CHAPTER IV

RESULT AND ANALYSIS

In this chapter, there will be some tests on the factors influencing the performance of Islamic banking. There are two kinds of variables, dependent and independent variables. The dependent variable is Return on Assets (ROA), while the independent variables are financing growth, inflation rate, and exchange rate. The variables of data are taken from the period of 2012-2015 and will be tested by using Multiple Linear Regression approach that aims to test the model specification and suitability theory with the current phenomenon. This tests will be run using Eviews 7.

A. Descriptive Variables

TABLE 4.1
Descriptive Variables

|	ROA	Inflation Rate	Exchange Rate	Financing Growth
Mean	1.374583	0.494792	11330.83	1.728542
Median	1.260000	0.375000	11601.00	1.630000
Maximum	2.520000	3.290000	14657.00	6.310000
Minimum	0.080000	-0.360000	9000.000	-4.740000
Std. Dev.	0.720009	0.661877	1629.249	1.940867
Skewness	-0.117812	2.100205	0.159723	-0.292802
Kurtosis	1.494076	9.024906	1.765408	4.400244
Jarque-Bera	4.646653	107.8859	3.252527	4.607234
Probability	0.097947	0.000000	0.196663	0.099897
Observations	48	48	48	48

Source: Data Processed

Table 4.1 shows the entire variables used in this study with monthly periods. It displays the descriptive variables of the data. The dependent variables are ROA (Return on Assets) and the independent variables consist of inflation rate, exchange rate, and financing growth.

From the table, it shows the following results: ROA's Mean, Median, Maximum, and Minimum values are, respectively, 1.374583, 1.260000, 2.520000, and 0.080000. Secondly, INF's Mean, Median, Maximum, and Minimum values are, respectively, 0.494792, 0.375000, 3.290000, and -0.360000. Thirdly, KURS's Mean, Median, Maximum, and Minimum values are, respectively, 11330.83, 11601.00, 14657.00, and 9000.000. The last, FG's Mean, Median, Maximum, and Minimum values are, respectively, 1.728542, 1.630000, 6.310000, and -4.740000. The results indicate that all variables show positive mean, median, and maximum. The values of Skewness for ROA and FG are negative, respectively, -0.117812 and -0.292802, while the value of Skewness for INF and KURS are positive, it is 2.100205 and 0.159723. Also, the values of Kurtosis for ROA, INF, KURS, and FG are positive, they are, respectively, 1.494076, 9.024906, 1.765408 and 4.400244. While the probability of Jarque-Bera for all variables is more than 0.05, it means that all the variables are normally distributed. The regression will be conducted with the data from the data that described in the table.

B. Research Variable Overview

1. Financing Growth.

Financing is the main function of Islamic banking. Hence it needs special attention, because a good financing can increase the profitability of a bank to improve the bank performance. The types of contract commonly used are *Mudarabah, Murabahah, Musharakah, Istishna', Salam,* and *Ijarah*. The movement of financing contracts each year will be shown below:
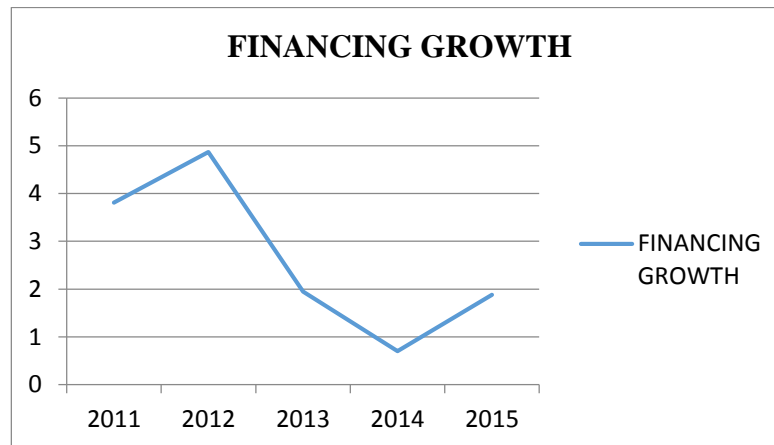
FINANCING GROWTH

