The Influence of Internal Banking Variables on the Level of Profitability of Bank Pembiayaan Rakyat Syariah (BPRS)

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THE INFLUENCE OF INTERNAL BANKING VARIABLES ON THE LEVEL OF PROFITABILITY OF BANK PEMBIAYAAN RAKYAT SYARIAH (BPRS)

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ABSTRACT: The profitability of a bank can be seen from the ROA variable. The higher the number of bank profitability, the bank can be said to have good profits as well. This study aims to explain whether the variables of KPPM, KAP, PPAP, NPF, BOPO, FDR, and Cash Ratio have an influence on ROA. The data used in the form of annual panel data for 4 years on 26 BPRS in Central Java Province were investigated using the Common Effect (CE) model. The findings prove that the variables of KPPM, KAP, PPAP, NPF, FDR, and Cash Ratio have a negative and insignificant effect on profitability (ROA). Meanwhile, the BOPO variable has a positive and insignificant effect on profitability (ROA).

Keywords: Bank Pembiayaan Rakyat Syariah (BPRS), profitability, internal banking variables

1 INTRODUCTION

Islamic People's Financing Banks or BPRS play an important role in stimulating the national economy. In addition to operating in smaller units and reaching out to community businesses, from the bottom, BPRS also provides easy access to financing to provide comprehensive support in encouraging community economic activities. (Irawan, Puteri, Eka, Hesi, 2020).

According to research (Muhaemin, Ahmad, Wiliasih, 2016) Islamic People's Financial Bank (BPRS) is a form of Islamic banking that acts as an intermediary by providing funds to the community. BPRS was established for the purpose of capital support for micro, small and medium enterprises (MSMEs). such a goal is made in the form of fees paid Business areas include in the MSME financial category.

The existence of financial institutions, especially in the banking sector, occupies a strategic position as a cost provider to meet the needs of working capital and investment in the real sector with capital owners. Therefore, the main function of the banking sector in macroeconomic policy infrastructure is directed at the context of how to make money effective to increase economic added value. The banking sector has a role to re-run economic activities in the real sector amid economic problems that occur in a country. The problem is the fulfillment of primary needs, creating jobs and increasing income, and developing industries that produce products that have import and export value. (Afifah, I., & Sopiany, 2017)..

Bank profitability describes the bank's ability to profit by using all the resources at your disposal for efficiency such as cash, capital, sales activity, etc. Bank profitability can be seen from the value earned on assets (ROA). The higher the ROA value signifies usage. The more efficient the company's assets or in other words the higher the ROA, the profit or profit of the company will increase. In the view of Islam, profit-seeking activities by a company are allowed if they are still in accordance with the teachings of the Quran and Hadith. Islam also does not limit the maximum amount of interest that a company can achieve as long as it is still fair and does not harm itself or others. (Dayanti & Indrarini, 2019).

(Ningsih & Rachmawati, 2019) about factors that affect profitability at BPRS in East Java. This study uses the dependent variable, namely ROA and the independent variables, namely KPPM, NPF, BOPO, FDR, NIM. The analytical tool used is multiple linear regression analysis. Independent variables that are positive but insignificant are KPPM, FDR, and NIM. The independent variable that is negatively significant is BOPO. While the negative insignificant independent variable is NPF.

In this study the authors intend to determine the internal factors of Islamic People's Financing Banks that can affect the profitability of BPRS and will certainly reduce the performance of BPRS in the Central Java region. The reason for choosing BPRS to be researched because in my opinion BPRS is interesting in its principles, namely BPRS operates in accordance with sharia principles, which are prohibited for usury, masyir, and gharar. Another interesting thing about BPRS is that BPRS has an important role in financial inclusion in the community, BPRS also often focuses on financing MSMEs and other economic sectors. And also the BPRS industry in recent years has experienced rapid growth. The difference between this study and other studies is from the variables used, the object of research and the period of years used and the data analysis methods used in this study. The reason we took samples in Central Java is due to the potential for economic development in Central Java where BPRS in this region can be an interesting subject to study. Where the results of the study can provide insight for decision makers and stakeholders in developing the microfinance sector in the region.

The year used is the 2019-2022 period. The internal variables used include KPMM, KAP, PPAP, NPF, BOPO, FDR, and Cash Ratio on ROA profitability. The method used in this study uses a quantitative approach BPRS was chosen as the object of research because BPRS is a banking sector that directly touches small and medium communities to start a business. Based on the above background, the authors will examine the "Influence of Internal Banking Variables on the Profitability Level of Islamic People's Financing Banks (BPRS)".

