

# The Influence of the Capital Adequacy Ratio, Net Interest Margin, Gross Domestic Product and Inflation on the Profitability of Islamic Banks in the Middle of the Pandemic Covid-19

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**Abstract.** This study aims to analyze the influence of Capital Adequacy Ratio, Net Interest Margin, Gross Domestic Product, and inflation on the profitability of sharia banks that are listed on the financial services authority of Indonesia period 2010 to 2019. The population is the entire Islamic banks which are listed on the financial services authority the years 2010-2019. The sample was selected using purposive sampling and consists of 10 Islamic banks in accordance with the criteria. Methods of data analysis is Partial Least Square-Structural Equation Modeling (PLS-SEM). Path analysis is used to test hypotheses on the model that has been created. The results showed that the Net Interest Margin and Capital Adequacy Ratio is a determinant of the internal affects the Return on Assets. Net Interest Margin has a significant negative effect on Return on Assets but positive and significant effect on Return on Equity. The Capital Adequacy Ratio has positive and significant effect on Return on Assets but negatively affect Return on Equity. The results showed that the Gross Domestic Product as an external factor has a positive and significant effect on Return on Assets and Return on Equity, but inflation does not affect the Return on Assets and Return on Equity.

**Keywords:** Capital Adequacy Ratio, Net Interest Margin, Gross Domestic Product, Inflation, Bank Profitability

## 1 Introduction

Indonesia has experienced two times of economic crisis which affected the condition of the global slowdown on the 1998 and 2008. The main factors causing the 1998 crisis is the financial crisis in Asia due to the debt of massive private maturing. Due to skepticism of the market and the corporate sector, a rush of money occurs. Meanwhile, the 2008 crisis occurred due to global financial problems which began in the United States. The factors causing global recession of 2008 located on the housing credit crunch (U.S. subprime mortgage crisis) and skyrocketing world oil prices. Furthermore, the economic crisis of 2020 occurs due to the pandemic of corona virus or covid-19. Human safety is jeopardized as a result of the virus's spread, and economic activity has suffered the consequences.

As a result of the Covid-19 pandemic, the government has imposed large-scale social restrictions (*Pembatasan Sosial Berskala Besar* or PSBB). Unfortunately, this policy intensifies the economic pressures. Economic pressures resulting from the pandemic touch not only certain circles, but the entire society, affecting numerous sectors including households, enterprises, and

both conventional and Islamic banking. Islamic banking has the potential to advance in terms of offering sharia-compliant financial services. Southeast Asia, as a result of its rapid development, has become one of the global hubs for the rise of the Islamic finance industry [1]. Statistik Perbankan Syariah Indonesia show that there are 196 Islamic banks in Indonesia, including 14 Islamic Commercial Banks (*Bank Umum Syariah*), 20 Sharia Business Units (*Unit Usaha Syariah*), and 162 Islamic People's Financing Banks (*Bank Pembiayaan Rakyat Syariah*), demonstrating the extensive development of Islamic banks in Indonesia. Poor bank performance affects investors', the public's, and other parties' interests, thus banks are required to improve their performance, particularly in terms of profitability. Bank profitability has a significant positive impact on bank performance. Profitability reflects the stability and efficiency of the operations of the bank [2]. The assessment of profitability is closely associated with the use of the ratio of *return on assets* and *return on equity*. In the period 2010-2019, bank profitability data gathered from the bank's official website indicates a fluctuating average number.

