

## VARIABLES AFFECTING FINANCIAL PERFORMANCE OF ISLAMIC COMMERCIAL BANKS WITH NOM AS MEDIATION

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### *Abstract*

*The purpose of this research is to examine the variables that effect financial performance mediated by NOM. The independent variables in this research are NPF, BOPO, FDR, and BASIL and ROA as the dependent variable. The population in this study were 14 Islamic Commercial Banks. 9 Islamic Commercial Banks were used as samples. The data is taken from the quarterly financial statements for the 2019-2020 period. The analytical technique used is Multiple Regression test with path analysis. The BASIL variable has a positive effect on NOM and a negative effect on ROA. The BOPO variable has no effect on NOM and has a positive effect on ROA. The FDR variable has a negative effect on NOM and has a negative effect on ROA. The NOM variable has a positive effect on ROA. The NPF variable has a positive effect on NOM and has no effect on ROA. Then the variable NOM succeeded in mediating the BASIL, BOPO, FDR and NPF variables on ROA. For future research, it is necessary to make observations for a longer time and include risk variables on profitability and choose other sectors besides Islamic Commercial Banks*

**Key word :** *Financial performance, Return on Asset, NOM*

### INTRODUCTION

Economic growth is an increase in the value and amount of production of goods and services calculated by a country in a certain period of time based on indicators. To achieve a fast growth rate, it requires a lot of capital to improve a country's economy. Therefore, the importance of companies engaged in financial services for all levels of society as well as for a company. The economic development of a country is highly dependent on dynamic developments and the real contribution of the banking sector and plays an important role in triggering the economic growth of a country. Thus, it is believed that the growing financial sector will encourage economic growth, reduce poverty and reduce macroeconomic volatility (Dangnga, Taslim, Haeruddin, 2018).

Islamic banks as intermediary institutions between investors who invest their funds in banks and then Islamic banks channel their funds to other parties who need funds. Investors who place their funds will get returns from the bank in the form of profit sharing or other forms that are legalized in Islamic law. Then, Islamic banks channel their funds to parties in need in general with a profit margin in the form of profit sharing, and or other forms in accordance with Islamic law. The rewards received by Islamic banks as well as those paid to customers depend on the contracts and agreements between the customer and the bank. Currently, people understand and are willing to place funds and use financing for business, people are starting to choose Islamic banks that do not use interest as remuneration but use a profit-sharing system, so that customers are not charged the same

interest fee every month but the income is in accordance with the amount of income generated. by the company (Sitompul & Nasution, 2019).

The characteristics of the sharia banking system that operates based on the profit-sharing principle provide an alternative to customers in using a banking system that is mutually beneficial to the community and the bank, as well as highlighting aspects of fairness in transactions, ethical investment, promoting the values of togetherness and brotherhood in production, and avoiding speculative activities in financial transactions. The increasing interest of customers in saving funds or using financing that is channeled by banks to customers will certainly affect the profitability that will be received by banks. However, a healthy bank is a bank that is measured by profitability which continues to increase. In this case the bank's ability can be seen in carrying out operational activities, cost efficiency will provide great benefits for the bank itself.

Banking performance is defined as the ability of banks to build sustainable profitability. Evaluation of bank performance always attracts researchers, because good performance will affect economic growth and development. Good performance is efficient performance, and basically efficiency is an important indicator in measuring the overall performance of a bank. Banking financial performance can be seen from several financial indicators such as BOPO ratio value obtained from the comparison between operating costs and operating income, BOPO as an indicator of bank profitability. Furthermore, companies that prioritize profitability tend to avoid idle funds, the funds are used to maximize investment. Based on the theory of financial intermediation, a high FDR indicates a high level of financing so as to increase the rate of return. Furthermore, financing risk occurs because the debtor fails to pay part or all of the financing provided. Financing risk is measured by the ratio of non-performing financing, namely the total ratio of non-performing financing to the total disbursed financing. A higher non-performing financing ratio will put the bank in a high credit risk condition. So it will reduce the level of profit sharing and NPF (Non Performing Financing) has a negative correlation with banking profitability.

Islamic banking needs to pay attention to performance from year to year, always paying attention to the extent of the NPF or bad credit level of a bank from the funds channeled in financing. The higher the NPF of a bank, it will affect the profitability of a bank, which in turn can affect the performance of the bank in the future. Profit sharing determined by the bank will also affect the bank's profitability. NOM (Net Operating Margin) as a mediating variable is a tool to measure the ability of bank management to manage their productive assets in order to get net interest (net profit sharing). As research conducted by Windriya (2019) which states that FDR, Size, BOPO affect ROA in Indonesia and in Malaysian banks only BOPO has an effect on ROA (Windriya, 2019). Another study by Yusuf stated that only BOPO had an effect on ROA (Mohammad Yusuf & Reza Nurul Ichsan, 2021). Furthermore, based on the findings by Muhammad Hussain recommends that Islamic banks should manage their liquid assets more efficiently to benefit from the negative relationship between liquidity and profitability. Furthermore, it is recommended that Islamic banks need to maintain a low loan loss reserve to gross loan ratio in order to obtain higher profitability (Qureshi et al., 2019).

