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THE EFFECTS OF FDR, BOPO, AND PROFIT SHARING ON THE PROFITABILITY OF ISLAMIC BANKS IN INDONESIA

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Abstract

Banking has become a vital part of any economy in view of its role in advancing countries economically. In Indonesia, banking is regarded as a source of energy for the economy. Islamic banking in Indonesia began in 1991. The monetary crisis of 1998 showed that Islamic banking has a relatively better endurance than conventional banking. The purpose of this study is to analyze the influences of Non Performing Financing (NPF), Financing to Deposit Ratio (FDR), Operational Expense Operational Revenue (BOPO) and profit-sharing (PBH) on bank profitability as measured by Return On Asset (ROA) in Indonesia in the period 2010 - 2016.A model-based analysis of banking data using panel data regression has shown that the model used is adequate by using the common effect model. It is also found that the profitability of an Islamic bank is influenced by CAR, operating expenses operating revenue and profit sharing.

Keywords: Return on assets, Islamic bank, profitability, panel data regression, financing to deposit ratio

INTRODUCTION

The monetary crisis experienced by Indonesia in 1998 drew considerable attention across the world at that time because it had impacted many sectors. One of them is in the banking sector. The liquidity difficulties experienced by banking institutions due to the decline of the rupiah against the US dollar is the trigger of the crisis experienced at the time. The weakening of the rupiah makes Indonesian banks difficult to perform their obligations as state financial institutions. The increasingly unhealthy banking situation has caused the worsening situation of the banking system. However, Islamic banking can withstand the monetary crisis and up to now Islamic banking is progressing rapidly.

Evaluation of the state of a bank requires knowledge of certain financial ratios. Bank Indonesia Regulation no. 6/10 / PBI / 2004 paragraph (4) suggests using the Return of Assets (ROA) ratio to measure the profitability of a bank. This ratio compares earnings against assets Bank Indonesia's standard for ROA is 1.5%.

Islamic banking in Indonesia began in 1991. To accelerate the growth of Islamic economy in Indonesia the government changed its Islamic Banking Law 7 of 1992.An Islamic Business Unit (UUS) converted banking into banking law No. 10. The law promulgated in 1998 contains directions for opening an Islamic banking unit as a part conventional banking. Law No. 21 of 2008 governs directly opening an Islamic banking. The development of Islamic banking progressed especially rapidly in the las one year. The Islamic Commercial Bank (BUS) and UUS presently dominated Islamic banking assets. Based on data from Bank Indonesia, assets of Islamic banking recorded as of October 2013 increased to Rp. 229.5 trillion. When the assets of Rural Bank (BPR) Islamic are added, the assets of Islamic banking reached Rp. 235.1 trillion. According to Law No. 21 of 2008 concerning Islamic banking. Sharia Bank or Islamic bank is a bank accounting its business activities based on Islamic principles. It encompasses both the Islamic Commercial Bank and the Islamic Rural Bank. The development of Islamic banks so far indicates that the principles on which it runs, good business activities can make an Islamic bank one of the financial institutions that can move the economy of a country forward. The first established Islamic bank in Indonesia is Bank Muamalat Indonesia (BMI). It was established in 1991. In the beginning, Islamic banks did not get the attention it deserved. However, after the promulgation of Law no. 7 Year in 1992 Islamic bank units started appearing. The movement went into further development after the issuance of Law No. 21 of 2008. Soon Islamic banking started anticipating the challenges being faced and started adopting increasingly, advanced and complex financial systems needed to prepare its infrastructure in the era globalization.

The growth rate in terms of the number of banks, especially Islamic banks in Indonesia, has therefore continued to increase. In 2012,the number of Islamic banks in Indonesia rose to 11 with 1724 active offices, in the period 2013-2014 the number remained unchanged. However, there was steady increase after that 1988 branches in 2013, and 2151 in 2014. A similar growth was found in terms of the number of Islamic banks with 12 banks in 2015 and 13 in 2016 (Otoritas Jasa Keuangan, 2018).

According to Azhar and Arim Nasim (2016), with regard to the theoretical relationship between NPF and ROA that the higher the value of NPF the lower is the level of profitability (ROA). Nugroho (2011) states that in order to increase ROA, Islamic banks should pay more attention to the magnitude of FDR. As the percentage of FDR increases, so does the percentage of ROA. Wibowo and Muhammad Syaichu (2013) have shown that when the level of bank financing (BOPO) gets higher, the profits obtained by the bank get lower. However, with an increase in the amount of financing the relationship between profit and loss sharing and ROA increases thus lowering the ROA (Azhar and Arim Nasim (2016).

