. Suggestion in this research is for government have to be stricter in supervising the performance of sharia banking. It aims to reduce the risk of financing and to carry out banking activities in accordance with existing regulations. For further research it is suggested to analyze the factors that cause the performance of Sharia compliance and profitability performance both internal and external bank.

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