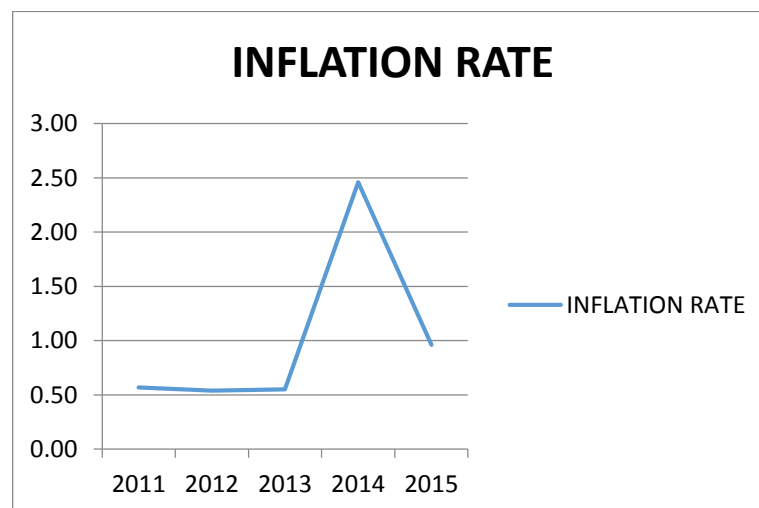Source: Data processed, Islamic Banking Statistics monthly report

FIGURE 4.1

Financing Growth (in percent)

According to table, financing growth at the end of 2011 is 3.81%. In 2012 financing growth increased by 1.06 % which hits the amount of 4.87% at the end of the year. At the end of 2013, financing growth decreases by 2.92% which hits 1.95%. Next year, financing growth decreases by 1.25%, in 2014, the amount of financing growth hits 0.70%. In 2015, the table shows the increases by 1.18%, financing growth at the end of 2015 recorded at 0.88%.

Financing growth has fluctuated monthly over the years during the study period in December 2011 – December 2015 because the condition of economic is unstable. Although the condition of economic is unstable, the customer still do financing. Because Islamic bank still has good impression, many kind of products, and good management of risk diversification.

2. Inflation Rate.

Inflation is rising prices of goods in general and continuously. It cannot be called inflation if only prices of one or two items are increased. The increase may lead to increasing the price on other goods. The opposite of inflation is called deflation. The movement of inflation each year will be shown below:

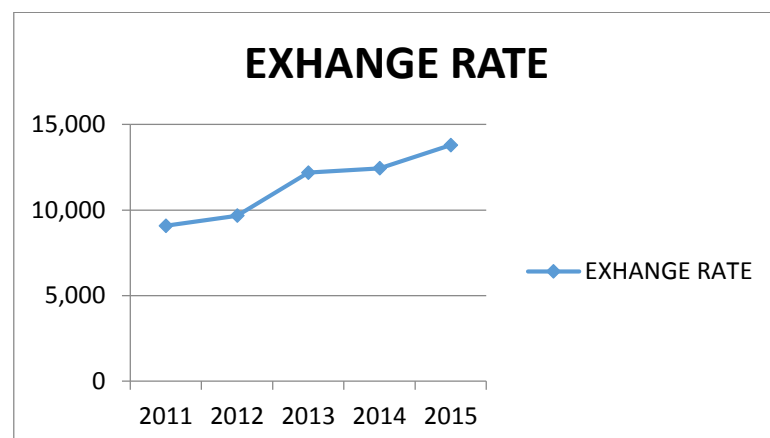Source: Data processed, Islamic Banking Statistics monthly report

FIGURE 4.2

Inflation Rate (in percent)

According to table, inflation at the end of 2011 is 0.57%. In 2012 inflation decreased by 0.03% which hits the amount of 0.54% at the end of the year. At the end of 2013, inflation increases by 0.01% which hits 0.55%. Next year, inflation increases by 1.91%, in 2014, the amount of inflation hits 2.46%. In 2015, the table shows the decreases by 1.5%, inflation at the end of 2015 recorded at 0.96%. It can be concluded that inflation from 2011–2015 fluctuation occurs.

