Research Article   Open Access

The Determinants of Islamic Commercial Bank Profitability in Indonesia during 2012-2018

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Abstract: Banking profitability indicates bank performance and bank health. Based on data from ojk.go.id, the average level of profitability of Islamic banking in Indonesia is below the conventional banks. In this study, profitability is measured by ROA (Return to Asset). This study aims to analyzes the effects of Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), Non Performing Financing (NPF), Operational Risk Based on Comparison between Operational Expense and Operational Revenue (BOPO), Third Party Funds (DPK) and Inflation towards Return on Assets (ROA). This research was conducted at 13 Sharia Commercial Banks in Indonesia registered by Financial Services Authority of Indonesia (OJK) during 2012-2018. The analysis method used in this study is multiple linear regression analysis. The results showed that CAR and BOPO have significant effect towards ROA, while FDR, NPF, DPK and inflation have no significant effect towards ROA.

Keywords: Return on Asset (ROA), Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), Non Performing Financing (NPF), Operational Risk Based on Comparison between Operational Expense and Operational Revenue (BOPO), Third Party Fund (DPK), Inflation.

I. INTRODUCTION

Indonesian public awareness of Islamic banking continues to increase due to the existence of MUI fatwa No. 1 of 2004 concerning interest and usury. This has caused challenges for the Islamic banking industry in Indonesia. PT Bank Muamalat Indonesia was the first Islamic bank in Indonesia which was established in 1991 with an initial share capital of 84 billion shares. Nowadays, there are 13 Sharia Commercial Banks (BUS), 21 Sharia Business Units (UUS), and 167 Sharia Small Business Bank (BPRS) that have assets of Rp. 435.02 trillion or reaching 5.78% of the total national banking in Indonesia. (OJK, 2017).
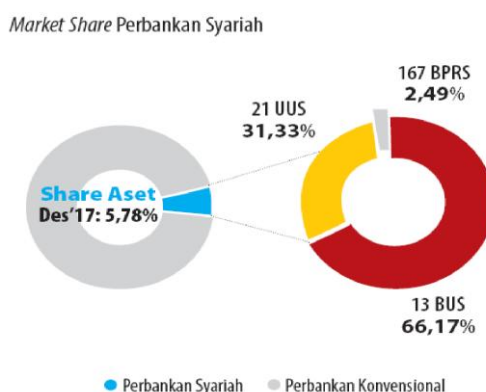
The picture above is the 2017 Indonesian Islamic banking market share taken from the ojk.go.id website, which is 5.78% of the national market share and among those is divided into 66.17% market shares of BUS, 31.33% market shares of UUS and 2.49% market shares of BPRS (OJK, 2017).

Based on the data above, Islamic banking in Indonesia is demanded to continue to improve its business performance in facing challenges both in international competition and in increasing the domestic banking market share. In addition, a significant increase in profitability is needed to develop the position of Islamic banking in Indonesia to be in line with conventional banking. Based on OJK's sharia banking statistics in 2017, banking performance as measured by Return on Assets (ROA) of sharia banking is 0.63-1.12%. It can be concluded that the performance still lags behind those of conventional banking at 2.35-2.50%. (https://ojk.go.id/en/kanal/syariah/data-dan-statistik/statistik-perban-syariah/Pages/Statistik- Perbankan-Syariah---Desember-2017.aspx)

Return on Assets is a calculation of bank profitability influenced by several factors, both internal factors and external factors. Internal factors including third party funds (DPK), Capital Adequacy Ratio (CAR), Non-Performing Loans (NPF), Financing to Deposit Ratio (FDR) (Kinanti, 2017) and Credit Efficiency Based on Comparison between Operational Expense and Operational Revenue (BOPO). External factors that affect profitability including inflation. In addition, there are factors Gross Domestic Product (GDP), and several other factors (Nahar and Prawoto, 2017). Several studies have been conducted to analyze the determinants of profitability, including CAR, FDR, NPF, DPK and external factors such as inflation. Research that analyzes the effect of CAR towards ROA with significant positive results was conducted by (Jeslin Sheeba, 2018), (Anggreni, 2014), (Shamki, Alulis and Sayari, 2016). While other research (Nahar and Prawoto, 2017), (Kinanti, 2017), (Amelia, 2015), concluded different results where CAR had a significant negative effect towards ROA. The differences in the results of previous studies provide the basis for re-examining the effect of CAR towards ROA in Indonesian Sharia Commercial Banks during 2012-2018.

