

**THE EFFECT OF FINANCING DECISION AND RISK ON THE
PERFORMANCE OF ISLAMIC BANK**

A THESIS

**Presented as a Partial Fulfillment of the Requirements
to Obtain Bachelor Degree in Accounting Department**



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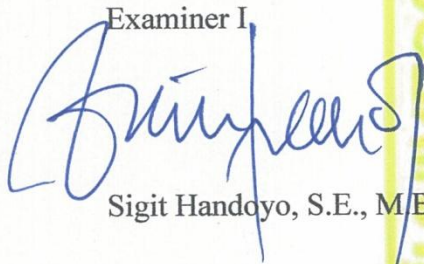
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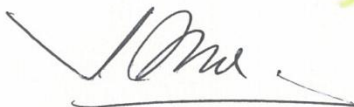
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DECLARATION OF AUTHENCITY

Herein I declare to the originality of this thesis, I have not presented anyone's work to obtain my university degree, nor have I presented anyone else's words, ideas, or expression without acknowledgement. All quotation are cited and listed in the references of the thesis.

If in the future this statement is proven to be false, I am willing to accept any sanction complying with the determined regulation or its consequence.

Yogyakarta, July 1, 2014



Derry Rifki Magista

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Alhamdulillah rabbil,, alamin. All praise to Allah SWT for guiding and blessing hence this thesis could be finished, and for giving me abundance of endowment in my life. I would recite Shalawat and Salam to Muhammad SAW, the messenger for all people. Finally, I could finish my thesis that entitled “**The Effect of Financing Decision and Risk On The Performance of Islamic Bank**”. I fully realize that this thesis would not have been possible without the persistent help, trust, and support of those people surrounding me. In this occasion, I would like to express my deepest appreciation for those who gave significant contributions to my study and thesis.

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Derry Rifki Magista

TABLE OF CONTENTS

Page of Title.....	i
Approval Page.....	ii
Legalization Page.....	iii
Declaration of Authenticity	iv
Acknowledgement	v
Table of Content.....	viii
List of Tables.....	xi
List of Figures.....	xii
List of Appendices.....	xiii
Abstract (In English).....	xiv
Abstract (In Bahasa Indonesia).....	xv
CHAPTER I: INTRODUCTION	
1.1 Research Background.....	1
1.2 Research Problem.....	5
1.3 Research Objectives.....	5
1.4 Benefit Research.....	6
CHAPTER II: LITERATURE REVIEW	
2.1 Theoretical Review.....	7
2.1.1 Banking Position in Islam.....	7
2.2 The Development of Islamic Banking in Indonesia.....	10
2.3 Islamic Bank.....	12

2.3.1 The Meaning and Function of Islamic Bank.....	12
2.3.2 Islamic Bank Products.....	14
2.4 Previous Study.....	18
2.5 Hypothesis Development.....	19

CHAPTER III: RESEARCH METHOD

3.1 Population and Sample.....	24
3.2 Types and Source of Data.....	24
3.3 Research Variables.....	25
3.3.1 Dependant Variable.....	25
3.3.2 Independant Variable.....	25
3.4 Data Analysis Method.....	29
3.4.1 Multiple Regression Analysis	29
3.4.2 Classical Assumption Test.....	29
3.4.3 Heteroskedasticity Test.....	30
3.4.4 Hypothesis Test.....	31
3.4.5 Simultaneous Hypothesis Testing (Test F).....	32
3.4.6 Partial Hypothesis testing (t test).....	32

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

4.1 General Description of the Data.....	34
4.2 Statistical Descriptive Analysis	34
4.3 Classical Assumption.....	36
4.3.1 Normality Test of Data.....	36

4.3.2 Multicollienarity Test.....	38
4.3.3 Heteroscedasticity Test of Data.....	40
4.4. Multiple Regression Analysis.....	43
4.5 Coefficient of Determination (R^2).....	48
4.6 Hypothesis Test.....	49
4.6.1 Hypothesis Test Simultaneously.....	50
4.6.2 Hypothesis Test Partially.....	51
4.6.2.1 Effect of Financing on the ROA.....	51
4.6.2.2 Effect of Financing on the ROE.....	53
4.7 Discussion.....	54
CHAPTER V: CONCLUSIONS	
5.1 Conclusions.....	57
5.2 Research Limitation and Recommendation.....	58
REFERENCES.....	59
APPENDICES	62

LIST OF TABLE

Table 3.1 Bank Samples.....	24
Table 4.1 Statistics Descriptive of Research Variables	35
Table 4.2 Multicollinearity test of ROA	39
Table 4.3 Data Multicollinearity test of ROE	40
Table 4.4 Multiple Regression Result ROA	43
Table 4.5 Multiple Regression Result ROE.....	46
Table 4.6 Coefficient Determination Results(ROA).....	48
Table 4.7 Coefficient Determination Results(ROE).....	49
Table 4.8 Hypothesis Test Simultaneously Result(ROA).....	50
Table 4.9 Hypothesis Test Simultaneously Result(ROE).....	51
Table 4.10 Hypothesis Test Partially Result(ROA).....	52
Table 4.11 Hypothesis Test Partially Result(ROE).....	53

LIST OF FIGURE

Figure 2.1 Banking Position in Islam.....	8
Figure 2.2 Islamic Financial Markets	9
Figure 2.3 Bank syariah as a financial intermediary	14
Figure 2.4 Research Conceptual Framework.....	22
Figure 4.1 Results of normality test with Normal P-P Plot by the regression(ROA).....	37
Figure 4.2 Results of normality test with Normal P-P Plot by the regression(ROE).....	38
Figure 4.3 Heteroscedasticity Test(ROA).....	41
Figure 4.4 Heteroscedasticity Test(ROE).....	42

LIST OF APPENDICES

Appendix 1: Banks sample.....	63
Appendix 2: The result of descriptive statistic.....	63
Appendix 3: The result of normality test.....	63
Appendix 4: The result of heteroscedasticity test.....	65
Appendix 5: The result of multiple regression analysis.....	66
Appendix 6: Data of Bank ROA, ROE, FDR, NPF, MUR, MUS, MUD.....	68

ABSTRACT

The purpose of this research is to examine the effect of financing decision and risk on the performance of Islamic bank. Performance of Islamic bank is measured by return on equity (ROE) and return on assets (ROA). Financing decision consists of murabaha financing, mudaraba financing, and musaraka financing. Whereas, risks are measured by non performing finance(NPF) and financing to deposit ratio(FDR).

The population which taken in this research is 8 Islamic banks. The analytical tool which used is multiple regression. The result of research showed that Non Performing Finance (NPF) does not give any influence on the performance of Islamic banks which is measured by ROA and ROE. Risk of financing which is measured by the Financing to Deposit Ratio (FDR) does give influence on the ROA, but does not influence on ROE. Murabaha financing which is based on trading does give positive influence on the performance of Islamic banks. Musharaka financing which is based on profit sharing give negative influence on the performance of Islamicbank, while mudaraba financing does not give any influence on the performance of Islamic banks.

Key words: murabaha financing, mudaraba financing, musaraka financing, NPF. FDR.

ABSTRAKSI

Penelitian ini bertujuan untuk menguji pengaruh kebijakan pembiayaan dan risiko terhadap kinerja bank syariah. Kinerja bank syariah diukur dengan return on equity (ROE) dan return on assets (ROA). Kebijakan pembiayaan terdiri tiga variabel pembiayaan murabahah, pembiayaan mudharabah dan pembiayaan musyarakah. Sementara risiko diukur dengan risiko pembiayaan (NPF) dan risiko likuiditas (FDR).

Populasi dalam penelitian ini adalah semua bank umum syariah di Indonesia dan sampel yang diambil sebanyak delapan bank syariah. Alat analisis yang digunakan adalah regresi berganda.

Hasil penelitian menunjukkan NPF pengaruhnya tidak signifikan terhadap ROE dan ROA. FDR berpengaruh ROA tetapi tidak signifikan terhadap ROE. Pembiayaan murabahah berpengaruh signifikan terhadap ROE dan ROA, sedangkan pembiayaan mudharabah pengaruhnya tidak signifikan terhadap ROE dan ROA. Sementara pembiayaan musyarakah berpengaruh signifikan terhadap ROE dan ROE tetapi pengaruhnya negatif.

Kata kunci: Audit report lag, ukuran perusahaan, profitabilitas, solvabilitas, umur perusahaan, ukuran kantor akuntan publik (KAP), komite audit.

CHAPTER I

INTRODUCTION

1.1. RESEARCH BACKGROUND

Over the last decade, development of sharia banks in Indonesia shows a rapid increase. One of the reasons Islamic banks in Indonesia is growing rapidly is due to the potential market. It is because the majority of Indonesia's population are Moslems. Moslems in Indonesia is growing their awareness to behave Islamically including applying the aspects of muamalah or business. Their awareness is strengthened by statement of MUI. MUI stated that interest instruments in conventional bank are not allowed in Islamic sharia. Thus, Moslem must be looking for a bank which is not using interest such as Islamic banks. It makes Islamic banks have a large amount of customer.

Basically the function of Islamic banks is not much different from the conventional banks as financial intermediaries of the excess funds (surplus units) to people that lack of funds (deficit units). The difference is in the instruments used, conventional banks use interest as a reward for people who save their money and those who take the credit. Meanwhile, Islamic banks are not using interest instruments, it is using other instruments which is permitted by Islamic sharia, such as using profit sharing instruments and revenue margin instrument. Islamic banks generally aim to encourage and accelerate the economic development of a society by conducting banking, financial, commercial, and investment according to the rules of sharia. The risk faced by Islamic banks is also not much different from those faced

by conventional banks. Each bank will face risks such as the risk of bank capital, risk financing, liquidity risk and operating risk (Muhammad, 2011). Moreover, Masruki, et.al., (2010) found that the risk of Islamic banks are higher than conventional banks, because Islamic banks provide financing based on the Islamic concept. In Islamic concept, profit sharing is depend on the profitability of the customer's business which is financed by the Islamic bank. Therefore the leadership of Islamic banks are required to be able to manage Islamic banks in a professional manner, so they can control the risks of facing.

Performance of Islamic banks is affected by the amount of financing provided and the composition of its financing. Haron (1996) discover a positive influence between financing based on profit sharing and financing based on the profit margin on the performance of Islamic banks. Bukhari and Qudus (2012) and Izhar and Asutay (2007) also found a significant relationship between financing and the performance of Islamic bank. Islamic banking is a company in a highly regulated operations by Bank Indonesia (very regulated company), so starting from the capital, funding, liquidity, all regulated by the central bank. Therefore, management of Islamic banks Islamic banks should be able to manage well. Haron (1996) found a significant relationship between the performance of the bank and management policies.

Bank performance is often measured by the level of profits earned by the bank. Haron (1996) measured the total income to total assets, income for banks to total assets and net profit before tax to total assets. Akhtar et al (2011), Zeitun (2012), and Moin (2008) used return on assets and return on equity to measure the financial performance of the bank. Acaravci et al (2013), and Ani et al, (2012)

measured bank performance by using return on equity, return on assets, and net interest margin. In this study the authors used two indicators to measure the financial performance of Islamic banking which is return on assets (ROA) and return on equity (ROE).

