
FACTORS AFFECTING THE PROFITABILITY OF SHARIA BANKING

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ABSTRACT

This study aims to examine the factors that affect the Profitability of Islamic banking, such as Corporate Governance (CG), Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF), and Capital Adequacy Ratio (CAR). This research is quantitative. The type of data used in this research is secondary data. Data processing using the multiple linear regression approach. The results showed that Corporate Governance had a significant positive effect on Profitability. Financing to Deposit Ratio has a significant positive effect on Profitability. Non-Performing Financing has a significant negative effect on Profitability. Capital Adequacy Ratio has a significant positive effect on Profitability. Corporate Governance has a positive effect on the Capital Adequacy Ratio. Financing to Deposit Ratio does not have a positive effect on the Capital Adequacy Ratio. Non-Performing Financing has a significant positive effect on the Capital Adequacy Ratio. Corporate Governance does not have a positive effect on Profitability through the Capital Adequacy Ratio. Financing to Deposit Ratio has an effect on Profitability through the Capital Adequacy Ratio. Non-Performing Financing has no effect on Profitability through the Capital Adequacy Ratio. Increasing banking profits, the banking management can take measures such as keeping the NPF in a safe position, maintaining the quality of productive assets, planning and arranging credit evaluations more carefully and selectively by using the principle of prudence.

Keywords: corporate governance, financing to deposit ratio, non performing financing, capital adequacy ratio, profitability.

INTRODUCTION

Banking is an essential element in the development of a country. The function of the bank as an intermediary financial institution is very decisive for the success or failure of community economic development in a country (Warka & Hariyanto, 2016). In anticipating community needs and providing a sense of security and comfort in banking transactions, the presence of Islamic banks is one solution to increase public confidence in banking activities, especially in Indonesia (Syukron, 2013). The performance of a bank, especially profit performance, can be seen from the financial statements of the bank

itself, which are published as a form of transparency in achieving Good Corporate Governance (Wiarta, 2020). In the banking sector, profitability is used to measure the bank's performance (Anggraini, Aryani & Prasetyo, 2020); profitability shows the company's success in generating profits (Fahmi, 2013). Return On Assets (ROA) is used to measure bank profitability because Bank Indonesia and the Financial Services Authority, as bank supervisors, prioritize the profitability of a bank as measured by assets whose funds are primarily from public deposit funds (Iskandar & Zulhilmi, 2021).

Corporate governance is needed to achieve corporate management transparency for users of financial statements. If the company can apply the concept of Corporate Governance, the transparency of management performance will run well, and the company's profitability is expected to continue to increase (Hadistya & Hardika, 2021). Weak corporate governance in the banking and government sectors in Indonesia has led to no checks and balances between policy formulation and implementation of these policies. -Commercial Bank is expected to improve company performance, including company profitability (Pakkua, Mas'ud & Suriyanti, 2020).

In Islamic banking, the term loan is not known, but financing, FDR is the ability of a bank to provide funds and channel funds to customers and has an influence on profitability, the size of the FDR ratio of a bank will affect the profitability of the bank. The greater the number of funds channeled to customers in the form of credit, the number of idle funds will decrease, and the income earned will increase. This will undoubtedly increase FDR so that bank profitability will also increase. (Marginingsih, 2018).

Financing is often used for the main activities of Islamic financial institutions. The risk of financing received by the bank is one of the business risks of the bank, resulting from the non-payment of loans or investments being made by the bank (Muhammad, 2005). However, in practice, there are often problems with this financing. Non-performing financing is financing whose collectibility category is included in the criteria for substandard financing, doubtful financing, and non-performing financing (Dendawijaya, 2009). Non-Performing Financing (NPF) is a financial ratio used to measure the ability of bank management to manage non-current financing provided by banks to the total financing owned.

One of the other factors affecting bank profitability is the Capital Adequacy Ratio (CAR). CAR is the minimum equity participation ratio that each bank must own to support risky company assets, such as credit, securities, and claims on other banks. Bank, showing that the bank has a more vital ability to deal with all risks of loss that can occur and will impact the profitability value, which will also increase (Yusuf, 2017).

Based on the description and the results of previous studies that there are still differences from the results of studies that have been carried out, and the purpose of this study is to develop a model that has never been done before, namely to determine the influence of factors that affect the profitability of Islamic banking such as Corporate Governance, Financing to Deposit Ratio, Non-Performing Financing and Capital Adequacy Ratio.

METHOD

The research method used in this research is the quantitative analysis method. This study uses secondary data on Islamic Commercial Banks located in Indonesia and registered with Bank Indonesia and the Indonesian Financial Services Authority (OJK), which have published annual financial reports for the 2015–2019 period expressed in Rupiah (Rp).

