The Important Element Of Revenue Sharing In Arbitrate Client By Indonesian Islamic Banking Profitability

Endang Saefuddin Mubarok[1], Khairuddin[2], Rachmat Hidayat[3], Surya Adi Saputra[4]

[1]Universitas Islam Jakarta Faculty of Economics.
[2]STKIP Kusumanegara Jakarta, Teacher and Pedagogy Program.

Abstract

This research aimed at understanding the effects of financing risk, cost efficiency, and liquidity on profitability and the impacts on profit sharing. The method used for the research was causality with purposive sampling data collection technique. The analysis model selected was the regression using panel data, namely the data repeatedly observed on the same unit of objects from time to time. The objects of the research was10 Islamic Commercial Banks in Indonesia with secondary data in the form of financial statements for 2010 - 2017 period. The results of the statistical study indicated that the NPF, OCR (BOPO), and FDR variables simultaneously influenced the profitability (ROA) with contribution value of 93.5%. Partially, the three variables had a negative and significant effect on profitability (ROA). NPF, OCR, and FDR simultaneously had a positive and significant effect on profit sharing with a contribution value of 94.53%. Partially, NPF had a negative and significant effect on profit sharing, while OCR and FDR had a positive and significant effect on profit sharing. Profitability (ROA) had a positive and significant effect on customer profit sharing. The NPF and FDR for profit sharing did not mediate their effects on profit sharing. At the same time, OCR for profit sharing through ROA, was able to mediate the OCR of the effect on profit sharing.

Key words: Revenue; Cost Efficiency; Arbitrate; Islamic Banking; Profitability

1. INTRODUCTION

Since in Islam, every economic and business activities, including banking activities must be based on sharia advices prohibitions, in 1992, the Indonesian banking industry was marked by the birth of a bank with a profit sharing system incorporated under Law No. 7/1992. The implementation guideline for the law was Government Regulation No. 72/1992 on the profit sharing principles-based banks that therefore, Bank Muamalat was established as the first Islamic bank. In order to harmonize the banking industry, Law No. 10 of 1998 on the Amendment to Law No. 7/1992 allowing conventional banks to open a Sharia Business Unit was approved. To provide the stakeholders with legal certainty and to ensure the sharia compliance, Law No. 21 of 2008 was issued. It was followed by the issuance of Law No. 42 of 2009 on the Amendment to Law on VAT, taking into effect as of April 2010 that consequently, it served as regulatory support for the Islamic banking.

Since the establishment, Islamic banking has shown a positive trend with better ability of mobilizing, allocating and utilizing resources efficiently. Profit sharing is one of the determinant factors for achieving such positive trend. Mudharabah is a form of financing contract with profit sharing and revenue sharing concepts. In profit sharing concept, the profit is shared based on the net profit. In revenue sharing concept, the profit is shared based on the gross profit.

In managing a business unit, the profitability level shows the effectiveness of the management policies. Profitability measures the rate of return on assets used in the company's operations or the net profit achieved. The higher the level of profitability, the better the management in managing the company (Sutrisno, 2009). It is also supported by a Circular Letter of the BI No. 3/33/DPNP dated December 4, 2001 regulating that the net income ratio can be measured by the ratio between profit before tax and total asset. The higher the net profit the higher the rate of return that consequently, the better the company's financial performance.

Financial ratios are useful in assessing the financial condition of banking companies, especially the profit growth. Profit growth is a form of accountability to stakeholders. The accountability should also be followed by the attempt of gaining public participation with respect to funds entrusted to the bank. Profit growth can be seen from the profit percentage of the current year compared to the previous year's profit percentage. In addition, with respect to determining the soundness of a bank, Bank Indonesia prefers ROA valuation to ROE because Bank Indonesia prioritizes the profitability of a bank as measured by assets, which funds are mostly derived from public savings bank so that ROA is more representative in measuring the profitability level of a bank.

In running its operational activities, a bank is certainly unable to avoid various risks that are often called as risk profile. Bank business risk is the uncertainty level about the expected or unexpected outcomes. Non-Performing Loan (NPL) is the financial ratio associated with credit risk. Credit risk is the possibility of bank loss as a result of non-repayment of credits provided by the banks to the debtors. Non-performing loan is the ratio between total non-performing loan and total loan given to debtors. Banks are said to have a high NPL if the number of problem loans is greater than the number of loans given to the debtors. If a bank has a high NPL, it will increase the cost of productive assets as well as other costs, in other words, the higher NPL of a bank, the more negative the effect of the profit growth.

The Loan-to-Debt Ratio (LDR) assesses the ability of a bank in fulfilling its obligations. Therefore, the higher the LDR, the higher the bank's profit increase (assuming that the bank is able to distribute the credits effectively) and the increase of the bank profit will consequently improve the bank's performance. Thus, the high and low LDR of a bank will affect the performance of the bank. Earning (profitability) is the ability of a bank to increase its profit. Banks must achieve their business efficiency and profitability. The earning assessment is carried out to see the bank's ability in gaining profits (Kasmir, 2005). The Return on Assets (ROA) indicates the ability of the bank's management in gaining profits.

The higher the ROA of a bank, the higher the profit level achieved by the bank and the better the bank's position in term of the utilization of assets. In addition to being measured by ROA, earnings can also be measured based on the operating expense and operating income is used to assess the efficiency and ability of a bank in running its operational activities (Dendawijaya, 2009).

The profitability development of Islamic Commercial Banks in Indonesia is assessed by using ROA for a period of six years as shown in the table below.

