

The Impact of Non-Performing Financing (NPF) to Profitability (Return On Equity) at Sharia Bank in Indonesia

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Abstract— - This study aims to analyze the effect of Non Performing Financing (NPF) on Profitability proxy with Return On Equity (ROE) variable of syariah bank in Indonesia period of 2013-2015. The sample population in this study were three banks with sample selection using purposive sampling technique with syariah bank criteria which published periodic financial statements during the observation period that is the period of 2013-2015. The research data is quantitative data obtained from the quarterly financial report of sharia bank. Data analysis using simple linear analysis with 5% significance level which aims to obtain how the overall influence of the relationship between NPF variable and Return on Equity (ROE). The results showed that the variable Non Performing Financing (NPF) has a negative and significant effect on Return On Equity (ROE) with a value t greater than 0.005. High NPF ratio in syariah bank can give a picture of the negative effect on profitability of sharia bank..

Keywords; Non Performing Financing, Profitability, Return On Equity, Syariah Banking

I. INTRODUCTION

The development of sharia banking in Indonesia is quite rapid and has a considerable opportunity, it was felt after the government and Bank Indonesia gave a big commitment by taking various policies to develop sharia banks.

As of 2009, there have been six Sharia Commercial Banks (BUS), 25 Sharia Business Units (Sharia Division), 138 Sharia Rural Banks (BPRS) with a total of 1223 sharia banking offices spread throughout Indonesia. To be able to know the development of the number of sharia banking and banking offices in Indonesia for the last five years can be seen in the table below.

TABLE 1
Development of Sharia Bank

Type	2005	2006	2007	2008	2009
Sharia Commercial Banks					
• Total Bank	3	3	3	5	6
• Total Office	304	349	401	581	711

Sharia Business Units					
• Total Bank	19	20	26	27	25
• Total Office	154	183	196	241	287
Sharia Rural Banks					
• Total Bank	92	105	114	131	139
• Total Office	92	105	185	202	225
Total Office	550	637	882	1024	1223

Source : Bank Indonesia

One of the banking performance measurement ratios is profitability used to measure management effectiveness based on the results obtained from sales and investments. Profitability is the percentage comparison between profit with assets or capital that generate profit [4]. Banking in this case is required to increase profitability because profitability is one indicator to measure and evaluate the performance of bank management and productivity in managing banking assets as a whole, so with high profitability banks are expected to continue to run the business and improve its performance so that the community needs will be fulfilled. Profitability also indicates whether the business entity has a good prospect in the future, so the higher level of profitability of a business entity then the survival of the body will be more secure [9].

The commonly used indicator to measure the performance of bank profitability is Return On Equity (ROE). ROE according to Pramudhito [12] shows the ability of banks to manage available capital to obtain net income. The ROE standard according to PBI No.6 / 10 / PBI / 2004 is 5% -12.5%. The greater the ROE, the greater the level of profit earned by the bank that affects the better the bank's position in terms of capital management. The higher the return then the better because it means that the dividends are distributed or reinvested as retained earnings is also greater [11].

The health criteria of sharia banks stipulated by Bank Indonesia are as follows:

TABLE 2
Non Performing Financing Rating Assessment

Rating	Value NPF	Predicate
1	NPF<2%	Very good

2	$2\% \leq \text{NPF} \leq 5\%$	Good
3	$5\% \leq \text{NPF} \leq$	Pretty Good
4	$8\% \leq \text{NPF} \leq 12\%$	Not So Good
5	$\text{NPF} \geq 12\%$	Not Good

Source : SE BI No. 9/24/DPBS October, 30, 2007

Non Performing Financing is a financial ratio that shows the total problematic financing in sharia banking. In conventional banking, the financial ratios that represent problematic financing are known as Non Performing Loans (NPLs). Non Performing Financing (NPF) measures the bank's ability to safeguard the risk of default on the return of debtors. The high level of Non Performing Financing (NPF) in a sharia bank shows the quality of an unhealthy Islamic bank. Non-current financing is due to constraints on each financing provided by the sharia bank. The constraint is caused by any financing provided by the bank, not all of the financing can be fully refunded by the customer. So that Non Performing Financing (NPF) has a negative effect on Return On Equity (ROE).

