



## Factors Determining Non-Performing Financing In Islamic Banks In Indonesia

Maulana Syarif Nurulloh<sup>1\*</sup>, Fitri Indriawati<sup>2</sup>

<sup>1,2</sup>Accounting Department, Universitas Mercu Buana, Jakarta, Indonesia

(\*) Corresponden Author: [maulanasyanu@gmail.com](mailto:maulanasyanu@gmail.com)

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### Abstract

#### Keywords:

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BI Rate Inflation;  
Sharia Supervisory;  
Board Independent Commissioner;

This study aimed to determine the factors that impact non performing financing at Shariah Bank in Indonesia (Empirical study based on Shariah Bank listed on Indonesia financial services authority for the period 2017-2020). This study is using purposive sampling as sampling method, which is sampling technique using several consideration according to the used criteria to determine how much sample to be studied and the final results obtained 44 samples. The type of this study is quantitative and the data that used for this study is secondary data. This study uses multiple regression analysis as a testing tool. The result of this study indicate capital adequacy ratio and shariah board committee shows a negative effect on non performing financing, operational efficiency ratio (BOPO) shows a positive effect on non performing financing. Meanwhile BI Rate, inflation, and independent commissioner had no effect on non performing financing.

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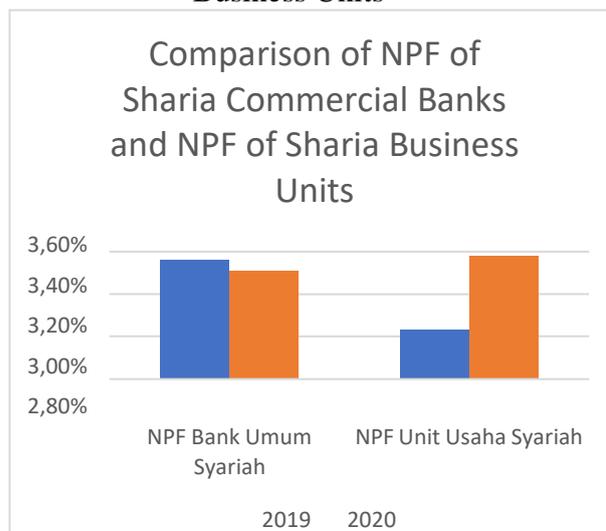
## INTRODUCTION

Sharia banks are banks that use sharia principles in their operations both in terms of borrowing money, providing capital to their customers, to credit as occurs in conventional banks but using sharia principles if it occurs in Islamic banks (Pratama, 2020). On the OJK website (Ojk.Go.Id, n.d.) it can be found that there are as many as 15 BUS, and 19 UUS registered with OJK. This illustrates that Islamic banks in Indonesia have begun to be known by the public so that more and more customers will carry out their economic activities using Islamic banks.

In the banking world, there are factors that make Islamic banks difficult to expand, namely Non-Performing Financing. NPF is a bad loan at an Islamic bank. NPF

