



Risk Based Bank Rating Analysis on Company Reputation and Value (Study on Islamic Commercial Banks in Indonesia)

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ABSTRAK

The study investigates the performance of Indonesian Islamic Commercial Banks through a comprehensive analysis encompassing multiple critical dimensions. By examining key performance indicators such as corporate governance, financial profitability, capital structure, and reputation risk, the research provides a holistic evaluation of these financial institutions. The investigation leverages authorized rating agency assessments, specifically from Pefindo, to gauge the banks' stability and market positioning. Additionally, the study integrates the Indonesian Sharia Stock Index (ISSI) as a benchmark, focusing on Sharia-compliant bank stocks to understand their market dynamics. A distinctive aspect of the research is its multifaceted company valuation approach, which analyzes book value, market value, and intrinsic value. This methodology offers nuanced insights into the banks' current performance and future potential within the capital market. The primary findings reveal that accredited agency ratings and ISSI inclusion serve as robust indicators of Islamic banks' operational health. Moreover, the analysis demonstrates a significant correlation between stock prices and the fundamental financial performance of these banking institutions

INTRODUCTION

Indonesian banking laws define financial institutions as entities collecting public funds and distributing resources through credit and financing mechanisms, fundamentally aimed at enhancing community economic well-being. Islamic banking, operating under Sharia principles, emerges as a distinctive financial sector comprising Sharia Commercial Banks (BUS) and Sharia Rural Banks (BPRS), creating a competitive environment with traditional banking models.

The Islamic banking industry has experienced significant evolution, characterized by increasingly complex product offerings and heightened risk exposure. This transformation necessitates sophisticated risk management strategies and robust operational frameworks. Islamic banks confront challenges of network expansion and public awareness, actively working to establish credibility in a market historically dominated by conventional banking institutions.

Regulatory compliance forms the cornerstone of banking operations, with comprehensive legal frameworks emphasizing prudential principles, customer protection, and systematic risk management. Key legislations like Law No. 21 of 2008 and Financial Services Authority regulations provide structured guidelines governing Islamic banking practices, ensuring operational transparency, customer security, and adherence to Sharia principles.

The strategic focus remains on developing adaptive financial services that balance innovative product design, rigorous risk assessment, and alignment with Islamic financial ethics. By continuously refining their operational models and expanding public understanding, Islamic banks seek to strengthen their market position and contribute meaningfully to Indonesia's financial ecosystem.

Sharia Commercial Banks are required to assess their health levels based on several factors:

- a. Risk profile;
- b. Good Corporate Governance (GCG);
- c. Profitability (earnings);
- d. Capital.

In the banking industry, maximizing shareholder value represents a fundamental organizational objective. This value creation is intrinsically linked to public trust, developed progressively from an institution's inception through its ongoing operational history. Modern economic dynamics increasingly recognize intangible assets as pivotal drivers of company growth and valuation. Corporate reputation emerges as a critical intangible asset, serving multifaceted strategic functions. It minimizes operational uncertainties, fortifies stakeholder relationships, and facilitates access to essential resources. Recognizing its significance, various institutions systematically conduct comprehensive reputation assessments and rankings across different sector segments, including banking.

Regulatory frameworks, particularly the Financial Services Authority (OJK) guidelines, have established rigorous standards for evaluating financial institutions. Recognized rating agencies such as Fitch Ratings, Moody's Investor Service, Standard and Poor's, and Pefindo play instrumental roles in this ecosystem. These agencies' evaluations provide crucial insights into institutional credibility and trustworthiness, directly influencing stakeholder perceptions and investment attractiveness.

The intricate relationship between an institution's health metrics, reputation, and market value underscores the complexity of contemporary financial assessment. By analyzing risk-based bank ratings and their correlation with corporate reputation, researchers can develop more nuanced understanding of institutional performance and potential. This approach transcends traditional financial analysis, offering a holistic perspective on institutional value creation in the dynamic banking landscape.

