

The Effect of Non-Performing Finance on Return on Assets in Sharia Banking (Case Study of Sharia Banks registered with the Financial Services Authority

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Article History: Received: May 20, 2024; Accepted: July 10, 2024

ABSTRACT

The presence of sharia banking over the last two decades has made the economy more advanced, which can be seen from the institutional and sharia financial services aspects. Customers can choose various sharia banking products at sharia banking. Financial products that adhere to Islamic sharia are known as sharia banking products. The prohibition of usury (interest) and business practices based on Islamic sharia are the main principles of Islamic banking. Fund collection, distribution and service products are examples of sharia banking products. This research is quantitative. The population in this assessment are Islamic business banks registered with the Money-Related Organization Authority, so there are 14 Islamic business banks, this observation is PT. Bank Muamalat Indonesia Tbk, PT. Bank Mega Syariah Tbk, and PT. Bank BCA Syariah Tbk. 2. Hypothesis test results showed that the t-calculated value of flexible Non Performing Finance (NPF) had an impact on Return On Assets (ROA) where the t-calculated value reached $5.751 >$ from the t-table of 2.04841 so that the exploration results received H_a . The results of the Coefficient of Determination state that the Non-Performing Finance (NPF) variable can contribute or can express flexible Return On Assets (ROA) as much as 49.7% ($0.497 \times 100\% = 49.7\%$) but more than 50.3% ($100\% - 49.7\% = 50.3\%$) is stated in flexible outside the exploration model.

Keywords: Non Performing Finance, Return On Assets in Sharia Banking

INTRODUCTION

Banking is a financial institution that has an important role in advancing a country's economy. As financial intermediaries, banks have the function of connecting parties who have a lot of funds to parties who need or lack money. Well-known companies that go public are not free from errors in preparing financial reports. Sharia banking, as a financial organization sector that is growing rapidly globally, will of course be faced with various challenges, one of which is credit risk management.

Islamic banking is a situation within sharia groups and sharia-specific units, where all kinds of movements as well as techniques and cycles to complete activities depend on sharia standards that are fully aimed at maintaining the financial and financial solidity of public authorities. Sharia Commercial Banks (BUS), Sharia Business Units (UUS), and Sharia Rural Banks (BPRS) are the three types of Sharia banks.

PT is the first Indonesian bank to offer sharia banking. The Indonesian Ulema Council (MUI) Banking Team established Bank Muamalat Indonesia on November 1, 1991, and began

operating on May 1, 1992. Bank Syariah Mandiri, BRI Syariah, BNI Syariah, and other sharia banks emerged along with the birth of BMI. The birth of the Sharia Banking Law spurred an increase in the number of Sharia Commercial Banks (BUS) from five to fourteen.

Banks that adhere to Islamic law and use fundamental principles, not an interest-based system, are called sharia banking. Sharia banks are intermediary institutions between funders who place their assets in banks and then sharia banks distribute their assets to other parties who need reserves. The bank will pay investors who invest their money through profit sharing or other forms permitted by Islamic sharia. In sales and purchase agreements and business collaborations, Islamic banks usually distribute funds to parties who need them. Profit margins, profit sharing and other forms of compensation are in accordance with Islamic sharia (Ismail in research by Azmi Wahyu Andika, 2022).

The presence of sharia banking over the last two decades has made the economy more advanced, which can be seen from the institutional and sharia financial services aspects. Customers can choose various sharia banking products at sharia banking. Financial products that adhere to Islamic sharia are known as sharia banking products. The prohibition of usury (interest) and business practices based on Islamic sharia are the main principles of Islamic banking. Fund collection, distribution and service products are examples of sharia banking products.

One of the items for socializing Islamic bank reserves is support. The agreement between the bank and the customer who needs money is called financing. When providing support, bank administrators will be faced with opportunities. The existence of problematic financing is one of the risks associated with financing distribution. If the principal of the financing is not returned and there is no remuneration, *ujrah*, or profit sharing agreed between the bank and the customer, then this is considered problematic financing. Apart from that, there is the possibility of an extension of the Non-Performing Finance (NPF) settlement time, as well as a decline in the health of bank provisions. Non-Performing Finance are some indicators that can influence a bank's Return On Assets.

