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PT Bank Panin Dubai Sharia: Profitability and The Factors Affect It

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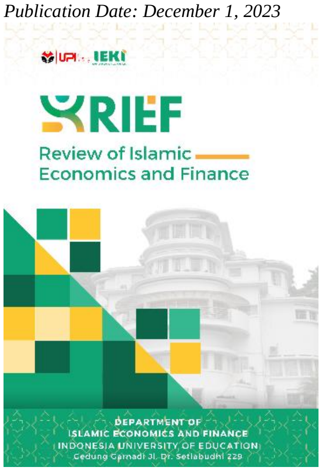

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Abstract

Purpose *– This study aims to examine the development of PT. Bank Panin Dubai Syariah. PT Bank Panin Dubai Syariah, also known as Bank Panin Syariah, is a sharia bank based in Jakarta, Indonesia. Founded in 1971 and is the first bank in Indonesia to introduce Islamic banking, especially the Bank that conducted its first IPO on the Indonesian stock exchange, precisely on January 15, 2014 with the code PNBS (Annual Report PNBS, 2020) and has a capital composition of 39.32%. from Dubai Islamic Bank. The author wants to examine the effect of interest rates, third party funds and financing on the profitability of Bank Panin Dubai Syariah.*

Methodology *- The data analysis tool used is a quantitative method with Error Correlation Model (ECM). The author took the research period January 2020 - August 2022 because he wanted to see developments in bank profitability during the Covid-19 period*

Findings *- The results showed that interest rates had no significant effect on the profitability of Bank Panin Dubai Syariah, while third party funds and financing had a significant positive effect on the profitability of Bank Panin Dubai Syariah. The implications of this research are expected to be used as an evaluation for banking institutions in managing interest rates, third party funds and financing which will affect bank profitability.*

Keywords: *Bank Panin Dubai Sharia, Interest Rates, Third Party Funds, Financing, Return on Assets.*

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1. INTRODUCTION

The role of banks as intermediate entities is to gather public funding and distribute it in the form of financing with the intention of enhancing people's lives. (Yanti, 2018). It is important for banks to maintain banking health to stay on a normal line and healthyconditions. Bank health indicators can be seen through financial ratios, one of which is the profitabilityratio. Profitability ratio is the main ratio that is considered by investors and customers to see the company's ability to make a profit so that the higher the level of profitability of the company indicatesthat the company has good financial performance (Hidayat et al., 2020). By knowing the profitability ratio, it can provide information in the form of company profits both from the previous year and the current year (Hatiana, 2020). *Return on asset* (ROA) ratio is often used to measure investment management against management effectiveness (Siregar & Syafarudin, 2020). In addition, companies use ROA as a ratio to measure the effectiveness of profits in the company to generate returns (Febriyanti& Rendra, 2022). This ratio is used to assess the financial position of a company by assessing whetherall the company's assets are used as much as possible using the *Return on assets (*ROA) scale or instrument (Muhaemin et.al., 2016).

The Covid-19 pandemic that attacked in March 2020 caused Indonesia to experience a slowdown in economic growth. Indonesia's Gross Domestic Product growth rate was negative at -2.07% (Bank Indonesia, 2020). Bank Indonesia decided to reduce interest rates by 2.5 points from 2019 in order to increase investment figures so that the consumption side can increase and be able to overcomethe economic slowdown (Bank Indonesia, 2020). Interest rates are thought to be a factor that affects bank profitability. Interest rates determine the size of the cost of funds paid by debtors so that it affectsthe size of investment and can affect bank profitability. Lower interest rates lead to greater lending andinvestment, conversely when interest rates are high, lending levels are relatively low *(*Ahnert et al, 2022). The decline in interest costs encourages demand for credit by the public for investment so that bank profitability will be high (Andrianto, Fatihudin, D; Frimansyah., 2019). The use of cost of funds provides a framework for analyzing and measuring the financial efficiency of banks. This can help in evaluating how effectively banks can manage the cost of funds in addition to determining the ability of Islamic banking to provide financing to customers. With a lower cost of funds, banks can offer financing with more competitive returns, in order to support the growth of financing and investment portfolios. Cost of Funds directly affects the profitability of Islamic banking. A low cost of funds can increase profit margins, while a high cost can reduce profits. Therefore, Islamic banking management needs to ensure that they can obtain funds at a competitive cost to maximize profits (Endri et al., 2022).

