FINANCING RISK MANAGEMENT:

MAQĀṢID MUKALLAF REVIEW OF ISLAMIC BANKS' FINANCING ANALYSIS

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ABSTRACT

This study aims to examine if the financing analysis carried out by Islamic banks in an effort to avoid financing risks is in accordance with qaṣdu al-shāri' (the Lawgiver's intent) and qaṣdu al-mukallaf (the obligee's intent). The methods used in this study were comparative approach and conceptual approach. This study found that financing risk management aims to achieve the common good, namely avoiding the risk of non-performing financing that can harm various parties in accordance with the purpose. Based on this analysis, there is a conformity between the objectives and intention of the oblige (maqṣūd al-mukallaf) which are in accordance with sharia (maqṣūd sharī'). This can be accepted in terms of Maqāṣid al-sharī'ah (higher objectives of sharia) because the risk management performed and the objectives of the Islamic bank as the mukallaf (obligee) are consistent. This study recommends that Islamic banks should be stricter in conducting financing risk management to achieve the public interest.

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Introduction

Islamic banks in their operational activities are inseparable from risks as are the case with conventional banks. There are two types of risks faced by Islamic banks, namely common risks and unique risks (Khan dan Ahmed, 2001: 113). Common risks usually occur in any financial intermediary institutions such as conventional banks. Among the common risks are credit, market, liquidity, and operational risk. Meanwhile, unique risks faced by Islamic banks are inherent in the bank's compliance with sharia principles, such as the risks that arise from the products that are distributed differently from conventional banks. The diversity of products in the Islamic bank makes it vulnerable to risks.

According to Ariffin (2009), the major risks faced by Islamic banking are credit/financing risk, followed by exchange rate and liquidity risk. These risks can occur at any time and can also cause a number of financial losses for the bank unless they are managed with proper risk management. Therefore, banks are required to be more sensitive in detecting the possible risks.

Efforts to detect possible risks in Islamic banks should be made. Therefore, Bank Indonesia regulates them in Bank Indonesia Regulation Number 13/23/PBI/2011 concerning the Application of Risk Management for Islamic Commercial Banks and Sharia Business Units. According to this Bank Indonesia Regulation, financing risk is the customers' inability to fulfil their obligations. This can lead to bad credit/financing in banks which is commonly known as *non-performing financing* for Islamic banks and *non-performing loans* for conventional banks.

Non-Performing Financing (NPF) for Islamic banks in Indonesia from 2011 to 2019 was still below 5% as the maximum limit for the bank soundness level. However, the unstable conditions of Non-Performing Financing (NPF) and the tendency to increase from year to year has worried shareholders, investors and customers. The description of these conditions can be seen in table 1:

Table 1. Development of NPF for Islamic Commercial Banks and Sharia Business Units in Indonesia 2011-2019

Ratio	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Non-Performing Financing	2.52 %	2.22 %	2.62 %	3.75 %	3.93 %	3.95 %	3.81 %	3.26 %	3.23 %

Source: Islamic Banking Statistics, 2011- 2019

There was an increase in non-performing financing in 2016 as seen in Table 1 above. This is quite worrying for investors. Therefore, it is necessary to review, mitigate, and improve internal processes, especially on matters related to non-performing financing (Isa, 2011), which can lead to an increase in bank liquidity risk (Ismal, 2011). Moreover, the fact that the failure of banks in managing their funding and financing can affect the economy of a country (Mokni et al., 2016). In general, the risk of non-performing financing, when it occurs, can affect bank loans (Zaid, 2017), and lead to other risks, such as liquidity risk, withdrawal by customers, etc. The resulting impact is called systemic risk (Susilo, 2017) and it can affect bank stakeholders, such as shareholders, employees, and customers as well as the economy in general. Therefore, the interests in terms of welfare of all parties need to be safeguarded by avoiding various risks that arise in the future (Amzal, 2016).

To avoid the financing risk, Islamic banks can take preventive measures in the form of conducting financing analysis. Financing analysis can be done by banks through 5C financing analysis. This analysis is conducted with the aim of avoiding the financing risk so as not to cause problem to various parties. The risk of non-performing financing generally stems from the character of the customer, the ability of the customer and the business cycle. This risk can have a greater impact on Islamic banks, and therefore the risk of non-performing financing must be identified, measured, monitored, and controlled (Kasidi, 2014: 8). Laurine Chikoko, et al. (2012) found that among the banks that faced non-performing loans on credit were the ones with poor credit analysis. This is related to the analysis of the financing feasibility.

