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"Enhancing The Role of Banking Industry on Supporting Sustainable & Inclusive Economic

ISLAMIC BANKING PERFORMANCE TO MAINTAIN PROFIT-SHARING FINANCING GROWTH: EVIDENCE FROM INDONESIA

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Abstract – *This research aims to analyze the impact of the performance or level of health of Islamic banks, such as the level of capital adequacy, growth of third-party funds, financing risk, and liquidity risk, on the growth of profit-sharing financing in the Islamic banking industry in Indonesia. The data used in this research is secondary data on Islamic banking statistics in Indonesia published by the Financial Services Authority (OJK) and Bank Indonesia (BI) from the first quarter of 2014 to the last quarter of 2021. Time series data processing uses the Vector Error approach Correction Model (VECM). Simultaneously, the level of capital adequacy proxied by the capital adequacy ratio, third-party funds, financing risk proxied by non-performing financing, and liquidity risk proxied by the financing to deposits ratio have a significant effect on profit-sharing financing. Meanwhile, partially, profit-sharing financing itself and the level of capital adequacy in the previous period have an impact on changes in profit-sharing financing in the short term. In the long term, financing risk and liquidity risk have a significant effect on profit-sharing financing. Meanwhile, in this research, third-party funds did not significantly affect the growth of profit-sharing financing.*

Keywords: Profit-sharing financing, capital adequacy ratio, third-party funds, non-performing financing, financing to deposits ratio

I. INTRODUCTION

Islamic banks have an essential role in collecting and distributing public funds by prioritizing the principles of Islamic sharia, economic democracy, and the principle of prudence, which serve as guidelines for the operating system of Islamic banks (OJK, 2017). Apart from its primary task as an institution responsible for collecting and distributing public funds, Islamic banks also aim to support the implementation of national development to support increased justice, togetherness, and equal welfare distribution among society (Murni, 2010).

Based on Law No. 21 of 2008, Islamic banks conduct business activities based on Sharia or Islamic law principles. The principles of Islamic sharia in question include the principles of justice and balance (*'adl wa tawazun*), benefit (*maslahah*), universalism (*alamiyah*), and do not contain *gharar*, *maysir*, *usury*, unjust and *haram* objects, as regulated in the fatwa of the Ulema Council Indonesia. Apart from that, the Islamic Banking Law also mandates Islamic banks always to carry out social functions and functions like baitul mal institutions (OJK, 2008).

According to Riyanto (2016), Islamic banks, as part of the national banking system, have an essential role in the Indonesian economy. *Islamic banks* are banks that carry out their operations based on sharia principles. Islamic banks are similar to conventional banks—the

primary difference between the two lies in the principles of financial or operational transactions. One of the principles of Islamic banking is profit sharing.

Islamic banks offer products that can be divided into three groups. The main products are fund transfer (financing), fund acquisition (finance), and service products (services). Generally, financial products in Islamic banks are divided into several groups, namely financing with a sale and purchase model, financing with a rental model, financing with a loan model, and financing with a profit-sharing model.

Islamic banks offer profit-sharing schemes based on profits or income following Islamic Sharia principles (Hasan, 2004). The profit-sharing scheme is a form of cooperation between the capital owner and the manager. The distribution of results or profits is based on the initial ratio or share agreed upon. Meanwhile, if there is a loss, the amount will be a joint responsibility according to the agreement determined at the beginning (Suherman, 2017). The level of profit sharing is essential in determining the amount of profit-sharing-based financing. The level of profit sharing is an essential factor because types of profit sharing-based financing, especially mudharabah and musyarakah, are Natural Uncertainty Contract (NUC), which tend to have a high level of risk compared to other types of financing because the returns generated by Islamic banks are uncertain. Thus, Islamic banks will be more likely to channel profit-sharing-based financing if the level of profit-sharing is high (not smaller than the risks that may occur) (Pramono, 2013).