3. **Exchange Rate.**

An exchange rate is defined as the price of one currency in items of another currency or the amount of one currency that can be exchanged per unit of another currency. Exchange rate as one of the indicators affects the activity in the stock market and financial markets because investors tend to be cautious to invest. The movement of exchange rate each year will be shown below:

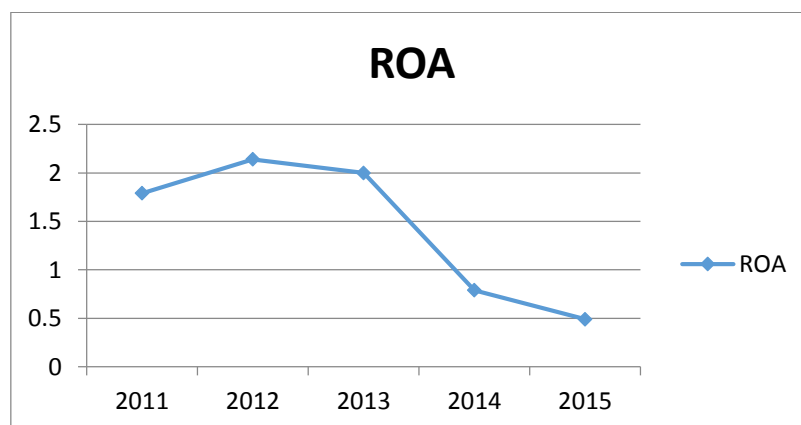Source: Data processed, Islamic Banking Statistics monthly report

FIGURE 4.3

Exchange rate (in thousand)

According to table, inflation at the end of 2011 is 9.086. In 2012, exchange rate increased by 584 which hits the amount of 9.670 at the end of the year. At the end of 2013, exchange rate increases by 2.519 which hits 12.189. Next year, exchange rate increases by 251, in 2014, the amount of exchange rate hits 12.440. In 2015, the table shows the increases by 1.355, exchange rate at the end of 2015 recorded at 13.795. It can be concluded that exchange rate from 2011–2015 fluctuation occurs.

4. Return on Assets (ROA).

Return on Assets (ROA) able to measure the ability of a company as impressive gains in the past and then projected in the future. Assets in question is the overall wealth of the company, which is obtained from its own capital and foreign capital that have changed the company into a company's assets that are used for viability of the company. The movement of Return on Assets (ROA) each year will be shown below:

Source: Data processed, Islamic Banking Statistics monthly report

FIGURE 4.4

Return on Assets (in percent)

According to table, Return on Assets (ROA) at the end of 2011 is 1.79%. In 2012 Return on Assets (ROA) increased by 0.35% which hits the amount of 2.14% at the end of the year. At the end of 2013, Return on Assets (ROA) decreases by 0.14% which hits 2.00%. Next year, Return on Assets (ROA) decreases by 1.21%, in 2014, the amount of Return on Assets (ROA) hits 0.79%. In 2015, the table shows the decreases by 0.30%, Return on Assets (ROA) at the end of 2015 recorded at 0.49%. It can be concluded that Return on Assets (ROA) from 2011 – 2015 fluctuation occurs.

C. The Result of Regression Estimation

This research using multiple linear regression analysis. The model of this research is :

$$ROA_t = a + \beta_1\,INF_t + \beta_2\,FG_t + \beta_3\,KURS_t + e \qquad\qquad (4.1)$$

Where :

Y   = Return on Assets

a   = Constanta

$\beta_1 - \beta_4$ = Regression coefficients of each variables

INF   = Inflation rate

FG   = Financing growth

KURS   = Exchange rate

E   = Error term

TABLE 4.2

The Result of Regression Estimation

Variables	Regression		
	Coefficient	T-Test	Prob
Constanta	4.876656	9.612948	0.0000
INF	-0.003532	-0.040488	0.9679
KURS	-0.000321	-7.820514	0.0000
FG	0.076804	2.229655	0.0309
R-Squared	0.721251		
F-Statistic	37.94932		
Prob F-stat	0.000000		

Dependent Variable : ROA

Source : Secondary Data Processed

Based on estimation of regression, the dependent variable in this study is ROA, and the independent variables are FG, INF and KURS. In table 4.2, it can be seen that financing growth (FG) and exchange rate (KURS) are significantly affecting the Return on Assets (ROA) in Islamic banks in 2012-2015. While inflation rate (INF) is not significantly affecting the Return on Assets (ROA) in Islamic banks in 2012-2015.