The amount of third-party funds is the second factor that is thought to affect bank profitability.In the midst of economic uncertainty due to the pandemic and the reduction in interest rates by bank Indonesia, third party funds managed to experience continued positive growth, the data shows that from 2017 to 2021 third party funds managed to grow 11.58% amid the economic crisis (OJK, 2021). In developing countries, the main activity of banks in the form of *lending activities* has a significant portion(Department of Economic and Social Affairs, 2015). In *lending activities*, third party funds have an important role in banking activities, because they are an input for bank activities. According to Mankiw(2016), the size of the output is influenced by the input in the form of capital (K). The main productionactivity in banks is financing, where the size of financing depends on third-party funds as input or capital.

The third factor that is thought to affect bank profitability is financing. Financing is an activity in banking to meet the needs of parties who need funds, this is done to support investment and businessactivities by customers (Wicaksana, 2016). During 2020, the financing side of banks has increased by 8.02% (OJK, 2021) amid an economic slowdown, this contains positive affirmation from the public (Indah, 2017). Financing and profitability have a unidirectional relationship, when there is an increasein the financing side, this will make the profit earned by the bank also increase (Ramadhanti et al., 2023). In banking balance sheet assets, most of the operational funds in banking are invested in the form of financing, this fact makes it clear that financing is the largest source of income, as well as the largest source of risk for banks which will affect liquidity and banking operations (Andrianto & Firmansyah, 2019).

Several previous studies have been conducted, but consistent results have not been found. Nanda (2020) indicates that third-party funds have a negative influence on Murabahah financing at Sharia Commercial Banks because one of the factors causing this negative impact is that Sharia Commercial Banks tend to be very cautious in collecting funds from the public due to concerns about financing risks. Meanwhile, other research shows that third-party funds have a positive influence because these funds are a key factor in determining the net profit of Sharia Commercial Banks (Muflikhah & Isnaeni, 2022). Minny & Görmüş (2017) argue that interest rates have a positive effect on the level of profitability in Turkish banks. On the other hand, Sari (2021) shows that interest rates have a negative impact on profitability because lending rates continue to rise, but deposit rates are lower than lending rates, causing fluctuations in the lending and deposit interest rates of the bank, resulting in fluctuations in the level of bank profitability. The low profit margin contributes to the bank's less-than-ideal income and has a limited impact on profitability. The high volume of financing anticipates a high return, but the income received from financing is still unable to cover operational costs, thus affecting the profitability of the bank (Navita et al., 2023).

Based on the discrepancies in theory and the results of previous research, the authors want to examine the determinants that affect bank profitability in the form of interest rates, third party funds and financing on bank profitability. The innovation of the author's research that distinguishes it from previous research is the selection of the object of Bank Panin Dubai Syariah which has never been donebefore with the state of the Indonesian economy which experienced a weakening during the covid 19 pandemic. The selection of Bank Panin Dubai Syariah as the object of research is based on the fact thatBank Panin Dubai Syariah is the first Islamic bank to IPO on the Indonesian stock exchange, preciselyon January 15, 2014 with the code PNBS (Annual Report PNBS, 2020). Interestingly, one of the world'slargest Islamic bank compositions is in the composition of Bank Panin Dubai Syariah of 39.32% invested by Dubai Islamic Bank. Therefore, with the large shares owned by Dubai Islamic Bank, the bank's capital is able to increase and the bank is also able to carry out international standard Islamic bank management. Although this research only focuses on Bank Panin Dubai Syariah, it is hoped that this research can provide innovative development, especially in digitalization so that bank panin dubai syariah is expected to be able to compete not only with Islamic banking but also with conventional banking.

