

The Effect Of Financial Ratios On Islamic Rural Bank Performance In Indonesia

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Abstract: This study aims to analyze the effect of Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), Operating Costs to Operating Income Ratio and Financing to Deposit Ratio (FDR) toward Return on Assets (ROA), either jointly or partially and also looking for the most dominant influencing factor. As for the object of the research are 47 Islamic Rural Banks in Indonesia with total assets of IDR 3,908 billion or 50,5% of total assets of Islamic Rural Banks in Indonesia that is IDR.7,739 billion. The analysis was done by regression with the result of independent variable of Non Performing Financing (NPF) and Operating Cost to Operating Income Ratio, partially, have a significant and negative effect toward Return On Assets. However, Capital Adequacy Ratio (CAR) and Financing to Deposit Ratio (FDR) are slightly influential and have insignificant effect toward Return on Assets (ROA) of Islamic Rural Banks in Indonesia partially, while jointly, have positive and significant influence toward Return On Assets. The most dominant Independent Variables which affect Return on Assets (ROA) partially is Operating Costs to Operating Income Ratio, and then followed by Non-Performing Financing (NPF).

Index Terms: Financial Ratio, Islamic Banking, Islamic Rural Bank

1. INTRODUCTION

In the last decade, Islamic Banking in Indonesia continued to show positive growth which is reflected in the growing business volume, investment funds and funds deposited by the public, as well as financing continues to increase by an average of 33.2% in the last 10 years. Currently, consolidation process and reinvent the business model is more appropriate due to slowdown in the economic growth. The growth is expected to gain the momentum in the future like what was happened in the previous years. Indonesian Islamic Banking consists of Islamic Commercial Bank, Islamic Business Unit of a Conventional Commercial Bank and Islamic Rural Bank. At the end of December 2015, There are 34 Islamic Commercial Banks and Islamic Business Units of Conventional Commercial Bank with total assets of IDR 296.26 billion, while Islamic Rural Bank consists of 163 banks with total assets of IDR 7.74 billion (Financial Services Authority, 2015). Since the banking development is very dependent upon public trust, bankers must maintain it to keep their credibility. It is necessary because the primary function of the bank is to collect funds and channel them back to the public, with the purpose of obtaining income. Bank performance also very important to be maintain, so that the public confidence will not decrease. The performance assessment criteria used by the regulator consists of capital, asset quality, earnings, liquidity and management (Bank Indonesia, 2007), whereas this study is using financial ratios that commonly used in assessing the performance of a company.

1.1. Problem Statement

The aim of this study is to determine the effect of financial ratios on the performance of Islamic Rural Banks in Indonesia. Which is formulated in the form of questions as follows:

- Are there any effects of Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), Operating Costs to Operating Income Ratio and Financing to Deposit Ratio (FDR) toward Return on Assets (ROA) partially on Islamic Rural Banks in Indonesia;
- Are there any effects of Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), Operating Costs to Operating Income Ratio and Financing to Deposit Ratio (FDR) toward Return on Assets (ROA) simultaneously on Islamic Rural Banks in Indonesia;
- Which influencing factor is more dominant between Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), Operating Costs to Operating Income Ratio and Financing to Deposit Ratio (FDR) toward Return on Assets (ROA) partially on Islamic Rural Banks in Indonesia;

1.2. Objective

The main objective of this study is to investigate the effect of financial ratios on bank performance, especially Islamic Rural Banks in Indonesia. To achieve it, the following statements are secondary objectives:

- To determine the effects of Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), Operating Costs to Operating Income Ratio and Financing to Deposit Ratio (FDR) toward Return on Assets (ROA) partially on Islamic Rural Banks in Indonesia;
- To determine the effects of Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), Operating Costs to Operating Income Ratio and Financing to Deposit Ratio (FDR) toward Return on Assets (ROA) simultaneously on Islamic Rural Banks in Indonesia;
- To determine the effects of influencing factor which is more dominant between Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), Operating Costs to Operating Income Ratio and Financing to Deposit Ratio (FDR) toward Return on Assets (ROA) partially on Islamic Rural Banks in Indonesia;