Previous studies that have examined the effect of liquidity (FDR) towards profitability (ROA) with significant positive results are conducted by (Farooq, Qasim and Asad, 2015), (Malik et al., 2014). While research from (Jeslin Sheeba, 2018), (M, Ali and Habbe, 2012) showed that FDR have significant negative effect toward ROA. Research from (Pramuka, 2010) showed that FDR has no effect toward ROA. The differences in the results of previous studies provide the basis for re-examining the effect of FDR towards ROA in Indonesian Sharia Commercial Banks during 2012-2018.

Previous studies that proved the significant negative effect of NPF on ROA were conducted by (Yoppy and Purbaningsih, 2014), (Anggreni, 2014), (Wibowo, 2013). Different results were obtained from research (Nahar and Prawoto, 2017), and (Purwoko and Sudiyatno, 2013), which showed that NPF had a significant positive effect on ROA. Whereas (M, Ali and Habbe, 2012) concluded that NPF did not have a significant effect on ROA in his research. The differences in the results of previous studies provide the basis for re-examining the effect of NPF towards ROA in Indonesian Sharia Commercial Banks during 2012-2018.

Research on the effect of BOPO towards profitability (ROA), previously conducted by (Purwoko and Sudiyatno, 2013), (Nahar and Prawoto, 2017), (Amelia, 2015) who found that BOPO has significant negative effect on ROA. While, research that found a significant positive effect of BOPO towards ROA was conducted by Margaretha (2015), while (Malik et al., 2014) found that BOPO had no significant effect on ROA in his research. The differences in the results of previous studies provide the basis for re-examining the effect of BOPO towards ROA in Indonesian Sharia Commercial Banks during 2012-2018.

Research of the effect of DPK on ROA has been widely carried out, among others by (Kinanti, 2017), (Anggreni, 2014) who found that DPK has significant positive effect on ROA. On the basis of previous studies, the effect of DPK on profitability (ROA) in Islamic Commercial Banks in Indonesia was examined again in the period 2012-2018.

Research on the effect of inflation on profitability (ROA) has been widely carried out, among others by (Nahar and Prawoto, 2017), (Andhina Dyah Sulityowati * NoerAzamAchsani ** Tanti Novianti ***, 2017), (Ernayani and Hernadi Moorcy, 2017) and (Wibowo , 2013) who found significant positive effect of inflation toward profitability. While different results obtained in research (Swandayani and Kusumaningtias, 2017) and (Dwijayanthy, 2009) who found that inflation has a significant negative effect on ROA. Based on the different results of previous studies, the effect of inflation is examined again as an external factor affecting profitability (ROA) at Islamic Commercial Banks in Indonesia for the period 2012-2018.

Based on the background explained above, this study will re-examine the factors affecting the performance of Islamic Commercial Banks. The factors that will be examined are capital strength with CAR indicators, credit risk with NPF indicators, liquidity with FDR indicators, operational risk with BOPO indicators, third party funds (DPK), and external factors, namely inflation. The study was conducted on Islamic banking in Indonesia, especially Sharia Commercial Banks registered in OJK during 2012-2018.

II. THEORICAL FRAMEWORK

Each business unit or company have to compile financial reports for a certain period of time. This financial report is presented for external parties as well as managers. The external parties referred to include creditors and investors. There is a contractual relationship between an external party and the company manager. Company managers are given the authority and trust by creditors or investors to manage their funds. Therefore, the manager of the business unit is obliged to provide information on the management of the business unit.