1. **t-Test.**

    a. **Constanta**

    Based on the regression results in table 4.2, the value of the constanta is 4.876656. It means that when all the independent variables are financing growth (FG), inflation rate (INF) and exchange rate (KURS) is considered to be constant, so the amount of ROA is 4.876656.

b. Inflation Rate

The null hypothesis (Ho) states that inflation has a significant effect on Return on Assets (ROA) in Islamic Bank. Alternative hypothesis (Ha) states that inflation does not affect the Return on Assets (ROA) in Islamic Bank.

Degrees of freedom (df) is 48-1 = 47 and a significance level of 5 percent ($\alpha = 0.05$), the values obtained t-table $\pm$ 2.01174. Here are the criteria for decision-making:

Ho is accepted if t-test > t-table or probability levels of variable < 0.05

Ha is accepted if t-test < t-table or probability levels of variable > 0.05

According to table 4.2, the value of t-test obtained by inflation (INF) is -0.040488 less than t-table (2.01174) and probability level of 0.9679 is greater than 0.05. So, it can be concluded that the alternative hypothesis (Ha) is accepted. It means the inflation variable not affects ROA.

The table also shows that the value of the coefficient (β_1) variable of inflation rate (INF) that is equal to -0.003532. The value of coefficient is negative. It means that inflation and Return on Assets (ROA) have a negative correlation in this research. If inflation increased by 1 percent, so the amount of Return on Asset (ROA) will decreasing by -0.003532 percent, it can be assumed that other factors are considered fixed or ceteris paribus.
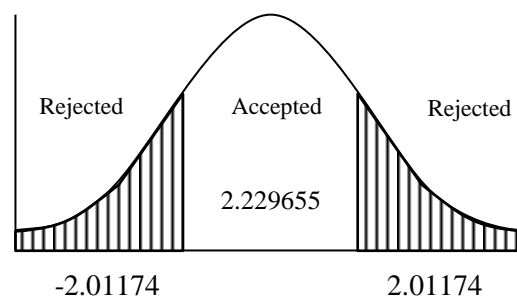
c. Financing Growth

The null hypothesis (Ho) states that financing growth has a significant effect on Return on Assets (ROA) in Islamic Bank. Alternative hypothesis (Ha) states that financing growth does not affect the Return on Assets (ROA) in Islamic Bank.

Degrees of freedom (df) is 48-1 = 47 and a significance level of 5 percent ($\alpha = 0.05$), the values obtained t-tabel ± 2.01174. Here are the criteria for decision-making:

Ho is accepted if t-test > t-table or probability levels of variable < 0.05

Ha is accepted if t-test < t-table or probability levels of variable > 0.05

According to table 4.2, the value of t-test obtained by financing growth (FG) is 2.229655 more than t-table (2.01174) and probability level of 0.0309 which is less than 0.05. So, it can be concluded that the null hypothesis (Ho) is accepted. It means the financing growth variable affects ROA. Here is the effect of financing growth variable graphically:

FIGURE 4.5
t-Test FG to ROA

The table also shows that the value of the coefficient (β_2) variable financing growth (FG) that is equal to 0.076804. The value of coefficient is positive. It means that financing growth and Return on Assets (ROA) have a positive correlation in this research. If financing growth increased by 1 percent will influence the amount of ROA increases by 0.076804 percent, it can be assumed that other factors are considered fixed or ceteris paribus.
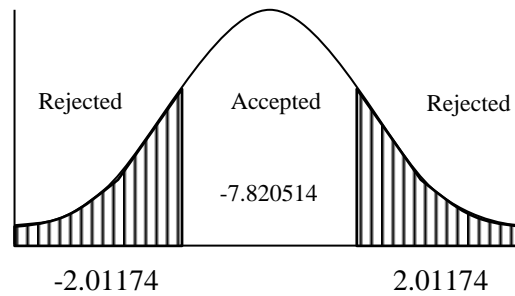
d. Exchange Rate

