

# Profitability of Islamic Commercial Banks in Indonesia: Third-Party Funds Analysis and Financing

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## Article Info

### Keywords:

Third-Party Fund; Financing;  
Profitability

### DOI:

10.33830/elqishv1i1.6980.2023

## Abstract

This research aims to examine the correlation of Third Party Funds and Financing on the Profitability of Islamic Commercial Banks in Indonesia. The gap of this research is the different findings of the financial reports of Islamic Commercial Banks in Indonesia data for the 2018-2022 period, where the growth of Return On Assets (ROA) in third-party funds and financing is not always ideally balanced. This research elaborates on the profitability of Islamic Commercial Banks through Return On Assets (ROA). The data collection for this research is utilizing Secondary Research from the Islamic Commercial Bank financial report 2018-2022 period combined with a descriptive quantitative method with the help of Eviews 12 software. The result shows that third-party funds and financing have no significant effect on the profitability of Islamic Commercial Banks per se. Meanwhile, surprisingly third-party funds and financing altogether, simultaneously have a significant effect on profitability in Islamic Commercial Banks.

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## 1. Introduction

Islamic banks are financial institutions that distribute and collect public funds based on the principles of Islamic law, especially the Quran and Hadith. Islamic banks are essentially a development of the concept of Islamic economics, mainly in the financial sector, and have resisted pressure from various stakeholders to provide remittance services by Islamic morals and sharia values. Due to the very positive public response, the development of Islamic banking in Indonesia is very important, and requires reliable banking services, as an alternative to the Islamic banking system (Fitriani & Azizoma, 2022). The development of Islamic banking in Indonesia is quite important and has received positive responses from the public that can complement the provision of trust banking services also following Sharia principles (Diana 2019). The financial performance of the Islamic Banks is always challenged within a certain period compared to opportunities, company results, and achievement standards, goals, and objectives set by the company, and financial result objectives are interpreted as a picture of the company and its success by looking at the results of the entity's operational activities (Rachman Amir et al, 2022). The performance of Islamic banking is assessed from several indicators, one of the most important indicators of the report is used as the basis for proper banking evaluation. Based on a financial statement, you can calculate the number of indicators usually used to assess the health of a bank. The results of financial statement analysis to think about the potential performance of the organization in the future and help understand the various relationships (Firdausi, 2016). According to Islamic banking statistics until December 2022, Islamic banking still shows positive developments. This

is because assets, third-party funds (DPK), and financing distributed continue to grow, and in 2022 total assets will reach IDR 531.860 trillion. Then DPK grew to Rp 429.029 trillion. Then financing increased to Rp.322,892 trillion (OJK RI, 2022). Since banks are institutions that have a significant impact on the domestic economy, it is important to pay attention to their performance, which is one of the best indicators of a bank's financial performance and is the main purpose of banking. The bank's ability to make a profit is its maximum profit. Current accounts, savings, and deposits are common banking components held in rupiah or other foreign currencies. One of the most important indicators of a bank's performance is its operational and financial skills (Widayanti & Sari, 2023).

One of the profitability ratios for comparison to see bank performance is Return On Assets (ROA) to find out the bank's ability to manage its assets to get a return on assets. Bank Indonesia prefers ROA over return on equity (ROE) because the return on bank assets is mostly obtained from public third-party funds, so ROA is more appropriate as a measure of a bank's profit level. The higher the ROA, the higher the bank's profit and the better the bank's ability to realize its assets (Dima Maulika Sehany & Maulida Nurhidayati, 2022). One of the main sources of financing for Islamic banks is third-party funds (DPK). Third-party funds are important funds that determine the survival of a bank. DPK must manage it properly and effectively to improve bank performance. Banks can manage third-party funds by channeling their funds back to the public in the form of loans through Islamic banks (Kartiningsih, 2019). Funds from deposits are treated as debt in the form of savings, deposits, or other bank loans because the money deposited to financial institutions is only temporary. Theoretically, the greater the amount of bank debt, the profitability of the bank will continue to increase. As the debt progresses, greater resources are distributed to society. Banks are required to maximize the collection of deposits and optimize their distribution because the more optimal and maximum deposits are managed, the higher profitability will be obtained (Zidny & Hasbi, 2022).

