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Profitability of Bank Muamalat Indonesia

1st Delli Maria
Faculty of Economics and Business
Institute of Informatics and Business (IIB) Darmajaya
Bandar Lampung, Indonesia
delli.maria@darmajaya.ac.id

2nd Renata Mayang Sari
Faculty of Economics and Business
Institute of Informatics and Business (IIB) Darmajaya
Bandar Lampung, Indonesia
renata.mayang@gmail.com

***Abstract*—Bank Muamalat Indonesia has the first islamic bank in Indonesia which has decreased very drastically in profit. This research aims to proved empirically the factors that affect the profitability of Bank Muamalat Indonesia. The method of analysis used multiple linear regression analysis with the help of SPPS software version 20. The level of confidence was 95%. The research data was taken from the Income Statement and Balance Sheet of Bank Muamalat Indonesia. The results of the research have show that the Capital Adequacy Ratio (CAR) and Operating Costs to Operating Income (BOPO) have a significant effect on the profitability (ROA) of Bank Muamalat Indonesia. Meanwhile, Non- Performing Financial (NPF) and Financing to Deposit Ratio (FDR) have no significant effect on Bank Muamalat Indonesia's ability to earn profit.**

***Keywords*—Profitability, Bank Muamalat**

1. INTRODUCTION

The banking industry was an industry that requires risk, especially because it involves managing public money and playing in the form of investments, such as providing credit, purchasing securities and investing other funds [4]. So that in its business activities, banks rely on public trust. One of the important indicators to assess the performance of a bank's management is to look at the profits generated by the bank in a certain period. Earnings information in general is a major concern in assessing the performance or accountability of management and helps in assessing the strength of the company's earnings in the future. Return on Assets (ROA) as an indicator of profitability indicates the company's ability to earn profits by utilizing its assets.

Profitability which is a ratio to assess the company's ability to seek profit [5][13] is the most important indicator to measure the performance of a bank. Based on PBI No. 13/1/PBI/2011 [8] banks are required to use the ratio of Return on Assets (ROA) in measuring the health of their profitability. This is because the value of a bank's profitability is measured by assets whose funds mostly come from public savings funds so that ROA is more representative in measuring bank profitability. The higher the ROA ratio of a bank, the higher the level of profit achieved by the bank which reflects the more effective the bank is in managing its assets [13].

PT. Bank Muamalat Indonesia, Tbk was established on November 1, 1991 or 24 Rabi'us Tsani 1412 H. It was the first Islamic bank in Indonesia which was established after the enactment of Law No. 7 of 1992 which was revised to Law No. 10 of 1998. As a pioneer Islamic banking in Indonesia, Bank Muamalat runs its operations in an effort to earn profits under the protection and guidance of Bank Indonesia, which operates in a sharia manner, has principles that must be adhered to, namely the practice of usury, maisir (speculation) activities, and gharar (unclearness).

Fig 1 below shows the net profit of Bank Muamalat Indonesia throughout 2016-2020. In the picture it is clear that the condition of Bank Muamalat's Net Profit from 2016-2020 which has decreased very drastically. In 2016 the Net Profit of Bank Muamalat reached 116 billion Rupiah, decreased by 48% in 2017 to 60 Billion Rupiah. Bank Mummalat's Net Profit continues to decline, even in 2020 Bank Muamalat Indonesia's Net Profit is only at 10 billion Rupiah.