Table 1: The progress of Return of Assets (ROA) of Indonesian Sharia Commercial Banks 2012-2017

Profitability	Years					
	2012	2013	2014	2015	2016	2017
ROA (%)	2.25	1.15	0.27	0.56	0.59	1.20

The table above shows that ROA of Islamic Commercial Banks in Indonesia fluctuates. It tends to decline within 2012 to 2014 and tends to increase in 2015 to 2017. Based on Circular of Bank of Indonesia No. 9/24/DPbS of 2017, the ROA of 2012 is categorized as healthy (category of very healthy = > 1.5%) 1.5%, and the category of ROA in 2013 decreasingly changes to healthy (category of healthy = 1.25% < ROA ≤ 1.5%). The ROA of 2014 to 2016 is categorized as (category of unhealthy = 0 < ROA ≤ 0.5%). The increasing ROA of 2017 is categorized sufficiently healthy (category of sufficiently healthy = 0.5% < ROA ≤ 1.25%).

Meanwhile, the progress of revenue sharing for customers for the last six years has been fluctuating, as shown in the table below:

Table 2: Progress of Production Sharing for Customers
Islamic Commercial Banking in Indonesia for the Period of 2012-2017

Mudhrabah	Tahun					
Deposit	2012	2013	2014	2015	2016	2017
Profit sharing (Trillion Rp)	4.70	6.27	8.79	8.53	7.93	8.73

With the higher profitability of Islamic banking, the distribution of business profits for providers and fund managers is also higher. Profit sharing is defined as a form of return on investment contracts, from time to time and the amount is uncertain and not fixed (Karim, 2011). More specifically, the distribution of profit sharing is defined as sharing the profit of Islamic banks to depositors based on the agreed ratio each month (Antonio, 1999). Therefore, the amount of return depends on the results of the business that actually occurred. The study of Wiyono (2005) shows that the amount of profitability achieved by Islamic banks will affect profit sharing for depositors if the bank determines profit sharing.

In Islamic banking, revenue sharing is done by the revenue sharing method. In this method, the calculation of yield distribution, the bank and customer divide the income based on the total income before deducting the total costs to obtain the income. In accordance with the Fatwa of the National Sharia Council No. 14/DSN-MUI/ IX/2008 concerning Business Product Distribution Systems in Financial Institutions, Islamic banks may use accrual basic method or cash basic method in their financial administration. Although for reasons of benefit, financial administration usually uses FDR basic method, but the distribution of business results should be determined using the cash basic method.

This study aims to make efforts to collect data, information, and analysis related to the variables of financing risk (NPF), cost efficiency (BOPO), liquidity (FDR), Profitability (ROA), and Profit Sharing.

2. LITERATURE REVIEW

2.1 Islamic Banks

2.1.1 Islamic Financial Philosophy. Islamic finance is an important part of the Islamic economic system based on prohibitions and recommendations. Legalizing (profit from) buying and selling and prohibiting usury (QS *Al Baqarah* 2: 275), basically is a stimulant of financial activity in an economy to the productive business sector and asset-based transactions. In other words, all financial transactions must represent real sector transactions.

The structure of Islamic finance revolves around the prohibition of income from usury (additionally taken as a premium from debtors) and recognizing the existence of profits. Usury represents the rate of return on money transactions with money, or as an addition because of late payments for agreed prices of buying and selling on credit. Islam forbids usury because it can cause injustice in the economy. In other words, the exchange of money as a business activity must be done directly, because if not, an individual can take advantage of using the money the individual gets, while the individual has not provided a balance that should be enjoyed by other parties.

In Islamic finance, loans are considered only as money transactions with a guarantee of full repayment without any additional fee for the creditors. In Islam, loans are not categorized as investments, because investment is not only a financial transaction where the transfer of funds is the only activity. Investment will be recognized only if the investment is a part of or it is itself a real sector activity.

In loan transactions, returns must be in the same amount. If borrowed goods can be exchanged, such as banknotes from a currency, the payment must be truly similar. and in the case of goods that cannot be exchanged, the loan contract can be arranged, so the commodity can be exchanged for money.

Apart from the rejection on usury (interest), Islamic finance also does not allow involvement in the level of excessive risk (*gharar*), any chance game (*qimar*) that can lead to exploitation to other parties and the wider community, and fraudulent activities (*maisyir*).

The elimination of interest in Islamic banking does not mean zero profit on capital, since Islam prohibits a predetermined return for a particular factor of production (Ahmad, 1994, cited in Lodhi and Kalim, 2005). A person should have an adequate understanding of what the person is given and what the person will get in a contract. This implies a certainty on the subject and its exchange value, transparency, disclosure, and freedom of agreement from all parties to make a contract.

2.1.2 The Purpose of Islamic Banking. Islamic banks are commercial banks that perform business activities based on Islamic principles. Islamic principles (Antonio, 1999 and Rivai and Idroes, 2007) implies the prohibition of usury (interest), prohibition of speculation (*maisyir*), prohibition of illegal business, prohibition on unclear and dubious business (gharar), financing halal businesses, and paying zakat. In Law No. 21 of 2008 concerning Islamic banking, it is stated that Islamic banks are banks that carry out their business activities based on Islamic principles and according to their type consists of Islamic Commercial Banks and People's Credit Banks.

Islamic banking was established with the purpose of building a financial system based on justice and morality (Job, 2002, cited in Lodhi and Kalim, 2005). In Chapra's (1997) view, justice and moral-based financial systems mean that the system has a social welfare dimension, due to these following reasons: (1) Opening employment and improving the economy; (2) Do not encourage wealth accumulation or luxury; (3) Business actors can obtain benefits in their efforts to continuously improve the fulfilment of community needs; and (4) Helping the achievement of social goals for the wider community.

To realize the above objectives, Naqvi (1985) proposed that economic actors must understand the axioms of Islamic ethics, in order for them to have an integrated, balanced, and realistic view of the nature and role of humans, i.e., unity, balance, free will, and accountability.

2.1.3 Principles of Islamic Banking Operations. In performing business in Islamic banks, there are several basic principles (Antonio, 1999), i.e., the principle of profit sharing, buying and selling, leasing (*ijarah*), deposit or savings (*al wadiah*), and services.