Financing is funding offered for financing one to another party for support for the investment designed either personally or by an institution. Through Murabahah financing, Islamic banks earn margins, so that the total margin obtained compared to the company's total assets under management shows the level of profitability of Islamic banks (Ulpan, 2020). The following is data related to the amount of Third Party Funds and the amount of Financing and Profitability at Islamic Commercial Banks.

**Table 1. Financial Performance of Islamic Commercial Banks for the 2021-2022 Period**

No	Bank Name	Third Parties Funds (in Million Rupiahs)		Financing (In Million Rupiahs)		Profitability (ROA)	
		2021	2022	2021	2022	2021	2022
1	Bank Muamalat	46.871.000	46.143.000	18.041.000	18.821.000	0,02%	0,09%
2	Bank Bukopin Syariah	4.595.068	5.589.070	3.330.218	4.328.426	5,48%	1,27%
3	BCA Syariah	7.677,90	6.248,50	6.248,50	7.576,80	1,10%	1,30%
4	Bank NTB Syariah	8.143.058	9.780.184	7.406.836	8.725.028	1,64%	1,93%
5	Bank Mega Syariah	11.715.792	13.551.787	7.239.515	7.227.489	4,08%	2,59%
6	BJB Syariah	365.421	410,82	256.405	310.964	1,55%	2,05%
7	Bank Aceh Syariah	24.018.009	22.976.036	16.345.845	17.334.052	1,87%	2,00%
8	Bank Victoria Syariah	1.234.923	816.420	755.197	616.751	0,71%	0,45%
9	Bank Riau Kepri Syariah	25.615.733	26.973.705	5.018.556	19.600.897	1,93%	2,31%
10	Bank Panin Dubai Syariah	7.796.461	10.638.434	8.385.993	10.353.072	6,72%	1,79%

Source: Annual Report Islamic Commercial Bank 2021-2022

From Table 1 above, it is seen that profitability growth (ROA) with deposits and financing does not always have a unidirectional relationship. For example, in the Financial performance of Islamic Commercial Banks from 10 Islamic Commercial Banks in the table, in Third Party Funds banks experienced a decrease of only two banks, namely, Bank Aceh Syariah and Bank Victoria Syariah, which in Bank Aceh Syariah with data in 2021 amounted to Rp24,018,009 and in 2022 amounted to Rp22,976,036 so that it decreased by Rp1.041.973. Likewise, Bank Victoria Syariah in 2021 Third Party Funds amounted to IDR 1,234,923, and in 2022 amounted to IDR 816,420 so it decreased by IDR 418,503. Furthermore, of the 10 Islamic Commercial Banks in the financing that experienced a decrease, there were 2 banks, namely Bank Mega Syariah and Bank Victoria Syariah, at Bank Mega Syariah in 2021 IDR 7,239,515, and in 2022 IDR 7,227,489 decreased by IDR 12,026. Bank Victoria Syariah in 2021 was IDR 755,197 and in 2022 it was IDR 616,751, which decreased by IDR 138,446.