Islamic banks have functions to raise funds from the public and distribute it to the public through financing. Financing provided to customers of Islamic banks are based on four principles. Those principle are as follows :

1. Financing based on principle of profit sharing. Financing based on this principle consists of two schemes namely *mudaraba* financing and *musharaka* financing. *Mudaraba* financing is a joint venture agreement between two parties which means that the first party or the bank (*shahibul maal*) provides all the funds needed, meanwhile the other party (clients) will act as the manager (Sudarsono, 2003). If the manager gets the profits or loss, it has to be shared according to *nisbah* of the profit sharing which is agreed. Meanwhile, *musharaka* is a type of financing in Islamic banks in which the bank provides operational funds while the other funds are provided by the customer. In this type of financing bank could participate in the management (Siamat, 2005). Basically, profit sharing is natural product of sharia (Suyanto, 2006), because this funding is a fair financing, which means that the profits or loss will be shared according to the agreement.
2. Financing based on principle of profit margin. There are two types of financing based on this principles. The first is *murabaha* financing, it is selling goods with added profit margin that has been agreed between the bank and the client (Sudarsono, 2003). In a *murabaha* agreement, the bank buys the item which

demanded by customer, then the bank sells the goods to the customer by adding profit margin on the price of goods. The second is *ajil al-bai'bitsaman* financing, it is the long term financing performed by Islamic bank to customer by using installment payment system (Siamat, 2005).

3. Financing based on the concept of rent. In Islamic bank, financing that based on a rent is called *ijara*. *Ijara* is a transfer of the rights of the goods and services for the payment of rent without transfer of ownership of the goods themselves. In the context of Islamic banking or Islamic financial institution. *Ijarah* is a lease contract in which a bank or financial institution rents its equipment to customers with specific charge for the previous installment (Sudarsono, 2003).
4. Financing based on the social principle is financing that is not charged to any additional costs except the cost of administration. This type of financing is often referred as *qordul hasan* financing. In *qordul hasan* financing, customers are not burdened by expenses and only have to pay for the principal loan. Sources of funds used to finance is usually taken from *zakah*, *infaq*, *sodaqah* and also from non-halal post from the bank.

The main source of income of the bank is from financing decision, but in each financing decision there is a risk. Only few researchers who conduct research on this matter, and they do not examined the research in detail. Therefore, researchers intend to examine how the effect of financing decisions and risk to the performance of Islamic banking in Indonesia.

1.2. RESEARCH PROBLEM

1. Does mudaraba financing have an effect on the performance of Islamic Bank?
2. Does musharaka financing have an effect on the performance of Islamic Bank?
3. Does murabaha financing have an effect on the performance of Islamic Bank?
4. Does financing to deposit ratio (FDR) have an effect on the performance of Islamic Bank?
5. Does non performing financing (NPF) have an effect on the performance of Islamic Bank?

1.3. RESEARCH OBJECTIVES

Based on the background problem and theological problem so the objectives are :

1. To examine whether mudaraba financing has an effect to the performance of Islamic Bank in Indonesia.
2. To examine whether musharaka financing has an effect to the performance of Islamic Bank in Indonesia.
3. To examine whether murabaha financing has an effect to the performance of Islamic Bank in Indonesia.
4. To examine whether financing to deposit ratio (FDR) has an effect to the performance of Islamic Bank in Indonesia.
5. To examine whether non performing financing (NPF) has an effect to the performance of Islamic Bank in Indonesia.

1.4. BENEFIT OF RESEARCH

The purpose of this research is to give some benefits

1. To give contribution to the development of science, particularly the area of financial management and Islamic banking
2. The industry of Islamic banking is expecting results of this study as a reference material in order to improve its financial performance through product financing
3. For investors in the capital market, the results of this study are expected to contribute at least, ideas that would provide valuable information as a basis for decision making in trading activity in the stock.
4. This study is also expected to provide benefits for future researchers as a reference for further studies. This research can be further developed by research results that can be obtained more profound and applicable to real life

CHAPTER II

LITERATURE REVIEW

2.1. Theoretical Review

2.1.1. Banking position in Islam

Islamic religion not only teaches issues related to akidah, but also teaches all aspects of life that are related to akidah, syariah and akhlak. Ismail (1992) stated that in developing the concept of Islamic banks, an understanding of Islam is needed. Three basic elements in Islam which must be understood are (1) Akidah, that is regarding all forms of belief and trust in God to be a matter of life of every Moslems, (2) Sharia, that is related with all forms of action in practice which is done in realizing their faith and believe , and (3) Akhlak, it covers all aspects of behavior, attitude and work ethic which is done by a moslem in daily activities.

The aspects of sharia is divided into two areas namely ibadah and muamalah. Ibadah is a form of moslem practices that are dedicated to God, while muamalah is relating to the relationship between man and man, political activities, social and economic activities. Figure 1 shows that Islamic banking is one of human economic activity which is conducted in muamalah. Economic activity in muamalah is not only Islamic banking, but all activities related to the economy such as trade, manufacturing, service activities, and the other Islamic financial institutions.

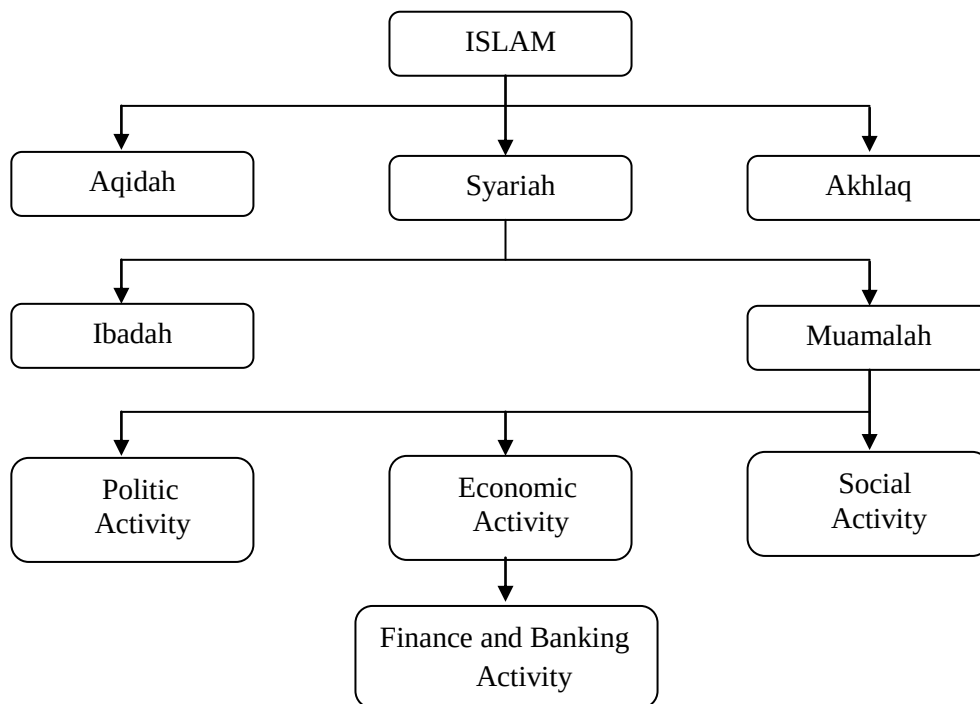


Figure 2.1

Banking Position in Islam

Meanwhile, Rosli (2004) described the activities of Islamic financial institutions in the Islamic financial market. Islamic financial markets which consist of Islamic banking , Islamic insurance, Islamic securities which is including the Islamic capital market, Islamic finance plan. Islamic financial market should be based on the two principles of the Islamic principles and the tabi' principle. Islamic principles should be executed in accordance with the Islamic sharia by applying the principles of trade, avoiding riba, avoiding speculation (gharar), no gambling (maisir) and avoiding the production which is prohibited by the community or syariah that can cause harm. Rosli emphasized that in conducting Islamic financial institutions must be done by a professional who Rosli called a tabi '. Tabi principle

'relates to a world where people apply intellect and experience to run their business.

The financial market is shown in Figure 2.2 :

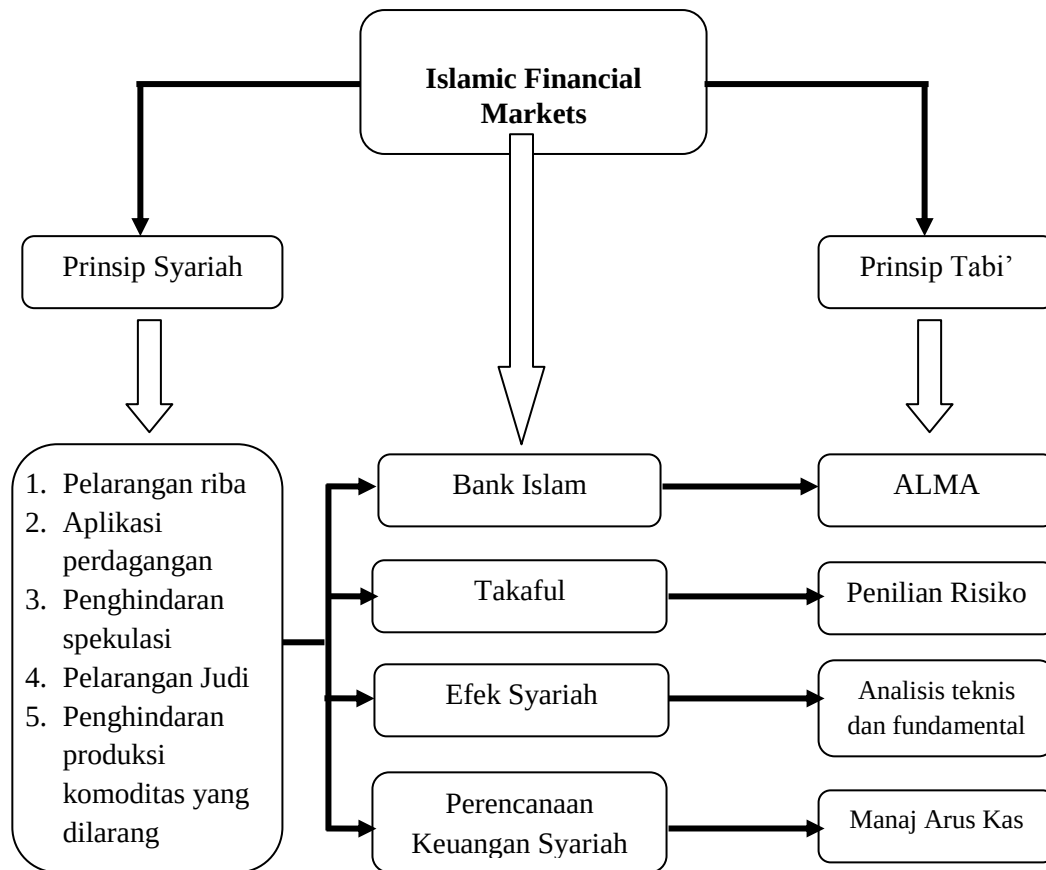


Figure 2.2

Islamic Financial Markets

2.2.The Development of Islamic banking in Indonesia

The development of sharia banks in Indonesia rapidly increase over last decade. One of the reasons Islamic banks in Indonesia is growing rapidly is due to the potential market. It is because the majority of Indonesia's population are Moslems. Moslems in Indonesia is growing their awareness to behave Islamically including

applying the aspects of muamalah or business. Their awareness is strengthened by statement of MUI. MUI stated that interest instruments in conventional bank are not allowed in Islamic sharia. Thus, Moslem must be looking for a bank which is not using interest such as Islamic banks. It makes Islamic banks have a large amount of customer. BMI as the first Islamic bank in Indonesia in 1992, Majelis Ulama Indonesia (MUI) is initiating the establishment of Islamic banks which are free from the element of interest. Interest is considered as riba which is forbidden by Islamic sharia. Bank Muamalat Indonesia is the result of hard work of the MUI over three years. The establishment of Bank Muamalat Indonesia (BMI) became a momentum for the revival of Islamic economic. Shariah banks in Indonesia cannot be separated from the development of the Bank perkreditan syari'ah (BPRS) which was introduced by Bank Rakyat Indonesia (BRI) in 1977 in terms of bank perkreditan rakyat (BPR) to roll out rural credit for fostering rural barns, bank market, bank employees and other types of banks.