Previous Research

Contemporary research on Islamic banking performance reveals complex and multifaceted insights into institutional effectiveness and evaluation methodologies. Various studies have employed different analytical approaches to understand the sector's dynamics, revealing nuanced perspectives on financial health, governance, and value creation.

Researchers have consistently utilized sophisticated assessment models like Risk-Based Bank Rating (RBBR), Shariah Conformity and Profitability (SCnP), and RGEC to examine Islamic banking institutions. These methodologies enable comprehensive analysis of critical performance dimensions, including risk management, corporate governance, earnings potential, and capital structure.

Key findings demonstrate significant variability in performance across different banks. While some institutions like Bank Negara Indonesia Syariah and Bank Mandiri Syariah exhibit strong performance, others display more complex operational characteristics. The studies highlight the importance of effective governance, strategic risk management, and consistent financial indicators in determining institutional success.

LITERATURE RIVIEW

Comparative analyses between Islamic and conventional banking systems reveal subtle yet important distinctions. Researchers have identified that factors such as Return on Assets (ROA), operational efficiency ratios, and corporate governance practices play pivotal roles in determining overall institutional value and market perception.

The research underscores the evolving nature of Islamic banking, emphasizing the need for adaptive strategies, robust risk management frameworks, and continuous performance optimization. By integrating various analytical perspectives, these studies provide valuable insights into the strategic challenges and opportunities within the Islamic banking ecosystem.

METHODOLOGY

This research adopts a quantitative approach within an explanatory framework, utilizing secondary data as its primary source. The population includes all Islamic Commercial Banks (BUS) in Indonesia as of October 2024, amounting to 14 banks. The study emphasizes ratings issued by Pefindo, which encompass a more extensive sample of Islamic banks, resulting in a final selection of 6 banks. Covering the research period from 2021 to 2024, the study also evaluates company value using data from 4 Islamic banks listed on the Indonesia Stock Exchange as of December 19, 2024. To measure company value, the indicators employed are the Price Earnings Ratio (PER) and the Price to Book Value Ratio (PBV).

RESULTS AND DISCUSSION

Islamic Bank Health Level Using the Risk-Based Bank Rating Method

1. Risk Profile

The risk profile offers a comprehensive view of the risks embedded in a bank's operations. Banks are required to compile risk reports not only to comply with Financial Services Authority (OJK) regulations but also to establish a robust framework for managing and mitigating risks. Evaluating the risk profile entails examining both the inherent risks and the effectiveness of the bank's risk management processes. This assessment encompasses ten categories of risk: credit, market, liquidity, operational, legal, strategic, compliance, reputation, yield, and investment risks.

a. Credit Risk

Credit risk refers to the possibility of financial loss when a borrower or counterparty fails to fulfill their contractual obligations to the bank. This form of risk is inherent in all banking investment activities, with outcomes influenced by the performance of borrowers, issuers, or other counterparties. Furthermore, credit risk can arise from the concentration of funding in specific areas, such as individual debtors, geographical locations, products, types of financing, or business sectors. Referred to as financing concentration risk, this dimension must also be considered during inherent risk evaluations.

$$NPV = \frac{\text{Misallocated Financing}}{\text{Total Financing}} \times 100\%$$

Table 1. Non-Performing Financing (NPF) Rating Criteria Matrix

Rating	Description	Criteria
1	Very Healthy	0% < NPF < 2%
2	Healthy	2% ≤ NPF < 5%
3	Fairly Healthy	5% ≤ NPF < 8%
4	Less Healthy	8% < NPF ≤ 11%
5	Tidak sehat	NPF > 11%

b. Liquidity Risk

Liquidity risk arises when a bank is unable to fulfill its maturing obligations due to insufficient cash flow or the unavailability of high-quality liquid assets that can be quickly converted or pledged without disrupting operations or financial stability. This risk, often referred to as funding liquidity risk, becomes more significant as the Loan to Deposit Ratio (LDR) increases. A higher LDR reflects reduced liquidity capacity, heightening the chances of financial challenges for the bank. As noted by Ikatan Bankir (2016), the maximum allowable LDR is set at below 102.25%.