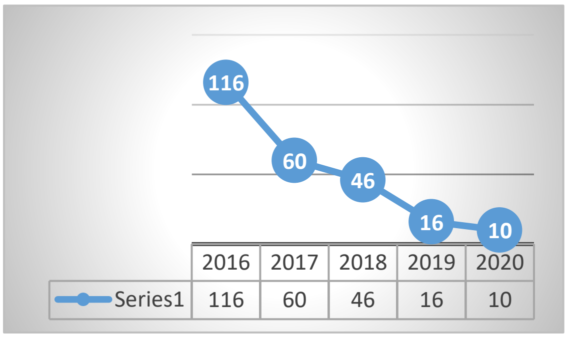


Fig 1. Profitability of BMI2016-2020

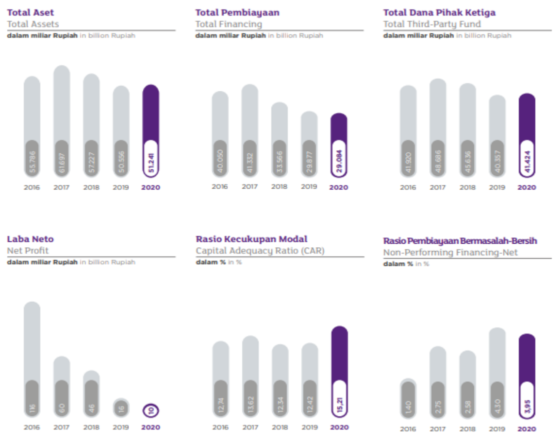


Fig 2. The Condition of Bank Muamalat Indonesia

Previously there were several studies conducted to look at various factors that affect profits in the banking industry in Indonesia. Internal factors such as liquidity, efficiency, capital, channeled financing, ratio level given, financing risk, share ownership [2][3][13]. The first factor is the Capital Adequacy Ratio (CAR). CAR reflects a bank's ability to recoup the risk of loss from its activities and the bank's ability to fund its operations. In accordance with Bank Indonesia regulation No. 10/15/PBI/2008 [8], the minimum capital that must be owned by the bank is 8%. A bank that has sufficient capital translates into higher profitability. This means that the higher the capital invested in the bank, the higher the profitability of the bank.

The second factor is non-performing financial (NPF). NPF is the level of bad credit at the bank which reflects financing risk, the higher this ratio, indicating the quality oIslamic bank financing is getting worse. Financing management is needed by banks, considering the function of financing as the largest contributor of revenue for Islamic banks. The level of health financing (NPF) also affects the achievement of bank profits. The increase in NPF will result in the loss of opportunities to obtain income from the financing provided so as to affect profit gains and adversely affect ROA [2].

The third factor is Operating Expenses to Operating Income (BOPO). Operating expenses are costs incurred by the bank in order to carry out its basic business activities (such as interest costs, labor costs, marketing costs, and other operational costs). Operating income is the main income of the bank obtained from the main placement of the bank in the form of credit and other operating income [1]. The level of efficiency of the bank in carrying out its operations affects the level of income generated by the bank. If operational activities are carried out efficiently then the revenue generated by the bank will rise [2]. So that the greater the efficiency ratio, the lower the financial performance of banking. Vice versa, if the ratio of operating expenses to operating income is getting smaller. So it can be concluded that the profitability of a company (banking) is increasing.

The fourth factor is financing to deposit ratio (FDR). FDR how much third-party funds islamic banks released for financing [7][14]. If the bank's FDR increases, it means that the distribution of funds to financing is getting bigger, so that profits will increase. The increase in profit resulted in the bank's performance as measured by ROA getting higher [15]. The management must be able to manage funds collected from the community to then be channeled back in the form of financing that can later increase bank revenue both in the form of bonuses and profit sharing, which means that islamic bank profits must also increase.

The importance of profitability of a bank and the importance of business continuity of Bank Muamalat Indonesia as a pioneer of Islamic Bank in Indonesia, purely Sharia. Then the Researcher will conduct research again, related to factors that affect the profitability of Bank Muamalat Indonesia.

II. LITERATUR REVIEW

Characteristics of Islamic

The following are the characteristics of Islamic banks that distinguish Islamic banks from conventional banks [2][13]:

1. The principle of Islamic sharia in property management emphasizes on the balance between the interests of individuals and society. Property should be used for productive things, especially investment activities that are the foundation of economic activity in society.
2. Islamic bank is a bank based among others on the principle of partnership, justice, transparency and universal and conduct banking business activities based on Sharia principles. Islamic bank activities are the implementation of Islamic economic principles with the following characteristics:
   a. Prohibition of riba in its various forms
   b. Not knowing the concept of time value of money (time value of money)
   c. The concept of money as a medium of exchange not as a commodity
   d. It is not permissible to carry out activities of a speculative nature
   e. It is not permissible to use two prices for one item.
   f. Not allowed two transactions in one contract
3. Islamic banks operate on the basis of the concept of revenue sharing. Islamic banks do not use interest as a tool to earn income or charge interest on the use of funds and loans because interest is prohibited riba.
4. It does not expressly distinguish the monetary sector and the real sector so that in its business it can conduct real sector transactions, such as buying and selling and renting.
5. Can get rewards for certain services that do not conflict with sharia principles.
   Carry out activities in accordance with sharia. A transaction in accordance with sharia principles when it has fulfilled all the following conditions: The transaction does not contain any element of tyranny, Not riba, Not endangering one's own party or any other party, There is no fraud (gharar), It does not contain

prohibited materials, Does not contain any element of gambling (maisyir)

Profitability

Profitability ratio is a ratio used to measure a company's ability to generate profits from normal business activities. Good performance will be shown through the success of management in generating maximum profit for the company [2].