The establishment of Bank Muamalat Indonesia was also followed by the establishment of other Islamic financial institutions. Those Islamic financial institutions include Bank Pembiayaan Syariah (BPRS) in all provinces in Indonesia, the establishment of sharia insurance, sharia mortgage, Islamic microfinance institutions called Baitul Maal Wat tamwil (BMT) over the country, and islamic capital market with its Islamic securities products. Further, launched its Islamic index which is referred as Jakarta Islamic Index (JII).

Sharia economic has a big contribution in the economic growth in Indonesia, it can be seen by the size of Islamic financial assets in Indonesia, which is currently recorded about 38.1 billion U.S. \$. The Islamic financial assets come from banking

(54 percent) and sukuk (36 percent), the rest is consisting of insurance, multi-asset finance and mutual funds. The amount of Islamic banking asset cannot be separated from several factors. These factors are the high public trust in choosing Islamic banking products to manage their money.

The presence of Islamic banks in Indonesia is to provide a alternative to Muslims in order to avoid conventional banks which is considered incompatible with Islamic sharia. According to Law no. 10 year 1998 on amendments to Law no. 7 year 1992 in Article 1, paragraph 1 mentioned that bank is a business entity which collects funds from the public in the form of savings and distributes them to public in the form of credit and or other forms in order to improve the living standards of the people. This understanding asserts that the primary function of a bank is a financial intermediary that collects funds from public and distributes it to public in the form of credit or other forms. Rival et al. (2007, p. 733) mentioned that Islamic banking is a bank conducting business based on sharia principles. Sharia principle is based on an agreement between the bank and other parties to deposit of business funds, financing activities, or other activity that is expressed in accordance with sharia.

The reliability of Islamic banks have also been tested when Indonesia was hit by a severe financial crisis in 1997 which caused a lot of conventional banks closed, but BMI showed a good performance. Profit sharing system proved to be more profitable and resilient to the monetary crisis. a number of conventional banks liquidated due the negative spread, which eventually was not able to fulfill its obligations to the public. After 2007, there are 3 Islamic bank in Indonesia namely Bank Muamalat Indonesia, Bank Syariah Mandiri and Bank Mega Syariah. While the coventional banks that already have sharia units are 19 banks. It is include of large

banks such as Bank Negeri Indonesia (Persero) and Bank Rakyat Indonesia (Persero). Sharia system has also been used by rural bank.

2.3. Islamic Bank

2.3.1. The meaning and functions of Islamic Bank

Islamic bank is a bank that operates in accordance to the principles of Islamic law or the bank in its operations following the provisions of Islamic law. According to Law No. 10 year 1998 on amendments of law No. 7 year 1992 in article 1, paragraph 1 mentioned that the meaning of the bank is a business entity that gather funds from the community in the form of savings and distributing them to the community in the form of credit or other form in order to improve the standard of living of many people.

a. Investment manager function

Islamic banks are trusted to manage the public's funds in the form of deposits, savings and giro. Public keeps their funds in Islamic bank by hoping that Islamic banks can manage these funds to earn profit, and from its profit bank could provide compensation to public in form of profit sharing. In this case, the activities of Islamic banks are becoming an investment manager for the customers who keep their money in the bank. Thus, the profit earned by the owners of the fund depends on the skill, prudence and professionalism of the Islamic banks.

b. Investor function

Islamic banks are required to be able to invest funds into investment instruments that are profitable, either in the form of mudaraba, musyrakah, murabaha, or other forms.

c. Financial services function

Just like another banking institutions, Islamic bank also serves as a financial services provider. Islamic Bank has the function of providing financial services that provide clearing services, transfer, collection, payment of salaries and so on. The difference is that Islamic bank is very concerned about Islamic sharia principles which should not be violated.

d. Social function

Islamic banking is allowed to conduct a social function, its social function is regulated by a specific law. This is in accordance with Law no. 21 Year 2008 about Islamic Banking which states that the role of Islamic banking and Islamic Business Unit (UUS) is to conduct a social function, in which it receives funds from the zakat, donation, charity or other social funds and then donate the fund to other institution or organizations. The implementation of social functions also reflect the role of Islamic banking in the distribution of economic prosperity of the people.

2.3.2. Islamic Bank Products

As a banking institutions, Islamic banks also have a function as a financial intermediary of the party who have excess funds (surplus units) to those parties who need fund (deficit units). In conventional banking, the products are based on interest instruments while Islamic banks are prohibited from using the instrument of interest. Below is the description of the function of Islamic banking concept and compensation :

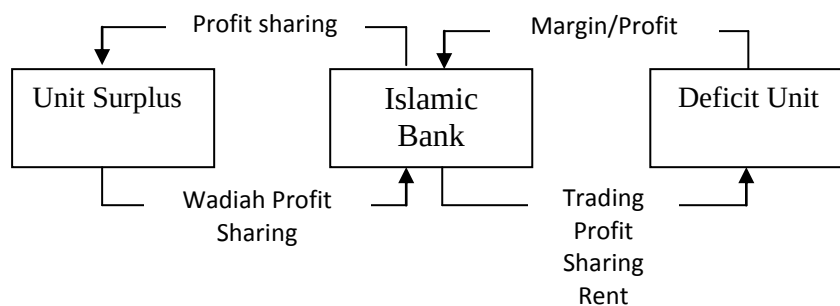


Figure 2.3 Bank syariah as a financial intermediary

Figure 2.3 shows that there are two main activities of banks that is accepting deposits and distributing funds. Accepting deposits will form fund products and the distributing fund will produce financing products.

a. Funding product

Beside from its owner, Islamic banks get the source of funds mostly from the people. Fund which is generated from the people can be in the form of gyro which can be taken at any time, savings that can be taken under certain conditions, and time deposits that can be taken within a specified period.

The operational principle of the people's funds are as follow:

(1) Al-Wadiah Gyro

Al-wadiah is an agreement between shareholder or customer and other parties (Islamic Bank). In Al-Wadiah, bank must save and keep the customer's fund, banks are allowed to use customer's fund for commercial activities and from saving their goods or funds the customers will get a share of its profits. Siamat (1999, p. 126), there are two types of al-wadiah. The first is al- wadiah amanah in this type the depositary is not responsible for the damage or loss of goods which caused by the negligence of storage. The second is the al-wadiah adhamanah, in this type the depositary with or without permission of the owner can utilize the goods which are entrusted with the responsibility or liability for damage to goods stored. Gyro wadiah is customer's deposit on Islamic banks in which the retrieval can be done at any time by check or transfer. Based on this gyro deposits, banks give the profits in the form of bonuses.

(2) Mudharabah/Wadiah Savings

Savings in Islamic banks are divided into two types. The first is wadiah savings, this type of savings can be taken at any time and will be rewarded with a bonus. The second is mudharabah savings, this type of savings can not be taken at any time and will be rewarded in the form of profit sharing.

(3) Al-Mudharabah Deposits

Deposits are public savings to banks in which their retrieval can be done within a specified period. Deposits in Islamic banks usually use the mudharabah principle. Therefore, the bank gives the results to customers in accordance with the agreed nisbah.

(4) Other Sources of funds

Besides the commercial products, there is other source of funding in Islamic bank which is based on social nature that is called ZIS (Zakat Infaq and Sodaqah).

b. Financing product

Fund obtained by Islamic banks is not just invested on the assets that are not profitable (non earning assets), for example to establish or rent a building, buy equipment, liquidity reserves, but also to be distributed to the society. In Islamic banks, fund distribution to public is called financing.

Financing which is given by Islamic bank to the customers can be categorized into 4 principles in accordance to the intended use of these funds, namely:

- Financing transaction which is intended for acquiring goods that is conducted by the principle of trading.
- Financing transaction which is intended for running/investing in business that is conducted by the principle of profit sharing.
- Financing transaction which is intended for getting services that is conducted by the principle of rent.
- Financing transaction which is intended for helping people who have difficulties in financial that is conducted based on the social principles.

(1) Principle of trading

This principle of trading basically adds selling price margin over the price of goods which become the object of financing. The amount of margin is added based on the agreement between the bank and its customers. The principle which used as the basis is for the financing of working capital and investment, namely:

(a) Bai' Al-Murabahah

Bank is financing the purchase of goods which is needed by customer with instalment payment (Muhammad, 2005, p. 94). Bank and customer will negotiate the amount of margin, after being approved, the purchase agreement and the terms of payment method will be conducted.

(2) Principle of profit sharing

Principle of profit sharing is a pure financing that should be done by Islamic banks. There are two types of financing based on the results, namely:

(a) Al-Mudharabah

Mudaraba is a partnership between the owners of the funds (shohibul maal) and an entrepreneur (mudharib) who has the project and manage the project. Mudaraba financing is Islamic banks financing to customers where the bank provides all the needs of customers, then customer only need to provide the project and management (Muhammad, 2005, p. 98). In mudaraba financing, Islamic Bank is not allowed to be involved in its management, but has the right to propose and conduct surveillance. If there is a loss not due to negligence of the manager, then the loss will be borne by the owners of capital. Whereas, if the loss is due to negligence of the manager such as a fraud, then the manager should be responsible.

(b) Al-Musyarakah

Musyarakah is a partnership between two or more parties to a particular business where each party contributes fund with the profit and risk that will be shared according to the agreement (Sudarsono, 2003, p.63). In musharakah financing, Islamic banking provides financing to bank customers by providing funds and clients also provide funding. Islamic banks in this type of

financing can participate in management. This gains or losses of this financing will be borne by both parties, bank and customer.

(3) Principle of Social

In accordance to Law no. 21 Year 2008 regarding Islamic Banking, in which it mentioned that Islamic Banking and the Islamic Business Unit (UUS) can run social function, by receiving funds from zakat, donation, charity or other social funds and distribute them to the organization of zakat. Besides receiving funds from zakat, infaq and sodaqah, and UUS, Islamic banks can also collecting funds from wakaf money and distribute it to the manager of waqf (nazhir) at the will of the giver of waqf (wakif)

2.4. PREVIOUS STUDY

There have been many researchs on the factors that determine the profitability of Islamic bank.. Haron (1996) used the total income to total assets (TITA) to measure profitability of Islamic bank.. Akhter and Sadaqad (2011), Zeitun (2012), Kuppusany and Samudram (2010), Gul et.al (2011) and Moin (2008) use return on assets (ROA) and return on equity (ROE) for measuring the profitability. Meanwhile, Srairi (2009) conducted a research of Islamic banks in the Gulf countries (GCC) by using the proxy of return on assets (ROA) to measure profitability. Besides Srairi (2009), other researchers who also use ROA as a proxy for profitability are Izhar and Asutay (2007), Rahman and Rochmanika (2012), Al-Qomar and Al-Mutairi (2008) and Syafri (2012).

