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THE EFFECT OF SPIN-OFF SYSTEM AND THE THIRD PARTY FUNDS ON RETURN ON EQUITY RATIO OF ISLAMIC BANK IN INDONESIA

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ABSTRACT

This paper is motivated on the empirical work on the impact of the spin-off system and the third party funds on the profitability of Islamic bank in Indonesia that is focused on PT. BRI Sharia Bank. The spin-off system can be defined as the separation of the company from its holding company. All Islamic Bank in Indonesia, i.e. Islamic Business Unit, are required to convert their business into Islamic Commercial Bank or do business separation from a conventional parent bank. The third party funds are the funds collected from public, largest, and most important source for Islamic banks. The profitability measures the bank ability or business companies to manage capital to increase their profit. The result of the research shows that the spin-off system calculated by several financial performance ratios had a negative and significant influence on the profitability. Moreover, a set of the third party funds has a positive and significant effect on the profitability of PT. BRI Sharia Bank in Indonesia. It means that all Islamic bank needs to implement spin-off and increase the third party funds if they want to increase their profitability ratio.

KEYWORDS: Spin-Off System, Third Party Funds, Profitability, Islamic Bank.

1. INTRODUCTION

Banks are financial institutions that have the goal of obtaining optimal benefits through financial services provided to the public based on a trust. Where the bank obtained the greater of trust from the public, there is the possibility for bank to increase the higher profits. Banks have the ability to maintain good financial performance. It is one of the supporting factors that can increase public trust to the bank institution. One of the assessments of the bank financial performance or other financial institution can be conducted through assessing or examining the financial statements that are published transparently, accountable, and auditable (Kuncoro, 2002).

Financial statements have many benefits for various parties, one of which is for the public or consumers in bank and other financial institutions. They can explore the condition of the company's liquidity and also conduct an analysis of the financial statements by first clearly understanding the financial statements through looking at the profitability ratio. It can also be explored through return on equity and return on assets, as two size of the profitability ratio at banking institution (Netyana, 2017).

In 2009, Bank Indonesia issued Bank Indonesia Regulation Number: 11/10/ PBI/2009, which in article 3 contains specific provisions on the change of Islamic Business Unit to Islamic Commercial Bank, which must be done no later than July 2023 (BI Editor, 2009). Beside thi regulation, there are other regulations, namely Islamic Banking Law Number 21 of 2008, which regulates the obligation for Conventional Commercial Banks to spin-off system of the Islamic Commercial Bank and convert themselves into Islamic Commercial Bank (Dewati, Rifin, & Saptono, 2014).

The third party funds are the fund sources collected from the fund owner in the scope of demand savings, current accounts, and deposits. It can also be raised from the social community who has the excess money sources that are highly relied on by banks (reaching from 80% to 90% of the total funds that can be managed by bank) (Edo & Wiagustini, 2014).

This paper is based on previous research that shows the separation method has no implication on the profitability of Islamic Commercial Banks. In addition, the profitability level is only influenced by the operational expenditure costs and non-performing financing (Al-Arif & Dewanti, 2017). Beside that, *Mudharabah* Savings and financing to deposit ratio through dummy spin-off have a positive implication on the profitability ratio, then the level of operational expenditure costs has a negative influence on the profitability ratio (Subakti, 2015). In this regard, capital adequacy ratio (CAR) has a positive and significant impact on the ratio of the profitability, while the third party fund growth has no significant effect on the ratio of profitability (Nurhasanah, 2014).

If it refers to the results of the three previous researches, the empirical phenomenon shows different events, especially in the financial statements of PT. BRI Sharia Bank since 2014 until 2018 shows the value of capital adequacy ratio and the third party fund, which has increased almost five years in a row followed by the fluctuations of the profitability value (P.B.B.S. Editor, 2019).