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2. LITERATURE OVERVIEW

2.1. Definition of Bank

Law of the Republic of Indonesia Number 21 of 2008 concerning Islamic Banking provides an understanding of the bank. It is an entity that collect funds from the public in the form of deposits and distribute them to the public as financing in order to improve the living standard of the people. That is in line with the national development goals of Indonesia to achieve the creation of a just and prosperous society based on economic democracy, develop an economic system which is based on the values of justice, solidarity, equity, and benefit in accordance with Islamic principles; Bank has a function as an intermediary institution. In the other hand, the risks of refund are the responsibility of the bank and the credit must meet the standards of prudential principles. Bank could be classified into: (1) Commercial Bank is a bank that conduct conventional business or based on Sharia principles in its activities which providing services in payment traffic, (2) Rural Bank is a bank conducting conventional business or based on Sharia principles in its activities without any services in payment traffic. According to the Law of the Republic of Indonesia Number 10 of 1998, the legal form of the conventional bank consist of : (a) Company Limited, or (b) Cooperative, or (c) Regional Company. As for the rural banks consisting of : (a) Company Limited, (b) Cooperative, or (c) Regional Company (Financial Services Authority Regulation Number. 20/POJK.03/2014). The legal form of the Representative Office and Branch Office domiciled abroad are following the legal forms of the bank headquarters. The legal form of Islamic Commercial Bank in Indonesia according to the Bank Indonesia Regulation Number 11/3/PBI/2009 is a limited company only, while Islamic Rural Bank based on Bank Indonesia Regulation Nounber 11/23/PBI/2009 also must be in the form of a limited company. In addition, commercial banks could be divided into: (1) State Owned Bank is a Bank with the majority ownership owned by the Government of the Republic of Indonesia, (2) Foreign Exchange Commercial Bank, (3) Non-Foreign Exchange Commercial Bank, (4) Regional Development Bank which is majority ownership owned by the local government, (5) Joint Venture Bank, and (6) Foreign Owned Bank. However, the ownership has changed very significantly marked by foreign ownership in Indonesian commercial banks.

2.2. Financial Statements

In accordance with the Accounting Guidelines for Indonesian Islamic Banking (Bank Indonesia, 2013), the purpose of Islamic banking entity's financial statements is to provide information concerning the financial position, financial performance and cash flows from the activities of the Bank that are useful in decision making. In addition, the Financial Report is the result of management accountability over resources entrusted mandate. Financial statements are useful if the informations presented are understandable, relevant, reliable and comparable. However, we also need to realize that the financial statements do not provide all of the information that may be required by the parties with an interest in the bank, because generally, financial statements only describe the financial effects of past events. However in some ways, the bank needs to provide financial information that influence the future.

2.3. Definition of Perfomance

According to the Institute of Indonesia Chartered Accountants (IAI, in Febryanti and Zulfadin, 2003) the company's performance can be measured by analyzing and evaluating financial statements. Information of financial position and financial performance in the past often used as a basis to predict the financial position and performance in the future. The other things that attract the attention of financial statements user such as the distribution of dividends, wages, securities price movement and the company's ability to meet its commitments at maturity. Performance is an important thing to be achieved because it is a reflection of the company's ability to manage and allocate resources. In addition, the main purpose of performance measurement is to motivate employees in achieve organizational goals. It also aimed to comply with the standards of behavior that were previously set, in order to gain results. Standards of behavior can be either formal management policy or plan as outlined in the budget. Accounting Guidelines for Indonesian Islamic Banking (Bank Indonesia, 2013) explains that the statement of financial position of the bank is affected by the economic resources, its financial structure, liquidity, solvency and also the ability to adapt the environmental changes. This information is useful to predict the ability of the bank in the future to generate cash and cash equivalents, investment needs, the distribution of development results and cash flow, and predicting the bank's ability to meet its financial commitments at maturity, either short term or long term. Information of financial position is reflected in the balance sheet. Performance reports are bank performance information which needed to assess potential changes in economic resources that may be controlled in the future. This information is useful to predict the bank's capacity in generating cash flow from existing resources. In addition, this information is useful to formulate the effectiveness of the bank in utilizing resources. Bank performance information is reflected in the income statement.

