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STABILITY ANALYSIS OF ISLAMIC BANKS USING THE RGEC METHOD AGAINST THE RISK OF FINANCIAL DISTRESS AS A PILLAR OF THE HALAL ECONOMY IN INDONESIA

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Abstract

This study aims to analyze the effect of the health level of Islamic Banks as measured by the RGEC method (Risk Profile, Good Corporate Governance, Earnings, and Capital) on the possibility of financial distress. The background of this research is based on global economic uncertainty during the 2019-2023 period and the increasing Non Performing Financing (NPF) and BOPO ratios at Islamic Banks, which indicate potential vulnerability to financial distress. This research uses a descriptive quantitative approach with purposive sampling technique of Islamic Commercial Banks listed on the Indonesia Stock Exchange for the period 2021-2024. The data analysis technique includes ranking the RGEC ratio, classical assumption test, and multiple linear regression analysis with the help of SPSS 22 software. The results showed that simultaneously, all RGEC components had a significant effect on financial distress with an F value of 11,596 and a significance of 0.000 and an adjusted R^2 of 0.672. Partially, the Risk Profile variable measured through NPF ($p = 0.012$) and FDR ($p = 0.002$), as well as the Capital variable (CAR) with a significance of 0.000 have a positive and significant effect. Meanwhile, the Good Corporate Governance and Earnings variables (ROA, ROE, and NOM) did not show a significant effect. Thus, it can be concluded that although simultaneously RGEC affects financial distress, partially only Risk Profile and Capital have a significant influence. This finding underscores the importance of strengthening financing risk management and capital in maintaining the financial stability of Islamic banks amid economic dynamics. The implication of this research is as one of the information tools in general for related parties and especially for Islamic bank companies listed on the IDX to maximize risk management, capital strength, managerial strategies, and policy improvements.

Keywords: Bank Health Level, RGEC, Financial Distress

Abstrak

Penelitian ini bertujuan untuk menganalisis pengaruh tingkat kesehatan Bank Syariah yang diukur dengan metode RGEC (Risk Profile, Good Corporate Governance, Earnings, dan Capital) terhadap kemungkinan terjadinya financial distress. Latar belakang penelitian ini didasarkan pada ketidakpastian ekonomi global selama periode 2019–2023 serta meningkatnya rasio Non Performing Financing (NPF) dan BOPO pada Bank Syariah, yang mengindikasikan potensi kerentanan terhadap financial distress (tekanan keuangan). Penelitian ini menggunakan pendekatan kuantitatif deskriptif dengan teknik purposive sampling terhadap Bank Umum Syariah yang terdaftar di Bursa Efek Indonesia periode 2021–2024. Teknik analisis data meliputi perankingan rasio RGEC, uji asumsi klasik, serta analisis regresi linear berganda dengan bantuan perangkat lunak SPSS 22.Hasil penelitian menunjukkan bahwa secara simultan, seluruh komponen RGEC berpengaruh signifikan terhadap financial distress dengan nilai F = 11.596 dan signifikansi 0,000 serta adjusted R^2 sebesar 0,672. Secara parsial, variabel Risk Profile yang diukur melalui NPF (p = 0,012) dan FDR (p = 0,002), serta variabel Capital (CAR) dengan signifikansi 0,000 berpengaruh positif dan signifikan. Sementara itu, variabel Good Corporate Governance serta Earnings (ROA, ROE, dan NOM) tidak menunjukkan pengaruh yang signifikan. Dengan demikian, dapat disimpulkan bahwa meskipun secara simultan RGEC berpengaruh terhadap financial distress, secara parsial hanya Risk Profile dan Capital yang memiliki pengaruh signifikan. Temuan ini menggarisbawahi pentingnya penguatan manajemen risiko pembiayaan dan permodalan dalam menjaga stabilitas keuangan Bank Syariah di tengah dinamika ekonomi. Implikasi dari penelitian ini sebagai salah satu alat informasi secara umum untuk pihak-pihak yang terkait dan khususnya bagi perusahaan bank syariah yang terdaftar di BEI untuk memaksimalkan manajemen risiko, kekuatan modal, strategi manajerial, dan penyempurnaan kebijakan.

***Keywords**: Tingkat kesehatan Bank, RGEC, Financial Distress*

Introduction

Global economic uncertainty continues to rise, especially after the World Bank released a report titled "Is a Global Recession Imminent?" which predicted a recession in 2023. Central banks' aggressive move to raise interest rates in response to inflation has put pressure on the banking sector and raised concerns about the potential for risk spillover to other financial sectors, including non-bank institutions.