In the banking world, creditors are all people who deposit their funds at the bank. Financial statements issued by banks are sources of information provided by banks (managers) to the public as investors. This is explained in agency theory which is a concept that explains the contractual relationship between principals and agents. The principal is the party that gives the mandate to the other party, namely the agent, to carry out all activities on behalf of the principal in his capacity as a decision maker. (Sinkey, 1992: 78; Jensen and Smith, 1984: 7).

The financial statements presented used by users and investors to assess bank performance and bank health. Based on Bank Indonesia Circular Letter No.6 / 23 / DPNP dated May 31, 2004 concerning the Rating System for Commercial Banks, there are eight indicators used to measure profitability, namely return on assets, return on equity, net interest margins, operating expense compared to operating revenue, operating profit development, composition of the productive assets portfolio and income diversification, application of accounting principles in revenue recognition, prospects for operating income.

The ratio that is generally used in measuring the level of profitability is ROA (Hery, 2016). In BI Circular Letter No.3 / 30 / DPNP dated December 14, 2001, it is stated that ROA is a measure of the bank's financial performance in obtaining profit before tax, which is generated from the total assets (total assets) of the bank concerned. ROA can be calculated with the profit after tax formula divided by total assets (Sartono, 2001)

Based on Circular Letter No.9 / 24 / DPBS / 2007 concerning Islamic Banking Soundness Rating System, Bank Indonesia sets a minimum ROA of 1.26% or greater than 1.25% to determine the ROA of a healthy bank. So the greater ROA shows the better bank performance, because the rate of return is greater (Husnan, 1992). ROA as a reflection of the bank's financial performance does not stand alone, but is influenced by things, including factors:

2.1. Bank Capital

Evaluation of capital factors including evaluating the level of capital adequacy and capital management (Indonesian Bankers Association, 2016). There are several ratios used to monitor bank capital positions, one of which is CAR (Capital Adequacy Ratio) (Indonesian Bankers Association, 2016).

According to Bank Indonesia Circular Letter Number 13/24 / DPNP dated October 25, 2011, CAR (Capital Adequacy Ratio) is a ratio that shows how much the bank's assets that contain risks (loans, investments, securities, bills at other banks) are financed from own capital in addition to obtaining funds from sources outside the bank. CAR ratio is obtained by the formula Capital divided by Weighted Assets according to the Ratio (ATMR).

Based on the Financial Services Authority Regulation Number 21 / POJK.03 / 2014 concerning the Minimum Capital Requirement for Islamic Commercial Banks, the minimum capital supply is determined as follows:

a.   8% (eight percent) of Risk Weighted Assets (ATMR) for banks with a risk profile of rank 1 (one);

b.   9% (nine percent) to less than 10% (ten percent) of ATMR) for banks with a risk profile of rank 2 (two);

c.   10% (ten percent) to less than 11 (eleven percent) of RWA for banks with a risk profile of rank 3 (three); or

d.   11% (eleven percent) to 14% (fourteen percent) of RWA for banks with a risk profile of rank 4 (four) or rank 5 (five).

The greater the CAR ratio, the bank has the potential to increase profits. In other words CAR affects ROA.

2.2. Liquidities

The Bank is very concerned about fulfilling its liquidity. This is because the most important measure of public trust is whether the bank can meet the withdrawal of funds made by the customer at any time they need. In addition to fulfill the conditions set by the monetary authority or correspondent bank where the bank maintains a nonstro account. (Ericson Leon Boy Sonny, 2007)

In the banking business, the liquidity ratio is known as the LDR (loan to deposit ratio). In Islamic banking the term credit is known as financing. (Antonio, 2001). This ratio is known as the Financing to Deposit Ratio (FDR). FDR is a ratio to measure the composition of the amount of financing provided compared to the amount of public funds and own capital used (Kasmir, 2012) The higher this ratio showed that the lower the ability of bank liquidity because of the amount of funds needed to finance is greater (Dendawijaya, 2009). The Financial Services Authority Regulation Number

3 / POJK.03 / 2016 concerning the Islamic People's Financing Bank stipulates that the FDR (Financing to Deposit Ratio) ratio is around 78% -100%. If FDR falls under the OJK regulation, it shows the lack of effectiveness of the bank in channeling its financing so that the opportunity for profit is lost. If the FDR is more than 100%, it shows that the financing channeled exceeds the funds raised so that the bank will experience a shortage of funds to meet its obligations. High or low ratio showed the level of bank liquidity, the higher the FDR rate of a bank, showed that the bank that is less liquid compared to banks that have smaller ratio numbers. FDR is calculated from the amount of financing divided by third party funds. (Muhammad, 2005).

