



FACTORS AFFECTING FINANCIAL PERFORMANCE IN SHARIA BANKING IN INDONESIA

Marzuki¹, Husaini², Chairil Akhyar³

^{1,2,3}

Departement of management, Faculty of Economics and Business Universitas Malikussaleh

Correspondence E-mail : marzuki@unimal.ac.id

Abstract

This study examined the factors affecting the financial performance of Islamic Banking in Indonesia. This study used secondary data taken from 11 banks. The sampling technique used was the purposive sampling technique. The method used to analyze the relationship between the independent variable and the dependent variable is the panel data regression method. The results partially concluded that Non-Performing Financing negatively and significantly influenced Financial Performance at Islamic Banking in Indonesia. The Capital Adequacy Ratio positively and significantly influenced Financial Performance at Islamic Banking in Indonesia. And the Natural Certainty Contract positively and significantly influenced the financial performance of Islamic Banking in Indonesia. Simultaneously, Non-Performing Financing, Capital Adequacy Ratio, and Natural Certainty Contract positively and significantly influenced the financial performance of Islamic Banking in Indonesia.

Keywords : *Non-Performing Financing, Capital Adequacy Ratio, Natural Certainty Contract, Financial Performance.*

1. INTRODUCTION

Banks are financial institutions that provide financial services to the public. Sharia Bank is a bank that carries out business activities based on sharia principles, or Islamic legal principles regulated in the fatwa of the Indonesian Ulema Council such as the principles of justice and balance ('adl wa tawazun), benefit (maslahah), universalism (natural), and does not contain gharar, maysir, usury, unjust and unlawful objects. In order to maintain the business continuity of Islamic banks, Islamic banks are required to have good financial performance. The company's financial performance can be reflected through financial ratios. The financial ratios used as a performance measurement tool in this study are profitability. Profitability is the ability of a business entity to use its funds to earn a profit (Munawir 2015). Profitability according to Riyanto (2014) is the company's ability to generate profits during a certain period. Based on data obtained from the Financial Services Authority (2021), it shows that profit-sharing financing for Islamic banking has decreased in 2020, namely Rp. 90,423 billion compared to 2019 of Rp. 92,151 Billion. The decrease in the amount of profit-sharing financing was due to an increase in the ratio of non-performing financing in Islamic banks. The increasing number of non-performing financing has become one of the biggest obstacles and problems for Islamic banks in an effort to increase their banking profitability. Increasing non-performing financing will cause losses to banks and in the end will reduce bank profitability which will have an impact on decreasing financial performance.

Supriyanto (2018) as the President Director of PT. Infoarta Pratama (Infobank) stated that the current development of Islamic banking is still far from expectations. In fact, the financial performance of Islamic banks is not as good as conventional banks. So far, the desire to achieve market share above 5% has been fulfilled. Not because of organic growth, but because of the conversion of Bank BPD Aceh to Bank Aceh Syariah and soon Bank NTB. Currently, the market share of Islamic banking has reached 8.26%. Since 2012, the performance of the Islamic banking industry has not improved. This can be seen from the decline in return on assets (ROA) of the Islamic banking industry. ROA of Islamic Commercial Banks remained at 2.14% in 2012, then decreased the following year and continued to decline until it reached its peak in 2014, with an

ROA of 0.79%. The return on assets of the Islamic banking industry in 2017 was 1.17%. In terms of quality, Islamic banking has not improved. Problem financing is still a problem in Islamic banks (Supriyanto, 2018).

Based on the data above, it indicates that the ability of Islamic banks to generate profits is still low, indicating that the performance of Islamic banks is still low, on the other hand, it also shows that non-performing financing is still high. One of the frequently used profitability ratios is return on assets. According to Wiagustini (2010), profitability shows the company's ability to earn a profit or a measure of the effectiveness of the company's management. The ability to earn a profit can be measured from its own capital or from all funds invested in the company. Bank's financial performance is influenced by several factors such as non-performing financing (NPF), capital adequacy ratio (CAR) and natural certainty contract (NCC) financing. One of the factors thought to affect financial performance is non-performing financing (NPF). According to Lubis and Dillak (2017) non-performing financing (NPF) shows the ability of bank management to manage non-performing financing provided by banks. A high NPF ratio indicates that the bank's profitability is at a low level. The higher the NPF ratio, the worse the quality of financing which causes the number of non-performing financing to be greater so that it can cause the possibility of a bank in a problematic condition to increase.