In a recession, various aspects of the economy can be disrupted simultaneously, ranging from employment, investment, to corporate profits. This situation creates great potential for financial distress, namely financial difficulties experienced by the company due to a decrease in the ability to generate operating profits. This is in line with the opinion (Shaari et al., 2013) which states that *financial distress* is caused by the company's low ability to generate profit or profit from its operating process and according to Zhang et al., this condition can be caused by internal failure or external pressure. (Haq & Harto, 2019)

Previous global financial crises, such as those in 1998, 2008, and 2019, provide evidence that Islamic banking has relatively better resilience than conventional banks. This is due to sharia principles such as the profit-sharing system and not implementing an interest system which makes it more stable against economic turmoil (Rois & Sugianto, 2021). Nevertheless, the impact of the COVID-19 pandemic is still being felt, as according to(Wicaksono & Maunah, 2021), the Indonesian economy has experienced a decline, with an economic growth rate of -3.49% in the third quarter of 2020. However, Islamic banking assets grew at a faster rate (9.22%) than conventional banking, which only grew by 5%. (Effendi & Windiarko, 2023).
However, based on information found from several studies, financial distress conditions have been experienced by some Islamic banks, as follows:

Table 1
Potential Financial Distress with the Springate Method

BUS	S-Score				
	2014	2015	2016	2017	2018
BRIS	0,79	0,84	0,84	0,83	0,81
BMI	0,85	0,84	0,81	0,76	0,8
BVS	0,56	1,23	1,03	0,96	0,88
BMIS	0,87	0,85	1,17	0,9	0,93
BSB	0,87	0,93	0,87	0,76	0,73

Source: Data processed by Marlinda & Yulia, 2020.
As in research (Marlinda & Yulia, 2020) shows that several Islamic banks have the potential to experience financial distress with Bank Rakyat Indonesia Syariah (BRIS) and Bank Muamalat Indonesia (BMI) consecutively in five years getting a low score based on an assessment using the Springate method and followed by Bank Bukopin Syariah (BSB) in the last two years showing unfavorable results.
Then the data from the results of the assessment by (Atizah, 2024), regarding the level of health of Islamic banks listed on the Indonesia Stock Exchange using the RGEC method during the 2019-2021 period shows that the performance of Islamic banks in 2019 is in the composite 2 (PK-2) rating which is included in the healthy category, namely 85%. In the 2020 period, Islamic banks were in the very healthy category with a composite rating of 1, namely 87,5%. Meanwhile, in 2021 it is in a composite rating of 3 (PK-3) which is included in the category of fairly healthy banks, namely 70%.
Bank health assessment standards in Indonesia have evolved since the early 1990s. The CAMEL scheme was first implemented in 1991 and developed into CAMELS in 1997. Subsequently, Bank Indonesia Regulation No. 13/1/PBI/2011 requires the

assessment to be conducted at least every six months with a *risk- based bank rating* approach. The application of this method for Islamic banks was strengthened through OJK Circular Letter Number 10/SEOJK.03/2014 concerning Health Level Assessment of Islamic Commercial Banks and Islamic Business Units. The approach is now better known as the RGEC framework of *Risk Profile, Good Corporate Governance, Earnings*, and *Capital* as stipulated in Chapter IV Article 11 of PBI 13/1/PBI/2011.

However, several studies conducted show differences regarding the effect of RGEC components on *financial distress*, such as in research (Hariono & Azizuddin, 2022) that *Capital Adequary Ratio* and Operating Costs and Operating Income (BOPO) affect *financial distress*. In addition, *Non Performing Loan*, *Return on Assets* and *Return on Equity* have no effect. Supported in research (M Rizki Nurhuda & Safi'i, 2023) states that ROA, and NPF have no effect on *financial distress* conditions.

Assessment of the health level of Islamic banks is very important, especially in the context of the Indonesian government's efforts to strengthen the national halal industry ecosystem. The Ministry of Industry stated that the government continues to encourage investors to develop the halal industry, including the halal logistics sector which serves to ensure the consistency and sustainability of halal products in Indonesia. In supporting this ecosystem, Islamic banks have a strategic role as financial institutions that provide financing based on sharia principles. The presence of Islamic banks regulated through Law No. 7 of 1992 concerning Banking, and strengthened by Government Regulation No. 72 of 1992 concerning Banks Based on Profit Sharing Principles, is an important foundation in answering the needs of the community for a banking system that is in line with Islamic principles. (Samsul et al., 2023) Assessment of the health of Islamic banks is needed to ensure that the institution is in a healthy condition and able to sustain the development of the halal industry in a healthy manner sustainable.