The independent variables analyzed in this research are CAR, NPF, FDR, BOPO and PBH. Here is a description of the results of research using these variables. Capital Adequacy Ratio reflects the company's own capital. The greater the CAR, the greater is the ROA. The reason is the availability of large capital makes it easier to flexibly place funds into profitable investment activity. According to Dewi, Rina Arifati, and Rita Andin (2016), and Ma'isyah (2015), CAR affects the profitability (ROA) of a bank.

When the NPF ratio gets higher, the credit quality of the bank declines and the number of problem loans increase. A high ratio will negatively affect the bank’s ROA (Solihin, 2016, Azhar and Arim Nasim 2016, Wibowo and Muhammad Syaichu 2013, Muh. Sabir, Muhammad Ali, and Abd. Hamid Habbe, 2012)

With an increase in the FDR, the funds disbursed to third party funds also increase. With large third party funding, the bank’s ROA would be greater. The same conclusion, was reached by Sistiyarini (2016), and Nugroho (2011). However Ma'isyah research (2015) found little influence FDR on ROA.

Operating expense and operating revenue (BOPO), provides a comparison between operating expense and operating income. With a bigger the BOPO, the bank's ROA gets smaller, because of the profit earned by the small bank. This finding has received considerable other support (Solihin, 2016, Ma'isyah 2015, Muh. Sabir, Muhammad Ali, and Abd. Hamid Habbe, 2012)

Profit and loss sharing in Islamic financing (PBH) consists of mudharabah and musyarakah. The greater the financing is, the lower the profitability (ROA) (Solihin, 2016) (Azhar and Arim Nasim (2016).

This paper seeks to analyze the influence of Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), Financing to Deposit Ratio (FDR), Operational Cost and Operating Income (BOPO), Profit Sharing (PBH) general Islamic in Indonesia in the period 2010-2016 so as to obtain a fresh overview of the condition of Islamic banking in Indonesia. Another contribution is the development of a model to analyze the influence of capital adequacy ratio, non performing financing, operating expense operating revenue, financing to deposit ratio and profit sharing on profitability for developing countries, especially Indonesia.

THEORETICAL FRAMEWORK AND LITERATURE REVIEW

Rustam (2013: 32) argues that adequate capital for banks will enable banks to anticipate the risks. Capital Adequacy Ratio indicates the Bank's capital adequacy ratio measured by comparing the amount of capital with risk-weighted assets (RWA). CAR i.e the so called capital ratio is the basic capital that must be met by the bank This capital is used to maintain public confidence in the performance of the bank. This is reasonable because the banking business is a trust-based business. The main factor affecting the amount of banking capital is the minimum amount of capital determined by the central bank. According to Bank Indonesia Circular Letter no. 6/23 / DPNP dated May 31, 2004, CAR is the ratio between capital with Risk-Weighted Assets (RWA). According to Dendawijaya (2009: 116), a high CAR ratio gives the confidence that the bank has sufficient capital to support its needs and withstand the risks (including credit or financing risks).

Non Performing Loan (NPL) in a conventional bank is similar to Non Performing Financing (NPF) in anIslamich bank. Both are financial ratios associated with the financing risk provided by the bank, thus indicating the ability of the bank's management to manage problematic financing provided by the bank to customers. Harmanta and Mahyus Ekananda (2005: 67) explain that NPF is a risk due to the inability of customers to return the amount of pembiyaan received from Islamic banks within a predetermined time. Total financing is the financing provided to third parties excluding financing at other banks. Non-performing financing is financing with substandard, doubtful, and loss making ventures (Muhammad 2005: 265). Based on Bank Indonesia Circular Letter No.9 / 24 / DPbS in 2007 the purpose of NPF ratio is to measure the level of financing problems faced by banks. A high ratio of NPF indicates that the quality of Islamic bank financing is getting worse.

Loan to Deposit Ratio (LDR) in a conventional bank is similar to Financing to Deposit Ratio (FDR) in an Islamic bank, both represent the ratios of bank financing to third party funds received by banks in the form of demand deposits, as well as savings and time deposits. Rivai and Arviyan (2010: 560) stated that the LDR states the ability of banks to repay the withdrawal of depositor funds by relying on the credit given as a source of liquidity. In other words,it reflects the extend to which financing to depositors can offset the bank's obligation to immediately meet the demands of customers who want to withdraw their funds that have been channeled by banks in the form of credit. A higher ratio gives a positive indication of the bank's liquidity ability. Financing provided is the overall financing provided to third parties, excluding financing to other banks. Total third party funds represent the total amount collected from the public collected by banks in the form of demand deposits, savings deposits, and time deposits. In general, the bank's FDR safe limit is around 90% -100%. Bank Indonesia's Circular Letter No.26 / 5 / BPPP dated May 29, 1993, stipulates that the amount of Financing to Deposit Ratio determined by Bank Indonesia shall not exceed 110%.