Yet, the last is the Profitability of 10 Islamic Commercial Banks listed in the table above. Of the ten banks, there are three Islamic Commercial Banks including Bank Bukopin Syariah, Bank Mega Syariah, and Bank Victoria Syariah. Which in Bank Bukopin Syariah in 2021 amounted to -5.48% and in 2022 amounted to 1.27% and decreased by -0.054%. Bank Mega Syariah in 2021 amounted to 4.08% and in 2022 amounted to 2.59% and experienced a decrease of 0.04%. Bank Victoria Syariah in 2021 by 0.71% and in 2022 by 0.45% and decreased by 0.007%. Tisa (2019) states that deposits do not significantly affect the profitability of Islamic Commercial Banks for the 2014-2018 period. While Edisah (2019) states that DPK has a significant influence on profitability. Then Fada Research (2022) states that financing products on the profitability of Islamic Commercial Banks has a significant effect. Meanwhile, Elex (2022) shows that partial Financing Growth (X2) does not have a significant influence on the Profitability (Y) of Islamic Commercial Banks in Indonesia for the 2015-2019 period. The author finds gaps seen in the financial statements of Islamic Commercial Banks in Indonesia for the period 2018 – 2022, ROA growth in third-party financing and financing is not always a one-way relationship. This gap between theory and practice is what makes it an issue that must be put as a concern of the author.

In regards with the Islamic banking industry in Indonesia, the acquisition of market share in the banking sector in Indonesia, Islamic banking gained a percentage of 6.51%, while the percentage of national banking was 94.49%. The distance is too far. The distance is due to high non-performing financing which causes the quality of assets in Islamic banking to be low and the limited aspects of capital in Islamic banking. Therefore, there is a need for flexibility and optimization of the use of digitalization in Islamic banking, so as to attract customers and investors to use the products contained in Islamic banking. In addition to low asset quality and limited capital, Islamic banking is also faced with macroeconomic issues. At the end of 2019, the global world was shocked by the emergence of the Covid-19 virus. Where since the beginning of its appearance until now, the Covid-19 virus has not been able to be controlled properly, this is because this virus is able to mutate in various environments. The impact caused by the Covid-19 virus is not only on the health aspect, but also has an impact on the economic sector, in this case including the banking industry in the global realm. One of the pillars of Indonesia's economic development is the banking industry, which has the function of collecting and distributing public funds. Banking activities require effective coaching and supervision, the 1945 Constitution and Pancasila have regulated the allocation of public funds fairly and effectively so that Indonesian banks able to compete on the international stage. The presence of Islamic banking in Indonesian banking history began with the establishment of Bank Muamalat, the banking sector is divided into Islamic banking and conventional banking.

## 2. Research Method

The research uses an associative approach in quantitative research. In quantitative research, a social problem is investigated using a theory consisting of variables that are measured numerically and analyzed statistically to evaluate whether the theory's predictions can be

generalized or not. Population or sample levels of a single variable are often measured in descriptive quantitative research, whereas correlational and association studies examine the relationship between two or more variables. While quantitative correlation only shows the relationship, association correlation seeks to find a causal relationship between related variables (Ali et al, 2022). This type of associative research is to see the influence between variables in this study Third Party Funds ( $X_1$ ). The source data is sourced from the annual report of Islamic Commercial Banks and also OJK, namely from 10 Islamic Commercial Banks in Indonesia including Bank Muamalat, Bank Bukopin Syariah, BCA Syariah, Bank NTB Syariah, Bank Mega Syariah, BJB Syariah, Bank Aceh Syariah, Bank Victoria Syariah, Bank Riau Kepri Syariah, Bank Panin Dubai Syariah. The data taken is from the 2018-2022 period Islamic commercial bank financial performance report consisting of Third Party Funds, Financing, and Profitability.

Data collection methods are an important component of any research project. Secondary Research is the investigative method used in this research. Secondary Research is direct data collection using web searches, electronic journals, and site URLs. The research data was obtained from the financial statements of Islamic Commercial Banks as the research sample. The data analysis used in this research is Panel Data Regression Analysis. This is to analyze data on two independent variables, namely third-party funds ( $X_1$ ) and financing ( $X_2$ ), as well as the dependent variable, namely profitability ( $Y$ ) obtained in Eviews 12.

### 3. Results and Discussions

#### Descriptive Analysis

Analysis of research data that assesses the generalizability of findings based on a sample is known as descriptive analysis. Descriptive hypothesis testing uses this descriptive analysis. Whether the research hypothesis can be generalized depends on the results of the analysis. (Descriptive statistical analysis was used in this study to provide a summary of the data used. to study descriptive statistics using the Eviews 12 application. This program produces descriptive statistical analysis with the following format: mean, max, min, median, and standard deviation. The following descriptive test results are as follows.