Another factor related to the bank's financial performance is the level of capital adequacy ratio (CAR). Capital adequacy ratio (CAR) is an assessment of the capital aspect of a bank to determine the adequacy of bank capital in supporting bank activities efficiently. The better condition of the bank will cause the company's performance to also increase. According to Ratnawati, et al (2011) capital adequacy ratio (CAR) is a financial ratio related to banking capital where the amount of capital of a bank will affect whether or not a bank is able to efficiently carry out its activities. In addition to the two factors above, the financial performance of banks is also influenced by financing with the principle of buying and selling which is called a natural certainty contract. According to Alfie and Khanifah (2018), Natural Certainty Contracts are contracts that determine with certainty the nominal value of the profits at the beginning of the contract agreement, which means providing certainty of returns or results. Natural Certainty Contracts base their financing on the principle of buying and selling and the principle of lease. The higher the financing of buying and selling, the higher the profitability because the bank's income will increase (Rivai, 2011). The results of research by Amalia (2016) and Alfie and Khanifah (2018) prove that Natural Certainty Contract financing (Murabahah, Istishna, and Ijarah) has a positive and significant effect on profitability.

2. LITERATURE REVIEW AND HYPOTHESES

Financial performance

According to Rudianto (2013) financial performance is the result or achievement that has been achieved by the company's management in carrying out its function of managing company assets effectively during a certain period. The performance of a company can be seen through the company's financial statements. From these financial statements, it can be seen the financial condition and the results that have been achieved by the company during a certain period. The financial performance used in this study is the profitability ratio proxied by return on assets (ROA). Return on assets (ROA) is a measurement of the company's overall ability to generate profits with the total amount of assets available in the company. A high return on assets (ROA) value will indicate that the company is able to generate profits compared to relatively high assets. Investors will like companies with high Return On Asset (ROA) values, because companies with high Return On Assets (ROA) are able to generate higher levels of profit than companies with low Return On Assets (ROA). Based on the Circular Letter of Bank Indonesia No.9/24/DPbS of 2007 Return On Assets can be measured by the following formula:



$$ROA = \frac{\text{Sisa Hasil Usaha}}{\text{Total Asset}} \times 100\%$$

Non-Performing Financing

Non Performing Financing (NPF) as one of the measurements of the bank's business risk ratio which shows the magnitude of the risk of non-performing financing that exists in a bank. According to Kasmir (2016), Financing Risk is the risk faced by banks because they channel their funds in the form of loans to the public. There are various reasons, making the debtor may not fulfill his obligations to the bank such as payment of loan principal.

Capital Adequacy Ratio

The Capital Adequacy ratio describes the ability of Islamic banks to meet their capital adequacy, in this case the CAR interest payments and others. The non-fulfillment of the customer's obligations to the bank causes losses by not receiving the previously anticipated receipts. %. The results of research by Syachreza and Gusliana (2019), and Suwarno (2018), conclude that non-performing financing has a negative effect on financial performance. According to Info Bank 2020, NPF is measured by the comparison between non-performing financing and total loans.

$$NPF = \frac{\text{Pembiayaan Bermasalah}}{\text{Total Pembiayaan}} \times 100\%$$

shows how a bank is able to finance its activities with the capital it has. According to Kasmir, (2018), the Capital Adequacy ratio is a financial ratio to measure the capital owned by the company. Meanwhile, according to Manullang (2014), the Capital Adequacy ratio measures the extent to which a bank's capital capacity anticipates a decline in assets. Capital Adequacy ratio is associated with the level of bank risk. Capital Adequacy ratio is measured from the ratio between own capital (core capital + supplementary capital) to risk-weighted assets (RWA).

The results of research conducted by Lubis and Dillak (2017), Putrianingsih and Yulianto, (2019), Suwarno and Muthohar (2018), conclude that the capital adequacy ratio (CAR) has a negative effect on profitability. Meanwhile, Munir (2018), states that the capital adequacy ratio has no significant effect on bank profitability.

According to (Bank Indonesia Circular No. 9/24/DPbS 2007) the CAR is formulated as follows:

$$CAR = \frac{\text{Modal Sendiri (modal inti + modal pelengkap)}}{ATMR} \times 100\%$$

Natural Certainty Contract

According to Alfie and Kanifah (2018), the Natural Certainty Countract bases financing on the principle of buying and selling and the principle of lease. Financing with the principle of buying and selling consists of murabahah, salam, and istishna'. Financing based on the principle of lease consists of ijarah based on the transfer of benefits. According to Arifin (2005) Natural Certainty Countract is a loan principle in order to fulfill financing needs. According to Alfie and Khanifah (2018) Natural Certainty Countract is financing with the principle of buying and selling. Included in the Natural Certainty Contract (NCC) financing are buying and selling murabahah, buying and selling Salam, buying and selling Istishna and Ijarah.