The profitability ratio that the focus of this study is Return On Asset (ROA) which is a ratio that describes the ability of banks to manage funds invested in overall assets that generate profits. ROA describes the productivity of banks in managing funds so as to generate profits [2]. This ratio is very important, considering that the profits gained from the use of assets can reflect the level of business efficiency of a bank. In the framework of bank health assessment, BI will provide a maximum score of 100 (healthy) if the bank has a ROA > 1.5%

ROA can help companies that have carried out accounting practices well to be able to measure the efficiency of capital users who are sensitive to everything that affects the financial state of the company so that the company's position to the industry can be known. This is one of the steps in strategic planning.Based on PBI Annex No. 13/1/PBI/2011 [8] ROA is formulated as follows:

$$ROA = \frac{\text{Profit Before Tax}}{\text{Activa}} \times 100\%$$

Factors That Affect Profitability

With the analysis of ratios can be obtained a good picture of the bad circumstances or financial position of a bank, especially in assessing its profitability. Factors affecting rentability according to Brigham and Houston [3] are liquidity, asset management, and debt management. While according to Brigham in Wasis [3] actually states that the factors that affect rentability are the efficiency of capital use, sales volume, and the capital structure of the company. The factors that are an assessment of banking performance or profitability are as follows:

1. Capital Aspects

   Capital assessment is an assessment of the adequacy of bank capital to anticipate current and future risks. Capital is an important aspect of a bank's business unit. Capital adequacy is related to the provision of its own capital necessary to cover the risk of losses that may arise from the movement of bank assets which basically most of the funds come from third party funds or the public. The high capital ratio can protect depositors and have an impact on increasing public confidence in banks, thus impacting the increase in ROA. The presentation and increase in the role of bank assets as profit earners must pay attention to the interests of third parties as suppliers of bank capital [2]. Thus the bank must provide sufficient minimum capital to guarantee the interests of third parties. In this study, the capital aspect was projected with the Capital Adequecy Ratio (CAR) as an independent variable. If the value of CAR is high, then the bank is able to finance operational activities and contribute considerable to profitability. Based on SE BI 13/24/DPNP/2011 CAR can be formulated as follows:

   $$CAR = \frac{\text{Capital}}{\text{ATMR}}$$

2. Asset quality aspect

   Quality assets are assets that can generate income and can cover costs incurred by the bank [4]. This aspect aims to assess the types of assets owned by the bank. The ratio used to assess the asset quality of a bank is used Non Performing Financial (NPF). Non Performing Loans (NPL) or Non Performing Financial (NPF) are non performing loans consisting of loans classified as Substandard Loans, Doubtful Loans and Bad Loans. The calculation of NPF in accordance with SE BI 13/24/DPNP/2011 [8] is as follows:

   $$NPF = \frac{\text{Troubled Financing}}{\text{Total Financing}} \times 100\%$$

3. Aspect of Income (Earning)

   This aspect is a measure of the bank's ability to increase profits or to measure the level of business efficiency and profitability achieved by the bank concerned (Muhamad, 2014). According to SE BI 13/24/DPNP/2011 [8], BOPO is measured by the comparison between operating costs and operating income. The increasing BOPO ratio reflects the lack of banks in managing their business. Bank Indonesia has determined the BOPO ratio is below 90%. BOPO can be formulated as follows:

   $$BOPO = \frac{\text{Operating Cost}}{\text{Operating Income}} \times 100\ \%$$

4. Liquidity Aspect

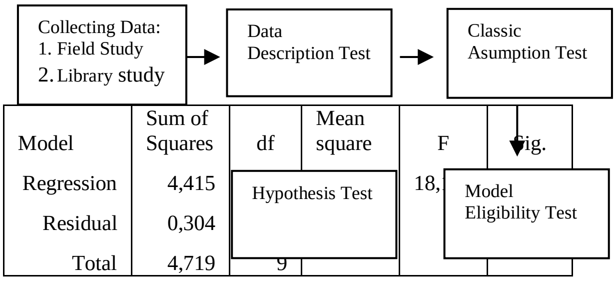
   Financing to Deposit Ratio (FDR) is a ratio used to measure the liquidity of a bank in paying back withdrawals made by depositors by relying on the financing provided as a source of liquidity, namely by dividing the amount of financing provided by the bank against Third Party Funds. The standard used by Indonesia Bank for Financing Deposit to Ratio (FDR) is 80% to 110%. This ratio is formulated as follows

   $$FDR = \frac{\text{Total Financing}}{\text{Third Party Fund}} \times 100\%$$

III. METHOD

The type of data used is descriptive quantitative secondary data. The object of research is done by taking data from the website of PT. Bank Muamalat Indonesia

Tbk. The stages of the research are in accordance with Fig. 3 below.