**Table 2. Descriptive Test**

Information	Y	$X_1$	$X_2$
Mean	0,008468	739.220.406	630.714.684
Median	0,0115	15.528.021	8.360.582
Maximum	4,08 %	410.820.000	310.964.000
Minimum	-1,27 %	816.420	616.751
Stand. Dev	0,01736	2.149565	1.827689
Skewness	-2.496.332	2.936.777	2.875.779

Source: Processed Data using Eviews 12

Based on table 2 above, it can be explained as follows:

1.  $X_1$  has a minimum value of 816,420 owned by Islamic Commercial Banks in 2018-2022 so it is the lowest value than other samples. While the maximum value is 410,820,000 so the highest value is higher than other samples. The mean value of the variable  $X_1$  is 739,220,406 and the standard deviation value on  $X_1$  is 2.149565.
2. At  $X_2$  has a minimum value of 616,751 owned by Islamic Commercial Banks in 2018-2022 so it is the lowest value than other samples. While the maximum value is 310,964,000 so the highest value is higher than other samples. While the mean value of the  $X_2$  variable is 630,714,684 and the standard deviation value on  $X_2$  is 1.827689.

3. In Y has a minimum value of -1.27% owned by Islamic Commercial Banks in 2018-2022 so it is the lowest value than other samples. The maximum value is 4.08% so the highest value is higher than other samples. The mean value of the variable Y is 0.008468 and the standard deviation value on Y is 0.01736.

### Panel Data Regression Analysis Model Selection

In this sub, the data used is data that has been listed in the Annual Report. The number of observations made is 50. The following are the results of determining the estimation model.

#### Chow Test

Useful whether the appropriate panel data regression technique uses the Fixed Effect Method or the Common Effect Method. The hypotheses used in this test are:

Ho: Common Effect Model (CEM)

Ha: Fixed Effect Model (FEM)

**Table 3. The result of the Chow Test**

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.347123	(9,38)	0.0323
Cross-section Chi-square	22.102629	9	0.0086

Source: Data processed with Eviews 12

Based on table 3 Chow test obtained Prob. Cross-section F value of 0.0323 < 0.05. This means that Ho is rejected and Ha is accepted, thus, the most appropriate panel data regression estimation model is the Fixed Effect Model (FEM). Because the chosen model is the FEM model, it is continued with the Hausman test.

#### Uji Hausman (Hausman Test)

To choose the Model (REM). If Ho is rejected, the best model for the best model between the Fixed Effect Model (FEM) and Random is used, namely the Fixed Effect Model (FEM). When Ho is accepted, the best model to use is the Random effect model (REM).

**Table 4. The result of the Hausman Test**

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.371352	2	0.8305

Source: Processed Data using Eviews 12

The results of Table 4 obtained the prob value. Cross-section random is 0.8305 > 0.05 which means Ho is accepted and Ha is rejected. The most appropriate model test result between the random effect model and the fixed effect model is the random effect model (REM). Based on the results of the Chow test, and the Hausman test, the model used is the random effect model (REM).