Profit sharing is a form of cooperation agreement between investors and capital managers (entrepreneurs) by carrying out economic business activities, and between them, profits are obtained in the business. If the contract is divided by both parties according to the original contract, it will be binding. If the business suffers losses, the agreement will be borne together according to their respective shares. According to Bramandita and Harun (2020), there are two systems for calculating profit sharing in Islamic banking. First, profit-sharing uses profit/loss sharing, calculated based on net profit from total income minus costs. Second, profit-sharing using revenue

sharing, calculated based on sales or income before deducting costs. Profit-sharing financing can be interpreted as financing in which profits are shared from the results of transactions between Islamic banks and customers.

According to Fahmi (2012), financial performance describes the company's success, which can be interpreted as the results achieved for the various activities. *Financial performance* is an analysis carried out to see the extent to which a company has implemented financial implementation rules properly and correctly. According to Aprilia and Mahardika (2019), several factors are likely to influence profit-sharing financing at Islamic banks in Indonesia: the level of capital adequacy, financing risk, and deposits of third-party funds.

Third-party funds (TPF) are from the community, in the sense of the community as individuals, companies, government, households, cooperatives, foundations, and others, both in rupiah and foreign currency; this is under the bank's function as collector funds from the community (Rivai & Arifin, 2010). *Third-party funds* are also defined as funds originating from the public, both individuals and business entities, obtained by banks using various savings product instruments owned by the bank (Kuncoro, 2011).

Apart from the TPF variable, financing risk is another variable that influences profit-sharing financing, which is usually measured by Non-Performing Financing (NPF). Non-performing financing is one of the performance assessment instruments of an Islamic bank, which provides an interpretation of the assessment of productive assets, especially in assessing problematic financing. NPF needs to be paid attention to because it is fluctuating and uncertain. Because Islamic banks use the cost principle, the term Non-Performing Loan (NPL) has been replaced with NPF, which provides bank management expertise in managing problematic financing. The higher the NPF, the worse the quality of bank financing, which can result in more significant problems with the quantity of financing. Non-performing financing (NPF) is financing distributed by the bank. However, the customer cannot make payments, or the installments must

comply with the agreement agreed upon by the bank and the customer (Ibrahim & Rahmati, 2017).

Meanwhile, according to Fidyaningrum and Jannah (2016), NPF describes a situation where the customer can no longer pay part or all of his obligations to the bank as agreed. NPF has a significant influence on fund distribution policies. The lower the NPF, the higher the distribution of funds by Islamic banks.

Islamic bank liquidity risk is usually measured by the Financing to Deposits Ratio (FDR), which shows the bank's health in providing financing. The higher the FDR indicates that a bank places more financial emphasis on distributing more debt/financing (Somantri & Sukmana, 2020a). Financing to Deposit Ratio is the financing ratio to third-party funds received by the bank (Somantri & Sukmana, 2020b). The higher the FDR, the higher the funds distributed to third parties (Fathony & Setiawan, 2021). A bank with an FDR value that is too high means it does not have sufficient liquidity to cover its obligations to customers (TPF). On the other hand, if the FDR value is low, the bank has relatively good liquidity, but the bank's income will be lower. Because the Loan to Deposits Ratio (LDR) ratio is for credit, whereas in Islamic banking, there is no credit, the LDR ratio in Islamic banking is called FDR.

According to Kasmir (2016), Capital Adequacy Ratio (CAR) is the ratio of capital to assets weighted according to risk and government regulations. *Capital Adequacy Ratio* is a capital adequacy ratio, which means the amount of capital needed to cover the risk of loss arising from investing in risky assets and financing all fixed assets and bank investors (Syachreza & Gusliana, 2020). The level of capital adequacy proxied by CAR shows the banking's ability to provide funds to be used to overcome possible risks of losses that will occur. Capital Adequacy Ratio has a positive relationship with financing. Bank capital is used as the basis for determining the maximum credit limit. So, in providing credit, banks are influenced by the capital they have. The more significant the capital, the greater the credit limit will also increase (Nafis & Sudarsono, 2021). Besides that, similar research related to this research is Affandi

(2018), which states that the amount of TPF and NPF partially has a significantly positive effect.