2.3. Credit Risk

Credit risk is also called as financing risk. Financing risk is the risk due to the failure of the debtor and or other parties in fulfilling the obligation to pay off financing given by the bank. In financing activities, both commercial and consumption financing, there is the possibility that the debtor cannot fulfill obligations to the bank due to various reasons such as business failure, because the character of the debtor does not have good intentions to meet obligations to the bank, or indeed there is a mistake from the party banks in the financing approval process (Indonesian Bankers Association, 2015). Islamic Commercial Banks need to improve management of their financing risks so that the level of non-performing financing or NPF (Non Performing Financing) does not exceed the provisions from the Financial Services Authority (OJK). The Financial Services Authority Regulation Number 3 / POJK.03 / 2016 concerning Sharia Rural Banks stipulates that the NPF (Non Performing Financing) ratio is a maximum of 7% of total financing. According to Bank Indonesia 2012 regulations, how to calculate NPF (Non Performing Financing) or non-performing loans by adding up all KL, D, M Credit divided by total financing. The higher the NPF level of a bank, the impact on the reduced income that must be obtained. Vice versa, if the NPF level is low then the level of bank income will increase.

2.4. Operational Risk

Operational risk is a risk that is caused, among others, by inadequate and / or malfunctioning of internal processes, human error, system failure, or the presence of external problems that affect bank operations (Mashhud, 2006). Operational risk is the risk of loss because the bank works inefficiently, not economically, ineffectively, not smoothly, not safe, and disorderly. Bank failures are generally caused more by operational risks. In the CAMEL approach the size of operational risk is reflected in the BOPO ratio. The higher BOPO ratio indicates high operational risk (Hayati, 2017).

The Financial Services Authority Regulation Number 3 / POJK.03 / 2016 concerning the Sharia People's Financing Bank stipulates that the BOPO (Operating Expense to Operating Expense) ratio is a maximum of 94%. (Indonesian Bankers Association, 2015).

If a bank has a BOPO more than the stipulated conditions, the bank is included in the category of inefficient, because the higher the BOPO means the increase in operating costs is greater than the increase in operating income so that the profit derived decreases. According to (Suyanto, 2016) BOPO (Operating Expenses on Operating Income) can be measured by dividing operating expenses by operating income.

2.5. Third Party funds (DPK)

Bank Third Party Funds, hereinafter referred to as DPK, are bank obligations to residents and non-residents of Indonesia in the form of rupiah and foreign currencies (Indonesian Bankers Association, 2016)

The Indonesian Bankers Association in its book "Manajemen Kesehatan Bank Berbasis Resiko" said that the composition of third party funds is Non-Core Deposits divided by Total Third Party Funds.

Non-Core deposits are current accounts, savings and deposits that are not guaranteed by the Deposit Insurance Corporation (nominal greater than Rp. 2 billion). Total third party funds are all non-bank third party funds in the form of demand deposits, savings and deposits.

2.6. Inflation (X6)

Inflation is a presentation rising prices speed in a given year. Or in other words there is a decline in the value of the used currency (Rivai, 2009). The inflation rate is calculated by the Central Statistics Agency from the percentage of the Consumer Price Index (CPI) at one time with the CPI in the previous period.

III. RESEARCH METHOD

The study was conducted with secondary data in the form of Sharia Commercial Bank annual reports obtained from www.ojk.go.id during 2012-2018 periods. Data is collected with time series, namely quarterly financial statements.