The results of research by Amalia (2016) and Alfie and Khanifah (2018) prove that Natural Certainty Countract financing (Murabahah, Istishna, and Ijarah) has a positive and significant effect on profitability. According to Alfie and Khanifah (2018), natural certainty contracts are measured by the formula:

NCC = Murabaha income + sale and purchase Salam + buying and selling Istishna + Ijarah

conceptual framework

Based on the explanation above, it can be described a conceptual framework as shown below:

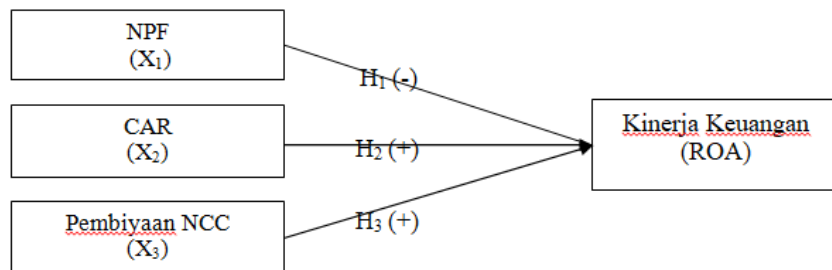


Image 1: Conceptual Framework

Based on the conceptual framework above, it shows that this study uses two tests, namely looking at the effect of the NPF, CAR and NCC financing variables on financial performance, namely the t test. The t test is used to see the effect individually or individually, while the F test is used to see the overall effect.

Hypotheses

Based on the theory and previous research as well as the conceptual framework above, the hypotheses in this study are:

H1 : NPF has an effect on financial performance (ROA) in Islamic banking in Indonesia.

H2: CAR has an effect on financial performance (ROA) in Islamic banking in Indonesia.

H3 : NCC financing has an effect on financial performance (ROA) in Islamic banking in Indonesia.

H4 : NPF, CAR and NCC financing have a simultaneous effect on financial performance (ROA) in Islamic banking in Indonesia.

3. IMPLEMENTATION METHOD**Research Objects and Locations**

The location in this study was conducted in Islamic Banking in Indonesia. The object of this research is the ratio of NPF, CAR, NCC Financing and Financial Performance as measured by ROA, financial report data obtained by accessing www.ojk.co.id and the respective websites of Islamic banking.

Population and Sample

The population in this study were all Islamic banking from 2016 to 2020, which amounted to 14 banks. The samples selected in this study were 11 banks.

Data collection technique

Data collection techniques in this research is to use the method of documentation and literature study. The data collection technique produced is in the form of documentation of the 2016 to 2020 financial statements obtained from www.ojk.go.id. The type of data in this study is secondary data taken by the documentation method.



Data analysis method

Panel data regression analysis model focuses on analysis with a combination of time series and cross section data, which are popularly known as pooled time series. Data analysis was carried out using software reviews 10. The data analysis model is as follows:

$$ROA_{it} = \alpha + \beta_1 NPF_{it} + \beta_2 CAR_{it} + \beta_3 NCC_{it} + e_{it}$$

Where :

Y : Financial Performance

A : Constant

b : Regression coefficient

X1 : NPF

X2 : CAR

X3 : NCC Financing

Classic assumption test

The tests include normality test, multicollinearity test, heteroscedasticity test and autocorrelation test.

Panel Data Estimation Model

In determining the estimation model using panel data, it can be done through three approaches, namely Common Effect Model (CEM), Fixed Effect Model (FEM) and Random Effect Model (REM).

Model Selection Technique

To analyze the panel data, it is necessary to test the right model specifications to describe the data. The tests used are the Chow Test and Hausman Test and the Lagrange Multiplier (LM) Test.

Hypothesis test

Hypothesis testing used in this research is partial test (t test) and simultaneously (F test).