The presence of an Islamic bank is a forum for people who want to handle financial transactions under Islamic sharia principles—realizing a sense of justice for all and positively impacting society at large. In distributing financing for results, the financial performance of Islamic banks must be considered. This financial performance reflects whether the Islamic bank is running its business well or not in terms of collecting and distributing funds in the form of financing. The financial performance of Islamic banks include, among other things, capital adequacy ratios in CAR, TPF, financing risk in NPF, and liquidity ratios contained in FDR. According to Andriani and Pakkanna (2020), CAR positively affects murabahah financing, but it is not significant. This aligns with Sinaga (2021) based on the results of testing the CAR variable on murabahah financing, which has a partial positive effect but is not significant. Meanwhile, Afiyanti (2020) stated that CAR positively affects murabahah financing, which means that if the CAR ratio increases, the value of murabahah financing will also increase. Furthermore, Zulaecha and Yulistiana (2020) stated that TPF, FDR, and NPF together influence profit-sharing financing.

Based on findings from previous research, several differences were found in the influence of CAR, TPF, NPF, and FDR on profit-sharing financing. Apart from that, no research results identified the influence of CAR, TPF, NPF, and FDR on profit-sharing financing in the short and long term. Even though the development of Islamic banking has been around for quite a long time, it is possible to find differences in the influence of financial performance on the growth of the distribution of profit-sharing financing.

II. METHODS

The research method used is an associative approach that aims to identify the influence of Islamic banking performance on the growth of

profit-sharing financing. Observations of the Islamic banking industry as a population in this study were narrowed down to the Islamic banking sample represented by data from Sharia Commercial Banks and Sharia Business Units only, excluding data from Sharia Rural Banks. The sample determination was based on a purposive sampling technique: selecting sample members based on specific considerations and criteria (Sugiyono, 2016). The sample criteria used include current data considered more specific than previous data and the adequacy of relevant data from 2014 to 2021. The research data is a time series with a quarterly period.

The dependent variable in this research is profit-sharing financing. Profit-sharing financing is financing with the principle of trust and pure agreement between two or more parties, namely, the capital owner (investor), in this case, the Islamic bank, and the business owner, in this case, the customer is the business manager (Perdana, 2023). Data on the amount of profit-sharing financing is obtained from banking statistics issued by Bank Indonesia and the Financial Services Authority in the form of billions of rupiah. The independent variables in this research are capital adequacy ratio as measured by the Capital Adequacy Ratio, Third Party Funds, financing risk as measured by Non-Performing Financing (NPF), and liquidity risk as measured by the Financing to Deposits Ratio.

Capital Adequacy Ratio (CAR) is a capital adequacy ratio that shows the bank's ability to allocate funds that will be used to face possible risks of loss. CAR can be obtained with this formula:

$CAR = (Capital)/(Risk-Weighted\ Assets) \times 100\%$

"Third-party funds (TPF) are funds collected by banks from the wider community, consisting of demand deposits, savings deposits, and time deposits" (Kasmir, 2014). In this research, TPF has units of billions of rupiah. The TPF formula is as follows:

$TPF = Giro + Savings + Deposits$

Non-Performing Financing (NPF) is non-current financing, including substandard and lousy financing. If a bank's NPF is low, it means that the bank is quite good at managing its

financing because the lower the NPF, the lower the financing risk it bears.

$NPF = (Problematic\ financing)/(Total\ financing) \times 100\%$

Financing to Deposits Ratio (FDR) measures the amount of financing provided against the amount of capital owned. The results can be used as an indicator of the banking's ability to repay customer withdrawals.

$FDR = (Total\ Funding\ Disbursed)/(Total\ Third\ Party\ Funds) \times 100$

The data analysis method used in this research is the statistical analysis method with the Vector Error Correction Model (VECM). The stages of using the VECM method are carrying out a stationarity test on the data used, determining the maximum lag and optimal lag to be used, carrying out a VAR/VECM model stability test, cointegration test, causality test, and VECM model estimation.

