

Effect of Risk Based Bank Rating on Financial Performance of Sharia Commercial Banks

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Abstract

Risk Based Bank Rating (RBBR) is one of the assessments of the new health level of the bank in lieu of CAMELS in accordance in Bank Indonesia Regulation No. 13/1/PBI/ 2011. This study aims to examine the effect of Risk-Based Bank Ratings (Risk Profile, Good Corporate Governance, Earning and Capital) on Financial Performance (ROA). The method used is descriptive statistics, determination of regression models, classic assumption tests, multiple linear regression methods and hypothesis testing. The type of data in this study uses panel data. Based on the results of the study indicate that the ratio of NPF, GCG and CAR does not significantly influence ROA. While the ratio of FDR, BOPO and NOM has a significant effect on ROA.

Keywords: risk profile, good corporate governance, income, capital

Abstrak

RBBR adalah salah satu penilaian tingkat kesehatan baru bank sebagai pengganti CAMELS sesuai dengan Peraturan Bank Indonesia No. 13/1/PBI/2011. Penelitian ini bertujuan untuk menguji pengaruh Peringkat Bank Berbasis Risiko (Profil Risiko), Tata Kelola Perusahaan yang Baik, Penghasilan dan Modal) tentang Kinerja Keuangan (ROA). Metode yang digunakan adalah statistik deskriptif, penentuan model regresi, uji asumsi klasik, metode regresi linier berganda dan pengujian hipotesis. Jenis data dalam penelitian ini menggunakan data panel. Berdasarkan hasil penelitian menunjukkan bahwa rasio NPF, GCG dan CAR tidak berpengaruh signifikan terhadap ROA. Sedangkan rasio FDR, BOPO dan NOM memiliki pengaruh yang signifikan terhadap ROA.

Kata Kunci: profil risiko, tata kelola perusahaan yang baik, pendapatan, modal

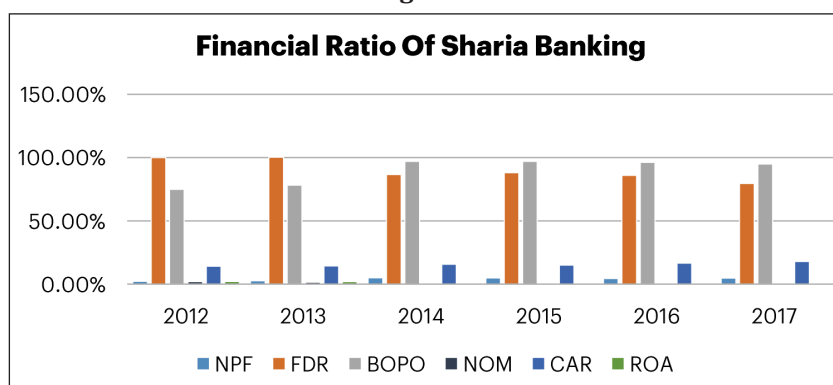
INTRODUCTION

In today's modern world, the role of banks in advancing the economy of a country is enormous. Based on experience in the event of the global financial crisis, the need to increase the effectiveness of the application of Risk Management and Good Corporate Governance (GCG) needs to be able to identify problems early, carry out appropriate and fast corrective actions and banks are more resilient in facing financial crises. In connection with this matter, Bank Indonesia refined the method for assessing the soundness of commercial banks, namely by using the Risk Based Bank Rating (RBBR) risk approach both individually and on a consolidated basis, which included evaluating GCG factors (Hamdani, 2016).

The Risk Based Bank Rating (RBBR) method emerged from the background of global financial reform as a member of the G-20 to improve the supervision framework based on risk and assess the bank's soundness by increasing awareness of existing risk management (Dira, 2014). Assessment of bank soundness stated in Bank Indonesia Regulation No. 13/1/PBI/2011 as stipulated in Circular Letter No. 13/24/DPNP dated October 25, 2011 Bank Indonesia implemented an assessment of Bank Soundness using a risk approach (Risk Based Bank Rating / RBBR) both individually and on a consolidated basis which included an assessment of four factors, namely Risk Profile, Good Corporate Governance (GCG), Earnings, and Capital. This method is effective from January 1, 2012, namely assessing the Bank's Soundness at the end of December 2011 and on the effective date and revoking SE BI No. 6/23/DPNP dated 31 May 2004 concerning the Soundness Rating System of Commercial Banks using the CAMELS method (Sari 2016).