According to Veithzal (2013: 131) BOPO is the ratio used to measure the level of efficiency and ability of banks in conducting its operations. BOPO ratio is the ratio between operating expenses and operating income. This ratio is often called the efficiency ratio is used to measure the ability of bank management in controlling operational costs to operating income. A smaller ratio points the more efficient management of operational costs. Operating expenses are calculated based on the sum of the total interest expense and other total operating expenses. Operating revenue is the sum of total interest income and total other operating income.

Profit sharing is a system that implementing the procedures for the distribution of business results between the fund provider and the fund manager. According to Sudarsono (2008: 74), in Islamic banking financing products are based on the principle of profit sharing consisting of al-musharaka and al-mudaraba.

Nugroho (2011) examines the effect of FDR, NPF, BOPO, KAP and PLO (operating profit growth) on ROA studying Islamic banks in Indonesia. He shows that FDR has an effect on to ROA, NPF and BOPO has negative effects on ROA, while KAP and PLO have no effects on ROA.Muh. Sabir. M, Muhammad Ali, dan Abd. Hamid Habbe (2012) examine the influence of bank health ratios on the financial performances of Islamic and conventional banks in Indonesia. Their results showed that CAR and NPF have no effect on ROA, BOPO has negative effect on ROA, while NIM and FDR affect ROA in Islamic commercial bank in Indonesia. Likewise, CAR and NIM positively affect ROA, BOPO has no effect on ROA, NPL and LDR negatively affect ROA. Wibowo and Muhammad Syaichu (2013) examine the effects of interest, inflation, CAR, BOPO, and NPF on the profitability of Islamic Bank as determined by multiple linear regression analyses. The results showed that BOPO negatively affects the ROA while CAR, NPF, inflation and interest rates do not affect the profitability

Widyaningrum and Dina Fitrisia Septiarini (2015) examined the effect of CAR, NPF, and Operational Efficiency Ratio (OER) on ROA in BPRS in Indonesia for the period January 2009 to May 2014. Their results showed that only OERs displayed an effect on ROA. Anjani and Maulidiyah Indira Hasmarani (2015) examined the effect of mudharabah, musyarakah and murabahah financing on the profitability of the BPRS in Indonesia for the 2012-2015 period. This research uses panel data regression analysis and the estimation model chosen is Common

Effect. The results showed that, Mudharabah financing has a negative effect on the profitability of BPRS as measured by ROE. This negative influence is due to the risk that Mudharabah financing in the event of a loss will have an impact on the rate of return on that capital. The result from of this research shows that Musyarakah financing influences the profitability of BPRS in Indonesia. Murabahah financing has no effect on the profitability of BPR Syariah.

Azhar and Arim Nasim (2016) examined the effect of financing on sale and purchase, profit sharing, and non-performing financing on the profitability of Islamic banks in Indonesia in the period 2012-2014. Profitability in this study is proxied by ROA. The research method used was multiple linear regression analysis. It is shown that while The result of the research shows that the financing of sale and purchase to influence to profitability, NPF and profit sharing financing negatively affect profitability. The coefficient of determination obtained was 39.10%.

Sistiyarini (2016) examines the internal factors and external factors that affect the profitability of Islamic banks in Indonesia by examining results from multiple linear regression analyses. It is found that CAR, OER and size variables have a negative influence on bank profitability. However FDR and NPF variables show no effect on bank profitability. Likewise external factors consisting of GDP and inflation have no effect on profitability in Islamic banks. Ma'isyah (2015) examines the effect of capital adequacy, intermediation function, operational efficiency, and problem financing on the profitability of Islamic banks in 2010 - 2014. The results show that capital adequacy ratio, operational efficiency, and non-performing financing affect the ROA, while the intermediation function (FDR) has no effect on ROA. Dewi, Rina Arifati and Rita Andin (2016) examine the factors that affecting profitability for Islamic banks in Indonesia. It is found that CAR and firm size affect the ROA while operational expense operating income negatively affects ROA.