Masood et al., (2012) suggested that Islamic bank stakeholders should pay more attention to the analysis of the financing feasibility before it is approved. Islamic banks must be able to analyze the causes of non-performing financing to ensure the continuation of the financing. Through the results of the analysis, it can be seen whether the customer's business is feasible, and to ensure that they will be able to return the money and to determine the amount of loan in accordance with the needs of the borrower (Darmawi, 2002: 57). Therefore, it is necessary to take preventive measures against the risk of non-performing financing.

The risks that may arise need to be managed in order to achieve the level of human welfare. Human welfare can be fulfilled if all basic needs are met, both in material and spiritual aspects (Rahman, 1995: 36). To achieve welfare, which is called *falāh* in the religious term, it is necessary to achieve *maslaḥah* (goodness of humanity or public interest/welfare) and it can only be achieved if the sustainability of the five basic concepts of human needs is met, in which these five concepts are better known as the *maqāṣid ash-syarī'ah* concept (Fauzia & Riyadi, 2014: 44).

Al-Shātibī divided *maqāṣid al-sharī'ah* into two categories, namely *qaṣdu al-shāri*' (the Lawgiver's intent) and *qaṣdu al-mukallaf* (the obligee's intent). *Qaṣdu al-shāri'* is Allah's purpose in establishing sharia, which should be understood and implemented in accordance with His provisions, and His purpose of revealing sharia is for all His servants. While *qaṣdu al-mukallaf* is the objective of sharia for legal subjects (*mukallaf*). In this respect, *al-Shātibī* stipulates two things, namely the purpose of sharia for *mukallaf* is that all intentions to do things must be in line with the provisions of *sharia*, so that intentions serve as the basis for taking actions. It is the intention that will determine all actions to be accepted or not (al-Shātibī, n.d.: 93).

A person's working life will depend on his intention. This means that every effort or endeavour will be bear fruit if there is an intention to work. And if the intention is good, it will have a good impact on working life or vice versa, because the good or bad of a person's working life is an implementation or a concrete manifestation of his intentions. In the practice of Islamic banking, the aim and purpose of doing a financing analysis is to avoid financing risks that may arise. This study was conducted to analyze whether financing risk management through financing analysis conducted by Islamic banks in an effort to avoid financing risk is in line with *qaṣdu al-shāri'* (the Lawgiver's intent) and *qaṣdu al-mukallaf* (the obligee's intent).

Literature Review

Non Performing Financing in Islamic Banking

Aniss (2011), Saeed & Izzeldin (2016), Baele et al. (2014), and Pratama et al. (2020) made a comparison of the level of non-performing financing between Islamic banks and conventional banks. They found that Islamic banks tend to have high loan defaults. According to Khan & Ahmed, (2001) financing that is vulnerable to be non-performing is the one that uses a profit-sharing system, especially in *mudaraba* and *musharaka* contracts. Nursella & Idroes, (n.d.) found that the contract with the lowest level of financing risk is the *murabaha* contract based on agreement between the seller and the buyer.

Islamic bank financing risk is affected by macro and micro factors. According to Zaib & Kamran (2014), Kinasih (2014), Aldeen et al. (2020), and Ahmed & Mukhtar (2011) the factors that affect non-performing financing are GNP and bank size. Rulyasri et al. (2017) in line with Zaid and Kamran (2014) stated that macro factors are more dominant in affecting non-performing financing, especially on the exchange rate and money supply. Al-Wesabi A & Ahmad (2013) had a different opinion in this regard, where they stated that internal factors influence non-performing financing of Islamic banks. Najmudin et al. (2013) argued that the lowest risk of non-performing financing was in the electricity and agriculture economic sectors.

Elnahass et al. (2014) reported that high non-performing financing can affect investors in Islamic bank investment, but Arif et al. (2012) stated that non-performing financing does not play a role in creating corporate values in Islamic banking, but Arif et. Al. (2012) found another aspect in which investors have more confidence in portfolios. However, investors do not merely take into account short-term profits when making investment. They tend to look at many factors, such as the level of resilience of Islamic banks to the financial turbulence caused by financial crisis (Ismal, 2010).