This study was conducted to test whether Non Performing Financing (NPF) has an effect on profitability. Profitability is measured by Return On Equity (ROE) to determine the ability of management in managing the available capital to generate net income. This research is different with previous research is population, time, and sample used in this research is Sharia Bank in Indonesia period 2013-2015.

II. LITERATURE REVIEW

This study is based on the research of Dendawijaya [4] which suggests the impact of the existence of Non Performing Financing (NPF) which is not fair one of them is the loss of opportunity to obtain income from credit given, thus reducing the profit gain and adversely affect profitability.

Non Performing Financing (NPF) the higher the profitability will be lower and vice versa, if the Non Performing Financing (NPF) the lower the profitability will be higher. As stated by Abdullah [5] "If the problem loans are very large and the reserves formed are also large, the bank's capital is likely to be negative so that the profit will be disturbed.

Another study by Susilawati [6], which examines the effect of mudharabah financing on Non Performing Financing (NPF). In this research, the object studied is BPR Syariah Baiturridha Pusaka Bank. The result of this research indicates that there is influence of mudharabah financing to Non Performing Financing (NPF).

Kharisma [8] examines about third party funds and Non Performing Financing (NPF) on profitability. This study concludes that simultaneously third party funds and Non Performing Financing (NPF) together have a significant effect on profitability. And partially there is a significant influence between third party funds on profitability and there is a non-significant influence between Non Performing Financing (NPF) on profitability.

Mutaminah and Chasanah [7], this study examines external and internal analysis in determining Non Performing Financing (NPF) of Sharia Commercial Banks in Indonesia. The result of the research shows that GDP (Gross Domestic Product) has no significant positive effect on Non Performing Financing (NPF) of sharia bank, inflation has a significant negative effect on Non-Performing Financing (NPF) of sharia commercial bank, exchange rate or exchange have positive but not significant effect to the level of Non Performing Financing (NPF) ratio of sharia banks, profit return sharing return on total return is negatively insignificant to non-performing financing (NPF) of sharia commercial bank, murabahah financing allocation ratio to the allocation of profit loss sharing to the level of Non Performing Financing (NPF) ratio of sharia commercial banks.

Ardi [2] examines the effect of Non Performing Financing (NPF) and Financing To Deposit Ratio (FDR) Terhadap Return On Equity (ROE) In Sharia Rural Bank PNM Mentari Garut and the results of this study showed that Non Performing Financing (NPF) no significant effect on Return On Equity (ROE) where the influence of Non Performing Financing (NPF) of $-2.076 < 2.145$ to ROE, Financing To Deposit Ratio (FDR) proved no significant effect on Return On Equity (ROE) where the influence of Financing To Deposit Ratio (FDR) of $-0.901 < 2.145$ to ROE, Non Performing Financing (NPF) proved no significant effect on FDR where the magnitude of Non Performing Financing (NPF) effect of $-0.3140 < 2.145$ to Financing To Deposit Ratio (FDR) and the magnitude of Fcount is 2.4334 so $F_{count} \leq F_{table}$, $2,4334 \leq 3,80$ which means accept H_0 or H_a rejected means not significant where there is no p a significant influence simultaneously between Non Performing Financing (NPF) and Financing To Deposit Ratio (FDR) to Return On Equity (ROE) at PT. PNM Mentari Garut.

Research by Tresna Asih Sekarwangi [10] with the title of Effect of Non-Performing Financing (NPF) and Capital Adequacy Ratio Against Islamic Bank Profitability in Indonesia Research shows that non-performing financing significant negative effect on profitability (Return On Equity), Capital Adequacy Ratio significant positive effect on profitability (Return On Equity). Thus the results of the study show Non Performing Financing and Capital Adequacy Ratio has an influence on profitability.