In 2020 Bank Panin Dubai Syariah also received a rating with the idA + category by the Indonesian Securities Rating Agency which states that Bank Panin Dubai Syariah has financialcapabilities and commitments with stable prospects in the long term. The Financial Services Authoritynoted that Bank Panin Dubai Syariah was able to channel greater financing to the public, recorded financing during the pandemic increased by 6.13%, this was also done to assist government policies innational economic recovery (PEN) which indeed focuses on financing for the MSME and retail sectors. In addition, during the pandemic, especially during 2020, Bank Panin Dubai Syariah actually experienced a decrease in third party funds and an increase in financing which was not accompanied byan increase in profitability. This pattern is different from Islamic banks as a whole which did experiencean increase in third party funds and financing which was also accompanied by an increase in profitability. It is known that during the pandemic the largest contributor to financing came from the retail segment, which was around 20% and corporations by 17%, which made Bank Panin Dubai Syariah able to survive amid the crisis (OJK, 2020).

The interest rate described uses the BI rate because it has the same pattern, which is jointly decreasing with a margin income of 0.02% set by Bank Panin Dubai Syariah. In the midst of a pandemic,Bank Panin Dubai Syariah continued to carry out recovery efforts which resulted in a significant decrease in gross NPF and net NPF, which were at the level of 3.38% and 2.45% respectively in 2020,compared to the same period in the previous year which was at the level of 3.81% and 2.80%. With thisfact, it should make profitability which should increase on the contrary. This also has an impact on thirdparty funds which have decreased so that it will have a direct effect on the profitability of Bank Panin Dubai Syariah because most of the banking operating costs come from third party funds collected. When compared to other Islamic banks during the economic slowdown, third party funds collected grew by an average of 11.9%. This pattern is different from the decrease in third party funds by Bank Panin Dubai Syariah which also experienced a decrease in profitability. In addition, financing which illustratesthe ability of banks to support the contribution to revenue is 70%, so this will have a direct effect on bank profitability. When compared to other Islamic banks, there is a different pattern where Bank PaninDubai Syariah actually experienced an increase in financing during 2020 but was not accompanied by an increase in the profitability ratio. This is also not in line with NPF and margins which tend to decrease, which should make bank profitability increase, but the opposite is true.

The author took the research period from January 2020 - August 2022 because WHO established the spread of Covid 19 as a global pandemic since 2020, causing an economic slowdown. During the author's research period, Bank Panin Dubai Syariah conducted a corporation in the form of a limited public offering with Pre-emptive Rights to strengthen the company's capital amidst Islamic banking competition and economic instability and increase the distribution of business and corporate restructuring financing with a focus on upholding prudential standards in the distribution.

2. LITERATURE REVIEW

2.1 Interest Rate

Based on law number 23 of 1999 concerning interest rates, bank Indonesia defines that interestrates are a central bank tool to stimulate and control the country's economy (Santi Widyaningrum et al.,2023). Operationally, the BI Rate is a benchmark interest rate setting instrument issued by Bank Indonesia as a policy used to control the influence of banking activities, money markets and the real sector (Bafadal, 2018). Through its influence on money market interest rates and bank interest rates, which will have an effect on financial performance, the BI Rate is anticipated to have an impact on improving the effectiveness of monetary policy transmission, especially theprofitability that the company will get (Silaban et al., 2021). According to Keynes, interest rates is a monetary phenomenon dictated by the community's supply and demand for financial resources which will affect the economy (Upadiyanti et al., 2018). In banking, interest rates are influenced by several factorssuch as financing needs, time period, profit targets, quality assurance, government policies, good relations, competitive products and company reputation (Glenda Kalengkongan, 2018).

Based on the cost of funds theory, it is stated that interest rates are one of the factors that causethe amount of lending interest rates by banks (Sunia et al., 2021). Cost of funds is funds that must be spent, from each fund raised by banks. So that the size of the cost of funds that will be issued by banksdepends on the amount of funds obtained. The greater the funds raised, the greater the cost of funds thatwill be issued, this is very important of all operational costs that will determine the level of profitabilityof the bank (Supeno, 2022). Did study in Nigeria which is a Muslim populated country and concluded that interest rate does not have any significant impact on commercial banks deposits in Nigeria (Mushtaq & Siddiqui, 2017).

