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# The Role Of Sukuk Negara Toward Financial Performance Of Sharia Banking

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## ABSTRACT

**Purpose:** This study aims to determine the extent of the influence of sukuk negara on financial performance, especially on profitability of sharia banking.

**Design/methodology/approach:** This study begins with data collection from 2008 (the year in which sukuk negara is published) until 2016 by using panel regression method. Purposive sampling was used as sampling technique.

**Findings:** By using panel regression method, it was found that sukuk negara have positive and significant influence to profitability of sharia banking. Other variables such as FDR, NPF, and BOPO have a negative and significant effect on profitability of sharia banking. CAR did not affect the profitability of sharia banking.

**Research limitations/implications:** The sample of analysis is just 11 general sharia banks in period of 2008-2016. Further research can be completed by using more capital market instruments with the financial performance of both general conventional banking and general sharia banking.

**Practical implications:** It can be implied that there is a positive relationship between the syariah capital market sector and the sharia banking sector. This is a signal for the government to pay more attention to the issuance of sukuk negara with competitive returns in order to improve the financial performance of sharia banking.

**Originality/value:** Sukuk Negara as fiscal and monetary policy instruments have a very important role for the development of sharia banking. This means that the increasing interest of Islamic banking in placing funds in sukuk negara will lead to higher yields also obtained by Islamic banking.

**Paper type:** Research paper

**Keyword:** financial performance, panel, sharia banking, sukuk negara

## I. INTRODUCTION

The role of the government in improving and developing sharia banking can be realized through the pro-sharia banking policies nowadays. In managing the economy, the government must be able to balance between fiscal policy and monetary policy. Through fiscal policy the government should be able to manage state revenues from taxes to finance a number of government expenditures.

The government needs funds to finance economic development in general. For instance, one of them is by using taxes. When taxes rise, the prices of goods will tend to rise. Therefore, it will trigger the inflation. The growth in tax rates and government spending will have a broad impact on economic conditions such as economic activity and aggregate demand.

Inflation makes the central bank to respond fiscal policy from the government with monetary policy which is to increase interest rates and open market operations using state securities. It is hoped that people will be more prefer to put their money in the banking system through banking instruments like deposits and government instruments such as state securities so that the amount of money in circulation will decrease.

The current government's fiscal policy is the deficit budget policy. Based on the data obtained from Bank Indonesia, the Indonesian government has foreign debt of 357.5 billion US dollars, equivalent to Rp 4915 trillion (US \$ 13,750) by the end of January 2018. According to Hariyanto (2015), in financing the budget deficit, the government has two options. First, by printing more and second money, by lending to the public in the form of securities.

The first option is considered less effective in overcoming the budget deficit. Instead of solving the problem, increasing the money supply will only cause inflation to climb up. Therefore, the second option is considered safer to do. The government can optimize state revenue from domestic borrowing by issuing state securities.

State securities is an effective instrument undertaken by the government in recruiting funds from the community after the crisis of 1990s. After the crisis, overseas financing is not an appropriate way of financing development because of the impact of exchange rate depreciation. Government securities issued by the government are traded through several institutions such as banking (conventional and sharia banking), state institutions (Bank Indonesia), and non-bank institutions (mutual funds, insurance, non-resident, pension funds, etc.).

One of the state securities traded by the government is sukuk negara or state sharia securities (SBSN). Sukuk negara began to circulate since 2008. The total sukuk negara in 2008 was only worth Rp 4.7 trillion, much less than the amount of securities traded in conventional banking worth approximately Rp 145 trillion. Nevertheless, the development of sukuk negara from year to year is quite promising. The total sukuk negara accumulation from 2008-2016 reached

approximately Rp 565.7 trillion outstandingly. The latest data in June 2017, sukuk negara ownership in sharia banking reached Rp 30.39 trillion bolted far from the number of first sukuk negara published.

The benefit of the sukuk negara for sharia banking is the revenue / margin of the sukuk negara ownership. The low risk of competitive profit sharing makes the sukuk negara ownership of sharia banking increasing from year to year. According to Azwar (2014), the ratio of sukuk negara to GDP has a positive effect on the total financing of sharia banking. However, the existence of sukuk negara negatively affects the total financing of sharia banking.