Furthermore, the development of the halal industry is also reflected in the field of education, especially through the birth of Islamic banking study programs in various Islamic universities, such as at Alauddin Makassar State Islamic University at the Faculty of Economics and Islamic Business. The curriculum of this study program has been integrated with learning about Islamic financing systems and practices, including financing for the MSME sector as part of strengthening the halal economy. Students are equipped with an understanding of financing patterns, types of businesses that are eligible for financing, as well as deepening the various contracts used in Islamic banking operations. This shows that strengthening the halal industry is not only done in terms of policies and financial institutions, but also in terms of human resources through higher education that supports the Islamic financial ecosystem as a whole. (Mulato et al., 2021)

The research to be carried out uses the NPF ratio, and FDR as a projection of *risk* *profile*, *Good Corporate Governance* as a projection of *self-assessment*. ROA, ROE, and NOM as a projection of *earning* and CAR is a projection of *capital*.

As a continuation to predict whether the level of health that is owned will cause bankruptcy or not, it can use various methods of measuring the level of *financial distress* (*financial distress*) can use such as the Zmijewski model (X- Score), Springate method, Ohlson model (O-Score), and Grover.

In research conducted by (Najmi, 2019), it is explained that the Grover method is a development and refinement of the Altman model designed by Jeffey S. Grover. Based on research conducted by Prihanthini and Sari in their work entitled "*Bankruptcy Prediction with Grover, Altman Z-Score, Springate, and Zmijewski in Food and Beverage Companies on the Indonesia Stock Exchange*", the results show that the Grover model is the most suitable method for predicting bankruptcy in non-manufacturing companies. Similar findings were also obtained in a study entitled "*Comparison of the Altman Z-Score, Zmijewski, Springate, and Grover Models in Predicting Bankruptcy of Banking Companies*" by (Fauzan & Sutiono, 2017), which concluded that the Grover model has the highest level of accuracy in predicting potential bankruptcy in companies in the banking sector. So that the Grover method was chosen in this study.

Based on the phenomenon of economic uncertainty throughout 2019-2023 also the condition of the performance of Islamic banks that experienced an increase in bad debts or non-performing assets which if it occurs continuously can be one of the causes of a company experiencing bankruptcy so that these reasons become the basis for the author to conduct this research.

Methodology

The research used uses quantitative descriptive methods. Quantitative research is a method that involves quantitative data collection, statistical analysis, and drawing conclusions based on the results of data analysis (Nasution, 2021). This study uses secondary data obtained through financial statement data of Islamic banking companies that have been listed on the Indonesia Stock Exchange, including PT Bank Syariah Indonesia, Tbk, PT Bank Aladin Syariah, Tbk, PT Bank BTPN Syariah, Tbk, and PT Bank Panin Dubai Syariah, Tbk. The data were obtained from the Indonesia Stock Exchange and the respective company websites, where the financial report data used are on a semester basis starting from 2021-2024. Data analysis methods on financial statements are used to assess, identify, and describe the potential for financial problems in companies that can lead to possible bankruptcy. All financial statement data from Islamic banks listed on the Indonesia Stock Exchange are then analyzed using the RGEC approach and the Grover model, by applying the Multiple Linear Regression equation model, namely:

Financial distress **(Y) = α +** $\boldsymbol{\beta_1(NPF_i)}$ **+** $\boldsymbol{\beta_2(FDR_i)}$ **+** $\boldsymbol{\beta_3(lnGCG_i)}$ **+** $\boldsymbol{\beta_4(ROA_i)}$ **+** $\boldsymbol{\beta_5(ROE_i)}$ **+** $\boldsymbol{\beta_6(NOM_i)}$ **+** $\boldsymbol{\beta_7(CAR_i)}$ **+ ε**

Where the dependent variable is Financial Distress, while the independent variables are indicators of the RGEC method (Risk Profile (NPF, FDR) GCG (self-assessment), Earnings (ROA, ROE, NOM), and Capital (CAR)).

The explanation of each variable will be explained as follows: :

1. RiskProfile. In this research, the author uses two indicators, namely credit risk projected with the NPF ratio (Non Performing Finance), which is the ratio used to calculate the percentage of problematic credit amounts faced by the bank, the larger the ratio, the more it indicates the poor quality of financing of Islamic banks.

   The formula for calculating NPF is as follows (R. Putri, 2021):

$$\textbf{NPF} = \frac{\boldsymbol{Non-Performing\ Financing}}{\boldsymbol{Total\ Financing}} \times \mathbf{100}\%$$

Table 2 Criteria for Non Performing Financing Evaluation

Rank	Description	Criteria
1	Very Healthy	< 2%
2	Healthy	2% - 5%
3	Sufficiently Healthy	5% - 8%
4	Less Healthy	8% - 12%
5	Unhealthy	> 12%

Source : SE BI No.13/24/DNDP

2. Liquidity Risk. It is proxied by FDR (Financing to Deposit Ratio) which is a ratio used to measure a bank's liquidity in repaying depositors' withdrawals by relying on the financing provided as its liquidity source, namely by dividing the amount of financing provided by the bank to Third-Party Funds (TPF).