2 OVERVIEW
2.1.Commercial Banks
1. Definition of Bank
(Law Number 10 of 1998, 1998) argues that the definition of a bank is a business entity that collects funds from the public in the form of deposits and distributes them to the public in the form of credit and or other forms in order to improve the lives of many people.
2.2.Sharia People's Financing Bank (BPRS)
1. Concept of Islamic People's Financing Bank (BPRS)
According to research (Muhaemin, Ahmad, Wiliasih, 2016) Islamic People's Financing Bank (BPRS) is part of an Islamic bank that focuses on financing MSMEs.
According to (Arif, 2012) Islamic Rural Bank (BPRS) is one of the Islamic banking financial institutions, whose operational pattern follows the principles of sharia or Islamic muamalah.
2. Function of Sharia People's Financing Bank (BPRS)
BPRS functions as implementing some of the functions of commercial banks at the regional level while still based on sharia principles. (Muhaemin, Ahmad, Wiliasih, 2016)
3. Legal Foundation of Islamic People's Financing Bank (BPRS)
The legal form of BPRS is a limited liability company. Based on Law No. 21 of 2008 on Sharia Banking, BPRS operations include activities to collect public funds in the form of savings, deposits, and or other similar forms, provide financing and placement of funds based on sharia principles, place its funds in the form of Bank Indonesia Wadiah Certificates (SWBI), time deposits, certificates of deposit, and/or savings at other banks. BPRS is prohibited from receiving deposits in the form of demand deposits and participating in payment traffic, conducting business activities in foreign currencies, making capital investments, and conducting insurance business. (Muhaemin, Ahmad, Wiliasih, 2016)
BPRS was established based on Law No. 7 of 1992 on Banking and Government Regulation (PP) No. 72 of 1992 on Banks Based on Profit Sharing Principles. In article 1 (point 4) of Law No. 10 of 1998 concerning Amendments to Law No. 7 of 1992 concerning Banking, it is stated that BPRS

is a bank that carries out business activities based on sharia principles which in its activities do not provide services in payment traffic. (Nugraheni & Septiarini, 2017)

4. Forms of Fund Disbursement of Islamic People's Financing Banks

Fund distribution activities of BPRS are channeled to the community in the form of financing based on the principle of sale and purchase (*murabahah, istishna', salam*); the principle of leasing (*ijarah*); the principle of profit sharing (*mudharabah, musyarakah*); the principle of kebiajakan (*qardh hasan)*. In providing financing services to the community, BPRS must understand the characteristics of prospective customers first. (Muhaemin, Ahmad, Wiliasih, 2016). Financing *bai bitsaman ajil*, *qardhul hasan financing*, *Istishna' financing, Al-Hiwalah financing*, and other banking services. (Arif, 2012).

5. BPRS Business Activities

(Arif, 2012) argues that as an Islamic financial institution, basically the Islamic Rural Bank (BPRS) can provide financial services similar to Islamic commercial banks. However, according to Banking Law No. 10 of 1998, BPRS can only carry out the following businesses:

a. Raising funds from the public in the form of deposits in the form of time deposits, savings and or other forms that are equated with it.

b. Providing credit.

c. Providing financing and placement of funds based on sharia principles in accordance with the provisions stipulated by Bank Indonesia.

d. Placing its funds in the form of Bank Indonesia Certificates, time deposits, certificates of deposit, and or savings at other banks.

6. BPRS Products

According to (Arif, 2012) the products offered by BPRS are:

a. Community Fund Mobilization

The bank will mobilize public funds in various forms such as receiving *wadi'ah* deposits, savings facilities and time deposits.

b. Simpanan Amanah

The bank receives trust deposits in the form of infaq, shadaqah and zakat funds. The acceptance of this trust is *wadi'ah*, which is a trust that does not bear risk. The bank will provide a level of profit from the profit sharing obtained through financing to customers.

c. *Wadi'ah* Savings

The bank accepts personal and corporate savings in the form of free savings. The acceptance agreement used is the same, namely *wadi'ah*. The bank will provide a profit rate to customers that is calculated daily and paid monthly.

d. *Wadi'ah* deposits / *mudharabah* deposits

The bank accepts time deposits from individuals and business entities. The acceptance agreement is *wadi'ah* or *mudharabah*, where the bank receives funds that are used as temporary investments for a period of 1 month, 3 months, 6 months, 12 months, and so on. Depositors who use the *wadi'ah* contract receive a profit sharing ratio that is smaller than the *mudharabah* profit sharing received in customer financing every month.

2.3. Profitability

1. Concept of Profitability

Profitability is an important measure of the success and sustainability of banking operations, including the Islamic People's Financing Bank (BPRS). Profitability is an indicator in measuring and evaluating the performance of a bank's management and management productivity in managing banking assets comprehensively, so that the bank is able to generate profits. (Irawan, Puteri, Eka, Hesi, 2020)

According to research (Muhaemin, Ahmad, Wiliasih, 2016) Profitability is the ability of a company to earn profits in a certain period. According to (Nugraheni & Septiarini, 2017) profitability is a ratio that shows the level of effectiveness achieved through the bank's operational efforts.

2. Types of Profitability Ratios

According to (Muhaemin, Ahmad, Wiliasih, 2016) the types of financial ratios that can be used are *profit margin*, *Return on Asset* (ROA), *Return on Equity* (ROE), operating cost ratio and *Net*

Interest Margin (NIM). According to (Bisiranawati, 2014) the types of profitability ratios that can be used are *Return on Investment*.