The null hypothesis (Ho) states that exchange rate has a significant effect on Return on Assets (ROA) in Islamic Bank. Alternative hypothesis (Ha) states that exchange rate does not affect the Return on Assets (ROA) in Islamic Bank. Degrees of freedom (df) is 48-1 = 47 and a significance level of 5 percent ($\alpha = 0.05$), the values obtained ttabel $\pm$ 2.01174. Here are the criteria for decision-making:

Ho is accepted if t-test > t-table or probability levels of variable < 0.05

Ha is accepted if t-test < t-table or probability levels of variable > 0.05

According to table 4.2, the value of t-test obtained by exchange rate (KURS) is -7.820514 which is less than t table (2.01174) and probability level of 0.0000 is less than 0.05. So, it can be concluded that the null hypothesis (Ho) is accepted. It means the exchange rate affecting ROA. Here is the effect of inflation variable graphically:

FIGURE 4.6
T-Test KURS to ROA

The table also shows that the value of the coefficient (β_3) variable of exchange rate (KURS) that is equal to -0.000321. The value of coefficient is negative. It means that exchange rate and Return on Assets (ROA) have a negative correlation in this research. If exchange rate increased by 1 percent, then the amount of ROA will decrease by -0.000321 percent, it can be assumed that other factors are considered fixed or ceteris paribus.
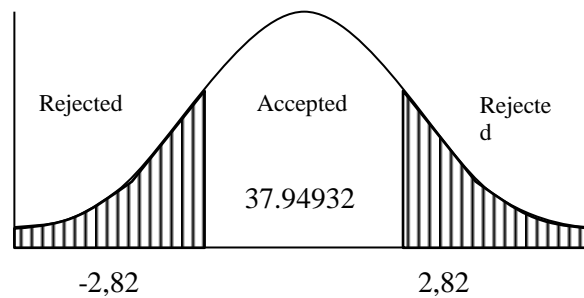
2. **F-Test.**

The statistic of F-test is basically to determine the influence of independent variables on the dependent variable simultaneously. The null hypothesis states that simultaneously variable inflation rate, growth financing and exchange rate affects the Return on Assets (ROA) in Islamic banking. The alternative hypothesis states that simultaneously variable inflation rate, growth financing and exchange rate do not affect the Return on Assets (ROA) in Islamic banking.

Degrees of freedom (df = k = 3, n-k-1 = 48 - 3 - 1 = 44) and significance level of 5 percent (α = 0.05), the values obtained F-tabel by ± 2.82. Decision-making criteria are as follows:

Ho is accepted if F-test > F-table or probability of F-statistic < 0.05

Ha is accepted if F-test < F-table or probability of F-statistic > 0.05

The effect of variable inflation rate, financing growth, and exchange rate affect the ROA in Islamic bank in the following graph:

| Rejected | Accepted | Rejected |

37.94932

-2,82   2,82

FIGURE 4.6
F-Test :INF, FG, KURS to ROA

According to table 4.2 shows that the value of F-test by 35.39776, where the number is greater than F table (2.82) and the level of probability of F-statistic is 0.000, which is smaller than 0.05. So, it can be concluded that the null hypothesis (Ho) is accepted. It means variable inflation rate, financing growth, and exchange rate affect the ROA in Islamic banks.

3. **Coefficient Determination (R^2).**

According to table 4.2, it can be concluded the regresseion model in this research is ROA = 4.876656 - 0.003532 INF + 0.076804FG − 0.003532 KURS + e.

Based on the table also, the R square value of Return on Assets (ROA) regression with all independent variables is 0.721251. It means that the value of independent variables explain the Return on Assets (ROA) variable is 72.1251%, while the 27.8749 % is explained by other factors that are not in the model.

D. Classical Assumption Test

There will be some classical assumption test before conducting analysis on the regression result. The test will conducted in order to meet the requirement of multiple regression analysis with OLS.