2.4. Previous Studies

Mawardi (2004), analyze the effect of Operating Costs to Operating Income Ratio, Non Performing Loan (NPL), Net Interest Margin (NIM) and Capital Adequacy Ratio (CAR) to the financial performance (Return on Assets) of Commercial Banks operating in Indonesia which has total assets of less than IDR 1 trillion. Based on the data used from 1998 to 2001, the results showed that there was a negative and significant impact of Non Performing Loan (NPL) toward Return on Assets (ROA), positive and significant effect of Net Interest Margin (NIM) toward Return on Assets (ROA) as well as negative and significant impact of Operating Costs to Operating Income Ratio toward Return on Assets (ROA), while Capital Adequacy Ratio (CAR) has no effect toward Return on Assets (ROA). Furthermore, Desfian (2005) using data from 2001 to 2003, examined the influence of Operating Costs to Operating Income Ratio, Loan to Deposit Ratio (LDR) and Capital Adequacy Ratio (CAR) toward Return on Assets (ROA). His research states that Operating Costs to Operating Income Ratio, Loan to Deposit Ratio (LDR) and Capital Adequacy Ratio (CAR) has significant effect toward Return on Assets (ROA) of commercial banks in Indonesia partially and simultaneously. Research conducted by Suyono (2005) examined the effect of variable Capital Adequacy Ratio (CAR), Operating Costs to Operating Income Ratio, Net Interest Margin (NIM), Loan to Deposit Ratio (LDR) and Non

Performing Loan (NPL) toward Return on Assets (ROA). The results showed that the bank's financial ratios, especially Capital Adequacy Ratio (CAR), Operating Costs to Operating Income Ratio and Loan to Deposit Ratio (LDR) are able to influence the Return on Assets (ROA) of commercial banks which operating in Indonesia for the period of 2001 to 2003.

3. METHODOLOGY

The methodology used in this study was to test the hypothesis, which aims to determine the effect of financial ratios on performance banks, especially Islamic Rural Banks in Indonesia..

3.1. Variable and Measurement

Variables used in this research is based on the financial performance of the Indonesian banking, especially Islamic Rural Banks. The indicators are:

- a) Capital, performed with a quantitative approach through an assessment of the adequacy of compliance with the Capital Adequacy Ratio (CAR) or by calculating the Capital Adequacy Ratio (CAR) of Credit Risk.
- b) Asset Quality, conducted with a quantitative approach on asset quality factor that is Non Performing Financing (NPF) to total financings.
- c) Liquidity, performed with a quantitative approach on Financing to Deposit Ratio (FDR).
- d) Earnings, performed with a quantitative approach on Operating Expenses to Operating Income Ratio and Return on Assets (ROA).

3.2. Definition of Operational Variables

To avoid mistakes of the meaning of the variables used in this study, the limit is based on the provisions of Bank Indonesia Circular Letter No. 9/29/DPbS dated December 7, 2007, concerning the Rating System for Rural Banks based on Sharia Principles. The details of the limit of each variable are as follows:

- a) Capital Adequacy Ratio (CAR) of the regulations, which is the ratio between capitals to risk weighted assets. This ratio aims to measure the bank's capital to absorb losses and regulatory compliance is applicable in the Capital Adequacy Ratio (CAR)
- b) Earning Assets problematic is the ratio of non-performing financing to total earning assets. The scope and quality of earning assets components are based on the provision of Bank Indonesia / Financial Service Authority (FSA) on earning assets quality regulations, including provision on earning assets problematic that consist of substandard, doubtful, and loss category. The aim is to measure the proportion of Non Performing Financing (NPF) to total financings.
- c) Operating Expenses to Operating Income Ratio. Operating expenses are expenses incurred by the bank for the operating costs of banks, excluding the revenue share of the third-party funds. While operating income is the income received by the bank after deducting the revenue share to the third party funds.
- d) Loan to Deposit Ratio (LDR) is the ratio between loans granted to third party funds. Credit is the total loans granted to third parties (excluding loans to other banks), while the third party funds include demand deposits, savings and time deposits (excluding interbank).