Measurement of financial performance can be done using financial statements as a basis for determining the measurement of financial performance (Sujarwani, 2017). The ratio used to measure and compare banking financial performance is Return On Equity (ROE) and Return On Assets (ROA) (Suhardjono, 2012). Both can be used to measure the amount of financial performance in the banking industry, but generally Return On Equity (ROE) only measures returns obtained from investment of the owner of the company (Siamat, 2007). While, Return On Assets (ROA) is to measure effectiveness in generate profits to utilize the total assets of the company. The greater the Return On Assets (ROA) of a bank, the greater the level of profit achieved by the bank and the better financial position in terms of assets (Martono, 2004). The ROA conditions in Sharia Commercial Banks obtained from Islamic Banking Statistics, ROA decreased and continued to decline until its peak in 2014 and increased again in 2015-2017 as the quality of Islamic banking has not improved and governance in Islamic banks still has to be improved. In this factor the financial ratios used for Risk Based Bank Rating, namely the ratio of NPF, FDR, Good Corporate Governance, NOM, BOPO, CAR and ROA as the dependent variable.

Figure 1



Source: Financial Services Authority (2018)

Figure 1 shows that financial ratios from year to year have changed. In 2012 and 2013 the ratio of Return on Assets (ROA) was in good condition at 2.14% and 2.00% while in 2014 the ROA ratio was in an unfavorable condition as much as 0.41% due to high non-performing financing so banks in obtaining profits declined from the asset side and increased again in 2015-2017. In 2012 and 2013 Non Performing Financing (NPF) was in very good condition at 2.22% and 2.62% while in 2014-2017 it was in good condition but needed better supervision for the following year if the amount of financing was problematic the bigger it shows that the level of risk financing at the bank is quite high, the bank is in a condition of financing problems. In 2012 and 2013 financing to Deposits Ratio (FDR) was in an unfavorable condition as 100.00% and 100.32% while in 2014-2017 the FDR was in good condition that was able to meet liquidity and profit Sharia banks would also increase.

In 2012-2013 the Operational Cost Ratio to Operational Income (BOPO) was in good condition at 74.94% and 78.21% while in 2014-2017 it was in an unfavorable condition, this indicates the amount of operational costs incurred bank so that it is not balanced with the bank's operating income. In 2012 and 2013 the ratio of Net Operating Margin (NOM) was in good condition at 2.04% and 1.49% while in 2014-2017 the NOM ratio was in an unfavorable condition so that the possibility of the bank in a troubled condition due to the large distribution financing to customers. In 2012-2017 the Capital Adequacy Ratio (CAR) ratio was in good condition and continued to increase so that the stronger the bank in bearing the risk of any risky financing.

The Indonesian Banking Development Institute (LPPI) conducted a survey related to the practice of good corporate governance in the banking industry, indicating that the implementation of GCG in the banking sector began to deteriorate when the proliferation of funds broke out or the practice of fraud that had occurred in banks. The challenge of GCG practices would be even greater when the banking industry begins to adopt digital technology in each of its products and services. This is due to the fact that during the 2011-2015 the banking industry did face a problem that was not mild due to the rampant practice of fraud that undermined several commercial banks. In LPPI research, banks are required to fill GCG assessments with self-assessment methods on 11 aspects that have

been determined by the financial authority. Based on the above phenomena, it can be concluded that not every empirical event is in accordance with existing theories.

Financial performance is an analysis conducted to see the extent to which a company has implemented it using the rules of financial implementation properly and correctly. Such as by making a financial report that meets the standards and conditions in SAK (Financial Accounting Standards) or GAAP (General Accepted Accounting Principle) and others (Fahmi, 2014) One ratio that is often used in measuring company performance is Return On Assets (ROA).