Haron (1996) conducted research on 13 Islamic banks in several Arab countries to find out the factors that affect profitability by using the 15 variables that are suspected to affect profitability. From his research he found that financing based on profit margin and profit sharing have a significant impact on profitability. Bukhari and Holy (2012) examined the relationship of internal and external factors that affect Islamic banks in Pakistan, one of their results showed a significant relationship between loan (financing) and profitability. Izhar and Asutay (2007) examined the Islamic banks in Indonesia with a case study on bank Muamalat Indonesia (BMI) found significant relationships between financing with profitability. Meanwhile, Rahman and Rochmanika (2012) conducted a study of Islamic bank in Indonesia by taking samples of four Islamic banks found that financing based on trading and financing based on profit sharing have a significant effect to profitability.

2.5. HYPOTHESIS DEVELOPMENT

1. Risk and Islamic Banking Performance

Management policy is expected to be able to improve the financial performance of the bank, the more company dare to take a risk then the bigger possibility of the company to get profit. There is one way relationship between risk and profit, the bigger the risk that is taken then the bigger the expected profit. It can be seen from the indicator of risk management policy such as FDR, if the lower the FDR then it will reduce profits, but high liquidity will also reduce profits. Higher capital ratios also cause many funds are absorbed into capital, thereby reducing the opportunity for distributed and resulting reduced profits.

Haron (1995) found that levels of efficiency and capital ratio have significant positive impact on profitability. Similarly, Akhtar and Sadaqat (2011) also found a non performance loan and efficiency levels have a positive and significant influence on profitability. Zeitun (2012) and Srairi (2009) also found capital ratios affect the performance of Islamic banks. Bukhari and the Purest (2012), Moin (2008) and Idris et.al (2011) uses liquidity as variables that affect the performance of the bank. According to Siamat (2005), non performing finance is a loan to customer which is experiencing the difficulties in repayment due to deliberate nor external factors that is beyond the capability / control of customer. Thus, the size of the NPF shows the performance of a bank in the management of the funds which are distributed. Risk with this scheme has two kinds namely Financing Deposite Ratio and Non Performing Financing. Therefore the hypothesis can be made as follows:

H₁ : financing to deposit ratio has a positive impact on the performance of Islamic bank.

H₂ : non performing finance has a positive impact on the performance of Islamic bank.

2. Financing based on profit sharing and Islamic Banking Performance

The main income of banks including Islamic banking came from financing. By increasing the amount of funding, it can increase the level of company profits. Increasing the amount of financing will also increase profitability if it is not followed by the increasing number of financing problems. Thus, the financing policy is not only quantitative but also pursue the distributed amount but also qualitative, which financing the project or a good customer, so that the possibility failure to pay is

small. Haron (1995) found that financing which given in the form of profit sharing financing, financing and financing based on investments has a significant positive impact to profitability. Izhar and Asutay (2007) also found a relationship among the financing based on profit sharing with the bank's ability to generate profits. Rahman and Rochmanika (2012) also examined the effect of the financing based on profit sharing to the profitability of Islamic bank. Financing with this scheme has two kinds namely Mudharabah financing and Musyarakah financing Therefore the hypothesis can be made as follows:

H₃ : Mudharabah financing has a positive impact on the performance of Islamic bank..

H₄ : Musyarakah financing has a positive impact on the performance of Islamic bank.

3. Financing based on profit margin and Islamic Bank Performance

Financing is one of the largest asset components in Islamic banking which will generate revenue in the form of margin / mark up. Murabaha financing in large amounts can bring profitable results for the bank, if the financing is running well. Profitability is an important factor in the assessment of Islamic banking activities. Bank's ability in generating profits will depend on the ability of the bank management in managing existing assets and liabilities, it can be assessed quantitatively by using the Return on Assets (ROA). The amount of gain or profit is certainly related to the amount of murabaha financing which is provided by Islamic bank, it indicates the level of success of Islamic banks in conducting their business activities. In this type of financing the customer is paying back the loan

plus a certain profit margin that has been agreed. Haron (1996) suspected that financing based on profit margin (mark-up in fund) has a positive impact on financial performance. Similarly, Rahman and Rochmanika (2012) also studied the effect of the financing based on profit margin with the ability to produce profits. With the mark-up income which is earned, it will affect the profits that is earned by Islamic banks. Eventually, it will be capable to affect the profitability of Islamic Bank. Financing with this scheme has two kinds namely Murabahah financing and Salam financing. Therefore the hypothesis can be made as follows:

H₅ : Murabahah Financing has a positive impact on the performance of Islamic bank.

3. RESEARCH FRAMEWORK

From the discussion of the background of study, research objectives, literature review and the development of the above hypothesis, research conceptual framework can be made as follows:

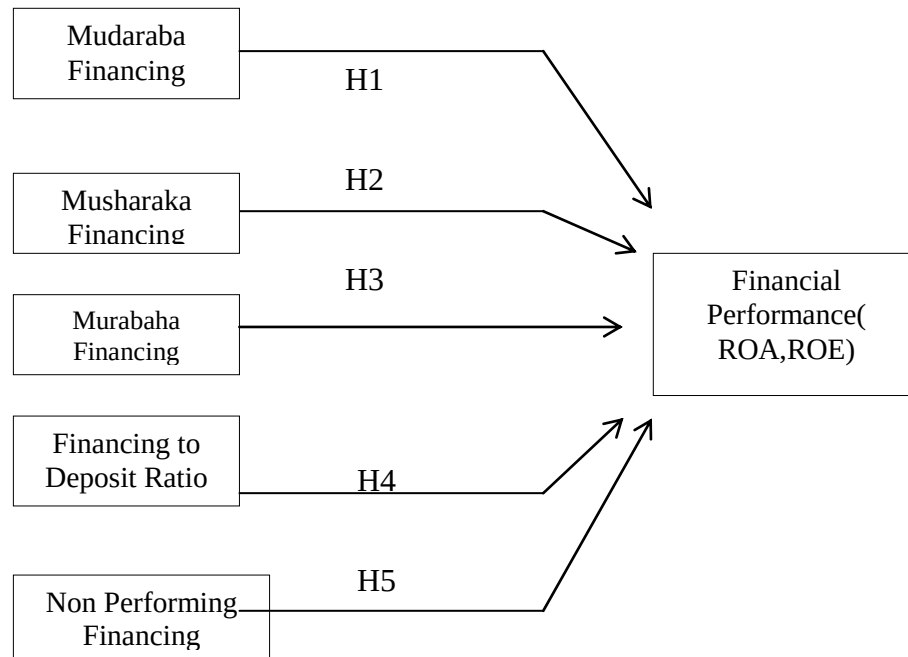


Figure 2.4

Research Conceptual Framework

CHAPTER III

RESEARCH METHODOLOGY

3.1. Population and Sample

The population of Islamic banks in Indonesia are 11 bank, but this study only took 8 Islamic banks. The samples which is taken are the Islamic banks that have been operating for minimum three years and have made profit in Indonesia. Here is the list of banks that will be studied:

Table 3.1: Banks Samples

No	Bank Name
1	PT. Bank Muamalat Indonesia
2	PT. Bank Syariah Mandiri
3	PT. Bank Mega Syariah
4	PT. Bank BRI Syariah
5	PT. Bank Bukopin Syariah
6	PT. Bank Panin Syariah
7	PT. Bank BCA Syariah
8	PT. Bank BNI Syariah

Sumber: Statistik Perbankan Syariah, September 2012 (Bank Indonesia)

3.2.Data and data sources

The data which is needed in this research is the financial data that held by Islamic banks in Indonesia. Therefore, in this study required is secondary data in form of financial statements of Islamic banks in last 5 years. These data include data sheet, the income statement data, cash flow statements, or other statements. Financial statements which is submitted by banks to Bank Indonesia are financial statements

that have been audited by a public accountant, so the data indeed has high level of reliability and validity.

3.3 Research variables

Research variables need to be clearly defined, so there is no doubt in order to conduct research in the field of implementation. This research consists of five independent variables and two dependant variables.

3.3.1 Dependent Variable

The dependent variable is the variable that is affected by other variables. The dependent variable in this study is the financial performance.

- (1) Return on equity (ROE) is the company's ability to generate profit with equity (own capital) which is owned by the company. This ratio is used to measure the effectiveness of the company using its own capital. Weston and Copeland (1986) called it with return on net worth which is defined by the ratio between the earning after tax to equity capital owned

$$ROE = \frac{EAT}{Own\ Capital} \times 100\%$$

- (2) Return on Assets (ROA) is the company's ability to gain profit with the assets which is used by the company. ROA measures the level of asset utilization effectiveness (Weston and Copeland, 1986), it can be formulated as follows :

$$ROA = \frac{EBIT}{Total\ Activa} \times 100\%$$

3.3.2 Independent Variable

Independent variable is the variable that is not influenced by another variable. Independent variables in of this research consists of mudaraba, murabahah and musharaka.

(1) *Financing Deposit Ratio (FDR)*

Public fund that is deposited in Islamic banks is a mandate from the people to the Islamic banks. The funds will be distributed to those in need with a variety of financing concepts. Bank's purpose is providing financing for getting profit. Therefore, the provision of financing need to hold precautionary principle, so there will be no problems in the loan and return of principal or a profit margin. The amount of third party funds (public funds) is given as financing is called financing deposit ratio (FDR), which is the ratio between the amount of funding given with the amount of public funds. The higher the FDR showed means the bigger the public funds loaned, so the risk is increasing.

$$FDR = \frac{\text{Total Financing}}{\text{Total People Fund}} \times 100\%$$

(2) *Non Performing Financing*

Non Performing Financing is ratio that is used to measure the ability of bank management in managing existing financing problems, Non Performing Financing can be fullfiled with assets owned by a bank (Teguh Pudjo Mulyono, 1995). Empirical evidence from researchs of Santoro (2011) and Nainggolan (2010) showed that the higher the NPF ratio, the higher the

NPF profitability of Islamic banks that are proxied by the return on assets. While the empirical evidence of Adyani's research (2011) showed that the higher the NPF ratio then the lower the NPF profitability of Islamic banks that are proxied by the return on assets. Based on the study of theory and the results of previous studies, the hypothesis is formulated as follows:

$$NPF = \frac{\text{Financing problems}}{\text{Total distributed financing}}$$

(3) Mudharabah Financing

Mudaraba financing is financing which is provided to customers where the bank provides all funds and the customers provide project and its management. From the results of the business operations, the profit from the fund will be divided into the bank and the business operator. In Islamic banking, mudharabah financing is financing that is provided to customers, where all the money comes from banks and customers only need to provide project management (Muhammad, 2005). In this financing, the agreement on profit sharing is determined at the beginning (called nisbah). Financing is measured by its portion on total assets, so that it can be formulated as follows:

$$MUDH = \frac{\text{Total Mudharabah fund}}{\text{Total Aset}} \times 100\%$$

(4) Musyarakah Financing

Antonio (2001, p. 90) defined musyarakah as a partnership agreement between two or more parties to a particular business in which each party

contributes funds with agreement that the benefits and risks will be shared in accordance with the agreements. In Islamic banking, musyarakah financing is financing that is provided by the bank to its customers in the form of equity investments where the bank participate in management. Haron (1996) in his study did not separate the mudharabah and musyarakah financing, but measure the total funding based on the principle of sharing. To measure the Musharaka financing, the financing portion of the total assets is used.