The available data is complete (the data are available in the whole 2015-2019 period), data on Corporate Governance (CG), Non-Performing Financing (NPF), Financing to Deposit Ratio (FDR), Capital Adequacy Ratio (CAR), and company performance which is proxied by Profitability (ROA). Based on the sample criteria, this study will use 12 Islamic commercial banks in Indonesia.

The operations of this research include Corporate Governance (CG). The researcher wants to test whether the components of the Corporate Governance (CG) variable, the Non-Performing Financing (NPF) variable, and the Financing to Deposit Ratio (FDR) variable affect the Profitability (ROA) variable and want to test whether the Corporate Governance (CG) variable component, the Non-Performing Financing variable (NPF) and the variable Financing to Deposit Ratio (FDR) affect the variable Capital Adequacy Ratio (CAR) and its impact on the variable Profitability (ROA) by using a path analysis approach to determine the direct and indirect effects. Before testing, the researchers first conducted a multicollinearity test, autocorrelation test, heteroscedasticity test, and normality test. Furthermore, data analysis uses multiple regression to test the research hypothesis.

RESULTS AND DISCUSSION

The data taken in this study are the financial statements of Islamic Commercial Banks located in Indonesia and registered with Bank Indonesia and the Indonesian Financial Services Authority (IFSA). Sharia Commercial Banks as samples from 2015-2019 were obtained through the website of each Bank.

Sharia Commercial Banks (SCB) registered with the Financial Services Authority (FSA) during the 2015-2019 period, of which 12 Sharia Commercial Banks were sampled in this study were PT. Bank Muamalat Syariah, PT. Bank Syariah Mandiri, PT. Mega Indonesia Islamic Bank, PT. BRI Syariah Bank, PT. Bukopin Islamic Bank, PT. Panin Syariah Bank, PT. Bank Victoria Syariah, PT. BCA Syariah, PT. Bank Jabar and Banten Syariah, PT. BNI Syariah Bank, PT. Maybank Indonesia Syariah, and PT. Sharia National Pension Savings Bank.

The results of classical assumption testing, such as multicollinearity, autocorrelation, and heteroscedasticity, and normality, can be explained in table 1 below:

Table 1. Classical assumption test

Proxy	Normality	Collinearity		Autocorrelation	heteroskedastisitas	
	Asymp. Sig.	Tolerance	VIF	Asymp. Sig.	C ² hitung	C ² tabel
CG	0.200	,845	1,183	0,110	12.36	77.930
FDR	0.200	,828	1,208			
NPF	0.200	,762	1,313			
CAR	0.200	,829	1,207			
ROA	0.200					

The calculation of the data normality test shows the value of Asymp.Sig. > 0.05, so it can be concluded that the data is normally distributed. Table 1 above shows that each VIF value is less than 10, as well as the tolerance value, is more than 0.1. Thus it can be stated that this regression model does not have multicollinearity problems. The autocorrelation test in table 1 above shows that the value of Asymp.Sig. (2-tailed) is 0.110 > 0.05, so it can be concluded that there is no autocorrelation. From the calculation results, it is known that the value of R² to calculate C², where C² = n × R², the tester is if C² count < C² table, then the alternative hypothesis of heteroscedasticity in the model is rejected, based on the calculation of n×R² which is 60 × 0.206 = 12.36 and C² table is 77.930 because C² count < C² table so it can be concluded that there is no heteroscedasticity in the regression model.

Table 2. Descriptive and correlation

	Min	Max	Mean	Std. Deviation	1	2	3	4	5
CG	0.26	2.72	1.397	.5608	1				
FDR	70.56	99.17	85.138	7.196	.138	1			
NPF	0.00	5.60	2.615	1.528	.177	-.329*	1		
CAR	11.51	75.83	22.879	10.623	.252	.236	-.290*	1	
ROA	0.02	12.94	1.507	2.698	-.212	.456**	- .522**	.439**	1

*. Correlation is significant at the 0.05 level (2-tailed), **. Correlation is significant at the 0.01 level (2-tailed).

From the calculation results, it is known that there are five research variables. The sample used in this study amounted to 60, with the minimum value as the lowest value for each variable in the study. The table also shows the mean of each value of each variable. The CG variable shows an average value of 1.3882 with a minimum value of 0.26, a maximum value of 2.75, and an std Deviation of 0.56181, and the FDR variable has an average value of 85.0503 With a minimum value of 70.56, a maximum value of 99.17 and the std deviation of 7.28521 and the NPF variable has an average of 2.6468 with a minimum value of 0.00, a maximum value of 5.60 and an std deviation of 1.54826 and the ROA variable has an average of 1.5213 with the minimum value is 0.02, the

maximum value is 12.94, and the std deviation is 2.69256, and the CAR variable has an average of 23.0038 with a minimum value of 11.51, a maximum value of 75.83 and an std deviation of 10 62609.