In contrast to Azwar (2014), Utari, et al (2010) explained that the existence of Conventional Based Government Securities (in Bahasa: Surat Utang Negara (SUN)) has no effect on total financing per GDP. SUN affects the profitability and efficiency of banks and positively affects the ratio of stock capitalization per GDP. The results of this study is strengthened by Ramadhani (2013) which explains that Sharia bonds have no significant effect on bank profitability assessed through ROA and ROE.

Publication of sukuk negara has a positive effect on financial deepening (Latifah and Fitriyanto, 2016). The study conducted by Akbarullah (2011) explains that the issuance of sharia bonds at BSM only has an impact on increasing public financing. Sharia bonds affect ROE but do not affect ROA.

The decision of the bank to invest funds in government bonds is considered economically efficient in terms of risk diversification perspective (Abbas & Christensen, 2007). However, the high ownership of banks in government bonds has the potential to obstruct the development of the financial sector in the long term period (Hauer, 2006).

In principle, the government's goal of issuing state securities is to finance government expenditures that are usually shown through infrastructure development (toll roads, highways, buildings, etc.). It is hoped that with this instrument, the government will get better funds while investors who buy state securities will get a competitive level of investment. According to Ryandini (2013), the existence of sukuk negara negatively affect Indonesia's economic growth while the SUN has a positive effect on Indonesia's economic growth.

Basically sukuk negara as an instrument of fiscal and monetary policy is published by the government to obtain additional funds in financing economic development. According to Oktavi and Nasution (2016), when a company publishes *ijarah* sukuk, it means a negative signal for the company because the company is in need of funds. The greater the company's profit, the *ijarah* sukuk issued by the company will be smaller, and vice versa.

Sukuk negara issued by the government responded by several investors one of which is sharia banking. The ownership of sharia banking in sukuk negara is considered as a diversification of risk on the distribution of Sharia banking funds.

The existence of sukuk negara owners is expected to further improve the financial performance of sharia banking in this case the profitability of sharia banking.

Sharia banking financial performance can be influenced by several factors other than banking income in diversifying risk through state. Sharia banking financial performance is influenced by the ratio of Sharia banking finance that is CAR, FDR, NPF, BOPO. Hypothesis, CAR and FDR have positive effect on ROA while NPF and BOPO have negative effect to ROA.

## II. METHODOLOGY

This study focuses on the financial performance of sharia banking that is influenced by various variables one of which is the ownership of sharia banking on sukuk negara. By using panel data at 11 sharia commercial banks in the years 2008-2016, this research data is obtained from various sources. Among these are OJK, BI, and other journals. Stages in this study are described in the figure as follows:

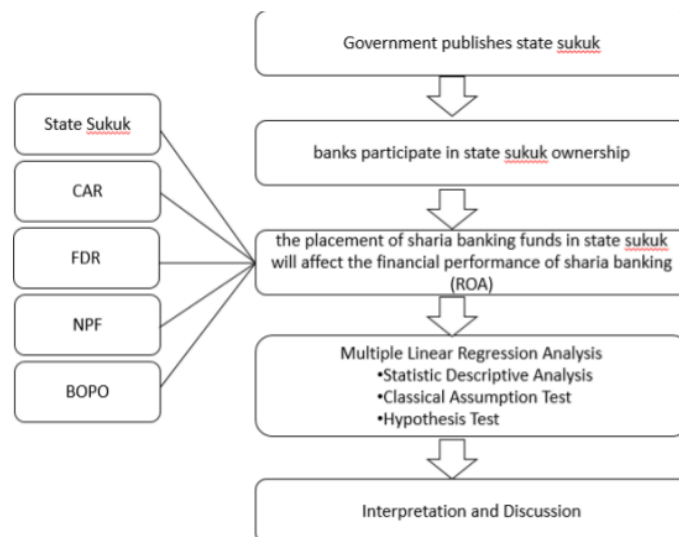


Figure 1: Research stages

This study used secondary data from 2008 – 2016. Model proposed in this study was:  $ROA = \alpha + b_1 \ln SN + b_2 CAR + b_3 FDR + b_4 NPF + b_5 BOPO + e$