$$\text{MUSY} = \frac{\text{Total Musyarakah Fund}}{\text{Total Aset}} \times 100\%$$

(5) Murabahah Financing

Murabaha financing is selling goods at origin price with the added agreed advantage price (Antonio, 2001:101). In murabahah seller must notify the purchased amount of the product price and add a certain level of profit on the price transparently. In Islamic banking, murabaha financing is financing which is given by Islamic banks to their customers, where the Islamic bank adds a certain profit margin on the price of the object being financed (Karim, 2010). This financing is the simplest one to be applied. But, subject must be careful in applying this financing because it could be interpreted as interest if it is not well applied. This financing occupied the largest share of total financing because it is the most straightforward and the simplest calculations. The indicators to measure murabaha financing is by dividing total amount of murabaha financing with total amount of assets.

$$\text{MRBH} = \frac{\text{Total Murabahah Fund}}{\text{Total Aset}} \times 100\%$$

3.4. Data Analysis

3.4.1 Multiple regression analysis

In order to clarify the relationship between the dependent variable and the independent variable, it needs statistical analysis. As for the tools of statistical analysis in this study is multiple regressions analysis. Multiple regressions is a regression technique that describes the relationship between the dependent variable with it's independent variable. The multiple regression equation is as follows:

$$ROE = \beta_0 + \beta_1 MUDH + \beta_2 MUSY + \beta_3 MBH + \beta_4 FDR + \beta_5 NPF + \varepsilon$$

$$ROA = \beta_0 + \beta_1 MUDH + \beta_2 MUSY + \beta_3 MBH + \beta_4 FDR + \beta_5 NPF + \varepsilon$$

Where:

ROE = Return On Equity

ROA = Return On Assets

MUDH = Mudharabah Financing

MUSY = Musyarakah Financing

MBH = Murabaha financing

FDR = Financing Deposite Ratio

NPF = Non Performing Finance

3.4.2 Classic assumption test

Before the regression model is used to show the relationship, the model should be tested by using the classical assumptions, which are:

(1) Multicollinearity Test

Multicollinearity test is a condition in which one or more independent variables are stated as a linear combination of other independent variables, in other words, to test whether an independent variable is a function of the other independent variables. A regression model considered has been affected by multikolinearitas if there is a perfect linear relationship between the independent variables. As a result it would be difficult to see the influence of the independent variable individually against the dependent variable (Madalla, 1999, p. 269). According to Gujarati (1995), multicollinearity detection can be done with the conditons are as follow:

- When the correlation between the two independent variables are higher than correlation of one or two independent variables with the dependent variable (Pindyk and Rubinfeld, 1990, p. 89)
- Gujarati (1995, p. 335) more strictly says that any correlation between the two independent variables exceed 0.8, then multikolineritas becomes a serious problem.
- The existence of the F statistic and significant coefficient determination, but followed by many insignificant t statistics. Should be tested whether X_1 and X_2 in each self do not have an influence on Y. Or the presence of serious multikolinearitas cause the coefficient becomes inefficient. If by deleting one other, so the others is significant, it has a big probability the non-significant variables occurs caused of serious multikolinearitas (Ananta, 1987, p. 91)

3.4.3 Heteroskedasticity Test

Heteroskedasticity appears when an error or residual of the observed model does not have a consistent variance from one observation to another observation. This means that each observation has a different reliability due to the changes in background conditions that are not covered in the model.. Heteroskedasticity symptoms are more often found in the cross data (cross-sectional) than from the coherently time data (time-series), it also often appear in the analysis using average data.

Halbert White (1980) suggests to conduct heteroskedasticity test, and pointed if χ^2 test is common test of the availability of miss specification model, because hypothesis null assumes that the residual homoskedasticity is consider as independent variable and linear specification for the model was right.

If there is no heteroskedasticity on hypothesis null, the number of observations (n) multiplied by the R^2 that obtained from the auxiliary regression asymptotically will follow the χ^2 distribution with the degree of freedom that equal to the number of independent variables (excluding the constant). If one or two of these assumptions are not fulfilled, it will make value of statistical t is significant. But otherwise, if the value of statistical t is not significant so these two assumptions are fulfilled, it means that the model will be used is free from a heteroskedasticity problem.

3.4.4 Hypothesis Testing

(1) Testing the Accuracy Estimates (goodness of fit)

The result from the test is complex coefficient of determination (R^2) which has amount between zero and one ($0 \leq R^2 \leq 1$). This coefficient measures the percentage of the variability of dependent variables that can be explained by the independent variables. The calculation is as follows:

$$R^2 = \frac{ESS}{TSS} = 1 - \frac{e_i^2}{y_i^2}$$

3.4.5 Simultaneous Hypothesis Testing (Test F)

The test is intended to determine whether a variable independent simultaneously have an influence on the dependent variable. The test criteria are as follows:

- If the p-value > 0.05 then the decision is to accept H_0 which means the independent variables altogether have no significant effect on the dependent variable.
- If p-value ≤ 0.05 then the decision is to reject H_0 which means independent variables altogether have a significant effect on the dependent variable.

3.4.6 Partial Hypothesis testing (t test)

This test is intended to determine whether the individual independent variables have an influence on the dependent variable or not. The test criteria are:

- If the p-value > 0.05 so the decision is to accept H_0 which means the individual independent variable has no significant effect on the dependent variable.

- If $p\text{-value} \leq 0.05$ so the decision is to reject H_0 which means independent variables individually have a significant effect on the dependent variable

CHAPTER IV

DATA ANALYSIS

4.1 General Description of the Data

This section describes the process of sampling in this research which soon will be processed to become data in this study. The purpose of this study is to determine the effect of the decision and risk in the performance of Islamic banks. Multiple regression analyzes on SPSS 17.0 for Windows program will be used in this study in order to determine how strong the effect of decision and risk in the performance of Islamic banks is. The population of all Islamic Banks in Indonesia are 11 Islamic Banks, but this study will only take 8 Islamic Banks as the samples.

4.2 Statistical Descriptive Analysis

Based on the analysis of the variables used, the reserarcher can obtained the descriptive data for NPF (non performing financing), FDR (financing to deposit ratio), MUR (murabaha financing), MUD (Mudaraba Financing) and MUS (Musaraka Financing) variables. The detail of the descriptive statistic is as follow :

Table 4.1 Statistics Descriptive of Research Variables

	Mean	Median	Maximum	Minimum	Std. Dev.
ROA	1.16	1.35	4.13	-12.02	1.908821
ROE	18.98	9.98	74.43	-63.72	24.40293
MUR	68.03	69.18	99.64	12.93	19.16867
MUD	10.11	7.88	41.07	0.00	9.28979
MUS	18.54	14.63	83.41	0.36	13.13447
FDR	94.42	91.63	205.31	38.58	21.69984
NPF	3.52	2.98	84.72	0.00	7.988445

Source: Data Processed

The researcher will be able to know the characteristics of the sample in detail and number of data by looking at table 4.1. Moreover, by looking at the descriptive statistics the researcher will be able to know the number of samples, the average value, maximum value and standard deviation values of each variable. Return on assets variable has an average value (mean) of 1.16, a maximum value of 4.13, a minimum value of -12.02 and standard deviation of 1.908821. Return on equity variable has an average value (mean) of 18.98, maximum value of 74.43, minimum value of -63.72 and standard deviation of 24.40293. Murabaha financing variable has an average value (mean) of 68.03, maximum value of 99.64, minimum value of 12.93 and a standard deviation of 19.16867. Mudaraba financing variable has an average value (mean) of 10.11, maximum value of 41.07, minimum value of 0.00 and a standard deviation of 9.28979. Musaraka financing variable has a value of average (mean) of 18.54, maximum value of 83.41, minimum value of 0.36 and a

standard deviation of 13.13447. Financing to deposit ratio variable has an average value (mean) of 94.42, maximum value of 205.31, minimum value of 38.58 and a standard deviation of 21.69984. Non performing financing has an average value (mean) of 3.52, a maximum value of 84.72, the minimum value of 0.00 and a standard deviation of 7.988445 From the data above it can be seen that range of numbers occurred are close among companies. The data should be transformed into natural logarithm (ln) and the researcher should eliminate some of the data outliers to avoid bias.

4.3 Classical Assumption Test

Classical assumption test is used to determine whether the results of the study are valid and not bias. These classical assumption test includes data normality test, multicollinearity test, autocorrelation test and heteroscedasticity test. In this research, classical assumption tests have been performed are as follows :

4.3.1 Normality Test of Data

Normality test is a test to determine the normality of the data. The purpose of this test is to test whether both dependent variable and independent variables have a normal distribution or not. If the data has a normal distribution, the T-test and F test can be performed. Meanwhile, if the data has no a normal distribution, then it cannot be performed with the statistical t and statistical F. The results of normality test with Normal P-P Plot by the regression can be seen in Figure below:

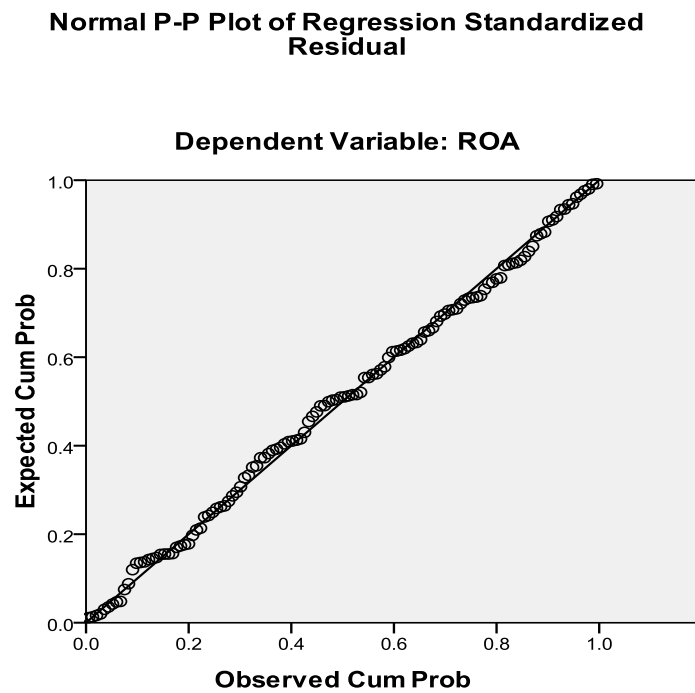


Figure 4.1 Results of normality test with Normal P-P Plot by the regression(ROA)

Normal P-P Plot of Regression Standardized Residual

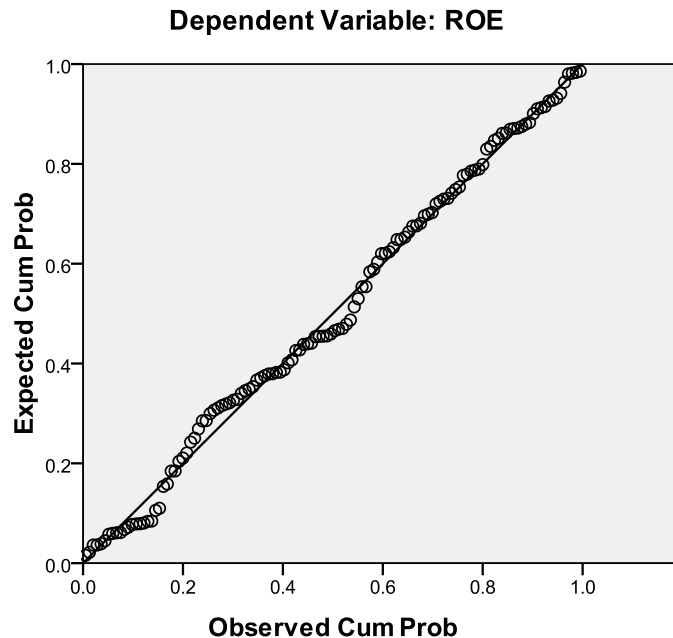


Figure 4.2 Results of normality test with Normal P-P Plot by the regression(ROE)

The results of normality test with Normal P-P plot shows that the amount of probability are located around the diagonal line. It means that all variables used in this study has a random data that are normally distributed. Thus, further statistical testing can be done either by t-test or F test.