In general, the principle of profit sharing in Islamic banking includes: (1) *Al Musyarakah* (partnership), which is a form of cooperation contract between two or more parties for a particular business, in which each party contributes funds with an agreement that the profits and risks will be borne jointly; and (2) *Al Mudharabah* (trust financing investment), which is a business cooperation contract between two parties in which the first party provides all (100%) capital, while the other party becomes the manager. The business profits are divided according to the agreement stated in the contract, while the loss (if any and not because of fraud) is borne by the owner of the capital.

The principle of buying and selling includes: (1) *Bai'al murabahah* (deffered payment sale), which is the sale and purchase of goods at the original price plus the agreed profit. In this buying and selling, the seller must notify the price of the purchased item and determine a level of profit as the addition; (2) *Bai'as salam* (in-front payment sale), which is a sale and purchase transaction in which the sold goods are not available. Goods are delivered formally, while payments are made in cash; and (3) *Bai'al istishna* transactions (purchase by order manufacture), i.e., sales contracts between buyers and producers of goods. In this contract, the goods maker receives orders from the buyer according to the agreed specifications, and sells them to the final buyer. Payments are made in advance through instalments or deferred until a time in the future.

Principle of Lease (operation and lease and financial lease), lease transactions are based on the transfer of benefits. Basically, the lease is the same as the principle of buying and selling, except that the difference is in the transaction object. In buying and selling object of transactions are goods, while in *ijarah* the objects of transaction are goods or services. The principle of lease includes: (1) *Al Ijarah* (operational lease), which is a contract to transfer usufructuary rights to goods or services through payment of rent, without being followed by the transfer of ownership of the goods; and (2) *Al Ijarah al muntia* (the financial lease with purchase option), which is a kind of combination between buying-selling and lease contract or a lease agreement that ends with ownership of the goods in the hands of the tenant. This nature of transfer of ownership distinguishes it from ordinary *al ijarah*.

The principle of deposit (*al wadiah*), which is deposited from one party to another party, both individuals and legal entities, that must be guarded and returned whenever the requester wants it. In Islamic banking, banks as deposit recipients can use *al wadiah* for current account purposes and saving accounts. All profits generated from the deposited funds become the property of the bank, and the possibility of losses is also being borne by the bank. In return, the depositors are guaranteed security for their property or other facilities.

The principle of services (free-based services) include the following: (1) Al *Wakalah* (deputyship) or agent, i.e., the delegation of authority by a person to another to represent the first person about something; (2) *Al Kafalah* (guarantee), which is a guarantee given by the insurer to a third party to bear the obligations of the second party or the one that is borne; (3) *Al Hawalah* (transfer or factoring), which is the transfer of debt burden from those who have debts borne by other people who are obliged to pay the debt; (4) *Ar Rahn* (mortgage), which is holding a property that has the borrower's economic value as a collateral for the loan; and (5) *Al Qardh* (soft and benevolent loan), which is giving assets to other people who can be billed or asked to return, lending without expecting compensation (social contract).

2.2 Profit Sharing

Profit sharing is basically a system of dividing business revenue or profits between fund providers and fund managers based on agreed ratios. In determining profit sharing ratios, Islamic banks are based on natural uncertainty contracts (NUC), which are business contracts that do not provide certainty about income, both in number and time. Issues that have to be considered in determining the financing profit sharing ratio are as follows: (1) Reference profit margin, which is determined by the Assets and Liability Committee (ALCO); and (2) Reference to the profit margin of the financed business, calculated by considering: estimated sales, cash to cash cycle, estimated direct and indirect costs, and delayed factors. The size of profit sharing is influenced by (1) the direct factor, investment rate, the amount of DNA available, and the profit sharing ratio; and (2) the indirect factors, determination of items of income, costs, and accounting policies.

Meanwhile, the methods that can be used in determining the financing profit sharing ratio (Karim, 2011) are as follows: (1) Determination of profit sharing; the determination of profit sharing for banks is determined based on the estimated profits acquired by the customer divided by reference to the level of profit specified in the ALCO meeting, taking into account: sales estimates, long cash to cash cycles, estimation of direct and indirect costs, delayed factors; (2) Determination of income sharing profit ratio; Determination of financing profit sharing for banks is determined based on the estimated income received by the customer in a variety of references to the level of profit set at the ALCO meeting, taking into account: sales estimates, cash to cash cycle, estimated direct costs, and delayed factors; and (3) Determination of sales profit sharing; the determination of financing profit sharing for banks is determined based on the estimated sales revenue received by the customer divided by the principal cost and the reference level of profit determined in the ALCO meeting, taking into account the sales estimation: long cash to cash cycle, and delayed factors. MUI No.15/DSN-MUI/IX/2000 DSN fatwa on the Principles of Distribution of Business Results in Islamic Financial Institutions, allows profit sharing based on profit sharing methods or revenue sharing methods.

2.3 Profitablity

Profitability is the ability of a company to generate profits for a certain period of time (Munawir, 2012), profitability is also called rentability. The profitability ratio is used to measure the level of business efficiency and profitability by a bank. Profitability is important for a company's ability to gain profits through the resources owned by banks and companies in general.

The measurement of bank profitability levels can be done through various ratios, such as: return on assets (ROA), return on equity (ROE), net profit margin (NIM), and operational cost ratio (OCR). The appropriate measure of professionalism in assessing the performance of the banking industry is ROA. The measurement of bank profitability can be done through various ratios, such as: return on assets (ROA), return on equity (ROE), net profit margin (NIM), and operational cost ratio (OCR). According to Gilbert in Sukarno and Syaihu (2006), the appropriate measure of profitability in assessing the performance of the banking industry is ROA.

The level of ROA of a bank is determined by various factors such as: adequacy, efficiency, liquidity, bank classification, and market share of third party funds. The greater the level of ROA is, the greater it is the level of profit achieved by the bank and the better the position of the bank is in terms of the use of assets.