The analysis model used is multiple linear regression. The analysis technique that will be used in this research is multiple linear regression analysis. Multiple linear regression analysis measures the strength of the relationship between

two or more variables, also showed the direction of the relationship between assumed random / stochastic which means it has a probabilistic distribution (Ghazali, 2016). In this study a regression test with the independent variable (x) towards the dependent variable (y) was conducted. Then the multiple linear regression equation used are:

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + e_{it}$$

Where:
Y : Financial Performance (ROA)
i : Islamic Commercial Bank
t : Year
α : Constant/Intercept
β : Regression Coefficient
X_1 : Capital (CAR)
X_2 : Liquidity risk management (FDR)
X_3 : credit risk management (NPF)
X_4 : operational risk management (BOPO)
X_5 : Third Party Funds
X_6 : Inflation
e : error term

While the hypotheses in this study are:
1.   Capital with CAR indicator has a significant positive effect towards the performance (ROA) of Islamic Commercial Banks in Indonesia during 2012-2018.
2.   Liquidity Risk with the FDR indicator has a significant positive effect towards the performance (ROA) of Islamic Commercial Banks in Indonesia during 2012-2018.
3.   Credit Risk with the NPF indicator has a significant negative effect towards the performance (ROA) of Islamic Commercial Banks in Indonesia during 2012-2018.
4.   Operational Risk with BOPO indicator has a significant negative effect towards the performance (ROA) of Islamic Commercial Banks in Indonesia during 2012-2018.
5.   Third Party Funds (DPK) has a significant positive effect towards the performance (ROA) of Islamic Commercial Banks in Indonesia during 2012-2018.
6.   External factors with inflation rate indicator has a significant negative effect towards the performance (ROA) of Islamic Commercial Banks in Indonesia during 2012-2018.
Before testing multiple linear analysis of research hypotheses, it is first necessary to test a classical assumption. The classic assumption test aims to determine and test the feasibility of the regression model used in this study. The classic assumption test consists of normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test (Ghazali, 2016).

IV.   ANALYSIS

Research has been conducted using data from all Sharia Commercial Banks in Indonesia during 2012-2018 period of 13 Sharia Commercial Banks in Indonesia. After subtracting some data that did not fit the research criteria, 224 samples were obtained. Before the regression test was carried out, a classic assumption test was conducted with the results:
1) Normality test with Kolmogorov-Smirnov showed a significant value of 0.200 which means above 0.05. This indicates that the data is normally distributed. So that this research data can be used for regression tests. (Ghazali, 2016)

Table 4.1. Normality Test.

Table 4.3 Kolmogorov Smirnov Test Result

		Unstandardized Residual
N		224
Normal Parameters[a,b]	Mean	-,2185617
	Std. Deviation	,70264564
Most Extreme Differences	Absolute	,043
	Positive	,043
	Negative	-,040
Test Statistic		,043
Asymp. Sig. (2-tailed)		,200[c,d]

2) From the multicollinearity test, it was obtained tolerance value > 0.10 or VIP value <10, so that it was stated that it passed the multicollinearity test (Ghazali, 2016).

Table 4.2. Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
CAR	,522	1,915
FDR	,633	1,579
NPF	,758	1,320
BOPO	,604	1,656
DPK	,592	1,690
INFLASI	,719	1,392

3) Based on the autocorrelation test results obtained by Durbin Watson (DW) value of 0.650 which is located between -2 ≤ 0.650 ≤ 2, so that it is free of autocorrelation. (Santoso, 2012)

Table 4.3. Autocorrelation Test
Model Summary[b]

Model	Std. Error of the Estimate	Durbin-Watson
1	,43897	,650

a. Predictors: (Constant), CAR, FDR, NPF, BOPO, DPK, Inflasi
b. Dependent Variable: ROA

4) Heteroscedasticity test with Glejser test obtained results of all variables greater than 0.05. (Ghazali, 2016)

Table 4.4. Heteroscedasticity Test

Model	Standardized Coefficients	t	Sig.
	Beta		
(Constant)		3,283	,537
CAR	-,038	-,479	,633
FDR	,070	,961	,338
NPF	-,428	-6,449	,867
BOPO	-,111	-1,499	,135
DPK	-,170	-2,271	,609
Inflasi	,057	,838	,403