2.2 Third Party Funds

Third party funds are a collection of funds collected from the general public that can be withdrawn at any time (Hatiana, 2020). Third party funds come from deposits, current accounts and savings or the like, which can support operations in the bank (Zulkarnain, 2022). This fund is the mainsource of funding for banking operations and illustrates the size of the bank's success. Most of the bank'soperational funds come from third party funds collected (Lustianah & Syarifudin, 2014). Banking fundraising strategies can basically be done actively and passively. The active methodof raising funds, which is preceded by special actions by banks that specifically direct the public to savemoney at the bank (Sumartik & Hariasih, 2018). While the passive method, banks raise funds without carrying out special activities, meaning that people come to the bank on their own. The efforts made bybanks in encouraging the public can be in the form of promotions, advertisements, advertisements, andothers (Sumartik & Hariasih, 2018). The greater the third party funds, the greater the level ofprofitability of the bank, which means that the higher the level of public trust to raise funds at the bank(Alamsyah, 2020).

In production theory, it is explained that production factors are simply divided into two, namelycapital (C) and labor (L). The principle of production is how production can work so that it reaches themaximum level and makes a profit (Suparyanto and Rosad, 2020). Production itself is an economic process that aims to convert input factors into an output (sholihah, 2018). In banking, third party fundsact as capital in the process, so that to get maximum output in banking must have high third party funds,with the amount of capital owned, the production process which is assumed to be by channeling financing can run optimally so that the output or profit of the bank will also be maximized.

Regarding third-party funds, the amount of third-party funds collected allows the bank to utilize these funds for income-generating purposes, including financing. With the increase in financing, the bank's profitability also increases (Sondakh et al., 2021). Meanwhile, the imbalance between the distribution and collection of funds results in excess funds while profit-sharing continues, which will undoubtedly affect the generated income and, consequently, the profit obtained (Zamzami, 2022).

2.3 Financing

Financing is an activity carried out by banks to meet the needs of parties who need funds, this is done to support investment or business activities carried out by customers

(Wicaksana, 2016). Financing is a major asset of banking because financing is the main activity of the banking business (Agustin, 2020). Before channeling financing, it is necessary to analyze in advance to evaluate the ability and willingness of the borrower to return the borrowed funds and pay margins and profit sharingas stipulated in the financing contract. Based on this assessment, the bank can indicate how high or lowthe risk it must bear. In this way, the bank can decide whether to reject or approve the proposed loan application (Ilhamy, 2018). If the financing channeled by banks goes well, the level of profitability generated by the bank will also increase (Bahri, 2022). Therefore, banks must really pay attention to the allocation of funds and allocate funds in accordance with their objectives so that they can smoothly return the funds provided by customers who have obtained financing instruments. This will encourage capital owners toincrease their investment in the banking industry (Novyanti & Wirman, 2022).

Regarding mudharabah financing, Afkar (2017) argues that mudharabah financing does not always signal positive results for banking profitability. Often, the amount of financing disbursed is not proportionate to the obtained risks or the occurrence of problematic financing, which leads to a reduction in the bank's profit (Afkar, 2017). Meanwhile, other research indicates that the larger the murabahah financing, the higher the financial performance, while the smaller the murabahah financing, the lower the financial performance (Azizah & Mukaromah, 2020).

3. METHODOLOGY

This study uses the Error Correlation Model (ECM) analysis tool, by interpreting several parts including conducting a stationarity test used to determine whether the data is stationary or not. Then the cointegration test is used to see the long-term relationship with the condition that the residuals must be stationary after that conducting short-term and long-term tests. By using secondary data sourced from Bank Indonesia, documentation of PDSB financial statements, Islamic banking statistics and the Central Bureau of Statistics. The data used is time series data with monthly time, in the time period January 2020 - August 2022. The object of this research is Bank Panin Dubai Syariah. The operational definitions and variable measurements carried out in this research are defined in table 1.