The evaluation of the factors of Good Corporate Governance for Sharia Commercial Banks is an evaluation of the quality of bank management for the implementation of five principles of Good Corporate Governance, namely transparency, accountability, accountability, professionalism and fairness (Umam, 2016). Improving system control, internal control becomes a very important role for the quality of financial reporting on the principles of good governance (Afiah & Azwari, 2015).

Rentability is the ability of Islamic banks to generate profits each period (Ikit, 2018). Assessment is carried out by considering aspects of level, trend, structure, and stability by considering the performance of peer groups and management of bank earnings, both through quantitative and qualitative aspects analysis. One of the ratios used to measure earnings is Income Operating Costs Operational (BOPO) and Net Operating Margin (NOM).

Capital is an analysis used to measure the obligation to provide minimum capital of the bank and to fulfill long-term obligations or the ability of banks to fulfill obligations in the event of liquidity. In addition, in assessing capital adequacy, the Bank must also link capital adequacy with bank risk profiles. Anwar & Murwaningsari (2017), and Olaruntoba et al (2018) show that CAR has a positive impact on profitability.

In addition, including the most important thing in determining the bank's risk profile is the level of non-performing financing. Some of the research finds the relationship between NPF and ROA. Almunawwaroh & Marliana (2018), Pravasanti (2018), and Rachmat & Komariah (2017) show a negative impact of NPF to ROA. But, some of the research shows that NPF does not have an impact between NPF to ROA (Wibisono, 2017). This is different from the research of Yundi & Sudarsono (2018) showing that NPF has a positive influence on ROA.

Besides that, Hakim & Rafsanjanji (2016) shows that FDR does not have an effect on profitability (ROA). Pratiwi (2016) showed that GCG had a significant negative effect on ROA. But, Kumalasari and Pratikto (2018) show that GCG does not have an impact on ROA. Another important thing that affects the level of profitability is the level of efficiency. The level of efficiency in this case uses the BOPO ratio. Iskandar & Laila (2016) show that BOPO had an impact on ROA. There are some differences in results when looking at the effect of NOM on ROA. Ninggarwati (2015) show that NOM has a positive effect on ROA. Whereas Octaviani (2016) show that NOM has a negative effect on ROA.

This is reinforced by the existence of the research gap in previous studies. The previous researches show a different effect of the Risk Based Bank Rating financial ratio

variable. The aim of this research is to examine the effect of risk based bank rating on the profitability in Islamic commercial banks.

METHOD

The form of research used is causal associative research with a quantitative approach. The data sources used in this study are secondary data in the form of financial statements from Islamic Commercial Banks for the period 2012-2017 obtained through annual reports published by Bank Indonesia (BI), the Financial Services Authority (OJK) and through the website of Islamic commercial banks. When collecting, the type of data in this study uses panel data (a combination of two time series data and cross section data) taken in the 2012-2017 period. The population used in this study is all Islamic Commercial Banks registered at the Bank Indonesia Directory for the period 2012-2017, which is 14 Islamic Banks. The sample selection in this study uses purposive sampling method; the Sharia Commercial Banks sampled in the study are Bank Syariah Bukopin, Bank Mega Syariah, Bank Syariah Mandiri, BCA Syariah Bank, Bank BNI Syariah and BRI Syariah Bank. In conducting data analysis in this study, there are several forms of tests used, determination of regression models, classic assumption tests, multiple linear regression methods or ordinary least square and hypothesis testing.

This research using panel data regression. The equation from this research as follow:
$$ROA_{it} = \alpha + \beta_1 NPF_{it} + \beta_2 FDR_{it} + \beta_3 GCG_{it} + \beta_4 BOPO_{it} + \beta_5 NOM_{it} + \beta_6 CAR_{it} + \varepsilon_{it}$$

RESULT AND DISCUSSION

Chow Test show that the probability Chi-Square value is 0,000 <0,05, then H0 is rejected and Ha is accepted. It can conclude that the regression model chosen is the fixed effect model. Hausman Test show that the probability value is 0,000 <0,05, then H0 is rejected and Ha is accepted. It can conclude that the regression model chosen is the fixed effect model.