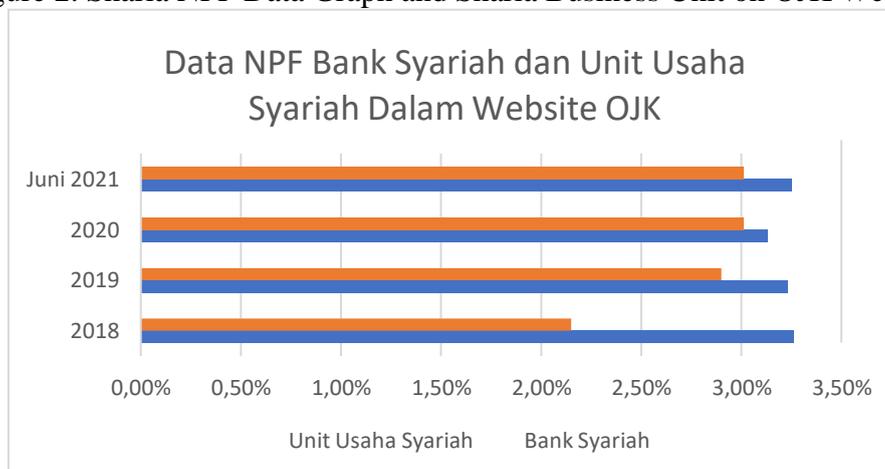
is a problem in Islamic banks, a large NPF value will of course result in cash flow from banks is not smooth. This can be illustrated from OJK data which recorded that as of July 2020, the total NPF of Sharia Commercial Banks (BUS) was at the level of 3.31%, even decreasing by 5 basis points (bps). Meanwhile, the NPF of Sharia Business Units (UUS) was at the level of 3.38%, up 36 bps on an annual basis. Several BUS and UUS contacted by Kontan.co.id also agreed that the NPF rate is not as fast as conventional banks. PT Bank BNI Syariah, for example, which in the third quarter of 2020 recorded an NPF of 3.4%. (Walfajri, 2020).

Figure 1. Comparison Chart of NPF of Sharia Commercial Banks and NPF of Sharia Business Units



This realization actually fell quite significantly from the previous quarter which was at the level of 3.8%. As of September 2020, BCA Syariah's NPF position was at the level of 0.53% gros and NPF net was even around 0.01%. And also UUS PT Bank CIMB Niaga said that the NPF currently exists in the range of 1%. This shows that the NPF rate since June 2020 has continued to decline. (Walfajri, 2020). In addition, data obtained from the OJK website also shows the same thing, it can be seen that there has been a decrease in the NPF ratio in the last 2 years, but it rose again in 2021 in June.

Figure 2. Sharia NPF Data Graph and Sharia Business Unit on OJK Website



This is a sign that NPF is one of the serious things and proper handling must be done so that the NPF value of Islamic banks itself does not continue to rise which will result in disruption of economic activities that take place in Islamic banks. From the phenomenon raised, it was found that Non-Performing Financing or bad loans will have a domino impact on Islamic banks themselves, if the NPF ratio is high, the bank becomes difficult in providing loans to other communities because the bank's money reserves are running low, if the NPF ratio is low, the bank will provide loans to other communities. This makes banks compete to reduce the NPF level in each bank, because with the low value of bad financing, banks will get higher profits.

In Non-Performing Financing, there are several factors that influence one of these factors is the Capital Adequacy Ratio or commonly called CAR. CAR itself is a capital adequacy ratio that serves to bear losses faced by banks. The higher the CAR value owned by the bank, the better the bank's ability to manage risk. From this understanding, it can be concluded that when a bank has a large CAR value, it will have a good impact on the bank itself by making a large contribution to the profitability of the bank. So if the value of CAR in an Islamic bank is high, the possibility of NPF value in a high bank becomes small, this ultimately makes the profit that will be obtained by the Islamic bank increase. (Perdani, P., Maskudi, & Sari, 2014)

BOPO is a ratio to measure the efficiency of banks in the use of costs when carrying out their operational activities, banks as agents of trust, agents of development, and agents of services. So the task of the bank is to carry out activities to distribute funds and collect funds to the community. Operating costs are costs incurred by banks in carrying out basic business activities, such as interest costs, labor costs, marketing costs, and other operating costs. Operating income is the main income for banks, which is obtained from one of them is credit financing. The smaller the BOPO ratio, the more efficient the operational costs incurred by the bank. So that problematic financing in banks is getting lower.

The BI rate can also be a factor for NPFs because the BI rate is a part taken into account by Islamic bank management to determine the portion of profit sharing. An increase in the BI rate will reduce the third party funds of Islamic banks because the BI rate will affect the increase in interest rates of conventional banks. On the other hand, an increase in the BI rate will increase Islamic bank financing because Islamic bank financing is cheaper than conventional banks. The increase in the BI Rate will have an impact on increasing Islamic bank financing, thereby increasing the risk of non-performing financing.