Non-performing Finance is the capacity of bank management to manage challenging bank financing. Substandard, uncertain and poor quality financing is a problem. Return On Assets decreases more rapidly as Non-Performing Finance increases (Rifqul in Lutfia Abriet Fajriati's research, 2021). Regarding Bank Indonesia Circular Letter No. 9/24/DPBs of 2007 concerning the process of assessing the health of banks based on sharia guidelines, Non-Performing Finance (NPF), namely payments that arise if the debtor cannot fulfill his obligations and prepare his financial funds. The correct Non Performing Finance is just below 5%.

Although banks with low Non-Performing Finance are more effective, banks with high Non-Performing Finance are less effective. Based on research conducted by Medina Marlina in

2018, banks with lower Non-Performing Finance will be able to divert funds to other customers thereby increasing profitability (Priantana and Zulfia in Medina Marlina's research, 2018).

In carrying out its operational activities, Islamic banks strive to achieve the best possible financial performance. Financial ratios can be used to measure financial performance over a certain period of time. Financial reports can be used to see how financial ratios are measured. Financial reports are reports that describe the financial condition and business results of a company at a certain time or within a certain period of time. (Sofyan in Azmi Wahyu Andiika's research, 2022).

When examining monetary reports, monetary proportions are used because they can be used as a reason to measure the level of bank performance. The profitability ratio is an indicator that can be used to evaluate the financial performance of a bank. The ratio used to assess a company's ability to generate profits is this ratio (Kasmir in Livia Nadhiroh's research, 2022).

The required profitability ratio is Return On Assets (ROA). Return On Assets (ROA), namely the proportion of benefits used to determine a company's ability to generate profits with the total funds invested in its operations (Munawir in Luh Cipta's research, 2022). The profitability of a company is correlated with the return on assets, which shows how effectively the company uses its assets to generate profits. (Arista & Astohar, 2012). Return On Assets (ROA) is used to measure the productivity and feasibility of involving bank resources in creating benefits using the resources claimed by the bank.

In Ayu Gusmawanti's (2019) observations, Non-Performing Finance has an inconsistent positive impact on Return on Assets. This point is in contrast to the exploration carried out by Fira Prisilia Dwintama's (2021) observations which suggest that Non-Performing Finance has a significant negative impact on profitability. The following is data on the Non-Performing Finance (NPF) value and Return On Asset (ROA) value for sharia associations included in the Financial Services Authority (OJK).

Table 1. NPF and ROA data for 2013-2022

Bank	Year	NPF (%)	ROA(%)
PT. Bank Muamalat Indonesia Tbk	2013	1.56	0.50
	2014	4.85	0.17
	2015	4.20	0.20
	2016	1.40	0.22
	2017	2.75	0.11
	2018	2.58	0.08
	2019	4.30	0.05
	2020	3.95	0.03
	2021	0.08	0.02
	2022	0.86	0.09
	2013	1.45	2.33

Bank	Year	NPF (%)	ROA(%)
PT. Bank Mega Syariah Tbk	2014	1.81	0.29
	2015	3.16	0.30
	2016	2.81	2.63
	2017	2.80	1.56
	2018	2.23	0.93
	2019	1.49	0.89
	2020	1.38	1.74
	2021	0.97	4.08
	2022	0.89	2.59
PT. Bank BCA Syariah Tbk	2013	0.1	1.0
	2014	0.1	0.8
	2015	0.5	1.0
	2016	0.2	1.1
	2017	0.04	1,2
	2018	0.28	1,2
	2019	0.26	1,2
	2020	0.01	1.1
	2021	0.01	1.1
	2022	0.01	1.3

Source: Sharia Banking, 2022

From the table above, Non-Performing Finance and Return On Assets from 2013-2022 experienced fluctuations. PT. Bank Muamalat Indonesia Tbk's lowest value for Non-Performing Finance in 2021 was 0.08%, while the highest value for Non-Performing Finance in 2014 was 4.85%. At PT. Bank Mega Syariah Tbk's lowest value for Non-Performing Finance in 2022 was 0.89%, while the highest value for Non-Performing Finance in 2015 was 3.16%. At PT. Bank BCA Syariah Tbk, the weakest point in Non-Performing Finance in 2020, 2021, 2022 was 0.01%, but the highest point in Non-Performing Finance in 2015 was 0.5%.