Which is:

$\alpha$  : Constata

$b_1, b_2, b_3, b_4$  : Regression coefficient of SN, CAR and FDR

ROA : Return On Asset

- InSN : Sukuk negara (Sukuk Negara)  
 CAR : *Capital Adequacy Ratio*  
 FDR : *Financing to Deposit Ratio*  
 NPF : *Non performing Financing Ratio*  
 BOPO : Operational Cost Revenue / Operational Ratio  
 e : error term

Sukuk negara is a sukuk issued by the government. Sukuk negara or state sharia securities is an instrument of debt-receivables without usury and based on sharia principles. In this case the sukuk negara variable taken is the amount of sukuk negara ownership in sharia commercial banks each year (units in natural logarithms). Formula of Sukuk negara ratio is as follows:

$$SN = \frac{\text{total sukuk negara in banking}}{\text{the ownership of banking sharia securities}} \times 100\%$$

CAR is the criteria of capital adequacy. CAR is a ratio that shows how far bank assets are at risk. In this study, CAR taken is CAR based on market risk.

$$CAR = \frac{\text{bank capital}}{\text{Risk weighted assets}} \times 100\%$$

FDR, which is financing to deposit ratio, is a variable of financing provided by sharia banks to total third party funds collected by banks. The formula of FDR is the same as the LDR.

$$FDR = \frac{\text{total fund given}}{\text{total fund of third party}} \times 100\%$$

NPF is a non performing financing ratio which is a comparison variable between the amount of financing given minus the collectability of three to five (Substandard, Doubtful Loss) Provision for Earning Assets Losses (PPAP) compared to total loans granted by the Bank.

$$NPF \text{ Net} = \frac{\text{financing with collectibility 3 to 5} - PPAP}{\text{Total financing given}} \times 100\%$$

BOPO is the operational fund and operational income, which is variable ratio to measure bank efficiency level by measuring operational fund to operational income.

$$BOPO = \frac{\text{operational cost fund}}{\text{operational income}} \times 100\%$$

The selection of samples of sharia bank is done by purposive sampling with the aim to obtain a representative sample in accordance with specified criteria. The criteria used to select the sample are:

1. The listed bank belongs to the class of Sharia Commercial Bank which is still exist during the period of observation (2008-2016).
2. The Bank publishes a report in Bank Indonesia and the Financial Services Authority during 2008 - 2016.

This research uses data collection method in library and documentation study. In this study, data collection method in library study discussed previous theories from published journals while documentation, the authors collected data on an annual basis of the period 2008-2016 through bank financial statements published in Indonesian Banking Directory.

The method of analysis used in this research is quantitative method. Quantitative data analysis is a form of analysis using numbers and calculations with statistical methods so as to facilitate in analyzing used evIEWS program 8. Research using multiple regression must meet the assumption BLUE (Best Linear Unbias Estimator).

There are several tests to be done to meet BLUE assumptions. The first is the classical assumption test which includes normality test, heteroscedasticity test, multicollinearity test, and autocorrelation test. The result of the research will avoid the deviation and can fulfill BLUE assumption if in classical assumption test it is stated that the research model is normally distributed and does not contain heteroscedasticity, multicollinearity, and autocorrelation. Second, test the hypothesis.

The research model must pass the hypothesis test which includes test of determination coefficient, F test, and t test. The hypothesis test is aimed to analyze whether SN, CAR, FDR, NPF and BOPO variables influence simultaneously or partially to ROA and to see how big SN, CAR, FDR, NPF and BOPO variables affect ROA.