Another factor that affects NPF is inflation. The increase in inflation will greatly affect people's real income. There is a group of people who are able to increase real income but most people experience a decrease in real income. This deterioration in people's real income will affect problematic financing, because it will be difficult for people to pay obligations to banks. High inflation will certainly not be good because it will reduce people's purchasing power. This is why inflation can be a factor that affects NPF.

Sharia supervisory board that has an impact on Non-Performing Financing at sharia commercial banks in Indonesia. The Sharia Supervisory Board in Islamic bank governance is in line with the commissioners. If the commissioner acts as a supervisor of the performance of the board of directors, DPS acts as a supervisor of bank management related to operational activities to remain in line with sharia principles. (Humaira et al., 2021).

Independent commissioners are a group of people who oversee corporate governance whether it has been running effectively or not as well as a balancer in the decision making of the board of commissioners. Including in terms of making decisions

that contain risks. So that with the existence of an independent board of commissioners, risks will be reduced or even eliminated, including in terms of non-performing financing (NPF). (Rahman & Safitrie, 2018).

### **Problem Formulation:**

1. Does the Capital Adequacy Ratio negatively affect the Non-Performing Financing (NPF) of Islamic Banks?
2. Does Operating Cost of Operating Income have a positive effect on Non-Performing Financing of Islamic Banks?
3. Does the BI rate have a positive effect on Non-Performing Financing of Islamic Banks?
4. Does inflation have a positive effect on Islamic Bank Non-Performing Financing?
5. Does the sharia supervisory board negatively affect the Non-Performing Financing of Islamic Banks?
6. Does the independent commissioner negatively affect the Non-Performing Financing of Islamic Banks?

## **LITERATURE REVIEW**

### **Commercial Loan Theory**

According to Adam Smith in his book entitled "the wealth of nation" published in 1776. A theory that argues that banks are only allowed to provide short-term loans that are productive in nature and can have the ability to return them (self-liquidating) (Sari, 2020).

In particular, this theory states that banks must provide short-term credit, this will make bank liquidity guaranteed because when banks are able to channel short-term loans that can be disbursed during normal business conditions, this allows banks to meet their capital adequacy and get sufficient reserves to handle financing risks that occur (Purwaningtyas & Hartono, 2020).

Commercial Loan Theory is closely related to Non Performing Financing. When customers cannot make returns, this will affect the bank's own capital adequacy ratio, making bank operations disrupted and increasing the NPF value of Islamic banks themselves.

### **Non Performing Financing**

NPF is one of the factors that can measure the quality of assets owned by Islamic banks. This ratio is used to measure the extent of financing problems that have been provided by Islamic banks, the following is the calculation of non-performing financing according to (Syakhrun et al., 2019):

$$\text{NPF} = \frac{\text{Substandard, Doubtful, and Stuck Financing}}{\text{Total Financing}} \times 100\% \quad (1)$$

### **Capital Adequacy Ratio**

Capital Adequacy Ratio is referred to as a measure of the level of capital adequacy. Where if this ratio is high, it will increase profitability, namely the capital owned as used to finance the amount of bank fees and be able to cover the risk of using

assets in the form of lending that are indicated by risk. Sufficient capital will minimize the risk of the bank because the bank will gain large profitability by expanding its business safely. The theory used to explain CAR is pecking order theory, where CAR can be measured by how much the bank has capital, the capital owned is used for risk bearers of productive assets. This risk is the operational risk of the bank used to distribute credit. If operational risk is managed properly, the bank will earn revenue and increase profitability, the following is the calculation of the capital adequacy ratio according to (Perdani, P., Maskudi, & Sari, 2014):

$$\text{CAR} = \frac{\text{Bank Capital}}{\text{Risk-weighted assets (ATMR)}} \times 100\% \quad (2)$$

### Operating Expenses to Operating Income

Operating Cost to Operating Income (BOPO) is a ratio that shows the amount of comparison between expenses or operating costs to operating income of a company in a certain period (Yusuf, 2017). The ratio of Operating Expenses to Operating Income (BOPO) acceptable to banks in Indonesia is 93.52%, in accordance with regulations issued by Bank Indonesia.