Normality shows that residual data is normally distributed. This is indicated by the Jarque-Bera value of 2.098 > 0.05 so it can be concluded that the residuals are normally distributed, which means that the classical assumptions about the normality test have been fulfilled. Multicollinearity test shows that the independent variable has an independent variable correlation above 0.90 so that it can be said that in this study free from multicorrelity test data. Auto-correlation Test shows that the Durbin-Watson chart shows that the value of dL = 1.291 and the value of dU = 1.822 so that the criteria for whether or not autocorrelation can be determined. The calculated DW value is 1.872 greater than 1.822 and smaller than 2.709, which means it is in the area with no autocorrelation. Heterocedasticity test show that the significant level of the independent variables NPF, FDR, GCG, BOPO, NOM and CAR is above 0.05. This shows that the regression model in this study did not occur heterocedasticity.

Table 1. Ordinary Least Square Result

Variabel	Koefisien	Std. Error	t-Stat
C	6.416004	3.059881	2.096815
NPF	-0.388210	0.273365	-1.420116
FDR	0.035254	0.025244	1.936519
GCG	0.470348	0.573212	0.820548
BOPO	-0.057268	0.012090	-4.736658
NOM	0.082182	0.421570	1.914943
CAR	0.032369	0.049679	1.551560
R-squared	0.670217	F-statistic	5.315242
Adjusted R-squared	0.544124	Prob	0.000044

Based on the estimation results on the model, the probability value is obtained are: First, constant value of 6.416 shows that if the independent variable is Non Performing Financing (NPF), Financing to Deposit Ratio (FDR), Good Corporate Governance (GCG), Operating Costs to Operating Income (BOPO), Net Operating Margin (NOM) and Capital Adequacy Ratio (CAR) value is 0, then the Return On Assets (ROA) value is 6.416. Second, the regression coefficient of Non Performing Financing (NPF) ratio of - 0.388 shows that every increase in the ratio of Non Performing Financing (NPF) to 1%, the Return On Assets (ROA) will decrease by 0.388. Third, the regression coefficient of Financing to Deposit Ratio (FDR) of 0.035 indicates that each increase in the Financing to Deposit Ratio (FDR) ratio of 1% will increase Return on Assets (ROA) by 0.035. Fourth, regression coefficient of Good Corporate Governance (GCG) ratio of 0.470 shows that every increase in the ratio of Good Corporate Governance (GCG) 1% then Return On Assets (ROA) will increase by 0.470. Fifth, the regression coefficient of the Operational Cost to Operational Revenue (BOPO) ratio of -0.057 indicates that each increase in the ratio of Operational Costs to Operational Income (BOPO) is 1%; the Return on Assets (ROA) will decrease by 0.057. Sixth, the regression coefficient of Net Operating Margin (NOM) ratio of 0.082 indicates that every increase in the ratio of Net Operating Margin (NOM) to 1%, the Return On Assets (ROA) will increase by 0.082. Seventh, the regression coefficient of Capital Adequacy Ratio (CAR) regression coefficient of 0.032 indicates that every increase in the Capital Adequacy Ratio (CAR) ratio of 1%, the Return On Assets (ROA) will increase by 0.032

Determinant Coefficient Test (R^2) obtained R^2 of 0.5441. This result means that the variable of ROA approximately 54.41% is influenced by the independent variables such as non performing financing (NPF), financing to deposit ratio (FDR), good corporate governance (GCG), operating costs on operating income (BOPO), net operating margin (NOM), and Capital Adequacy Ratio (CAR). The remaining 45.59% is influenced by other factors outside the variable model.

The F-Statistic test based on the estimation results on the model shows the F-Statistic value of 14.431 and the probability of 0.00. Probability of $0.00 < \alpha = 5\%$. So that it can be

seen that F -Statistics 5, 315 > F table 2.44 then H_0 is rejected H_a accepted which means there is a significant influence between Non Performing Financing (NPF), Financing to Deposit Ratio (FDR), Good Corporate Governance (GCG), Operational Costs to Operating Income (BOPO), Net Operating Margin (NOM) and Capital Adequacy Ratio (CAR) together to the variable Return On Assets (ROA).