**Graph 1.** The Average Growth of Return On Assets and Return On Equity

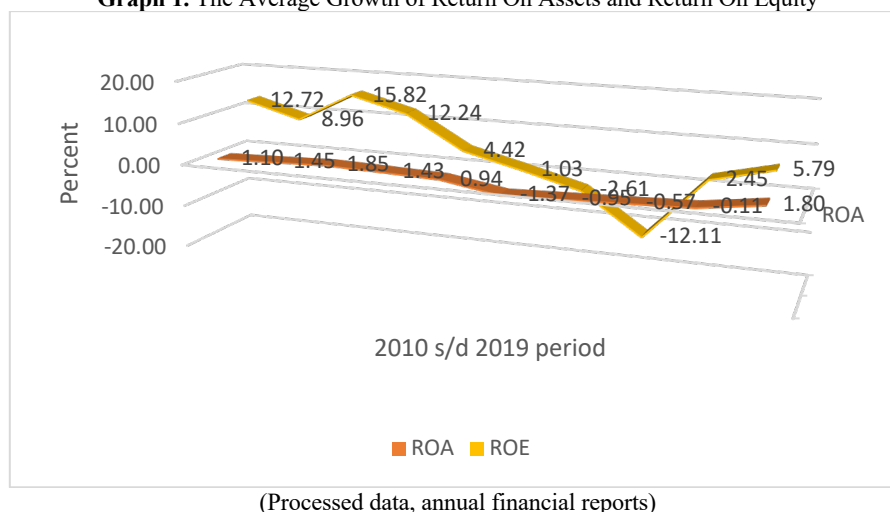


Figure 1 shows that the profitability of Islamic banks is very fluctuating, with an increase of 1.846 percent in 2012 compared to the preceding two periods, but a steep fall until 2018. In 2019 there was an increase of 1.8% but still below the ROA in 2012. Bank profitability based on ROE in 2011 decreased by 8.96% from the previous year. After a year, the ROE increased to 15.817 percent, but by 2019, the value of the ROE had declined from the 2012 average.

According to previous research such as, Chen et al. [3], Yahya et al. [4], Javaid et al. [5] and Robin et al. [6], determinants of profitability of banks classified into two groups: internal determinants and external determinants. Internal determinants are sometimes called bank-specific factors and external determinants are called micro-economic determinants of bank profitability.

Two indicators have been used to measure profitability (dependent variable); namely return on assets (ROA) and return on equity (ROE). ROA is defined as the division of net income after tax by total assets [7][5] and ROE is defined as the ratio that represents the amount of capital that has been contributed to produce net profit [8].

Recent studies on banking profitability in various countries, for example, were carried out by Yahya et al. [4], Chen et al. [3], Mukhibad et al. [9], Zampara et al. [10], Bougateg [11],

Javaid et al. [5], Robin et al. [6], Fidanoski et al. [12], Soedarmono et al. [13]. Much of past study has focused on the profitability of conventional banks, while research on the profitability of Islamic banks is still limited, particularly in Indonesia as a developing country. The objective of this study is to look at the impact of the *Capital Adequacy Ratio*, *Net Interest Margin*, *GDP*, and *inflation* on profitability in Islamic commercial banks from 2010 to 2019.

## 2 Method

Secondary data was gathered from each Islamic commercial bank's official website for this study (Bank Umum Syariah). Fourteen Islamic commercial banks make up the population of Islamic commercial banks. Data was taken from annual financial reports from 2010 to 2019. Of the 14 member banks of the population, 10 samples of Islamic Commercial Banks were selected because these banks actively provide annual financial statement information. They consists of Bank Muamalat Indonesia, Bank Rakyat Indonesia Syariah, Bank Jabar Banten Syariah, National Bank Indonesia Syariah, Bank Mandiri Syariah, Bank Mega Syariah, Bank Panin Dubai Syariah, Bank Syariah Bukopin, Bank Central Asia Syariah and Maybank Syariah. Data is processed using the WarpPLS 7.0 application. SEM-PLS is recommended because it is useful for predicting the association between variables with small samples and does not require normality assumptions [14]. In addition, it can be used to predict or describe weak theories [15].

**Table 1.** Operational Definition Of Variables

Variabel	Definition	Indicator	Scale
<b>The Dependent Variable</b>			
Return on Assets (ROA)	An Assessment of how well the bank's assets, capital, and investment resources used to produce the return is a measure of ROA. [16]	ROA = $\frac{\text{Profit Before Tax}}{\text{Total Assets}} \times 100\%$	Ratio
Return on Equity (ROE)	Indicator that illustrate the contribution of capital to gain profit clean. [8]	ROE = $\frac{\text{Net Income}}{\text{Equity}} \times 100\%$	Ratio
<b>The Independent Variable</b>			
Capital Adequacy Ratio (CAR)	CAR which comparisons are used to identify the bank's assets at risk. (the letter valuable, investments, risk) with a financed from the funds that came from the capital of the self and party other outside the bank. [17]	CAR = $\frac{\text{Capital Banks}}{\text{Risk-weight assets}} \times 100\%$	Ratio
Net Interest Margin (NIM)	NIM is the difference between the receipt of investment as well as funding projects on the return distributed to the depositors divided by earning assets. [18]	NIM = $\frac{\text{Pendp investasi-hak pihak ketiga}}{\text{aktiva produktif}}$	Ratio