From this ratio, it can be known the level of efficiency of a bank's management performance, if the ratio figure shows a number above 90% and close to 100% this means that the bank's performance shows a very low level of efficiency. But if this ratio is low, for example close to 75% this means that the performance of the bank concerned shows a high level of efficiency, the following is the calculation of BOPO according to (Syakhrun et al., 2019):

$$\text{BOPO} = \frac{\text{Total Operating Expenses}}{\text{Total Operating Income}} \times 100\% \quad (3)$$

### BI rate

According to Bank Indonesia, the BI rate is the policy rate that reflects the monetary policy stance set by Bank Indonesia and announced to the public, Batubara & Nopiandi, (2020).

$$\text{BI RATE} = \text{BI RATE} \quad (4)$$

### Inflation

Inflation is simply defined as a symptom of an increase in the prices of goods that are general and continue for a certain period of time. Rising prices make people's purchasing power will decrease and the income received from selling products and services will decrease. Companies and households whose capital is obtained from financing will experience problems in returning to the bank. This will result in a higher NPF ratio or level for banks themselves, and vice versa, the following is the calculation of inflation according to (Firdaus, 2015):

$$\text{INF} = \text{Inflation is measured from the Consumer Price Index} \quad (5)$$

## Sharia Supervisory Board

The Sharia Supervisory Board (DPS) according to Bank Indonesia Regulation No. 11/33/PBI/2009 is a board tasked with providing advice and advice to the board of directors and supervising bank activities in accordance with sharia principles. The existence of a sharia supervisory board can reduce the emergence of financing risks.

The sharia supervisory board in the governance of Islamic banks is in line with the commissioners. If the commissioner acts as a supervisor of the performance of the board of directors, then DPS acts as a supervisor of bank management related to operational activities to remain in line with sharia principles, the following is the calculation of DPS according to (Humaira et al., 2021):

$$\text{DPS} = \text{Total Sharia Supervisory Board} \quad (6)$$

## Independent Commissioner

Independent Commissioners are required to ensure that the company has implemented the principles of corporate governance. The independent board of commissioners also has a role as a mediator in case of disputes among management and provides inputs for better performance. The increasing number of independent commissioners in the company will realize good corporate governance which has an impact on good operational activities including the right lending decisions so as to reduce the NPF level, the following is the calculation of independent commissioners according to (Nanda et al., 2021):

$$\text{KI} = \frac{\text{Independent Board of Commissioners}}{\text{Number of Board of Commissioners}} \quad (7)$$

## HYPOTHESIS

### Effects of Capital Adequacy Ratio on Non-Performing Financing

In a study conducted by Rofi'ah & A'yun (2019) which showed the results that CAR negatively affects non-performing financing. This study is also supported by Amelia (2019) who shows the same results that CAR negatively affects NPF. When the CAR value is high, it will have a good impact on Islamic banking, because it contributes significantly to the bank's profitability.

H1: Capital Adequacy Ratio negatively affects Non-Performing Financing

### Effects of Operating Costs Operating Income on Non-Performing Financing

Research conducted by Perdani et al., (2014) shows the results that BOPO has a positive and significant effect. This result is supported by research conducted by Rofi'ah & A'yun (2019) which shows the results that BOPO affects the high non-performing financing of Islamic banks which can be interpreted as more efficient operational costs incurred by banks. So that problematic financing in banks is getting lower.