## Legrange Multiplier Test

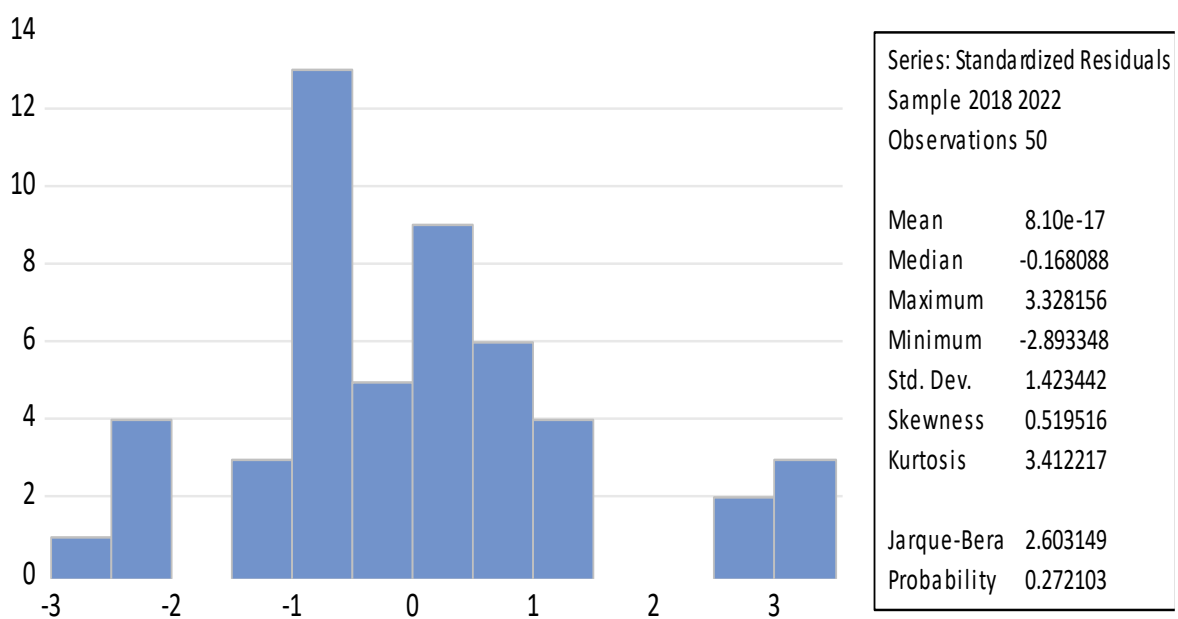
**Table 5. Lagrange Multiplier Test Result**

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	3.715848 (0.0539)	0.000814 (0.9772)	3.716661 (0.0539)
Honda	1.927653 (0.0269)	0.028524 (0.4886)	1.383227 (0.0833)
King-Wu	1.927653 (0.0269)	0.028524 (0.4886)	1.093003 (0.1372)
Standardized Honda	2.466390 (0.0068)	0.335729 (0.3685)	-1.265192 (0.8971)
Standardized King-Wu	2.466390 (0.0068)	0.335729 (0.3685)	-1.426724 (0.9232)
Gourieroux, et al.	--	--	3.716661 (0.0659)

Source: Processed Data using Eviews 12

Table 5 obtained by the Lagrange multiplier test above shows the breach-pagan value of  $0.0539 > 0.05$  (greater than 0.05%) Based on the results of the Lagrange multiplier test, the model used is CEM.

## Classic Assumption Test Normality Test



**Figure 1. Normality Test Result**

The results of Figure 1 JB probability value of  $0.272103 > 0.05$  or 5%, meaning that the data in this study are normally distributed.

### Uji Multikolinieritas (Multicollinierity Test)

Whether or not there is a correlation between the independent variables in the regression model is the purpose of this multicollinearity test. Through the tolerance and variance inflation (VIF) values, multicollinearity in the regression model can be determined. The regression model faces no multicollinearity if the VIF value is equal to 10.

**Table 6. Multicollinearity Test Results**

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.057183	1.128391	NA
X1	4.80E-19	19.64381	17.43587
X2	9.19E-19	19.39793	17.43587

Source: Processed data using Eviews 12

Based on table 6, the value of the contoured VIF of  $X_1$  is  $17.43587 > 10$ , and  $X_2$  is  $17.43587 > 10$ . So it can be concluded that it is not free of multicollinearity or does not pass the multicollinearity test.