Variabel	Definition	Indicator	Scale
GDP	The overall Number of commodities and services from the Negara on the period of time specified. [19]	GDP Growth (%)	Ratio
Inflation	Rising prices of goods and services in a period of time [19]	$\frac{IHK(t)-IHK(t-1)}{IHK(t-1)} \times 100\%$	Ratio

### 3 Results And Discussions

Based on the results of the testing data using the WarpPLS 7.0, then the calculation can be used to evaluate the model offered or supported by the data. The test results of the model are shown in table 1.

**Table 2.** Fit Model

Description	Results	P-values	Criteria	Status
APC	0.193	0.011	P < 0,05	Fit
ARS	0.141	0.037	P < 0,05	Fit
AARS	0.105	0.071	P < 0,05	Fit
AVIF	1.238	-	Acceptable if $\leq 5$ , Ideally $\leq 3.3$	Fit
AFVIF	1.596	-	Acceptable if $\leq 5$ , Ideally $\leq 3.3$	Fit
GoF	0.375	-	Small $\geq 0.1$ , Medium $\geq 0.25$ , Large $\geq 0.36$	Fit
SPR	0.875	-	Acceptable if $\geq 0.7$ , Ideally = 1	Fit
RSCR	0.824	-	Acceptable if $\geq 0.9$ , Ideally = 1	Does not fit
SSR	1.000	-	Acceptable if $\geq 0.7$	Fit
NLBCDR	0.813	-	Acceptable if $\geq 0.7$	Fit

The fit model was obtained by testing on Warp-PLS 7.0, which was used to assess whether the fit model was appropriate and supported by research data. In the fit model, the measurement evaluation is carried out by looking at the significance criteria, namely APC, ARS and, AARS (p-value), the fit model values are 0.011, 0.037, and 0.071, the three values > 0.05 meaning the model is declared fit. Furthermore, AVIF and AFVIF get fit results of 1.238 and 1.596 because the value is  $\leq 5$ . The GoF in the model has a value of 0.375 so it is quite large, meaning that the explanatory ability of the research model is likely to be accepted. So the SPR value is 0.875 and is accepted because  $\geq 0.7$ , based on this value, there are 87.5% paths in the independent model based on Simpson's paradox. The RSCR value of 0.824 is declared relatively fit. From the RSCR values, it was found that positive R-squared participation constituted at least 82.4% of absolute R-squared participation in the model. Furthermore, the SSR value of 1000 is declared fit because  $\geq 0.7$  indicates that 100% of the paths in the model are statistically independent. The NLBCDR value is 0.813, meaning that it is fit because  $\geq 0.7$ . From the results

of the overall model fit test, it can be concluded that this research model is accepted based on ten indicators.

**Table 3.** Output Results of Combined Loading and Cross-Loading & Indicator Weight

Variable	Loadings	p-value	Description	Weight	VIF	Sig test
ROA	1.000	<0.001	Valid	1	0.000	Sig
ROE	1.000	<0.001	Valid	1	0.000	Sig
NIM	1.000	<0.001	Valid	1	0.000	Sig
CAR	1.000	<0.001	Valid	1	0.000	Sig
PDB	1.000	<0.001	Valid	1	0.000	Sig
Inflasi	1.000	<0.001	Valid	1	0.000	Sig

The results of testing the variables of ROA, ROE, NIM, CAR, GDP, and Inflation is shown in table 2, where the indicator of the weight of the company's total variable has a significant value. According to (Hair et al., 2011) a VIF value of less than 5 (<5) indicates that there is no multicollinearity. In this study, this requirement was met because the VIF value was lower than 5.