3. Profitability Ratio Objectives

According to (Bisiranawati, 2014) the purpose of using the profitability ratio for the company and for parties outside the company, namely:

a. To measure or calculate the profit earned by the company in a certain period.

b. To assess the company's profit position in the previous year with the current year.

c. To assess profit development over time.

d. To assess the amount of net profit after tax with own capital.

e. To measure the productivity of all company funds used both loan capital and own capital.

f. To measure the productivity of all company funds used either own capital.

4. Benefits of Profitability Ratio

According to (Bisiranawati, 2014) the benefits of using profitability ratios are as follows:

a. Following the level of profit earned by the company in one period.

b. Knowing the company's profit position in the previous year with the current year.

c. Knowing the development of profit over time.

d. Knowing the amount of net profit after tax with own capital.

e. Knowing the productivity of all company funds used both loan capital and capital.

 2.4. Previous Research

Previous research aims to obtain comparison and reference materials. In addition, to avoid plagiarism and the assumption of similarity with this research. So in this library study the researcher lists the results of previous studies as follows:

1. Nida Laili Fitriyah, Mohamad Yusron Sholikhin, 2019

This research is entitled "determinants of BPRS profitability in Indonesia". This study aims to examine the determinants that affect the profitability of Islamic People's Financing Banks in Indonesia. In addition, this study provides value for the development of BPRS in Indonesia in increasing profitability. (Fitriyah & Sholikhin, 2019)

a. Similarities: The equation of previous research with the research that I will do is to find out what affects the profitability of BPRS by using internal indicators from the bank itself.

b. Differences: The difference in this study is related to the additional variables used. Variables in previous studies only focused on CAR, FDR, NPF, BOPO, Inflation. Meanwhile, what I use for this research is the CAR, KAP, PPAP, NPF, BOPO, FDR, and *Cash Ratio* variables. Differences related to the variables used will later lead to different results.

2. Elsa Oktavian, Muhamad Umar Mai, Setiawan, 2022

This research is entitled "analysis of the influence of internal factors and external factors on the profitability of Islamic people's financing banks in Indonesia". This study aims to determine the influence of FDR, NPF, *Firm Size*, Inflation and GDP variables on ROA at BPRS in Indonesia. (Oktaviani et al., 2022)

a. Similarities: The equation of previous research with the research that I will do is the type of research that uses quantitative data and the data source used comes from the BPRS financial report data published by OJK on the website *www.ojk.go.id*.

b. Difference: The difference between previous research and the research I will do is in the population used. In previous studies researchers used a population of all BPRS in Indonesia, namely a total of 163 populations. Meanwhile, the research I will do uses a population of BPRS in the Central Java region.

3. Wiwik Fitria Ningsih, Lia Rachmawati, 2019

This study aims to determine the factors that affect the profitability of BPRS in East Java as measured using bank financial ratios during the period 2012 to 2016. The results showed that CAR, FDR, and NIM had a positive and insignificant effect on the profitability of BPRS in East Java. Meanwhile, NPF and BOPO have a negative and insignificant effect on BPRS profitability in East Java. (Ningsih & Rachmawati, 2019)

a. Equation: The equation of previous research with the research that I will do is the data collection method used is to collect literature that has to do with making a thesis with the aim of

getting a theoretical basis and analysis techniques in solving problems. In addition, data collection of published bank financial reports.

b. Difference: The difference between previous research and the research that I will do lies in the variables used, namely in previous studies using KPMM, NPF, BOPO, FDR, and NIM variables. Meanwhile, the research that I will do uses KPMM, KAP, PPAP, NPF, BOPO, FDR, and *Cash Ratio variables*.

4. Feri Irawan, Hesi Eka Puteri, 2020

This study is entitled "the interaction of capital aspects, financing risk, and macroeconomic indicators in influencing the profitability of BPRS in Indonesia for the period 2014-2018". This study aims to analyze the effect of capital aspects (CAR), financing risk (NPF) and macroeconomic variables including economic growth, inflation and BI Rate on profitability (ROE) in the short and long term. (Irawan, Puteri, Eka, Hesi, 2020)

a. Similarities: The equation of previous research with the research that I will do is in the data collection system, namely by looking at the data published on Islamic banking statistics, financial services authority (www.ojk.go.id).

b. Differences: The difference between previous research and the research that I will do is in the variables used. In previous studies using internal variables in the form of capital aspects, financing risk. In addition, it also uses macroeconomic indicator variables. Meanwhile, the research that I will do only uses internal variables contained in the Islamic bank.