Profit is basically the positive difference between total revenue and total expenditure from a business activity. There are many factors that influence the level of company profits. Jansen and Mecling (1976) asserted that the manager's behaviour to manage profits depends on the contract factors in which the manager is located. Factors that can influence managers in managing profits include the complexity of the company, the geographical location of the company, the risk of the company, the type of industry, and competition. In general, there are two factors that determine the behaviour of managers in profit management, namely those relating to internal and external factors.

In Islam, the economic transactions without *Iwad* elements are categorized as usury. *Iwad* is understood as an equivalent countervalue in the form of risk (*ghurmi*), business (*kasbi*), and responsibility or *daman* (Ibnu Arabi in Ascarya, 2007). All commercial transactions to receive profits must meet the elements of '*Iwad*, namely; risk, responsibility, and effort. If the three elements are fulfilled, then the transaction is in accordance with Islamic provisions, and the resulting profit is not classified as usury. Conversely, if the three elements are not fulfilled, then the generated profits are classified as usury.

In the Qur'an, the discussions related to profits are not devoted to commerce per se, but are aimed more at individual humans as economic actors. This is shown in Alfushilat (41) verse (35): "These good qualities are not granted save to those who are patient and not conferred but to those who have great advantages".

Empirically, such as in the results of Rahayu and Bestaman's (2016) study, they show that ROA has a positive and significant effect on profit sharing. In other words, the increase/decrease in ROA affects the rise/fall of profit sharing. The results of studies showed that ROA had a significant negative effect on profit sharing, indicating that the absence of ROA would eliminate opportunities for profit sharing yields.

2.4 Financing Risk

In the last decade, financing risk or NPL has been in the spotlight almost all over the world, since their large and uncontrolled increase would lead to the eventual bankruptcy of the banking system as a whole. Many researchers confirmed that the cause for a bank bankruptcy is also a quality of assets, which is in an important predictor of its insolvency Developments in the global economy and particularly the global economy crisis are exerting a negative impact on the Albanian market and are causing the contractive of the credit market.

The non-performing asset loans (NPLs) is directly related to the financial performance of a bank and is a contributing factor to the credit risk of the banking system. An increase in the NPLs of a bank suggests that there is a high probability of a large number of credit defaults. This in turn affects the net worth of the bank and also corrodes the value of the bank's asset (Mileris, 2012), Historical evidence suggests that most bank failures are directly associated with poor management of credit risk (Triagarajan et al., 2011).

Credit risk is the risk of possible bank losses as a result of non-repayment of loans given by banks to debtors or other counterparties (Ali, 2006). Credit risk in conventional banking is reflected in the NPL ratio, while financing risk in Islamic banking and finance companies is reflected in the NPF ratio. Problematic financing is a loan that has difficulty repaying due to intentional factors or external factors beyond the ability of the debtor (Siamat, 2008).

In Fahmi's (2014) view, NPF is a number of troubled loans and may not be billed. NPF reflects financing risk, where the higher it is the ratio, the worse it is the quality of the Islamic bank financing. The existence of problematic financing that is reflected in NPF can result in the loss of the opportunity to acquire income from the provided financing, so it affects the profitability.

According to Mousavi and Karimazadeh (2017), NPLs are defined as the sum of past due, overdue, and doubtful receivables. Past due receivables are those receivables which have passed from the due date of debt or the deadline of repayment for more than two months, although the delay does not exceed 6 months. The second category of the noncurrent receivables is called overdue receivables. Overdue receivables with a delay of more than 6 months but less than 18 months from the due date of the debt or the deadline of payments. Finally, doubtful receivables are considered as those receivables which have been late for more than 18 months passed the due date or the deadline of the repayments. The difference between noncurrent receivables and bad debts is that for bad debts, regardless of due date, due to certain reason such as death or bankruptcy of the debtor or other reasons can be received and are considered as bad debts. Meanwhile categorizes NPLs into three common practices in banking, i.e., (1) Delays in payment of interest and or credit for more than 90 days from the due date; (2) Outstanding loans are not repaid at all; and (3) Re-negotiation of credit repayment terms and interest is stated in the credit agreement.

The reference in assessing the level of health of a financing company is the Circular of the Financial Services Authority Number 1/SEOJK.05/2016. Financing companies must maintain the quality of financing receivables. The circular explained the following: (1) The obligation to maintain the quality of financing; (2) The category of problematic financing receivables including substandard, doubtful, and loss quality; (3) The value of problematic financing receivables is after deducting the allowance for possible losses on mandatory financing receivables at the maximum of five percent of the total financing receivables; (4) The value of financing receivables is calculated based on outstanding principal financing, which is the total bills reduced by unearned interest income, income, and other costs; (5) Evaluation of the quality of financing receivables is determined to be: smooth, special attention, substandard, doubtful and loss; and (6) The assessment of the quality of financing is determined based on the factor of payment of the principal and/or interest.

The implications for problematic financing banks can lead to: (1) The opportunity to obtain income from given loans; (2) The ratio of earning asset quality, known as the bad debt ratio, is getting bigger; (3) Banks must increase their allowance for earning assets in accordance with the provisions; (4) Return on assets has decreased; and (5) As a result the bank's health level decreases. Efforts to save non-performing loans can be done by: (1) Rescheduling; (2) Reconditioning; (3) Restructuring; (4) 3-R combination, i.e., rescheduling and reconditioning, rescheduling and restructuring; restructuring and reconditioning, rescheduling-reconditioning, and restructuring at once; and (5) Execution.