### **III. RESULT AND DISCUSSION**

The samples taken from the entire population of sharia banks are 11 sharia commercial banks (SCB). This is due to the limitations of research data so that not all sharia commercial banks are taken as samples. The data of sharia banks are taken as follows:

*Table 1. Research Sample*

No	Nama Bank Syariah
1.	Bank Muamalat Indonesia
2.	Bank Victoria Syariah
3.	Bank BRI Syariah

4. BPD Jawa Barat Banten Syariah
5. Bank BNI Syariah
6. Bank Syariah Mandiri
7. Bank Syariah Mega Indonesia
8. Bank Panin Syariah
9. Bank Syariah Bukopin
10. BCA Syariah
11. Maybank Syariah Indonesia

Of the eleven sharia banks above, Bank Muamalat is the first sharia commercial bank (SCB) to operate in Indonesia since 1991. Based on the data of the eleven banks mentioned above, the average operating efficiency at sharia banks is 85.58%. At a cost of 85.58%, sharia banks are able to disburse financing up to 64.53%. The financing disbursed by sharia banks was found to have problematic financing as reflected by the average NPF ratio of 1.87%.

From the level of capital adequacy, sharia banks are good enough because the average capital adequacy of sharia banks is 28.34%. The capital adequacy supports the financial performance of sharia commercial banks proxied with profitability ratios of 0.57% ROA. The data obtained by the authors is unbalanced panel data because there are banks that are still not operating in certain years. This causes the value of financial ratios in most of the 0% minimum variable because the bank has not conducted banking operations.

Based on Table 2 below, the average BOPO is 85.59%, FDR 64.53%, NPF 1.87%. The value of this ratio according to the bank soundness rating based on the risk approach is included in the adequate criteria. The average BOPO of 85.59% indicates that most of SCB is wholesome (because BOPO value is less than 90%) and can be said to be efficient in carrying out its operational activities.

The average FDR of 64.53% indicates that SCB is very healthy according to the risk approach (Risk Based Bank Rating) because the FDR value is  $\leq 75\%$ . This value indicates that SCB can utilize the existing funds to disburse funds on financing. The greater the FDR value indicates that SCB has not been able to maximize the funds to finance the customer's business activities. Furthermore, the average NPF of 1.87% shows a very well SCB because the  $NPF < 2\%$ . The smaller the NPF shows the better quality of SCB financing. The ratio that needs attention is the profitability ratio (ROA). The average ROA of 0.57% indicates a good enough SCB. SCB has not been able to earn maximum profit to be categorized as prosperous bank.

*Table 2. Descriptive Statistics of Research Data*

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<u>BOPO</u>	<u>CAR</u>	<u>FDR</u>	<u>LNSN</u>	<u>NPF</u>	<u>ROA</u>
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Mean	85.58586	28.34020	64.53152	4.670019	1.867374	0.572626
Median	89.29000	15.29000	41.67000	5.152255	1.640000	0.780000
Maximum	215.5800	304.3100	551.0500	8.737571	4.940000	6.930000
Minimum	0.000000	0.000000	0.000000	0.000000	0.000000	-16.40000
Std. Dev.	39.03819	44.11542	76.15535	2.512376	1.541919	2.698964

**The analysis of Sukuk Negara Effect on Financial Banking Performance**

Model proposed in this study is:

$$ROA = \alpha + \beta_1 CAR + \beta_2 FDR + \beta_3 NPF + \beta_4 BOPO + \beta_5 LnSN + \varepsilon$$

By using panel regression analysis there are several stages of research that must be done are:

1. Determining the proper model is whether the model includes the **Common Effect, Random effect, or Fixed effect.**

In this process, the panel regression between the dependent variable and the independent variable. Model of common effect, fixed effect, and random effect that occur are as follows:

*Table 3. Regression estimation result*

Variabel	Common Effect	Fixed Effect	Random Effect
CAR	0.006980 (0.2634)	0.011088 (0.1142)	0.006980 (0.2553)
FDR	-0.006131 (0.1045)	-0.003696 (0.3714)	-0.006131 (0.098)
NPF	-0.260012 (0.1733)	-0.328850 (0.1465)	-0.260012 (0.1661)
BOPO	-0.032435 (0.0001)**	-0.040203 (0.0000)**	-0.032435 (0.0001)**
LNSN	0.354652 (0.0007)**	0.396765 (0.0056)**	0.354652 (0.0006)**
C	2.375701 (0.0002)	2.698945 (0.0001)	2.375701 (0.0001)
R-squared	0.345678	0.435588	0.345678
Adjusted R-squared	0.310499	0.333586	0.310499
F-statistic	9.826365	4.270377	9.826365
Prob(F-statistic)	0.000000	0.000008	0.000000

Ps: : Coeffisient

( ): Probability

\*\* : significant level of real 5%

## 2. Examining the model to obtain the best model

Furthermore, after the panel regression process is done, the researcher must choose the right model. The best model selection is done with several tests, they are: F test, Hausman Test, and LM Test. Test F Test to choose whether the model is a common effect or fixed effect. Hausman Test is used to select Fixed effect or random effect model, while LM test is used to select the model using random effect or common effect model.