   The formula for the FDR ratio is as follows (R. Putri, 2021):

$$\textbf{FDR} = \frac{\boldsymbol{Total\ Financing}}{\boldsymbol{Third-Party\ Funds\ (deposits)}} \times \mathbf{100}\%$$

Table 3 Criteria Financing to Deposit Ratio Evaluation

Rank	Description	Criteria
1	Very Healthy	< 75%
2	Healthy	75% - 85%
3	Sufficiently Healthy	85% - 100%

4	Less Healthy	100% - 120%
5	Unhealthy	> 120%

Source : SE BI No.13/24/DNDP

3. Corporate Governance (Good Corporate Governance). This is an assessment of the quality of management or corporate governance of a bank. The assessment of the GCG factor is obtained through a self-assessment process conducted by the bank, although it remains under the supervision of Bank Indonesia. The purpose of this assess ment is to examine to what extent the managerial ability of the bank's management in performing its functions.

Table 4 Criteria for Good Corporate Governance

Rank	Criteria	Description
1	Has Composite Value < 1,50	Very Good
2	Has Composite Value 1,50 ≤ NK <2,50	Good
3	Has Composite Value 2,50 ≤ NK < 3,50	Sufficiently good
4	Has Composite Value 3,50 ≤ NK< 4,50	Poor
5	Has Composite Value 4,50 ≤ NK < 5,00	Unsatisfactory

Source: SE BI No.13/24/DNDP

4. Profitability (Earnings). Profitability ratio reflects a company's ability to generate profit from the capital it owns. This ratio is used to assess to what extent a company's effectiveness in generating profit compared to the use of capital or assets available.

   To measure the earnings level, the author employs three ratios, namely :

- ROA (Return On Assets). This is a ratio used to measure a company's ability to generate net profit from the total assets it owns.

  The ROA evaluation criteria formula is presented as follows. (R. Putri, 2021) :

$$\text{ROA} = \frac{\boldsymbol{Earnings\ Before\ Tax\ (EBT)}}{\boldsymbol{Average\ Total\ Assets}} \times \mathbf{100}\%$$

Table 5 Criteria Return On Assets Evaluation

Rank	Description	Criteria
1	Very Healthy	> 1.5%
2	Healthy	1.25% - 1.5%
3	Sufficiently Healthy	0.5% - 1.25%
4	Less Healthy	0% - 0.5%
5	Unhealthy	< 0%

Sumber: SE BI No.13/24/DNDP

- ROE (Return OnEquity). This is a ratio that compares net income to average equity or investment contributed by bank owners. This ratio is used to measure how effectively the bank utilizes its owned capital to generate profit.
  The formula and its evaluation criteria are presented as follows (R. Putri, 2021):

$$\text{ROE} = \frac{\textbf{Net Income}}{\textbf{Total Equity}} \times \mathbf{100\%}$$

Tabel 6 Criteria Return On Equity Evaluation

Rank	Description	Criteria
1	Very Healthy	> 20%
2	Healthy	12.5% - 20%
3	Sufficiently Healthy	5% - 12.5%
4	Less Healthy	0% - 5%
5	Unhealthy	< 0%

Sumber : SE BI No.13/24/DNDP

- Ratio NOM (*Net Operational Margin*). This is the ratio used to assess to what extent a bank's management ability can optimize the use of productive assets to generate income from profits.
  The formula and its evaluation criteria are presented as follows (R. Putri, 2021):

$$\text{NOM} = \frac{\textbf{Net Operating Income}}{\textbf{Average Productive Assets}} \times \mathbf{100\%}$$

Table 7 Criteria Net Operational Margin Evaluation

Rank	Description	Criteria
1	Very Healthy	> 3%
2	Healthy	2% - 3%
3	Sufficiently Healthy	1.5% - 2%
4	Less Healthy	1% - 1.5%
5	Unhealthy	< 1%

Source : SE BI No.13/24/DNDP

5. Capital. The evaluation of the Capital aspect includes adequacy and the effectiveness of managing funds. Here, the Capital Adequacy Ratio (CAR) is used to measure how much capital is available to support activities and generate profits. According to Bank Indonesia and OJK regulations, banks are required to have a minimum CAR of 8%.

The formula and evaluation criteria for CAR are presented as follows (R. Putri, 2021):

$$\textbf{CAR} = \frac{Capital}{Risk\text{–}Weighted\ Assets} \times 100\%$$

Table 8 Criteria Capital Adequacy Ratio Evaluation

Rank	Description	Criteria
1	Very Healthy	> 12%
2	Healthy	9% - 12%
3	Sufficiently Healthy	8% - 9%
4	Less Healthy	6% - 8%
5	Unhealthy	< 6%

Source: SE BI No.13/24/DNDP

The formula for measuring the potential occurrence of financial distress is using the Grover method as an innovation and modification or redesign of the Altman Z-Score financial distress model.