III. RESULTS AND DISCUSSION

Results

Islamic banks are financial institutions whose primary business is financing and other services in payment traffic and money circulation that operate by Sharia principles (Sudarsono, 2003). In this research, the variables studied are Capital Adequacy Ratio (CAR), Third-Party Funds (TPF), Non-Performing Financing (NPF), and Financing to Deposit Ratio (FDR) toward Profit-Sharing Financing (PSF) at Sharia Banks and Sharia Business Units in Indonesia. The data used is a time series with a cumulative period from the first quarter of 2014 to the last quarter of 2021. Table 1 shows that the data used in this research is 32 samples taken from Islamic banking statistical reports published by the Financial Services Authority (OJK) in the 2014-2021 period.

Table 1 shows that the profit-sharing financing variable has a mean value of 124417.8 with a median value of 119891.6 and a standard deviation value of 48649.40. The maximum and minimum values of this variable are 198231.6

and 54080.87. Meanwhile, the CAR variable has a mean value of 18.58320 with a median value of 18.18914 and a standard deviation value of 3.398123. The maximum and minimum values of this variable are 25.70877 and 14.09196. The TPF variable has a mean value of 332687.4 with a median value of 337398.5 and a standard deviation value of 102996.3. The maximum and minimum values of this variable are 536992.6 and 180945.4. The NPF variable has a mean value of 3.733049 with a median value of 3.599132 and a standard deviation value of 0.693461. The maximum and minimum values of this variable are 5.027829 and 2.567890. Finally, the FDR variable has a mean value of 83.47716 with a median value of 79.92868 and a standard deviation value of 7.865462. The maximum and minimum values of this variable are 102.2210 and 70.11618.

Table 1. Descriptive Statistics

	PSF	CAR	TPF	NPF	FDR
Mean	124417.8	18.583	332687.4	3.7331	83.4772
Max.	198231.6	25.709	536992.6	5.0278	102.221
Min.	54080.87	14.092	180945.4	2.5679	70.1169
Std. Dev.	48649.40	3.3981	102996.3	0.6935	7.86546
J-B Stat	3.027490	2.1623	1.909442	2.4650	3.96959
Prob.	0.220084	0.3392	0.384920	0.2916	0.13741
n	32	32	32	32	32

Source: Data processed by EViews 10 (2023)

Stationarity Test

The data stationarity test is essential in analyzing time series data to see whether a unit root is contained among the variables so that the relationship between the variables in the equation is valid and does not spurious or produce false regressions. In many cases, it is found that non-stationary time series data can produce false regression relationship patterns (Gujarati, 2003). The stationarity test uses the unit root test (Unit Root Test) with the Augmented Dickey-Fuller (ADF) methods at the level and first difference.

Table 2. Stationarity Test Results with ADF

Variable	Level		First Difference	
	t-Stat	Prob.	t-Stat	Prob.
PSF	0.1242	0.9626	-5.4198	0.0001
CAR	0.5236	0.9849	-5.3813	0.0001
TPF	1.8023	0.9996	-6.3180	0.0000
NPF	-0.9351	0.7632	-5.6953	0.0001
FDR	-0.1827	0.3608	-5.7104	0.0001

Source: Data processed by EViews 10 (2023)

All research variables are jointly stationary at first differencing, as indicated by the probability of ADF being less than 0.05 (Table 2). The probability value of ADF at the level is still above 0.05, so it cannot be said to be stationary at the level.

Optimal Lag Length Test

It is necessary first to determine the optimal lag length to carry out causality tests and VAR tests because causality tests and VAR tests are susceptible to the optimal lag length. In this research, researchers determined the optimal lag length by looking at the lowest/minimum Akaike Information Criteria (AIC), Schwarz Information Criterion (SC) or Hannan Quinnon (HQ) values. Testing the optimal lag length is also helpful for eliminating autocorrelation problems in the VAR system. Using the optimal lag, it is hoped that autocorrelation problems will no longer arise. Based on Table 3, it shows that the optimal lag occurs from lag 0 to lag 4. To ensure the lag that will be selected, the next stage is carried out.