Maqāṣid al-sharī'ah in Islamic Finance

Maqāṣid al-sharī'ah in the context of Islamic finance, not only focuses on the prohibition of usury (Fauzia & Riyadi, 2014), but also increases the circulation of assets in society to achieve mutual welfare through fulfilling the basic needs of each individual (E-Elahi, n.d.), transparency of financial activities and the ability of each individual to own property (Mohammad Abu Hurayra, 2015). Several researchers have conducted research regarding *Maqāṣid al-sharī'ah* in Islamic economics, among others: Abdul Razak, dkk (2008), Ismail & Arshad, (2010), Jazil & Syahrudin, (2013), Mohammed & Taib (2015), Mohammed et al., (2015), Mohd Afandi Salleh, et.al. (2017), Bedoui, Houssem Eddine Mansour, (2015), Mohammad Abu Hurayra (2015), and Alam et al. (2015) all of whom argued that

Maqāṣid al-sharī'ah is concerned with measuring the performance of Islamic financial institutions.

Research that specifically discusses Islamic banking financing risk management with regard to *Maqāṣid al-sharī'ah*, was conducted out by Abdullah (2012). Abdullah examined risk management through *takaful* in the perspective of *Maqāṣid al-sharī'ah* and focused more on the products of *takaful*. Ahmed (2011), Ahmad Badri Abdullah & Al-Mubarak (2011) assessed Islamic financial products based on *Maqāṣid al-sharī'ah*. This study also focuses more on Islamic financial products.

In light of above discussion, it necessary to examine the application of *Maqāṣid al-sharī'ah* in risk management for Islamic banking financing. This is important because banking is a trust-based business, and failure to maintain such trust can endanger customers, investors and the economy. Thus, banks need to lower the risks that may occur. So, credit risks or financing risks (non-performing financing) faced by Islamic banking need to be balanced with the proper risk management implementation that is in line with *sharia* because in this case it is closely related to the interests of the bank and the interests of customers.

Research Method

Research Type and Approach

The type of research used in this research was library research. Library research is a series of research activities related to the methods of collecting library data, reading, and taking notes, then processing research materials (Zed, 2014). This type of research performs a search on legal materials as a basis for making a decision on a concrete legal case.

There were two approaches used in this research. First, using a comparative approach, in which the law was examined by comparing a legal theory to the application of an activity. Second, using a conceptual approach, where the rule of law to the problems at hand serves as the basis (Marzuki, 2010: 173).

Data source

The primary data source used in this research is *al-Shātibī*'s book entitled *Al-Muwāfaqāt fī Uṣûli al-Sharī'ah* which is supported by secondary sources in the form of books and journals related to the theory of *Maqāṣid al-sharī'ah* and Islamic banking risk management.

Data analysis method

The method used to analyze the data of this research was descriptive qualitative. Though this method, this research seeks reveal the facts, circumstances, phenomena, and also the variables that occurred during research by presenting the actual facts. The situation was interpreted by connecting between variables, as well as differences between facts. The research activities included data collection, data analysis, interpretation, and conclusion drawing based on the results of the analysis (Moeleong, 2005: 135).

Discussion

Maqāṣid al-sharī'ah is an important aspect in the development of Islamic finance which includes creating banking products to comply with the *sharia* provisions. Knowledge of *Maqāṣid al-sharī'ah* serves the prerequisite in *ijtihad* (independent legal reasoning) to address various economic and financial issues that continue to develop. *Maqāṣid al-sharī'ah* is not only required to formulate macroeconomic policies such as monetary, fiscal, and public finance, but can also be helpful in developing Islamic finance on a micro basis.

Maqāṣid al-sharī'ah is also required to avoid financial problems that may arise in Islamic financial institutions, including in terms of non-performing financing. To overcome the problem of non-performing financing, banks need a system capable of solving these problems so that a proper financing risk management can be employed. In relation to these conditions, the values of *Maqāṣid al-sharī'ah* must be applied to Islamic bank financing risk management. The term *Maqāṣid* means to bring out something, demand, intention, and purpose. While *al-syarī'ah* means the way to the water source, which can also be interpreted as the way to the main source of justice (al-Qardhawi, 2007: 12).