4.3.2 Multicollinearity Test

Multicollinearity is occurred because of the strong relationship (correlation) between the members of independent variables. If there is multicollinearity or especially perfect multicollinearity amongst the independent variables, it means that

the estimator (regression coefficient) is not specified and the default mistakes became infinite. A good regression model should not have strong correlation among the independent variables.

Table 4.2 Multicollinearity test of ROA

Coefficients^a

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
1 NPF	.795	1.257
FDR	.940	1.064
MUR	.329	3.038
MUD	.275	3.631
MUS	.144	6.929

a. Dependent Variable: ROA

It can be seen from Table 4.2 that the tolerance value of non performance financing is 0,795, financing to deposit ratio is 0,940, murabaha financing is 0,329, mudaraba financing is 0,275, musharaka financing is 0,144 and the VIF value is not more than 10. This is in accordance with the previous theories which state that each independent variables are close to 1 and the VIF value is not more than 10.

Table 4.3 Multicollinearity test of ROE

Coefficient ²

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
NPF	.795	1.257
FDR	.940	1.064
MUR	.329	3.038
MUD	.275	3.631
MUS	.144	6.929

a. Dependent Variable: LN(ROE)

It can be seen from Table 4.3 that the tolerance value of non performance financing is 0,795, financing deposit ratio is 0,940, murabaha financing is 0,329, mudaraba financing is 0,275, musharaka financing is 0,144 and the VIF value is not more than 10. This is in accordance with the previous theories which stated that each independent variables are close to 1 and the VIF value is not more than 10.

4.3.3 Heteroscedasticity Test

Heteroscedasticity test is performed to test whether there is a disturbance in the linear function where all interference factors do not have a constant variance from one observation to other observations. Heteroscedasticity can be conducted by using the Spearman rank correlation, graphic method test or Pearson Correlation.

Scatterplot graphic is used in this study to detect the presence or absence of heteroscedasticity . If there is certain patterns such as the points that form a regular

pattern like waves, widened and then narrowed, then it alleged that heteroscedasticity have occurred. If there is no clear pattern as well as the points spread above and below the number 0 on the Y axis then there is no heteroscedasticity (Ghozali, 2011, p. 139).

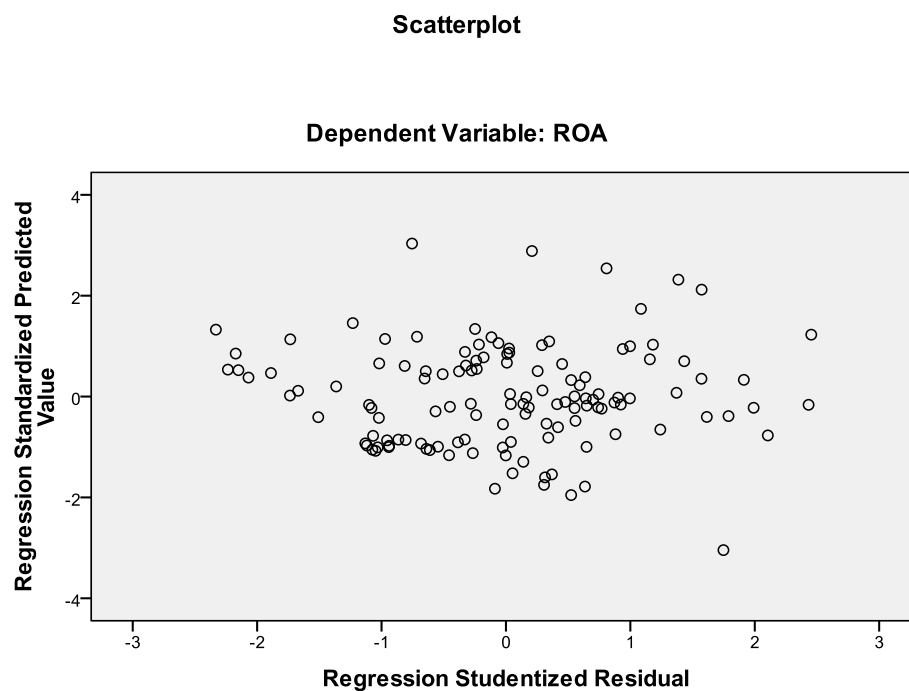


Figure 4.3 Heteroscedasticity Test(ROA)

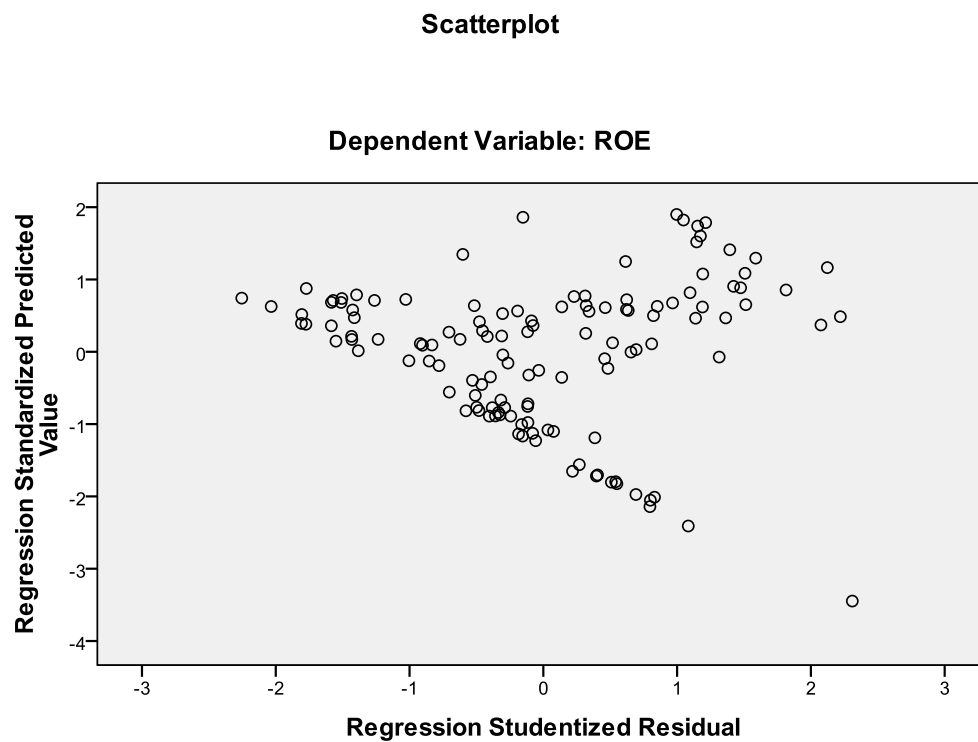


Figure 4.3 Heteroscedasticity Test(ROE)

It can be seen in the Figure 4.3 and 4.4 that there is no clear pattern and the points spread above and below the number 0 on the y-axis, thus, it can be concluded that there is no heteroscedasticity.

4.2 Multiple Regression Analysis

Table 4.4: Multiple Regression Result (ROA)

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	-.037	.010		-3.783	.000
NPF	-.063	.047	-.106	-1.339	.183
FDR	.010	.004	.188	2.580	.011
MUR	.016	.002	.923	7.500	.000
MUD	.001	.001	.079	.587	.558
MUS	-.011	.003	-.785	-4.226	.000

a. Dependent Variable: ROA

Multiple regression analysis in this study is used to determine the direct effect of NPF (non performing financing), FDR (financing to deposit ratio), MUR (murabaha financing), MUD (mudaraba financing) and MUS (musaraka financing) to the profitability of the company. The effect can be tested simultaneously or partially. From the table above can be obtained regression equation as follows :

$$\text{ROA} = -0,037 - 0,063\text{NPF} + 0,010\text{FDR} + 0,016\text{MUR} + 0,001\text{MUR} - 0,011\text{MUS}$$

Based on the multiple regression equation, it can be interpreted for each variable as follows :

1. The value of constant above is -0.037. This amount shows that if there is no non performing financing, financing to deposit ratio, murabaha

financing, mudaraba financing, and musaraka financing = 0, then the value of Return On Assets equals to -0.037.

2. Non performing financing variable has a negative regression coefficient value which is -0.063. Its regression coefficient value is greater than 0.05. Indicates that non performing financing affects return on asset. This shows that if there is an increase on non performing financing by 1 percent, then the rate of return on asset or profitability of the company will experience an increase of 6.3 % by assuming that the other independent variables remained constant.
3. Financing to deposit ratio variable has a positive regression coefficient value which is 0.010 Positive coefficient value indicates that financing to deposit ratio has a significant positive impact on return on asset or the profitability of the company. This shows that if there is an increase on Financing to deposit ratio by 1 percent, then the rate of Return On Asset or profitability of the company will experience a decrease of 1 % by assuming that the other independent variables remained constant.
4. Murabaha financing variable has a positive regression coefficient value which is 0.016. Its regression coefficient values is greater than 0.05 indicates that the murabaha financing affects the level of profitability of the company. This shows that if there is an increase in murabaha financing by 1 percent, the return on asset or the profitability of the company will experience a decrease of 1.6 %, by assuming that the other independent variables remained constant.

5. Mudaraba financing variable has a positive regression coefficient value which is 0.001. Its regression coefficient values is greater than 0.05 indicates that the mudaraba financing affect the level of profitability of the company. This shows that if there is an increase in mudaraba financing by 1 percent, the return on asset or the profitability of the company will experience a decrease of 0.1 % by assuming that the other independent variables remained constant.
6. Musaraka financing variable has a negative regression coefficient value which is -0.011. Its regression coefficient values is greater than 0.05 indicates that musaraka financing has no effect on the level of profitability of the company. This shows that if there is an increase in musaraka financing by 1 percent, the return on asset or the profitability of the company will experience increase of 1.1 % by assuming the other independent variables remained constant.