Some of the results of empirical studies show that NPF (NPLs) affects bank's ROA conditions. The results of studies from Ponco (2008), show that NPF has a positive and significant effect on ROA. But the results of the studies from Paulin and Wiryono (2015) and Suryani et al. (2016) showed that NPF had no significant effect on ROA. The results of the studies from Yudha et al. (2017) and Funso et al. (2012) show that NPF has a negative and significant effect on ROA, while the results of the Uzliawati and Budi's (2017) study show that NPF has a negative but not significant effect on ROA. From some of the results of these studies it can be concluded that the increase in NPF qualitatively and a decrease in NPF quantitatively has a positive effect on the quality of ROA.

2.5 Cost efficiency

Cost efficiency, commonly referred to as operational costs for operating income (BOPO), is used to measure the ability of bank management to control operational costs against operational income. The success of a bank based on a quantitative assessment of bank rentability can be measured using the BOPO ratio (Kuncoro and Suhardiman, 2002). The smaller the ratio is, the more efficient the operational costs incurred by the bank are issued (Amalia and Herdinagtyas, 2005). The operational cost ratio is used to measure the level of efficiency and ability of the bank in carrying out its operations (Dendawijaya, 2003).

Based on BI's internal circular letter (2004), the operational efficiency is measured by comparing the total operational costs with the total operating income (BOPO). This ratio aims to measure the ability of operating income to cover operational costs. The higher the level of BOPO shows the lack of the ability of banks to reduce costs and increase operating income, which can cause losses because banks are less efficient in managing their business. Bank Indonesia sets the best rate for the BOPO ratio below 90%, because if the BOPO ratio exceeds 90% to close to 100%, then the bank can be categorized as inefficient in carrying out its operations.

Some results of previous studies show that the operational efficiency (BOPO) has a positive and significant effect on ROA (Palevie and Syukron, 2008; Rusdianto, 2017; Suryani et al., 2016). However, other results also show that the operational efficiency (BOPO) has a negative and significant effect on ROA (Nu'man and Hamzah, 2009; Lemiyana and Litriani, 2016; Ponco, 2008; Paulin et al., 2015; Muliawati and Khairuddin, 2015).

2.6 Liqudity

Liquidity is the ability of banks in fulfilling their short-term obligations (Pandia, 2012). The measurement of bank liquidity aims at determining the condition of a bank whether it is healthy or not. It is carried out by using the Financing Debt Ratio (FDR). This ratio measures the amount of funds disbursed by banks relative to the funds raised. Bank Indonesia will give penalty in the form of minimum statutory reserves to Islamic banks with FDR below 65. The higher the FPR level of a bank, the lower the condition of the bank. Meaning, the bank lends all funds (loan-up) or relatively illiquid. A low FDR indicates that the bank is liquid with excess funds available for lending.

Banking practitioners agree that the safe limit for a bank's LDR is approximately 85%. Some of them have the opinion that the tolerance limit of LDR ranges from 85% - 100%. Meanwhile, the safe limit of the FDR according to government regulations is a maximum of 110%. For banks, liquidity is a dilemma, because by having a high level of liquidity, the bank will be at a high safety level, but it will get low profitability. On the contrary, wanting to obtain maximum profits, the liquidity of the bank becomes low and less secure in the face of cash withdrawals by its customers (Pandia, 2012).

Samad and Hassan (2002) note that banks can experience liquidity problem when current and savings accounts are withdrawn at an extensive rate at any point time; that is, if current and savings accounts are withdrawn extensively more than the amount of new deposits in a period of time, and banks will often face liquidity difficulty because they may lack enough cash to satisfy demands of depositors.

Some study results show that LDR has a positive and significant effect on ROA (Ponco, 2008; Hartono, 2017; and Suryani et al., 2016). However, the results of the studies from Werdaningsih (2002), Paulin and Wiryono (2015), Yudha et al. (2017), and Muliawati and Khoiruddin (2015) show that FDR has a significant negative effect on ROA. From the results of several studies, it can be concluded that the higher the LDR level is, the higher it is the chance of achieving profitability or ROA. Conversely, the lower the quality of LDR is, then the lower it is the achievement of profitability.

2.7 Research Hypotheses

The discussions of the theory and the results of previous studies that are relevant to this research can be formulated in the following research hypotheses.

1. Partially, financing risk and cost efficiency have a negative effect on profitability, while liquidity has a positive effect on profitability.
2. Simultaneously, financing risk, cost efficiency, and liquidity have a positive effect on profitability.
3. Partially, financing risk and cost efficiency have a negative effect on profit sharing, while liquidity has a positive effect on profit sharing.
4. Simultaneously, the risk of financing, cost efficiency, and liquidity have a positive effect on profit sharing.
5. Profitability has a positive effect on profit sharing.

3. METHODOLOGY

The method used in this study is causality, while the data collection method is a sample that meets the requirements of 10 out of 13 the Islamic Commercial Banks (BUS) in Indonesia. The data used are secondary data in the form of annual financial statements for the period of 2010-2017. The data analysis model in this study uses a panel regression equation model. Panel analysis technique uses path analysis, with the following forms of equation:

Equation 1:

$$ROA_{it} = \beta_0 + \beta_1 NPF_{it} + \beta_2 OCR_{it} + \beta_3 FDR_{it} + \mu_1$$

Equation 2 :

$$PS = \beta_0 + \beta_1 NPF_{it} + \beta_2 OCR_{it} + \beta_3 FDR_{it} + \beta_4 ROA_{it} + \mu_2$$

In which:

NPF_{it} = A particular Non Performing Financing in a particular year
OCR_{it} = A particular Operation Cost Ratio (BOPO) in a particular year
FDR_{it} = A particular Financing Debt Ratio (Liquidity) in a particular year
ROA_{it} = A particular Return On Asset (Profitability) in a particular year
PS = Profit Sharing
μ_1 and μ_2 = Error

Hypothesis Testing
3.1 Selection of Panel Data Regression Model

The selection of Common, Fixed, or Random Effect models for Model 1 (ROA). This test was carried out by using the Chow test. The Chow test results show that the F-stat of 1.643 is smaller than the F-tab with $\alpha = 0.05$ of 2.04, or p-value of $0.122 > 0.05$, so the best choice is the common effect. Selection of Common, Fixed, or Random Effect models for Model 2 (Profit Sharing). This test was also carried out by using the Chow test. The Chow test results show that F-stat of 36.206 is greater than F-tab with $\alpha = 0.05$ of 2.04, or p-value of $0.000 > 0.05$, so the best choice is the random effect model.