4. RESULTS AND DISCUSSION

Descriptive statistics

Based on the variables used in this study, namely Non Performing Financing (NPF), Capital Adequacy Ratio (CAR), and Natural Certainty Contracts (NCC) as well as financial performance, it can be explained several banks with minimum, maximum, and average values of each. each variable. The descriptive statistics are as follows:

	NPF	CAR	NCC	KK
Mean	2.580682	48.97568	20.90295	7.074318
Maximum	10.70000	130.1500	34.44000	39.72000
Minimum	0.050000	2.220000	0.110000	0.010000
Std. Dev.	2.247278	35.40998	8.390577	8.342478
Observations	44	44	44	44

Based on Table 1 descriptive statistics above, it can be seen that the average NPF value in Islamic Banking is 2.58% and the standard deviation is 4.54%, where the standard deviation value is greater than the average value. This shows that the fluctuation of the NPF variable has a data distribution that is not good. The lowest NPF value is 0.05% and the highest value is 10.70%. The average value of CAR in Islamic Banking is 48.97% and a standard deviation of 35.40%, where the standard deviation value is smaller than the average value. This shows that fluctuations in the CAR

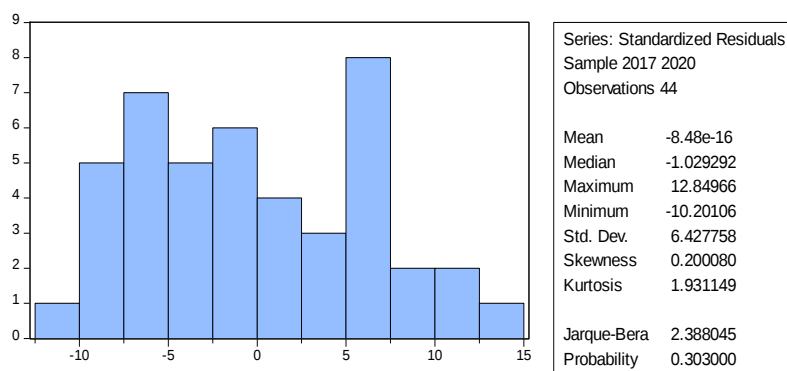
variable have a good spread of data. The lowest CAR value is 2.22% and the highest value is 130.15%.

The average value of NCC in Islamic Banking is 20.90% and the standard deviation is 8.39%, where the standard deviation value is smaller than the average value. This shows that the fluctuation of the NCC variable has a good spread of data. The lowest NCC value is 0.11% and the highest value is 34.44%. The average value of financial performance in Islamic banking is 7.07% and the standard deviation is 7.76%, where the standard deviation value is greater than the average value. This shows that the fluctuations in the financial performance variable have poor data distribution. The lowest value of financial performance is 0.01% and the highest value is 39.72 %.

Classic assumption test

Normality test

The following are the results of the normality test obtained from the Eviews 9 program which can be seen in the following figure:



Source: Results of Eviews, processed data (2022)

Figure 2 Normality Test Results

Based on the picture above, it can be seen that the Jarque Bera value is 2.38 with a probability value of 0.303. The Chi Square table value in this study by calculating $df = 3$ at a significance level of 5% produces a figure of 7.81. Therefore, the Jarque Bera value is smaller than the Chi Square table value ($2.38 < 7.81$) and the probability value is above 0.05, which is 0.303 so it can be concluded that the data in this study are normally distributed.

Multicollinearity Test

Multicollinearity test results can be seen in Table 2 below:

Correlation				
t-Statistic				
Probability	KK	NPF	CAR	NCC
KK	1.000000			

NPF	-0.493757	1.000000		
	-3.679756	----		
	0.0007	----		

CAR	0.475412	-0.226556	1.000000	
	3.502101	-1.507445	----	
	0.0011	0.1392	----	
NCC	0.493581	-0.320234	0.383684	1.000000
	3.678016	-2.190723	2.692638	----
	0.0007	0.0341	0.0101	----

Source: Eviews results, 2022

The results of the multicollinearity test can be seen based on the correlation test. The table above shows that this model is free from the problem of multicollinearity correlation below 0.8. NPF has a correlation of $0.4 < 0.8$, CAR has a correlation of $0.4 < 0.8$ and NCC has a correlation of $0.4 < 0.8$.

Autocorrelation Test

Based on the results of the output eviews, it shows that the Durbin Watson value is 1.545, because the dw value is between -2 to +2, in this study it is concluded that there are no interfering errors between time series.