Another study by Lia Yuliany [3] concerning the Influence of Financing To Deposit Ratio (FDR) and Non Performing Financing (NPF) to Profitability of Sharia Commercial Bank (Empirical Study on Sharia Commercial Banks Registered at Bank Indonesia Period 2008 - 2012) and The results of data analysis or regression results indicate that partially, Financing to Deposit Ratio (FDR) has not a significant effect to profitability as measured by Return On Assets (ROA) and Return On Equity (ROE). And then partially, Non Performing Financing (NPF) has a significant effect to profitability as measured by Return On Assets (ROA) and Return On Equity (ROE). While simultaneously, Financing to Deposit Ratio (FDR) and Non Performing Financing (NPF) have a significant effect to profitability as measured by Return On Assets (ROA) and Return On Equity (ROE).

Farashita Aulia [1] also examined the effect of Current Asset Ratio (CAR), Financing To Deposit Ratio (FDR), Non Performing Financing (NPF) dan BOPO to Profitabilitas (Return On Equity) dan The result of this research shows that Current Asset Ratio (CAR) and BOPO had a negative and significantly influence on Return On Equity (ROE). Financing To Deposit Ratio (FDR) had a negative influence on Return On Equity (ROE), but it doesn't significantly influence Return On Equity (ROE). meanwhile, Non Performing Financing (NPF) has a positive and significant influence on Return On Equity (ROE).

In relation to previous studies, the hypothesis proposed and which will be tested are as follows:

H1 : Non-Performing Financing Influence Negative and Significant Against Return On Equity.

III. DATA AND METHODOLOGY

Types of research

This research uses quantitative approach and uses statistical calculation technique. In this case, the quantitative approach is done by analyzing the Non-Performing Financing (NPF) data on the impact on Return On Equity (ROE) in Bank Syariah Mandiri (BSM), BNI Syariah Bank and Bank BRI Syariah period 2013-2015.

Population and Sample

Based on the data that researchers get that the population in this study is the data of Non-Performing Financing (NPF) and Return On Equity (ROE) at Bank Syariah in Indonesia. Samples in this study are Bank Syariah Mandiri (BSM), BNI Syariah Bank and Bank BRI Syariah period 2013-2015. Source of data obtained in this research is in the form of secondary data. Secondary data that writer use is taken from UKDW Stock Exchange Corner period 2013-2015.

Data Analysis Technique

Statistic analysis

The results of this data processing is used to answer the problems that have been formulated. This analysis is used to show the relationship between the independent variable (X) with the dependent variable (Y). Statistical analysis includes:

1. Classic Assumption Test

In this study, researchers will perform statistical tests regression in studying the relationship that exists between the variables are not free if the independent variables are known or vice versa. In practice there are four most commonly used classical assumption assays:

1.1. Normality Test

This test is done to see if the distribution of data available is normally distributed / not. One of the statistical tests that can be used to test residual normality is non-parametric statistical test Kolmogorov-Smirnov (K-S). The K-S test is done by hypothetical:

Ho : The residual data is normally distributed

Ha : Residual data is not normally distributed

Decision-making guidelines:

- Sig value or significance or probability value <0.05. Distribution is not normal.
- b. Sig value or significance or probability value > 0.05. Distribution is normal.

1.2. Multicollinearity test

Multicollinearity test aims to test whether the regression model found the correlation between independent variables (independent). If independent variables are correlated, these variables are not orthogonal. To detect the presence or absence of symptoms of multicollinearity can be seen from the tolerance and VIF (variance inflation factor). If a low tolerance value is equal to a high VIF value, then it indicates a high collinearity (because $VIF = 1 / \text{Tolerance}$). Common Cutoff values used to indicate the presence of multicollinearity are tolerance values <0.10 or equal to VIF value > 10.