The pandemic case that occurred at the end of 2019 put pressure on economic conditions where economic growth contracted, based on data from the Central Statistics Agency (BPS) economic growth in the third quarter of 2020 was -3.49% (yoy). All sectors due to the pandemic case, including the banking sector. Based on data from the Financial

Services Authority, the performance of Islamic banking is still very good, as evidenced by data that Islamic bank financing increased by 8.08% to Rp. 394.6 trillion at the end of 2020, while third party funds reached Rp. 475.5 trillion, up 11.80%. on an annual basis. The capital ratio is at the level of 21.59% with the financing to deposit ratio at 82.4% which shows that this year's expansion has increased greatly, the number of third party fund accounts (DPK) has increased by 3.15 million accounts since December 2019, banking Sharia can survive during the pandemic, one of which is to use a profit-sharing system, where the balance condition of Islamic banks will increase the cost for profit sharing payments, but there will be a decrease in the income earned by Islamic banks. In addition, some of the declines included a decrease in margin with net operating margin dropping to the level of 1.55% and operating expenses to operating income of 83.63%.

Then in connection with the development of NPF, BOPO, FDR, BASIL, and NOM as well as the ROA of Islamic banking for the period 2019 - 2020 can be seen in the following table.

**Table 1**  
**Development of NPF, BOPO, FDR, Basil, and NOM as well as Islamic Banking ROA for the 2019-2020 period**

Bank	NPF		FDR		BOPO		NOM		BASIL		ROA	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Bank Aceh Syariah	0,04	0,04	68,64	70,82	76,95	81,5	1,9	1,29	9,98	10,33	2,33	1,73
Bank Muamalat Indonesia	4,3	3,95	73,51	69,84	99,5	99,45	0,04	0,04	50,08	51,65	0,05	0,03
Bank Victoria Syariah	2,64	3,01	80,52	74,05	99,8	96,93	0,18	0,5	81,97	80,98	0,05	0,16
Bank BRISyariah	3,38	1,77	80,12	80,99	96,8	91,01	-0,59	-0,08	43	37,29	0,31	0,81
Bank BNI Syariah	1,44	1,35	74,31	68,79	81,26	84,06	1	0,62	35,23	33,45	1,82	1,33
Bank Panin Dubai Syariah	2,8	2,45	95,72	92,89	97,74	99,42	0,22	0,05	95,51	92,89	0,25	0,06
Bank Syariah Bukopin	4,05	4,95	93,48	196,73	99,6	97,73	-0,29	-0,28	65,15	69	0,04	0,04
BCA Syariah	0,26	0,01	90,98	81,32	87,55	86,28	1,24	1,19	62,01	66,68	1,15	1,09
BTPN Syariah	0,26	0,02	95,27	97,37	58,07	72,42	14,86	7,68	0,32	0,09	13,58	7,16

Sumber: OJK 2022 data di olah

Based on table 1 above, it is known that the NPF ratio (non-performing financing) in 2019 was the highest at 4.3% at Bank Muamalat and the lowest value at 0.04% at Bank Aceh. Then in 2020 the highest NPF value was 4.95% at Bank Syariah Bukopin and the lowest value was 0.04% at Bank Aceh Syariah. However, the condition of the NPF ratio during 2019-2020 is still included in the good category because it is located between 2% < NPF < 5%.

In relation to FDR, it is known that the highest FDR value in 2019 was 95.72% at Bank Panin Dubai Syariah and the lowest value was 68.64% at Bank Aceh Syariah. In 2020, the highest score was 196.73% at Bank Syariah Bukopin and the lowest was 69.84% at Bank Muamalat Indonesia. However, it can still be seen that the FDR value is still below the standard set by Bank Indonesia of 80% - 100%, including Bank Aceh Syariah, Bank

Muamalat Indonesia, Bank BNI Syariah (Year 2019 and 2020) and Bank Victoria Syariah, Bank Syariah Bukopin (Year 2020) .

According to SE BI No. 6/23/DPNP 2004 BOPO is said to be good if  $< 94\%$  and very bad if  $> 97\%$ . This shows that there are still Islamic banks that have very poor BOPO values, including Bank Muamalat Indonesia, Bank Panin Dubai Syariah, Bank Syariah Bukopin (Year 2019 and 2020) and Bank Victoria Syariah (Year 2019).

The standard set by Bank Indonesia for the Net Operating Margin (NOM) ratio is 6% and above. This shows that in general the NOM value owned by Islamic banking is still below the predetermined standard except for Bank BTPN Syariah. As for the ROA according to BI regulations, a minimum of 1.5%, so that the bank can be said to be in healthy condition. This shows that there are still several banks that are not included in the healthy category for the period 2019 – 2020, namely Bank Muamalat Indonesia, Bank Victoria Syariah, Bank BRI Syariah, Bank Panin Dubai Syariah, Bank Syariah Bukopin and BCA Syariah.

In relation to the profit-sharing ratio, it is known that the highest value is found in Dubai Syariah Bank at 95.51% in 2019 and 92.89% in 2020. Then the lowest value is in BTPN Syariah at 0.32% in 2019 and 0,09% in 2020.

From this phenomenon, we can know that Islamic banking can survive in the midst of a pandemic, besides that not all empirical events are in accordance with existing theories. This can be seen from the existing Gap research in previous studies. Various previous studies have shown different results from the results of every other study and are not in accordance with the existing theory.

