



Determinant of Return on Assets in Indonesian Islamic Banking

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ABSTRACT

This research aims to determine the influence of Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF), and Capital Adequacy Ratio (CAR) on Return On Assets (ROA) of Indonesian Islamic Bank that on the Indonesia Stock Exchange (IDX) during the period of 2015-2017. This study uses financial statements of companies listed on the Indonesia Stock Exchange which were then analyzed using SPSS 23.0 software. The test results show that the Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF), and Capital Adequacy Ratio (CAR) have a significant positive influence on Return On Assets (ROA) and the simultaneous influence between Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF) and Capital Adequacy Ratio (CAR) to Return On Assets (ROA) with an R Square value of 0.758. This shows that the percentage of the influence of Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF), and Capital Adequacy Ratio (CAR) to Return On Assets (ROA) simultaneously is 75.8%. While the remaining 24.2% is influenced by other variables outside of this research variable

INTRODUCTION

Banks are financial intermediaries that channel funds from parties who have more funds (surplus units) to parties who have less funds (deficit units) at a specified time (Dendawijaya , 2009). Banks have a function as collectors and distributors of public funds, banks base their business activities on public trust (agent of trust). Apart from being an agent of trust, the bank also functions for national development in order to increase equity, economic growth, and economic stability. (Hasibuan , 2005).

Law Number 10 of 1998 concerning Banking defines a bank as a business entity that collects funds from the public in the form of savings and distributes them to the public in the form of credit and or other forms in order to improve the standard of living of the people at large. Based on Article 5 of Law no. 10 of 1998 concerning Banking. There are two types of banks, namely Commercial Banks and Rural Banks. The two types of banks in carrying out their business activities are classified into two, namely conventional and banks using sharia principles.

Islamic banks were initially developed as a very positive response from Muslim economists and Muslim banking practitioners as well as scholars who tried to accommodate the pressures of various parties who wanted financial transaction services similar to conventional banks to be available but carried out in line with the values and principles. Sharia principles in Islam. Philosophically means that Islamic banks are banks whose activities leave matters relating to usury. Avoidance of interest which incidentally is the same as Riba based on the fatwa of the Indonesian Ulema Council (MUI) number 1 of 2004 is the biggest challenge faced by Islamic Banks.

Developments in the world of Islamic banking are very rapid and high in complexity, which can affect the performance of a bank. The high complexity of Islamic banking can increase the risks faced by Islamic banks in Indonesia. Weak conditions of Islamic banks, such as inadequate management, lending to their own business groups and capital that cannot cover the risks faced by banks have caused the performance of these Islamic banks to decline. Finally, when the performance of Islamic banks declines, public confidence in the bank will also decrease and the profitability of the bank will also have an effect, such as decreasing the bank's profits on its business activities.

Factors that can affect bank profitability, in the case of Return on Assets (ROA), are derived from various operating performances shown by several indicators. One of the main sources of indicators that is used as the basis for research is periodic bank financial reports which contain several financial ratios as used in this study including Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF) and Total Assets.

The Financing to Deposit Ratio (FDR) is a ratio that is used to measure the amount of funds disbursed after compared to the amount of public savings (savings). The higher the FDR ratio shows the lower liquidity of a bank. But the higher the FDR also shows that Islamic banks are increasingly optimal for developing its physical industry, because then the Islamic bank means channeling public savings funds with good. Agustin Tri Lestari (2021) with her

research entitled Effect Of Financing to Deposit Ratio (FDR) on Return on Assets (ROA) In Sharia Bank Subsidiaries Of Soe Companies In Indonesia over the Period of 2011-2019. From the results of the analysis, it shows that the FDR condition is in the quite good category. Then for the ROA condition it is in the quite good category. Based on several tests that have been carried out, it is known that FDR does not have a significant effect on ROA. This is evidenced in the results of the Determination Test which shows that the size of the FDR ratio is only able to affect the ROA ratio by 0.005 or 0.5% This means that FDR has a very weak influence in increasing the ROA of Sharia Banks in BUMN Subsidiaries.

NPF reflects financing risk, the higher this ratio, shows the quality of sharia bank financing is getting worse. Management of financing is needed by the bank, considering the function of financing as the largest revenue contributor for Islamic banks. The soundness level of financing (NPF) also influences the profit achievement of banks (Suhada, 2009). An increase in NPF will result in a loss Opportunity to earn income from financing given so as to affect profit and influence bad on ROA. This is supported by the research of Wisnu Mawardi (2004) which states that NPF has no significant effect on ROA. This thing can be explained because an increase in the number of problem loans at Islamic banks is not always followed by an increase in profit before tax. So it can be concluded that NPF has no significant effect on ROA in Islamic banks.