Heteroscedasticity Test

The results of the heteroscedasticity test can be seen in Table 3 below:

Table 3 Heteroscedasticity Test Results

F-statistic 0.874905 Prob. F(3,50) 0.4604
Obs*R-squared 2.693310 Prob. Chi-Square(3) 0.4414

F-statistic	0.874905	Prob. F(3,50)	0.4604
Obs*R-squared	2.693310	Prob. Chi-Square(3)	0.4414

Source: Data processed, (2021)

From the results of Table 3 above, it shows that in this study there was no interference error between one observation and another observation. This can be seen from the results of statistical testing using the White test, which is to compare the values of obs* R-square and 2 tables. The estimation result of the white test is 2.69 and the value of 2 table with a degree of confidence of 5% and df (3) is 7.81 because the value of Obs*R-squared is $2.69 < 7.81$, it can be concluded that the above model passes heteroscedasticity. . This can be seen from the Chi-Squared probability of 0.441 which is greater than 0.05.

Panel Data Model Selection

The Chow test is a test that compares the CEM model and the FEM model. The chow test table in this study is as follows:

Table 4 Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	12.802207	(10,30)	0.0000
Cross-section Chi-square	73.107642	10	0.0000

Source: Processed Data (2022)

Based on Table 4 above, it shows that the probability value of the Chi Square row in the Chow test is 0.0000. This value is below 0.05. If the probability value of chi square is less than 0.05, then the best model is the fixed effect model. Based on the Chow test, the best model in this study is the Fixed Effect Model (FEM) so it is necessary to test to see between the Fixed Effect Model (FEM) and the Random Effect Model. The test that can be done to compare the Fixed Effect Model (FEM) and the Random Effect Model is the Hausman test. The results of the Hausman test in this study are as follows:

Based on Table 4 above, it shows that the probability value of the Chi Square row in the Chow test is 0.0000. This value is below 0.05. If the probability value of chi square is less than 0.05, then the best model is the fixed effect model. Based on the Chow test, the best model in this study is the Fixed Effect Model (FEM) so it is necessary to test to see between the Fixed Effect Model (FEM) and the Random Effect Model. The test that can be done to compare the Fixed Effect Model (FEM) and the Random Effect Model is the Hausman test. The results of the Hausman test in this study are as follows:

Table 5 Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.404959	3	0.3333

Source: Processed Data (2022)

Based on Table 5 above, it can be seen that the probability value is 0.333. This value is above significant 0.05. Based on the Hausman test, the best model in this study is the Random Effect Model (REM). So this research uses the Random Effect Model.

Random Effect Model Results

Based on the model selection in this study, the selected model is the Random Effect Model. The results of the Random Effect Model panel data regression are as follows:

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.799956	4.602123	-0.825696	0.4139
NPF	-0.446946	0.162565	-2.749338	0.0089
CAR	0.047100	0.017902	2.631029	0.0120
NCC	0.449792	0.203111	2.214509	0.0326
R-squared	0.437043			
Adjusted R-squared	0.394821			
F-statistic	10.35114			
Prob(F-statistic)	0.000036			
Durbin-Watson stat	1.545434			

Source: Eviews results, 2022

Based on Table 6 above, the regression equations that can be arranged in this study are as follows:

$$Y = -3.79 - 0.45 \text{ NPF} + 0.04 \text{ CAR} + 0.45 \text{ NCC} + e$$

Based on the above equation, it can be explained that:

1. A constant of -3.79 means that if the NPF, CAR and NCC are considered constant (value 0), then the financial performance has a fixed value of -3.79.
2. Non-performing financing regression coefficient value of 0.45 indicates a positive relationship (unidirectional) which means that every 1% increase in non-performing financing causes financial performance to decrease by 0.45%.



3. The regression coefficient value of the capital adequacy ratio of 0.04 indicates a positive relationship (unidirectional) which means that every 1% increase in the capital adequacy ratio causes financial performance to increase by 0.04%.
4. The value of the natural certainty contract regression coefficient of 0.45 indicates a positive relationship (unidirectional) which means that every 1% increase in natural certainty contract causes financial performance to increase by 0.45%.