Based on the estimation results on the model, it is obtained the value of t count $-1.420 < t$ table 1.681 with the probability of Non Performing Financing (NPF) of 0.164 > $\alpha = 5\%$. Then H_0 is accepted and H_a is rejected which means that the Performing Financing (NPF) variable does not significantly influence Return On Assets (ROA). Based on the estimation of the model, the value of t arithmetic is 1.936 > t table 1.681 with the probability of Financing to Deposit Ratio (FDR) of 0.001 < $\alpha = 5\%$. Then H_0 is rejected and H_a is accepted which means that the Financing to Deposit Ratio (FDR) variable has a significant effect on Return On Assets (ROA).

Based on the estimation results on the model, the value of t arithmetic is 0.820 < t table 1.681 with the probability of Good Corporate Governance (GCG), amounting to 0.417 > $\alpha = 5\%$. Then H_0 is accepted and H_a is rejected which means that the variable Good Corporate Governance (GCG) does not have a significant effect on Return On Assets (ROA).

Based on the estimation of the model, the value of t count is $-4.736 < t$ table 1.681 with the probability of Operational Costs to Operating Income (BOPO) of 0,000 < $\alpha = 5\%$. Then H_0 is rejected and H_a is accepted which means that the Operating Cost variable on Operating Income (BOPO) has a significant negative effect on Return On Assets (ROA).

Based on the estimation results on the model, the calculated t value is 1.914 > t table 1.681 with the probability of Net Operating Margin (NOM) of 0.045 < $\alpha = 5\%$. Then H_0 is rejected and H_a is accepted which means that the variable Net Operating Margin (NOM) has a significant effect on Return On Assets (ROA). Based on the estimation of the model, the value of t arithmetic is 1.551 < t table 1.681 with a probability of Capital Adequacy Ratio (CAR) of 0.519 > $\alpha = 5\%$. Then H_0 is accepted and H_a is rejected which means that the variable Capital Adequacy Ratio (CAR) does not have a significant effect on Return On Assets (ROA).

According to the theory of Shariah Enterprise Theory, financial statements include vertical and horizontal accountability. Where vertical accountability is the responsibility of the company to God while horizontal accountability is divided into two types, namely direct stakeholders include customers and indirect employees and indirect stakeholders including community and nature. This balance value causes shariah enterprise theory not only to care about individual interests (in this case shareholders), but also other parties. Therefore, shariah enterprise theory has a great concern for broad stakeholders and in signal theory, information issued by management is a signal given to investors. Information received by investors can be a good signal or a bad signal. Information provided by management to investors through signals can be in the form of notes or descriptions for both past and future conditions, presenting information and financial statements of banking companies.

From financial reports issued by management, investors can analyze the company's

financial performance that can be obtained through signals from the management of the bank's company. In financial statements investors can see the financial condition of the bank company as a whole. One indicator of financial ratios seen by investors is the level of troubled financing that is borne by the bank. Non Performing Financing (NPF) is a ratio that measures the level of financing a problem faced by a Sharia Bank. The higher the ratio, the worse is the quality of Islamic Bank financing, which has the potential for bank losses. The higher the non-performing financing, the higher the number of debtors who are unwilling to fulfill their debt payment obligations

The first hypothesis is the Performing Financing (NPF) ratio that states that there is no significant influence on Return On Assets (ROA). NPF This is in line with the researchers conducted by Widyaningrum & Septiarini (2015) due to murabahah financing being the most widely used financing while non-lending financing is more prevalent in working capital financing using mudharabah contracts. Thus the first hypothesis states that Performing Financing (NPF) does not have a significant effect on Financial Performance (ROA) because if the NPF has a significant effect it will reduce financial performance (ROA) which causes any increase in the amount of problematic financing to cause a decline in financial performance (ROA) so that the financing given to customers is not balanced with the income obtained by the bank. Poor financing will cause difficulties in returning the financing if the amount of problematic financing is large enough, especially if the financing is done inadvertently and expansion in financing is not controlled so that the bank will bear greater risk, the risk is in the form of difficulties in returning financing by the debtor and if the amount is large enough it can affect financial performance (ROA). The research of Widyaningrum & Septiarini (2015), Widyawati (2017), Nurullaily (2016), and Roy (2018) that show NPF does not influence profitability (ROA) support these findings.