CAR is the ratio that shows how big the total amount of the bank's assets contain risks (credit, investment, securities, claims on other banks) co-financed from the bank's own capital besides obtaining funds from sources outside the bank, such as the funds society, loans, and so on. Based on research conducted by Deden Edwar Yokeu Bernardin (2016) shows that partially the significant CAR effect on ROA, means to show the truth of the factual from the Bank BJB is possible with the increased quality of the CAR will be the effect on the profit shown by the increase in ROA. What distinguishes this research from previous studies is in terms of the object of research and the period of research conducted.

METHODS

The population of this study were stocks that were listed on the Indonesia Stock Exchange during the period from 2015 to 2017 of 46 banking companies who were members of the Indonesia Stock Exchange. The sample selection in this study was carried out by purposive sampling with the aim of obtaining a representative sample in accordance with the specified criteria. The sample criteria to be used are:

- 1) Companies listed on the Indonesia Stock Exchange (IDX) which publish annual financial reports for 2015-2017.
- 2) Focused on shares of Islamic banking companies in the research period (2015-2017).
- 3) Availability and completeness of data during the research period (2015-2017) is required in the study.

Table 2. Research Samples

Company Code	CompanyName
BRIS	PT. Bank BRI Syariah , Tbk .
BTPS	PT. BTPN Syariah , Tbk
PNBS	PT. Bank Panin Dubai Syariah , Tbk

The type of data used in this research is quantitative data and secondary data. The data collection technique used in this research is a documentation study conducted by collecting data related to research variables, in this case the Annual Financial Statements of the issuer or company, data on the number of outstanding shares, and stock price data. The data in this study are taken from the Annual Financial Statements of issuers or companies in the Indonesian Stock Exchange (IDX) Statistics.

The method of analysis is the method used to process the data that has been collected and can then provide an interpretation. The results of this data processing are used to answer the problems that have been formulated. This research utilizes statistical data and analyzes using several mathematical approaches as a measuring tool in the SPSS 23.0 program.

The analytical method takes multiple linear regression analysis methods to obtain a comprehensive picture of the relationship between one variable and another. Measurement of the influence of variables involving more than one independent variable (X_1, \dots, X_n) [$X_1, X_2, X_3, \dots, X_n$], multiple linear regression analysis is used, which is called linear because each estimate of the value is expected to increase or decrease in a straight line. In this case, the dependent variable is profitability and the independent variable is cash turnover and receivables turnover. To find out whether there is a significant effect of the independent variable on the dependent variable, the multiple linear regression method is used, which is formulated as follows

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Notes :

- Y = Return On Assets
- A = C constant
- Constants β_1 , β_2 , β_3 and β_4 = Regression on Coefficient
- X1 = Financing to Deposit Ratio (FDR)
- X2 = N on Performing Financing (NPF)
- X3 = Capital Adequacy Ratio (CAR)
- e = Other factors

The use of constant values statistically is done if the units of the variable X (independent) and variable Y (dependent) are not the same. Meanwhile, if the variable X (independent) and variable Y (dependent), both simple and multiple linear, have the same unit, the constant value is ignored assuming that the change in the variable Y (dependent) will be proportional to the value of the change in the variable X (independent).

RESULTS AND DISCUSSION

Results

Partial Test Results (t Test)

The proof of the hypothesis is done using ttest. The test results can be seen from table IV.12 below, namely in column t and sig. The value of ttable at a significance level of 5% (2-tiled) and df (degrees of freedom), [df=n-k-1]; $\alpha/2 = 0.025$ is 2.052. Where n is the number of samples, k is the number of independent variables, alpha is the level of significance.

Table 1. Partial Test Results (t Test)
Coefficients ^a

Model	B	std. Error	t /F	Sig.
1 (Constant)	0.017 _	0.023 _	0.722 _	0.476 _
FDR → ROA	8025	0 000	3.136	0.002 _
NPF → ROA	0.010 _	0.004 _	2,658	0.003 _
CAR → ROA	0.021 _	0.001 _	2.362 _	0.002 _
FDR, NPF, CAR → ROA			2,564	0 .010 ^a
R Square			0.758 _	