The biggest decline in the Return On Asset valuation of PT Bank Muamalat Indonesia Tbk occurred in 2021 at 0.02%, while the best Return On Resource valuation occurred in 2013 at 0.50%. At PT. The smallest Profit from Resource valuation of Bank Mega Syariah Tbk occurred in 2014 at 0.29%, while the best profitability On Resource valuation occurred in 2021 reaching 4.08%. At PT. Bank BCA Syariah Tbk's lowest Return On Assets was 0.8% in 2014, while the highest Return On Assets was 1.3% in 2022.

Non-Performing Finance and Return On Assets fluctuate, this is contrary to the theory which predicts that if Non-Performing Finance Performing Finance rises, Return On Assets will also rise. Conversely, if Non-Performing Finance falls, Return On Assets will rise. This occurs in problems that contradict previous theories.

PT Bank Muamalat Indonesia Tbk, in 2017 the value of Non-Performing Finance was 2.75%, decreasing in 2018 by 2.58%, while the value of Return On Assets generated in 2017 was 0.11%, but in 2018 there was a decrease of around 0.08%. PT Bank Mega Syariah Tbk, in 2014 the value of Non-Performing Finance was 1.81%, increasing in 2015 to 3.16%, but the value of Return On Assets generated in 2014 was 0.29%, but in 2015 it increased by 0.30%. PT Bank BCA Syariah Tbk, in 2014 the Non Performing Finance points were around 0.1%, increasing in 2015 by 0.5%, but the Return On Asset value generated in 2014 was 0.8%, but in 2015 there was an increase of 1, 0%.

Kasmir's view (in the observations of Rika & Hendratno, 2019), Return On Assets (ROA) is needed to show the association's ability to generate profits to utilize the absolute resources claimed. According to Dendawijaya (in Laila Nur Azizah's research, 2021), Return On Assets (ROA) is an estimation tool used to calculate the quality of a bank board to obtain public benefits. According to Hutabarat (observed by Azmi Wahyu Andika, 2022), Return On Assets is a ratio that compares profit (before tax) to the total bank assets. All the effectiveness of the bank's asset creation is demonstrated by this ratio.

Azmi revelation Andika, 2022 "The Influence of the Proportion of Non-Performing Supporting and Capital Sufficiency on the Productivity of PT Bank Syariah Indonesia. Based on the test results, Benefit (ROA) is significantly influenced by Non-Performing Supporting (NPF). Apart from that, the Proportion of Benefit and Capital Sufficiency (ROA) together have an influence. Capital Sufficiency Proportion (Vehicle) and Non-Performing Funding (NPF) together influence ROA Productivity. "The Influence of Financing Deposit Ratio, Non-Performing Financing, and Operational Efficiency Ratio on Return on Assets in Sharia Commercial Banks in Indonesia.

Eka Septiani Safitri, 2022 The Influence of Financing Deposit Ratio, Non-Performing Financing, and Operational Efficiency Ratio on Return on Assets with Capital Adequacy Ratio as a Moderating Variable in Sharia Banks in Indonesia". This investigation shows that FDR has a significant negative impact on ROA. ROA is all improved by NPF. The influence of FDR on ROA can be directed or strengthened by the vehicle. ROA cannot be changed by the vehicle while the NPF is in effect. The influence of OER on ROA can be directed through Vehicles.

Fira Prasilia Dwintama, 2021 with the title "The Influence of Non-Performing Support on the Benefits of Islamic Business Banks in Indonesia for the 2016-2020 Period." With a relapse coefficient of -0.41 and a probability value of 0.00, exploratory findings show that NPF has an impact on the productivity of sharia commercial banks.

M Rizky Saputra, 2020 "The Impact of Funding to Store Proportion (FDR) and Non-Performing Supporting (NPF) on the Monetary Execution of Return on Resources (ROA) of Bank Syariah Mandiri for the 2014-2018 Period" The results of experimental observations show that

ROA is not completely influenced by variables FDR. The NPF variable slightly influences ROA. The results of the simultaneous test (F Test) show that ROA is significantly influenced simultaneously by the FDR variable and the NPF variable.

RESEARCH METHODS

This research is quantitative. Quantitative examination is an exploratory technique based on positivist imagination techniques, necessary to investigate certain populations or tests, blood typing using exploratory instruments, examination of quantitative or measurable data, with the full aim of testing previously established assumptions (Sugiyono in Aicha & Toto, 2021).