According to the theory of Shariah Enterprise Theory, financial statements include vertical and horizontal accountability. Where vertical accountability is the responsibility of the company to God, while horizontal accountability is divided into two types, namely direct stakeholders include customers and indirect employees and indirect stakeholders including community and nature. This balance value causes shariah enterprise theory not only to care about individual interests (in this case shareholders), but also other parties. Therefore, shariah enterprise theory has a great concern for broad stakeholders and in signal theory, information issued by management is a signal given to investors. Information received by investors can be a good signal or a bad signal. Information provided by management to investors through signals can be in the form of notes or descriptions for both past and future conditions, presenting information and financial statements of banking companies. From financial reports issued by management, investors can analyze the company's financial performance that can be obtained through signals from the management of the bank's company. In financial statements investors can see the financial condition of the bank company as a whole. One indicator of financial ratios seen by investors is the level of total financing provided by banks with third party funds.

Financing Deposit to Ratio (FDR) is a measure of liquidity that measures the amount of funds placed in the form of financing originating from funds collected by banks. The

higher the FDR where the current assets owned by the company are greater and the company's ability to meet its short-term obligations increases, the use of current debt will also increase. The second hypothesis is the Financing to Deposit Ratio (FDR) ratio that states that there is a significant positive effect on Financial Performance (ROA). This result is in line with the researchers conducted by Sabir et al (2012) because this is due to the distribution of financing to prospective customers with regard to the 5C principle. If FDR increases then the profit gained by the bank means that the bank is able meet liquidity well. These findings are supported by research by Riyadi & Yulianto (2014), Nurullaily (2016), Laeli & Yulianto (2016), and Yunita (2014) show that Financing to Deposit Ratio (FDR) has a significant effect on Return On Assets (ROA).

Good Corporate Governance (GCG) is an assessment of corporate governance that has been determined by Bank Indonesia in the form of an assessment of internal and external aspects. This assessment helps investors to understand the condition of the bank whether the bank can play bank functions properly. The main purpose of GCG is to increase added value for all interested parties. The smaller the composite value of GCG shows the better performance of the bank's Good Corporate Governance.

The third hypothesis is Good Corporate Governance (GCG) that states that there is no significant effect on Financial Performance (ROA). This is in line with by Iskandar & Laila (2016) that it does not an affect of bank returns with any other factors, such that the high and low GCG of a bank does not affect the profit earned by the bank. Thus the third hypothesis states that Good Corporate Governance (GCG) does not have a significant effect on financial performance (ROA). This indicates that the high or low quality of GCG implementation of a bank has no effect on financial performance due to unilateral assessment that makes the assessment results less objective and subjective because it is done from the bank itself. So, there is no relationship between self-assessment and financial performance (ROA). GCG implementation is one of the provisions that are increasingly emphasized in banking companies. This is because that management of investor funds can be managed properly and correctly by the management of the company will create added value for all stakeholders. Suciati (2015), Iskandar & Laila (2016), Setiawan (2017), and Suryani & Habibie (2017) that show that good corporate governance (GCG) does not affect return on asset (ROA) support these findings.

The BOPO ratio is used to measure the ability of bank management to control operating costs against operating income. The smaller the BOPO shows the more efficient the operational costs incurred by the bank so that the bank in the troubled condition gets smaller. The fourth hypothesis is the ratio of BOPO that states that there is a significant negative effect on Financial Performance (ROA). This result is in line with Dewi et al. (2015) that shows that if BOPO increases, which means efficiency decreases, the ROA obtained by banks also decreases. Thus the fourth hypothesis states that the BOPO has a significant effect on ROA. The negative sign indicate that the bank has not been able to carry out its operational activities efficiently so that it will result in a decrease in financial performance profits but is significant because the more efficient operational activities carried out by the bank the greater the financial performance. The higher the burden the

bank's operational costs are the responsibility of the bank. Generally, it will be charged to the income obtained from the financing allocation.