RESEARCH METHOD

The object of research is made up of Islamic commercial banks registered with Bank Indonesia. There were 13 such banks registered in the period 2010-2016, of which 7 Islamic commercial banks were selected on the basis of certain predetermined criteria: (1) those located in Indonesia; (2) those still operating within the research period; (3) those who regularly publish financial statements, especially the annual financial statements; (4) those having data on all the research variables that are being considered, including data on ROA, CAR, NPF, FDR, operating expense operating income and profit sharing contained in the quarterly report in the period 2012 to 2016. Based on these criteria, there were 7 Islamic Commercial Banks, namely (1) Bank Muamalat Indonesia; (2) Bank Syariah Mandiri; (3) Bank BNI Syariah; (4) Bank BRI Islamic; (5) Bank Panin Syariah; (6) Bank Syariah Bukopin; (7) Bank BCA Syariah. The data was obtained through the official website of each Islamic Commercial Bank, Bank Indonesia website and the Otoritas Jasa Keuangan (Financial Services Authority) website. Dependent variables studied was ROA, while the independent variables were CAR, NPF, FDR, BOPO, and profit sharing (PBH).The reason for the election year 2010-2016 in this study is, Indonesia's economic growth in 2010 in very good condition that was seen from the GDP growth rate reached 6.1%. In addition, at the time this study was conducted, data for 2017 has not been published, so data is limited until 2016.The estimation method was panel data regression because it is generally considered to be the best method for detecting and measuring the influences that simply cannot be seen in pure cross-section data or pure time-series (Gujarati and Dawn C. Porter, 2012). The initial steps to test the classical assumption the model being used actually meets the basic assumption in the regression analysis namely the normality, no autocorrelation, no heteroschedasticity and no multicolinierity. The next step was to estimate using the Common Effect, Fixed Effects and the Random Effects. The selection between common models with Fixed Effect was done through the Chow test or the likelihood ratio test. The next step was related to choosing between the Fixed Effects and the Random Effect conducted through Hausmann test.

RESULTS AND DISCUSSION

Growth of ROA, NPF, FDR, Operating Expense Operating Revenue (BOPO) and Profit Sharing

The object of this research is to examine the Islamic Banks meeting the criteria mentioned in the research methods section. The names of these banks examine were BNI Syariah (BNIsya), Bank Muamalat (Muamal), Bank Syariah Mandiri, BRI Syariah (BRIsya), Panin Syariah Bank, Bank Bukopin Syariah (Kopinsya) and BCA Syariah (BCAsya). A description of the condition of profitability (ROA), non performing financing, financing to deposit ratio, operating expense operating revenue and profit sharing in the period 2010-2016 is given below.

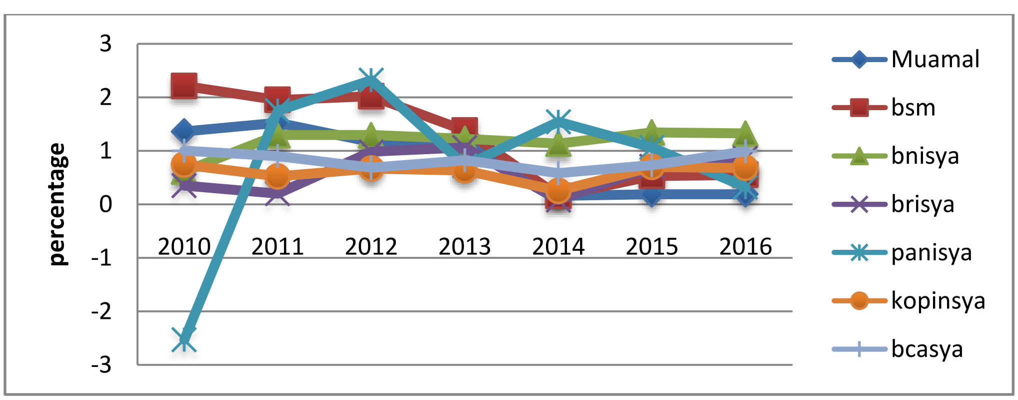

Figure. 1 the Growth of ROA in the period 2010-2016

Figure 1, shows that the exhibiting of the largest profitability percentage (ROA), was the bank with code Panisya that was 2.32 in 2012. The same bank also registered the lowest percentage (-2.53%) in 2010. A higher ratio indicates that the company is more effective at managing its assets to generate larger amounts of net profit. However, the condition of profitability experienced by Panin Syariah banks in the period 2010 to 2016 fluctuated considerably. For instance, it experienced -2.53% in 2010 but managed to improve to +1.75%. However, the ROA conditions in other banks were relatively stable with the ratio ranging from 0.08 to 2.32.