After all the classic assumption tests have been performed and the data can be accepted, it is then performed multiple linear regression analysis. The following is the equation obtained:

$Y = 8,881 + 0,019X_1 + 0,003X_2 + 0,023X_3 - 0,097X_4$
$+ 0,020X_5 - 3,032 X_6$

It was explained that the value of the constant was 8.881. The CAR regression coefficient is 0.019, indicating that a 1% increase in the value of the CAR will raise ROA by 1.9% assuming the other variables are fixed. Likewise, with FDR, NPF and DPK. For the BOPO regression coefficient, it has a negative value of 0.097, which means that if there is a decrease in BOPO of 1%, this will increase the ROA to 9.7%. Likewise, the inflation variable which is also negative.

Table 4.5. is the test of coefficient determination test with the result that the Adjusted R Square value is 0.732. This explains that 73.2% percent of ROA can be affected by independent variables namely CAR, FDR, NPF, BOPO, DPK, Inflation while the rest is affected by other variables such as DER, GNP.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,860[a]	0,739	0,732	0,43897

a. Predictors: (Constant), CAR, FDR, NPF, BOPO, DPK, Inflasi

Table 4.6 showed the results of the F test where the results are 0.000 which means that simultaneously all independent variables affect the dependent variable.

ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	118,254	6	19,709	102,280	0,000[b]
Residual	41,815	217	0,193		
Total	160,069	223			

a. Dependent Variable: ROA

b. Predictors: (Constant), CAR, FDR, NPF, BOPO, DPK, Inflasi

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	8,881	1,127		7,879	0,000
CAR	0,019	0,004	0,205	4,265	0,000
FDR	0,003	0,001	0,008	0,188	0,851
NPF	0,023	0,025	0,036	0,908	0,365
BOPO	-,097	0,005	-,813	-18,215	0,000
DPK	0,020	0,029	0,031	0,692	0,490
Inflasi	-3,032	1,997	-,062	-1,518	0,130

a. Dependent Variable: ROA

The first Hypothesis testing showed that the significance value of CAR (Capital Adequacy Ratio) is 0.00, which is < 0.05. While the t-value is 4.265 and the t-table is 1.651 so it is known that t-value > t-table. Regression coefficient β of 0.019 showed a positive effect. It can be concluded that the CAR variable (Capital Adequacy Ratio) partially has a significant positive effect on ROA (Return On Assets)), so it can be concluded that the first hypothesis is accepted. This means that CAR has a positive effect toward Bank's ROA. The results of this study indicates that CAR has a positive effect on profitability or earnings. The results of this study are in line with research from (Jeslin Sheeba, 2018), (Anggreni, 2014), (Shamki, Alulis and Sayari, 2016), Margaretha (2017), (Chou and Buchdadi, 2016), (Sukarno and Syaichu, 2006), (Purwoko and Sudiyatno, 2013). From the descriptive statistical analysis, it is known that the average, minimum and maximum CAR values are quite good, where the value is above 8% (Financial Services Authority (OJK) Regulation Number 21 / POJK.03 / 2014 concerning Minimum Capital Requirements for Sharia Commercial Banks). With a fairly good CAR value, the ability of banks to extend credit is greater and is expected to generate greater profits.