### Uji Heteroskedastisitas (Heteroscedasticity Test)

In regression models, this test aims to determine whether the variance of the residuals varies unevenly between observations. With results:

**Table 7. Heteroscedasticity Test Results**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.559643	0.153291	3.650854	0.0007
X1	-7.31E-12	4.44E-10	-0.016456	0.9869
X2	3.41E-10	6.14E-10	0.554935	0.5816

Source: Processed data using Eviews 12

Based on table 7 above, it can be seen that the value of Prob.  $X_1$  is  $0.9869 > 0.05$ ,  $X_2$  is  $0.5816 > 0.05$ . So it can be concluded that it is free of heteroscedasticity or passes the heteroscedasticity test.

### Autocorrelation Test

A useful test to assess whether the correlation between the residual observations of one observation and another observation of the regression model deviates from the standard assumption of autocorrelation. The Durbin-Watson test (DW test), an autocorrelation test, is based on the following guidelines.

- If  $0 < d < dl$  = no positive autocorrelation with the decision rejected.
- If  $dl \leq d \leq du$  = no positive autocorrelation with no decision.
- If  $4 - dl < d < 4 - du$  = no negative correlation with the decision rejected.
- If  $4 - du \leq d \leq 4 - dl$  = no negative correlation with a no-decision decision.
- If  $du < d < 4 - du$  = no positive or negative autocorrelation with the decision not rejected.

**Table 8. Autocorrelation Result Test**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.094822	0.239130	4.578346	0.0000
X1	1.30E-10	6.93E-10	0.187802	0.8518
X2	-9.45E-10	9.58E-10	-0.985776	0.3293
R-squared	0.193692	Mean dependent var		0.846800
Adjusted R-squared	0.159381	S.D. dependent var		1.736163
S.E. of regression	1.591806	Akaike info criterion		3.825740
Sum squared resid	119.0908	Schwarz criterion		3.940461
Log likelihood	-92.64350	Hannan-Quinn criter.		3.869427
F-statistic	5.645199	Durbin-Watson stat		1.923659
Prob(F-statistic)	0.006350			

Source: Processed Data using Eviews 12

Given N = 50 and K (independent variables) 2 variables, the Durbin Watson reference table,  $\alpha = 5\%$ , obtained the results:

DL value = 1.4625

4-DL value = 2.5375

DU value = 1.6283

4-DU value = 2.3717

DW (Durbin Watson) value = 1.923

#### Durbin Watson autocorrelation test results

$$DU < DW < 4-DU = 1.4625 < 1.923 < 2.3717$$

Conclusion: The data does not show symptoms of autocorrelation or pass the autocorrelation test because the Durbin-Watson statistic value is between the DU and 4-DU values.

#### Panel Data Regression Analysis

Through a series of data processing steps such as descriptive analysis testing, classical assumption testing, and data model selection testing, the panel regression equation model is tested to evaluate the research hypothesis, as follows.

**Table 9. Regression Result**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.094822	0.239130	4.578346	0.0000
X1	1.30E-10	6.93E-10	0.187802	0.8518
X2	-9.45E-10	9.58E-10	-0.985776	0.3293
R-squared	0.193692	Mean dependent var		0.846800
Adjusted R-squared	0.159381	S.D. dependent var		1.736163
S.E. of regression	1.591806	Akaike info criterion		3.825740
Sum squared resid	119.0908	Schwarz criterion		3.940461
Log likelihood	-92.64350	Hannan-Quinn criter.		3.869427
F-statistic	5.645199	Durbin-Watson stat		1.718638
Prob(F-statistic)	0.006350			

Source: Processed Data using Eviews 12

Based on the results of the fixed effect model output model with the EGLS method, the regression model is obtained:

$$Y = 1.09482204201 + 1.30062481215e-10 * X_1 - 9.44796868409e-10 * X_2$$



**Interpretation:**

- The coefficient value for the constant is obtained as 1.09. So if all independent variables are zero (0), the return on asset value is 1.09.
- The beta coefficient value of variable  $X_1$ , namely Third Party Funds is 1.30, if the value is constant and variable  $X_1$  increases by 1%, the variable Return on assets (Y) will increase by 1%. Conversely, if the value of other variables is constant and variable  $X_1$  decreases by 1%, then variable Y decreases by 130%.
- The beta coefficient value of variable  $X_2$ , namely Financing -9.44, constant value and variable  $X_1$  increase by 1%, then the variable Return on assets (Y) decreases by 944%. Conversely, if the value of other variables is constant and variable  $X_1$  decreases by 1%, variable Y increases by 944%.