This condition occurs because it is caused by any increase in bank operational costs that are not followed by an increase in operating income which results in a lack of pre-tax profit resulting in a decline in financial performance (ROA). For bank management, this shows the importance of paying attention to operational cost control which is shown in the BOPO ratio to remain in accordance with the provisions stipulated by Bank of Indonesia. Widyawati (2017), Nurullaily (2016), Zulifiah & Susilowibowo (2014), Suardana et al. (2018), Kusmayadi (2018), and Patni & Darma (2017) which show that the BOPO's ratio have a significant effect on Return On Assets (ROA) support these findings.

Net Operating Margin is used to analyze the company's performance in generating profits from company investments in the form of productive assets. The greater the NOM ratio, the more operational income derived from productive assets managed by the bank. The fifth hypothesis is the ratio of Net Operating Margin (NOM) that states that there is a significant positive effect on Financial Performance (ROA). This is in line with the researchers conducted by Sabir et al (2012) who showed that the increase in funding distribution to customers made bank revenues increase. The amount of NOM for operating income minus profit sharing funds minus operating costs is greater than the average earning assets. Thus, the fifth hypothesis states that Net Operating Margin (NOM) has a significant positive effect on Financial Performance (ROA) due to the relationship between net incomes to profit before tax so that the higher Net Operating Margin (NOM) will encourage increased financial performance (ROA). This condition occurs because each increase in bank net income is followed by an increase in average earning assets that results in pre-tax profit. The amount of NOM shows the ability of banks to manage the distribution of financing to customers and their operational costs to customers so that the quality of earning assets is maintained and able to make an increase in income. The findings are supported by research by Lindasari (2015), Roy (2018), Dinnuriah (2018), Astutik & Djazuli (2014), Al Parisi (2017), Ninggarwati (2015), and Yusuf (2017) shows that Net Operating Margin (NOM) has a significant effect on Return On Assets (ROA).

Capital Adequacy Ratio (CAR) is used to measure the capital adequacy of a bank to support assets that produce risk. The smaller the risk of a bank, the greater the profit obtained by the bank. The amount of the capital ratio is measured by the ratio of own capital to Risk Weighted Assets (RWA). Capital ratios are used to measure the capital adequacy of banks to support risk-bearing assets. Increased bank capital and increased financing distribution shows that banks are able to finance bank operations. These favorable conditions can contribute to financial performance (ROA). The sixth hypothesis is the Capital Adequacy Ratio (CAR) ratio that states that there is no significant negative effect on Financial Performance (ROA). This is in line with the researchers conducted by Iskandar & Laila (2016), this is because the capital owned by banks is only used as a provision from BI. Islamic banks are also considered not optimal in distributing financing to debtors.

Thus the sixth hypothesis states that the Capital Adequacy Ratio (CAR) has no significant effect on Financial Performance (ROA) because that the size of the capital

adequacy does not affect financial performance. (ROA). This happened because of Bank Indonesia regulations requiring a minimum CAR of 8% that resulted in Islamic Commercial Banks attempting to achieve CAR in accordance with the provisions. In addition this can also occur because there are other factors that affect the CAR ratio of Islamic banking companies, these factors include external factors and internal factors. External factors such as economic conditions are uncertain. These findings are supported by research by Julita (2011), Oloruntoba et al. (2018), Karunia (2013), Pratiwi & Wiagustini (2015), Widyaningrum & Septiarini (2015), Nihayah & Walyoto (2018), and Kusumartuti & Alam (2019) show that Capital Adequacy Ratio (CAR) is not have an impact on the profitability ratio that measured by Return On Assets (ROA).

CONCLUSION

The results of the empirical test show that the ratio of NPF, GCG and BOPO has a negative effect on Financial Performance (ROA) while the FDR, NOM and CAR ratios have a positive effect on Financial Performance (ROA). This result implies that Islamic banks must be able to improve their internal conditions if they want to increase their level of profitability.

Further research can extend the observation period so that the number of research samples is also more so that it can improve data distribution better. Furthermore, in order to add other independent variables that is considered logical in determining the financial performance of the bank.

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