5. Sherly Yolanda, Ariusni, 2019

This research is entitled "the influence of internal and external factors on non-performing financing at Islamic commercial banks (BUS) and Islamic people's financing banks (BPRS). This study aims to examine the factors that influence NPF in Islamic commercial banks and Islamic people's financing banks in Indonesia such as: CAR, ROA, inflation, and exchange rates. (Yolanda & Ariusni, 2019)

a. Similarities: The equation of previous research with the research that I will do is both using internal factors to analyze variables that affect non-performing financing (NPF) and analyze the financial profitability of Islamic banks.

b. Differences: The difference between previous research and the research that I will do is in the data used. In previous research using monthly data from month 1 of 2015 to month 12 of 2018. Meanwhile, the research I will do uses annual data from 2008 to 2022.

3. RESEARCH METHODS

3.1. Research Approach and Type

This research uses quantitative methods. Quantitative methods are methods that have properties that show quantity, the form of absolute numbers (parametric) so that the magnitude can be determined.

The purpose of quantitative research is to explain a phenomenon through a mathematical model approach, theory and hypothesis development. (Irawan, Puteri, Eka, Hesi, 2020). (Nugraheni & Septiarini, 2017) said that quantitative research is a research method based on the posotovist philosophy, used to research on certain populations or samples.

Quantitative research is research that is intended to reveal symptoms in a holistic-conceptual manner through data collection from a natural setting by utilizing the researcher as the key instrument. Quantitative research is descriptive and tends to use an inductive approach analysis. Quantitative research is research that focuses on measuring and analyzing the cause-and-effect relationship between various variables, not the process, the investigation is seen as being in a value-free framework. (Ahyar et al., 2020).

3.2. Research Population and Sample

The population used as a sample in this study is BPRS in the Central Java region which is recognized by OJK Indonesia by being listed on the *website* during the period 2019 to 2022, which is 26 BPRS. While the sample is determined by *Purposive Sampling* technique which has the main characteristic that the sample members are specifically selected based on the research objectives. The following is a list of BPRS in Central Java:

1. BPRS Artha Amanah Ummat, Semarang
2. BPRS Asad Alif, Kendal

3. BPRS Gala Mitra Abadi, Grobogan
4. BPRS Artha Mas Abadi, Pati
5. BPRS Saka Dana Mulia, Kudus
6. BPRS Bina Amanah Satria, Banyumas
7. BPRS Khasanah Ummat, Banyumas
8. BPRS Arta Leksana, Banyumas
9. BPRS Gunung Slamet, Banyumas
10. BPRS Suriyah, Cilacap
11. BPRS Bumi Artha Sampang, Cilacap
12. BPRS Buana Mitra Perwira, Purbalingga
13. BPRS Meru Nusantara Mandiri, Magelang
14. BPRS Ikhsanul Amal, Kebumen
15. BPRS Al Mabrur Klaten, Klaten
16. BPRS Dharma Kuwera, Klaten
17. BPRS Sukowati Sragen, Sragen
18. BPRS Insan Mandani, Sukoharjo
19. BPRS Artha Surya Barokah, Semarang City
20. BPRS Bina Finansia, Semarang City
21. BPRS Mitra Harmoni Semarang City, Semarang City
22. BPRS Harta Insan Karimah Bahari, Tegal City
23. BPRS Dana Mulia, Surakarta City
24. BPRS Dana Amanah Surakarta, Surakarta City
25. BPRS Central Syariah Utama, Surakarta City
26. BPRS Harta Insan Karimah Surakarta, Surakarta City

3.3. Data Collection

The data used in this study used secondary data of BPRS in the Central Java region, financial data collected from the annual report of Islamic Banking Statistics published by the Financial Services Authority (OJK) in the period 2019-2022.

This research uses data collection methods, namely:

1. Literature research conducted by collecting literature related to the making of research which aims to obtain a theoretical basis and analysis techniques in solving problems.

2. Data collection of published bank financial statements

3.4. Analysis Technique

The analysis technique used in this research is panel data regression analysis. The data analysis process is carried out with the help of the Eviews application. This study has three models that must be selected as the most appropriate model between CEM (*common effect model*), FEM (*fixed effect model*) and REM (*random effect model*), by testing the model estimation, namely the chow test, hausman test and lagrange multiplier test. Classical assumption tests in CEM and FEM include multicollinearity and heteroscedasticity. While in REM the classical assumption test requirements do not need to be done. Then hypothesis testing is carried out which consists of the coefficient of determination, t-test and F-test. Furthermore, multiple linear regression analysis is carried out.

The regression equation used is as follows:

$$\ln ROA_{it} = \beta 0 + \beta\ KPPM_{iit} + \beta\ KAP_{2it} + \beta_3\ PPAP + \beta_{it4}\ NPF_{it} + \beta\ BOPO_{5it} + \beta\ FDR_{6it} + \beta_7\ Cash\ Ratio_{it} + e_{it}$$

Description:
ROA   = Return On Asset
b_0 = Constant
b_1 - b_7 = Regression coefficient of independent variable
KPMM   = Minimum Capital Adequacy Requirement
KAP   = Earning Asset Quality

PPAP = Allowance for Loss of Earning Assets
NPF = Non Performing Financing
BOPO = Operating expenses to operating income
FDR = Financing to Deposit Ratio
Cash Ratio= Cash ratio
e = error

4.DISCUSSION
4.1.Data Processing Results
 1. Best Model Selection
The best model selection is done by means of the Chow Test, Hausman Test and Breusch-Pagan LM Test.