- e) Return on Assets (ROA) is the ratio of profit before tax to average total assets. This is an indicator of the ability of banks to earn profits on a number of assets owned by the bank.

The data used in this study is secondary data compiled from the Financial Statements of 47 Islamic Rural Banks in 2015 with total assets of IDR.3.908 billion or 50.5% of IDR7.739 billion (total assets of Islamic Rural Bank in Indonesia) (Financial Services Authority, 2016) Based on the above financial statements, financial ratio have been calculated for each bank, namely (1) Capital Adequacy Ratio (CAR), (2) Non Performing Financing (NPF), (3) Loan to Deposit Ratio (LDR), (4) Operating Expenses to Operating Income (5) Return on Assets (ROA), (Infobank, 2016). Before using research data, there should be several stages of testing data that aims to avoid the error.

- a) Normality Test, which aims to test whether the data used in the study had a normal distribution or not. It is good if it has a normal or near-normal distribution. Kolmogorov-smirnov test is one of them, which is aimed to test the alignment (normality) / goodness of fit test Chi-Square on the data that would be used;
- b) Outliers are observations on the data that has unique characteristics which seem very different from other observations and appeared in form of extreme value, either for a single variable or variables combination. Evaluation of the presence of outliers could be done by determining the threshold that would be categorized as outliers by converting the value of research data into standard scores or commonly called the z -score, which has an average of zero with a standard deviation of one. If it values has been stated in the standard form (z - score), then the ratio between the value could easily be done. Guidelines for the evaluation is the threshold value of z - scores in the range of 3 to 4 (Hair et all in Ferdinand, 2002).
- c) Linearity Test, which aims to look at the specifications of the model used is correct or not, will thus be obtained information on whether the empirical models used should be linear, quadratic or cubic. Linearity for testing can be done in several ways (Ghozali, 1999). In addition, this linearity test was done to determine the significance of the relationship between the dependent variable with independent variable. If the significance value is > 0.05 or 5,00%, then it can be concluded there is a linear relationship.
- d) Multicollinearity are showing their high degree of collinearity among the independent variables. Multicollinearity test aims to examine whether correlation exist among the independent variables in the model or not. Good model should not have correlation among independent variables and if there is a correlation then this variable is called not orthogonal (Ghozali, 1999).
- e) Autocorrelation is the correlation between members of a series of observations that are arranged in time series (such as time series data) or arranged in a series of spaces (such as cross-sectional data) (Sumodiningrat, 1999) Autocorrelation test aims to test whether the linear regression model has no correlation between bullies error in period t with an error in period t-1 (previous). This problem arises because of a disturbance error (residual) is not free from one observation to another (Ghozali, 2000).

f) Goodness of Fit, testing the accuracy of a regression function in assessing the actual value can be measured from the goodness of fit test, a statistical test can be said to be statistically significant when the value of the statistics are in critical regions (regions where Ho is rejected). Conversely, it called insignificant if the statistics are in areas where Ho is accepted. In addition, it is said that there is no means of a single test to measure or test hypothetical regarding the model (Hair, et al, 1995; Long, 1983; Tabachnick & Fidell, 1996 in Ferdinand, 2002) and is generally used some fit index to measure the degree of conformity among the hypothesized model of the data presented. Therefore, to assess its Goodness of Fit a model can be measured by several tests (Ghozali, 1999; Ferdinand, 2002)

Furthermore, based on the research data that has been through the test mentioned above, a hypothetical test conducted as follows:

- H1.1. There are effects of Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), Operating Costs to Operating Income Ratio and Financing to Deposit Ratio (FDR) toward Return on Assets (ROA) partially on Islamic Rural Banks in Indonesia;
- H1.2. There are effects of Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), Operating Costs to Operating Income Ratio and Financing to Deposit Ratio (FDR) toward Return on Assets (ROA) simultaneously on Islamic Rural Banks in Indonesia;
- H1.3 There are effects of influencing factor which is more dominant between Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), Operating Costs to Operating Income Ratio and Financing to Deposit Ratio (FDR) toward Return on Assets (ROA) partially on Islamic Rural Banks in Indonesia.

4. ANALISYSIS AND DISCUSSIONS

4.1. An Overview of Research Object

This study uses secondary data for all research variables as follows:

Table : 4.1

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Return on Asset	47	1,35	7,79	3,6936	1,45101	2,105
Capital Adequacy Ratio	47	8,26	39,00	19,7979	7,63271	58,258
Non Performing Financing	47	,01	7,87	4,2013	2,01968	4,079
Operating Costs to Operating Income Ratio	47	63,88	93,37	80,7996	6,32394	39,992
Financing to Deposit Ratio	47	22,06	109,20	85,4213	15,48323	239,731
Valid N (listwise)	47					

The amount of data used in this study were 47 (n = 47) which is an indicator for financial performance of Islamic Rural Banks for the period ended December 31, 2015.

Based on the descriptive statistics mentioned above, the data can be explained as follows:

- a) Return on Assets (ROA) minimum 1.35% and maximum 7.79% with an average rate of 7.79%. It shows in general that Islamic Rural Banks in Indonesia are able to generate good income and no one loses in the period ended December 31, 2015.
- b) Capital Adequacy Ratio (CAR) minimum 8.26% and maximum 39.00% with an average rate of 19.80%. It

- shows in general that Islamic Rural Banks in Indonesia are very strong in capital and above the regulatory provisions.
- c) Non Performing Financing (NPF) minimum 0.01% and maximum 7.87% with an average rate of 4.20%. It shows in general that Islamic Rural Banks in Indonesia can control its financing fairly well because it is still below the threshold of Non Performing Financing (NPF) set by the regulator that is 5%. However, there are some Islamic Rural Banks that have ratio of Non Performing Financing (NPF) which exceed 5% and has been under special regulatory supervision.
- d) Operating Costs to Operating Income Ratio minimum 63.88% and maximum 93.37% with an average rate of 80.80%. It shows in general that Islamic Rural Banks in Indonesia, in terms of management of banking business has improved because there are some banks with good efficiency (under 80.00%), although some others still need efficiency improvement because it is far above 80.00%.
- e) Financing to Deposit Ratio (FDR) minimum 22.06% and maximum 109.20% with an average rate of 85.42%. It shows in general that Islamic Rural Banks in Indonesia, in performing its function as an intermediary institution has been running very well. However, there are still very few banks (small from 80.00%), even those who are too aggressive in financing (more than 95.00%), so it is necessary to get the regulator's attention for improvement.

4.2. Testing Data Research

Before using such research data, it is deemed necessary to perform data testing to avoid mistakes, among others:

- a) Normality Test conducted by Kolmogorov Smirnov with the results of the calculation as follows:

Table: 4.2

Hypothesis Test Summary

	Null Hypothesis	Test	Sig.	Decision
1	The distribution of Return on Asset is normal with mean 3,69 and standard deviation 1,45.	One-Sample Kolmogorov-Smirnov Test	,174	Retain the null hypothesis.
2	The distribution of Capital Adequacy Ratio is normal with mean 19,80 and standard deviation 7,63.	One-Sample Kolmogorov-Smirnov Test	,192	Retain the null hypothesis.
3	The distribution of Non Performing Financing is normal with mean 4,20 and standard deviation 2,02.	One-Sample Kolmogorov-Smirnov Test	,926	Retain the null hypothesis.
4	The distribution of Operating Costs to Operating Income Ratio is normal with mean 80,80 and standard deviation 6,32.	One-Sample Kolmogorov-Smirnov Test	,686	Retain the null hypothesis.
5	The distribution of Financing to Deposit Ratio is normal with mean 85,42 and standard deviation 15,48.	One-Sample Kolmogorov-Smirnov Test	,647	Retain the null hypothesis.