### **F Test**

F Test is performed to select the model between common effect model and fixed effect model. The assumption in this test is that if the value of probability is  $> 0.05$  (determined at the beginning as the level of significance or alpha) then the model chosen is the common effect model, but if  $< 0.05$  then the selected model is FE. In accordance with the above table, Prob Cross Section-F is  $0.2324 > 0.05$  so the model chosen is a common effect model.

### **Hausman Test**

Hausman test is performed to select the model between fixed effect model and random effect model. The assumption in this test is If the value is  $> 0.05$  then the selected model is RE, but if  $< 0.05$  then the selected model is FE. From the table above, prob. Cross section random is  $0.0648 > 0.05$  then the selected model is Random effect.

### **Test LM test**

The LM test is performed to select the model between the common effect model and the random effect model. Assumption in this test is If the value of LM count  $>$  Chi Squared table then the selected model is Random Effect, and vice versa if the value of LM count  $<$  Chi Squared table then the model selected is Common Effect. Based on the above residuals and calculations using excel it is known that LM counts 0.009. Based on Chi Squared table with df 5 and alpha 5% obtained value of 11.070. LM count 0.009  $<$  chi squared 11.070 then the best model to choose between common effect model and random effect is Common Effect model.

## 3. Performing Classical Assumption Test on the model.

Classic assumption test is required to avoid heteroscedasticity and multicollinearity. In the regression panel of the classical assumption test that must be done is the second test. If there is heteroscedasticity then the common effects model should be given weighting.

### **Heteroscedasticity Test**

Heteroscedasticity test is done by looking at the probability value of each independent variable to its absolute residual. If the probability value of the independent variable is less than alpha is 0.05 then there is an indication of heteroscedasticity. Based on the regression between the absolute and absolute

independent variables there is a probability value that is less than the alpha 5% ie the independent variables NPF and LnSN. This shows that the model is experiencing heteroscedasticity. The solution of this problem is that the model should be weighted to prevent the occurrence of heteroscedasticity.

**Multicolinearity Test**

Multicollinearity test is done to avoid the correlation between independent variables. The independent variable is assumed to be multicollinearity if the correlation value among the independent variables is more than 0.8. Based on multicollinearity table, obtained value that all independent variables have value below 0.8. So that free variable free from multicollinearity problem.

Based on the above two tests, the model needs to be refined due to heteroscedasticity. The weighted model is as follows:

*Table 4. Common Effect Model with Weighted*

Variabel	Koefisien	Probabilitas
CAR	0.001019	0.6361
FDR	-	0.0002**
	0.005178	
NPF	-	0.0001**
	0.271879	
BOPO	-	0.0000**
	0.025401	
LNSN	0.255304	0.0000**
C	2.481467	0.0000
R-squared	0.754861	
Adjusted R-squared	0.741681	
F-statistic	57.27523	
Prob(F-statistic)	0.000000	

Ps: \*\*: significant on  $\alpha$  5%  
 Source: Processed data, 2018

Based on the above test results, the adjusted R-squared value is 74.17%. The adjusted R-squared value means that the independent variable can explain the dependent variable of 74.17% while 25.83% is explained outside the model. Probability F stat of 0 means independent variables ie CAR, FDR, BOPO, NPF, and LnSN affect the dependent variable that is ROA simultaneously.

Based on t test, independent variable affecting ROA is variable having probability level less than 0.05. Independent variables affecting ROA are FDR, NPF, BOPO, and LnSN variables while CAR variables have no effect on ROA because the probability level is more than 0.05.

