INFLUENCE OF CAPITAL ADEQUACY, THIRD PARTY FUND, AND NON-PERFORMING FINANCING TO PROFITABILITY THROUGH FINANCING (STUDY ON SHARIA COMMERCIAL BANK LISTED IN BANK INDONESIA)

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ABSTRACT

This study aims to examine the influence of capital adequacy, third party funds, non-performing financing on profitability through financing either simultaneously or partially. The influence on one endogen variable that is profitability will be tested by fourth exogenous variables. This study is a census study, which includes all existing Sharia Banks in Indonesia into observational data. Observation period of research data from 2009-2015 amounted to 71 observations. The method of analysis used is path regression. The results of this study found that the adequacy of capital, third party funds, and non-performing financing simultaneously and partially influence the financing at Sharia Commercial Bank in Indonesia. The fluctuation in both the increase and decrease in financing of Sharia Commercial Banks in Indonesia is influenced by the three independent variables. Capital adequacy, third party fund, non-performing financing and financing itself also simultaneously and partially influence the profitability of Sharia Commercial Banks in Indonesia. The increase or decrease in profitability is determined by the four exogenous variables. Financing can then mediate the influence of capital adequacy, third party funds and non-performing financing on the profitability of sharia banks in Indonesia partially.

Keywords: profitability, financing, capital adequacy ratio, third party funds, non-performing financing.

INTRODUCTION

Today the growth of sharia banking has become a global phenomenon, including in non-Muslim majority countries. The growth of sharia banking in Indonesia is the most rapid in terms of the increasing of banks offering Sharia products as well as from the growth of its assets (Zulifiah,

2014). Sharia Bank's profitability ratio of 2009 to 2015 was fluctuating. The highest average profitability ratio in 2011 was 1.95. The lowest average profitability ratio is in 2015 at 0.66. Fluctuations in profitability are influenced by several factors, such as capital adequacy, third party funds, non performing financing and financing. This is in line with what is disclosed by Zulifiah (2014), Anggreni (2014), Ranianti (2014), and Riyadi (2014) that capital adequacy, third party funds, problem financing and financing can determine profitability.

This article aims to examine the effect of capital adequacy, third party funds and non-performing financing, as well as the influence of capital adequacy, third party funds, problem financing and financing of profitability and to test whether financing can mediate capital adequacy, third party funds and financing Problematic with profitability. Discussion of this article begins with an introduction, literature review, and then proceeds to discuss the research methodology used after the theories, research results and discussion, last closed with conclusions and suggestions.

REVIEW OF LITERATURE

Profitability is the company's ability to earn a profit (Widyaningrum, 2015). The relevant thing is also expressed by Zulifiah (2014) which states profitability is the ability of the company to generate profit or profit for a year. Profitability can be reflected from return on assets. Return on asset is used to measure the ability of bank management in obtaining profit as a whole (Widyaningrum, 2015). The greater the return on assets of a bank, the greater the level of profit achieved by the bank and the better the bank's position in terms of asset use.

The same is also expressed by Riyadi (2014). He explained profitability is the relationship between income and costs generated by using the assets of the company, both current and fixed assets, in production activities. Thus profitability is the result of all efforts that have been done by the bank. The results will illustrate the performance of the bank over a period of time. This condition is the result of efforts from available funding sources. In addition, profitability also describes the company's ability to generate profits by using all of its capital. Profitability of a company will affect the policy of investors on the investment made. The company's ability to generate profits will be able to attract investors to invest in funds to expand its business. Conversely low profitability will cause investors to withdraw their funds, companies use profitability as an evaluation of the effectiveness of the management of the enterprise (Zulifiah, 2014).

Law no. 21/2008 concerning sharia banking explains that financing is the provision of money or claims that can be equalized, based on an agreement or agreement between the bank and another party requiring the party financed to refund the money or invoice after a certain period of time in return or profit sharing. Financing is a facility provided by the bank to the public. Financing or

financing is funding provided by one party to other parties to support planned investment, either by themselves or institution. In other words, financing is funding issued to support planned investments (Ranianti, 2014).