Table 3. Optimal Lag Test Results

Lag	FPE	AIC	SC	HQ
0	9.05e+13	46.32549	46.56546*	46.39684
1	1.52e+14	46.80352	48.24334	47.23166
2	2.29e+14	47.00112	49.64079	47.78603
3	3.94e+14	46.90640	50.74592	48.04809
4	6.46e+13*	43.36953*	48.40890	44.86800*

Source: Data processed by EViews 10 (2023)

Stability Test

To test whether the VAR estimate that has been formed is stable or not, the VAR stability condition is checked in the form of roots of characteristic polynomials. A VAR system is stable if all its roots have a modulus smaller than one (Gujarati, 2003).

Table 4. VAR Stability Test Results

Root	Modulus
-0.114310 - 0.738284i	0.747081
-0.114310 + 0.738284i	0.747081
-0.678710 - 0.094993i	0.685325
-0.678710 + 0.094993i	0.685325
0.611422 - 0.176090i	0.636274
0.611422 + 0.176090i	0.636274
-0.443321 - 0.390628i	0.590867
-0.443321 + 0.390628i	0.590867
0.253793 - 0.449663i	0.516340
0.253793 + 0.449663i	0.516340

Source: Data processed by EViews 10 (2023)

In Table 4, the stability test explains that lag 4 is insufficient, only up to lag 2. So, it was decided to use lag 2. From the VAR stability test results, the VAR model is declared stable if the root has a modulus value of less than 1 (one), meaning that it shows the value of stability. So, this model meets the requirements for a stable relationship between variables in the long and short term.

Cointegration Test

The cointegration test is a continuation of the stationary test. This test determines whether the regression's residual value is integrated. If the variables have been integrated, then there is a stable relationship in the long term. In this research using the Engle-Granger Cointegration Test, it can be seen that the cointegration test at lag 2 in Table 5 is as follows:

Table 5. Johansen Cointegration Test Results

Hypothesized No. of CE(s)	Eigen value	Trace Statistic	0.05 Critical Value	Prob.**
None*	0.688614	73.67813	69.81889	0.0238
At most 1	0.481686	41.00992	47.85613	0.1884
At most 2	0.361560	22.60905	29.79707	0.2658
At most 3	0.203036	10.04470	15.49471	0.2773
At most 4	0.123478	3.690224	3.841466	0.0547

Source: Data processed by EViews 10 (2023)

Based on the table above, it can be seen that the trace statistic value and maximum eigenvalue at r = 0 (none) are more significant than the critical value with a significance level of 5%. This means that the null hypothesis, which states that there is no cointegration, is rejected, and the alternative hypothesis, which states that there is cointegration, cannot be rejected. Based on the econometric analysis above, it can be seen that there is one cointegration among the four variables in this study at a significance level of 5%. Thus, the results of the cointegration test indicate that the movements of Profit-Sharing Financing (PSF), Capital Adequacy Ratio (CAR), Third Party Funds (TPF), Non-Performing Financing (NPF), and Financing to Deposit Ratio (FDR) have a stable relationship or balance and equality of movement in the long term. In other words, in each short-term period, all variables tend to adjust to each other to reach long-term equilibrium.

Granger Causality Test

The Granger causality test is carried out to see whether two variables have a reciprocal relationship. In other words, does one variable have a significant causal relationship with other variables because each variable in the research has the opportunity to be an endogenous or exogenous variable? The bivariate causality test in this study used the VAR Pairwise Granger Causality Test and used a five percent significance level. The following table presents the results of the Bivariate Granger Causality test analysis. The causality test is carried out to determine whether a variable can be used as an exogenous variable. This can see the influence between variables. A mutual causality

relationship exists if the probability value is less than 0.05.