Therefore, referring to the background above, we can assume that the capital adequacy ratio and the third party funds are two determinant factors that directly influence on the financial profitability performance of Islamic banks in Indonesia. So, this research objective will be derived to the annual financial reports of PT. BRI Sharia Bank from period 2014 to 2018 which are published at the official website of PT. BRI Sharia Bank (www.ir.brisyariah. com).

2. LITERATURE REVIEW

2.1. *Spin-Off System*

According to the Indonesian Banking Law Number 40 of 2007, spin-off is an action that taken by a company to separate a business, to makes all or part of the company's assets, debts and capital move because of the law to two companies, three or more. According to the regulation of Indonesian Bank Number: 11/10/PBI/2009 on Islamic Business Units, spin-off is the way of business separations from Conventional Commercial Bank into two or more business entities with all stipulations that comply with applicable laws and regulations (B. I. Editor, 2009).

Spin-off is the formation of a new company through the sale or distribution of new shares from an existing business or division of a parent company. It is also a model of divestment. In practice, after spinning off or splitting up, the spinning company is addressed to be more valuable with an independent entity more than before as an entity of a larger business institution. In other words, It can be said to be a new business created by separating part of the parent company, or actions to create a new business company (Poerwokoesoemo, 2016).

In this study, one of the financial aspects to identify the influence of spin-off system on the profitability ratio is capital adequacy ratio, which is the measurement of available capital at banks. This is usually stated as a calculation of the credit management risk weighted exposure of the bank. It is also known as the weighted asset ratio by capital and is used to protect depositor of funds, and improve the stability and cost efficiency of financial systems (Nasuha, 2012). To estimate the capital adequacy ratio, it is first necessarily to know the estimation risk magnitude that will occur in lending and the estimated risk that will occur in trading securities (Kasmir, 2015).

Capital adequacy ratio can be defined as a approximation that shows how much the total assets of banks financed through their own capital funds in the bank itself, and also obtaining the fund sources from outside institution, such as the certain funds from the public, loans, etc. (Parenrengi & Hendratni, 2018). Indonesian Bank has determined that each commercial bank needs to provide a minimum asset of 8% per amount of risk weighted capitals (Dendawijaya, 2005).

Capital adequacy ratio can also be understood as a financial ratio that is aimed the bank can overcome any losses which may arise from every activity undertaken (Dahlan, 1993). Understanding capital adequacy ratio is very important to analyze the spearhead estimation of the bank's defense in terms of fulfilling its obligations to depositors if under certain circumstances, so that the bank does not experience a high enough loss from its operational activities (Muljono, 1999).

In addition to capital adequacy ratio, the other financial ratios that are widely used by financial analysts are measuring the health performance and bank liquidity resilience after a spin-off system such as operational expenditures cost, financing to deposit ratio, net income margin, and non performing financing.

2.2. The Third Party Funds

The third party funds can be defined as a kind of funds or customer money deposited in banks in the context of savings, current accounts, and deposits (Affandi, 2008). It is stated by Abdullah, who explained that it is a source of bank funds collected from the costumers in the form of demand savings, current account, and deposits

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(Abdullah, 2005). Kasmir defines it as a sources of various funds received or managed by banks, taken from the people in the scope of savings money, current accounts, and deposits (Kasmir, 2015).

Money collected from the rich people are most relied upon by banks because they are a large source of funds, which the banks can receive around 80% to 90% of the total assets managed by banks (Dendawijaya, 2005). In this context, the third party funds (TPF) raised by Islamic banks consist of a number of products that are more than third party funds (TPF) collected by conventional banks because there are two form contracts implemented in the third party fund products of Islamic banks, namely *Wadiah* and *Mudharabah* Contracts (Harahap, Wiroso, & Yusuf, 2010).

Wadiah is a contract for safekeeping by one party to another party, which the deposit must be carefully guarded by those who entrusted and must be returned at any time when the storing party wants it. The intended party can be an individual or a legal entity. Besides that, the objects of the *Wadiah* contract are many kind goods in the form of money, documents, securities, and other valuable items that are not certainly items and prohibited in Islamic economic law (Harahap et al., 2010).