Furthermore, in the broad sense of financing is a funding to support investments that have been planned either done alone or run by others. Then in a narrow sense, financing is defined as funding by a financing institution, such as a Sharia Bank to a customer. Therefore in this condition means financing has a narrow and passive meaning (Muhammad, 2005: p304).

Capital adequacy is the capital adequacy ratio that serves to accommodate the risk of losses that may be faced by banks (Wardiantika, 2014). The higher the capital adequacy the better the bank's ability to assume risk from any risky earning assets. Capital adequacy becomes one of the indicators of the ability of banks to cover the decrease of assets as a result of losses suffered by banks.

The relevant description is also expressed by Zulifiah (2014) stating that capital adequacy shows the bank's ability to maintain sufficient capital and the bank's management capability in identifying, measuring, controlling and controlling risks that may affect the size of bank capital. While Anggreni (2014) states that capital adequacy is a ratio that shows how far all bank assets that contain risk (credit, investment, securities, bills with other banks) participate in financing from the bank's own capital funds in addition to obtaining funds from sources Outside the bank, such as public funds, loans, and others.

Third party funds are funds collected by banks that come from the community (Raniati, 2014). The source of funds from the community is the most important source of funds for bank operations and is a measure of bank success if it is able to finance its operations from this funding source. The collection of funds from the community can be said relatively easier when compared with other sources of funds. Non-performing financing is a financing that has not yet reached or fulfilled the desired target of the bank such as the return of principal or profit sharing, financing having a possibility of future risk for the bank (Riyadi, 2014).

RESEARCH METHOD

The purpose of this study is to test the hypothesis, namely to test whether the capital adequacy, third party funds, and pembiyaan problem simultaneously and partially affect the financing, as well as capital adequacy, third-party funds, pembiyaan problem and financing affect on profitability. The type of investigation is a causal study which aims to find the factors that cause fluctuations in profitability. The intervention of researchers in this study is minimal intervention. Researchers do not influence the fluctuation of profitability obtained by banks. The study situation is unregulated, meaning that all activities in the observation environment occur

normally and naturally. The unit of analysis in this study is the annual report of Sharia Commercial Banks in Indonesia from 2009 to 2015. The time horizon is one shot or cross sectional, ie a study that collects its data only once, daily, weekly, monthly or yearly (Sekaran, 2006 : 177).

The population of this study is 71 annual reports of Sharia Commercial Banks in Indonesia from 2009 to 2015. Researchers observed the entire population so the research is called census studies (Supranto, 2000: 22). Analysis of this research data used path regression.

Data analysis method of this research using path regression. The data analysis uses of the Statistical Package for the Social Science software application, with equations: (Supranto, 2009: 239)

$$Y = \rho Y_{x_1} X_1 + \rho Y_{x_2} X_2 + \rho Y_{x_3} X_3 + \varepsilon_1$$

Information:

X1: Capital Adequacy.

X2: Third Party Funds.

X3: Non-Performing Financing.

Y: Financing.

E1: Error Term

Information:

X1: Capital Adequacy.

X2: Third Party Funds.

X3: Non-Performing Financing.

Y: Financing.

Z: Profitability.

e2: Error Term affecting Z.

RESEARCH RESULT AND DISCUSSION

A. Results of Substructure I Test

1. The influence of capital adequacy, third party fund, and non-performing financing simultaneously on Financing at a Sharia Commercial Bank registered in Bank Indonesia

Table 1: Determination Coefecient (R2) Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.148[a]	.022	-.023	.04411022

a. Predictors: (Constant), *non-performing financing*, third party fund, capital adequacy

Based on test result, R Square value is equal to 0,022. The value indicates that the R Square value is not equal to zero (0.022 ≠ 0), then H is accepted. So capital adequacy, third party fund, and non-performing financing simultaneously influence the financing of Sharia Commercial Bank in Indonesia. This result shows that the financing of Sharia Commercial Bank in Indonesia during 2009 until 2015 is influenced by the existing capital in the bank itself, the collected fund from the society, and the non performing financing. The existence of the influence of own capital, third party funds, and problem financing simultaneously (simultaneously) to financing at the Sharia Commercial Bank has also been found by previous researchers. Some previous studies were Pratin & Akhyar (2005), Murdiyanto (2012), Wardiantika & Rohmawati (2014). They argue that the distribution of financing can not be separated from the important role of these three variables.