FDR, NPF, and BOPO have a negative and significant effect on ROA while LnSN has positive and significant effect on ROA. Based on the results of regression in the table above, the model that occurs is

$$ROA = 2,48 + 0,001CAR - 0,005FDR - 0,272NPF - 0,025BOPO + 0,255LnSN + \varepsilon$$

Based on the model above, the result of the regression equation estimation states that CAR has no effect on ROA. This is not in accordance with the first hypothesis which states that capital adequacy in sharia banking will affect the profitability of sharia banking proxy with ROA. The average capital adequacy in sharia banking is 28.34%. This value is good enough because it is more than the provisions of BI is 8%. However, the average value of the CAR indicates that sharia banks have not been able to optimize the existing capital for operational activities that can increase profitability. The test results are in accordance with Fajari and Sunarto (2013), Oktavi and Nasution (2016), and Aaron (2016).

Meanwhile, testing the second hypothesis states that FDR has a positive and significant effect on ROA. This means that more financing channeled by sharia banks will further increase the profitability of sharia banking. However, the results of the research in the table above state the opposite. FDR has a **negative and significant effect on** ROA. If sharia banking increases its financing by 1%, then this will decrease ROA by 0,005%. The results of this study are in line with research by Wibisono and Wahyuni (2017) and Oktavi and Nasution (2016).

Sharia financing disbursement is not followed by increased profitability is possible because funds obtained from financing are converted in the form of assets so that this will cause ROA decline (Wibisono and Wahyuni, 2017). In addition, improper financing of targets will also only make more financing problematic so this will cause ROA to decline (Oktavi and Nasution, 2016). Judging from the average FDR score of 64.53% indicates that the average FDR value does not conform to the BI standard that determines the safe FDR in the range 85% -110%. This shows that the function of banks as institutions that channel financing can not be optimal and even reduce the profitability of sharia banking.

The problematic financing proxied by the NPF according to the hypothesis negatively affects the ROA. The result of the regression estimation is in accordance with the research hypothesis, so the third hypothesis is accepted. Increasing problematic financing in sharia banking will make the profitability of sharia banking decrease. If the NPF increases by 1%, then the ROA will decrease by 0.272%. NPF is a financing included in the category of substandard. The smaller NPF ratio causes the income received by the sharia banks to increase because NPF shows the quality of financing (Wibisono and Wahyuni, 2017). The good quality of financing is reflected in the low value of NPF so that the income received on sharia bank financing will be greater. The results of this study are in line with the Oktavi and Nasution studies (2016).

The fourth hypothesis states that BOPO has a negative and significant effect on ROA. The result of the regression estimation is in accordance with the research hypothesis so that the fourth hypothesis is accepted. The greater the cost incurred by sharia banks will further lower the level of profitability. If BOPO increases by

1% it will decrease ROA by 0,025%. BOPO is one of the ratios that shows the level of bank efficiency. The smaller the value of BOPO, the more efficient sharia banks in carrying out operational activities so that the level of profitability will increase. The more efficient sharia banks, the higher their profitability (Wibisono and Wahyuni, 2017, Oktavi and Nasution, 2016; Muliawati and Khoiruddin, 2015).

The last variable is the sukuk negara owned by sharia banking has a positive effect on ROA. The greater the ownership of sharia banking on sukuk negara issued by the government, the greater the profitability of sharia banking. Sukuk negara is a sharia capital market instrument issued by the government with the risk of default is very small so that sharia banking will get a definite return on investment in sukuk negara. If sharia banking increases ownership of sukuk negara by 1% then this will increase the profitability of sharia banking by 0,255%.

The results of this study are not in accordance with Azwar research (2014) which states that the greater ownership of sharia banking in government instruments in this case sukuk state will lead to reduced penetration of sharia banking financing. This is because sharia banking will be more inclined to put the funds on the sukuk negara than on channeling financing to customers. On the other hand, domestic sukuk ownership in sharia banking has a positive and significant effect on the ratio of total value of sharia banking financing to GDP. Meanwhile, the results of this study are in accordance with Endri (2008) study which states that there is a positive relationship between sharia banking assets in SWBI with ROA. Sharia banking ownership of sharia capital market instruments in the form of sukuk negara will in fact have an impact on the profitability of sharia banking.