Table 1. Operational Definition of Variables

No.	Variables	Operational definition	Measurement
1	BI Rate	The monthly benchmark interest rate that the central bank sets	Percentage
2	Third Party Funds	Funds are collected from the public in the formof demand deposits, deposits and savings.	Rupiah
3	Financing	Activities carried out by banks to meet the needs of parties who need funds.	Rupiah
4	Profitability Level	The effectiveness of profits in the company togenerate returns.	Percentage

Source: data processed by researchers (2022)

The equation using the OLS model is as follows:

$$Y_t = X1_t + X2_t + X3_t + \varepsilon_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (1)$$

Y_t	:	Profitability Banks
$X1_t$	:	Interest Rate
$X2_t$	:	Third Party Funds
$X3_t$	:	Financing
ε	:	Error
t	:	Time

If the data meets the conditions of contegration, then ECM testing is carried out with the formula:

$$\Delta Y_t = \beta_0 + \beta_1 \Delta x_t + \beta_t EC_t + \varepsilon_t \quad (2)$$

$$EC_t = Y_{t-1} + \beta_0 + \beta_1 x_{t-1} \quad (3)$$

$$DY_t = \beta + DX1_t + DX2_t + DX3_t + ECT(-1) + \varepsilon_{t-1} \quad (4)$$

Y_t	:	Profitability Banks
$X1_t$	:	Interest Rate
$X2_t$	:	Third Party Funds
$X3_t$	:	Financing
ε	:	Error
t	:	Time
$ECT(-1)$	:	Error Correction Term

4. RESULTS AND DISCUSSION

4.1 Stationarity and Cointegration Tests

Based on the stationarity test that has been carried out, it shows that all variables in the study are significant at the 1st difference degree with the optimum lag test is 6. The cointegration test conducted using the Angle Granger-Augmented Dickey-Fuller (EG-ADF) test obtained a probability value less than the significance limit used <0.05 which indicates that the interest rate variable, third party funds and financing have a continuous relationship in the short and long term.

Table 2. Stationarity test

Variabel	Prob	Description
D(Profitability Rate)	0.0001	Stationary
D(Interest Rate)	0.0000	Stationary
D(Third Party Funds)	0.0000	Stationary
D(Financing)	0.0001	Stationary

Table 3. Cointegration Test Table

	T- Stat	Prob
Dickey-Fuller (EG-ADF) Test	-3.139968	0.0338

4.2 Error Correlation Model (ECM) Test

The use of the Error Correlation Model (ECM) Test is to determine a good equilibrium model used for the long term, with the use of Error Correction Term (ECT) to see whether a capital is valid or not. The value of the Error Correction Term (ECT) must be significant if not, then the model is not suitable for the ECM model. The results of data processing are as follows:

Table 4. Long-Term Estimation Results

Variable	Coefficient	T-Stat	Prob
C	-32.23592	-4.193407	0.0002
Interest Rate	1.225009	1.835311	0.0771
Third Party Funds	0.001071	2.642905	0.0133
Financing	0.002214	2.976126	0.0060
F Prob			0.001490
R Squared			0.418216

$$Y_t = \beta_0 X_t + \beta_1 X_t + \beta_2 X_t + \beta_3 X_t + \varepsilon_t$$

$$Y_t = 1.225009X_t + 0.001071X_t + 0.002214X_t + \varepsilon_t$$

Based on the results of table 4, it can be seen that the value of the probability of the interest rate variable has no significant effect on the profitability of Panin Dubai Syariah Bank, while the third party funds and financing variables have a significant effect on the profitability of Panin Dubai Syariah Bank in the long term. The F Prob is 0.001490 which shows the results that together the three variables have a significant influence on the profitability of Panin Dubai Syariah Bank. Based on the R Squared value, it shows that in the long term it has an effect of 41%, and the rest is explained by other variables.