As the deposit recipients and entrusted party by the costumers, Islamic bank does not have the obligation to provide benefit to the customers from goods deposited. In practice, Islamic bank may charge fees for goods deposited by the customers. Islamic banks can also give bonuses to depositors at their discretion in which bank has a prerogative rights to provide bonuses but it may not be required in advance, and the amount or bonuses percentage may not be set upfront by the two parties concerned (Yusuf, 2010).

Wadi'ah consists of two types, namely *wadi'ah yad al-amanah* and *wadi'ah yad al- dhamanah*. *Wadi'ah yad al-amanah* is a pure deposit so that the requester may not take advantage, benefit, or use the items deposited. When the item is returned to the depositors, it must be in an intact condition both in quantity and physical condition as long as the contract. In the practice of Islamic bank today, *wadi'ah yad al-amanah* is implemented in the form of safe deposit box products. And then, entrusted goods can be charged a deposit fee as a compensation for the recipient of the deposit (Wiroso, 2011).

In contrast, *wadi'ah yad al-dhamanah* is the development of *wadi'ah yad al-amanah*. It has been adjusted to the development of economic activities, which the deposited recipient is allowed to take or utilize the deposited goods. The contract of *wadi'ah yad al-dhamanah* in Islamic banking today is practiced in the form of current account and *wadi'ah* savings products. Moreover, goods custodians can receive bonuses as the exchange of goods entrusted from the party who received it. In this context, the item for safekeeping is taken for granted by the recipient of the item for safekeeping with the requirement that the bonus or reward is not required in advance, and the amount may not be determined in advance (Yusuf, 2010).

The *mudharabah* is a kind of partnerships agreement among two or more parties, which the first one acted as the owner of the funds (*shahib al-maal*) and the other one acted as the business manager (*mudharib*). *Mudharabah* is basically a profit sharing system in Islamic business contract, where the partners agree to joint and to share their benefits in investment capital venture, labor or companies in the line of contractual agreements with a predetermined percentage (Amalia, 2014).

Mudharabah can be understood as a form of *syirkah* agreement (partnership). Another term of *mudharabah* is used by the Iraqis, while the Hijaz call it the term of *qiradh*. Thus, *mudharabah* and *qiradh* are the same terms. *Mudharabah* includes an agreement between the owner of capital (money and goods) with the entrepreneur where the capital owner is willing to fully finance a business activities or projects, and the entrepreneur agrees to manage the project with profit sharing-based to be in accordance with the agreement (Sumitro, 2004).

A predetermined percentage in *mudharabah* contract is commonly determined by the relative share of capital raised by each partner in the case of capital use projects, or by the relative share of wages incurred by labor in the case of the project use being used, or by the relative share of the value of money entered by companies in the case of inter-company supervision of joint projects. Shortly, *mudharabah* is more than just a principle in Islamic financial transactions in general, but it is also Islamic financial investment in particular (Nurhasanah, 2014).

Based on the authority granted to the entrepreneurs, *mudharabah* contract can be classified into two, namely *mudharabah muthlaqah* (unrestricted investment) and *mudharabah muqayyadah* (bound investment). In *mudharabah muthlaqah*, the entrepreneur or *mudharib* is given full authority to carrying out his business project without any prohibition or intervention from the owner of the fund either business time, place of business, type of business and others related to the interests in running the business. As for the *mudharabah muqayyadah*, the owner of the fund has the right to give conditions to the *mudharib* in managing funds and businesses such as its limitation is only to conduct *mudharabah* contract in certain fields, times, methods and places (Yusuf, 2010).

The type of *mudharabah* contract implemented in Islamic bank today is based on the principle of *mudharabah muthlaqah* both are *mudharabah* in current deposit, *mudharabah* in saving, and *mudharabah* in deposit product.