Furthermore, the results of multiple regression calculations can be seen in Table 3 below.

Table 3. The results of multiple regression calculations and test results.

Predictors	β	Sig.	Criteria
CG -> CAR	0,287	0,027	Accept
FDR -> CAR	0,072	0,592	Reject
NPF -> CAR	-0,300	0,028	Accept
CG -> ROA	-0,305	0,004	Accept
FDR -> ROA	0,331	0,002	Accept
NPF -> ROA	-0,262	0,019	Accept
CAR -> ROA	0,362	0,001	Accept
Mediating Test	T test	T Statistic	
CG -> CAR -> ROA	-0,9479	1,2965	Reject
FDR -> CAR -> ROA	2,0082	1,2965	Accept
NPF -> CAR -> ROA	-7,8335	1,2965	Reject
	R Square	F hitung	
CAR	0,171	4,275	
ROA	0,508	14,217	

Based on table 3 above, it is known that the CG regression coefficient is 0.287 with a significant value level of 0.027, indicating that the CG level affects CAR. The FDR regression coefficient is 0.72 with a significance value of 0.592, indicating that the FDR level does not affect CAR. The NPF regression coefficient is -0.300, a significant value of 0.028, indicating that the NPF level affects CAR. The corporate Governance regression coefficient is -0.305 with a significant value of 0.004, indicating that CG effects ROA. The FDR regression coefficient is 0.331 with a significant value of 0.002, indicating that FDR affects ROA. The NPF regression coefficient is - 0.262, with a significant value of 0.019, indicating that NPF financing affects ROA.

CG, FDR, CAR are significant because they are less than 0.05, while NPF is not significant because they are greater than 0.05. this shows that CG, FDR, CAR individually have a significant effect on ROA, while individually NPF does not affect ROA. It is known that the calculated F value is 14,217, and the significance value is 0.000. Because F count > F table (2.277) and the significance value is < 5%, it can be said that CG, FDR, NPF, CAR together can affect profitability.

From the results of the calculations in table 2, it is known that the calculated t value of -0.9479 is smaller than the t table of 1.2965 with a significance level of 5%, so it can be concluded that the mediation coefficient of -0.9479 is not significant. The calculated t2

value of 2.0082 is greater than the t table of 1.2965 with a significance level of 5%, so it can be concluded that the mediation coefficient is 2.0082 significant. The calculated t3 value of -7.8335 is smaller than the t table, which is 1.2965 with a significance level of 5%, so it can be concluded that the mediation coefficient -7.8335 is not significant. Based on the above test results, it can be concluded that CAR can mediate CG on profitability. However, CAR cannot mediate FDR and NPF's influence because FDR and NPF on sharia banking in 2015-2019 tend to be very low.

CG on Profitability. Banks that implement an effective CG mechanism through the composition of the board of directors and board of commissioners, independent commissioners, and audit committees assist banks in obtaining profits. This is because the CG mechanism provides a monitoring effect on the implementation of banking operations to assist management in making good decisions so that it impacts bank performance as indicated by the profitability value. These results are in line with the research of Manu, Alhabsji, Rahayu & Nuzula (2019), Ararat, Black & Yurtoglu (2017), Al-Kake & Hasan (2019), and Brown & Caylor (2004) that companies with suitable governance mechanisms can lead on increasing profits (ROE) and firm value (Tobin's Q).

The implementation of Corporate Governance in Islamic banks is intended to obtain bank management that follows the five basic principles that have been established and following sharia principles and is also intended for broader interests. Banks that implement influential Corporate Governance assist banks in obtaining profits. This is because Corporate Governance provides a monitoring effect on the implementation of banking operations to assist management in producing good decisions to have a good impact on bank performance. Thus, there is a close relationship between the practice of Corporate Governance on the company's performance. Ghaffar (2014) identified that CG has a positive and significant influence on the profitability of Islamic banks in Pakistan. This financial condition indicates that good CG will affect bank performance.

FDR on Profitability. FDR is a comparison between the financing provided by the bank and the third-party funds that the bank has successfully mobilized. This ratio is used to measure the extent to which loan funds are sourced from third-party funds. The high or low ratio indicates the level of liquidity of the bank. Based on the study results, it can be said that FDR affects profitability. The high and low FDR ratio shows the level of liquidity of the bank. Bank Indonesia sets the ideal FDR ranging from 78% to 100%. The results of this study are in line with Sitompul & Nasution (2019), who concluded that FDR has a significant positive effect on ROA.