In accordance with the procedure, the model selection test is followed by the Hausman test to choose between fixed effects or random effects. The Hausman test results show that the Chi-Squares value of 4.752 is smaller than the critical value of Chi-Squares (degree of freedom 4 and $\alpha = 0.05 = 7.49$), or p-value $0.3137 > 0.05$, so the appropriate model to use is the random effect model.

Table 3: Estimation Method of Panel Regression Model

No	Test Method	Test Comparison	Result
1	Chow	Common Effect vs Fixed Effect	Fixed Effect
2	Hausman	Fixed Effect vs Random Effect	Random Effect

3.2 Model 1 Analysis: Determination of Profitability (ROA)

Simultaneously, the independent variables have a significant influence on the profitability variable. The profitability model can be said as good, since it has a very high R-Square value of 93.50%. In other words, the variation of proportion of the profitability variable can be explained by the existing independent variables of 93.50% and the rest are explained by other independent variables. Table 4 below is an estimate of panel data regression variables that influence profitability.

Table 4: Estimation of BUS Profitability Panel Regression

No	Variable	Coefficient	p-value
1	Constants	0,1027	0.0000*
2	Non Performing Financing	-0,0807	0.0507
3	Operation Cost Ratio (BOPO)	-0,0940	0.0000
4	Financing Debt Ratio	-0,0059	0.0340

*) Significant at 5% level

From the output of data processing results, the value of the p-value variable of 0.000 was obtained. Therefore, there is at least one variable that is not worth 0, it can be concluded that simultaneously there is the influence of independent variables on the profitability variable of the Islamic Commercial Bank. From the data table above, the equation can be made as follows:

Profitability (ROA) = 0.1027 – 0.0807NPF – 0.0940OCR – 0.0059FDR

3.3 Model Analysis 2: Determination of Profit Sharing

Simultaneously, the independent variables significantly influence the profit sharing variable. The profit sharing model can be said to be good because it has a very high R-Square value of 94.53%. In other words, the variation in the proportion of the profit sharing variable can be explained by the existing independent variables of 94.53% and the remainder are explained by other independent variables. Table 5 below is an estimate of panel data regression variables that influence profit sharing.

Table 5: Estimation of BUS Profitability Panel Regression

No	Variable	Coefficient	p-value
1	Constants	23,8180	0,0000
2	Non Performing Financing	-2,2351	0,0120
3	Operation Cost Ratio (BOPO)	2,3049	0,0017
4	Financing Debt Ratio	0,5429	0,3079
5	Profitability (ROA)	5,3528	0.0508

From the output of data processing results, the value of the p-value variable of 0.000 was obtained. Therefore, there is at least one variable that is not worth 0, and it can be concluded that simultaneously there is an influence of independent variables on the profit sharing variable of Islamic Commercial Banks. From the data table above, the equation can be made as follows:

Profit Sharing = 23.8180 – 2.2351NPF + 2.3049OCR + 0.5429FDR + 5.3528ROA

3.4 Path Analysis Testing

To determine the effect of NPF, OCR, and FDR on ROA and its impact on PS, path analysis was used. This test is done by using the coefficient multiplication and the Sobel Test. According to the criteria developed by Baron and Kenny (1986), the independent variable must have a significant influence on the mediator variable in the first equation. Based on Table 3 and Table 4, the path diagram can be described as follows:
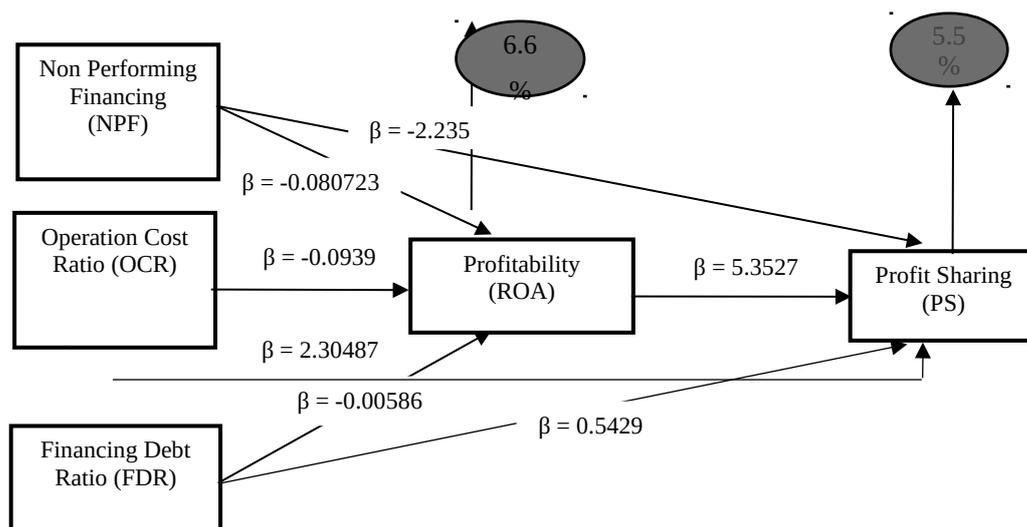

Figure 1: Path Diagram of NPF, OCR, FDR, ROA and PS
Source: Pardede and Manurung, (2014)