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In Islamic Banking Law Number 10 of 1998 article 1 paragraph 6, there are some types of the third party funds that collected from the costumers such as: first, *wadiah* current deposit is demand deposits that can be withdrawn any time through using checks, crossed checks or by book-entry. The provisions regarding on *wadiah* current deposits are contained in the fatwa of the Indonesian Ulama Council (DSN-MUI, 2006), such as a safekeeping that can be taken any time, and no required compensation, unless in the form of voluntary giving from the bank (Harahap et al., 2010).

Second, *wadiah* saving is a deposits that can be withdrawals any time using ATMs, savings books, withdrawal slips, and other agreed or suggested orders, but it cannot be able to use checks and or crossed checks (Parenrengi & Hendratni, 2018). The provisions regarding on *wadiah* savings are contained in the fatwa of the Indonesian Ulama Council (DSN-MUI, 2006), such as safekeeping that can be taken at any time, and no required compensation, unless in the form of voluntary gifts from the bank.

Third, *mudharabah* current deposits is a kined of money deposit that can be withdrawn at any time through using a check, gyro, other means of payment orders, or by book-entry (Meilita, 2011). Fourth, *mudharabah* savings is a kind of deposit that can be withdrawn any time through using ATM, savings book, withdrawal slip and other suggested or agreed orders that cannot use checks and crossed checks or a tool that can be likened to it (Affandi, 2008).

Sixth, *mudharabah* deposit is a kind of deposit that can only be withdrawn at a certain time based on certain contract that has been agreed between the bank and the customer. The provisions regarding on *mudharabah* deposit are also contained in the 2006 National Sharia Council Fatwa (Harahap et al., 2010).

2.3. Profitability

Profitability can be defined as the financial ratio to know the capability of a company to generate the profit, or to amount the ability of a company to manage the company, including assets and capital, to produce the expected return (Munawir, 2010). As expressed by some economic experts, profitability can be assumed as the ability of a company in increasing a profit at certain period (Sari, 2015). The profitability ratio in this study uses return on equity which can be estimated the company's ability in generating the profits through managing all total capital owned by the company (Hanafi, 2009). To calculate the estimation of return of equity, we can use a formula:

$$\text{ROE} = \frac{Net\ Sales}{Total\ Equity} x100\%$$

Profitability can be understood as the ultimate goal of many business activities. Without considering that, the business activities cannot improve for the long time. To calculate the current and past condition, the banks need to conduct various projects in the future. Profitability can be predicted through the incomes and expenses. Income is benefit generated from various business activities. For instance, if crops and livestock are produced and sold out, income is resulted. In this case, benefit cannot come into the corporate account from various business activities like borrowing money that cannot result the return. It can be mentioned as simply cash transaction between the creditor and debtor to get cash money from the operational activities or buying the certain assets. Shortly, it can be designed in the form of income statement which is basically consisting the listing of incomes and expenses during a period of time (usually in a year) for the whole business activities. (Johanns, 2019).

3. METHOD

The panel regression method is used to analysis the research objective through combines time series data with the data crossing section, supported by regression and determination analysis tools (Subakti, 2015). The aim of regression analysis is to enumerate the direction of the independent variable correlation to the dependent variable whether positive or negative, and to compute the dependent variable value if it has decreased or increased. Multiple linear regression analysis is a tool to forecast the effect of two or more independent variables value on the dependent variable in order to prove the presence or absence of a function relationship among two or more independent variables (Sugiyono, 2005). The independent variables of this study are spin-off system and the third party funds, while the dependent variable is profitability (return on equity).