1.3. Heteroscedasticity Test

Heteroscedasticity test aims to test whether in the regression model there is a variance inequality of one observation residual to another observation. To test whether the variant of residual homogeneous use Spearman rank test, that is by correlating the five independent variables to the absolute value of the residual (error). If there is a significant independent variable correlation coefficient at error rate of 5%, indicating the occurrence of heteroscedasticity

1.4. Autocorrelation Test

Autocorrelation test aims to test whether in the linear regression model there is a correlation between the confounding error in period t with the intruder error in period t-1 (previous). The way used to diagnose autocorrelation is by Durbin-Watson test (DW test). Decision-making whether or not there is autocorrelation (Imam Ghazali, 2007) is:

- If DW is located between the upper bound (Upper bound / du) and 4-du, then there is no autocorrelation.
- If DW is lower than the lower limit (Lower bound / dl) then there is a positive autocorrelation.
- If the DW value is greater than (4-dl), then there is a negative autocorrelation.
- If the DW value lies between (4-du) and between (dl-du) then the result can not be concluded.

2. Simple Linear Regression Test

Regression can be used to predict how far the value of the dependent variable changes, if the value of the independent variable is changed. Regression analysis, in addition to being used to measure the strength of the relationship between two variables, can also indicate the direction of the relationship between the dependent variable and independent variables.

The general equation of simple linear regression is:

$$Y = \alpha + \beta X + \varepsilon$$

Explanation :

Y= Return On Equity (ROE)

α = Constant, is the value of Y when X = 0

β = The direction of the regression coefficient, which states the change in the value of Y if there is a change of X value. If (+) then the direction of the line will rise, and if (-) then the value of the line will drop

X = Non-Performing Financing (NPF)

ϵ = other factors affecting variable Y

3. Hypothesis Testing

The statistical test t basically shows how far the influence of a partially independent variable in explaining the dependent variable. This test is a two-way test with the hypothesis:

H0 : $\beta_1=0$ meaning there is no influence from independent variable to dependent variable.

Ha : $\beta_1<0$ or $\beta_1>0$ meaning there is influence from independent variable to dependent variable.

To calculate the value of t arithmetic used the formula:

$$T \text{ hitung} = \frac{\beta_1}{Se(\beta_1)}$$

Wherein:

β_1 = correlation coefficient

Se (β_1) = standard error regression coefficients

Testing criteria:

- a. H0 is accepted and Ha is rejected if t count < ttabel, meaning that independent variable has no significant effect to dependent variable.
- b. H0 rejected and Ha accepted if tcount> ttable, meaning that independent variables significantly influence the dependent variable. Another alternative to see the effect of partial is to see the significance value, if the value of significance formed under 5% then there is a significant influence of independent variables partially to the dependent variable. Conversely, if the significance is formed above 5% then there is no significant effect of independent variables partially to the dependent variable.

IV. RESULT AND DISCUSSION

Analysis

1. Classic Assumption Test Result

1.1. Normality Test

The results of normality test (Kolmogorov-Smirnov test) can be seen in table 3 below:

Table 3
Normality Test Results
(Kolmogorov-Smirnov Test)

Sample	Significance	Result
36	0.000	H0 accepted

36	0.000	H0 accepted
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Source: Data processed

Result of normality test (Kolmogorof-Smirnov test) in table 1 above shows that asymp value. Sig. for 0.000, this shows that the sig value is greater than the trust value ($\alpha = 0.05$). Therefore it can be concluded that Ha is rejected and receives H0 so that the residual data is normally distributed.

1.2. Test Multicolonearity

Multicollonierity test results (VIF test) can be seen in table 4 below:

Table 4
Multicollonearity Test Results
(Uji VIF)

Independent variable	Tolerance	VIF
NPF	1.000	1.000

Source: Data processed

Multicollonierity test results (VIF test) In Table 2 it shows that VIF value is less than 10 and tolerance is more than 0.1 which means that the regression model does not contain multicollonierity.