Table 6. Granger Causality Test Results

Null Hypothesis:	Obs	F-Statistic	Prob.
CAR does not Granger Cause PSF	28	0.81005	0.5341
PSF does not Granger Cause CAR		2.76360	0.0576
TPF does not Granger Cause PSF	28	1.66379	0.1998
PSF does not Granger Cause TPF		0.77272	0.5563
NPF does not Granger Cause PSF	28	1.19674	0.3444
PSF does not Granger Cause NPF		1.26055	0.3198
FDR does not Granger Cause PSF	28	1.67847	0.1964
PSF does not Granger Cause FDR		0.91651	0.4746
TPF does not Granger Cause CAR	28	5.66605	0.0036
CAR does not Granger Cause TPF		0.57662	0.6831
NPF does not Granger Cause CAR	28	0.49081	0.7425
CAR does not Granger Cause NPF		1.37876	0.2787
FDR does not Granger Cause CAR	28	1.94460	0.1443
CAR does not Granger Cause FDR		2.10621	0.1199
NPF does not Granger Cause TPF	28	1.42430	0.2642
TPF does not Granger Cause NPF		1.72881	0.1853
FDR does not Granger Cause TPF	28	0.41521	0.7956
TPF does not Granger Cause FDR		0.73419	0.5800
FDR does not Granger Cause NPF	28	6.92814	0.0013
NPF does not Granger Cause FDR		0.70189	0.6003

Source: Data processed by EViews 10 (2023)

From the results obtained above, it is known that those with a causal relationship have a probability value smaller than alpha 0.05 so that later Ho will be rejected, which means one variable will influence other variables. From the Granger test above, we know the reciprocal relationship/causality as follows:

1. The CAR variable does not significantly influence PSF (0.5341), so we accept the null hypothesis, while PSF statistically significantly influences CAR (0.0576), so we reject the null hypothesis. Thus, it is concluded that there is unidirectional causality between the PSF and CAR variables, namely that only PSF has a statistically significant effect on CAR, and the reverse does not apply.

2. The TPF variable does not statistically significantly influence the PSF. Vice versa, the PSF variable does not statistically significantly influence the TPF variable as

evidenced by the respective Prob values being more significant than 0.05, namely 0.1998 and 0.5563 (both results are acceptable null hypothesis), so it is concluded that there is no causality whatsoever for the two variables TPF and PSF.

3. The NPF variable does not statistically significantly influence the PSF, and vice versa; the PSF variable does not statistically significantly influence the NPF variable as evidenced by the respective Prob values being more significant than 0.05, namely 0.3444 and 0.3198 (both results are acceptable null hypothesis) so it can be concluded that there is no causality whatsoever for the two NPF and PSF variables.

4. The FDR variable does not statistically significantly influence the PSF and vice versa; the PSF variable does not statistically significantly influence the FDR variable as evidenced by the respective Prob values being more significant than 0.05, namely 0.1964 and 0.4746 (both results are acceptable null hypothesis) so it is concluded that there is no causality whatsoever for the two variables FDR and PSF.

5. The TPF variable statistically significantly influences CAR (0.0036), so we reject the null hypothesis, while PSF statistically significantly influences TPF (0.6831), we accept the null hypothesis. Thus, it is concluded that there is unidirectional causality between the TPF and CAR variables.

6. The NPF variable does not statistically significantly influence CAR, and vice versa; the CAR variable does not statistically significantly influence the NPF variable as evidenced by the respective Prob values being more significant than 0.05, namely 0.7425 and 0.2787 (both results are acceptable null hypothesis) so it can be concluded that there is no causality whatsoever for the two NPF and CAR variables.

7. The FDR variable does not statistically significantly influence CAR, and vice versa;

the CAR variable does not statistically significantly influence the FDR variable as evidenced by the respective Prob values being more significant than 0.05, namely 0.1443 and 0.1199 (both results are acceptable null hypothesis) so it can be concluded that there is no causality whatsoever for the two variables FDR and CAR.