2. Influence of Capital Adequacy Individually (Partially) to Financing at Sharia Commercial Bank Listed in Bank Indonesia

Table 2: T Test Coefficient sᵃ

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.781	.205		3.809	.000
Capital Adequacy	.040	.187	.027	.215	.830
Third Party Fund	.005	.224	.003	.021	.983
Non-Performing Financing	-.915	.785	-.143	-1.166	.248

a. Dependent Variable: Financing

Based on the test results, capital adequacy (KM) has a positive regression coefficient of 0.027. The value indicates that, every KM that increases 1 time or 100% of the total risk-weighted assets (RWA), the financing will increase 0.027 times or 2.7% of the total RWA which is available. Therefore, the increase in the total number of RWA in the bank will be directly proportional to the financing. The results of this study are based on the research of Pratin & Akhyar (2008), Qoyum (2010), and Murdiyanto (2012). They found that the bank capital adequct over financing had an impact on the distribution of financing.

3. Influence of Third Party Fund Individually (Partially) to Financing at Sharia Commercial Bank Registered in Bank Indonesia

Third Party Fund has a positive regression coefficient value of 0.003. The value indicates that each third party func increasing 1 time or 100% of the total fund, the financing will increase by 0.003 times or 0.3% of the total funds available. Furthermore, since the value of the third party fund regression coefficient is not equal to zero ($0.003 \neq 0$), is accepted. Thus, third party fund individually (partial) influences on financing at Sharia Commercial Bank in Indonesia. The increase or decrease in financing disbursement is determined by the availability of funds from the public in sharia banking.

4. Influence of Non Performing Financing Individually (Partially) to Financing at Sharia Commercial Banks Listed in Bank Indonesia

Non performing financing has a negative regression coefficient value of -0.143. The value indicates that each non performing financing that increases 1 time or 100% of the total financing, the subsequent financing will decrease by -0.143 times or 14.3% of the previously disbursed financing. Furthermore, since the regression coefficient value of PB is not equal to zero (-0.143 ≠ 0), is accepted. Thus, the non performing financing individually (partially) has an influence on the financing of a Sharia Commercial Bank in Indonesia. The high or low financing that occurs is determined by the non performing financing.

B. Results of Substructure II Test

5. The Influence of capital adequacy, third party fund, and non-performing financing and Financing Simultaneously to the Profitability of Sharia Commercial Banks Registered in Bank Indonesia.

Table 3: Coefficient of Determination (R2) Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.281[a]	.079	.021	.01427196

a. Predictors: (Constant), *non-performing financing*, third party fund, capital adequacy

Based on test result, R Square value is equal to 0,079. The value shows the value of R Square is not equal to zero (0.079 ≠ 0), then H is accepted. of capital adequacy, third party fund, and non-performing financing and Financing simultaneously influence the profitability of Sharia Commercial Bank in Indonesia. The influence of these four variables can be interpreted that during 2009 until 2015 has brought impact changes to the profitability experienced by Sharia Commercial Bank in Indonesia.

6. Influence of capital adequacy individually (Partially) to Profitability of Sharia Commercial Bank Listed in Bank Indonesia

Table 6 shows the direct and indirect effects of capital adequacy, third party funds and non-performing financing on profitability through by financing.

Table 4: T Test Coefficient s^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-.006	.073		-.080	.936
Capital Adequacy	-.026	.061	-.054	-.434	.665
Third Party Fund	.050	.073	.085	.688	.494
Non-Performing Financing	-.566	.257	-.268	-2.207	.031
Financing	-.011	.040	-.035	-.286	.775

a. Dependent Variable: Profitabilitas

Capital adequacy has a negative regression coefficient value of 0.054. The value indicates that every KM increasing 1 time or 100% of the total risk-weighted assets (RWA), profitability will decrease 0.054 times or 5.4% of the total RWA available. The proportion of total capital in the ATMR available in the bank increases so it will have an impact on the decrease in bank profitability. Thus, an increase in the amount of bank capital over total RWA in the bank will be inversely proportional to bank profitability. Furthermore, since the capital adequacy regression coefficient value is not equal to zero ($-0.054 \neq 0$), H is accepted.