**Table 4.** Results of Testing the Structural Model of Islamic Commercial Banks

Description	NIM	CAR	PDB	Inflation	ROA	ROE
R- Squared					0.062	0.219
Adj R-Squared					0.023	0.186
Composite Reliab.	1.000	1.000	1.000	1.000	1.000	1.000
Cronbach' Alpha	1.000	1.000	1.000	1.000	1.000	1.000
Avg. Var. Extrac.	1.000	1.000	1.000	1.000	1.000	1.000
Full Collin.VIF	1.370	1.331	1.250	1.099	2.161	2.364
Q-Squared					0.255	0.233

Based on table 3 above, R (squared) can describe the coefficient of determination that shows and explains some of the variances of endogenous constructs with constructs that are hypothesized to affect exogenous. R (squared) ROA of 0.062. This means that the ROA variance can be explained by 6.2% by the variance of NIM, CAR, GDP, and Inflation. This shows the strength of NIM, CAR, GDP, and Inflation in explaining the ROA variance. R (squared) construct of return on equity with a proxy of 0.219, the variance of return on equity can be explained by 21.9% by the variance of ROA.

The results of this test illustrate the importance of the relationship between the independent variable and the dependent variable. The research model can be declared rejected or accepted based on a 5% significance. The following test results related to the direct influence hypothesis can be shown in table 4.

**Table 5.** Hypothesis Results

Independent Variable	Dependent Variable	Path Coef	P-Value	Results
Gross Domestic Product	ROA	0,199	0,019	Significant
Gross Domestic Product	ROE	0,248	0,005	Significant
Inflation	ROA	0,060	0,272	Not significant
Inflation	ROE	0,103	0,147	Not significant

Independent Variable	Dependent Variable	Path Coef	P-Value	Results
NIM	ROA	-0,227	0,009	Significant
NIM	ROE	0,211	0,014	Significant
CAR	ROA	0,278	0,002	Significant
CAR	ROE	-0,216	0,012	Significant

The results of the complete hypothesis are displayed in fig. 2.

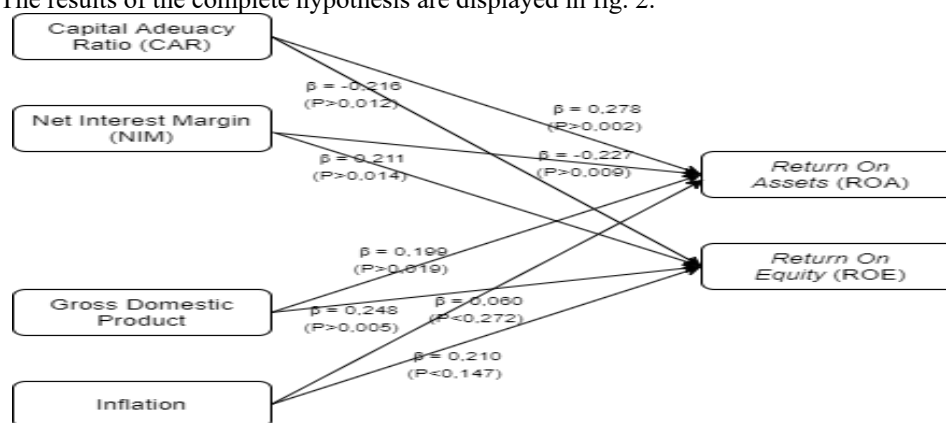


Fig. 1. Path Analysis Model Results

Based on the results of data analysis, it was found that CAR has a positive effect on ROA but has a negative effect on ROE. The path coefficient values were 0.278, -0.216 and the significance level was 0.002 ( $P\text{-value} < 0.05$ ) and 0.012 ( $P\text{-value} < 0.05$ ). The opposite result was found for NIM. The results of the study describe the findings that NIM has a negative effect on ROA, but positive on ROE. The path coefficient results show -0.227, 0.211 with a significance level of 0.009 ( $P\text{-value} < 0.05$ ) and 0.014 ( $P\text{-value} < 0.05$ ). The results are different from those previously found on macroeconomic factors. The external determinant factor, namely GDP, has an influence on ROA and ROE with values of 0.199 and 0.248, respectively, with a significance level of 0.019 and 0.005. While GDP affects both, another external determinant is inflation. The results did not find a correlation between ROA and ROE with values 0.272, 0.147 ( $P\text{-Value} > 0.05$ ).