Therefore, this study will discuss the analysis of the determinants of Islamic banking financial performance in Indonesia to determine the effect of NPF, BOPO, FDR, Basil, and NOM as mediating variables on the ROA (profitability) variable either partially or simultaneously during 2019-2020. So that it can be an overview of what factors affect the current condition of Islamic banking in Indonesia.

## **METHODOLOGY**

### **Research Types and Approach**

This study uses a quantitative approach. Quantitative research whose specifications are systematic, planned and clearly structured and requires the use of numbers, starting from data collection, interpretation of data and results (Siyoto & Sodik, 2015). Quantitative descriptive research is research conducted to provide answers to a problem and obtain wider information about a phenomenon by using the stages of a quantitative approach.

### **Data Sources And Processing**

The source of data in this study is secondary data downloaded from the official website of each Islamic banking in the form of quarterly financial reports. The data processing program uses Smart PLS version 3.2.9.

### **Population and Sample**

The population is a generalization area consisting of objects/subjects that have certain qualities and characteristics determined by researchers to be studied and then drawn. The banking population in this study amounted to 14 Islamic Commercial Banks. The details of the bank are:

**Table 2**  
**Research Population**

No.	Names of Islamic Commercial Banks
1	Bank Aceh Syariah
2	BPD Nusa Tenggara Barat Syariah
3	Bank Muamalat Indonesia
4	Bank Victoria Syariah
5	Bank BRISyariah
6	Bank Jabar Banten Syariah
7	Bank BNI Syariah
8	Bank Syariah Mandiri
9	Bank Mega syariah
10	Bank Panin Dubai Syariah
11	Bank Syariah Bukopin
12	BCA Syariah
13	Bank Tabungan Pensiunan Nasional Syariah
14	Maybank Syariah Indonesia

Source : Islamic banking statistics (SPS) 2020

While the sample takers used purposive sampling technique based on the following criteria:

1. Islamic Commercial Banks in Indonesia during the period 2019-2020
2. Islamic Commercial Banks that have complete quarterly financial reports for the period 2019-2020.
3. Sharia Commercial Banks that have financial ratios such as: NPF, BOPO, FDR, BASIL, and ROA.

Based on the criteria for determining the sample above, there are nine Islamic Commercial Banks, including:

**Table 3**  
**Research Sample**

No.	Names of Bank
1	Bank Aceh Syariah
2	Bank Muamalat Indonesia
3	Bank Victoria Syariah
4	Bank BRISyariah
5	Bank BNI Syariah
6	Bank Panin Dubai Syariah
7	Bank Syariah Bukopin
8	BCA Syariah
9	Bank Tabungan Pensiunan Nasional Syariah

Source: processed data 2021

### Variable Assessment

The variables used in this study are categorized into independent Variables: NPF, BOPO, FDR, and BASIL (X); intermediary Variable (Intervening/mediation): NOM (M) and Dependent Variable: ROA (Y).

The measurement of each variable can be explained as follows:

**Table 4**  
**Measurement of Research Variables**

Variable	Formula	Measuring Scale
ROA	$ROA = \frac{Net\ Income}{Total\ Assets} \times 100\%$	Ratio
NPF	$NPF = \frac{Non\ Performing\ Financing}{Total\ Financing} \times 100\%$	Ratio
BOPO	$OEOI = \frac{Operating\ Expenses}{Operating\ Income} \times 100\%$	Ratio
FDR	$FDR = \frac{Total\ Loan}{Total\ Third\ Party\ Funds} \times 100\%$	Ratio
BASIL	$BASIL = \frac{Profit\ Sharing\ Financing}{Total\ Financing} \times 100\%$	Ratio
NOM	$NOM = \frac{Earning}{Revenue} \times 100\%$	Ratio

### Analysis Technique

Testing the direct or indirect effect between the Independent Variables on the Intervening Variable and the Dependent Variable using the Multiple Regression test with path analysis. The analytical tool used is Partial Least Square (PLS) with Smart PLS software. PLS is part of the Structural Equation Model with a variance basis designed to solve multiple regression when specific problems occur in the data such as small research sample sizes, missing data and ignoring the effects of multicollinearity between indicators and latent variables (Hartono & Abdillah, 2016). PLS can be run on data that is not normally distributed and direct parameter estimates can be performed because it does not require the fulfillment of the criteria of goodness of fit (Ghozali & Latan, 2015).

Path analysis was conducted to examine the effect of mediation from the independent variable to the dependent variable, with the following equation model:

Equation 1

$$Z = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e_1$$

Equation 2

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + Bz + e_2$$

Explanation :