Testing the Influence of Mediation with Multiplication Methods
a. Direct and Indirect Effects of NPF on PS
   NPF has a direct effect on PS at -2.2350 and indirect effect on PS at -0.4320 (-0.0807 x 5.3527). The total effect of NPF on PS is -2.235 – 0.4320 = -2.667. Since the effect of the indirect coefficient is smaller than the direct effect coefficient, the ROA does not mediate the effect, NPF has a direct effect on PS.

b. Direct and Indirect Effects of OCR on PS

OCR has a direct effect on PS at 2.3049 and indirect effect on PS at -0.5026 (-0.0939 x 5.3527). The total effect of OCR on PS is 2.3049 - 0.5026 = 1.8013. Since the effect of the indirect coefficient is smaller than the direct effect coefficient, then ROA does not mediate the effect, NPF has a direct effect on PS.

c. Direct and Indirect Effect FDR on PS

FDR has a direct effect on PS at 0.5429 and indirect effect on PS at -0.313 (0.0059 x 5.3527). The total effect of FDR on PS is 0.5429 - 0.0313 = 0.5116. Since the effect of the indirect coefficient is smaller than the direct influence effect, ROA does not mediate the effect, FDR has a direct effect on PS.

Testing the Influence of the Mediation Variable using Sobel Test

Sobel Test is used to better ensure the direct and indirect relationships between the independent variables on the dependent variable through intervening variables (Ghozali, 2014).

Table 6: Summary of Path Coefficient and Error Standard

Path	Path Coefficient	Error Standard	Path
NPF → ROA	-0,0807	0,0406	P1
OCR → ROA	-0,0940	0,,0026	P2
FDR → ROA	-0,0059	0,0027	P3
ROA → PS	5,3527	2,6874	P4

The Sobel Formula Test is as follows:

$$z - value = \frac{ab}{\sqrt{b^2 Sa^2 + a^2 Sb^2 + Sa^2 Sb^2}}$$

In which:

ab = indirect effect coefficient was obtained from the multiplication between direct effect a and b
a = independent variable direct effect coefficient on mediator
b = mediator direct effect coefficient on the dependent variable
Sa = error standard of coefficient a
Sb = error standard of coefficient b

If the z-value is in absolute price > 1.96 (z-table) or statistical significance level z (p-value) < 0.05, it means that the independent variable's indirect effect on the dependent variable is significant at the 0.05 level (Preacher and Hayes, 2004). The test results with the Sobel Test formula is as follows:

- NPF variable's Z-value calculation on PS through ROA is at 1.4067, probability 0.0797 (Output of Sobal Test Calculator). The results of this test are in line with the results of the coefficient multiplication test.

- OCR variable's (BOPO) Z-value calculation on PS through ROA is at 1.988, probability 0.0233. The results of this test are not in line with the results of the coefficient multiplication test.

- FDR variable's Z-value calculation on PS through ROA is at 1.4649, probability 0.0714. The result of this test is in line with the result of the coefficient multiplication test.

Table 7: Sobel Test Testing Summary

Path	z-value	z-table α = 0,05	Notes
NPF → ROA → PS	1.4067	1.96	ROA does not mediate
OCR → ROA → PS	1.9880	1.96	ROA mediates
FDR → ROA → PS	1.4649	1.96	ROA does not mediate

4. RESULTS AND DISCUSSION

4.1 Model 1 Analysis: Profitability

The results of this study indicate that NPF has a negative and significant effect on ROA. This is consistent with the hypothesis proposed in this study, and supports the results of previous studies, such as Kapalo et al. (2012), Uzliawati and Budi (2017), Yudha et al. (2017), and Funso et al. (2012). In other words, the higher it is the NPF level, it will have an impact on the available PPAP reserves and makes it insufficient, so the financing bottlenecks must be calculated as a burden that has a direct effect on the bank's profits. Since accumulation of profits will also be exhausted, it must be borne by the capital (Prasnanugraha, 2007).

Operation Cost Ratio (OCR/BOPO) has a negative and significant effect on ROA, this is in line with the hypothesis proposed in this study, and supports the results of the studies of Makmun and Syukron (2008), Nu'man and Hamzah (2009), Lemiyana and Litriani (2016), Ponco (2008), Paulin et al. (20015), and Muliawati and Khairuddin (2015). OCR is a ratio used to measure the level of efficiency and the ability of banks to carry out their operations, then if this ratio increases it reflects the lack of ability of banks/financing to reduce operating costs. This can cause losses because banks are less efficient in managing their business. Likewise, the results of this study indicate that FDR has a negative and significant effect on ROA, so it is not in line with the theory and hypothesis proposed, and supports the results of the studies of Werdaningsih (2002), Paulin and Wiryono (2015), Yudha et al. (2017), Muliawati and Khoiruddin (2015). Most problematic banks occurred because of mismanagement, including due to the dilemmatic liquidity issues. In other words, if the bank requires a high liquidity or loan to debt deposit (LDR), the profit will be low, while if the liquidity is low or the LDR is high, the profit will be high.

The effect of FDR on ROA is negative, and empirically the results of the study of Wibisono and Wahyuni (2017) show that in the studies on Islamic banks in Indonesia, the fact is that the increase in FDR was followed by an increase in the ratio of net operating margin (NOM). In other words, the cost of the given loan amount will proportionally increase the income from the cost. Therefore, it can be concluded that FDR has a positive and significant effect on NOM. This is in line with the results of the studies of Ponco (2008), Hartono (2017), and Suryani et al. (2016), which show that FDR has a positive and significant effect on ROA.

4.2 Model 2 Analysis: Profit Sharing

The results of this study indicate that NPF has a negative and significant effect on PS, which is in accordance with the proposed hypothesis and supporting the results of Amelia's (2011) study. The higher NPF causes the available PPAP reserves to be insufficient, and the financing congestion must be calculated as a burden that has a direct effect on bank profits. Since the accumulation of profits will also be exhausted, it must be charged to the capital. The principle of profit sharing is a common characteristic and basic operational basis for the operation of Islamic banks as a whole. One of the factors that influence profit sharing is the profit sharing ratio (Syafi'i, 2009). The increase in NPF, therefore, causes a decrease in ROA and at the same time has an impact on the decline in profit sharing.