Asymptotic significances are displayed. The significance level is ,05.

The Kolmogorov-smirnov test shows insignificant result (two-sided) for all financial indicators with significant values or probabilities above 0.05 or 5.00%, so it can be concluded that all data is normally distributed.

- b) Outliers are determined by changing overall value of the research data into a z-score that has a zero average value and a standard deviation of one. Based on the calculation of z-score on each performance indicator of Islamic Rural Bank, it found that the result has no more than 3. It can be concluded that there is no univariate data outlier because

the threshold Score z is in the range of 3 to 4 (Hair et al in Ferdinand, 2002).

- c) Linearity test aims to know the significance of dependent variable relationship with each independent variable, as the table below

Table: 4.3

ANOVA Table			Sum of Squares	df	Mean Square	F	Sig.
Capital Adequacy Ratio * Return on Asset	Between Groups	(Combined)	2388,879	39	61,253	1,473	,311
		Linearity	45,782	1	45,782	1,101	,329
		Deviation from Linearity	2343,098	38	61,660	1,483	,307
	Within Groups		290,999	7	41,571		
Total			2679,878	46			
Non Performing Financing * Return on Asset	Between Groups	(Combined)	171,609	39	4,400	1,921	,186
		Linearity	,420	1	,420	,183	,681
		Deviation from Linearity	171,189	38	4,505	1,967	,178
	Within Groups		16,031	7	2,290		
Total			187,640	46			
Operating Costs to Operating Income Ratio * Return on Asset	Between Groups	(Combined)	1752,418	39	44,934	3,606	,041
		Linearity	1207,590	1	1207,590	96,914	,000
		Deviation from Linearity	544,828	38	14,338	1,151	,461
	Within Groups		87,223	7	12,460		
Total			1839,641	46			
Financing to Deposit Ratio * Return on Asset	Between Groups	(Combined)	6714,283	39	172,161	,279	,995
		Linearity	350,767	1	350,767	,569	,475
		Deviation from Linearity	6363,516	38	167,461	,272	,996
	Within Groups		4313,323	7	616,189		
Total			11027,606	46			

Based on the above table, it is known that the significance value of Deviation from Linearity for the relation of Return on Asset (ROA) with each independent variable (Capital Adequacy Ratio, Non Performing Financing, Operating Expenses compared to Operating Income, Loan to Deposit Ratio) overall is above 0.05. It can be concluded that there is a linear relationship between Return on Asset (ROA) to each independent variable.

- d) Multicollinearity test aims to know the existence of coleration among independent variable with result as follows:

Table: 4.4

Coefficients^a

Model		Collinearity Statistics	
		Tolerance	VIF
1	Capital Adequacy Ratio	,976	1,024
	Non Performing Financing	,979	1,022
	Operating Costs to Operating Income Ratio	,957	1,045
	Financing to Deposit Ratio	,987	1,013

a. Dependent Variable: Return on Asset

Based on the above table it can be seen that the tolerance for Capital Adequacy Ratio (CAR) = 0.97, Non Performing Financing (NPF) = 0.97, Operating Costs to Operating Income Ratio = 0.95 and Financing to Deposit Ratio (FDR) = 0.98. This shows that there is no tolerance value < 0.10, so there can be no multicollinearity. In addition, it can be seen that the VIF (Variance Inflation Factor) value for Capital Adequacy Ratio (CAR) = 1.02, Non Performing Financing (NPF) = 1.02, Operating Costs to Operating Income Ratio = 1.04 and

Financing to Deposit Ratio (FDR) = 1.01. This indicates that there is no VIF (Variance Inflation Factor) value < 10.0, so there can be no multicollinearity.