Table 4.4
Best Model Selection Test Results

Test	Prob
Chow Test	0.5533
Hausman Test	0.1668
Breusch-Pagan LM Test	0.2838

- Based on the Chow test, Prob.F=0.5533 is obtained. the value is greater than 0.05, so it is decided to accept H0 and reject H1. Thus, it can be said that the CE model is more appropriate to use than the FE model.
- Based on the Hausman test, Prob.F=0.1668 is obtained. the value is greater than 0.05, so it is decided to accept H0 and reject H1. Thus, it can be said that the FE model is more appropriate to use than the RE model.
- Based on the results of the Breusch-Pagan LM test, the Prob. Breusch-Pagan value of 0.2838. This value is greater than 0.05, so it can be decided to accept H0 and reject H1. Thus, it can be said that the CE model is more suitable than the RE model.

Final Conclusion:
From the results of the Chow, Hausman and LM Breusch-Pagan tests, it can be seen that in the Chow and LM Breusch-Pagan tests the CE model is more suitable. While in the Hausman test the FE model is more appropriate. So it can be concluded that the best model in this study is CE or Common Effect.

Hypothesis Test

Table 4.5
Statistical Test Results

Variables	t-Statistic	Prob
KPPM	-0.135004	0.8929
KAP	0.293145	0.7700
PPAP	0.054686	0.9565
NPF	0.047232	0.9624
BOPO	-3.352868	0.0011
FDR	0.401964	0.6886
CASH_RATIO	-0.213677	0.8313
Prob(F-statistic)	0.001038	

Adj. R-squared	0.161198

1. F Statistical Test

   The F statistical test is used to determine the effect of the independent variables simultaneously with the provisions:

   - H0 = variable KPPM, KAP, PPAP, NPF, BOPO, FDR, *Cash Ratio* does not have a significant influence on the profitability of BPRS in Central Java Province.
   - H1 = variable KPPM, KAP, PPAP, NPF, BOPO, FDR, *Cash Ratio* has a significant influence on the profitability of BPRS in Central Java Province.

   Testing Criteria:

   H0 is rejected if Prob. F Statistic is smaller than 0.05 (Prob. F Statistic <0.05).

   Conclusion:

   Based on the research results, the Prob. F Statistic of 0.001038. This value is smaller than 0.05, so it was decided to reject H0 and accept H1. Thus, it can be concluded that the variables of KPPM, KAP, PPAP, NPF, BOPO, FDR, *Cash Ratio* do not have a significant influence on the profitability of BPRS in Central Java Province.

2. T test

   The T test is used to determine which of the independent variables has an effect with the provisions:

   - H0 = variable KPPM, KAP, PPAP, NPF, BOPO, FDR, *Cash Ratio* does not affect the profitability of BPRS in Central Java Province.
   - H1 = variable KPPM, KAP, PPAP, NPF, BOPO, FDR, *Cash Ratio* affect the profitability of BPRS in Central Java Province.

   Testing Criteria:

   H0 is rejected if Prob (t-statistics < 0.05)

   Conclusion:

   Based on the analysis output, the Prob t-statistics value for the KPPM variable is 0.8929. The value is greater than 0.05, so it is decided to accept H0 and reject H1. Thus it is concluded that the size of KPPM does not affect the profitability of BPRS in Central Java Province.

   The Prob t-statistics value for the KAP variable is 0.7700. The value is greater than 0.05, so it was decided to accept H0 and reject H1. Thus it is concluded that the size of KAP does not affect the profitability of BPRS in Central Java Province.

   The Prob t-statistics value for the PPAP variable is 0.9565. The value is greater than 0.05, so it is decided to accept H0 and reject H1. Thus it is concluded that the amount of PPAP does not affect the profitability of BPRS in Central Java Province.

   The Prob t-statistics value for the NPF variable is 0.9624. The value is greater than 0.05, so it is decided to accept H0 and reject H1. Thus it is concluded that NPF does not affect the profitability of BPRS in Central Java Province.

   The Prob t-statistics value for the BOPO variable is 0.0011. The value is smaller than 0.05, so it was decided to reject H0 and accept H1. Thus it is concluded that the amount of BOPO affects the profitability of BPRS in Central Java Province.

   The Prob t-statistics value for the FDR variable is 0.6886. The value is greater than 0.05, so it is decided to accept H0 and reject H1. Thus it is concluded that the amount of FDR does not affect the profitability of BPRS in Central Java Province.

   The Prob t-statistics value for the *Cash Ratio* variable is 0.8313. The value is greater than 0.05, so it was decided to accept H0 and reject H1. Thus it is concluded that the amount of *Cash Ratio* does not affect the profitability of BPRS in Central Java Province.