4. RESULT AND DISCUSSION

4.1. Result

Before doing a multiple regression analysis, a regression model is firstly tested with a series of classical assumption tests. The test is carried out with the expectation that the results of multiple liner regression analysis

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test can be known to meet or not meet the best linear unlimited estimate (BLUE) criteria (Parenrengi & Hendratni, 2018), for instance, a normally distributed data can be analyzed through normality test. If there are no autocorrelation symptoms, it would be analyzed through autocorrelation test with Durbin Watson. If there is no multicollinearity, it can be analyzed through multicollinearity test, and if there is no heteroscedasticity, it would be analyzed through the heteroscedasticity test. The results of these analyses are to provide the research results that all assumptions are met so that multiple linear regression analysis test in this study can be interpreted.

4.1.1. Regression Analysis Test

The goal of regression analysis test is to explore the direction of spin-off system and the third party funds towards profitability ratio whether the relationship direction is positive or negative, and to estimate the value of profitability if it has decreased or increased. So, the result can be showed such as follows:

Table 1: The Results of Multiple Regression Analysis Test on the Effect of Spin-Off System on Return on Equity of PT. BRI Sharia Bank

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	101,014	,000		.	.
CAR	-,173	,000	-,413	.	.
OEC	-,991	,000	-1,080	.	.
FDR	-,007	,000	-,021	.	.
NPF	,325	,000	,086	.	.

a. Dependent Variable: ROE

Source: Data *output software SPSS V. 23* (2020)

Referring to the output of data processing through the use of the SPSS Program Version 23, the regression equation results are obtained such as follows:

$$Y = 101{,}014 – 0{,}173 – 0{,}991 – 0{,}007 + 0{,}325$$
$$ROE = 101{,}014 – 0{,}173\ CAR – 0{,}991\ OEC – 0{,}007\ FDR + 0{,}325\ NPF$$

Referring to the above calculation results, the equation shows that when capital adequacy ratio, operational expenditures costs, financing to deposit ratio, and non- performing financing are used in measuring the independent variable (the spin-off system) by zero (0), the value is measuring to the dependent variable (Return on Equity) of 101,014.

In this regard, the results of this study can be formulated that the regression coefficient test for capital adequacy ratio of -0.173; operating expenditure cost of -0.991, and financing to deposit ratio of -0.007 are negative. It is assumed that capital adequacy ratio, operational expenditure cost, and financing to deposit ratio have a negative impact on return on equity. Besides that, a regression coefficient test for non-performing financing of 0.325 is positive. In other words, there is showed a positive effect between non-performing financing and return on equity.

Table 2: The Result of Simple Linear Regression Analysis Tests about the Effect of the Third Party Funds on Return on Equity of PT. BRI Sharia Bank

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	3,384	7,900		,428	,697
TPF	,038	,388	,057	,099	,927

a. Dependent Variable: ROE

Source: Data *output software SPSS V. 23* (2020)

Referring to the output of data processing through the use of the SPSS Program Version 23, the regression equation results are obtained such as follows:

$$Y = 3{,}384 + 0{,}038\ X$$
$$ROE = 3{,}384 + 0{,}038\ TPF$$

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Referring to the above calculation results, the equation shows that when the third party fund is used to estimate the independent variable by zero (0), this value is measuring to the dependent variable (profitability) of 3.384. Based on the result, it can be mentioned that the regression coefficient of the third-party funds of 0.038 is positive. It means that the third party funds have a positive impact on return on equity.

4.1.2. Determination Analysis Test

To explain clearly how much the contribution of the independent variable on the dependent variable, a statistical calculation is performed using the determination coefficient analysis test (C_d), in which the results show like it:

Table 3: The Result of Determination Coefficient Analysis Tests on the Effect of Capital Adequacy Ratio on Return on Equity of PT. BRI Sharia Bank

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,012a	,000	-,333	3,25742

a. Predictors: (Constant), CAR

Referring to the output of data processing through the use of the SPSS Program Version 23, the results of determination coefficient analysis test through R Square are obtained of (0,000) or 0% that indicates the significant influence of capital adequacy ratio as the independent variable on return on equity as the dependent variable. This results shows that each changes in return on equity cannot be explained by capital adequacy ratio.