And this opinion is also supported by Nuriyah, Endri & Yasid (2018) which state that bank profitability is significantly affected by one of the variables believe FDR. FDR is a reflection of a bank's ability to channel funds to parties who need capital. Therefore, the distribution of financing to prospective customers needs to be carried out by taking into account the 5c principle consisting of Character, Capacity, Collateral, Capital, and Condition.

NPF on Profitability. NPF is the level of risk faced by the bank. And NPF is the amount of financing that is problematic, and there is a possibility that it cannot be collected. A high non-performing loan will increase costs so that it has the potential to cause bank losses. The study results indicate that the NPF has a negative effect on the profitability of the ROA. The results of this study are in line with Akter & Roy (2017) and (Panta, 2018) which reveal that the NPF variable affects profitability. This means that the NPF has a significant negative effect on performance. NPF is a ratio used to measure the risk of credit to be disbursed. NPF affects profitability, and this shows that the greater the NPF will impact decreasing profitability. In meeting working capital needs, Islamic banks do not lend money but establish partnership relationships with Islamic banks as funders (shahibul maal). At the same time, customers act as fund managers (mudharib), and this scheme is better known as mudharabah financing (trust financing). Murabaha financing is not suitable for working capital financing, which is given directly in the form of money.

CAR on Profitability. Based on the study results, it can be said that CAR has a significant effect on profitability. This proves that the greater the capital owned by Islamic banks, the greater the profit-sharing obtained by the bank because the more significant the CAR, the higher the bank's capital ability to maintain the possibility of risk of loss of business activities so that the bank's performance also increases. The results of this study are in line with the research of Madugu, Ibrahim & Amoah (2020) that CAR has a significant effect on financial performance and the same thing in Mendoza & Rivera's research (2017) the relationship between CAR and ROA is positive because of the more significant the CAR ratio, the better the ROA. Bank. The higher the capital ratio means, the higher the own capital to mark productive assets and the lower the cost of funds issued to the bank. The performance of banks in managing their capital adequacy is less than optimal, so that CAR cannot absorb the losses experienced adequately, banks that have significant capital but cannot absorb the losses appropriately experienced.

Effect of CG on CAR. One of the efforts to manage governance in banking is risk management. This is done to anticipate risks arising from increasingly complex banking operations in the future. Based on the study results, it can be said that CG has a significant positive effect on CAR. The results of this study are in line with Abou-El-Sood, H. (2017) and Akbar (2018), which show that there is a close relationship to the CAR ratio, good quality in the implementation of CG able to create more effective risk management and ultimately increase capital adequacy in absorbing losses and meeting minimum capital requirements for Islamic commercial banks.

FDR on CAR. FDR uses funds raised by fundraisers to measure the level of allocation of funds by lenders. And a high FDR ratio indicates that the bank has lent all its funds, and the funds are allocated higher so that Islamic commercial banks do not necessarily get a higher profit from the profits of these funds. If the profits obtained are not necessarily higher than the distribution of funds, then the capital owned by Islamic banking will actually decrease. Based on the study results, it can be said that FDR has no significant positive effect on CAR. The results of this study are in line with the research

of Mursal, Darwanis & Ibrahim (2019) that FDR has no effect on CAR this is because the higher this ratio means the lower the bank's liquidity ability. However, if the high FDR ratio indicates the amount of financing provided by Islamic banks to the public is greater. The greater the financing provided to Islamic banks to customers, the greater the bank's profits.

NPF on CAR. NPF is the level of risk faced by the Bank, which shows the Bank's management's ability to manage the problematic financing provided by the Bank. The increase in NPF was caused by an increase in non-performing loans owned by banks. This causes the Bank's income to decrease and the Bank's profitability to decrease so that it will have an impact on capital which will decrease, and the CAR ratio will be lower. Based on the study results, it can be said that NPF has a significant negative effect on CAR. This study is in line with Ozili, P. K. (2019), which states that NPF has a negative effect on CAR. Because if the NPF goes up, the CAR will also decrease. This is because non-performing financing does not affect the amount of income received by the Bank, so the Bank uses the existing capital to finance its operational activities. The higher the congestion will cause losses to the Bank.