Table 5. Short-Term Estimation Results

Variable	Coefficient	T-Stat	Prob
C	-28.38698	-3.940294	0.0005
Interest Rate	0.961135	0.618160	0.1321
Third Party Funds	0.000981	0.000373	0.0142
Financing	0.001952	0.000697	0.0095
ECT (-1)	0.494183	2.733489	0.0111
F Prob			0.000246
R Squared			0.550944

$$\Delta Y_t = \beta + \beta_1 \Delta x_t + \beta_2 \Delta x_t + \beta_3 \Delta x_t + \beta_4 ECT(-1) + \varepsilon_t$$

$$D(Y)_t = \beta + \beta_1 D(\text{Interest Rate})_t + \beta_2 D(\text{Third Party Funds})_t + \beta_3 D(\text{Financing})_t + \beta_4 ECT(-1) + \varepsilon_t$$

$$D(Y)_t = -28.38698 + 0.961135 + 0.000981 + 0.001952 + 0.494182$$

Based on table 5, the ECM results indicate that in the short term the probability of ECT (-1) has a significant effect because it is smaller than the significance limit used which is 0.05. Therefore, the ECM model used in this study is valid. The variables that are significant in the long term are third party funds and financing. While the interest rate variable is not significant. The F prob value in the short-term estimation results is 0.00246 which indicates that together the three variables have a significant influence on the profitability level of Panin Dubai Syariah Bank. The R Square value indicates that in the short term the effect is 55% and the rest is explained by other variables outside the model.

4.3 The Effect of BI Rate on Bank Profitability

The results showed that in the long term and short term the interest rate variable had no effect on bank profitability. This is because the principle of interest is not applied in Islamic banking operations (Rasyidah & Azizuddin, 2022). Changes in the BI Rate are only used as a benchmark by Islamic banks when determining the profit sharing rate (Elkamiliati & Ibrahim, 2014). Benchmark determination as a consideration for providing margins is used to compensate for changes in interest rates in conventional banks, when the BI Rate increases, conventional banking interest rates increase, people will rush to move their funds to conventional banks because of high interest rates, causing bank profitability to be low, and vice versa when the benchmark interest rate decreases, people actually move their funds to Islamic banks which are considered safer, making bank profitability increase (Saputra, 2015).

Changes in interest rates also do not make the margin spread of Islamic banks change. This is because in determining the margin, Islamic banks consider several main things such as the amount of funding provided and the financing risks that will be borne if something happens later. The application of the *Indirect Competitor Market Rate* (ICMR) is also an indirect consideration for Islamic banks in determining the amount of margin, where the amount of conventional lending rates is considered an indirect competitor (Iriani & Yuliafitri, 2018). Islamic banking makes margin rates based on the financing period. The longer the financing period, the higher the margin. This is done as an applicationof *profit and loss sharing, it is* hoped that this can reduce the negative risk of the returns that banks willget (Makki & MS, 2021).

With the decrease in thebenchmark interest rate, many people should move their funds to Islamic banks which are considered safer from interest rate sensitivity, but this is the opposite where the funds raised have decreased, this is in line with the decrease in the cost of funds by Bank Panin Dubai Syariah in 2020 in response to changes in central bank policy. The most significant decline occurred in October and November 2021,although interest rates in this month were relatively stable, the existence of an internal write-off policymade the bank's profitability decline significantly. The criteria for financing that is carried out to be written off are financing where the debtor dies and the third party as the heir is unable to complete it, the collateral is destroyed and has decreased in value, the debtor's mandatory balance recorded at KP2LN as a state receivable that is temporarily uncollectible and other things in banking considerations. Although there were losses due to write-offs on a number of low-quality financing, this was in line withthe increase in the provision for the quality of productive assets to write-off a number of low-quality financing amounting to Rp1,046 billion. In addition, the worsening economic conditions due to the peakof the pandemic in 2021 also led to a further deterioration in retail financing which fell by 4.8% along with a decrease in purchasing power which had an impact on the ability of customers to pay.