Table 4: The Result of Determination Coefficient Analysis Test on the Effect of Operational Expenditure Cost on Return on Equity of PT. BRI Sharia Bank

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,945a	,894	,858	1,06282

a. Predictors: (Constant), OEC

Referring to output of data processing through the use of the SPSS Program Version 23, the results of determination coefficient analysis test through R Square are obtained of (0.894) or 89.40% which shows how much the effect of operational expenditures cost as the independent variable on return on equity as dependent variable. This result shows that each change in return on equity can be explained by operational expenditures cost of 89.4% and the rest of it may be affected by the other aspects.

Table 5: The Results of Determination Coefficient Analysis Test on the Effect of Financing to Deposit Ratio on Return on Equity of PT. BRI Sharia Bank

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,312a	,098	-,203	3,09453

a. Predictors: (Constant), FDR

Referring to the output of data processing through the use of the SPSS Program Version 23, the results of determination coefficient analysis test through R Square are obtained of (0,098) or 9,8% which shows how much the effect of financing of deposit ratio as the independent variable to return on equity as dependent variable. This result shows that each change in return on equity can be explained by financing to deposit ratio of 9,8% and the rest of it may be affected by the other factors.

Table 6: The Results of Determination Coefficient Analysis Test on the Effect of Net Income Margin on Return on Equity of PT. BRI Sharia Bank

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,618a	,381	,175	2,56216

a. Predictors: (Constant), NIM

Referring to the output of data processing through the use of the SPSS Program Version 23, the results of determination coefficient analysis test through R Square are obtained of (0,381) or 38,1% that indicates how much the influence of net income margin as the independent variable on return on equity as the dependent

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variable. This results shows that each changes in return on equity cannot be explained by net income margin of 38,1% and the rest of it is influenced by the other components.

Table 7: The Results of Determination Coefficient Analysis Test on the Effect of Non-Performing Financing on Return on Equity of PT. BRI Sharia Bank

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,380a	,145	-,140	3,01272

a. Predictors: (Constant), NPF

Referring to the output of data processing through the use of the SPSS Program Version 23, the results of determination coefficient analysis test through R Square are obtained of (0,145) or 14,5% which shows how much the effect of non performing financing as the independent variable to return on equity as dependent variable. This result shows that each change in return on equity can be explained by non-performing financing of 14,5% and the rest of it is influenced by the other variables.

Table 8: The Results of Determination Coefficient Test on the Effect of the Third Party Funds on Return on Equity of PT. BRI Sharia Bank

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,057a	,003	-,329	3,25236

a. Predictors: (Constant), TPF

Referring to the output of data processing through the use of the SPSS Program Version 23, the results of determination coefficient analysis test through R Square are obtained of (0,003) or 0,3% which shows how much the effect of the third party funds as the independent variable to return on equity as dependent variable. This result shows that each deviation in return on equity can be examined through third party funds of 0.3% and the rest is influenced by the other aspects.

Table 9: The Results of Determination Coefficient Analysis Test on the Effect of Spin-Off System and the Third Party Funds on Return on Equity of PT. BRI Sharia Bank

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1,000a	1,000	.	.

a. Predictors: (Constant), TPF, OEC, CAR, NPF

Referring to the output of data processing through the use of the SPSS Program Version 23, the results of determination coefficient analysis test through R Square are obtained of (1,000) or 100% which shows how much the influence of third party funds, operational expenditures cost, capital adequacy ratio, and non-performing financing as the independent variable on return on equity as dependent variable. This result shows that each deviation in return on equity can be explained by third party funds, operational expenditures cost, capital adequacy ratio, and non performing financing of 100%. While net income margin and financing to deposit ratio are not included within the independent variables and impacted on the dependent aspects.