7. Influence of Third Party Fund Individually (Partially) to Profitability at Sharia Commercial Bank Registered in Bank Indonesia

The value of positive regression coefficient is 0,085. The value indicates that, every third party fund increasing 1 time or 100% of the total fund, the profitability will increase 0,085 times or equal to 8,5% from total fund available. Furthermore, since the value of third party fund regression coefficient is not equal to zero ($0.085 \neq 0$), it is accepted. Thus, third party fund individually (partial) influence on profitability in Sharia Commercial Bank in Indonesia. The increase or decrease in profitability obtained by Sharia Commercial Bank is determined by the availability of funds from the public in sharia banking.

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8. Influence of Non Performing Financing Individually (Partially) to Profitability at Sharia Commercial Banks Listed in Bank Indonesia

The value of negative regression coefficient is equal to -0.268. The value indicates that, each non performing financing which increases 1 time or 100% of the total financing, then profitability will decrease by 0.268 times or equal to 26.8% of the financing that has been disbursed. Furthermore, since the regression coefficient value of PB is not equal to zero (-0.268 ≠ 0), is accepted. Thus, non performing financing individually (partial) influence on profitability of Sharia Commercial Bank in Indonesia. The high or low profitability experienced by Sharia Commercial Bank is determined by non performing financing.

9. Influence of Financing Individually (Partially) to Profitability at Sharia Commercial Banks Listed in Bank Indonesia

Based on Table 3, the negative regression coefficient value is -0.035. The value indicates that, every financing which increases 1 time or 100% of the total fund, the profitability will decrease by 0,035 times or equal to 3,5% from total fund. Furthermore, because the coefficient of financing is not equal to zero (-0.035 ≠ 0), is accepted. Thus, individual financing influences the profitability of Sharia Commercial Bank in Indonesia.

C. Test Results of Direct and Indirect Influence

a. The Effect of Capital Adequacy, Third Party Funds, and Non-Performing Financing with Direct and Indirect to the Financing

Table 5: Calculation of Direct and Indirect Effect of Capital Adequacy, Third Party Funds, and Non-Performing Financing with Financing

Variable Effect	Coeffecient	Effect		
		Direct (L)	Indirict (TL)	Result (L or TL)
X_1 to Y	0,027	$0,027^2 = 0,000729$	-	0,000729
X_2 to Y	0,003	$0,003^2 = 0,000009$	-	0,000009

X_3 to Y	-0,143	$-0,143^2 =$ 0,020449	-	0,020449
X_1 to Y by X_2	0,223*	-	$2(0,027 \times 0,003 \times 0,223)$ = 0,000036126	0,000036126
X_1 to Y by X_3	0,069*	-	$2(0,027 \times -0,143 \times 0,069)$ = -0,000532818	- 0,000532818
X_2 to Y by X_3	0,042*	-	$2(0,003 \times -0,143 \times 0,042)$ = -0,000036036	- 0,000036036
Total Effect				0,02065
Simultanly (*R Square*)				0,022
Error term = (1 - 0,022 = 0,978)				0,978

Source: SPSS Output Results and Processing by Researchers.

Table 5 shows the results of the calculation of direct and indirect effects of capital adequacy, third party funds and non-performing financing of financing. The respective direct effects of X1, X2, and X3 to Y respectively 0.000729 (0,0272); 0,000009 (0.0032); And 0.020449 (-0.1432). While the indirect effect of respectively X1, X2, and X3 to Y is 0,000036126; -0,000532818; 0,000036036. Then the error value of 0.978 (1-0.022), means that the rest of the influence of X1, X2, and X3 to Y is equal to 0.978 (97.8%) by other variables outside this study.

b. The Effect of Capital Adequacy, Third Party Funds, Non-Performing Financing and Financing to the Direct and Indirect of Profitability

Table 6: Calculation of Direct and Indirect Effect of Capital Adequacy, Third Party Funds, Non-Performing Financing to the Direct and Indirect of Profitability