Described by Latifah (2016), sukuk negara have a positive and significant effect on financial deepening which is proxied by the ratio of money supply to GDP. This shows that the issuance of sukuk negara has an important role in the state finances, especially the financing of the state budget. The government will seek to cover the shortfall of the state treasury by issuing sukuk countries in accordance with the APBN target efficiently. The hope, the sukuk negara issued by this government will bring a positive impact also for the sharia banking sector. In fact, the sukuk state has a positive and significant impact on the profitability of sharia banking.

Ryandini (2013) in another study of sukuk negara stated that the realization of the sukuk investment fund accumulation of the state brings a negative and significant influence on economic growth in the short term. However, the existence of sukuk negara has no significant effect on economic growth in the long run. This negative influence is contrasted with the investment theory which states that investment will be able to encourage economic growth of a state. The realization is that the growth of sukuk negara is still relatively smaller than the state debt. Therefore, with relatively little growth and the absorption of sukuk funds of the

state that have not been 'captured' well by investors makes the issuance of sukuk negara negatively affect in the short term.

#### IV. CONCLUSION

Based on the results of data processing and analysis that has been done, it can be concluded that the model selected in this study is the common effect model with weighting. Based on adjusted R squarednya value, the result of regression estimation states that the independent variable can explain the effect on the dependent variable equal to 74.17% while 28.13% is influenced by other factors outside the model. The research model that occurs is:

$$ROA = 2,48 + 0,001CAR - 0,005FDR - 0,272NPF - 0,025BOPO + 0,255LnSN + \varepsilon$$

Based on the F test, the independent variables of CAR, FDR, NPF, BOPO, and LnSN together have an effect on sharia banking ROA variable. Based on t test, the variables affecting ROA are variable of FDR, NPF, BOPO, and LnSN. FDR, NPF, and BOPO variables have negative and significant influence on ROA while LnSN variable has positive and significant effect to ROA.

Sukuk negara has a very important role for the financial performance of sharia banking. Sukuk negara as a government financial instrument captured by the sharia banking sector has a positive relationship. This means that the increasing interest of sharia banking in placing funds in sukuk countries will lead to higher yields also obtained by sharia banking. This is due to the nature of the sukuk negara where the risk of default is very small and the return is quite promising.

Meanwhile, the amount of financing caused profitability decreased. This is because the financing channeled by sharia banks from third party funds has not been optimized for real profitable activities. If income from FDR is used for asset purchases, then this will lead to a decrease in earnings. In addition, based on the average value of FDR of 64.53% indicates that the liquidity of Sharia banking financing is not sufficient to improve profitability.

In theory, if the quality of financing is good then it will be less problematic financing or bad credit in sharia banking. Troubled financing will lead to delays in bank receipts on financing. The average value of NPF of 1.86% is still quite safe and under control. If sharia banking can reduce the level of problem financing it will be able to increase profitability. This is because NPF is a risk for financing channeled by sharia banking.

BOPO as a proxy of the efficiency of sharia banking operations takes an important role in the financial performance of sharia banking. The smaller the value of BOPO shows the more efficient Sharia banking in carrying out operational activities. The operational costs incurred less than the operating income received indicate that there is a surplus so that the entire income is not only used to pay the expenses. Therefore, according to the results of this study BOPO has a negative

and significant effect on ROA meaning profitability will increase if Sharia banking can be efficient in its operational activities (small BOPO value).

Finally, based on research that has been done, there is a positive relationship between the sharia capital market sector and the sharia banking sector. This is a signal for the government to pay more attention to the issuance of sukuk countries with competitive returns in order to improve the financial performance of sharia banking. In addition, for sharia banking, it is expected to have a safe and precise composition so that the placement of funds in sukuk negara will not cause a decrease in the penetration of financing disbursement.

Looking at the results of the research, it is expected that special attention from the sharia banking in the distribution of financing, financing quality, and operating efficiency. These three factors have a negative and significant influence on the profitability of sharia banking. That is, the higher the value of these ratios, the lower the sharia banking financial performance projected with ROA.

Further research can be improved by more linking capital market instruments with the financial performance of both conventional banking and sharia banking. In addition, the addition of variables and time in the study is expected to further improve the perfection of further research.

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