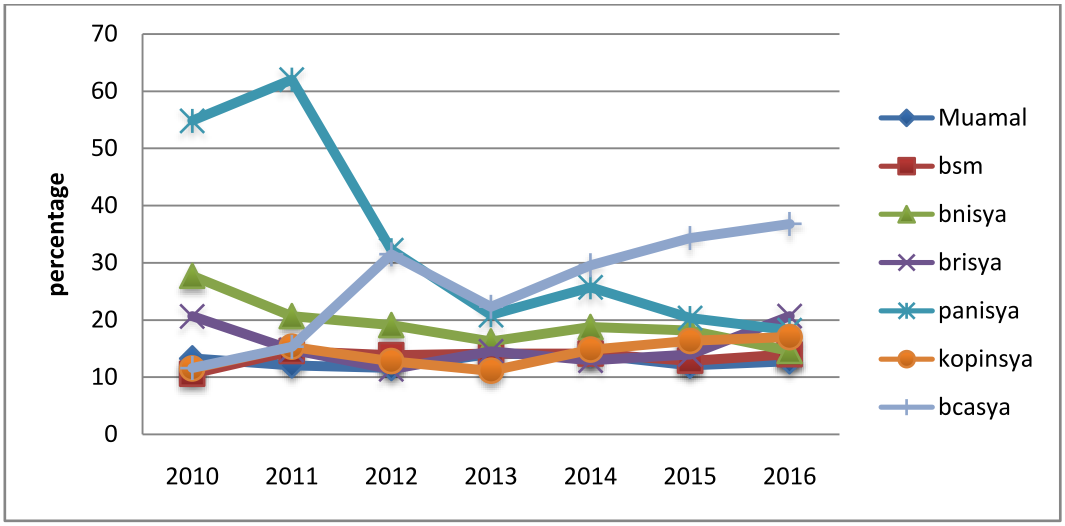

Figure. 2 The Growth of CAR in the period 2010-2016

Figure 2, details the growth in capital adequacy ratio (CAR) in Islamic banks in the period 2010-2016. It is shows that bank which has the largest CAR percentage, is a bank with the code BCAsya that is 36.78%, and the lowest percentage is a bank with the code BSM that is 10.60%.The Financial Services Authority (Otoritas Jasa Keuangan-OJK) asks Islamic banks to increase their capital adequacy ratio (CAR) to strengthen the capital's health. This is reflected in the revision of the provision of minimum capital requirement (KPPM) of Islamic banks in PBI Number 7/13 of 2005. The revision of Bank's KPMM rules follows the Islamic Financial Service Board (IFSB) capital calculation standard. Indonesia is a member of IFSB. 10% CAR provisions apply to Islamic banks that have health ratings of levels I and II. Islamic banks entering levels III and IV, must meet the CAR of 14%. This rule has been effective from January 2015.

Figure 3 illustrated the growth of financing to deposit ratio of Islamic banks for the period 2010-2016. Note that the bank is shows with the code Panisya experienced a growth of 162.97% in 2011, and the lowest percentage is a bank with the code panisya that is 69.76% in 2010. A high ratio indicates that a bank is relatively illiquid. When the distribution of funds in the form of financing customers is greater than the money deposited by the community for the purpose of savings, the risk borne by the bank is also greater. In such case, the bank has to face serious consequences. A high FDR will compresses the bank's CAR (Rusydiana, 2016).

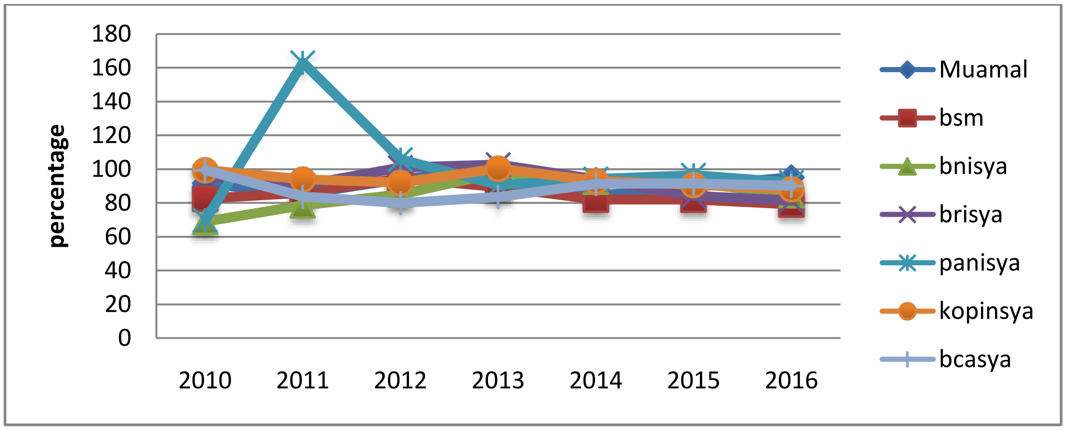

Figure. 3 The Growth of FDR in the period 2010-2016

Figure 4 shows that the with the largest non-performing financing was bank code Muamal. Its FDR was 7.11 in 2015.The lowest percentage was recorded by the bank codes BCAsya was in 2012 and 2013.Based on the data from the OJK, the surge in non-performing financing (NPF) in Islamic banks has exceeded the maximum 5% to 5.54%. This was certainly a warning for the Islamic banks with regard to maintaining the quality of credit. Similarly, Bank Muamalat was also working hard to improve the quality of its credit. In Bank Muamalat, one of the triggers for high NPF is from financing to the mining sector. However, it started to improve after the implementation of early restructuring efforts to maintain the quality of financing. Bank Muamalat has restructured up to Rp 5 trillion (Apriyani, 2016).