The results of the statistical calculation of the FDR variable obtained that the value of t statistic > t table is $3.136 > 2.052$, while the significant value of FDR on ROA is $0.002 < 0.05$, then H1 is accepted . Results regression found that liquidity which is denoted by FDR, shows how much bank funds are released for financing negative effect on profitability. The greater it is the value of the liquidity ratio then the more the bank's illiquid of course it has an effect on decrease in profitability. The results of the statistical calculation of the NPF variable obtained that the value of tcount > ttable is $2.658 > 2.052$, while the significance value of NPF on ROA is $0.003 < 0.05$, then H2 is accepted . financing problematic or non-performing Loans (NPL) in conventional banks and Non Performing Financing on Islamic bank, is a risk contained in each gift financing or credit by banks to customers. such risks in the form of a situation where financing or credit can not back on time. Non Performing Financing (NPF) have a positive relationship on Return On Assets (ROA), so the results of this study indicate that the greater NPF then will result the increasing ROA, that is means the bank's financial performance improves due to credit risk or increases problematic financing small. The results of the statistical calculation of the CAR variable obtained that the value of tcount > ttable is $2.362 > 2.052$, while the significant value of CAR on ROA is $0.002 < 0.05$, then Ha3 is accepted .

Capital Adequacy Ratio (CAR) is the capital adequacy ratio which shows the ability of the bank in maintaining and sufficient bank management in

identifying, measuring, monitoring, and controlling the risks that arise, and can have an effect on the size of the bank's capital. The results of this study indicate that large small Capital Adequacy Ratio (CAR) determines the size of profit or bank profitability but not too significant change. Banks that own big capital, but cannot use that capital effectively for generating profits, then such large capital does not provide a significant advantage for Islamic banks. This is due to banks relying more on loans as a source of income and not using their full potential capital to increase profitability. That matter causes the CAR to not be a significant influencing factor to bank profitability.

The value of F table is searched in table F with a benchmark of 5% significance level and degrees of freedom ($df_1 = k - 1 = 3 - 1 = 2$); ($df_2 = n - k = 15 - 3 = 12$), so F table = (2 ; 12) = 0.257. Based on the results of statistical calculations, the calculated F value > F table is $2.564 > 0.257$, and a significance value of $0.010 < 0.05$, meaning that it can be concluded that there is a simultaneous influence between FDR (X1), NPF (X2)) and CAR (X3) on ROA (Y). And from Coefficient Determinant testing, it shows that the value of R Square is 0.758. So it can be concluded that the effect of FDR, NPF and CAR on ROA is 75.8% and the remaining 24.2% is influenced by other factors outside the research model such as NIM, BOPO and others.

Discussion

a) Ratio on Return on Assets

The test results show that H_{a1} is accepted , so it can be concluded that the FDR variable has a positive and significant effect on the ROA of Islamic banking companies. listed on the Indonesia Stock Exchange for the 2015-2017 period. The regression results found that liquidity which is proxied by FDR, shows how much bank funds are released for financing, which has a negative effect on profitability. The greater it is the value of the liquidity ratio then the more the bank's illiquid of course it has an effect on decreasing in profitability . This is in accordance with the results of the research conducted by Apriani Simatupang & Denis Franzlay (2016) which states that FDR has an effect on ROA. Thus, hypothesis 1 is answered which states that FDR has an effect on ROA.

Based on the results of the author's analysis, the higher the FDR, the company's profit will increase (assuming the bank is able to channel loans effectively, so the number of bad debts will be small). Thus it can be formulated that FDR has a significant positive effect on ROA.

The results of this test contradict the results of research from Linda Widyaningrum & Dina Fitriasia Septiarini (2015) which states that partially FDR has no significant effect on ROA.

b) The Effect of Non-Performing Financing on Return on Assets

The test results show H_2 is accepted, so it can be concluded that the NPF variable has a positive and significant effect on ROA of Islamic banking companies. listed on the Indonesia Stock Exchange for the 2015-2017 period. This is in line with the Signaling theory which states that a good company will also provide a good signal for potential investors and stakeholders outside the company, one of which is by hinting that the NPF ratio in the banking company is minimal and even close to zero , and of

course this will be very affect the company's ROA. Thus, hypothesis 2 is answered which states that NPF has an effect on ROA. financing problematic or on-performing Loans (NPL) in conventional banks and Non Performing Financing on Islamic bank, is a risk contained in each gift financing or credit by banks to customers. such risks in the form of a situation where financing or credit can not back on time. Non Performing Financing (NPF) have a positive relationship on Return On Assets (ROA), so the results of this study indicate that the greater NPF then will result the increasing ROA, that is means the bank's financial performance improves due to credit risk or increases problematic financing small.