Y = ROA

$\beta_0$  = parameter koefisien regresi

$\beta$  = konstanta equation of regresi

X1 = NPF

X2 = BOPO

X3 = FDR

X4 = BASIL

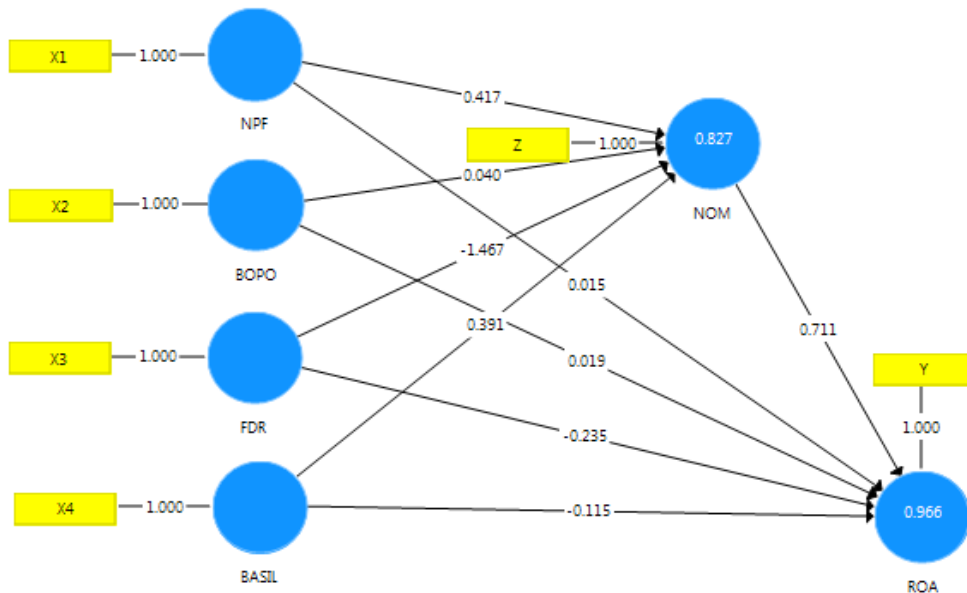
Z = NOM

### RESULTS AND ANALYSIS

Analysis of the pattern of relationships between variables to determine the direct or direct effect of the Independent variable on the Dependent Variable using path analysis. Through path analysis, it can be seen the form of the relationship between variables along

with the path and the strength of the relationship between variables. The path analysis model is shown in Figure 1 below.

**Figure 1**  
**Path Analysis**



Source: Output PLS 3.0 (2021)

Hypothesis testing is seen from the significance value of the relationship between variables and the relationship coefficient of the influence of the independent variable on the dependent variable. The results of the path analysis test show the significance between the variables in the study. The path coefficient shows the direction and how much influence the Independent Variable has on the Endogenous Variable. The significance of the model can be seen by comparing the t-values with the t-count which in the intervening model uses a t table of 2.0. The influence between variables directly, indirectly and in total can be seen in table 5.

**Table 5**  
**Total Direct and Indirect Influence**

Independen	Variabel		Pengaruh			T Statistic ( O/STDEV )	P Value
	Intervening	Dependen	direct	indirect	Total		
BASIL	-	NOM	0.391	-	-	3.766	0.000
BASIL	-	ROA	-0.115	-	-	2.102	0.036
BOPO	-	NOM	0.040	-	-	0.560	0.575
BOPO	-	ROA	0.019	-	-	1.322	0.187
FDR	-	NOM	-1.467	-	-	12.326	0.000
FDR	-	ROA	-0.235	-	-	2.582	0.000
NOM	-	ROA	0.711	-	-	10.295	0.000
NPF	-	NOM	0.417	-	-	4.816	0.000
NPF	-	ROA	0.015	-	-	0.328	0.743
BASIL	NOM	ROA	-0.115	0.278	0.163	4.324	0.000
BOPO	NOM	ROA	0.019	0.028	0.047	0.580	0.562
FDR	NOM	ROA	-0.235	-1.042	-0.807	9.445	0.000
NPF	NOM	ROA	0.015	0.296	0.311	5.635	0.000

Source: Analysis result (2022)

Based on table 5, it can be seen that the direct influence of each independent variable on the dependent variable is as follows:

**BASIL's effect on NOM**

The BASIL path coefficient on NOM has a value of 0.391, indicating a positive influence from BASIL on NOM. The t-statistic value  $>2.0$  or  $3.766 > 2.0$  means that BASIL has a significant positive effect on NOM.

**BASIL's effect on ROA**

The BASIL path coefficient on ROA has a value of -0.115, indicating a negative effect of BASIL on ROA. The t-statistic value  $>2.0$  or  $2.102 >2.0$  means that BASIL has a significant negative effect on ROA.

**BOPO's effect on NOM**

The path coefficient of BOPO to NOM has a value of 0.040, indicating a positive effect of BOPO on NOM. The t-statistic value  $<2.0$  or  $0.560 <2.0$  means that the BOPO has no significant positive effect on NOM.

**BOPO's effect on ROA**

The BOPO path coefficient on ROA has a value of 0.019, indicating a positive effect of BOPO on ROA. The t-statistic value  $<2.0$  or  $0.187 <2.0$  means that the BOPO has no significant positive effect on ROA.

**FDR's effect on NOM**

The FDR path coefficient on NOM has a value of -1.467, indicating a negative effect of FDR on NOM. The t-statistic value  $>2.0$  or  $12.326 >2.0$  means that FDR has a significant negative effect on NOM.

**FDR's effect on ROA**

The FDR path coefficient on ROA has a value of -0.235, indicating a negative effect of FDR on ROA. The t-statistic value  $>2.0$  or  $2.582 >2.0$  means that FDR has a significant negative effect on ROA.

**NOM's effect on ROA**

The path coefficient of NOM on ROA has a value of 0.711, indicating a positive effect of NOM on ROA. The t-statistic value  $>2.0$  or  $10.295 >2.0$  means that NOM has a significant positive effect on ROA.

**NPF's effect on NOM**

The path coefficient of NPF against NOM has a value of 0.417, indicating a positive effect of NPF on NOM. The t-statistic value  $>2.0$  or  $4.816 >2.0$  means that the NPF has a significant positive effect on NOM.