- e) The autocollinearity test aims to determine whether there is a high correlation between residuals. Using the run test obtained the following results:

Table: 4.5.

Runs Test

	Unstandardized Residual
Test Value ^a	-,03527
Cases < Test Value	23
Cases >= Test Value	24
Total Cases	47
Number of Runs	29
Z	1,183
Asymp. Sig. (2-tailed)	,237

a. Median

The results show the test value of -0.03527 with probability 0.237 so not significant at 0.05 it can be concluded that there is no autocorrelation between the residual value.

- f) Goodness of fit was measured by using determination coefficient (R²), the results obtained are as follows :

Table: 4.6

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,820 ^a	,672	,640	,87004

a. Predictors: (Constant), Financing to Deposit Ratio, Capital Adequacy Ratio, Non Performing Financing, Operating Costs to Operating Income Ratio

b. Dependent Variable: Return on Asset

Based on these calculations, adjusted R² = .672, this shows that 67,2% of variation Return on Assets (ROA) can be explained from the four independent variables consisting of: Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), Operating Costs to Operating Income Ratio, Financing to Deposit Ratio (FDR).

4.4. Results Prove Hypothesis

Based on several kinds of tests that have been done on the data research is used, it can be concluded that the data is worthy used for testing hypotheses.

- a) Hypothesis test is then analyzed to influence each of Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), Operating Costs to Operating Income Ratio, Financing to Deposit Ratio (FDR) toward Return on Assets (ROA) with the following results:

Table : 4.7.

		Coefficients ^a		Standardized Coefficients	t	Sig.
		Unstandardized Coefficients				
Model		B	Std. Error	Beta		
1	(Constant)	19,609	1,890		10,376	,000
	Capital Adequacy Ratio	,002	,017	,009	,098	,922
	Non Performing Financing	-,127	,034	-,372	-4,158	,048
	Operating Costs to Operating Income Ratio	-,185	,021	-,805	-8,900	,000
	Financing to Deposit Ratio	-,011	,008	-,115	-1,293	,203

a. Dependent Variable: Return on Asset

Based on calculations performed with the results as table 4.7 above, then obtained the following regression equation;

$$Y = 19.609 + 0.002 \text{ CAR} - 0.127 \text{ NPF} - 0.185 \text{ OCOIR} - 0.011 \text{ FDR}$$

- The Capital Adequacy Ratio (CAR) against Return on Assets (ROA) with regression coefficient of 0.002 and t-value = 0.098 or smaller than t-table (2.018) and the probability of significance is 0.922 or greater than 0.05 (5.0%), then it can be concluded that the Capital Adequacy Ratio (CAR) does not affect the Return on Assets. The Capital Adequacy Ratio (CAR) positive regression coefficient shows that Capital Adequacy Ratio (CAR) have positive influence to Return On Assets (ROA), but not significant.
- The Non Performing Financing (NPF) against Return on Assets (ROA) with regression coefficient of -0.127 and t-value = 4.158 or greater than t-table (2.018) and the probability of significance is 0.048 or smaller than 0.05 (5.0%), then it can be concluded that Non Performing Financing (NPF) variables significantly influence Return on Assets. Regression coefficient of Non Performing Financing (NPF) with negative sign indicate that Non Performing Financing (NPF) have negative effect to Return on Assets (ROA). This means that any increase in the Non Performing Financing (NPF) will decrease the Return on Assets (ROA). The beta coefficient of Non Performing Financing (NPF) of 0.127 (1.27%) indicates that any increase of Non Performing Financing (NPF) of 1.00%, it will result in Return on Assets (ROA) decreased by 1.27%.
- The Operating Costs to Operating Income Ratio against Return on Assets (ROA) with regression coefficient of -0.185 and t-value = 8.900 or greater than t-table (2.018) and the probability of significance is 0.000 or smaller than 0.05 (5.0%), then it can be concluded that Operating Costs to Operating Income Ratio variables significantly influence Return to Assets (ROA). Regression Coefficient of Operating Costs to Operating Income Ratio with negative sign indicates that Operating Costs to Operating Income Ratio have negative influence to Return On Assets (ROA). This means that any increase in Operating Costs to the Operating Income Ratio will decrease the Return On Assets (ROA). The beta coefficient of Operating Costs to Operating Income Ratio of 0.185 (1.85%) indicates that any increase in Non Performing Financing (NPF) of 1.00%, it will result in Return on Assets (ROA) decreased by 1.85%.
- The Financing to Deposit Ratio (FDR) against Return on Assets (ROA) with regression coefficient of 0.011 and t-value = 0.115 or smaller than t-table (2.018) and the probability of significance is 0.203 or greater than 0.05