Model	Sum of Squares	df	Mean square	F	Sig.
Regression	4,415			18,	
Residual	0,304				
Total	4,719	9			

Fig 3. Research Stage

IV. RESULTS AND DISCUSSION

Descriptive Data Test

The data used in study is secondary data obtained from the financial statements of PT. Bank Muamalat Indonesia, Tbk. The data that became the object of observation in this study were capital, ROA, non-performing financing, total financing, operational costs and third party funds. In this study, researchers used a regression analysis model with the help of IBM SPSS Statistics version 20 to analyze the data.

	N	Minimum	Maxsimum	Std. Deviation
CAR	10	10,8	17,27	1,86978
NPF	10	1,4	6	1,59799
BOPO	10	79,52	99,46	7,23157
FDR	10	76,7	102,65	8,21453
ROA (Y)	10	0,1	2,39	0,72413

Fig 4. Descriptive Data Result Test

Descriptive testing of the data carried out showed that there were no deviations in the data on the variables studied.

Classic Assumption Test Results

Data Normality

Normality test of data using Kplmogorov-Smirnov Test. The results of the normality test of the data show that if the data is normally distributed, the level of Asymp.Sig. (2-tailed) of 0.998.

One-Sample Kolmogorov-Smirnov Test

a. Test distribution is Normal.
b. Calculated from data.

Fig 5. Normality Test Results

Heterokedacity Test Results

The results of the Heteroscedasticity test show that the points do not describe a clear pattern or spread, the points of distribution are above and below 0 on the Y axis. Therefore, it can be concluded that there is no

		Unstandardized Residual
N		10
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	,183750
Most Extreme Differences	Absolute	,122
	Positive	,118
	Negative	-,122
Kolmogorov-Smirnov Z		,387
Asymp. Sig. (2-tailed)		,998

heteroscedasticity in the data to be studied. [5].

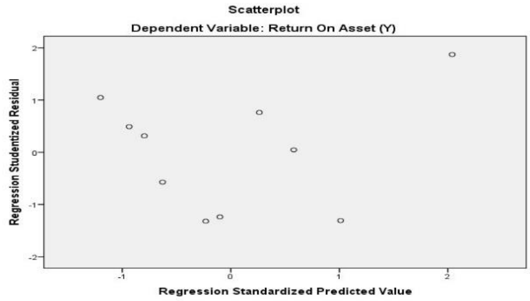


Fig 6. Heterokedasity Test Results

Model Feasibility Test Results

The results of the ANOVA test showed an F value of 18.163 and a significance level of 0.004, thus the model was said to be appropriate and the research was ready to continue.

ANOVA[8]

a. Dependent Variable: Return On Asset (Y)
b. Predictors: (Constant), Financial Deposit to Ratio (X4), Non Performing Financial (X2), Capital
Adequecy Ratio (X1), Biaya Operasional thd Pendapatan Operasional (X3)

Fig 7. Model Feasibility Test Result

Hypothesis Testing Results

Uji T

Model	Unstabdardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std.Error	Beta		
(Constant)	8,799	2,075		4,241	0,008
CAR	0,184	0,051	0,474	3,583	0,016
NPF	0,055	0,059	0,122	0,946	0,388
BOPO	0,075	0,014	0,75	5,297	0,003
FDR	0,011	0,12	0,121	0,865	0,427

a Dependent Variable: Return On Asset (Y

Fig 8. Hypothesis Testing Result

The test was carried out using the t test at a 95% confidence level or of 0.05 from the results of the SPSS output obtained, as listed in table 4.7. The test results show that the Capital Adequacy Ratio (CAR) and Operating Costs to Operating Income (BOPO) show a value of Sig < 0.05, this shows that CAR and BOPO have a significant effect on the ability of Bank Muamalat Indonesia to earn profits. While Non Performing Financial (NPF) and Financial Deposit to Ratio (FDR) Sig value > 0.05, this indicates that NPF and FDR have no significant effect on Bank Muamalat's ability to earn profits.