NPF is the ratio of default in lending. And based on the results of the author's analysis, the higher the NPF value will be bad for the banking sector. On the other hand, the lower the NPF value, the better for banking performance. So it can be formulated that NPF has a positive effect on ROA.

The results of this test contradict the results of research from Linda Widyaningrum & Dina Fitriasia Septiarini (2015) which states that partially NPF has no significant effect on ROA.

c) Effect of Capital Adequacy Ratio on Return on Assets

The test results show H3 is accepted, so it can be concluded that the CAR variable has a positive and significant effect on the ROA of Islamic banking companies listed on the Indonesia Stock Exchange for the 2015-2017 period. This is the same as the results of Ridhlo Ilham Putra Wardana's research (2015) which concludes from the three independent variables used, only the CAR variable has an effect on ROA. Thus, hypothesis 3 is answered which states that CAR has an effect on ROA.

Capital Adequacy Ratio (CAR) is the capital adequacy ratio which shows the ability of the bank in maintaining and sufficient bank management in identifying, measuring, monitoring, and controlling the risks that arise, and can have an effect on the size of the bank's capital. The results of this study indicate that large small Capital Adequacy Ratio (CAR) determines the size of profit or bank profitability but not too significant change. Banks that own big capital, but cannot use that capital effectively for generating profits, then such large capital does not provide a significant advantage for Islamic banks. This is due to banks relying more on loans as a source of income and not using their full potential capital to increase profitability. That matter causes the CAR to not be a significant influencing factor to bank profitability.

CAR reflects the bank's capital adequacy. Based on the results of the author's analysis, the higher the CAR means the higher the own capital to fund productive assets, the lower the cost of funds will further increase the bank's ROA. And vice versa, the lower the own funds, the higher the cost of funds and the lower the ROA of the bank. Therefore, it can be formulated that CAR has a positive effect on ROA.

The results of this test contradict the results of research from Linda Widyaningrum & Dina Fitriasia Septiarini (2015) which states that partially CAR has no significant effect on ROA.

CONCLUSIONS AND RECOMMENDATIONS

Based on the results of research and discussion, the conclusions that can be put forward in this study are:

- 1) FDR variable has a positive and significant effect on ROA of Islamic banking companies listed on the Indonesia Stock Exchange for the 2015-2017 period because the results of regression found that liquidity which is proxied by FDR, shows how much bank funds are released for financing negative effect on profitability. The greater it is the value of the liquidity ratio then the more the bank's illiquid of course it has an effect on decreasing in profitability.
- 2) NPF has an effect on ROA because based on the research found that problematic financing or non-performing loans (NPL) in conventional banks and non-performing financing on Islamic banks, is a risk contained in each gift financing or credit by banks to customers. Such risks in the form of a situation where financing or credit cannot be returned on time. Non Performing Financing (NPF) have a positive relationship on Return On Assets (ROA), so the results of this study indicate that the greater NPF then will result the increasing ROA, that is means the bank's financial performance improves due to credit risk or increases problematic financing small. And from the data obtained, the three samples of banking companies studied showed low NPF values, even close to zero.
- 3) CAR variable has a positive and significant effect on ROA of Islamic banking companies listed on the Indonesia Stock Exchange for the 2015-2017 period, because the results of this study indicate that large small Capital Adequacy Ratio (CAR) determines the size of profit or bank profitability but not too significant change. Banks that own big capital, but cannot use that capital effectively for generating profits, then such large capital does not provide a significant advantage for Islamic banks. This is due to banks relying more on loans as a source of income and not using their full potential capital to increase profitability. That matter causes the CAR to not be a significant influencing factor to bank profitability. CAR reflects the bank's capital adequacy. The higher the CAR means the higher the own capital to fund productive assets, the lower the cost of funds will further increase the bank's ROA.

FURTHER STUDY

Based on the results of research and discussion as well as some conclusions in this study, the researcher can provide the following suggestions:

- 1) For Academics and Researchers
To increase the amount of data by extending the research period and using samples from other types of companies as additional references,

especially in the capital market and investment fields and adding macro variables that have not been studied in this study, such as NIM and BOPO.

2) For Companies

For companies, the information obtained from this research should be used as consideration in making decisions in order to increase the company's profitability in order to be able to attract investors to invest in the company. One way is to increase the ROA ratio because when the ROA shows a number above 1, the company is believed to be able to finance the company's activities in the current year and so on, so this will convince investors that the company is also able to provide dividends or profits for investors from the invested capital. to the company.

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