**NPF's effect on ROA**

The NPF path coefficient on ROA has a value of 0.015, indicating a positive effect of NPF on ROA. The t-statistic value  $<2.0$  or  $0.328 <2.0$  means that the NPF has a positive and insignificant effect on ROA.



The results of the indirect effect can be obtained from the multiplication of the path coefficient of the exogenous variable on the intervening variable with the path coefficient of the intervening variable on the endogenous variable. The total effect can be known by adding up the value of the coefficient of direct influence with the product of the value of the coefficient of indirect influence.

Then the indirect effect can be explained as follows:

**BASIL’s effect on ROA through NOM**

The BASIL path coefficient to ROA through NOM has a value of 0.278 which is obtained from the product of 0.391 (BASIL path coefficient to NOM) with 0.711 (NOM coefficient to ROA). The total effect of 0.163 is obtained from the sum of -0.115 (direct coefficient of BASIL on ROA) plus 0.278 (coefficient of indirect effect of BASIL on ROA through NOM). The t-statistic value  $> 2.0$  or  $4.324 > 2.0$  means that BASIL has a significant positive effect on ROA mediated by NOM.

**BOPO’s effect on ROA through NOM**

The direct effect between BOPO and ROA is 0.019, while the indirect effect is  $(0.040) \times (0.711) = 0.02844$  so it can be said that the indirect effect is greater than the direct effect, this shows that the NOM variable is able to mediate the effect between BOPO and ROA.

**FDR’s effect on ROA through NOM**

The direct effect between FDR and ROA is -0.235, while the indirect effect is  $(-1.467) \times (0.711) = -1.0243$  so it can be said that the indirect effect is greater than the direct effect, this indicates that the NOM variable able to mediate the effect between FDR and ROA.

**NPF’s effect on ROA through NOM**

The direct effect between NPF and ROA is 0.015, while the indirect effect is  $(0.417) \times (0.711) = 0.2964$  so it can be said that the indirect effect is greater than the direct effect, this indicates that the NOM variable is able to mediate the effect between NPF and ROA.

Based on the above results, it is evident that the NOM variable has mediated the effect of the BASIL, BOPO, FDR and NPF variables on ROA.

The coefficient of determination (R<sup>2</sup>) is used to measure the level of variation of changes in the independent variable on the dependent variable. The results of R<sup>2</sup> can be seen in the following table Table 6 :

**Table 6**  
**Calculation Results of Adjusted R Square (Adj R<sup>2</sup>)**

	R Square	R Square Adjusted
NOM	0.827	0.817
ROA	0.966	0.963

Source: Output PLS 3.0 (2021)

The table 6 shows that NOM can be explained by NPF, BOPO, FDR, and BASIL of 81.7%, the remaining 18.3% are other variables not included in the research model. ROA can be explained by NPF, BOPO, FDR, BASIL and NOM by 96.3% and the remaining 3.7% is explained by other variables outside this study.

## **DISCUSSION**

### **BASIL's effect on NOM**

BASIL has a path coefficient of 0.391 with a significance of  $0.000 < 0.05$  so it has a positive effect on NOM. That is, a high profit sharing will be followed by a positive Net Operating Margin.

Islamic commercial banks optimize their achievements in increasing their profitability by being committed to continuously moving the real sector. Where in moving this real sector, financing as a financial effort from Islamic commercial banks has received high attention. As it is known that Islamic banks are banks that in their operations do not rely on interest as the basis for taking profits. So this is the main attraction for prospective customers in planning for taking financing at Islamic banks. Financing in Islamic banks is one of the factors that affect the profitability of Islamic banks. The financing contracts in Islamic commercial banks are mudharabah, musyarakah, murabahah, istishna, salam, qardh, ijarah, ijarah vomiting bittamlik, wadi'ah, and hawalah financing.

Income from the profit sharing principle is determined based on the agreed ratio, the bank's profit depends on the customer's profit. The profit-sharing pattern contains a lot of risk, therefore the bank must actively try to anticipate the possibility of customer losses from the start. The bank's income is largely determined by the amount of profit it receives from the disbursed financing.

Profit sharing in banking in this study succeeded in influencing NOM in a positive direction, so that the results could increase the ratio used to measure the ability of bank management to manage their productive assets which would then increase revenue sharing. NOM or Net Operating Margin (Wibisono & Wahyuni, 2017) is commonly used to find out how the ability of bank management is to manage productive assets owned by the company so that they can get maximum revenue sharing.

### **BASIL's effect on ROA**

BASIL has a path coefficient of -0.115 with a significance of  $0.036 < 0.05$ , so it has a negative effect on ROA. That is, for high yields, there will be a decrease in profitability or Return On Assets. Thus, when banks have high profit sharing, not all of them can be followed by the percentage generated from the ROA calculation, namely net income divided by total assets. The author indicates that banks can print the resulting profit but with a declining ROA, meaning that banks are still less efficient in utilizing their assets.