### 3.1 The influence of the CAR on ROA

The Capital Adequacy Ratio has a positive effect on Return On Assets (path coefficients = 0,278 and  $p\text{-value} = 0,002$ ). The value of the path coefficient worth 0,278 (positive) that if it is assumed the other variable is constant (0) and the Capital Adequacy Ratio increased one unit, then it also increases against the Return On Assets at 27,8%. Value  $p\text{-value}$  value 0,002 smaller than 0.05, it means that the Capital Adequacy Ratio has an influence on Return On Assets.

ROA increases as CAR rises, and vice versa. CAR is required to assess the bank's capital adequacy in order to support assets that pose or contain risk. The CAR tends to increase, and the ROA is also likely to rise, indicating that there is enough capital to finance the business's activities economically and efficiently, allowing banks to avoid further financial difficulties in order to increase profits. In this case, the Islamic banks have been using capital effectively to generate profits. Capital, for example, has been used to fund clients, which will eventually return

to the Islamic Commercial Bank in the form of capital gains. Furthermore, a high equity ratio can enhance public trust in Islamic commercial banks. Public trust in the financial industry are also encouraged by the government guarantee on funds stored at the bank. As a result, the community still believe that banking products can be used to increase profits. The results of this research are in line with studies conducted by Rolle et al. [20] and Ebenezer et al. [21].

### **3.2 The influence of NIM against ROA**

*Net Interest Margin* has negative effect on *Return On Assets* (*path coefficients* = -0,227 and *p-value* = is 0.009). The value of the *path coefisien* worth -0,227 (negative) means that if it is assumed the other variable is constant (0) and *Net Interest Margin* increased one unit, but a decline in *Return On Assets* by -22,7%. P-value-value of  $0.009 < 0.05$  means the *Net Interest Margin* has an influence on *Return On Assets*.

According to the study's findings, the company's high Net Interest Margin has an effect on its low Return On Assets. When banks receive funds from various sources, they do not distribute these funds to customers in need of financing. As a result, the bank's profit ratio is reduced as a result of the lack of financing. Islamic banks should be more selective in determining the profit sharing ratio. This is due to other competitors with more attractive offers. The implication is that Islamic Commercial Banks are required to minimize the profit-sharing ratio in order to attract potential customers to use the services of Islamic Commercial Banks. The results of the research are in line with Pardede and Pangestuti's [22] study, but is inversely proportional to the research conducted by Harun [23] and Puspitasari et al. [24].

### **3.3 The influence of Gross Domestic Product Against ROA**

Gross Domestic product has positive and significant effect on *Return On Assets* (*path coefficients* = 0,199 and *p-value* = 0,019). The value of the *path coefisien* worth 0,199 (positive) that if it is assumed the other variable is constant (0) and the Gross Domestic Product increased one unit, then it also increases the *Return On Assets* amounted to 19.9 percent. Value *p-value* value 0,019 smaller than 0.05, it means that the Gross Domestic Product has no influence on the *Return On Assets*.

This correlation illustrates that the increase and decrease in GDP greatly affect the customer in investing the money in Islamic banks. The increase in GDP will have a positive impact on customer income which in turn will increase savings in Islamic Commercial Banks. Islamic Commercial Banks work as financial intermediaries between depositors and borrowers. The theory of Keynes stated, the amount saved is influenced by the size of the income level of the consumer and are not influenced by the interest rate. This study in accordance with the research of Al-Homaidi et al. [25] and Jaara et al. [26] but different with Krishna et al. [27] research which states that economic growth as measured as a percentage change in GDP is not significantly correlated with ROA.

### **3.4 Effect of Inflation on ROA**

Inflation has no effect on Return On Assets (*path coefficients* = 0.060 and *p-value* = 0.272). The *p-value* is 0.272, greater than 0.05, meaning that inflation has no effect on Return On Assets.

