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ANALYSIS OF FINANCIAL PERFORMANCE : THE ABILITY OF DISTRIBUTION OF ISLAMIC BANK FINANCING

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Abstract

This research aims to test the influence of financial performance factors of Islamic Bank in financing distribution; they are Third Party Fund, Return on Asset (ROA), Capital Adequacy Ratio (CAR), and Non Performing Financing (NPF). This research refers to the previous research on financing distribution. The former research object, however, was Conventional Bank whose funding principal differs from Islamic Bank. In that case, this research was conducted to present further explanation about the factors affecting Islamic Bank in financing distribution. The sample of this research covers 9 Islamic Banks in Indonesia over a period between 2010 and 2015 with the result of a total of 54 samples were obtained. Two techniques were used in this research; Purposive sampling technique for collecting the samples and multiple linear regression analysis technique for testing hypothesis. The result of the research is that the Third Party Fund and Non Performing Financing (NPF) influences the financing distribution of Islamic Bank significantly but Return on Asset (ROA) and Capital Adequacy Ratio (CAR) do not give any influences on Islamic Bank financing distribution.

Key words: Financing, NPF, CAR, ROA, Third Party Fund

INTRODUCTION

Islamic banking sector is a financial institution playing a strategic role in financial system based on Islamic principle that becomes a financial inter-mediation institution collecting Third Party Fund and distributing the fund in the form of effective and efficient funding. Islamic Bank is established with the purpose of promoting and developing the implementation of Islamic principles and its tradition into financial transaction and banking.

As the economic growth rises, Islamic bank experiences an excellent growth. As shown by a quarterly report in 2015, the total asset of 11 Islamic Banks in Indonesia increased to 23.919 billion or 8,78% compared to the previous year. In addition, Islamic bank financing in December 2015 showed an amount of 212.996 billions, rising 6,68% or 13.666

billion during a year. It can also be noticed from the value of *Non Performing Financing* (NPF) of Islamic Bank in 2015 being under 5%, namely as much as 4,34%.

The quality of Islamic Bank is influenced by both the value of *Non Performing Financing* (NPF) and the amount of Third Party Fund, the bigger the value of Third Party Fund of Islamic Bank, the more the funding distribution. In this case, the value of Third Party Fund of Islamic Bank rose as the Islamic Banking funding increased by 6,11% from the year of 2014 to 2015.

The other development shown by Islamic Banking was a 1,68% increase of *Return of Asset (ROA)* in the same year, 2015. It indicates the good ability of Islamic Bank in managing asset and investing the profit in the form of funding. Even though the Capital Adequacy Ratio (CAR) of Islamic Bank in this year decreased slightly to 15,01%, it was still considered in a good condition. The growth in Islamic Banking funding proved that the level of its capital adequacy was good as well

THEORITICAL BASIS

a. Islamic Banking

Islamic Banking is a financial institution whose main activities are distributing financing and other services of payment flow and money circulation conformed to Islamic principles. The Law No. 21 by the year of 2008 about Islamic Banking states that Islamic Bank is a bank running its business activities based on Islamic principles and according to its type, it is divided into Islamic General Bank and Islamic Public Funding.

b. Public Financing

Islamic principle financing, as ruled by Law of Islamic Bank No. 10 year 1998, is money supply or bill equalized with it in regard to the agreement between bank and another party that obliges the funded party to return the money or bill after a certain period with remuneration or profit sharing.

Pratami (2011) states that financing is a fund allocation to support planned investment either self-handled or run by another person. Narrowly, financing is used to define funding done by financing institution to customer.

c. The Third Party Fund

The Law No. 21 year 2008 of Islamic Banking explains that saving is fund entrusted by customer to Islamic Bank on the basis of *wadi'ah* contract or other contracts which are not against the Islamic principle in the forms of clearing account, saving account, or other forms equalized with them. The public fund kept in the bank is the biggest funding source, namely clearing account, saving account, and deposit account.

d. *Capital Adequacy Ratio* (CAR)

The rule of the Bank of Indonesia No. 3/21/PBI/2001 tells that it is compulsory for a bank to provide a capital of minimum 8% from balanced asset according to the risk stated in *Capital Adequacy Ratio* (CAR). The CAR calculation is done in each investment in the form of credit with risk so that an amount of capital suited to a certain percentage based on the investment must be provided (Budiawan, 2008). This ratio also aims to assure that if a bank, in its activity, experiences loss, capital supply owned by the bank can cover the loss (Triasdini, 2010).