4.2. Discussion

4.2.1. The Effect of Spin-Off System on Return on Equity

Based on the research and its analysis above, the researchers arrived at the results, according to the theory that spin-off system would have a positive effect on profitability, and also a possible way for PT. BRI Sharia Bank to restructuring of human resources, assets, and financing. Therefore, through the restructuring of various aspects, a subsidiary company or Islamic Business Unit can be changed into an Islamic Commercial Bank. The main goal of these efforts is to manage their own household.

According to practical perspective, the results of a simple determination analysis test in this study indicate that several spin-off system variables such as operating expenditures cost, financing to deposit ratio, net income margin, and non-performing financing have a significant influence to return on equity, while capital adequacy

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ratio has no significant influence to return on equity, and third party fund variable has also a significant effect on return on equity.

If it is analyzed through the direction of the relationship perspective, capital adequacy ratio, operating expenditures cost, and financing to deposit ratio have a negative effect on return on equity, while non-performing financing is the same as the third party funds that have a positive effect on return on equity.

The result of the study supports several previous studies examined the effect of spin-off policies on profitability ratio, including research which has been conducted the specific research on the separation policies and their impact on efficiency. In his research, he showed that the separation policies had a negative effect on efficiency ratio of Islamic banking industry in Indonesia (Al Arif & Dewanti, 2017).

Furthermore, in other studies, Al-Arif also showed that the separation method does not have an impact on the level of profitability ratio in Islamic banks resulted from the separation, only the level of operational expenditures cost and the level of non-performing financing problem have an impact to the ratio level of profitability (Arif, 2015). In contrast, Ramdani also conducted a research that the separation system has a positive effect on the amount of operational profit ratio of PT. BNI Sharia Bank (Ramdani, 2015).

Another research is also formulated the same conclusion done by Sri Subakti. His research showed that *mudharabah* savings, financing to deposit ratio, and dummy spin-off system had a positive effect on profitability ratio, while the variable level of operational expenditures cost had a negative implication on profitability (Subakti, 2015).

Referring to the explanation above, I can formulate here that spin-off system represented by several financial ratios such as capital adequacy ratio, operational expenditures cost, financing to deposit ratio, net income margin, and non-performing financing can be understood as the measurement tools to analyze its significant effect on the profitability level (return on equity) of PT. BRI Sharia Bank.

4.2.2. The Effect of the Third Party Funds on Return on Equity

The greater number of third party funds indicates that public trust is a greater increasingly to the Islamic bank institutions, so it can be confirmed that the third party funds have a positive impact on the level of bank profitability ratio (Sudiyatno, Bambang, & Suroso, 2010). This phenomenon is also consistent with the previous research results conducted by Rahmawati who almost similar conclusion that the increase of the third party funds would automatically increase the financing allocation and bank revenues in general. This will absolutely have a positive impact on increasing bank profitability ratio (Rahmawati & Fitrah, 2013).

The result of this study supports previous research formulated by Parenrengi who stated that the variable of the third party funds has a positive and significant effect on the profitability that measured through the bank profitability in general. According to her, third party funds is the most dominant variable that affected on return on assets (Parenrengi & Hendratni, 2018).

Finally, the analysis results indicate that the third party funds have a significant effect on return on equity at PT. BRI Sharia Bank with a positive relationship direction. The analysis results of the research also indicate in the determination analysis of these two variables produce a value of 100%, which means the changes of profitability can be measured by return on equity of 100%. In other word, return on equity can be explained by third party funds through the assumption that other factors are also considered to be the permanent affect.

5. CONCLUSION

Based on the research, we can concluded that the spin-off system has not significant effect on the profitability ratio of PT. BRI Sharia Bank, which is indicated through the results of the regression analysis of capital adequacy ratio, operational expenditures costs, financing to deposit ratio. These have a non-determinant implication to return on equity, and only non-performing financing results a significant value on return on equity. In addition, the third party funds has a significant effect on return on equity with a positive relationship direction, so that the spin-off system and the third party funds are each influenced simultaneously on return on equity, but the relationship direction is evidently shown in very different view.

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