Sugiyono's view (in the observations of Aicha & Toto, 2021), Population is a broad term that refers to a group of objects or people with certain numbers and characteristics chosen by researchers for research. From this group conclusions are drawn about the subject or object. The population in this assessment are Islamic business banks registered with the Money-Related Organization Authority, so there are 14 Islamic business banks. In this exploration the criteria created include:

- a) Monetary reports introduced from one year to another are introduced in full.
- b) Fiscal reports do not have negative qualities.
- c) The value of Non-Performing Money is decreasing, not followed by an expansion of the Return On Asset mindset, but this is decreasing and vice versa.

By paying attention to the previous standards, the example in this observation is PT. Bank Muamalat Indonesia Tbk, PT. Bank Mega Syariah Tbk, and PT. Bank BCA Syariah Tbk.

RESULTS AND DISCUSSION

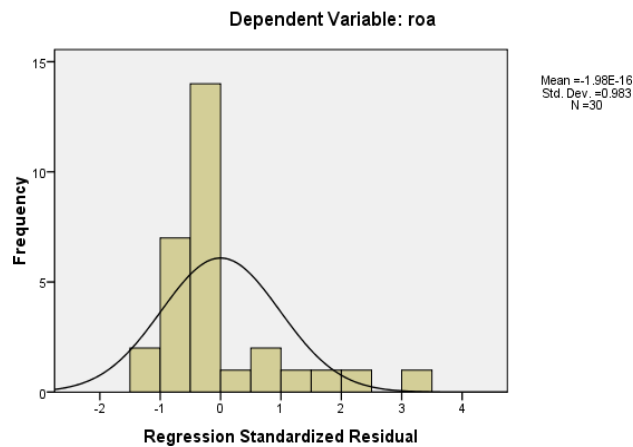
Normality test

The focus of the regularity test is to see whether the independent factors and environmental factors in the relapse model have a typical delivery or not. A reasonable repetition model has a regular or almost equal distribution of data. Normality can only be determined using graphical analysis tools such as histogram charts or Normal Probability Plots. If the information extends from corner to corner and ignores the slope, then at that point the relapse model meets the usual suspicions;

- a) If the information spreads far from the slope or does not follow the slope, then the relapse model does not meet the assumption of reasonableness.

b) this strategy can be used to determine whether the relapse model is typical or not.

Histogram

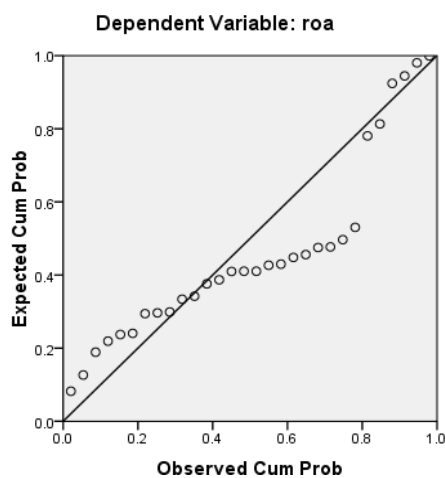


Source: Data processed by SPSS Version 20

Draw a Histogram Graph

In the picture, it can be seen using a histogram graph, it can be seen that the residuals are normally distributed and have an equal pattern, not propagating to the right or left.

Normal P-P Plot of Regression Standardized Residual



Source: Data processed by SPSS Version 20

Picture Normal P-Plot

On the other hand, the Standardized Residual Regression P-Plot image shows that the research data is normally distributed because the data distribution does not move away from the diagonal line in the Standardized Residual Regression P-Plot image. Based on the histogram graphic image, the research data is normally distributed because the data is spread around the diagonal line and follows the direction of the diagonal line.

Simple Linear Regression Analysis

The relationship between a dependent variable and a number of independent variables can be examined using simple linear regression analysis. The reason for this test is to exploit the known advantages of autonomous factors to anticipate dependent flexible values.