Al-Syāṭibī explained that *Maqāṣid al-sharī'ah* aims to create the benefits for humans in the world and in the hereafter (al-Shātibī, n.d.: 324). In this case, the benefits are defined as everything related to human sustenance and the fulfilment of human life. Al-Shātībī grouped *Maqāṣid al-sharī'ah* into two parts, namely *maqāṣid al-shāri'* and *maqāṣid al-mukallaf. Maqāṣid al-shāri'* is God's purpose in establishing *sharia* law while *maqāṣid al-mukallaf* is the purpose of His creation as the legal subject. The purpose of the obligee (*mukallaf*) should be in accordance with the objectives of *sharia*. In this respect, al-Shātībī emphasized the purpose of *sharia* to *mukallaf* seen from the intention of the *mukallaf* in taking action. It is the intention that makes one's deeds valid and accepted or invalid and rejected.

Maqāṣid al-shāri' and *maqāṣid al-mukallaf* are closely related, because in various cases found both in the *fiqh* text and in today's society, problems often arise, namely the fulfilment of an action in accordance with *maqāṣid al- sharī'ah*, but the *maqāṣid mukallaf* aspect, namely the intention of the individual, is unfulfilled. Every human action is affected by several factors, both internally and externally. Internal factors can be in the form of motivation inherent within a person that can motivate him to act, while external factors can be in the form of encouragement from people around him, or in the form of goals or objectives to be achieved. However, out of these two factors, it seems that the external are the initial determinants of an activity because motivation and enthusiasm for a person to work are higher if they are motivated from the outside, especially by their desired goals (Al-Gazali, n.d.: 281). It is these goals that set a person's actions apart from the others.

Al-Shātībī divided *maqāṣid al-mukallaf* into several categories regarding the conformity between the obligee's intent and the Lawgiver's intent in his book *al-Muwafaqāt* as follows:

1. The purpose and implementation of the *mukallaf* are in accordance with *sharia*. Conformity between *Maqāṣid al-sharī'ah* and *maqāṣid al-mukallaf* is a must where the actions of the *mukallaf* must be in accordance with *sharia* provisions. In addition

to actions that conform with sharia, intention must also be in accordance with sharia provisions, so that it can be accepted. The validity of such actions is undeniable.

2. The purpose and implementation of the *mukallaf* are not in accordance with sharia. Both the action and the purpose (intention) of the *mukallaf* do not conform with *sharia*; everything that is contrary to *sharia* is invalid. Because what is prescribed in *sharia* is for the common good and against the bad; if the action is contradictory, then it has no benefits and may lead to injury. Such action is obviously wrong.
3. Actions that conform with sharia and intention that contains harm.
   The actions taken by the *mukallaf* are in accordance with *sharia* and contain *maṣlahah* but the purpose (intention) of the *mukallaf* to act is not justified by sharia so that it is contradictory and not in accordance with *sharia*. This kind of action is sinful according to *sharia* because it has a bad intention but it is not sinful according to humans.
4. The action is contrary to sharia but the purpose of the *mukallaf* is in accordance with sharia provisions.
   The action taken by the *mukallaf* is contrary to *sharia* but the purpose (intention) of the *mukallaf* is in accordance with sharia; it is done by the *mukallaf* with the intention for the common good.
5. Intending only to implement *sharia* in order to achieve *maṣlaḥah*.
   Legal consequences apply only if the benefits are known to the *mukallaf*. This section is divided into three types: 1) The *mukallaf* intends to carry out the *taklif* rules in accordance with what he understands from the purpose of *sharia*. There is no violation in this, but it is better to remain oriented to *ta'abbud* (religious devotion), because the *maslahah* of a servant is obtained through worship. 2) The *mukallaf* commits an act that is considered/suspected as the purpose of *sharia* but prioritizes *ta'abbud*. 3) Pure *Mukallaf* only carry out commands, whether or not he understands the purpose of *sharia*.
6. The servant's choice to disqualify his rights.
   All matters concerning the rights of Allah, then there is no choice for the *mukallaf* in that regard, while the rights of a servant concern himself, then in this case the *mukallaf* is free to make his choice. Therefore, in the matter of Allah's rights, the *mukallaf* can only do research on the source or origin of the *sharia*, such as *taharah* (purity), *zakat* (almsgiving), prayer, fasting, hajj, *amar ma'ruf nahi munkar* (enjoining good and forbidding wrong), and the highest is *jihad* to reveal the wisdom contained in the matter. If the *sharia* contains two rights at once, then a servant may not disqualify his right or the right of Allah simultaneously or one of them, so that the rights of a servant remain for him, his physical perfection, intellect and property that is in him, while if there is something that interferes with them, then there are the rights of Allah that must be upheld.
7. Strategies should not ignore public interest.
   Al-hiyal means to manipulate the *sharia* by creating a law that outwardly complies/does not comply with the *sharia*, so that it nullifies a law or reverses another law. After it is determined that Islamic laws are prescribed for the good of mankind, then all actions are directed towards it, because that is the Lawgiver’s intent in establishing *sharia*. If the strategies undertaken by the *mukallaf* are not in accordance with sharia provisions, then such actions are deemed as invalid.