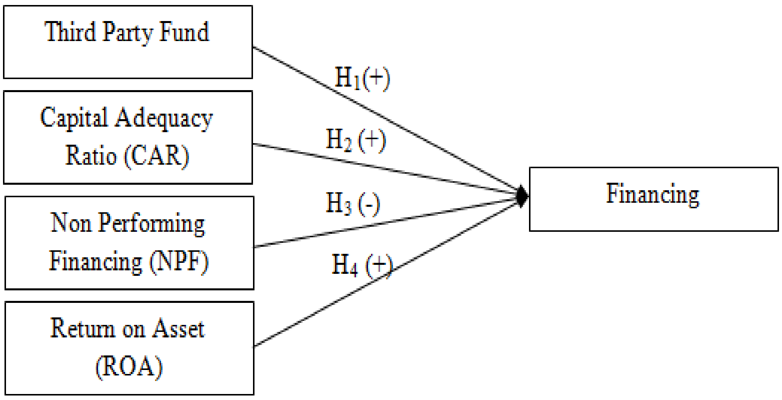
e. *Non Performing Financing* (NPF)

Non Performing Financing (NPF) is used as an indicator showing loss due to credit risk. *Non Performing Financing* (NPF) is a ratio between faulty financing and financing total distributed by Islamic Bank. Stifled, doubted and unpaid financing belong to the criteria of NPF, as determined by the Bank of Indonesia.

f. *Return on Asset* (ROA)

Return on Asset (ROA) is a ratio measuring the bank ability to make profit in the past. This analysis can predict the bank ability to make profit in the future. According to the Bank of Indonesia, a bank will get a maximum score of 100 if a bank has ROA as much as 1.5%. The bigger the ROA that a bank has, the bigger the profit that the bank makes. It also means that the asset saving of that bank is getting better (Dendawijaya, 2003).

The Model of Hypothesis Design



Hyphothesis Development

H1 : Third Party Fund influences financing positively.
H2 : *Capital Adequacy Ratio* (CAR) influences financing positively.
H3 : *Non Performing Financing* (NPF) influences financing negatively.
H4 : *Return on Asset* (ROA) influences financing positively.

THE RESEARCH METHODOLOGY

Research Variables

This research tries to explain the factors that influence financing distribution by Islamic Banking in Indonesia. The factors cover independent variables, namely Third Party Fund, Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), and Return on Asset (ROA), while the dependent variable is Islamic Banking financing distribution.

a. Third Party Fund

Saving is fund entrusted by public to bank based on fund saving agreement in the form of clearing account, deposit account, saving account and or other forms equalized with them (Maharani, 2010). Thus, the formula to calculate Third Party Fund is

Third Party Fund = Clearing Account + Deposit Account + Saving Account

b. Capital Adequacy Ratio (CAR)

Capital Adequacy Ratio (CAR) is a ratio showing how much the whole asset of bank is in risk (credit, valuable letters, bills to other banks) funded by bank’s own capital instead of getting funds from outside such as public fund, loan, and others (Dendawijaya, 2003).

$$\mathrm{CAR} = \frac{\mathrm{Bank's\ Equity}}{\mathrm{Total\ of\ ATMR}} \times 100\%$$

c. Non Performing Financing (NPF)

Non Performing Financing (NPF) is a ratio between troubled financing and financing distribution by Islamic Bank (Triasdini, 2010). The formula to determine the value of NPF is as below:

$$\mathrm{NPF} = \frac{\mathrm{Troubled\ Financing}}{\mathrm{Total\ of\ Financing}} \times 100\%$$

d. Return on Asset (ROA)

Return on Asset (ROA) is a ratio to measure the profit made in the past. The formula of ROA based on the Bank of Indonesia is:

$$\mathrm{ROA} = \frac{\mathrm{Profit\ after\ interest\ and\ Tax}}{\mathrm{Total\ of\ Asset}}$$

Population and Sample

The population in this research is all Islamic Banks in Indonesia. The samples taken in this research are nine Islamic Banks in Indonesia during 5 years, starting from 2010 to 2015. The samples were taken by using purposive sampling technique, with the criteria, Islamic Banks that reported their financing regularly in Annual Report over the period 2010-2015.

The Technique of Data Collection

The data was collected by collecting, taking notes, and analyzing secondarily data in the Annual Report of 9 Islamic Banks as the research samples over the period 2010 to 2015.

Descriptive Statistic

Descriptive statistic is used to find out the description of variables in a research. It gives a description of a data by considering average rate, deviation rate, minimum and maximum rates of research variables.

Classical Asumption Test

The test of classical assumption this research covers normality test, multicolinearity test, heterokedasitas test, and autocorrelation test :

a. Normality test is used to determine whether the variables are distributed normally. It uses *Kolmogorov Smirnov* test with significant value more than 0,05.
b. Multicolinearity test used to test whether in regression model found a correlation between the independent variable. Ghozali (2009) said if the value of tolerance more than 0,1 and VIF more than 10, then a linear relation between free variables in regression model does not contain multicolinearity.
c. Heterokedasitas test aims to test whether there is, in linear regression, a difference in variety of residual from one observation to the other.
d. The purpose of autocorrelation test it to test if there is a correlation between intrusive mistake over the period t and period t-1 in a linear regression model (Ghozali, 2009)

Hyphothesis Testing

The hypothesis testing in this research uses multiple linear regressions by examining the values of test t and p-value. Test t is used to determine the influence of dependent variable and independent variable individually, by comparing the probability value. If P-value > 0,05, then H_0 is accepted, it means that there is no significant influence between dependent and independent variables. If P-value <0,05, H_0 is rejected, that there is a significant influence between the two kinds of variable (Ghozali,2009).