According to Saputra (2015) with a decrease in interest rates, many people should move their fundsto Islamic banks so as to make bank profitability increase, but with a decrease in interest rates it actuallymakes bank operating funds decrease which is followed by decreased profitability. This will certainly have an impact on the level of bank liquidity, basically the higher the bank liquidity ratio indicates thatthe lower the liquidity of a bank. As a result of the fluctuations in the BI Rate in early 2020, thus makinga decrease in operational funds, it also made the level of liquidity described by the Financing to DepositRatio (FDR) increase by 16% from the previous year, meaning that with low bank liquidity, bank profitability also decreased. In addition, changes in interest rates did not have a significant impact because when there was a decrease in interest rates, public interest in financing continued to increase, but income after profit sharing decreased by 11% so that changes in interest rates did not affect the profitability of Bank Panin Dubai Syariah.

4.4 The Effect of DPK on Bank Profitability

The results showed that in the long term third party funds have a significant effect on bank profitability. The amount of third party funds collected by banks both from the public can be used as an indicator of bank growth, with the large amount of third party funds collected making bank liquidity better, which can be interpreted as the bank's ability to prepare funds for the present and the future, especially for short-term payment obligations to be good. With the better liquidity of the bank, the public will increasingly put their trust in the bank so that it is hoped that this will make more people collect their funds at the bank so that the bank's profitability is maintained (Budi Gautama Siregar, 2021).

The empirical fact that third-party funds affect bank profitability is closely related to productiontheory in economics. Production theory requires inputs in the form of capital (C) and labor (L), where C is positively related to output (Mankiw, 2016). In banking activities, third party funds act as capital so that banks can channel funds in the form of financing as an asset component that providesprofitability for Islamic banks. Conversely, if capital in banking, which in this case is third party funds,has decreased, the production process cannot run well, so that banks are unable to achieve maximum profit (Tiana & Zunaidi, 2022).

Referring to Bank Panin Dubai Syariah, in an effort to mitigate liquidity risk Bank Panin DubaiSyariah Additionally, measures are established to measure and reduce liquidity risk, such as secondary reserve restrictions, the proportion of bank liquid assets to third party funds and non-core deposits, and the degree of depositor concentration. In order to reduce risks, the company also develops early warning indicators and implements a contingency funding plan at several levels. Commercial funding managed to raise third party funds of IDR 4.8 trillion in 2021 or an increase of 6.5% compared to the 2020 achievement of IDR 4.5 trillion as a result of this, FDR increased by 16%, indicating that the bankwas able to carry out its function as an intermediary institution well, but as a result it made the bank relatively illiquid so that it would have a direct impact on the bank's profitability. In 2022, the strategy was to invest in savings and current accounts to support the improvement of the CASA ratio to third party funds. However, along with the limited public offering carried out in 2020 as one of the bank's strategies amid the pandemic, the bank's capital has increased, so the bank is optimizing the financing side. The impact of this optimization is a decrease in the value of third party funds. The decrease in third party funds goes handin hand with a decrease in the cost of funds which affects bank profitability. Therefore, banks must be creative in developing their products and adjusted to increase third party funds and competition betweenIslamic banks (Parenrengi & Hendratni, 2018).

4.5 Effect of Financing on Bank Profitability

The results showed that in the long term and short-term financing has a significant effect on bank profitability. The level of earning assets managed by the bank depends on the amount of assets owned and management decisions in banking (Puspitasai, 2017). Productive assets managed by banks are usually in the form of financing, investment assets by other banks and investment securities, while non-productive assets are managed in the form of other bank assets that have potential losses, including abandoned properties, inter-office accounts and suspense accounts (Bank Indonesia, 2012). One of the assets that provide the greatest profit for banks is the distribution of financing. The composition of the use of funds for financing activities is around 70% of all businesses carried out by banks, so that financing is the largest contribution to bank income (Diana, 2022). The more assets that are channeled, the more income is generated (Syahri & Harjito, 2020).