CG on CAR-mediated Profitability. There is a relationship between shareholders as principals and the board of directors as agents who can manage Islamic banks. Good management will improve good performance as well as marked by the growth of bank profits. Based on the results of the Sobel test, it shows that the mediation coefficient is not significant, so that CAR is not able to mediate CG, so it can be concluded indirectly that the CAR condition shows the level of bank compliance with regulations that serve and protect the public interest. So that the magnitude of the CAR value shows the level of sensitivity of the Bank to the public interest, the higher the CAR value, the more sensitive the Bank is to the public interest, on the other hand, if the CAR value is low, it indicates that the sensitivity of the Bank to the public is also low. The results of this study are in line with Abou-El-Sood, H. (2017), who revealed that CAR shows the level of bank compliance with regulations that serve and protect the public interest. Banks that have high capital tend to have good performance, as indicated by high profitability variables. This shows that the results of the capital adequacy ratio can mediate corporate governance so that it has a significant influence on banking performance. (Mursal, Darwanis & Ibrahim, 2019).

FDR on CAR-mediated Profitability. FDR compares the amount of financing disbursed with the total deposit collected by the Bank, and the high value of FDR will increase the CAR ratio. Based on the Sobel test calculation results, the mediation coefficient is significant so that that CAR can mediate FDR. The results of this study are in line with the research of Choerudin, Yuniatun & Kusdiasmo (2016). Their research results show that the CAR variable can be used as an intervening variable on the effect of FDR on ROA. These results indicate that to increase ROA, and it is better to do it indirectly by increasing FDR. This means that in increasing ROA from interest income, bank lending needs CAR because a high FDR ratio indicates an increasing number of

third-party funds being disbursed in the form of credit. This will provide more significant interest income, which will increase profitability or ROA.

NPF on CAR-mediated Profitability. Non-performing financing is a non-performing loan at a bank. The larger the NPF will reduce the profit or profitability of a bank. Because banks that have funds that cannot be collected will result in the bank being unable to finance other productive assets, this causes the bank's income to decrease, disrupting banking profitability. Based on the calculation results of the Sobel test, it shows that the mediation coefficient is not significant so that the CAR is not able to mediate the NPF.

The results of this study are in line with Choerudin, Yuniatun & Kusdiasmo (2016). Their research results show that the CAR variable cannot be used as an intervening variable to influence Non-Performing Financing on ROA. These results indicate that to increase ROA, and it is better to do it directly with a low NPF. This means that the CAR variable capital reserves are not necessarily needed to cover losses due to a high NPF level because there are efforts in credit restructuring, one of which is carried out by taking over collateral or Foreclosed Collateral (AYDA) where the takeover of this collateral is temporary to settle loans with quality defaulted and within a maximum period of two (2) years from the time the bank cannot complete the takeover of the collateral, it is obligated to finance the AYDA so that when the NPF increases with the collateral being taken over by the bank from the debtor, the collateral can become the bank's new asset, which can increase capital for banks to increase their operational activities. Therefore, before channeling credit, the bank needs a good analysis because the addition of credit without a good analysis will increase non-performing loans, which has an impact on bank profitability. Suppose a bank has a high NPF ratio. In that case, the bank will reserve its capital to cover the non-performing financing, so the higher the NPF ratio, the bank has anticipated this with a high Capital adequacy ratio.

CONCLUSION

This research is a review of previous research conducted by several researchers and reviews the research gaps that have been reviewed previously. The results of the study indicate that there is a significant positive effect of Corporate Governance on Profitability. In addition, there is a significant positive influence of Financing to Deposit Ratio on Profitability. However, Non-Performing Financing does not affect profitability. There is a significant positive effect of Capital Adequacy Ratio on Profitability as well as Corporate Governance on Capital Adequacy Ratio. However, there is no significant positive effect of Financing to Deposit Ratio on Capital Adequacy Ratio. The results show that the Capital Adequacy Ratio can mediate the effect of Financing to Deposit Ratio on ROA-produced profitability but cannot mediate the effect of Corporate Governance and Non-Performing Financing on ROA-produced profitability.

To achieve the goal of increasing a banking profit or profit, it is expected that the banking management can take serious handling of financial ratios, such as keeping the NPF in a safe position and the bank at least maintaining the quality in productive assets, planning, and in evaluating the provision of grants. Credit more carefully and more selectively by using the precautionary principle. Investors are advised before investing in a bank first to analyze the bank's financial performance, such as the soundness of the bank and the ability to earn profits.

This study, taking into account various limitations, such as the year or period of this study which only used the years 2015-2019 in the study. In addition, the subjects of this study were limited to only using the 12 existing Islamic banks. Therefore, future research can extend the research period to reflect the research results better and expand the research object not only to Islamic Commercial Banks but also to add objects to Sharia Business Units or Rural Banks to get more accurate results.

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