This study finds that inflation has no effect on the *Return On Assets* (ROA) in Islamic banks. Customers may be hesitant to save due to a decrease in the value of money as a result of inflation. This condition reduces banks' function as intermediaries (collecting funds), and the public is more interested in channeling their capital to non-productive investments such as land, precious metals or gold, and foreign exchange. This condition will have an impact on banks' ability to distribute funds, which will have an impact on the profitability of Islamic Commercial Banks.

Rising inflation triggers macroeconomic instability. An unstable macroeconomic environment significantly increases a bank's risk and reduces its profitability. The increase in interest rates for Bank Indonesia Certificates (SBI) will result in an increase in profit sharing on deposits and encourage an increase in financing profit sharing resulting in a decrease in investment in the economy. The function of the bank as an intermediary is to increase the activity of collecting and distributing funds quickly. Fund distribution activities are carried out so that these funds are received back at a later date with an agreed ratio, but many of the results are not as expected. This has a negative impact as higher inflation can increase borrower's repayment capacity by reducing the real value of outstanding loans. On the other hand, because high inflation rates are considered an indicator of macroeconomic instability, financial institutions will demand a higher risk premium which results in higher payouts and ratios. This situation causes a decrease in borrowers' cash flow which reduces their ability to repay their loans. The results of this research in line with the research Derbali [28], but contrary to the research of Quan et al. [29], Sultan et al. [30], Jaara et al. [26], and Krishna et al. [27].

### 3.5 The influence of the CAR on ROE

*The Capital Adequacy Ratio* correlated negatively and significantly to the *Return On Equity* (*path coefficients* = -0,216 and *p-value* = 0,012). The value of the *path coefisien* worth -0,216 (negative) means that if it is assumed the other variable is constant (0) and *the Capital Adequacy Ratio* increased one unit, but a decline in the *Return On Equity* amounted to -21,6%. Value *p-value* value of  $0.012 < 0.05$  means that *the Capital Adequacy Ratio* has an influence on *Return On Equity*.

High capital adequacy does not necessarily result in a higher return on equity. This condition occurs because Islamic Commercial Banks do not only get capital from outside parties but use their own capital to run their business. Various alternatives can be used starting from funds from demand deposits, depositors and debtors. These results illustrate that the higher the CAR collected by Islamic Commercial Banks, the lower the ROE. Although the ability of bank capital to maintain the risk of loss from business activities is high, it does not necessarily have a significant impact on increasing ROE. On the other hand, a high CAR means a larger capital reserve used to cover the risk of loss which may reduce the bank's ability to expand its business. Delays in business expansion due to high CAR will ultimately impact the financial performance of Islamic commercial banks. The results of this research are in accordance with studies conducted by Ayuni and Oetomo [31] and Aprilia and Handayani [32] which state that the Capital Adequacy Ratio (CAR) has a negative effect on Return On Equity (ROE).

### 3.6 The influence of NIM Against ROE

*Net Interest Margin* has a positive correlation and significant impact on *Return On Equity* (*path coefficients* = 0,211 and *p-value* = 0,014). The value of the *path coefisien* worth 0,211 (positive) that if it is assumed the other variable is constant (0) and *Net Interest Margin* increased one unit, then it also increases the *Return On Equity* of 21.1%. P-value worth 0,014 smaller than 0.05, it means that *the Net Interest Margin* has an influence on *Return On Equity*.

Profit sharing ratio does not really affect the percentage of profit sharing obtained by Islamic commercial banks. This certainly affects the profitability of Islamic commercial banks. However, this condition can be supported by other portfolios such as sukuk, stocks, sharia-backed securities, sharia mutual funds and other sharia securities. This can be seen from the high interest of the public to save funds in Islamic Commercial Banks for reasons of security and a high level of profit sharing. The findings of this research are in line with the research



conducted by Pritadyana et al. [33], but different from the research conducted by Monica [34] and Al-Homaidi et al. [25].

### **3.7 The influence of Gross Domestic Product Against ROE**

Gross Domestic product has a positive correlation and significant impact on *Return On Equity* (*path coefficients* = 0,248 and *p-value* = 0,005). The value of the *path coefficient* worth 0,248 (positive) that if it is assumed the other variable is constant (0) and the Gross Domestic Product increased one unit, then it also increases the *Return On Equity* amounted to a 24.8%. The value of *p-value* - value of 0.005 is less than 0.05 it means that the Gross Domestic Product has no influence on *Return On Equity*.