1. Heteroskedasticity Test.

Heteroskedasticity test is used to test whether the regression model occurred similarity variance of residuals of the observations to other observations. If the variance of the residuals of the observations to other observations is constant, then called homokedasticity. If the variance is not constant, it is called heteroscedasticity. A good regression model is homokedasticity or there is no heteroskedasticity (Gujarati, 2007). The results of heteroskedasticity test are:

TABLE 4.3

Heteroskedasticity Test Result

Heteroskedasticity Test : White			
F Statistic	1.327245	Prob F (9.50)	0.2557
Obs*R Squared	11.47998	Prob Chi Square	0.2442

Based on the table 4.3, the value of Prob Obs*R Squared is 0.2442 and greater than alpha 5% (>0.05). It means that in this model is free from heteroscedasticity.

2. **Autocorrelation Test.**

Autocorrelation is a situation where there is a correlation between residual of this year with an error rate of the previous year. To determine the presence or absence of autocorrelation in the model, it can be seen from the statistical value Durbin-Watson. Besides using the Durbin-Watson test, to see whether there is a problem of autocorrelation disease can also be used multiple Langrange test (LM Test) or the so-called Breusch-Godfrey test by comparing the probability value Obs * R Squared with α = 5% (0, 05). The following table for autocorrelation:

TABLE 4.4

Autocorrelation Test Result

Breusch-Godfrey Serial Correlation LM Test			
F Statistic	2.048377	Prob. F	0.1423
Obs*R Squared	4.366476	Prob. Chi Square	0.1127

Based on the chart, the value of Obs*R-squared is 4.366476 and its profitability is 0.1127 more than α=5% (0.05). So, it can be ascertained that there is no autocorrelation in the regression model.

3. Multicollinearity Test.

Multicollinearity is useful to test the regression model whether it has correlation among independent variables or not. Multicolinearity can be detected by seeing the coefficient value of independent variables in the matrix result. A good regression model is free from multicollinearity between independent variables and dependent variable (Gujarati, 2007).

TABLE 4.5

Multicollinearity Test Result

R Squared	
R Squared 1	0.721251
R Squared 2	0.265235
R Squared 3	0.014639
R Squared 4	0.263955

Source: Data processed

The results of the analysis: indicates that R1> R2, R3 and R4 then in the model, there are no multicollinearity.

E. Result Discussion

The findings from the research aims to find some correlations between variables, they are, inflation rate (INF), financing growth (FG), exchange rate (KURS) and Return on Assets (ROA). So, here is further discussion about the findings of this research and hopefully, it can fulfill the excitement to reveal the research. All the 3 (three) independent variables that influence on ROA will discussed be one by one.

TABLE 4.6

The Accumulation of Dependent Variable influence on

Independent Variables

Variables	Coefficient	Probability
Constanta	4.876656	0.0000
INF	-0.003532	0.9679
FG	0.076804	0.0309
KURS	-0.000321	0.0000

1. The Influence of Inflation on Return on Assets (ROA).

The coefficient value of inflation rate is -0.003532 which means that if there is an increase on inflation about 1%, Return on Assets (ROA) will decrease about -0.003532%, with the assumption that other variables are constant. The coefficient value of inflation rate has negative and not significant influence on Return on Assets (ROA). The result is not significant because the probability value is more than 5% which means that the inflation variable does not influence Return on Assets. Hence, the regression result not appropriate with the hypothesis in this research.

The results of this study is in accordance with the research conducted by several researchers, including: Suryanto and Kesuma (2012), inflation does not affect the Return on Assets. The high inflation rate will reduce Return on Assets, while the low inflation will cause economic growth slower. This indicates that although inflation has increased, profits of the company did not experience a significant decline and vice versa.

The same result was shown in a research conducted by Rosanna (2007) which indicates that inflation does not affect the Return on Assets. When high inflation rateoccurs, people put higher sentiment in Islamic banking compared with conventional banking. Public confidence is also possible because of their historical experience when the economic crisis in 1997 occurred, where at that time the inflation rate in Indonesia was very high and eventually led to many conventional banks went bankrupt as a result of applying high interest rate to keep pace with inflation and to attract customers to keep putting their funds, which causes negative spread and ultimately the bank can not recover the public funds that have been deposited with interest.