The formula for calculation is : **G-Score = 1,650X_1+ 3,404 X_2– 0,016(ROA) + 0,057.** (N. G. S. Putri et al., 2023)

Keterangan:

X_1 : Working Capital / Total Assets

X_2 : Earning Before Interest and Taxes (EBIT) / Total Assets

ROA : Net Income to Total Assets

Kategori nilai:

G ≤ -0,02 = The company is in bankruptcy

G ≥ 0,01 = The company is healthy

Results and Discussion

The composite level of Islamic banks listed on the IDX is using the *Risk Profile, Good Corporate Governance, Earning*, and *Capital* (RGEC) method.

Based on the calculations reflected in the financial reports for each semester from 2021-2024, the health rating level for each Sharia bank listed on OJK is obtained using the RGEC method, as follows:

The analysis shows that the health level of PT Bank Syariah Indonesia Tbk remains stable throughout 2021-2024. The combination of a manageable risk profile, increasing profitability, adequate governance, and strong capital, kept BSI in the "Healthy" category for three consecutive years. This finding supports the hypothesis that RGEC indicators play an important role in mitigating financial distress, even in crisis conditions such as the COVID-19 pandemic.

In contrast, PT Bank Aladin Syariah obtained an RGEC score that placed it consistently in the PK-4 (Less Healthy) category, despite slight improvements in 2023 and 2024. Although the bank showed strengths in capital and asset quality, weaknesses in profitability, liquidity, and GCG stagnation reinforced vulnerability to financial stress.

Bank BTPN Syariah (BTPS) also shows quite good performance

especially in terms of profitability and capitalization. However, the relatively high NPF ratio remains a major concern. Overall, BTPS has the predicate "Sufficiently Healthy" (PK-3) in the year 2024 and has sufficient resistance to financial distress, although there is a need for improvement infinancing risk management.

A similar situation is also experienced by PT Bank Panin Dubai Syariah Tbk, with consistently high FDR (above 85%) and fluctuating financial performance. ROA and ROE ratios show instability, which indicates that operational efficiency and profitability are not optimal. This condition is a warning signal of potential liquidity pressures and the risk of financial distress if strategic improvements are not immediately made. In 2022-2024, the bank successfully recorded an increase in revenue and improvement in problem financing. This improvement reflects the effectiveness of the recovery strategy implemented by management, which allows it to achieve a ranking of 3 in the bank health composite, namely "fairly healthy."

In summary, the results of the bank soundness assessment for each bank are presented as follows:

Table 9
Composite Level of Bank Health Assessment based on OJK Circular Letter No. 14 of 2017

Rating	Description
PK 1 86%-100%	Reflects the condition of the bank which is generally "very healthy" so that it is considered very capable of facing significant negative effects from changes in business conditions and external factors.
PK 2 71%-85%	Reflects a bank condition that is generally "healthy" so that it is considered able to withstand significant negative influences from changes in business conditions and external factors.
PK 3	Reflects the bank's condition which is generally "fairly

Rating	Description
61%-70%	healthy" so that it is considered sufficiently able to withstand significant negative influences from changes in business conditions and external factors.
PK 4 41%-60%	Reflects a bank condition that is generally "less healthy" so that it is considered less able to withstand significant negative influences from changes in business conditions and external factors.
PK 5 <40%	Reflects a bank condition that is generally "unhealthy" so that it is considered unable to withstand significant negative influences from changes in business conditions and external factors.

Sources: OJK circular letter Number 14/SEOJK.03/2017

Table 10
Bank Soundness Assessment Results (RGEC Method)

Rating	Description
PK 2 71%-85%	Bank Syariah Indonesia (BRIS) holds the top position with very stable and healthy financial performance. The combination of profitability and strong equity base makes BRIS earn the rating "Healthy" (PK-2) and proven far from financial distress risk.
PK 3 61%-70%	Bank BTPN Syariah received the "Sufficiently Healthy" (PK-3) rating in 2024 and has sufficient resilience against financial distress, although there is a need for improvement in financing risk management. Together with Bank Panin Dubai Syariah, it is still categorized as "Sufficiently Healthy" (PK-3) and faces the risk of financial distress if it cannot improve efficiency and financial stability.
PK 4 41%-60%	Bank Aladin Syariah (BANK) experiences fluctuations in health performance during the research period. Although showing an improving trend in 2024, generally BANK falls under the category 'Less Healthy' (PK-4) and is vulnerable to financial distress if profitability is not promptly stabilized.

The level of bank health using the RGEC method affects financial *distress* as measured using the *Grover* method.