An increase in a country's GDP will increase the rate of return on capital. ROE of banks also increases because each economic unit performs well in economic activities and uses bank functions to increase the resources owned by banks and make them a source of bank profits. The findings of this research are similar to previous studies by Yahya et al. [4], Salike and Ao [35], Sultan et al. [30] and Sinitin and Soco [36] but contrary to the study of Derbali [28].

### **3.8 The influence of Inflasi Against ROE**

Inflation does not affect the *Return On Equity* (*path coefficients* = 0,103 and *p-value* = of 0.147). The value of the *path coefficient* worth 0,103 (positive) that if it is assumed the other variable is constant (0) and inflation increased one unit, then it also increases the *Return On Equity* of 10.3%. Value *p-value* value of 0.147 greater than 0.05 means that inflation has no influence on *Return On Equity*.

The high rate of inflation forces banks to increase returns on loans and banks earn higher returns from increased returns. The impact of inflation on bank performance depends on whether inflation is predictable or unpredictable. If the bank is able to predict inflation conditions, the bank will make changes to the profit-sharing margin in line with changes in the inflation rate, then the inflation rate can positively affect the bank's performance. On the other hand, unexpected inflation can increase financing risk or potential losses for Islamic Commercial Banks when debtors face financial difficulties. The findings of this study are in line with some previous researchers i.e., Idrus [37], Supiyadi and Purnomo [38], but opposite to research of Uralov [39].

## **4 Implications**

The implication of this research is that investors are able to obtain information through the company's performance which is reflected in profits and the amount of *Return On Assets* to get an idea in making investment decisions. Bank managers need to maintain and manage the *Capital Adequacy Ratio* because it is proven in this study that it can affect the *Return On Assets* of Islamic Commercial Banks. Banks must also pay more attention to *Net Interest Margin* ratio so that the Third Party Funds that have been collected are channeled and continue to pay attention to potential customers so that there will be no problematic financing in the future. The Islamic banking sector also needs to review the percentage of profit-sharing ratio that has been set in order to attract potential customers to use their services. For future research, it is necessary to add other variables such as BOPO, LDR, NPF, Asset Quality, and Asset Management to strengthen the results of this study. These factors may have a close relationship with profitability, resulting in stronger results.

## 5 Conclusion

The results of testing the *Capital Adequacy Ratio's* effect on *Return On Assets* show that it has a positive effect on *Return On Assets*. The high value of CAR indicates that banking operational activities will be carried out without difficulty in the future, allowing the company's main goal, namely profitability, to be met. The results of testing the effect of *Net Interest Margin* on *Return On Assets* show that it has a negative effect on *Return On Assets*. This demonstrates Islamic banking's lack of aggressiveness in the distribution of funds collected from various sources. The results of testing the influence of *Gross Domestic Product* on *Return On Assets* show that the welfare of the community by the size of GDP contributes to the welfare of Islamic Commercial Banks through trust in saving in these institutions. The results of testing the effect of inflation on *Return On Assets* show that inflation has no effect on *Return On Assets*, although high inflation can reduce customer interest in investing some of their money in banks and reduce their ability to repay loans which has an impact on the turnover of banking activities.

The results of testing the influence of *Capital Adequacy Ratio* on *Return On Equity* shows that *the Capital Adequacy Ratio* negatively affect *Return On Equity*. Banks can choose a variety of funding sources both from demand deposits, depositors and borrowers to operational activities. The results of testing the influence of *Net Interest Margin* to *Return On Equity* shows that the *Net Interest Margin* has a positive effect on *Return On Equity*. The rose NIM then the jumped ROE, it means the ability of banks to benefit from the profit sharing ratio affects both the poor performance of the bank. The results of testing the influence of GDP against the *Return On Equity* shows that there is a positive correlation. Units of any economy can not be separated from the banking functions in living units of its economy. The results of testing the effect of inflation on *Return On Equity* shows that inflation does not affect the *Return On Equity*. Higher inflation rates force banks to increase profit sharing on loans and banks earn higher profits from increased profit sharing.

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