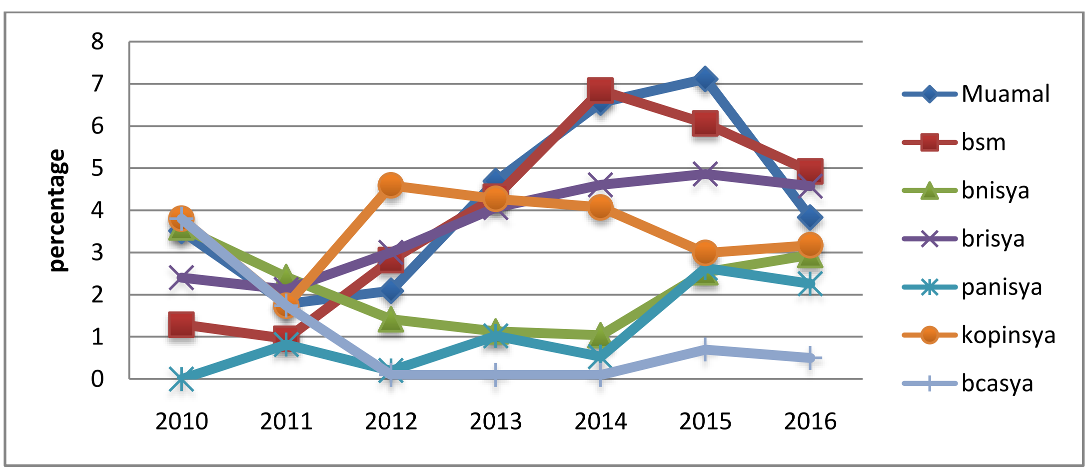

Figure. 4 The Growth of NPF in the period 2010-2016

Figure 5 shows that bank with the largest percentage (182.31%) of operating expense operating revenue (BOPO) was the bank code Panisya in 2010. However, the same bank recorded the lowest percentage (74.3%) in 2016. The high BOPO condition still continued in 2015. Based on the data from the OJK until the first half of 2015, the average operational expense ratio compared to the operational income (BOPO) of Islamic Commercial Bank (BUS) increased by 3.18% to 92.78%. The biggest contributor to the increase in the BOPO of Islamic banks was Panin Syariah Bank, which in the first semester had increased by 17.49% to 88.8% (Yudistira, 2015).

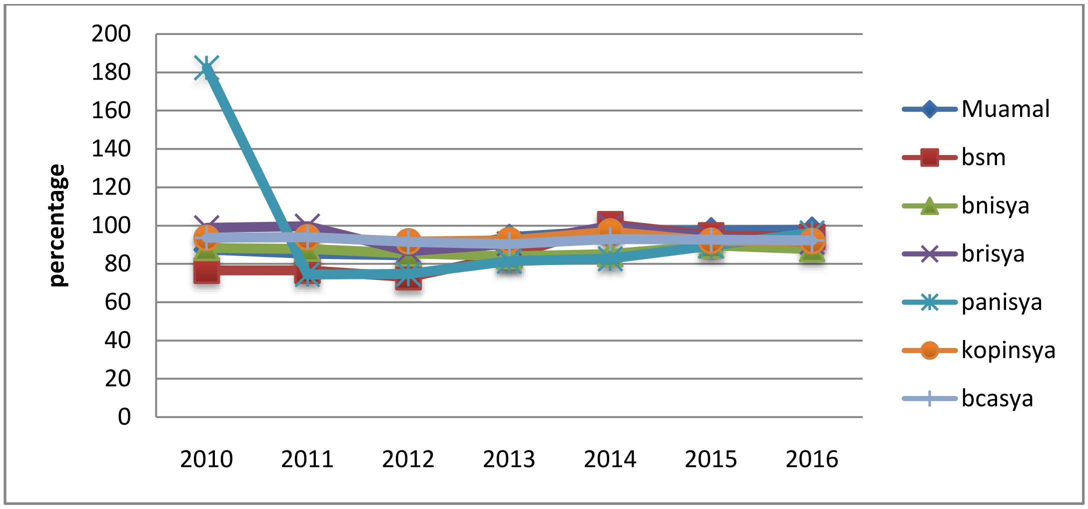

Figure. 5 The Growth of Operating Expense Operating Revenue in the period 2010-2016