Table 4.5 : Multiple Regression Result (ROE)

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1	(Constant)	-1.481	.192		
	NPF	-.195	.924	-.015	.833
	FDR	-.026	.078	-.022	.738
	MUR	.409	.043	1.052	.000
	MUD	.047	.018	.308	.091
	MUS	-.205	.052	-.659	.000

a. Dependent Variable: ROE

Multiple regression analysis in this research is used to determine the direct effect of NPF (non performing financing), FDR (financing to deposit ratio), MUR (murabaha Financing), MUD (mudaraba Financing) and MUS (musaraka Financing) on the profitability of the company. The effect can be tested simultaneously or partially. From table 4.9, it can be seen that the formula of regression equation is as follows:

$$\text{ROE} = -1,481 - 0,195\text{NPF} - 0,026\text{FDR} + 0,409\text{MUR} + 0,047\text{MUR} - 0,205\text{MUS}$$

Based on the multiple regression equation, it can be interpreted for each variable as follows :

- The value of constant above is -1.481. This amount indicates that if there is no non performing financing, financing to deposit ratio, murabaha

financing, mudaraba financing dan musaraka financing or independent variable = 0, then the value of the Return On Equity equals to -0.037.

8. Non performing financing variables has a negative regression coefficient which is -0.195. Its regression coefficient value is greater than 0.05 indicates that the non performing financing affects to return on equity. This shows that if there is increase in non performing financing by 1 percent, then the return on equity or the profitability of the company will experience an increase of 19.5 % by assuming that the other independent variables remained constant.
9. Financing to deposit ratio variable has a negative regression coefficient which is -0.026, a negative coefficient value indicates that the financing to deposit ratio has a significant positive impact on return on equity or profitability level of the company. This shows that if there is an increase in financing to deposit ratio by 1 percent. Thus, return on equity or the profitability of the company will experience an increase of 2.6 % by assuming that the other independent variables remained constant.
10. Murabaha financing variable has a positive regression coefficient which is 0.409. Its regression coefficient is greater than 0.05 indicates that the murabaha financing affect the level of profitability of the company. This shows that if there is an increase in murabaha financing 1 percent, then the return on equity or the profitability of the company will experience a decrease of 40.9 % by assuming the other independent variables remained constant.

11. Mudaraba financing variable has a negative regression coefficient which is -0.047. Its regression coefficient value is greater than 0.05 indicates that the mudaraba financing affects negatively the level of profitability of the company. This shows that if there is an increase of 1 percent in mudaraba financing, then return on equity or the profitability of the company will experience a decrease by 0.47 % by assuming that the other independent variables remained constant.
12. Musaraka financing variable has a negative regression coefficient which is -0.205. Its regression coefficient value is greater than 0.05 indicates that musaraka financing has no effect on the level of profitability of the company. This shows that if there is an increase by 1 percent in musaraka financing, then return on equity or the profitability of the company will experience an increase of 20.5 % by assuming that the other independent variables remained constant.

4.4 Coefficient Determination R^2 (R Square)

Table 4.6: Coefficient Determination Results(ROA)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.718 ^a	.516	.496	.15674

a. Predictors: (Constant), MUS, FDR, NPF, MUR, MUD

b. Dependant Variable : ROA

This coefficient determination shows the degree of relationship between independent variables and dependent variable. From the multiple regression, the researcher found that R^2 value is 0.516, it means that the variable ROA as the dependent variable could be explained by the independent variables such as NPF (non performing financing), FDR (financing to deposit ratio), MUR (murabaha Financing), MUD (mudaraba Financing) dan MUS (musaraka financing) by 5.16 % and the rest is explained by other variables. However, ROE as the dependent variable has a R^2 value that is equal to 0.516, it means that the profitability variable as the dependent variable could be explained by independent variable by 5.16 % and the rest is explained by other variables which is not included in this research.

Table 4.7: Coefficient Determination Results(ROE)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.718 ^a	.516	.496	.15674

a. Predictors: (Constant), MUS, FDR, NPF, MUR, MUD

b. Dependant Variable : ROE

4.5 Hypothesis Test

In the formulation of the problem which mentioned earlier, this study aimed to determine the effect of non performance financing, financing to deposit ratio, murabaha financing, mudaraba financing, and musharaka financing on the performance of the company which is measured by return on asset (ROA) and the

profitability of the company which is measured by Return on Equity (ROE). This research is conducted in two ways either by hypothesis testing simultaneously or partially to prove the hypothesis.

4.5.1 Hypothesis Test Simultaneously

This analysis is used to determine whether the independent variables have an influence simultaneously or jointly on the dependent variable . The results of testing the effect of independent variables on the performance of islamic bank are presented in the table below:

Table 4.8 Hypothesis Test Simultaneously Result(ROA)

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.005	5	.001	15.734	.000 ^a
	Residual	.008	122	.000		
	Total	.013	127			

a. Predictors: (Constant), MUS, FDR, NPF, MUR, MUD

b. Dependent Variable: ROA

Table 4.8 shows that the significance level of 0.000 is smaller than the required significance level. Thus, it can be concluded that the hypothesis H_1 is accepted and H_0 is rejected. It means that non performance financing, financing deposit ratio, murabaha financing, mudaraba financing, and musharaka financing simultaneously has a significant effect on return on asset variable.

Table 4.9 Hypothesis Test Simultaneously Result(ROE)

ANOVA ^b						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.195	5	.639	26.009	.000 ^a
	Residual	2.997	122	.025		
	Total	6.192	127			

a. Predictors: (Constant), MUS, FDR, NPF, MUR, MUD

b. Dependent Variable: ROE

As well as ROE, the statistical results that indicate the significance level of 0.000 is smaller than the required significance level of 0.05. Thus, it can be concluded that H_1 is accepted and hypothesis H_0 is rejected. It means that non performance financing, financing deposit ratio, murabaha financing, mudaraba financing, and musharaka financing simultaneously has a significant effect on return on equity variable.

4.5.2 Hypothesis Test Partially

4.5.2.1 Effect of Financing on the Return on Assets

This analysis is used to determine the existence of the effect of independent variables on the dependent variable individually or partialy. The results of testing the effect of financing on ROA is showed in the table 4.14.

Table 4.10 Hypothesis Test Partially Result(ROA)

Table
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1	(Constant)	-.037	.010		
	NPF	-.063	.047	-.106	.183
	FDR	.010	.004	.188	.011
	MUR	.016	.002	.923	.000
	MUD	.001	.001	.079	.558
	MUS	-.011	.003	-.785	.000

a. Dependent Variable: ROA

From the table 4.14, it can be seen that the NPF has a significance value of 0,183 which is greater than the required significance level that is 0.05. Thus, it can be concluded that the NPF has no significant effect on ROA . FDR variables showed a significance value of 0.011 that is smaller than the significance level, so it can be concluded that FDR has a significant effect on ROA. Murabaha financing variables has a positive and significant influence on ROA that is indicated by the significance value of 0.000. It is smaller than the significance level at 0.05. Musharaka financing also has a significant impact on ROA that shown with significance value of 0.000 but has negative effects. It means that the higher the Musharaka financing then the lower ROA will be. Whereas, mudaraba financing has no significant effect on ROA , because the significance value of mudaraba financing is 0.558 that is greater than the required level significance of 0.05.

a. 4.5.2.2 Effect of financing on the Return on Equity

Table 4.10 Hypothesis Test Partially Result(ROE)

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1	(Constant)	-1.481	.192	-7.733	.000
	NPF	-.195	.924	-.015	.833
	FDR	-.026	.078	-.022	.738
	MUR	.409	.043	1.052	.000
	MUD	.047	.018	.308	.091
	MUS	-.205	.052	-.659	.000

a. Dependent Variable: ROE

From the table 4.15, it can be seen that the NPF has a significance value of 0.833 which is greater than the required significance level that is 0.05. So, it can be concluded that the NPF has no significant effect on ROE. FDR variables showed a significance value of 0.738 which is greater than the significance level, so it could be concluded that FDR does not have a significant effect on ROE.

Murabaha financing variable has a positive and significant influence to ROE that indicated by its significance value of 0.000 which is smaller than the significance level of 0.05. Musharaka financing also has a significant impact on ROE that shown with significance value of 0.000 but has negative effects. It means that the higher the Musharaka financing then the lower ROE will be. Whereas, mudaraba financing has no significant effect on ROE, because the significance value of

mudaraba financing is 0.091 that is greater than the required level significance of 0.05.

DISCUSSION

a. Effect of risks on the performance of Islamic banks

The results of statistical analysis showed that *Non Performing Loans* (NPF) does not give any influence on the performance of Islamic bank which measured by ROA and ROE. These results indicate that profit rate of Islamic banks are not affected by the magnitude of financing problems, it is reasonable because Islamic banks have small amount of NPF. Descriptive data shows that average of NPF in Islamic Banks is 3,52 % according to Akhtar and Sadaqat (2011) who conducted a research in Islamic Bank in Pakistan. Pratin and Akhyar (2005) who conducted a research in Bank Muamalat Indonesia also found non significant effect of NPF on performance of Bank Muamalat Indonesia. Ariyanti and Muharam (2012) also found the same result.

Financing to deposit ratio (FDR) does give influence the ROA but it does not give any influence on ROE. These results are not consistent, but most of the studies have found no significant effect of the FDR on the performance of Islamic banks . Idris et.al (2011) who conducted research on Islamic banks in Malaysia found no significant effect of FDR on profitability. Al - Qomar and Al-Mutairi (2008) who conducted research on Islamic banking in Kuwait also found that the effect of FDR on the performance of islamic bank was not significant.

These results can be understood because Islamic banks in Indonesia is more likely to give no-risk finance products such as murabaha financing.

b. Effect of financing on the performance of Islamic banks

Murabaha Financing consistently give influence on both the performance of Islamic banks which is measured by ROA and ROE. These results indicate that the murabaha financing significantly give influence on the performance of Islamic banks. Donations of murabaha financing is very dominant because the average reimbursing that murabaha reached up to 69.18 % , even there is a banks that provide Murabaha financing reached almost 100 %. These results are consistent with Haron (1996) who conducted research on Islamic banks in several Arab countries. Rahman and Rochmanika (2012) which examined the four Islamic banks in Indonesia also found that financing based on trading has a significant effect on the performance of Islamic banks. Vong and Chan (2009) who examined the conventional banks in Macau found a significant effect of loans granted with the profitability of bank.

Mudaraba financing does not give any influence on the performance of Islamic banks. This shows that Islamic banks in Indonesia has not took advantage of the profit sharing product. It is because of mudaraba financing has a high risk and the benefits depend on the profits earned by the customer. There are not many of Islamic banks that provide this kind of financing in this form, it is because of the difficulty of finding an honest customer. The results of this study are supported by Sutrisno (2014) who found that mudaraba financing has no significant effect on the profitability of Islamic banks in Indonesia. However,

these findings contradict with the results of Haron's research (1996) who found that financing based on the significant mark-ups have a significant effect on the performance of Islamic banks. It also contrary to Rahma and Rochmanika's research (2012) who found a significant influence of mudaraba financing on the performance of Islamic banks.