Hypothesis test

The results of hypothesis testing in this study are as follows:

1. Partially non-performing financing has a negative and significant effect on financial performance in Islamic banking in Indonesia. This shows that statistically the value of t count $< t$ table is $2.749 < 1.683$ and the significant value is $0.008 < 0.05$. (H1 hypothesis is accepted)
2. Partially, the capital adequacy ratio has a positive and significant effect on financial performance in Islamic banking in Indonesia. This shows that statistically the value of t arithmetic $> t$ table is $2.631 > 1.683$ and the significant value is $0.01 < 0.05$. (H2 hypothesis is accepted)
3. Partially, natural certainty contracts have a positive and significant impact on financial performance in Islamic banking in Indonesia. This shows that statistically the value of t count $> t$ table is $2.214 > 1.683$ and the significant value is $0.03 < 0.05$. (H3 hypothesis is accepted)
4. Simultaneously NPF, CAR and NCC have a positive and significant effect on financial performance in Islamic banking in Indonesia. This shows that statistically the calculated F value $> F$ table is $10.351 > 2.342$ and the significant value is $0.00 < 0.05$. (H4 hypothesis is accepted)
5. The coefficient of determination with panel data regression seen from the R-Squared is 0.4370 or 43.70%. These results indicate that the magnitude of the effect of the variables NPF, CAR and NCC on financial performance is 43.70%, while that which is influenced by other variables outside this model is 56.30.

5. DISCUSSION

The Effect of Non-Performing Financing on Financial Performance in Islamic Banking in Indonesia

Based on the results of the study indicate that Non-Performing Financing has a negative and significant effect on financial performance. The higher the NPF ratio, the worse the quality of financing which causes the number of non-performing financing to be greater so that it can cause the possibility of a bank in a problematic condition to increase. Non-performing Financing (NPF) greatly affects bank performance, especially asset quality. Non Performing Financing (NPF) is non-performing financing consisting of financing that is classified as substandard, doubtful and loss. So that the greater the Non Performing Financing (NPF), will result in a decrease in Return On Assets (ROA), which also means the bank's financial performance will decline due to the greater financing risk. The higher Non-performing Financing (NPF) indicates the amount of non-performing financing that occurs in banks so that it will have an impact on the lower Return On assets that can be obtained by a bank. The results of the study are in line with the research of Syachreza and Gusliana (2019), and Suwarno (2018), concluding that Non-Performing Financing has a negative effect on financial performance.

The Effect of Capital Adequacy Ratio on Financial Performance in Islamic Banking in Indonesia

Based on the results of the study indicate that the Capital Adequacy Ratio has a positive effect on financial performance. Capital Adequacy Ratio (CAR) is an assessment of the capital aspect of a bank to determine the adequacy of bank capital in supporting bank activities efficiently.

The better condition of the bank will cause the company's performance to also increase. According to Ratnawati, et al. (2011) Capital Adequacy Ratio (CAR) is a financial ratio related to banking capital where the amount of a bank's capital will affect whether or not a bank is able to efficiently carry out its activities. The results of the study are in line with research conducted by Rhomdoni (2018), concluding that the capital adequacy ratio has a significant positive effect on the performance of Islamic banks.

The Effect of Natural Certainty Contracts on Financial Performance in Shariah Banking in Indonesia

Based on the results of the study, it was shown that the Natural Certainty Contract had a positive effect on financial performance. Natural Certainty Contract is a contract that determines with certainty the nominal value of the profit at the beginning of the contract agreement, which means it provides certainty of return or results. Natural Certainty Contracts base their financing on the principle of buying and selling and the principle of lease. The higher the financing of buying and selling, the higher the profitability because the bank's income will increase (Rivai, 2011). The results of the study are in line with the research of Amalia (2016) and Alfie and Khanifah (2018) which prove that the Natural Certainty Contract financing (Murabahah, Istishna, and Ijarah) has a positive and significant effect on profitability.

6. CONCLUSION

The results of the study indicate that the three regression coefficients are positive and significant to the dependent variable. From the regression model, it can be further explained as follows:

1. Non-Performing Financing has a negative and significant effect on Financial Performance in Islamic Banking in Indonesia.
2. Capital Adequacy ratio has a positive and significant effect on Financial Performance in Islamic Banking in Indonesia.
3. Natural certainty contracts have a positive and significant impact on Financial Performance in Islamic Banking in Indonesia.
4. Non-Performing Financing, Capital Adequacy Ratio and Natural Certainty Contract have a positive and significant impact on Financial Performance in Islamic Banking in Indonesia.

Suggestion

The suggestions that can be given in this research are:

1. For further research, it is expected to add another variable, namely working capital turnover and expand research on other Sharia business units.
2. For students of the Management Study Program, they can add insight, knowledge and can improve abilities in the banking sector regarding factors that will affect banking financial performance.

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