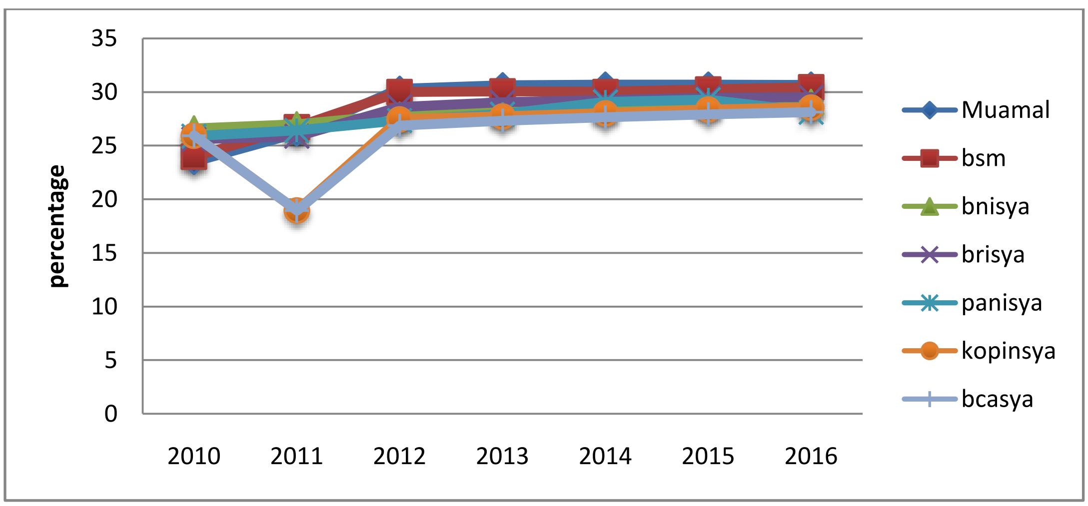

Figure 6. The Growth of profit sharing in the period 2010-2016

Figure 6, shows that the bank with the largest profit was Muamal; its profit sharing percentage was 30.69 in 2014 and 2015 while the bank with the lowest figure was BCAsya (18.95 in

2011).Significant growth in financing disbursed by Islamic banks and Islamic business units was experienced in 2016. For instance, Syariah Banking Statistics (SPS) published by the OJK showed that three best-selling Islamic financing contracts grew in May 2016. Total financing disbursed by banks and Islamic business units based on mudharabah, musyarakah and murabaha in May 2016 reached Rp. 203, 72 trillion. The most dominant contract is murabahah; its share grew to 61%, followed by musharaka 31,7% and mudharabah 7,29% (Hariyanti, 2016). Moving on to data tests, the first stage of data consisted of conducting normality testing i.e. check whether the dependent variables and the independent variables were all normally distributed. In the event, all our independent variables passed the test. The next step is to perform the multicollinearity test. This showed that for the show that for the VIF value of our five independent variables they were all smaller than 10, indicating that they were free from multicollinearity problems, i.e. there is no correlation between independent variables. Next is to perform heteroschedasticity test to determine whether the regression model had a residual similarity from one observation to another, the test revealed no heteroschedast is it as in data. A subsequent Durbin Watson test showed the value to be 2.010. The DW value was comparable to the table value with a 5% confidence degree, with a sample size of 35 with 5 independent variables. Noting that Durbin Watson table got a dl value 1.1601 and du value 1.8029, i.e. du <d <4 - du is 1.8029 <2.010 <4 - 1.8029, it could be concluded that there was no autocorrelation among the variables used in this study.

Panel Data Regression

The next step in the data processing consisted of testing whether the data were normally distributed. Common problems with the data panels are autocorrelation and heteroscedasticity. Our test results showed that the data used in this study were free of autocorrelation, although there were symptoms of heteroschedasticity. However, the panel data regression results were not found to be intruding into the process of further data processing.

A question that often arises in the studies using panel data analysis is whether the dependent variable is likely to have characteristics that are static over time while containing observations or changes over time. There are three estimation methods associated with panel data regression techniques, namely the common effect, fixed effect and random effect. The first step therefore was the estimate of the common effect, which yielded the following equation:

$$ROA_{it} = 276.422\ CAR_{it} - 1.353\ NPF_{it} + 14.719\ FDR_{it} + 4.4982\ BOPO_{it} + 14.768\ PBH_{it} \qquad (1)$$

p-value (0.000) (0.535) (0.176) (0.0010) (0.000)

$R^2 =$ 84.37%

The above estimation results indicated that profitability, operating expense operating revenue (BOPO) and profit sharing, had influenced profitability. The next step was to estimate the fixed effect. The following regression equation was determined to yield the following equation:

Fixed Effect

ROA_{it}= 2021.856 - 1.382 CAR_{it} -0.006 NPF_{it}+0.622 FDR_{it} – 0.026 $BOPO_{it}$ – 0.075 PBH_{it} (2)

p-value (0.000) (0.185) (0.899) (0.0069) (0.407) (0.093)

R^2 = 44.6%

To ascertain whether the model was using a common effect or fixed effect, the likelihood test or the Chow test was then conducted. The result showed that the probability was 0.598. This means that the common effect model was more suitable than fixed effect model. Next, random effect estimation was performed. This yielded the equation:

Random Effect

ROA_{it}= 2022.624 - 1.499 CAR_{it} -0.035 NPF_{it}+0.331 FDR_{it} – 0.025 $BOPO_{it}$ – 0.083 PBH_{it} (3)

p-value (0.0000) (0.158) (0.422) (0.134) (0.370) (0.0898)

R^2= 15.6%

The above results indicate that there were no variables significantly affecting profitability. $R^2$was just 15.6%. The next step was to conduct the Hausmann test. During the panel data analysis stage, model selection with constant and random influences could be performed using this test. This is generally considered to be the most appropriate test for determining of fixed and random effects (Ekananda, 2014). The result shows that the value of probability is 0.879.