1.3. Heteroscedasticity Test

The results of heteroscedasticity test (Glejser test) can be seen in table 5 below:

Table 5
Heteroscedasticity Test Results
(Uji Park)

Variable	Significance	Result
NPF	0.008	Non Heteroskedastisitas

Variabel Dependen: RES_2

Source: Data processed

The result of heteroscedasticity (Glejser test) in Table 4.6 above shows that the independent variable has a sig value under α (0.05). Therefore it can be concluded that the regression model there are no symptoms of heteroskedastisitas on NPF Variables.

1.4. Autocorrelation Test

The autocorrelation test results can be seen in table 6 below:

Table 6
Autocorrelation Test Results
(Run Test)

Sample	Significance	Conclusion
36	1.398	H0 accepted

2. Simple Linear Regression Test Result

Table 7
Simple Linear Regression Test Result

Variable	t	Significance	Result
NPF	-2.501	0.017	H1 Accepted

Based on the results of Simple Linear Regression testing the effect of Non Performing Financing (NPF) (X) on Return On Equity (ROE) (Y) by using SPSS program obtained tcount -2.501 with p value 0.017, so it can be concluded H1 accepted. This shows that there is a negative and significant influence of Non Performing Financing (NPF) (X) on Return On Equity (ROE) (Y).

The Influence of Non Performing Financing (NPF) To Return On Equity (ROE)

Based on the results of the test using a simple linear regression the effect of Non Performing Financing (NPF) on Return On Equity (ROE) using SPSS program obtained tcount -2.501 with p value 0.017. H1 hypothesis built on this variable is Non Performing Financing (NPF) has a negative and significant effect on the variable Return On Equity (ROE). Because the value of p value $0.017 > 0.05$ can be concluded H1 accepted. This shows that Non Performing Financing (NPF) has a negative and significant effect on Return On Equity (ROE).

The influence of Non Performing Financing (NPF) on Return On Equity (ROE) shows the high level of Non Performing Financing (NPF) in a syariah bank can show the quality of unhealthy Islamic banks. The constraint is caused by any financing provided by the bank, not all of the financing can be fully refunded by the customer. Thus, causing high Non Performing Financing (NPF) in sharia banks can give a negative impact on the profitability of sharia banks. This is in line with that submitted by Dendawijaya [4] which suggests the impact of the existence of Non Performing Financing (NPF) is not unusual one of them is the loss of opportunity to earn income (income) from credit given, thus reducing the profit and adversely affect profitability.

The result of this research is supported by Tresna Asih Sekarwangi [10] where Research shows that non-performing financing significant negative effect on profitability (Return On Equity), as well as research by Lia Yuliany [3] where the research result is Non Performing Financing (NPF) have a significant effect to profitability as measured by Return On Equity (ROE). However, it is slightly different in the Farashita Aulia study [1] where it was found that Non Performing Financing (NPF) has a positive and significant influence on Return On Equity (ROE).

This study is inconsistent with findings of research conducted by charisma [8], where there is a non-significant influence between Non Performing Financing (NPF) on profitability. Similarly, research from Ardiu [2] which indicates that Non Performing Financing (NPF) proved no significant effect on Return On Equity (ROE).

V. CONCLUSION

The result of Non Performing Financing Test (NPF) also has a significant effect on profitability measured by Return On Equity (ROE) in sharia banking period 2013 - 2015. Regression coefficient result shows negative relationship, that means if Non Performing Financing (NPF) increases then

profitability of sharia banks will decline. The influence of Non Performing Financing (NPF) on Return On Equity (ROE) shows the high level of Non Performing Financing (NPF) in a syariah bank can show the quality of unhealthy Islamic banks. Thus, causing high Non Performing Financing (NPF) in sharia banks can give an illustration will negatively affect the profitability of sharia banks.

VI. RECOMMENDATION

In order to maintain the stability of the number of problem financing (NPF), the bank should always be proportional in applying prudential regulation (prudential regulation). That is, the bank should not be too easy and also not too tight in providing financing. So the amount of Non Performing Financing (NPF) does not jump sharply that if it happens can disrupt the profitability of sharia bank..

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