The second hypothesis testing showed that the significance value of FDR (Financing to Deposit Ratio) is 0.851, which is > 0.05. While the t-value is -0.188 and the t-table value is 1.651 so it is known that t-value < t-table. Regression coefficient β of 0.003 showed a positive effect. It can be concluded that the FDR variable (Financing to Deposit Ratio) partially has a significant positive effect on ROA (Return on Assets), so it can be concluded that the second hypothesis is rejected. Liquidity risk or can be proxied by Loan to Deposit Ratio (LDR) is the risk due to the inability of banks to meet obligations due from cash flow funding sources and / or from high quality liquid assets that can be pledged, without disrupting the activities and financial condition of the bank. (Indonesian Bankers Association, 2016). With FDR, it can be seen that the comparison of funds channeled in the form of financing compared to the total funds received from the society. The higher the credit ratio, it is assumed that the bank effectively channels the funds received that are expected to generate profits. In other words, FDR has a significant positive effect on bank profitability. However, banks still have to pay attention to their ability to pay to customers who deposit their funds in the banks. Therefore, FDR is regulated by the Financial Services Authority (OJK) Regulation Number 3 / POJK.03 / 2016 concerning Islamic People's Financing Bank which stipulates that the FDR (Financing to Deposit Ratio) ratio is around 78% -100%. If FDR is high, banks must have sufficient CAR ratios to keep banks liquid. The results of this study indicate different things from these opinions. When viewed from descriptive data, the average FDR of Islamic Commercial Banks in Indonesia during 2012-2018 is 67%, which means below the healthy level of FDR ratio which is 78%. This showed that Islamic Commercial Banks in Indonesia during 2012-2018 have not been optimal in channeling funds. This is thought to be the reason why FDR has no significant effect on ROA of Islamic Commercial Banks in Indonesia during 2012-2018 periods which is in line with research from (Pramuka, 2010). This is a challenge for Indonesian Islamic banking, namely how to make efficient distribution of funds. Even though there are banks that have reached a high FDR level, such as PT Maybank Syariah Indonesia, where from some financial reports obtained that the FDR values are more than 90-100%.

The third hypothesis testing showed that the significance value of NPF (Financing to Deposit Ratio) is 0.365, which is > 0.05. While the value of t-value is -1,908 and the t-table value is 1,651 so it is known that t-value < t-table. Regression

coefficient β of 0.023 showed a positive effect. It can be concluded that the NPF (Non Performing Financing) variable partially has a significant positive effect on ROA (Return on Assets), so it can be concluded that the third hypothesis is rejected. Credit risk proxy by NPF (Non Performing Financing) is a ratio that measures financing problem. The greater the NPF level of a bank, it will have an impact on the reduced income that could be obtained. Conversely, a low level of NPF will increase bank income. Thus the increase in NPF is considered to have a significant negative effect on bank performance. The results of this study prove different, that NPF does not have a significant effect on ROA. The results of this study are the same with (M, Ali and Habbe, 2012). From the descriptive statistics, it is obtained that the average financing at Islamic Commercial Banks in Indonesia is 2.4847% while the NPF standard determined by the OJK is at 7%. The researcher suspects that the low average return on financing is not affected by the magnitude of profit because the Islamic commercial banks get more profitable non-credit or free base income. These revenues including bank guarantees, transfer fees and ATM management.

The fourth hypothesis testing showed that the significance value of BOPO (Operational Expense on Operational Revenue) is 0,000, which is < 0.05. While the value of t-value is –18,215 and the t-table value is -1,651 so it is known that t-value < t-table. Regression coefficient β of -0.097 showed a negative effect. It can be concluded that the BOPO (Operational Expense on Operational Revenue) partially has a significant negative effect on ROA (Return on Assets), so it can be concluded that the fourth hypothesis is accepted. The Operational Cost Ratio or BOPO is used to measure the efficiency of bank operational costs, which in turn can increase bank revenue. The more efficient a bank in its operations, the more profit it gets. A high BOPO ratio indicates high operational risk (Hayati, 2017). This study found that BOPO has a negative significant effect on ROA. The results of this study are consistent with studies from (Purwoko and Sudiyatno, 2013), (Nahar and Prawoto, 2017), (Amelia, 2015), (Chou and Buchdadi, 2016), (Wibowo, 2013) and Sabir (2013) who found that BOPO has significant negative effect on ROA. In general, Islamic banking in Indonesia has been efficient in managing its operations, this is supported by the average BOPO ratio data which showed a number of 90.2%. With reference to the results of research that the BOPO has a significant effect on earnings, it is expected that Islamic banks in Indonesia will improve their operational efficiency in the future, so that they can generate greater profits.