Liquidity ratio is calculated using the Financing to Deposit Ratio (FDR) formula:

$$FDR = \frac{\text{Total Financing}}{\text{Third Party Funds}} \times 100\%$$

Table 2. Liquidity Ratio is Calculated Using the Financing to Deposit Ratio (FDR) Formula

Rating	Description	Criteria
1	Very Healthy	50% < FDR < 75%
2	Healthy	75% ≤ FDR ≤ 85%
3	Fairly Healthy	85% < FDR ≤ 100%
4	Less Healthy	100% < FDR ≤ 120%
5	Tidak sehat	FDR > 120%

Source: OJK

2. Good Corporate Governance (GCG)

The evaluation of Good Corporate Governance (GCG) involves analyzing how effectively Islamic Commercial Banks operate in alignment with GCG principles. This assessment emphasizes the application of five core principles: transparency, accountability, responsibility, professionalism, and fairness. The evaluation adheres to regulations governing GCG practices specific to Islamic Commercial Banks, considering their unique characteristics and operational complexities.

In this study, GCG is assessed based on self-assessment reports submitted by Islamic Commercial Banks to the Financial Services Authority (OJK).

3. Earnings (Profitability)

The profitability assessment focuses on examining the performance, sources, and sustainability of profits for Islamic Commercial Banks. Profitability ratios serve as essential tools for analyzing the bank's operational efficiency and its capacity to generate earnings. A Return on Assets (ROA) value of at least 1% is considered the minimum acceptable threshold, while an ROA exceeding 1.5% indicates that the bank is effectively utilizing its assets to achieve profitability.

The evaluation of the profitability factor in this study is based on the following two ratios:

a. Return on Assets (ROA)

$$ROA = \frac{\text{Profit Before Tax}}{\text{Average Total Assets}} \times 100\%$$

Table 3. ROA Rating Criteria Matrix

Rating	Description	Criteria
1	Very Healthy	ROA > 1.5%
2	Healthy	1.25% < ROA ≤ 1.5%
3	Fairly Healthy	0.5% < ROA ≤ 1.25%
4	Less Healthy	0% < ROA ≤ 0.5%
5	Tidak sehat	ROA ≤ 0%

b. Net Interest Margin (NIM)

$$NIM = \frac{\text{Interest Income}}{\text{Average Productive Assets}} \times 100\%$$

Table 4. NIM Rating Criteria Matrix

Rating	Description	Criteria
1	Very Healthy	NIM > 3%
2	Healthy	2% < NIM ≤ 3%
3	Fairly Healthy	1.5% < NIM ≤ 2%
4	Less Healthy	1% < NIM ≤ 1.5%
5	Tidak sehat	NIM ≤ 1%

Source: OJK

2. Capital (Permodalan)

The evaluation of the capital factor examines both the sufficiency of capital and the efficiency of capital management within Islamic Commercial Banks. This assessment ensures that the calculation of capital complies with regulatory requirements regarding minimum capital standards, aligning with the bank's specific risk profile. Elevated risk levels require higher capital reserves to effectively mitigate potential exposures.

In accordance with OJK Regulation No. 21/POJK.03/2014, issued on November 18, 2014, regarding the Minimum Capital Requirements for Islamic Commercial Banks, the minimum capital adequacy is determined using the Capital Adequacy Ratio (CAR) formula. The stipulated minimum capital levels are as follows:

- a. 8% (eight percent) of Risk-Weighted Assets (RWA) for banks with a risk profile rating of 1 (one);
- b. 9% (nine percent) to less than 10% (ten percent) of RWA for banks with a risk profile rating of 2 (two);

- c. 10% (ten percent) to less than 11% (eleven percent) of RWA for banks with a risk profile rating of 3 (three); or
- d. 11% (eleven percent) to 14% (fourteen percent) of RWA for banks with a risk profile rating of 4 (four) or 5 (five).