When discussing the *mukallaf*, it is directly related to *taklif* (obligation) which is one of the important aspects in the discussion of *fiqh*. This is because the objectives of the *sharia* law are partly contained in the concept of *fiqh* as a science, namely the acts of the *mukallaf*. This means that the *sharia* law which regulates and concerns human actions has the power to regulate and compel through *taklif*. While *taklif* means the determination of encumbrance on receiving orders (Ali Ibn Muhammad al-Jurjani, n.d.). In this case *taklif* is an obligation that contains an encumbrance. While the *mukallaf* is the party who bears or is exposed to *taklif* which is also called the subject of *kulfah* [incumbrance] (Tihami, 1998). According to the formulation of Zuhailī (1985: 17) *mukallaf* is a person (party) who has reached puberty (mature) and is discerning, whose mind is sound and whose knowledge he can use to fulfill *sharia* obligations.

There are three aspects of *mukallaf* that cannot be separated from each other. These aspects are: human, maturity (*balig*), and discernment. The definition and content of these aspects in az-Zuhaili's discussion turned out to be the same as that put forward by Muhammad Nawawi in his development of concept formulation. Observation of the three aspects shows the concept of *mukallaf*. The first aspect, namely a human or a party, is a creation of Allah who is prepared to be the *taklif* bearer. As taklif bearers, humans created by Allah are certainly ready or prepared to have the ability to accept and carry out *taklif*. The completeness of the human body, physically and psychologically, is in accordance with the contents of the *sharia* message so that all sharia messages can be accommodated by humans. It is what makes humans to be positioned as the *mukallaf* (Tihami, 1998). Any action taken by the *mukallaf* must not be contrary to the principle of the common good, or in other word, it must not cause harm (*mudarat*) or taxing activities (*mushaqqah*) (Anwar, 2007: 90).

Islamic banking in its practice must take actions in compliance with the provisions formulated by the competent authorities, in this case the *fatwas* of the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) with regard to contracts implemented in Islamic financial institutions including Islamic banking. These MUI (Indonesian Ulema Council) *fatwas* serve as a reference for Islamic banking in running their business. Islamic banking is run by people who are qualified in their fields with diverse scientific backgrounds. However, people who carry out activities in Islamic banking must comply with the prescribed sharia law. These people who run Islamic banking institutions (bankers) are called the *mukallaf*.

The purpose of Islamic banking in conducting financing analysis is to reduce (preventive actions) the occurrence of non-performing financing in the future in Islamic banking. With financing analysis, banks will be more careful in channelling their funds because this will have an effect on non-performing financing. Bank Indonesia stipulates that a bank will be under intensive supervision if it is considered to have potential difficulties that may threaten its business sustainability. One of these factors is the ratio of non-performing financing on a net basis of more than 5% (five percent) of total loans. This provision is stipulated in Bank Indonesia Regulation No. 15/2/PBI/2013 concerning the Status Determination and Follow-Up

Supervision of Conventional Commercial Banks. This provision not only applies to conventional banks, but also to Islamic banks in Indonesia.

The effects of the frequent occurrence of non-performing financing in banking are disruption of financial services, declining profits, and loss of investor confidence in these banking institutions (Aprilianto, 2020). This will also affect many parties and even the country's economy if it is not overcome immediately. Therefore, it is important to carry out risk management of non-performing financing in both Islamic and conventional banks. Basically, risk management is preventive against the occurrence of losses or "accidents" that occur in banking institutions (Aprilianto, 2020). one of which is performing financing.