(5.0%), then it can be concluded that the Financing to Deposit Ratio (FDR) does not affect the Return on Assets (ROA). The regression coefficient of Financing to Deposit Ratio (FDR) shows that Financing to Deposit (FDR) has negative effect on Return On Assets (FDR), but not significant.

- b) A significant test of simultaneous (F-test) can show that all the independent variables included in the model have an effect on collectively on the dependent variable.

Table: 4.8

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	65,056	4	16,264	21,486	,000 ^b
	Residual	31,793	42	,757		
	Total	96,849	46			

a. Dependent Variable: Return on Asset

b. Predictors: (Constant), Financing to Deposit Ratio, Capital Adequacy Ratio, Non Performing Financing, Operating Costs to Operating Income Ratio

Based on the test analisis of variance or F-test obtained the value of F-value 21.486 with probability 0,0000. The probability level is much smaller than 0.05, so it can be said that Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), Operating Costs to Operating Income Ratio, Financing to Deposit Ratio (FDR) jointly affect variation Return on Assets (ROA). Based on the evidence in point 3.a above, it can be concluded that the most dominant factor affecting the Return on Assets (ROA) is the Operating Costs to Operating Income Ratio shown by the standardized coefficient beta of 0.805 (8.05%) and then followed by the Non Performing Financing (NPF) with standardized beta coefficient of 0.372 (3.72%), while Capital Adequacy Ratio (CAR) and Financing to Deposit Ratio (FDR) no significant effect on Return on Assets (ROA).

- c) Based on the evidence in point 3.a above, it can be concluded that the most dominant factor affecting the Return on Assets (ROA) is the Operating Costs to Operating Income Ratio shown by the standardized coefficient beta of 0.805 (8.05%) and then followed by the Non Performing Financing (NPF) with standardized beta coefficient of 0.372 (3.72%), while Capital Adequacy Ratio (CAR) and Financing to Deposit Ratio (FDR) no significant effect on Return On Assets (ROA).

5. CONCLUSIONS AND RECOMMENDATIONS

5.1. Conclusions

- The independent variable of Non Performing Financing (NPF) and Operating Cost to Operating Income Ratio partially have a significant and negative effect to Return On Asset, while Capital Adequacy Ratio (CAR) and Financing to Deposit Ratio (FDR) to Return on Assets (ROA) partially slightly influential and insignificant in Islamic Rural Banks in Indonesia.
- The independent variables Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), Operating Costs to Operating Income Ratio, Financing to Deposit Ratio (FDR) together positively and significantly influence Return on Assets (ROA) in Islamic Rural Banks in Indonesia.
- The most dominant Independent Variables effect partially is Operating Costs to Operating Income Ratio and then

followed by Non-Performing Financing (NPF) to Return On Assets, while Capital Adequacy Ratio (CAR) and Financing to Deposit Ratio (FDR) influence is not significant.

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5.2. Recommendations

- a) Management of Islamic Rural Bank in the future is expected to pay more attention to the management of asset quality and operational efficiency, both of which are very significant determine the profitability;
- b) For further research, it is expected that the addition of independent variables should be more beneficial for the stakeholders.

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