Simultaneously (F test), the variables in the RGEC model consisting of Risk

Profile (NPF, FDR), Good Corporate Governance (GCG), Earnings (ROA, ROE, NOM), and Capital (CAR) have a significant effect on financial distress, as indicated by the significance value of the F test which is smaller than 0.05. This shows that the four variables together are able to explain variations in financial distress conditions in Islamic banks.

However, when tested partially through the t test, only the Risk Profile (NPF) and Capital (CAR) variables are proven to have a significant influence on financial distress. While the Earnings variable shows a significance value greater than 0.05, which means that statistically it does not have a direct influence on the distress condition of the banks studied during the observation period. While the GCG variable is excluded from the multiple regression model test because of its homogeneous nature which statistically does not provide sufficient information to be analyzed inferentially.

This research is also supported by research by (Fitriana et al., 2022) that simultaneously, RGEC has a significant effect on financial distress, although some components are partially insignificant.

Tabel 11
ANOVA Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.898	6	.483	11.596	.000[b]
	Residual	1.041	25	.042		
	Total	3.939	31			

Source: Data processed by researchers 2025

Tabel 12
T Test Results (Partial Test)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.168	.143		-1.180	.249		
	NPF(%)	.047	.017	.385	2.696	.012	.519	1.928
	FDR(%)	.004	.001	.413	3.412	.002	.722	1.385
	ROA(%)	.000	.003	-.012	-.112	.911	.879	1.138
	ROE(%)	.010	.005	.296	2.129	.043	.548	1.824
	NOM(%)	-.001	.001	-.113	-1.075	.293	.950	1.052
	CAR(%)	.003	.000	1.089	8.065	.000	.580	1.724

Source: Data processed by researchers 2025

Risk Profile has a positive effect on Financial Distress.

Risk profile projected by the ratio of NPF (Net Performing Financing) and FDR (Financing to Deposit Ratio) shows the results based on table 3 NPF variable has a coefficient of 0.385 and in the table obtained NPF t-count of 2.696> t-table 2.064 with a significance value of 0.012 < alpha value of 0.050. So it can be concluded that the NPF value has a positive effect on *financial distress* conditions, which means that every one increase in NPF will increase the possibility of *financial distress* by 0.385. Then, FDR has a coefficient value of 0.413 and a t-count value of 3.412 > t-table 2.064 with a *significance* value of 0.002< alpha value of 0.050. This means that FDR has a significant positive effect on the *Financial disress* variable.

One important aspect of *risk profile* management in Islamic banking is the bank's ability to take anticipatory steps against potential risks that may occur in the future, such as the risk of non-performing financing, asset quality deterioration, and liquidity disruption. This requires the bank's readiness to provide sufficient liquidity and capital reserves in order to overcome unexpected financial pressures. This concept is in line with the words of Allah SWT in QS. al- Anfāl: 60

وَاَعِدُّوْا لَهُمْ مَّا اسْتَطَعْتُمْ مِّنْ قُوَّةٍ وَّمِنْ رِّبَاطِ الْخَيْلِ تُرْهِبُوْنَ بِهٖ عَدُوَّ اللّٰهِ وَعَدُوَّكُمْ وَاٰخَرِيْنَ مِنْ دُوْنِهِمْۚ لَا تَعْلَمُوْنَهُمْۚ اَللّٰهُ يَعْلَمُهُمْۗ وَمَا تُنْفِقُوْا مِنْ شَيْءٍ فِيْ سَبِيْلِ اللّٰهِ يُوَفَّ اِلَيْكُمْ وَاَنْتُمْ لَا تُظْلَمُوْنَ ٦٠ (الانفال/8: 60)

Translation:

"Prepare for them what you are able, in strength (at your disposal) and horsemen. By it you will terrify the enemy of Allah, your enemy and those besides them whom you do not know, (but) Allah knows. Whatever you spend in the cause of Allah will be fully repaid to you, and you will not be wronged."

Although this verse was revealed in the context of a war situation, in principle, it can be learned that Islam encourages every individual or institution to make optimal preparations in the face of risk or threat. In the context of Islamic banking risk management, this verse is a normative basis for banks to mitigate risks through careful planning, including maintaining liquidity and capital adequacy. With this readiness, if there is a decline in the quality of financing or potential default from customers, the bank can manage it properly and avoid potential bankruptcy.

Good Corporate Governance has no effect on financial distress (Y).

Theoretically and practically, the role of GCG remains a very important aspect in maintaining the health and stability of banking. GCG is the foundation of healthy bank management, as it is through the implementation of principles of transparency, accountability, responsibility, independence, and fairness. Additionally, the success of good GCG implementation also indirectly affects other variables such as (capital), asset quality (risk profile), profitability (earnings), and capital adequacy.