Operation Cost Ratio (OCR) has a positive and significant effect on PS, so it is not in accordance with the proposed hypothesis, but it supports the results of Gundarai (2015) and Harfiah and Purwanto's (2016) studies, which show that OCR has a positive effect on profit sharing. Increasing OCR reflects the lack of the ability of banks to reduce their operational and bank management costs, so it has a negative effect on profit sharing. The increasing OCR, therefore, can reduce profit sharing. The positive influence of OCR on PS occurred due to the increase in OCR resulting from the large operational costs for expanding office networks and third party fund collection through promotion, while the income is fixed.

From the results of this study, the FDR is shown to have a positive and significant effect on PS, so it was in accordance with the proposed hypothesis. Increasing FDR can be interpreted that the distribution of funds for financing is getting bigger, so the profits will also increase (Siamat, 2010). The increasing profits have an impact on bank performance, as measured by ROA, in which the higher the profit is, the amount of profit sharing will increase (Syafi'i, 2009). However, the results of Rahmawati and Tiffany's (2015) study show that FDR has a negative and insignificant effect on *mudharabah* deposits profit sharing. This happens because the source of funding is not only from deposits, so the received profit sharing from all financing is not only channeled to investors, but also to demand deposits and savings. Therefore, although the financing and third party funds are high, they will not affect the profit sharing of *mudharabah* deposits.

The results of this study show that ROA has a positive and significant effect on PS, in accordance with the proposed hypothesis and supported the results of a study conducted by Rasyid (2015). The principle of profit sharing is a common characteristic and the fundamental operational basis for the operations of Islamic banks.

4.3 Path Analysis

The Sobel test results show that profitability (ROA) does not mediate the effect of NPF on profit sharing (PS). In other words, the NPF can reduce/increase PS directly without going through ROA. The direct effect of NPF (model 2) shows a significant and negative effect. This illustrates the characteristics of Islamic banks based on profit-loss sharing, and the customers also bear the risk of financing channelled by the banks.

Using the same test, the ROA can mediate the effect of OCR (BOPO) on PS. In other words, OCR is able to reduce/increase the share through ROA. OCR has a negative and significant effect on ROA, which has a negative impact on the level of customer profit sharing. It means that the high operational costs will show an unbalanced portion of income and operational costs. This will have an adverse effect on the health of the bank and the level of profit sharing.

FDR has a positive and significant effect on *mudharabah* deposits profit sharing. The hypothesis explains that the higher the FDR is, then the level of customer profit sharing will also increase. This happens because if the FDR gets higher, then the bank's profit and performance will also increase, assuming that the bank is able to channel the financing effectively. The FDR that has no significant effect on customer profit sharing indicates that the funding distribution by Islamic Commercial Banks has not been optimal. In this study, there is a tendency for idle third party funds, where the average FDR is still below the optimal 100%.

From this study it was revealed that the non-performing financing factors, operation cost ratio, and financing debt ratio had an effect on both return on assets (profitability) and profit sharing. Likewise, the return on assets has an effect on profit sharing. Therefore, the results of this study can provide a number of managerial implications in bank management practices, such as the following:

1. Required to optimize the efforts to reduce financing risks and operational costs, and increase financing distribution. This can be done, among others through: (1) Improving the structure of the bank's earning assets; (2) Reducing bank income from volatile trading activities; (3) Increasing asset ratios per customer, in order that the bank's operational costs decrease; (4) Delivering education and training for bank employees, especially those related to financing distribution; and (5) Creating a system and procedure for controlling costs.

2. Improving the quality of managers in understanding profit arrangements, i.e., the complexity of the company, the geographical location of the company, the risk of the company, the type of industry, and competition.

3. In an effort to increase customer profit sharing, it can be done by increasing profitability by mediating through efforts to reduce financing risk (NPF).

A research may not be able to accommodate all the problems of the object under study. The consequences of not being able to accommodate a number of variables are the limitations in this study. Therefore, it is deemed necessary to conduct further research for the betterment of the weight of the study.
Some limitations in this study can be identified as follows:

1. The variables of this study are only limited to the independent variables of non-performing financing (NPF), operating cost ratio (OCR / BOPO), financing debt ratio (FDR), and return on assets (ROA).

2. The study does not include macroeconomics as an independent variable that can affect both profitability and profit sharing.

Based on these limitations, a number of suggestions can be recommended for further research, such as the following:

1. For further research, it is better to use a larger sample with a wider scope, so it can increase the generalization of the conclusions of the results of the study.

2. Adding variables that are thought to affect profitability and profit sharing, both related to bank specifications and related to the macroeconomic conditions, i.e., economic growth, competition, inflation, interest rates, exchange rates, and government policies.

5. CONCLUSION

Financing risk (NPF), cost efficiency (OCR), and liquidity (FDR) simultaneously have a positive and significant effect on profitability (ROA) of Islamic Commercial Banks. NPF, OCR, and FDR partially have a negative and significant effect on the ROA of Islamic Commercial Bank. NPF, OCR, and FDR simultaneously have a positive and significant effect on the profit sharing (PS) of the Islamic Commercial Bank customers. Partially, NPF has a negative and significant effect on the customer profit sharing, while OCR and FDR each of them has a positive and significant effect on profit sharing of Islamic Commercial Banks' customers.

Profitability (ROA) has a positive and significant effect on customer profit sharing (PS). The effect of NPF on profit sharing through ROA does not mediate NPF's influence on profit sharing. The effect of OCR on profit sharing through ROA mediates OCR's influence on profit sharing. The effect of FDR on profit sharing through ROA does not mediate FDR's influence on profit sharing.

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