BASIL or Profit Sharing is one of the Islamic bank contracts agreed upon by the scholars. It is a profit-sharing contract with the principles of mudharabah (trustee profit sharing) and musharaka (joint venture profit sharing). The concept of profit sharing is generally assumed that the parties work together to start or establish a joint venture. All business partners have participated since the beginning of operation and remain business partners until the business ends when all assets are liquidated (Ascarya, 2013). While BASIL itself is a ratio to assess how much profit-sharing financing is from total financing in banks. The results show that there is an influence between BASIL on ROA, this result is in line with research conducted by Moh Khoirul Anam and Ikhsanti Fitri where profit sharing financing has a significant effect on ROA (Anam & Khairunnisah, 2019). However, the test results show a negative direction. Indicates that the higher the profit sharing portion, the lower the ROA.

This result is in line with research from Aulia and Ridha which states that profit-sharing financing has a significant negative effect on ROA and also strengthens the condition of profit-sharing financing which is still less attractive and less attractive to Islamic banking in Indonesia (Ridha Rochmanika, 2012). The cause of the negative relationship between profit-sharing financing and ROA is that the first customer who has received profit-sharing financing from the bank does not necessarily return the funds obtained from the bank in the same year, then the second is because not all customers are obedient in returning the funds obtained from the bank. banks (Riyadi & Yulianto, 2014). The risk management of profit-sharing financing also contributes to the reason why this financing has not been maximally implemented by the company.

### **BOPO's effect on NOM**

BOPO has a path coefficient of 0.040 with a significance of  $0.575 > 0.05$ , so it has no effect on NOM. The size of the operational costs and operating income of banks in this study did not affect NOM. Operational Cost/Operational Income (BOPO) is used to measure the level of efficiency and ability of a bank in carrying out its operations.

BOPO is the ratio of operating expenses to operating income, with the aim of knowing how much the bank's ability to manage operating expenses so as not to swell. The smaller the BOPO ratio, the more efficient a bank is in managing its operational expenses. Vice versa, the greater the BOPO ratio, it indicates that the bank cannot manage its operating expenses properly.

The high operational efficiency of a bank is indicated by its low operating costs. Low operating costs will increase the chances of the bank making a profit. Therefore, the higher the operational efficiency of an Islamic bank, the higher the ability to increase profits. The BOPO ratio reflects the lack of improvement in the ability of banks to reduce operating costs and increase operating income which can result in losses because banks are less efficient in managing their business.

The results of this study are known that BOPO has no effect on NOM, the results of this study are in line with research conducted by Pincur and Nyoman where BOPO has no effect on Net Interest Margin (NIM) ((Purba & Triaryati, 2018).

### **BOPO's effect on ROA**

The BOPO variable has a path coefficient of 0.019 with a significance of  $0.187 > 0.05$ , so it has no effect on ROA. From the results of this study, BOPO does not affect NOM and also does not affect ROA, so the size of BOPO does not decrease or increase revenue sharing or the percentage of ROA.

The lower the BOPO ratio, the more efficient the operational costs incurred by the bank concerned. So the possibility of a bank in a problematic condition is getting smaller and the lower this ratio, the better the bank because it is more efficient in using company resources. In other words, if the bank is more efficient in carrying out its business activities, the profits to be obtained will increase. A bank that does not operate efficiently can be indicated by a high BOPO ratio value, so it is likely that the bank is in a problematic condition and the bank's operational activities in distributing financing will be hampered if the bank is in a problematic condition.

In contrast to previous studies which stated that BOPO had a significant negative effect on ROA (Sofyan, 2019) (Bagus et al., 2018) (Vernanda & Widyarti, 2016).

### **FDR's effect on NOM**

The FDR variable has a path coefficient of -1.467 with a significance of 0.000 <0.05, so it has a negative effect on NOM. The results of this study, FDR which is a ratio to measure the composition of the amount of financing provided by Islamic banking to customers which is then compared with the amount of public funds and own capital used.

The higher the FDR, the lower the liquidity capacity of the bank and the higher the risk accepted by the bank, so that a high FDR can reduce the Net Operating Margin. FDR is an indicator of the level of financing disbursed which has an effect on increasing profitability. FDR is used to measure a bank's ability to pay its debts and repay its depositors, as well as to fulfill loan requests submitted by customers. If the distribution of financing increases, it is estimated that the profitability of the profit sharing received by banks will also increase. Banking income is largely determined by the many benefits received from the financing disbursed. However, in this study the FDR yield increased, but NOM decreased. It is indicated that the high distribution of financing but not followed by an increase in returns by debtors to banking institutions will cause a decrease in profit sharing or it can be said that the level of non-performing financing loans increases. Thus, the fact that occurred in this study FDR increased, but NOM decreased.

The relationship between the FDR ratio and NOM is where the smaller the FDR ratio, the better for the health of the bank in maintaining its liquidity, but will create a large number of idle funds. This means that the smaller the FDR ratio will make the profit rate smaller, although this will make the bank very healthy. Vice versa, the greater the FDR ratio, the greater the level of profit obtained, although it will make the bank in an unhealthy position because it cannot maintain its short-term obligations.

In this case, the research results are not in line with the existing theory and several previous studies conducted by Yusuf and Wahyuni obtained the fact that FDR has a significant positive effect on NOM (Wibisono & Wahyuni, 2017).

### **FDR's effect on ROA**

The FDR variable has a path coefficient of -0.235 with a significance of 0.000 <0.05, so it has a negative effect on ROA. The results of the FDR study have a significant negative effect not only on NOM, but also on ROA. That is, a high FDR can reduce the company's ROA.