In this study, the Good Corporate Governance (GCG) variable measured through self-assessment based on available secondary data shows homogeneous results, namely obtaining relatively the same value at level 2 (two) or "healthy," or not showing significant variations between periods or between research objects. The homogeneity of the data has an impact on the data processing process in the multiple linear regression test conducted using SPSS, where the system automatically excludes or excludes the GCG variable from the regression model.

Statistically, SPSS will exclude variables that are constant or have very small variations (almost homogeneous), because these variables do not make a significant contribution in explaining the variation in the dependent variable. In other words, the GCG variable is considered not to have sufficient predictive power in the regression model, because all the data analyzed shows a very uniform value. This causes the standard deviation value of the variable to approach zero, so the regression coefficient cannot be calculated or is considered invalid by the system.

The implications of this finding indicate a lack of openness and v ariation in the reporting of secondary GCG data collected, and that it was only done for the sake of formality.

Earning has no significant effect on *financial distress*.

According to Altman's theory in 1968, earning or profitability is an important component in detecting the potential for financial distress. Ratios such as ROA and ROE reflect a company's ability to generate profit from total assets and its own equity. The higher this ratio, the lower the likelihood of the company experiencing financial failure. Additionally, the theory from (Brigham et al., 2010) also states that profitability is the primary indicator for evaluating a company's operational efficiency and its resilience against external pressure.

Earning which is measured using ROA (Return on Asset), ROE (Return on Equity), and NOM (Net Operating Margin). Ratios based on the analysis results in table 3 shows ROA has a coefficient of -0.012 with a significance value of 0.911 (> 0.05), showing an insignificant negative effect on financial distress. Although ROA illustrates the effectiveness of asset utilization in generating profits, as in the case of Aladin Bank which experienced a decline in profits but was still declared safe based on G-Score, this indicator is not accurate enough to predict financial distress. The results are consistent (M Rizki Nurhuda & Safi'i, 2023) as well as (Rositawati, 2023) and contradict the findings of the research (Sri Rahayu Syah, Ika Irmawati, 2024), and (Assaji & Machmuddah, 2019)

In contrast, ROE shows a positive and significant effect (coefficient 0.296; significance 0.043), in this study implying that ROE can provide a less accurate picture in conditions of companies with high leverage, where large profits are obtained through aggressive use of debt. Based on the data found by the author, it was found that the average ROE of Bank BTPN Syariah is 16.38% in the period from 2021 to 2024, where every increase in ROE tends to be followed by an increase in the bank's liabilities. Under such conditions, the company still shows a high ROE level, but in reality, it is under financial pressure due to the high debt obligations that must be met.

This research result is supported by (Dahruji & Muslich, 2022) and contradicts other research that states that ROE affects the likelihood of financial distress as stated by (Ginting et al., 2024)

Meanwhile, NOM shows a coefficient of -0.113 with a significance of 0.293, indicating that operational efficiency is not significant enough to explain the potential financial distress of Islamic banks during the study period. Although theory states that a high Net Operating Margin (NOM) reflects operational efficiency and attractive potential dividend distribution for investors, T-test results show that statistically NOM does not si gnificantly affect the probability of financial distress. This indicates that, for the sample of Islamic banks listed in BEI during the observation period, operational efficiency, although important, is not sufficient to prevent potential financial pressure. This finding aligns with the reason that NOM only reflects the operating margin, while the main triggers of financial distress are often derived from non-operational factors such as thin li quidity, long-term debt burden, and cash flow fluctuations. Therefore, even if banks show good operational efficiency, this does not automatically guarantee their ability to meet short-term or long-term obligations.

This research result is supported by research from (Kurniastuti, 2021) which states that partially the variable NOM does not significantly affect the potential for financial distress.

From the perspective of Islamic economics, this result is in line with the principles of *al- mas'uliyyah* (responsibility) and *al-hisbah* (supervision), which emphasize the importance of prudence in managing assets and liabilities in order to maintain financial stability and avoid *gharar* (excessive uncertainty) in banking operations.

Capital has a significant effect on financial distress

Theoretically, CAR is an important indicator in measuring the bank's ability to absorb the risk of loss through the adequacy of its capital owned. Under normal conditions, a high CAR should indicate that the bank is in a healthy financial condition. However, the findings in this study show a different direction from most previous studies where based on the results of the T test it can be seen that the CAR coefficient value is 1.089, and the t-count is 8.065> t-table 2.064 with a significant value of 0.000 < alpha value 0.050. This means that CAR has a positive and significant effect on *financial distress*. Every one unit increase in CAR will increase 1.040 potential *financial distress.* This result contradicts other researchers such as (R. Putri, 2021), (Asikin, 2024) and (Alviah, 2024) who state that CAR has a negative effect on financial distress.