Table2. Simple Linear Regression Coefficientsa

Model	Unstandardized Coefficients		Standardized Coefficients	Q	Sig.
	B	Std. Error	Beta		
1 (Constant)	1,310	,246		5,324	,000
Npf	-.202	,115	-.314	-5,751	,000

a. Dependent Variable: roa

Source: Data processed by SPSS Version 20

The results of the research show that the regression equation is as follows:

$$Y = a + bX + e$$

$$Y = 1.310 - 0.202 X + e$$

Several interpretations that can be drawn from the regression equation above include:

- The constant point of 1.310 states that if the free flexibility, namely Non-Performing Finance (NPF) has a fixed value or does not receive support or depreciation, then the Return On Asset (ROA) point does not change or the constant is Return On Asset (ROA) of 1.310.
- The Non-Performing Finance (NPF) variable has a regression coefficient point of around -0.202. The coefficient point shows that if there is an increase in Non-Performing Finance (NPF) by one size, Return On Assets (ROA) will decrease by around 0.202.

Hypothesis testing

In this test, the t test is only used to test the theory because there is only one independent factor. The significance of supporting each independent flex to the dependent flex is assessed using the t test. The t test generally shows how much influence each independent factor has on how the dependent factor is explained. The following are the testing criteria for the partial test (t test):

- If $t\text{-calculate} > \text{from the } t\text{-table}$ and it is significant < 0.05 , then there is a significant influence.
- If $t\text{-calculated} < \text{from the } t\text{-table}$ and significant > 0.05 then there is no significant effect.
- $t\text{-value}$ table obtained with the formula $df = nk$. Where $n=30$, $k=2$, and the degrees of freedom of the test are 2-way.

Table 3. Hypothesis testing

t	Sig.
5,324	,000
5,751	,000

Source: Data processed by SPSS Version 20

The table above previously explains that flexible Non-Performing Finance (NPF) has a significant influence on Return On Assets (ROA) because the t-points will still be larger than the t-table points and the significant points are <0.05 . Which to get the t-table value requires a series of nk where $n =$ examples in exploration of 30, $k =$ all observation variables of 2, with a 2-way test degree of freedom to get a t-table value of $30-2 = 28$, with degrees of freedom the 2-tailed test is 2.04841. The t-table values are attached in the exploratory appendix. The findings of the t test can be carried out to assess the following proposed hypothesis:

Non Performing Finance(NPF) has a significant impact on Return On Assets (ROA). Based on the t test, it was found that the tcount points were 5,751, the ttable value was 2.04841 and the significant points were $0.000 < 0.05$. which means H_a is accepted and H_o is rejected because the t-count points $>$ t-table points and significant points < 0.05 .

Determination Coefficient (R²)

Measure of ability The coefficient of determination (R²) is a model that can be used to express changes in the dependent variable. The guarantee coefficient value can be one or zero. A weak R² value shows that the independent variable is unable to adequately express the variation in the dependent variable. In addition, if the value is close to 1, this indicates that the independent factor provides almost all the information needed to anticipate the dependent factor.

In order to know how large the independent variance and flexibility are, we can state the dependent flexibility by using the coefficient of determination R². The ability of independent variance and flexibility to identify dependent flexibility increases with higher coefficient of determination points.

Table 4.Determination Coefficient (R²) Model Summary b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.705 ^a	.497	.066	.91571

a. Predictors: (Constant), npf

b. Dependent Variable: roa

Source: Data processed by SPSS Version 20

Table, in summary form, the findings obtained are Adjusted R Square points of 0.497. This point identifies that the form or change in Return On Assets can be expressed in the Non Performing Finance (NPF) factor of 0.497 or 49.7% ($0.497 \times 100\% = 49.7\%$) or in other words the Non Performing Finance (NPF) variable able to contribute to Return On Assets (ROA) reaching 49.7%. However, the remaining 0.503 or 50.3% ($100\% - 49.7\% = 50.3\%$) can be explained by other variables outside this exploration.

CONCLUSION

From the exploration findings regarding the influence of Non-Performing Finance (NPF) on Return On Assets (ROA), it can be concluded:

1. Simple Linear Regression results show that the Non-Performing Finance (NPF) variable can reduce Return On Assets (ROA) by 0.202.
2. Hypothesis test results showed that the t-valueThe calculation of flexible Non-Performing Finance (NPF) has an impact on Return On Assets (ROA) where the t-calculation value reaches $5.751 >$ from the t-table of 2.04841 so that the exploration results receive H_a .
3. The results of the Coefficient of Determination state that the Non-Performing Finance (NPF) variable can contribute or can express flexible Return On Assets (ROA) as much as 49.7% ($0.497 \times 100\% = 49.7\%$) but more than 50.3% ($100\% - 49.7\% = 50.3\%$) is stated in flexible outside the exploration model.

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