The FDR ratio is an indicator of the amount of third party funds disbursed in the form of financing. The bank disburses financing, then will get a profit when the customer pays the loan. In this study, the results showed that the high amount of funds disbursed, but there was a decrease in profitability. It is indicated that the high disbursement of funds, but the ratio of non-performing financing increased, causing the income earned to decrease.

The Financing to Deposit Ratio (FDR) is an analogue of the Loan to Deposit Ratio in conventional banks which is interpreted by the comparison between the financing provided by the bank and the third party funds that have been collected by the bank, this ratio is also an illustration of the effectiveness of the bank in disbursing credit. A low FDR indicates a bank's lack of effectiveness in lending. Conversely, if a high FDR indicates that the bank is very effective in channeling credit, it can be interpreted that the profit earned by the bank is increasing and the distribution of credit is very effective. An increase in profit means an increase in Return On Assets (ROA), because profit is a component that makes up Return On Assets (ROA).

The results of this study, the coefficient is inversely proportional to existing theory and previous research which states that FDR has a positive effect on Return On Assets (Bagus et al., 2018) (Windriya, 2019).

#### **NOM's effect on ROA**

The NOM variable has a path coefficient of 0.711 with a significance of 0.000 <0.05, so it has a positive effect on ROA. In this study, the ratio used to measure the ability of bank management to manage their productive assets which will then increase revenue sharing increases, so there is a positive direction with ROA, so that an increased NOM will also increase the ROA of Islamic banking.

The NOM ratio is used by banks to measure management's ability to manage their capital in order to benefit from providing funds to the public to generate net income. Net profit is obtained from all distributions of funds after deducting profit sharing and deducting operational costs. NOM has a significant positive effect on profitability, in line with the theory where the largest income for banks is profit sharing on financing. So that NOM has a positive effect on profitability, meaning that banks manage capital to earn profits have a high ratio, then the profits received by banks also increase.

The results of this study are in line with research conducted by Anisa Lubis et al, as well as research conducted by Sabir et al, the results of the study show that NOM has a positive effect on ROA (Lubis et al., 2017).

#### **NPF's effect on NOM**

The NPF variable has a path coefficient of 0.417 with a significance of 0.000 <0.05, so it has a positive effect on NOM, where NPF is one of the performance assessment instruments of an Islamic bank that interprets the value of its productive assets, especially in problematic assessments. In the results of this study, NPF has a significant positive effect on NOM, so that when the higher the financing it will increase the ability of bank management to manage its assets, so that it will be able to increase the revenue sharing to be received.

NPF is an indicator of the level of risk of non-performing financing has an influence on the decline in bank profitability. If the level of non-performing financing increases, it is estimated that bank profitability will decline. This is due to the occurrence of non-current in the financing that has been disbursed. Based on the facts produced in this study, it is known that NPF has a significant positive effect on NOM in Islamic banking, meaning that the high level of financing risk increases, but the profit sharing received by banks also increases.

The results in this study are not in line with the existing theory, and the results are different from the research conducted by Pincur and Nyoman, where Non-Performing Loans (NPL) have a significant negative effect on NIM (Purba & Triaryati, 2018).

#### **NPF's effect on ROA**

The NPF variable has a path coefficient of 0.015 with a significance of 0.743 > 0.743 so it has no effect on ROA. In contrast to the previous results, where NPF has a significant positive effect on NOM but has no effect on ROA, it means that high NPF does not affect the percentage of ROA. Based on the results of the study, it is known that NPF has no effect on Profitability (ROA).

The NPF ratio is one of the measures used to determine the risk arising from the customer's inability to repay loans and the rewards. The existence of management in financing is very important and needed by every bank, given that the function of financing is as the largest revenue contributor for Islamic banks, so that the soundness of financing will affect the profit that will be received by banks. In the results of this study, there is no effect of NPF on ROA, because the average NPF during the study period is still below the standard set by Bank Indonesia, so that NPF has no significant effect on profitability. Another reason is that Islamic banking has good management when non-performing financing increases. When the number of non-performing financing increases, the bank evaluates the performance of the bank. So that there is a direct action taken by Islamic banking in managing problematic financing, if non-performing financing is high then profitability has no significant effect.

These findings are in line with the research conducted by Yusuf and Reza, which found that NPF had no significant effect on ROA (Mohammad Yusuf & Reza Nurul Ichsana, 2021).

#### **BASIL's effect on ROA through NOM**

The total effect of 0.163 is obtained from the sum of -0.115 (direct coefficient of BASIL on ROA) plus 0.278 (coefficient of indirect effect of BASIL on ROA through NOM). The t-statistic value  $> 2.0$  or  $4.324 > 2.0$  means that BASIL has a significant positive effect on ROA mediated by NOM.

This proves that the Net Operating Margin variable can mediate between the BASIL and ROA variables. Every bank will always strive for a positive Net Operating Margin, because the higher the Net Operating Margin of a sharia bank, the higher the bank's income on its productive assets.

The bank's income can come from the proceeds from the distribution of financing, and services in the financial sector and others. The profits obtained by each Islamic banking company mostly come from profit sharing and profit margins, namely as a result of providing a number of financing to its customers. Therefore, financing is very important in the operational activities of every Islamic banking.

Profit sharing obtained from the financing is income for the bank. The net profit obtained by Islamic banks is the income received from financing or funding which has been deducted by costs. This is of course, profit sharing on financing will have an impact on the bank's net income. The larger the Net Operating Margin (NOM), the greater the profitability obtained by a bank.