In 2020, the assets owned by Bank Panin Dubai Syariah have increased from the previous year, where the largest contribution to the increase in productive assets is represented by financing channeledby the bank, recorded during 2020 financing has increased by 6.13%. This increase in financing was dominated by ijarah financing which was able to increase by IDR 397.72 billion due to an increase in multi-service financing, and in general the growth of murabahah and musyarakah financing was able togrow by IDR 7.88 trillion or an increase of 3.66% from the previous year. This year there was also an increase in the bank's capital adequacy of 31.43% from the previous year, namely 14.46%, which illustrates that the bank's ability to bear the risk of risky productive assets or productive financing is getting better. Meanwhile, in 2021 and 2022 the contribution of productive assets is dominated by financing which tends to decrease, which has an impact on profitability of 5.20%. This decrease in financing was due to the write-off policy in 2021 which caused the total financing to decrease by IDR 1.04 trillion.

The main focus of the financing segment during 2020-2022 is the *wholesale* and retail segments. In the midst of economic uncertainty due to the pandemic, Bank Panin Dubai Syariah is verycareful in providing financing to the sector. The *wholesale financing* segment refers to the provision offinancing to entities with ceilings above 10 billion up to the maximum limit of provision of funds, thisfinancing consists of working capital financing which includes current accounts and financing based onpurchase orders, bills to buyers and underlying invoices and investment financing including refinancing.The contribution of *wholesale* segment financing was 64.1%. In further detail, the average of the *wholesale* segment financing is from financing to the commercial and corporate sectors where the commercial sector grew by 70.5% of the target set and the corporate sector by 17.2%.

While the retail segment refers to mortgage and multiservice products. As a result of the covid-19 pandemic, Bank Panin Dubai Syariah has tightened the provision of mortgages by implementing a mortgage financing strategy focused on the primary market segment where the form of tightening carried out is to strengthen cooperation with existing and new developers. This is done by tightening the assessment of new developers who will collaborate with criteria other than completeness in the legality of the company and clear projects, the bank also prioritizes cooperation with financing on mortgages under 1 billion due to the risk of uncertainty by the pandemic. The company also prioritizesfinancing to employees who are still working by reviewing the industrial sector where employees work, and the company also establishes several collaborations with government agencies such as Sarana Multigriya Finansial (SMF) and the Ministry of Public Works and Public Housing. Furthermore, multi-service refers to the fulfillment of multipurpose needs that are services/benefits needed by the community. Contribution to retail financing alone reached 28.67%.

This is done as support for the national economic recovery policy to rise from the economic downturn. In addition, the amount of gross NPF has also decreased due to the financing restructuring policy causing non-performing financing to decrease in 2020 by 3.38% to 1.19% but as a result of thisfinancing restructuring, it has caused a decrease in the value of Bank Panin Dubai Syariah's financial assets, this value decreased by 4.02% compared to the prior year. A finance write-off policy that goes into effect in October 2021 should also have a big influence on the company's earnings to lower the amount of non-performing financing on the balance sheet, this is done, but apparently the targetand realization do not go hand in hand, where in December 2021 the bank's business plan was not fullyrealized, causing a decrease in the profitability ratio. But the company can ensure that with a decrease in the return on asset ratio, the overall quality and portfolio are healthy and maintained.

5. CONCLUSION

Based on the results of the study, it can be concluded that in the long term and short term the interest rate variable does not have a significant effect on bank profitability, this is because the use of interest rates by Islamic banking is only used as a banchmark as a determination of taking returns, while the third party funds and financing variables have a significant effect on profitability both in the long and short term. Third party funds act as capital for banks, allowing banks to channel funds in the form of financing as an asset component that contributes to the profitability of Islamic banks. Similarly, direct financing can directly affect the profitability of Bank Panin Dubai Syariah. Financing is a banking activity to meet the needs of parties who need funds and is the largest asset component for banks other than investment. In this context, Bank Panin Dubai Syariah is expected to implement a long-term strategy to maintain company stability. One of the shortcomings is the lack of infrastructure owned by Bank Panin Dubai Syariah. Therefore, the bank is expected to continue to innovate in digitalization and implement simpler processes to increase trust resulting in the accumulation of more funds. Therefore, Bank Panin Dubai Syariah is expected to be able to compete not only with other Islamic banks but also with conventional banks, especially in terms of third-party fund growth and financing distribution.

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