The minimum capital requirement for the period from March to August is calculated based on the risk profile rating determined in December of the preceding year. Similarly, the minimum capital requirement for the period from September to February of the following year is established using the risk profile rating as of June of the current year.

The capital ratio is calculated using the CAR formula:

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

Table 5. CAR Rating Criteria Matrix

Rating	Description	Criteria
1	Very Healthy	$CAR \geq 11\%$
2	Healthy	$9.5\% \leq CAR < 11\%$
3	Fairly Healthy	$8\% \leq CAR < 9.5\%$
4	Less Healthy	$6.6\% \leq CAR < 8\%$
5	Tidak sehat	$CAR < 6.5\%$

Source: OJK

Reputation Risk

For Islamic banks, reputation is a vital component of the risk profile, categorized as reputation risk. Corporate reputation can be understood through three dimensions: awareness, assessment, and an asset. In this context, reputation is viewed as the result of assessment, representing how stakeholders perceive and evaluate the bank's status (Warta, 2017). A strong reputation, built on recognition for performance and achievements, enhances the bank's appeal to stakeholders. To evaluate this aspect, recognized rating agencies assess Islamic banks, particularly in relation to the financing they provide. Ratings from these trusted agencies help stakeholders make informed decisions.

Rating Agencies

Rating agencies play a pivotal role in the financial system by promoting transparency in financial markets and enabling efficient investments, which are critical for driving economic growth. In the banking sector, the ratings assigned to banks' risks serve as essential tools for risk management. Agencies recognized by the Financial Services Authority (OJK) issue ratings in accordance with the guidelines outlined in Circular No. 37/SEOJK.03/2016 on Recognized Rating Agencies and Ratings. The OJK regularly updates the list of approved rating agencies and their respective ratings, ensuring compliance with international standards through ongoing evaluations and monitoring.

A detailed table listing all rating agencies recognized by the OJK, along with the ratings they issue, provides further insights into their scope and credibility.

Table 6. List of Rating Agencies and Ratings Recognized by the Financial Services Authority

Rating Agency	Short-Term Rating	Medium and Long-Term Rating
Fitch Ratings	F1+; F1; F2; F3; B; C; D	"AAA; AA+; AA; AA-; A+; A; A-; BBB+; BBB; BBB-; BB+; BB; BB-; B+; B; B-; CCC; CC; C; RD; D"
Moody's Investor Service	P-1; P-2; P-3; NP	"Aaa; Aa1; Aa2; Aa3; A1; A2; A3; Baa1; Baa2; Baa3; Ba1; Ba2; Ba3; B1; B2; B3; Caa1; Caa2; Caa3; Ca; C"
Standard and Poor's	"A-1; A-2; A-3; B; B-1; B-2; B-3; C; D"	"AAA; AA+; AA; AA-; A+; A; A-; BBB+; BBB; BBB-; BB+; BB; BB-; B+; B; B-; CCC+; CCC; CCC-; CC; C; D"
PT. Fitch Ratings Indonesia	F1+(idn); F1(idn); F2(idn); F3(idn); B(idn); C(idn); D(idn)	"AAA (idn); AA+(idn); AA (idn); AA-(idn); A+(idn); A(idn); A-(idn); BBB+(idn); BBB (idn); BBB-(idn); BB+(idn); BB (idn); BB-(idn); B+(idn); B(idn); B-(idn); CCC (idn); CC (idn); C(idn); RD (idn); D(idn)"
PT. Pemeringkat Efek Indonesia	idA1; idA2; idA3; idA4; idB; idC; idD	"idAAA; idAA+; idAA; idAA-; idA+; idA; idA-; idBBB+; idBBB; idBBB; idBB+; idBB; idBB-; idB+; idB; idB-; idCCC; idSD; idD"

Banks must continue to carry out their own evaluations and bear complete responsibility for the application of ratings given by credit rating agencies that are recognized by the Financial Services Authority (OJK). This study focuses on utilizing ratings from Pefindo, as our results show that Pefindo has conducted comprehensive assessments of Islamic banking in Indonesia.