   Criteria

   - H0 : Not Significant
   - H1 : Significant

   Decision Making

- If $t_{hitung} < t_{tabel}$ then H0 is accepted and H1 is rejected
- If $t_{hitung} > t_{tabel}$ then H0 is rejected and H1 is accepted

When viewed from the t test, the KPPM variable gets insignificant negative results on the ROA variable. The KAP variable gets insignificant negative results on the ROA variable. The PPAP variable gets a negative and insignificant result on the ROA variable. The NPF variable gets an insignificant negative result on the ROA variable. The BOPO variable gets an insignificant positive result on the ROA variable. The FDR variable gets insignificant negative results on the ROA variable. *Cash Ratio* variable gets insignificant negative results on the ROA variable.

4.2.Discussion

1. Effect of KPPM on ROA

In the KPPM variable, there is an insignificant negative result on the ROA variable. According to Ben Naceur et al in research (Ningsih & Rachmawati, 2019) capital is the main driving factor in developing business ventures, therefore the greater the KPPM will lead to high profitability owned by the bank. The higher the KPPM, the better the condition of a bank. Vice versa, if KPPM is low, the condition of a bank is also getting worse. In this study, there is a difference, namely that the KPPM variable does not have a significant effect on profitability. This is due to the lack of capital to develop business ventures so that the profit earned by the bank is small. The results of this study are supported in previous studies, namely (Irawan, Puteri, Eka, Hesi, 2020), (Dayanti & Indrarini, 2019) and (Fitriyah & Sholikhin, 2019).

Bank profitability theory is a set of principles and concepts used to explain the factors that influence the level of profitability or profits generated by banks. This theory examines various variables and factors that can affect the financial performance of banks, such as capital management, operational efficiency, risk management, economic conditions, monetary policy, and banking regulations. In the theory of bank profitability described in research (Kirana, 2019) stated that CAR has no influence on profitability because banks have not been able to manage existing capital resulting in decreased profitability. Banks that are unable to manage their funds properly will result in a slowdown in the process of business activities and a decrease in profits at the bank. Banks that are unable to operate effectively will cause a decrease in banking profits. For example, when a bank fails to optimize its capital utilization, the ability to provide profitable credit or make smart investments may be hampered. In addition, poor risk management can increase the risk of bankruptcy, which in turn can reduce bank profitability. A bank's inability to manage funds effectively can lead to liquidity problems, where the bank may have difficulty meeting payment obligations at the appointed time. This can lead to additional costs and impact the bank's reputation in the eyes of customers and the market. In addition, a lack of operational efficiency can lead to increased costs and decreased revenue, which contributes to a decrease in banking profits. (Nugrohowati and Bimo, 2019)

2. The effect of KAP on ROA

In the KAP variable, there is an insignificant negative result on the ROA variable. The KAP ratio that is not significant to ROA can be caused by the Covid-19 pandemic, causing bad credit. In research (Suarez, 2015) argues that the greater the KAP value, the greater the level of change in ROA, this can be said that the bank will look good in the position in terms of the asset company so as to get the result that KAP has a significant positive effect on BPRS profitability. The higher the KAP ratio in a bank, the more unproductive the financing. However, this study shows that KAP has no effect on ROA, this is because the asset component invested by the bank lacks good quality resulting in minimal profit earned by the bank. The results of this study are supported in previous studies, namely (Chatarine & Lestari, 2010).

In agency theory, companies are considered as entities that have two interested parties, namely owners (principals) and managers (agents). In the context of KAP, managers have the flexibility to choose accounting policies to report the company's financial performance. Some accounting policy choices can affect financial performance metrics such as ROA. For

example, managers may choose accounting policies that delay revenue recognition or increase expense recognition to improve the company's image in the financial statements. However, when managers use KAP for their personal interests, this can result in distortions in the financial statements and give a false picture of the company's performance. Misrepresentation in the financial statements may cause the reported ROA to not reflect the actual performance. In this case, managers may choose accounting policies that hide losses or present higher profits than they should, resulting in an increased ROA or looking better than it actually is. Research (Grilseda, 2021) explained that KAP on ROA has a negative effect, namely when KAP increases ROA will decrease. The results showed that the effect was significant, because high KAP reflects the amount of non-earning assets so that bank income decreases and ROA decreases.

3. The effect of PPAP on ROA

The PPAP variable has an insignificant negative result on the ROA variable. According to research (Yesi Agustina, 2022) said that PPAP is an allowance that must be formed by BPRS as a risk cover for losses. It can be said that the greater the PPAP, the more the quality of productive assets will decrease. However, this research contradicts this opinion. This is because the PPAP variable is high then the quality of productive assets will be higher as well so as to get the result that PPAP has a significant positive effect on BPRS profitability. This research is supported by previous research, namely (Alamsyah, 2019).