Discussion

The results of the t-test sighted that capital (CAR) has a significant effect on ROA at Bank Muamalat Indonesia. So that the increase or decrease in CAR will affect the achievement of the bank's ROA. The fluctuation of Bank Muamalat's net profit could be caused by inappropriate policies in allocating the capital. Where the core capital of Bank Muamalat has decreased, while the complementary capital has increased which is the result of asset revaluation. Bank management must be observant and able to see opportunities to place their capital in more profitable sectors so that the capital encourages increased profitability [1][2][13].

The results of the second hypothesis test indicate that the NPF has no significant effect on the profitability of Bank Muamalat Indonesia, which means that the higher the NPF of a bank is not a measure of the success of bank management to earn profits. This result contradicts the theory that a high NPF will increase costs, thus potentially causing bank losses. The higher this ratio, the worse the quality of bank credit which causes the number of non-performing loans to be greater, and therefore the bank must bear losses in its operational activities so that it affects the decrease in profit (ROA) obtained by the bank [4][6]. This can be explained by using the uniqueness of Islamic Banks where Islamic banking has fundamental factors that can prevent the emergence of NPF from expanding; This is different from the conventional banking system, which provides a greater opportunity for the occurrence of NPLs. As a substitute for interest, Islamic banks focus on obtaining profits from transactions with their customers. The profit from the business is not determined in advance, but depends on the actual nominal realization [4][2]. In a murabahah contract, for example, the bank buys the goods needed, and then resells them to the customer at an additional price as the bank's profit. The customer can repay the purchase to the bank. In an ijarah contract, the bank rents out the goods purchased to its customers. In the mudharabah contract, the bank as shahibul mal provides capital to finance the business run by the customer as mudharib. In a musharakah contract, the bank and the customer finance and run a business together. In this contract, the profit is a common interest for the bank and the customer, which will then be divided based on the ratio determined at the beginning of the cooperation. This common interest can encourage more open transparency of information, and reduce the emergence of moral hazard, for each party in the transaction, thereby reducing business risk or financing/credit risk for the parties. Each contract contains an element of justice, namely the profits that are justified and shared are compensation for the business risks that are shared.

The results of the third hypothesis test show that there is a significant negative effect between BOPO on ROA at PT. Bank Muamalat Indonesia, which means the smaller this ratio means the more efficient the operational costs incurred by the bank. The test results indicate that every time the BOPO ratio increases, the ROA will decrease. This means that the more efficient these banks are, the profitability will increase. This indicates that efficiency is an important factor for banks to increase their profitability. Bank management operational policies that suppress or minimize unnecessary costs in operations will have a positive impact on the profits that the bank will generate [10]. Maximizing revenue by reducing expenses is the key to making banks more efficient in their operations. Banks must be able to innovate that can reduce costs and be more productive, such as the use of appropriate technology. Being able to maintain a good level of efficiency in a sustainable manner in the long term will significantly affect the profitability of the bank. Maintained efficiency makes banks more profitable so that banks are able to develop their business and be able to compete with competitors in the banking world [1].

The results of the fourth hypothesis test show that there is no significant effect between Financing Deposit to Ratio (FDR) on ROA at PT. Bank Muamalat Indonesia, meaning that in this study the higher or lower FDR at the bank is not a measure of the success of bank management to obtain high profits. High FDR has no effect on ROA, this can be because the amount of credit is supported by the ability to repay the loan. Good credit quality will reduce risk, especially if lending is carried out using the principle of prudence and expansion in controlled lending so that banks will not

V. CONCLUSION

Profitability which is a ratio to assess the company's ability to seek profit [5] is the most important indicator to measure the performance of a bank. Based on PBI No. 13/1/PBI/2011 [8] banks are required to use the ratio of Return on Assets (ROA) in measuring the health of their profitability. Bank Muamalat Indonesia was the first Islamic bank in Indonesia, it has decreased Net Profit very drastically along 2016-2020. This study aims to proved empirically the factors that affect the profitability of Bank Muamalat Indonesia. The method of analysis used multiple linear regression analysis with the help of SPPS software version 20. The level of confidence was 95%. The research data was taken from the Income Statement and Balance Sheet for Bank Muamalat Indonesia. The results of the research show that the Capital Adequacy Ratio (CAR) and Operating Costs to Operating Income (BOPO) have a significant effect on the profitability (ROA) of Bank Muamalat Indonesia. Meanwhile, Non- Performing Financial (NPF) and Financing to Deposit Ratio (FDR) have no significant effect on Bank Muamalat Indonesia's ability to earn profit.

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