8. The NPF variable does not statistically significantly influence TPF, and vice versa; the TPF variable does not statistically significantly influence the NPF variable as evidenced by the respective Prob values being more significant than 0.05, namely 0.2642 and 0.1853 (both results are acceptable null hypothesis) so it is concluded that there is no causality whatsoever for the two NPF and TPF variables.

9. The FDR variable does not statistically significantly influence TPF and vice versa; the TPF variable does not statistically significantly influence the FDR variable as evidenced by the respective Prob values being more significant than 0.05, namely 0.7956 and 0.5800 (both results are acceptable null hypothesis), so it is concluded that there is no causality whatsoever for the two variables FDR and TPF.

10. The FDR variable statistically significantly influences NPF (0.0013), so we reject the null hypothesis, while PSF statistically significantly influences FDR (0.6003), so we accept the null hypothesis. Thus, it is concluded that there is unidirectional causality between the FDR and NPF variables.

Vector Error Correction Short Term Relationship Model

VECM is a restricted form of Vector Autoregression. This additional restriction must be provided because of the existence of a non-stationary but cointegrated form of data. VECM then utilizes the cointegration restriction information into its specifications. VECM is often called a VAR design for non-stationary series with a cointegration relationship.

The results of the VECM estimation will show short-term and long-term relationships between PSF, CAR, TPF, NPF, and FDR. In this estimation, PSF is the dependent variable, while CAR, TPF, NPF, and FDR are the independent variables. The results of VECM estimation to analyze the short-term and long-term influence of the dependent variable on the independent variable can be seen in Table 7.

Table 7. Vector Error Correction Short Term Model

Error Correction	PSF	
	Coefficient	t-Statistic
CointEq1	-0.008356	-0.53921
D(PSF(-1),2)	-0.625486	-2.43958*
D(PSF(-2),2)	-0.109776	-0.45661
D(CAR((-1),2)	-1581.873	-2.05228*
D(CAR((-2),2)	-55.14519	-0.08475
D(TPF((-1),2)	-0.160694	-1.49434
D(TPF((-2),2)	-0.077568	-0.79377
D(NPF((-1),2)	-417.0333	-1.14789
D(NPF((-2),2)	-3657.503	-1.56745
D(FDR((-1),2)	-306.4511	-0.59120
D(FDR((-2),2)	313.6829	0.69628
C	105.5120	0.16335
R-squared	0.705211	
Adj. R-squared	0.502543	
F-statistic	3.479643	

Source: Data processed by EViews 10 (2023)

Based on the results presented in Table 7, a variable is said to be influential if the t-statistic value is above 1.96. This means that in the short term, only the PSF and CAR at the lag in the previous period affect the PSF, while the TPF, NPF, and FDR have no effect. In the long term, there is an adjustment amount from the short term to the long term, namely -0.0083560 percent. The short-term estimation results show that the PSF variable in the second lag has a negative effect of -0.109776. This means that an increase of 1 percent in the previous two quarters would reduce the PSF by -0.109776 percent in the current quarter. If there is an

increase in the Capital Adequacy Ratio (CAR) of 1 percent in the previous two quarters, there will be a decrease in PSF of -55.14519 percent. Changes that occurred in Third Party Funds (TPF), Non-Performing Financing (NPF), and Financing to Deposit Ratio (FDR) did not have a significant impact on PSF in the short term. Changes in the size of the PSF amount are determined more by the amount of PSF distribution itself and the level of capital adequacy of Islamic banks in the previous quarter.

Vector Error Correction Long Term Relationship Model

In this research, the long-term relationship can be seen in Table 8. In the long term, the Non-Performing Financing (NPF) variable has a significant positive effect on profit-sharing financing (PSF), and the financing-to-deposit ratio (FDR) has a significant negative effect on profit-sharing financing. Meanwhile, the Capital Adequacy Ratio (CAR) and Third-Party Funds (TPF) do not significantly affect profit-sharing financing.