Based on the tests described above and based on the findings, it could be concluded that the most appropriate model was that based on common effect, i.e. Eq. (1). This equation shows that CAR, BOPO as well as profit sharing affect profitability. These results are consistent with Dewi, Rina Arifati and Rita Andini (2016), and Ma'isyah (2015); CAR affects profitability.

It is also seen that FDR has no effect on profitability. This finding is in line with Sistiyarini (2016), which revealed that FDR has no effect on profitability. A higher FDR does not affect the profitability of an Islamic banks. The Islamic Bank FDR ratio is the ratio of financing provided by Islamic banks to the public. If the value of FDR in the bank increases, the amount of financing disbursed to the public also increases. When the amount of financing disbursed to the community increases, the bank will need more funds so that it can avoid an impact on bank liquidity. If the bank is experiencing liquidity problems, it can increase the Islamic bank risk. The high risk will affect the bank's ability to generate profits. In this research, there are several Islamic banks that have FDR value above 100% including Bank BRI Sharia, and Bank Panin Sharia. This indicates that the amount of financing is greater than from third party funding sources.

The test results show that the profit sharing (PBH) effects on profitability. Mudharabah financing disbursed by Islamic Commercial Bank had increased significantly between 2010 and2016. Customers got full funding from the bank to form a business, if they suffered losses, the losses were borne by the owner of the fund (shahibul mal). If the customer's business got a profit, the profit is divided according to the initial agreement. Usually 60% is given to the bank and 40% to the manager or vice versa. Revenue earned is taken to be a part of the bank's net income. Hence, profit may affect the ROA rate calculation. Musyarakah financing earns income or profits from the business according to which capital is channeled. So if large capital is distributed, the profit earned is also large. This result is in line with research by Anjani and Maulidiyah Indira Hasmarani (2015), who revealed that musyarakah financing has had a positive effect on the profitability of BPRS in Indonesia. Owing to the declining national banking condition, the development of Islamic banking in 2015 also slowed down. Although optimistic, the growth of Islamic banking in 2015 was no longer as high as in the previous years; the figures had reached relatively high double digits (even higher than conventional banking). In 2015, the growth rates of assets, loans and third party funds consisted of Islamic Banks, Islamic Business Unit (UUS) and Islamic Rural Bank (BPRS) equaled 9.00%, 7.06% and 6.37% respectively. The total assets of the national Islamic banking industry in 2015 reached ± Rp304.0 trillion, PYD of ± Rp218, 7 trillion and DPK of ± Rp236.0 trillion. Financial ratios such as NPF, ROA, BOPO, and FDR were relatively then in 2014, except that CAR's declined from 16.10% in 2014 to 15.02% by 2015 (Otoritas Jasa Keuangan, 2015).

The development of Islamic banking expected to provide the greatest benefit to society and contribute optimally to the national economy. Therefore, the direction of development of national Islamic banking always refers to other strategic plans, such as the Indonesian Banking Architecture (API), Indonesian Financial System Architecture (ASKI), and the National Medium Term Development Plan (RPJMN) and the National Long Term Development Plan (RPJPN). Thus Islamic banking development efforts are part of and activities that support the achievement of strategic plans on a larger scale at the national level (Otoritas Jasa Keuangan, 2018).

CONCLUSION

From our data regression results with common effect, it is evident that capital (CAR), operational expense operating revenue and profit sharing influence profitability. Islamic banks in Indonesia should therefore pay more attention to capital conditions, and be more cautious while managing operational costs and operating income. The amount of total financing issued should be given more attention in regulations that have been issued by OJK. Regulation on prudence are contained in POJK Number 12 / POJK.03 / 2015 dated 24 August 2015 concerning

Prudential Provisions in the Framework of the National Economic Stimulus for Islamic Commercial Banks and Islamic Business Units. These intend to encourage increased financing by Islamic banks to the public in order to foster economic growth and maintain the stability of the entire financial system.

The limitations of this study is the number of Islamic banks are relatively small, only 7 banks, when compared with the number of conventional banks which amounted to more than 50 banks. Another limitation is the measurement of profitability in this study is ROA that tends to have weaknesses, that is ROA will tend to be high because of the inflation influenced. This will lead to an increase in the selling price. Future research can use other profitability measure that is ROE as dependent variable.

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