#### **BOPO's effect on ROA through NOM**

The indirect effect is greater than the direct effect, this indicates that the NOM variable is able to mediate the effect between BOPO and ROA. Every bank will always strive for a positive Net Operating Margin, because the higher the Net Operating Margin of a sharia bank, the higher the bank's income on its productive assets.

BOPO is an operational cost ratio used to measure the level of efficiency and ability of a bank in carrying out its operations. The higher the BOPO ratio, the NIM ratio will

decrease because banks are less efficient in managing resources. Conversely, the lower the BOPO ratio, the higher the NIM ratio, because the lower the BOPO ratio means the better the bank's management performance and more efficient use of existing resources in the company. This performance improvement will increase the amount of funds that can be distributed to the public so that the bank's operational income will increase.

NIM is used to measure a bank's ability to generate income from its operations by looking at the bank's performance in lending, where the greater the NIM achieved by a bank, the higher interest income on productive assets managed by the bank concerned, so that the bank's profit (ROA) will increase.

### **FDR's effect on ROA through NOM**

The indirect effect is greater than the direct effect, this indicates that the NOM variable is able to mediate the effect between FDR and ROA. Every bank will always strive for a positive Net Operating Margin, because the higher the Net Operating Margin of a sharia bank, the higher the bank's income on its productive assets.

The increase in FDR reflects an increase in loans that is greater than the increase in deposits that have been collected by banks. This indicates that the increase in bank interest income is greater than the increase in interest costs that must be paid by the bank, so that it will increase the bank's net interest margin which has an impact on increasing bank profitability.

FDR measures the level of liquidity of a bank, because the funds used by banks to provide credit to parties in need come from funds raised by banks from other parties or the public. From the perspective of economies of scale, the greater the loan disbursement, the efficiency benefits associated with the cost per unit for managing and distributing the loan portfolio, in other words, the higher the loan ratio, the higher operational income will be obtained, which will increase the NOM.

The Net Operating Margin (NOM) ratio shows the ability of earning assets to generate net operating income for net profit sharing. The Net Operating Margin (NOM) ratio is strived to be high in order to cover loan losses, securities and tax losses to be used as profits and increase revenue.

### **NPF's effect on ROA through NOM**

The indirect effect is greater than the direct effect, this shows that the NOM variable is able to mediate the effect between NPF and ROA. Every bank will always strive for a positive Net Operating Margin, because the higher the Net Operating Margin of a sharia bank, the higher the bank's income on its productive assets.

NPF is a financial ratio that describes credit risk. Credit risk is the risk that arises from the failure of the debtor or counterparty to fulfill their obligations. A low NPF will result in a higher NOM because of low non-performing loans so that the interest and principal of the loan will be higher. A low NPF value indicates that the bank's funds will be larger so that the funds can be used for bank operations in order to make a profit.

Islamic banks that have a high NOM ratio indicate that the bank is able to generate revenue-sharing that is higher than the profit-sharing costs incurred for managing the disbursed financing. The amount of NOM shows the bank's ability to manage the distribution of financing to customers and its operational costs so that the quality of productive assets is maintained and is able to increase revenue.

## CONCLUSION

It was concluded that BASIL has a path coefficient of 0.391 with a significance of  $0.000 < 0.05$ , so it has a positive effect on NOM. BASIL has a path coefficient of -0.115 with a significance of  $0.036 < 0.05$ , so it has a negative effect on ROA. BOPO has a path coefficient of 0.040 with a significance of  $0.575 > 0.05$ , so it has no effect on NOM. The BOPO variable has a path coefficient of 0.019 with a significance of  $0.187 < 0.05$ , so it has a positive effect on ROA. The FDR variable has a path coefficient of -1.467 with a significance of  $0.000 < 0.05$ , so it has a negative effect on NOM. The FDR variable has a path coefficient of -0.235 with a significance of  $0.000 < 0.05$ , so it has a negative effect on ROA. The NOM variable has a path coefficient of 0.711 with a significance of  $0.000 < 0.05$ , so it has a positive effect on ROA. The NPF variable has a path coefficient of 0.417 with a significance of  $0.000 < 0.05$ , so it has a positive effect on NOM. The NPF variable has a path coefficient of 0.015 with a significance of  $0.743 > 0.05$  so it has no effect on ROA. Then the NOM variable mediates the BASIL, BOPO, FDR and NPF variables on ROA. The NOM variable can be explained by NPF, BOPO, FDR, and BASIL of 81.7%, the remaining 18.3% are other variables not included in the research model. ROA can be explained by NPF, BOPO, FDR, BASIL and NOM by 96.3% and the remaining 3.7% is explained by other variables outside this study.

The BASIL variable has a positive effect on NOM and a negative effect on ROA. The BOPO variable has no effect on NOM and has a positive effect on ROA. The FDR variable has a negative effect on NOM and has a negative effect on ROA. The NOM variable has a positive effect on ROA. The NPF variable has a positive effect on NOM and has no effect on ROA. Then the variable NOM succeeded in mediating the BASIL, BOPO, FDR and NPF variables on ROA.

The limitation of this research is that the observation data is only two years using the quarterly reports of Islamic Commercial Banks. For future research, it is necessary to make observations for a longer time and include risk variables on profitability and choose other sectors besides Islamic Commercial Banks.

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