Table 8. Vector Error Correction Long Term Model

Variable	Coefficient	t-Statistic
D(CAR(-1))	2952.592	1.63366
D(TPF(-1))	0.178561	0.73417
D(NPF(-1))	30003.60	3.95495*
D(FDR(-1))	-2567.007	-3.02838*

Source: Data processed by EViews 10 (2023)

Non-performing Financing (NPF) positively influences profit-sharing financing (PSF), namely 3.95495 percent. This means that an increase in the NPF will cause profit-sharing financing to increase by 3.95495 billion. This condition follows the theory of profit-sharing financing, which states that when there is an increase in the NPF, if the NPF value is high, then income will decrease so that the profits obtained from profit-sharing financing will decrease. To encourage price increases, Islamic banks need to increase the amount of financing, which will ultimately be able to reduce the NPF.

Financing to deposit ratio (FDR) negatively influences profit-sharing financing (PSF), namely 3.02838 percent. This means that a decrease in FDR will cause profit-sharing financing to increase by 2567.007 billion. This condition follows the theory of profit-sharing financing, which states that a decrease in FDR will cause an increase in profit-sharing financing.

Discussion

The research results show that CAR has a statistically significant positive effect on profit-sharing financing in the short term. The results of this research follow the existing theory that there is a unidirectional influence between the profit-sharing financing and CAR variables. The more significant the increase in CAR, the greater the resilience of Islamic banks in facing depreciation in the value of bank assets arising from problematic financing. This aligns with research conducted previously by Junaeni et al. (2023), which states that CAR significantly positively influences profit-sharing financing. However, this is contrary to the results of research conducted by Sabarudin & Faizah (2021), which shows that CAR significantly negatively influences Profit Sharing Financing.

Third-party funds (TPF) do not significantly influence short- or long-term profit-sharing financing. The results of this research contradict the previous theory, which states that an increase in Third Party Funds will increase the financing distributed by Islamic banks to the community (Sabarudin & Faizah, 2021). This research indicates that third-party funds distributed by Islamic banks are not prioritized for profit-sharing financing but are channeled for other types of financing, such as buying and selling and rental-based financing. This is very reasonable considering the high risk of profit-sharing financing compared to other financing risks.

In the long term, the financing risk represented by the NPF positively affects profit-sharing financing by 3.95 percent. This means an increase in the NPF will increase profit-sharing financing by 3.95 billion. This research's findings align with the results of previous research conducted by Munir (2018) and

Andriani & Pakkanna (2019), which stated that NPF has a positive effect on profit-sharing financing. However, this research contradicts the results of Saputra (2019) and Sabarudin & Faizah (2021), which show that NPF significantly negatively influences profit-sharing financing.

Liquidity risk represented by FDR negatively influences profit-sharing financing of 3.03 percent in the long term. This research's results align with Saputra's (2019) research, which shows that FDR significantly negatively influences profit-sharing financing. As indicated by high FDR, the low liquidity risk of Islamic banks will impact decreasing profit-sharing financing.

IV. CONCLUSION

Based on the analysis results, several conclusions explain the influence of capital adequacy, financing risk, raising third-party funds, and liquidity risk on the growth of profit-sharing financing. First, in the short term, the greater the Capital Adequacy Ratio (CAR) value of an Islamic bank, the greater the Islamic bank's ability to distribute profit-sharing financing in the next three months. Vice versa, a low CAR will prevent Islamic banks from channeling profit-sharing financing until the capital adequacy level of Islamic banks improves again. Second, in terms of collecting third-party funds (TPF) carried out by Islamic banks, it does not significantly influence the amount of profit-sharing financing of Islamic banks in the short and long term. Third, the financing risk indicated by the high value of Non-Performing Financing (NPF) will encourage the distribution of profit-sharing financing to reduce the ratio of problematic financing and vice versa. The low NPF will be maintained by reducing the distribution of profit-sharing financing amounts. Fourth, in the long term, a high Financing-to-deposit ratio (FDR) will reduce the amount of profit-sharing financing. Conversely, a low FDR of Islamic banks will increase the distribution of profit-sharing financing in the long term.

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