DISCUSSION AND RESULT

The population of this research is all Islamic Banks in Indonesia. Some of them become this research object as shown in the table below:

Table 1
List of Islamic Bank

No.	Name of Bank
1	BSM
2	BNI Syariah
3	BRI Syariah
4	BCA Syariah
5	Bank Mega Syariah
6	Bank Bukopin Syar
7	Bank Jabar Syariah
8	Bank Panin Syariah
9	Bank Muamalat

As the result of data processing, the value of minimum, maximum, mean and standard deviation is obtained in the following table 2:

Table 2
Descriptive Statistics

	N	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
Financing	54	1.75E5	7.84E7	1.8770E7	2.87595E6	2.11338E7
Third Party Fund	54	2.95E5	6.33E7	1.9012E7	2.74277E6	2.01552E7
ROA	54	-2.53	.04	-.0337	.04712	.34625
NPF	54	.00	.07	.0281	.00249	.01833
CAR	54	.11	.76	.2050	.01750	.12860
Valid N (listwise)	54					

Source: Processed Data (2016)

Classical Assumption Testing

Based on the Normality Test using the analysis of non-parametric Kolmogorof-Smirnov (K-S), the result explains that the variables Third Party Fund, ROA, NPF, and CAR have significant level (0.156) that are bigger than 0.05. It means that those variables are distributed normally.

Table 3
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		54
Normal Parameters[a]	Mean	.0000000
	Std. Deviation	4.41776424E6
Most Extreme Differences	Absolute	.154
	Positive	.154
	Negative	-.089
Kolmogorov-Smirnov Z		1.129
Asymp. Sig. (2-tailed)		.156

a. Test distribution is Normal.

Multicolinearity test aims to determine whether there is a correlation among independent variables in a regression model. In a good regression model, there must not be a correlation among the independent variables (Ghozali, 2009). Based on this test, the variables

Third Party Fund, ROA, NPF, and CAR are dependent from multicolinearity shown by tolerance value >0,01 or VIF score < 10.

Table 4
Coefficients[a]

Collinearity Statistics	
Tolerance	VIF
.813	1.230
.862	1.161
.672	1.488
.612	1.633

a. Dependent Variable: Financing

Based on heteroskedastisitas test using glesjser test, the variables Third Party Fund, ROA, NPF, and CAR are dependent from heteroskedastisitas shown by significant level >0,05, while Autocorrelation Test shows that the value of d is 0.446.

Table 5
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.978[a]	.956	.953	4.59454E6	.446

a. Predictors: (Constant), CAR, ROA, Third Party Fund, NPF

b. Dependent Variable: Financing

The result of hypothesis test using doubled linear regression is shown in table 6.

Table 6
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.834E6	2.265E6		1.251	.217
	Third Party Fund	1.058	.035	1.009	30.466	.000
	ROA	665280.681	1.964E6	.011	.339	.736
	NPF	-1.295E8	4.199E7	-.112	-3.084	.003
	CAR	-2.509E6	6.271E6	-.015	-.400	.691

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a. Dependent Variable: Financing

Based on the hypothesis test, it is found that Third Party Fund variable has significantly positive influence on financing with the coefficient value 1.058 with sig 0.000. It indicates that higher Third Party Fund successfully collected by banking supports the increase of the number of credit distribution, and vice versa. Credit distribution has been a bank's main priority in its fund allocation because its main source is from public. That is why the bank has to distribute Third Party Fund that has been collected to the public in the form of credit. It is in line with the function of a bank as financial intermediary.

Third Party Fund is a variable that has the biggest influence on banking credit distribution as in the function of financial intermediary; Third Party Fund is the main funding source. The fund collected by public can reach 80 to 90% of whole fund managed by the bank (Dendawijaya, 2005).

ROA variable does not influence on financing with coefficient value 665289.681 with sig 0.738. ROA as a result of sufficient profit level standard will enable bank to increase the credit volume budget. Yet, the research shows insignificant result.

NPF variable influences significantly negative on financing with the coefficient value of -1.295E8 with sig 0.003. This result shows that the rise of NPF will cause the opportunity loss to get income from the given credit that will lower the profit and the ability to give credit.

CAR variable has negative influence, yet insignificant, on financing with coefficient value -2.509E6 with sig 0.691. It indicates that the CAR increase or decrease during the research period influences the credit distribution insignificantly. The lower the CAR, the bigger the credit distribution.

CONCLUSION

This research is mainly based on the importance of comprehension about the factors influencing the financing distribution of Islamic Bank. The factors cover Non Performing Financing (NPF), Third Party Fund, Capital Adequacy Ratio (CAR), and Return on Asset (ROA). All of them will influence the financing distribution in Islamic Bank. The hypothesis test in this research successfully supports 2 hypotheses proposed, namely H1 and H3, but it does not support hypotheses H2 and H4. The research data is taken from observation and testing of Islamic Banks annual report over the period 2010-2015 with 54 samples. This research uses doubled linear regression technique to test those hypotheses.

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