The test results between Inflation on Return On Assets (ROA) shows the regression coefficients were positive but there was no significant effect of inflation on Return On Assets (ROA). Therefore H2 "Inflation had a positive and significant effect on the profitability of Islamic banks" rejected. This is because the fluctuation of inflation will not affect the ROA during the period of 2012-2015. The interest from people on saving is still the same even with low or high inflation. So, it will not Affect ROA in Islamic banks. Inflation is indicated as having a positive regression coefficient but not significant to ROA, this suggests that inflation can not be used to predict the ROA.

If seen from the development of inflation in the period 2012-2015, inflation data has value too large variance that would cause the value of ROA becomes unstable, the instability has caused inflation variable is not significant to ROA.

Although the results are not significant, it does not mean the bank can ignore inflation in improving ROA. The higher the inflation rate, the better the performance of the bank in generating profits. Then this is because Islamic Bank which does not use the system of interest, so that the money is managed would not be too confusion when inflation as well as conventional banks.

The impact of inflation shocks in 2012-2015 against the Islamic banking industry in Indonesia is not too influential. Because Islamic banking financing activities geared more towards the domestic economy, so do not have a high level of integration with the global financial system and yet have a high transaction rate, these two factors are judged to have saved Islamic banks from the direct impact of the global financial system shocks.

According to the Indonesian Banking Architecture (2008), with the position of Islamic banking as beyond banking, the bank that provides financial products and services that are more diverse and is supported by financial schemes are more varied, we believe that in the future will be higher public interest in Indonesia to use islamic banks. And in turn, it would increase the significance of the role of Islamic banks in supporting the stability of the national financial system, together synergistically with conventional banks within the framework of the dual banking system (dual banking system). It can be concluded that during the period of study in Indonesia inflation rate was not so affect the profitability of Islamic banking in Indonesia.

2. The Influence of Exchange Rate on Return on Assets (ROA).

The coefficient value of exchange rate is -0.000321. It means that if there is an increase on exchange rate about 1%, so that the Return on Assets (ROA) will decrease about -0.000321% with the assumption that the other variables are constant. The coefficient value of exchange rate has negative and significant impact on Return on Assets (ROA). It means that any increase in the exchange rate or depreciation of the rupiah against the US dollar occured will impact decreasing of ROA and vice versa. The result is significant because the probability value is lower than 5% which means that the exchange rate variable influences the Return on Assets. Hence, the regression result appropriate with the hypothesis in this research.

Thisresult is supported by other researches conducted by several researchers, including: Dwijayanthy and Naomi (2009) state that any impact of exchange rates on profitability, which the bank identified if the exchange rate appreciation or depreciation, it will have an impact on liabilities in foreign currency of bank upon maturity tempo. As a result, the profitability of banks will change if in the case, the bank did not hedge.These results are also supported by the argument of Samuelson (2006). The exchange rate is important because during the economic crisis generally there is an increase on the dollar, thereby causing foreign debt is unable to pay, so the banks will have difficulty in making payment.

The same results are indicated by Desi Marilin and Rohmawati (2012) and Rosanna (2007) which state that the exchange rate significantly influences the profitability of Islamic banking.Foreign exchange rate will determine the real investment returns. The currency declined clearly will reduce the purchasing power of income and capital gains are derived from any types of investment. The decline in these investments will affect the Bank operational activities. By the decline in investment, financing request in Islamic banks will also decrease. It will affect the bank's financial ratios, one of the ratios is the ratio of profitability represented by ROA (Sukirno, 2006: 38).

The test results between the exchange rate on Return On Assets (ROA) shows the regression coefficients are negative and significant correlation between the exchange rate on Return On Assets (ROA). Therefore H3 "exchange rates had a negative and significant effect on the profitability of Islamic banks" accepted.

Exchange rate is indicated as having a negative regression coefficient and significant impact on ROA, it indicates that the exchange rate can be used to predict the ROA. If seen from the development of data exchange rate in the period 2012-2015, the exchange rate is not very experienced significant fluctuations and result in a variable exchange rate has a significant impact on ROA. Thus, the higher the rate of inflation it will be the worse performance of the bank in generating profits.