No.	Variable Effect	Coeffecient	Effect		
			Direct (L)	Indirict (TL)	Result (L atau TL)
1.	X_1 to Z	0,054	0,002916	-	0,002916
2.	X_2 to Z	0,085	0,007225	-	0,007225
3.	X_3 to Z	0,268	0,071824	-	0,071824
4.	Y to Z	0,035	0,001225	-	0,001225
5.	X_1 to Z by X_2	0,223*	-	0,00204714	0,00204714
6.	X_1 to Z by X_3	0,069*	-	0,001997136	0,00199714
7.	X_1 to Z by Y	0,022*	-	0,00008316	0,00008316
8.	X_2 to Z by X_3	0,042*	-	0,00191352	0,00191352
9.	X_2 to Z by Y	0,015*	-	0,00008925	0,00008925
10.	X_3 to Z by Y	0,145*	-	0,0027202	0,0027202
Total Effect					0,078600194
Simultanly (*R Square*)					0,079
error term = (1 - 0,079 = 0,921)					0,921

* Source: SPSS Output Results and Processing by Researchers.

Table 6 shows the direct and indirect effects of capital adequacy, third party funds and non-performing financing on profitability through by financing.

10. Influence of capital adequacy individually (Partially) to Profitability of Sharia Commercial Bank Listed in Bank Indonesia through Financing

The tenth hypothesis (H10) is accepted, meaning that financing can mediate the influence of KM on the profitability of BUS in Indonesia. However, the direct influence of capital adequacy on

Sharia Commercial Bank profitability is greater than indirect influence. Financing mediates the influence of capital adequacy on profitability, but not as much as a direct influence of capital adequacy on Sharia Commercial Bank profitability. Therefore it can be concluded that financing mediates the influence of capital adequacy on Sharia Commercial Bank's profitability in Indonesia partially.

11. Influence of Third Party Fund individually (Partially) to Profitability of Sharia Commercial Bank Listed in Bank Indonesia through Financing

The eleventh hypothesis (H11) is accepted, meaning that financing can mediate the influence of Third Party Fund on the profitability of Sharia Commercial Bank in Indonesia. However, the direct influence of Third Party Fund on the profitability of commercial banks is greater than indirect influence. This condition can be interpreted that the indirect influence of Third Party Fund on profitability is through financing is not too large. Therefore, this condition can be interpreted that financing only mediate partially the influence of Third Party Fund to profitability.

12. Influence of Non Performing Financing individually (Partially) to Profitability of Sharia Commercial Bank Listed in Bank Indonesia through Financing

The twelfth hypothesis (H12) is accepted, meaning that the financing can mediate the influence of non performing financing on the profitability of Sharia Commercial Banks in Indonesia. However, the direct impact of non performing financing on the profitability of commercial banks is greater than indirect influence. This condition can be interpreted that the indirect influence of PB on profitability is through financing is not too large. Therefore, this condition can be interpreted that financing only mediate partially influence of non performing financing to profitability.

CONCLUSION

Based on the result of hypothesis testing which has resulted from path test and discussion which has been described in the previous chapter, it is concluded that capital adequacy, third party fund, and non-performing financing simultaneously and partially influence the financing at Sharia Commercial Bank registered in Bank Indonesia. Capital adequacy, third party fund, and non-performing financing and financing simultaneously and partially influence the profitability at Sharia Commercial Bank registered in BI. Then, the financing can mediate the influence of capital adequacy, third party fund, and non-performing financing on profitability on Sharia Commercial Banks registered in Bank Indonesia.

The suggestion for depositors of Sharia Commercial Banks to pay attention to third-party funding variables because these funds help banks in developing the economy. Funds from these depositors are re-channeled by banks to the needy. For parties from Sharia Commercial Banks to be additional information related to fluctuations in financing and profitability. The role of capital adequacy, third party funds, and problematic financing that occurs greatly determines the size of the financing and profitability of Sharia Commercial Banks. Then for academics it is suggested to add some other independent variables related to profitability for further research such as operational cost for operational income and financing from third party fund. Academics can also involve conventional banking in subsequent research, this will cover the entire banking presence in Indonesia. Another thing that can be done is to extend the period of the pangamatan, so the measurement of profitability will reflect the real conditions.

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