The fifth hypothesis testing showed that the significance value of DPK (Third Party Funds) is 0.490, which is > 0.05. While the value of t-value is 0.692 and the t-table value is 1.651 so it is known that t-value < t-table. Regression coefficient β of 0.020 showed a positive effect. It can be concluded that the variable of DPK (Third Party Funds) partially has a positive insignificant effect on ROA (Return on Assets), it can be concluded that the fifth hypothesis is rejected. DPK is a ratio to measure the amount of public fund collection at a bank. If the DPK rises, the bank has a large amount of funds to be channelled in the form of credit and then generated profits. In general, DPK has a positive effect on earnings. This study found different results from the previous studies (Kinanti, 2017), (Anggreni, 2014) and found that DPK has a positive insignificant effect towards ROA. When viewed from descriptive data, the average ratio of Islamic Commercial Bank's DPK in Indonesia during 2012-2018 is only 29.7%. This data showed that the participation from the society to deposit their funds on Islamic commercial banks is still lacking. Based on the banking industry profile report in the second quarter of 2017 the value of national DPK is around 89.30 at the second quarter of 2017 (Financial Services Authority, 2017a). By looking at the data, it can be showed the position of Islamic Commercial Bank DPK ratio compared to the national bank DPK ratio. Therefore, the researchers suspect, DPK has not significantly affected the profitability of Islamic commercial banks in Indonesia during the 2012-2018 period. In addition, there are several new banks during the period of research. Data obtained in this study showed that there are 2 islamic commercial banks (out of 13 islamic commercial banks registered in OJK) which have only been established for a number of years, namely PT Bank Aceh Syariah which was only established in 2016 and first reported financial report to OJK in September 2016 and PT Bank Syariah National Pension Fund which was established in 2014 and first reported financial report to OJK in March 2014.

The sixth hypothesis testing showed that the significance value of inflation is 0.130, which is > 0.05. While the value of t-value is -1.518 and the t-table value is 1.651 so that it is known that t-value < t-table. Regression coefficient β of -3.03 showed a negative effect. It can be concluded that the inflation variable partially has insignificant negative effect on ROA (Return on Assets), so it can be concluded that the sixth hypothesis is rejected. Inflation is the process of continuously increasing in the general prices of goods. Increasing of inflation will reduce people's purchasing power. The impacts in the banking sector including reduced funding deposited at banks and reduced bank loans channeled Therefore, inflation in general has a significant negative impact on bank profitability. Different result is obtained from this study which found that inflation does not affect profitability. The results previous study conducted by ((Swandayani and Kusumaningtias, 2017) and (Dwijayanthy, 2009) also found that inflation does not have a significant

effect on ROA. During 2012-2018, inflation rates in Indonesia tend to be stable. From the average descriptive analysis data inflation is in the range of 4%, therefore, it is assumed that the inflation rate does not affect the circulation of public funds in the form of savings or credit to banks, so that it does not affect the profitability of Islamic Commercial Banks in Indonesia

CONCLUSIONS

Based on the results of the analysis above, it is generally summarized that CAR and BOPO have a significant effect on ROA, while FDR, NPF, DPK, and inflation does not significantly affect ROA. From the conclusions above, there are variables that are align and showed consistency with existing theories. The first is the capital factor represented in general by the CAR ratio and also the operations represented by BOPO. In general, large capital will be followed by increased profitability. Second, efficient operations will increase profits. This is supported by the BOPO factor having a high constant value that is 97%. The different results from the hypotheses proposed found in the independent variables of FDR, NPF, DPK and Inflation. For the FDR, NPF, and DPK variables, it is suspected that it was because in the 2012-2018 periods there were a number of sharia banks that were in the early stages of development and some that were newly established. Most likely banks still focus on aspects of capital and efficiency. Therefore, Islamic commercial banks have not received significant public trust to deposit their funds or obtain financing. Possibly another aspect, Islamic commercial banks during this period got a lot of profit from Fee Base Income including managing fund transfers, ATMs, Bank Guarantees and so on. Inflation tends to be stable so that it does not affect the profit of Sharia Commercial Banks for the 2012-2018 periods in Indonesia.

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