### Hypothesis Test t Test

In essence, this test shows the extent to which the variance of the dependent variable is explained by the independent variable. By comparing the t-value determined for each regression coefficient (critical value) to the significance table, the t-test assesses the impact of decision-making.

**Table 10. Hypothesis Test Result**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.094822	0.239130	4.578346	0.0000
X1	1.30E-10	6.93E-10	0.187802	0.8518
X2	-9.45E-10	9.58E-10	-0.985776	0.3293

Source: Processed Data using Eviews 12

The effect of the independent variable on the dependent variable partially:

- The t-test results on the DPK variable ( $X_1$ ) the t value is  $0.187802 < 2.001717$  with a sig value.  $0.8518 > 0.05$ ,  $H_a$  is rejected and  $H_0$  is accepted, meaning that the DPK variable does not affect the ROA of Islamic Commercial Banks in Indonesia.
- The t-test results on the Financing variable ( $X_2$ ) t value is  $0.985776 < 2.001717$  with a sig value.  $0.3293 > 0.05$ ,  $H_a$  is rejected and  $H_0$  is accepted, meaning that the Financing variable does not affect the ROA of Islamic Commercial Banks in Indonesia.

### F Test

Useful for knowing how well the independent variable can explain the dependent variable. The f test is to adequately explain the dependent variable or evaluate whether the regression model takes into account the simultaneous impact of all independent variables ( $X_1$  and  $X_2$ ) on the dependent variable.

**Table 11. F Test Result**

R-squared	0.193692
Adjusted R-squared	0.159381
S.E. of regression	1.591806
Sum squared resid	119.0908
Log likelihood	-92.64350
F-statistic	5.645199
Prob(F-statistic)	0.006350

Source: Processed Data using Eviews 12

The calculated f value is  $5.645199 > 3.195056$  and the sig value is  $0.006350 < 0.05$ , then  $H_0$  is rejected and  $H_a$  is accepted, meaning that the DPK and Financing variables affect the ROA of Islamic Commercial Banks in Indonesia.

### The Coefficient of Determination (R square )

The coefficient of determination ( $R^2$ ) is useful for measuring how well the ability of the independent variables (Third Party Funds and Financing) to explain the dependent variable (Profitability). A reduced value indicates that the ability to explain the independent variable is limited.

**Table 12. The Coefficient of Determination Result**

R-squared	0.193692
Adjusted R-squared	0.159381
S.E. of regression	1.591806
Sum squared resid	119.0908
Log likelihood	-92.64350
F-statistic	5.645199
Prob(F-statistic)	0.006350

Source: Processed Data using Eviews 12

From the determination test results in the table above, it can be seen that the coefficient of determination (R-squared) is 0.159381 or 15.9381%. The coefficient of determination shows that the independent variables, namely DPK and financing simultaneously affect the return on assets of Islamic Commercial Banks in Indonesia by 15.9381%, while the remaining 84.0619 is explained by other factors not included in this study.