This finding is influenced by the specific conditions experienced by PT Bank Aladin Syariah Tbk, where the CAR ratio was recorded to be very high, even reaching 390.51% in 2021, far exceeding the minimum standard set by Bank Indonesia. The high CAR ratio is due to the IPO proceeds in 2021 of approximately IDR 151 billion. Apart from that, the financing portfolio is still relatively low, as a result the RWA is still low so that the CAR ratio jumps far above the minimum threshold. A similar condition also occurred at PT BTPN Syariah Tbk, where during the 2021-2024 period there was a significant increase in the CAR ratio, with an average of above 50%. However, this increase was not accompanied by improved financial performance. Instead, there was a decline in the distribution of financing, which was reflected in an increase in the Non-Performing Financing (NPF) ratio and a decrease in annual net profit from 10.12% in 2021 to 6.22% in 2024. Nevertheless, based on the G-Score calculation, the capital component has a large influence on the final score. Therefore, the position of Bank Aladin Syariah and BTPN Syariah in this analysis is still in a relatively safe category from financial distress.

In Islamic banking, capital strengthening is a form of bank's consideration in addressing risks where the bank reinforces its capital position to ensure operational sustainability. This strategy aligns with Islamic principles in managing assets wisely and setting aside reserves to face difficult conditions. This is reflected in Allah's statement in Q.S Yusuf: 47

﴿ قَالَ تَزْرَعُوْنَ سَبْعَ سِنِيْنَ دَاَبًاۚ فَمَا حَصَدْتُّمْ فَذَرُوْهُ فِيْ سُنْۢبُلِهٖٓ اِلَّا قَلِيْلًا مِّمَّا تَأْكُلُوْنَ ٤٧ ﴾
(يوسف/12: 47)

Translation: (Yusuf) says, "Plant five years in succession! Then whatever you produce, leave it in the barn, except a little for your consumption. QS Yusuf/12:47

Based on the interpretation of Tafsir Al-Wajiz by Sheikh Prof. Dr. Wahbah az Zuhaili, the Syrian expert in fiqh and tafsir explains that the verse130 meaning: Joseph says: "Store it in its container so that it is not eaten by worms except a little of the food that is reserved for those years. Learn this." This verse emphasizes the importance of saving resources when conditions are good as a form of anticipating difficult times. In the context of capitalization, the strengthening of capital by Islamic banks reflects a long-term strategy to face liquidity pressure, asset quality deterioration, or potential financial distress. High capital can indicate a bank's preparedness for worsening financial risks. remain steadfast save it inside its container so that it is not eaten by worms except a little of the food that is reserved for those years. Learn this." This verse emphasizes the importance of saving resources when conditions are good as a form of anticipating difficult times. In the context of capitalization, the strengthening of capital by Islamic banks reflects a long-term strategy to face liquidity pressure, asset quality deterioration, or potential financial distress. High capital can indicate a bank's preparedness for worsening financial risks. remain steadfast.

Therefore, the positive relationship between Capital and financial distress reflects the application of caution and strategies to remain resilient.

Conclusions

Based on the results of the analysis of the health level of four Islamic banks listed on the Indonesia Stock Exchange during the 2021-2024 period using the RGEC approach, it is known that Bank Syariah Indonesia (BRIS) shows the most stable and healthy performance with positive achievements in all indicators. Bank BTPN Syariah (BTPS) is classified as quite healthy but still has weaknesses in asset quality. Bank Aladin Syariah (BANK) is considered less healthy due to low profitability, despite improvements in the last year. Meanwhile, Bank Panin Dubai Syariah (PNBS) showed fluctuations and faced liquidity pressures, requiring improved financial efficiency. These findings illustrate the different levels of preparedness of each bank in facing (financial distress).

Simultaneously, the RGEC method is proven to be significant in predicting the likelihood of financial distress, although not all indicators have a partial effect. Risk Profile (NPF and FDR) and Capital (CAR) variables show a significant influence on potential distress, while Earnings (ROA and NOM) indicators have no significant effect, except ROE. Good Corporate Governance (GCG) also does not show a significant effect, which indicates the need for improvement in a more objective and accountable governanceevaluation mechanism.

In an Islamic economic perspective, the importance of strengthening capital, risk management, and operational efficiency is in line with the principles of al-mas'uliyyah (responsibility) and al-ikhtiyāṭ (prudence). This is affirmed in QS. Al- Anfal verse 60: "And prepare against them whatever force you are able and of horses tethered for battle (with which preparation) you terrify the enemies of Allah and your enemies..." This verse can be interpreted as a call to prepare all forms of strength, including in the economic context, namely the risk mitigation system and capital readiness to maintain the sustainability and resilience of Islamic financial institutions in the face of crisis.

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