Table 7. Pefindo

No	Bank Name	Issuer Code	Pefindo Rating
1.	Bank Syariah Indonesia	BSI	idAAA dengan prospek stabil
2	Bank Panin Dubai Syariah	PDSB	idAA- dengan prospek stabil
3.	Bank Aceh Syariah		idA+ dengan prospek "stabil"
4.	BCA Syariah		idAA+ dengan prospek stabil
5.	Bank Muamalat		idA+ dengan prospek stabil
6	BJB Syariah		idAA- dengan prospek stabil

Indeks Saham Syariah Indonesia (ISSI)

Launched in 2011, the ISSI is a composite index that includes all stocks listed on the Indonesia Stock Exchange that comply with sharia principles. There is no additional selection process; instead, all sharia-compliant stocks meeting the criteria in the Sharia Securities List (DES) are automatically included in the ISSI calculation. For this study, we use the ISSI data as of December 19, 2024, which consists of 616 sharia-compliant stocks, including four Islamic banking stocks: Bank Syariah Indonesia, Bank Panin Dubai Syariah, BTPN Syariah, and Bank Aladin.

Company Valuation

A company is an organization that pools resources to produce and sell goods or services (Jao, 2021). Its primary aim is to enhance shareholder wealth by increasing its value. A company creates value when the returns it delivers to shareholders surpass their expected return. The value of a company reflects investor confidence and is often correlated with stock market performance.

A higher stock market price indicates a higher company value. Investors seek returns on their investments, and an increased company value attracts more investment, signaling confidence in the company's current performance and future potential.

According to Hartono (2015), stock valuation can be classified into three types:

1. Book Value

Book value represents the value of a company's assets after liabilities have been deducted, indicating the net assets available to shareholders. The Price to Book Value (PBV) ratio compares the market price per share to its book value. A PBV ratio greater than one suggests that the market value per share exceeds its book value per share.

2. Market Value

Market value is determined by the interaction of supply and demand in the capital market and reflects the company's value as perceived by the market. The Price to Earnings Ratio (PER) indicates how much investors are willing to pay for each unit of profit generated by the company, showing the relationship between market price per share and earnings per share.

3. Intrinsic Value

Intrinsic value refers to the true worth of a stock, based on its fair price. This value is derived from the present value of future cash flows, such as dividends and capital gains, and is often called the stock's fundamental value.

CONCLUSION AND RECOMMENDATIONS

This study concludes that assessing the performance of Islamic Commercial Banks in Indonesia requires considering multiple factors, including Good Corporate Governance (GCG), profitability, capital, and reputation risk. These factors provide a comprehensive view of the bank's performance and stability. Ratings from credit rating agencies recognized by the Financial Services Authority (OJK), such as Pefindo, are crucial in evaluating the stability and long-term sustainability of Islamic banks. Moreover, referencing the Indonesian Sharia Stock Index (ISSI) for sharia-compliant stocks helps enhance the understanding of Islamic banks' market performance. Evaluating a company's value using measures like book value, market value, and intrinsic value provides valuable insights for investors to assess the performance and future prospects of Islamic banks. Therefore, assessing the performance of Islamic banks involves not only financial factors but also non-financial elements that reflect their reputation and long-term sustainability.

FURTHER STUDY

This research still has limitations so further research is needed related to the topic Risk Based Bank Rating Analysis on Company Reputation and Value (Study on Islamic Commercial Banks in Indonesia) in Order to Refine this research and increase insight for readers

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