Impact of exchange rate shocks influence on the Islamic banking industry in Indonesia in 2012-2015. Due to the level of the exchange rate is too high then the exchange rate has appreciated and the price of imported goods become cheaper, which resulted in a lot of people would rather take their savings and prefer to hold cash.

Rising exchange rate of a foreign currency, in this case the US dollar against the rupiah, may result in more people want to have a US Dollar that, by withdrawing funds from the bank and exchange it with the US dollar, thereby lowering the supply of banking, which in turn affects the bank's ability to pay short-term obligations and provide credit, so that the lower exchange rate.

In Sukirno (2008), Keynes criticized the classical view of the determination of interest rates. In modern financial theory which developed by Keynes, the interest rate is determined by the demand and supply of money. The central bank and the banking system is the institution which determines the supply of money at a certain time. The demand for money is determined by people desire to hold money. In other words, rising prices of goods and services due to the result of the number of requests is more than the number of goods and services provided, consequently the value of money being dropped so that the public tends to attract funds in the bank to buy the goods and pile up money so that raises the number of problem loans and causing the bank to lack of funds and the impact on the banks performance level.

The existence of foreign exchange has been used not only as a commodity in the money market, but also in export and import trade. When people want to buy an item that is sold to foreign currencies, especially the dollar, then the public will redeem the rupiah to the bank and the bank as a money changer mediators in order to get some dollars to buy such goods. This makes the circulation of rupiah in the community will go to the bank and become a source of liquid funds which determines whether or not the bank.

3. The Influence of Financing Growth on Return on Assets (ROA).

The coefficient value of financing growth is 0.085232. It means that if there is an increase on financing growth about 1%, Return on Assets (ROA) will increase about 0.085232 % with the assumption that other variables are constant. The coefficient value of financing growth has positive and significant influence on Return on Assets (ROA). The result is significant because the probability value is lower than 5% which means that the financing growth variable influences Return on Assets. Hence, the regression result is appropriate with the hypothesis in this research.

This results is relevant with the research that conducted by the several researchers, including: Fadholi (2015) indicated that *Musyarakah* and *Murabahah* has significant effect to ROA, and partially *Mudharabah* have positive and significant effect to ROA. And simultaneously, *Murabahah*, *Musyarakah*, and *Mudharabah* have significant effect to ROA.

The same result showed in the research conducted by Amalia (2016) indicates that*Murabahah, Istishna, Mudharabah, Musyarakah* financing have influence to the profitability on the banks. Meanwhile, *Ijarah* financing does not have any influence to the profitability of Bank Muamalat Indonesia and Bank Syariah Mandiri.

The research is supported by the theory of Agus Sartono, in his book Financial Management (Theory and Applications). He states that profitability is the ability of company making a profit in relation of trades, total assets and own capital. So, the theory of profitability is not only influenced by sales factors, such as total financing distributed and Non Performing Financing, but also influenced by the output costs, assets owned by banks, capital that got by the bank to carry out bank activities. Profitability is also associated with the health of banks, as one of the indicators.

Based on Islamic Banking Development Report (BI, 2008), when the global economic crisis hit Indonesia in 2008,which was marked by rising inflation, high interest rates,exchange rate depreciated and decrease in the money supply, leading to decreased profitability of Islamic banking. Given some of the macroeconomic conditions lead toslowdown activity in banking, especially the slowdown in financing growth. The decline in the financing growth of Islamic banking financing relatively significantly by 14% from 36.7% in 2007 to 22.8% in 2008. Meanwhile, the decline in asset growth of 2.2% from 35.6% to 33.4% in 2008.

The test results between the financing growth on Return On Assets (ROA) shows the regression coefficients are positive and significant correlation between the exchange rate on Return On Assets (ROA). Therefore H1 " financing growth had a positive and significant effect on the profitability of Islamic banks" accepted.

Although financing growth fluctuates caused by unstable economic conditions, it does not cause banks be experienced substantial losses. Any positive impression of people to Islamic banks and many choices of products are so beneficial so the people prefer to Islamic banks than conventional banks.