Research (Kaban, et al, 2019) explained that there are several possible explanations for the insignificant negative result. First, resource conflicts may be a factor affecting the relationship between PPAP and ROA. If human resource management is ineffective or does not match the needs of the company, conflicts may arise and impact overall performance, including ROA. However, the non-significant finding signifies that this relationship may not be consistent or relevant in the context of this study. In addition, the economic aspect of information should also be considered. If PPAP's efforts in managing human resources are efficient, but related information has not been properly conveyed to stakeholders, ROA may not accurately reflect actual performance. In this case, the insignificant result indicates that there is no clear influence between PPAP and ROA due to the lack of relevant and accurate information. Lastly, short-term consequences may also play a role in these findings. PPAP may have an influence in the short term, but other factors such as market conditions, management strategies, and business environment may become more dominant in the long term and affect ROA more significantly. Nonetheless, the finding of this insignificant result illustrates that there is complexity in the relationship between PPAP and ROA, and can serve as a basis to further investigate the factors that affect a firm's financial performance.

4. Effect of NPF on ROA

The NPF variable has an insignificant negative result on the ROA variable. In research (Sanusi, 2019) said that the higher the NPF number, the bank's profitability will look bad, this is because there is problematic financing so that the financial performance of the bank decreases. The higher the NPF number, the more inefficient the ROA, so it can be concluded that NPF has a negative and insignificant effect on ROA. This research is supported by previous research, namely (Irawan, Puteri, Eka, Hesi, 2020) and (Fitriyah & Sholikhin, 2019).

Theory in research (Nurkhikmah, 2021) NPF or non-performing loans are loans that have been disbursed by banks, and customers cannot make payments or make installments in accordance with the agreement signed by the bank and the customer. In the financial industry, NPF is considered an indicator of high credit risk and can have a negative impact on the financial performance of banks or other financial institutions. Simultaneously, the effect of NPF on the level of profitability (ROA) can be seen in several aspects. First, NPF causes an increase in the burden of non-performing loans for financial institutions. The cost of resolving or recovering bad debts can be high, and this will lead to a decrease in net income. If the NPF rate is high, the profit of the bank or financial institution will decrease and reduce the overall ROA. In addition, the negative impact of NPF can lead to decreased trust from stakeholders such as investors, customers, and regulators. This decline in trust can negatively impact the bank or financial institution's business activities, hinder growth, and reduce ROA in the long run. In conclusion, NPF can have a significant simultaneous influence on the level

of profitability (ROA) as it impacts net income, capital adequacy, operating expenses, and stakeholder trust. Effective credit risk management and careful NPF management are crucial for financial institutions to mitigate its negative impact and improve ROA and overall financial performance.

5. Effect of BOPO on ROA

The BOPO variable has an insignificant positive result on the ROA variable. In research (Muhaemin, Ahmad, Wiliasih, 2016) said that when the BOPO variable increases it will result in a decrease in ROA, this is because the higher the BOPO value can be influenced by the lack of operational efficiency at the bank resulting in more operational expenses than operating income so as to get the result that BOPO has a significant negative effect on BPRS profitability. The smaller the BOPO ratio number means that the operational costs incurred by BPRS are more efficient. Vice versa, if the BOPO ratio number is getting bigger, the more inefficient the operational costs incurred by the BPRS. In determining the operating efficiency of a BPRS, it is seen from the BOPO number with a maximum limit of 90%. However, in this study the variable affects ROA, this means that it can be said that the bank's operating income is higher than the bank's operating expenses. This research is supported by previous research, namely (Setiawan, 2021).

6. The effect of FDR on ROA

The FDR variable gets insignificant negative results on the ROA variable. In research (Yusuf & Mahriana, 2016) said that when NPF is large, profits will decrease, meaning that the influence of the NPF variable and profitability is related to the level of financing congestion provided by a bank. The greater the FDR, the company's profit will increase by seeing that the bank is able to channel loan funds effectively, so that it will minimize the number of bad loans. This research is supported by previous research, namely (Yusuf v & Mahriana, 2016), and (Dayanti & Indrarini, 2019).

Theory in research (Fauziah, et al, 2022) explained through the theory of corporate financial policy. According to this theory, financial decisions made by management can affect the company's financial performance. In this context, FDR is the ratio between time deposits and total assets of banks or financial institutions, while ROA measures the efficiency of the company in generating profits from its total assets. The reason why FDR is not significantly negative to ROA could be due to several factors. First, portfolio diversification is the bank's strategy to reduce credit risk. Allocating resources to various productive and lower-risk assets may increase ROA, but the result may not be significant due to other factors affecting the strategy. Secondly, competition in the banking market also affects FDR. If banks compete fiercely to attract funds by offering higher deposit rates, FDR may increase. However, this may also reduce the bank's net interest margin and impact ROA. Lastly, external factors such as regulatory and monetary policy changes may affect FDR and ROA. These external variables could be the cause of the insignificant relationship between FDR and ROA as banks do not fully control them. These explanations provide insight into the complexity of the relationship between FDR and ROA, and show the importance of deeper analysis to better understand the influence of these variables. (Grilseda, 2021)

7. Effect of *Cash Ratio* on ROA

Cash Ratio varibael gets insignificant negative results on ROA variables. In research (Saragih et al., 2015) argue that if the *Cash Ratio* increases then the profitability of BPRS will also increase, and vice versa if the *Cash Ratio* decreases then the profitability of BPRS will also decrease. This research is supported in previous research, namely (PA & Marbun, 2016).