Non-performing financing occurs when the debtor is unable to pay his debts to the bank on the due date in accordance with the initial agreement of the contract. The classification of the financing collectability that falls into the category of non-performing financing is substandard, doubtful, and loss. There are five categories of financing quality, namely: 1) Performing: the installment payments are made on time; there are no arrears in accordance with the contract requirements and accompanied by complete documentation of accounts receivable agreements and strong collateral binding; 2) Special mention: there are arrears in the principal and/or marginal installments of up to 90 (ninety) days, complete agreement documentation and strong collateral binding and violations of non-principled receivables agreement requirements. 3) Substandard: there are arrears in payment of principal and/or marginal installments of more than 90 (ninety) days up to 180 (one hundred and eighty) days, incomplete agreement documentation and strong collateral binding, violation of the principal terms of the receivables agreement, and making efforts to extend accounts receivable to hide financial difficulties. 4) Doubtful: there are arrears in payment of principal installments of more than 180 (one hundred and eighty) days up to 270 (two hundred and seventy) days, documentation of the agreement is incomplete and the collateral binding is weak and there is a violation of principal payment of the receivables agreement. 5) Loss: there are arrears in payment of principal and or margin installments that have passed 270 (two hundred and seventy) days, and there is no documentation of the receivable agreement and or collateral binding. (Djamil, 2012: 69).

Islam teaches the importance of paying debts, as the hadith of the Prophet (p.b.u.h) said: "Delay (payment of debt) by a rich person is injustice, so if one of you becomes a rich person then follow this". (H.R. Bukhari) (Sulaiman, n.d.: 27). Based on this hadith, the Prophet (p.b.u.h) stated that it is an injustice for people who are able to but do not pay their debts. The law of delaying the payment of debt is forbidden. If the debtor is able to pay the debt and does not have an excuse justified by religion after the lender asks for it, then it is due. (Rahmat, et.al., 2010: 3). The act of a debtor who does not pay his due debts while he is in a state of financial ability, then he has harmed the other party. In the practice of Islamic banking, as previously explained, it will be detrimental to the banking sector, customers, and investors. In order to avoid all the consequences of non-payment of borrowers' debts, the banking sector therefore conducts an in-depth financing analysis in order to screen out parties who are truly capable of paying their debts.

The Islamic banking party is the actor in the implementation of the financing analysis, in this case it is called the *mukallaf*. The banking sector aims to avoid these impacts by conducting a strict financing analysis based on the 5C analysis, namely: 1) Character: assessing the customer's character aims to determine the customer's good intent to fulfill his obligations (willingness to pay) and to determine the customer's positive and cooperative morals, character and personal characteristics. 2) Capacity: the customer's ability to run a business in order to obtain the expected profit so that it can return the loan. 3) Capital: assessing the amount of capital invested by the customer in his business including the ability to increase the capital if needed in line with the progress of his business. 4) Condition: the customer's business condition which is affected by the social and economic situation; and 5) Collateral; assets or objects that can be used as collateral for loan received by the customer.

The objective of Islamic banking, in this case acting as a *mukallaf*, is to avoid risks by conducting a financing analysis, which is not contradictory but in fact in accordance with the sharia principles, because the analysis is for the public interest, namely avoiding the risk of non-performing financing. Based on this analysis, there is a conformity between actions and intention (*maqṣūd al-mukallaf*) that are in line with sharia (*maqṣūd sharī'*). Al-Shātībī argued that it is not invalid in terms of *Maqāṣid al-sharī'ah* if the actions and purpose of the servant (creation) are in line with his actions and intention.

Conclusion

One of the risks that often arises in Islamic banks is the risk of non-performing financing, while in conventional banks it is known as non-performing loans. High risk of non-performing financing can lower investors' confidence in making investment. In addition, it can also lead to other risks such as liquidity risk, risk of withdrawal of funds by customers, etc.. Therefore, risk management is required to avoid non-performing financing. To avoid the risk of non-performing financing Islamic banks should take preventive actions in the form of conducting financing analysis. To analyse this risk, Islamic banks in Indonesia employs the 5C analysis. The purpose of Islamic banks in conducting financing analysis is for the public interest so that capital owners, investors and the bank itself will not suffer a loss because debtors fail to pay their debt to the bank. Islam teaches the importance of paying debts since delaying debt payments for those who can afford it is a form of injustice. Therefore, the act of avoiding risk by conducting a financing analysis is an act that is in compliance with *sharia* and the intention of the bank as the *mukallaf* is consistent. Ash-Syātībī stated that if the actions of the *mukallaf* are in accordance with its objectives, then *maqāid al-sharīah* is valid.

This research has limitations in analyzing the factors that affect non-performing financing in Islamic banks. Furthermore, this study recommends that field studies involving many variables that affect non-performing financing should be conducted. In addition, this study also recommends that Islamic banks should be stricter in conducting financing analysis so that the common good can be achieved.

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