## Discussion

### The Effect of Third-Party Funds on Profitability

The results showed that the Financing variable ( $X_1$ ) had a t value of  $0.187802 < 2.001717$  with a sig value.  $0.8518 > 0.05$ . Based on the analysis carried out, this figure shows a value that has no significant effect between DPK on the profitability of Islamic Commercial Banks for the 2018-2022 period. So that the  $H_a$  statement is rejected and  $H_0$  is accepted. So the more DPK a bank has does not necessarily reflect the higher the profit it generates. In theory, the more sources of funds a bank has, the greater its ability to carry out its functions. Therefore, the more funding from third parties, the higher the public trust which ultimately improves bank performance (ROA). Even if the recovery of third-party capital is significant, this will not be accompanied by significant disbursements and bank profitability will decline. This can occur because the allocation of bank capital resources is not fully optimized to generate profits for the bank, causing money to be held in deposits. (Yuniar & Yuningsih, 2023). Aryani's research (2019) shows that DPK does not affect profitability. Research conducted by Yunia (2023) also said (DPK) had no significant effect on profitability. Even though the amount of Third Party Funds (DPK) increases, profitability will not change because there is an imbalance in the amount of funds channeled to customers.

### Effect of Financing on Profitability

The results showed that the Financing variable ( $X_2$ ) has a t value obtained t value of  $0.985776 < 2.001717$  with a sig value.  $0.3293 > 0.05$ , then  $H_a$  is rejected and  $H_0$  is accepted. It is concluded that financing does not affect the profitability of Islamic Commercial Banks in Indonesia. These findings are not in line with research conducted by Lubis (2017) where financing affects profitability. However, this research is in line with research by Elex (2021) where financing does not affect profitability. The structure of financing channeled by Islamic Commercial Banks includes loans based on the principles of mudharabah and musyarakah, as well as murabahah,

ijarah, and others. So, murabahah financing is channeled by Islamic banks with a margin that is not too large so that the profit does not increase much. Meanwhile, ijarah financing for leased products considers several risks such as depreciation. Revenue earned through financing will affect the level of profit earned by the bank. The level of profit obtained by Islamic banks is a benchmark for the size of the profits earned. The higher the capital channeled, the more profitable the BUS will be with an increasing rate of return. (Afifah et al, 2023)

### **The Effect of Third-Party Funds and Financing Simultaneously on Profitability**

The results showed that all independent variables, namely third-party funds, and financing, had an  $f$  count of  $5.645199 > 3.195056$  and a sig value of  $0.006350 < 0.05$ . where  $H_0$  is rejected and  $H_a$  is accepted together has a significant effect on profitability in Islamic Commercial Banks for the period 2018-2022. This is in line with research by Seli Gianti (2015) and Tisa (2019) that DPK and financing simultaneously have a significant effect on profitability. Islamic banks that have funding from the public can be in the form of demand deposits, savings, or time deposits called third-party funds. Due to the high public interest in the products and services provided by Islamic banks, third-party financing plays an important role in facilitating financing. (Rahmah Muthia, 2018). The increase in third-party funds provides an opportunity to increase the distribution of financing. This is due to the variety of products, profit-sharing rates, and relatively better services offered by Islamic banks. This is expected to increase the amount of profit earned by the bank. (Yudhitama, 2011). The more DPK and financing, the more profit will be generated. Therefore, the proportion of profitability of Islamic banks is increasing and it can be interpreted that third-party funds and loans affect the profitability of Islamic banks.

### **4. Conclusions**

This study aims to determine the effect of third-party funds and financing on profitability at Islamic Commercial Banks for the period 2018-2022. The data analysis technique used in this research is Panel Data Regression Analysis. Based on data analysis and discussion of the results of this study it can be concluded: The value does not have a significant effect between Third Party Funds on the Profitability of Islamic Commercial Banks for the period 2018-2022. Where the more third-party funds a bank has does not necessarily reflect the higher the profit it makes. Financing does not affect the profitability of Islamic Commercial Banks in Indonesia. The income obtained from financing will affect the amount of profit earned by the bank. The size of the profit obtained by Islamic banks is a measure of the level of profit income obtained. The higher the financing channeled, the more profitable the banks will be along with the increase in profitability ratio. Third-party funds and financing together have a significant effect on profitability in Islamic Commercial Banks for the period 2018-2022. The more third-party funds and financing, the more profit will be generated. So, the proportion of profitability of Islamic banks is increasing and it can be interpreted that third-party funds and financing affect the profitability of Islamic banks.

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