In the theory of liquidity policy and corporate profitability. Cash Ratio, as a liquidity ratio, reflects the proportion of cash and cash equivalents in the company's total assets, which illustrates the company's ability to meet short-term obligations and maintain liquidity stability. Supported by research (Hubarat, et al, 2023) ROA is a measure of the company's efficiency in generating profits from all assets owned. The finding of this insignificant negative result can be explained by several aspects. First, there is a trade-off between liquidity and profitability. Companies that have a high cash ratio may be very conservative

in retaining a lot of cash, but ignore more profitable investment opportunities. Thus, although ROA tends to decrease, the effect is not significant as the benefits of high liquidity remain. Secondly, the role of industry and the level of competition may also affect the relationship between cash ratio and ROA. Industries that face higher risks may tend to maintain higher levels of liquidity, while more stable or competitive industries focus more on productive assets to increase ROA. External factors, such as monetary policy or interest rates, can also affect a company's preference for liquidity or profitability. Thus, this insignificant negative result suggests that the relationship between cash ratio and ROA does exist, but the impact may be small or influenced by other factors. Companies need to conduct more in-depth analysis to understand the implications of these findings and determine the right strategy to achieve an optimal balance between liquidity and profitability in the long run. (Rahardian, et al, 2021)

SDGs number 8 aims to increase inclusive and sustainable economic growth, create productive and comprehensive employment opportunities, and decent work for all. The focus on this topic will be linked to the level of profitability of the Islamic People's Financing Bank (BPRS) and how internal banking variables can affect it. Islamic People's Financing Bank (BPRS) is an Islamic financial institution that plays a role in providing financing or credit according to sharia principles to meet the needs of the community. Inclusive and sustainable economic growth is important because it must benefit all levels of society, including the less well-off or those in remote areas. (Weber, 2018). In this context, the role of BPRS is crucial in providing financing to groups previously unreached by the conventional financial system. The correlation between internal banking variables and the level of profitability of BPRS is crucial in this context. These variables include asset quality, operational efficiency, risk management, financing policy, product and service innovation, and customer satisfaction. (Stauropoulou, 2023).. The better the BPRS manages these variables, the higher its potential profitability. Good asset quality, high operational efficiency, and optimal risk management will help banks face economic and financial challenges. In addition, appropriate financing policies and product and service innovations that are responsive to customer needs can create more appeal for BPRS in the market. Thus, through effective management of internal variables, BPRS can play a role in supporting inclusive and sustainable economic growth in accordance with SDGs goal number 8. (SDGs, 2019)

5.CONCLUSION

Based on the results of data analysis, several conclusions were obtained related to the influence of internal banking variables on the level of profitability of Islamic People's Financing Banks (BPRS) in Central Java Province. First, the Obligation to Fulfill Minimum Capital (KPPM) has a negative but insignificant influence on the Return on Asset (ROA) ratio of BPRS. This means that an increase in KPPM does not significantly impact the profitability of BPRS in the region. Secondly, Earning Asset Quality (KAP) also shows a negative but insignificant influence on ROA. This means that higher quality productive assets of banks do not significantly affect the level of profitability of BPRS in Central Java. Then, Provision for Earning Assets Write-off (PPAP) also has an insignificant negative influence on ROA of BPRS. This indicates that the amount of PPAP has no significant impact on bank profitability. Furthermore, Non-Performing Financing (NPF) shows an insignificant negative effect on ROA BPRS. This means that the level of bad debt financing does not significantly affect the profitability of BPRS in the region. Meanwhile, Operating Expenses to Operating Income (BOPO) shows a positive but insignificant influence on ROA of BPRS in Central Java Province. This means that a higher BOPO ratio does not significantly impact bank profitability. Furthermore, Financing to Deposit Ratio (FDR) has a negative but insignificant influence on ROA of BPRS. This indicates that the ratio of financing to deposits does not significantly affect bank profitability. Finally, Cash Ratio also shows an insignificant negative influence on ROA of BPRS in Central Java Province. This means that a higher level of bank liquidity does not significantly impact the profitability of BPRS in the region. Based on the conclusion of the data analysis, the researcher provides several suggestions. For future researchers, it is expected to develop the object of research by adding other indicators that can affect ROA, so that the research results can be more comprehensive. In addition, future researchers can use data from other different BPRS and extend the research period to get a

deeper understanding. Suggestions for Banks, the results of this study can be additional information and considerations in making policies. Banks are expected to pay more attention and supervise financial reports better so that they can be trusted by investors and customers. Thus, it is expected that the performance and profitability of BPRS in Central Java Province can continue to be improved to achieve overall sustainable development goals.

6. LITERATURE

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