Musharaka financing which is based on profit sharing has does give influence on performance of Islamic banks that is measured by ROA and ROE, though the effect is negative. This means that the higher the musaraka financing then the lower the profitability of bank will be. These results are contrary to the findings of Haron (1996) who found musaraka financing has a positive effect on the performance of Islamic banks, but according to the research results of Sutrisno (2014) they showed that musaraka financing has a negative influence on the performance of islamic bank, though it is not significant.

CHAPTER V

CONCLUSIONS AND RECOMENDATIONS

5.1. CONCLUSIONS

Based on the results of the analysis and discussion in the previous section, it can be concluded as follows

1. Non Performing Finance (NPF) does not give any influence on the performance of Islamic banks which is measured by ROA and ROE.
2. Risk of financing which is measured by the Financing to Deposit Ratio (FDR) giving influence on the ROA, but does not influence on ROE.
3. Murabaha financing which is based on trading gives positive influence on the performance of Islamic banks.
4. Musharaka financing which is based on profit sharing gives negative influence on the performance of Islamicbank, while mudaraba financing does not give any influence on the performance of Islamic banks.
5. Thus, it can be said that Islamic banks prefer to the products of Natural Certainty Contract (NCC) such as murabaha financing, it is because the risk of financing does not give influence on performance of Islamic banks. It can be seen from the portion of the financing which granted by bank is more on murabaha financing. The risk of Murabaha financing which based on trading is very small, while the risk of financing which based on profit sharing is big,

and the portion which given is very small, so it does not affect the performance of Islamic banks.

5.2. RESEARCH LIMITATION & RECOMMENDATION

From the description of theoretical study, results of the analysis, results of the discussion and conclusion. Recommendation that can be given by the researcher are as follow :

1. In this study , researchers only took two main variables which are the risk of financing and financing policies. There are still many variables that could be added in future studies. Therefore, in order to enrich the study of Islamic finance, it is needed to add another variable that has not been included in this study in the future studies.
2. The management of Islamic banks should start to change the financing portion from the majority of the murabaha financing to the financing that based on profit sharing or musaraka financing. The product that best suits to the Islamic economy is financing that based on profit sharing or musaraka financing, because there is fairness in managing fund if both profit and loss are shared.

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APPENDICES

Appendix 1

Banks sample :

No	Bank Name
1	PT. Bank Muamalat Indonesia
2	PT. Bank Syariah Mandiri
3	PT. Bank Mega Syariah
4	PT. Bank BRI Syariah
5	PT. Bank Bukopin Syariah
6	PT. Bank Panin Syariah
7	PT. Bank BCA Syariah
8	PT. Bank BNI Syariah

Sumber: Statistik Perbankan Syariah, September 2012 (Bank Indonesia)

Appendix 2

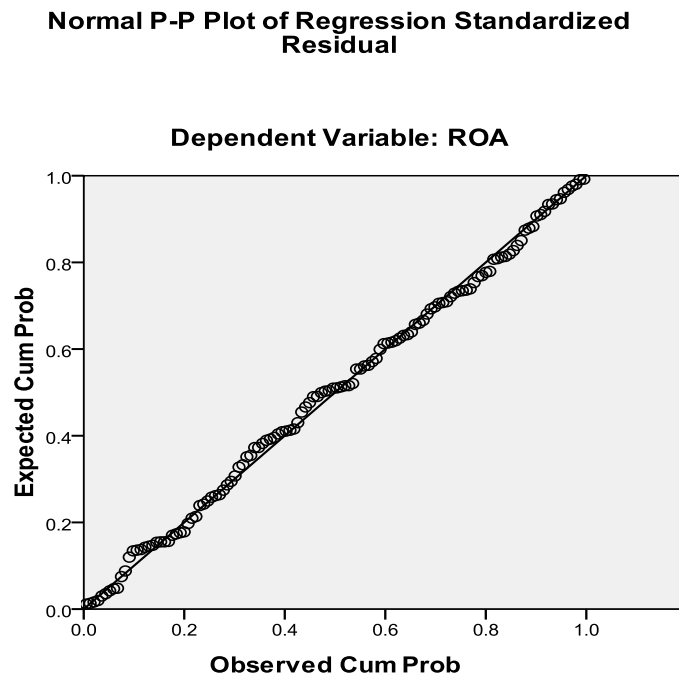
The Results of Statistics Descriptive

	Mean	Median	Maximum	Minimum	Std. Dev.
ROA	1.16	1.35	4.13	-12.02	1.908821
ROE	18.98	9.98	74.43	-63.72	24.40293
MUR	68.03	69.18	99.64	12.93	19.16867
MUD	10.11	7.88	41.07	0.00	9.28979
MUS	18.54	14.63	83.41	0.36	13.13447
FDR	94.42	91.63	205.31	38.58	21.69984
NPF	3.52	2.98	84.72	0.00	7.988445

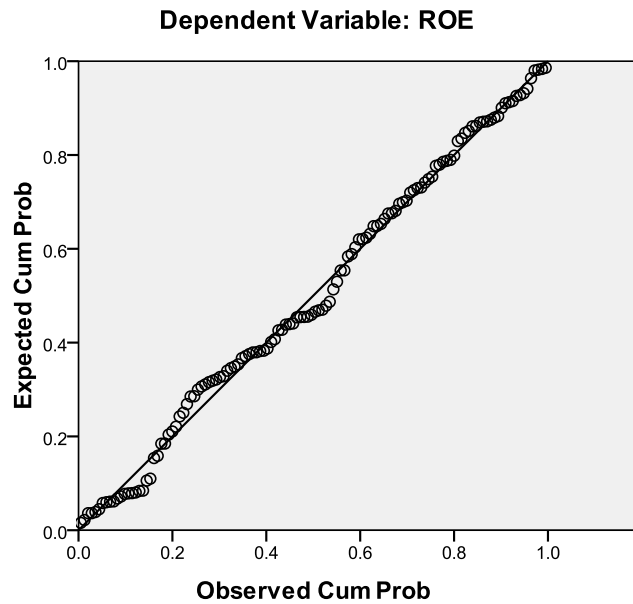
Source: Data Processed

Appendix 3

The Result of Normality Test



Normal P-P Plot of Regression Standardized Residual



The Result of Multicollinearity Test

Multicollinearity test of ROA

Coefficients^a

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
1 NPF	.795	1.257
FDR	.940	1.064
MUR	.329	3.038
MUD	.275	3.631
MUS	.144	6.929

a. Dependent Variable: ROA

Multicollinearity test of ROE

Coefficient ²

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
NPF	.795	1.257
FDR	.940	1.064
MUR	.329	3.038
MUD	.275	3.631
MUS	.144	6.929

a. Dependent Variable: LN(ROE)

Appendix 4 : Heteroscedasticity Test

Scatterplot

Dependent Variable: ROA

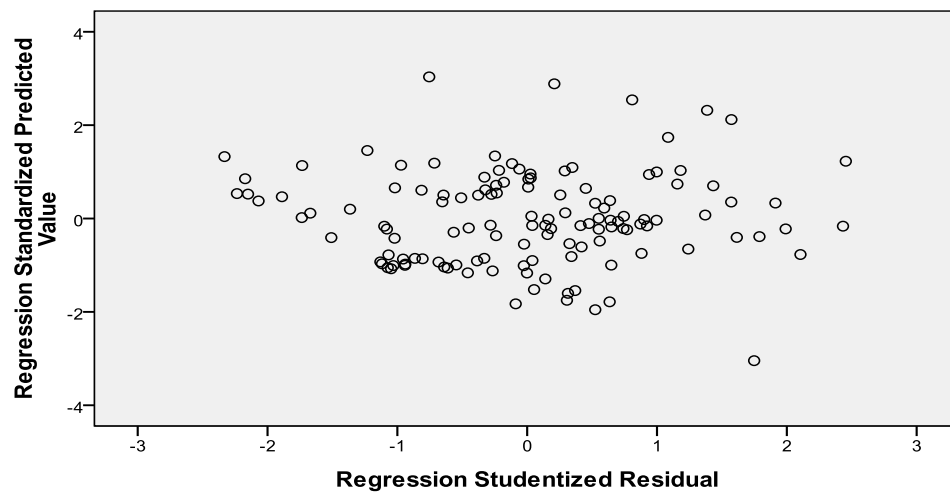
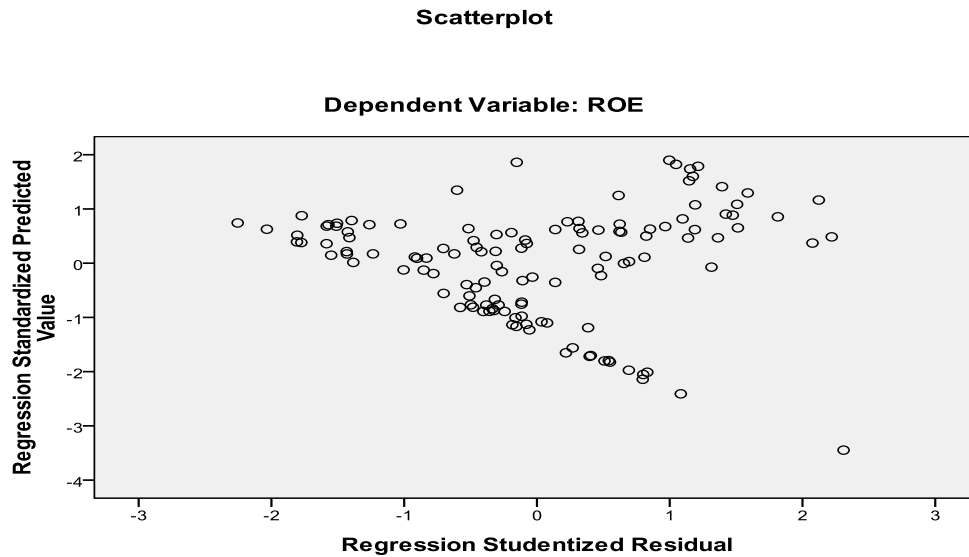


Figure 4.3 Heteroscedasticity Test(ROA)



Heteroscedasticity Test(ROE)

Appendix 5

Multiple Regression Analysis

Multiple Regression Result (ROA)

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.037	.010		-3.783	.000
	NPF	-.063	.047	-.106	-1.339	.183
	FDR	.010	.004	.188	2.580	.011
	MUR	.016	.002	.923	7.500	.000
	MUD	.001	.001	.079	.587	.558
	MUS	-.011	.003	-.785	-4.226	.000

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.037	.010		-3.783	.000
	NPF	-.063	.047	-.106	-1.339	.183
	FDR	.010	.004	.188	2.580	.011
	MUR	.016	.002	.923	7.500	.000
	MUD	.001	.001	.079	.587	.558
	MUS	-.011	.003	-.785	-4.226	.000

a. Dependent Variable: ROA

Multiple Regression Result (ROE)

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.481	.192		-7.733	.000
	NPF	-.195	.924	-.015	-.211	.833
	FDR	-.026	.078	-.022	-.335	.738
	MUR	.409	.043	1.052	9.580	.000
	MUD	.047	.018	.308	2.570	.091
	MUS	-.205	.052	-.659	-3.976	.000

a. Dependent Variable: ROE