H2: Operating Expenses Operating Income has a positive effect on Non-Performing Financing

### Effects of BI Rate on Non-Performing Financing

Research conducted by Supriani & Sudarsono (2018) found that the BI rate has a significant positive effect on non-performing financing. This result is supported by research conducted by Nugrohowati & Bimo (2019) which found that the BI rate results have a positive effect on NPF. The increase in the BI Rate will have an impact on increasing Islamic bank financing, thereby increasing the risk of non-performing financing.

H3: BI Rate Positively Affects Non-Performing Financing

### Effects of Inflation on Non-Performing Financing

The results of research conducted by Vanni (2017) which found that inflation has a positive effect on non-performing financing. This result is also supported by research conducted by Windasari & Diatmika (2021) which found that inflation has a positive effect on NPF. This can be interpreted that inflation can cause an increase in default risk found in Islamic banks which will certainly affect the non-performing financing score of Islamic banks themselves.

H4: Inflation has a positive effect on Non-Performing Financing

### Effects of Sharia Supervisory Board on Non-Performing Financing

The results of research conducted by Ekaputri (2013) there are known results that sharia supervisory boards negatively affect non-performing financing, these results are based on the theory that with the increasing number of sharia supervisory boards, supervision of financing risk or credit risk will increase. So that governance can reduce the risk of financing Islamic commercial banks.

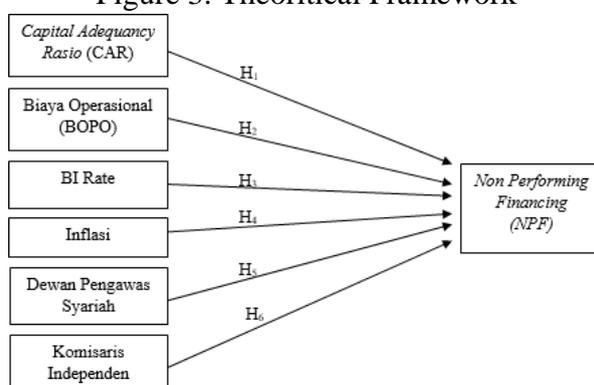
H5: Sharia Supervisory Board negatively affects Non-Performing Financing

### Effects of Independent Commissioner on Non-Performing Financing

In research conducted by Rahman & Safitrie (2018), it is known that the independent board of commissioners negatively affects non-performing financing. The results conclude that the high independent board of commissioners shows that banks have carried out good corporate governance so as to minimize or reduce NPFs.

H6: Independent Commissioner negatively affects Non-Performing Financing

Figure 3. Theoretical Framework



Source: Author's Processed Results (2022)

## METHOD

### Population and Research Sample

The population in this study is all Sharia General Banking companies in Indonesia that have been registered with the Financial Services Authority (OJK) in 2017-2020. The data used in this study were secondary data with sampling techniques using purposive sampling, obtained 44 research samples. Here are the sample selection criteria. Sharia Public Regulations registered with the Financial Services Authority (OJK) in 2017-2020:

Table 1. Sample Selection Criteria

No.	Information	Number of Companies
1.	Sharia General Banking registered with the Financial Services Authority in 2017-2020	12
2.	Sharia General Banking whose NPF value in 2017 – 2020 does not exist	(1)
	Number of Samples	11
	Total Research data for 4 Years (4x12)	44

### Research Methods

In this study, multiple regression analysis was used to predict the relationship between capital adequacy ratio (CAR), operating cost of operating income (BOPO), BI Rate, Inflation, sharia supervisory board, and independent commissioner of non-performing financing. The regression equation in this study is:

$$NPF = \alpha + \beta_1 CAR + \beta_2 BOPO + \beta_3 BI\ RATE + \beta_4 Inflasi + \beta_5 DPS + \beta_6 KI + e \quad (6)$$

## RESULTS AND DISCUSSION

### Descriptive Statistics

Table 2. Descriptive Statistical Test Results

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Deviation
NPF	44	.0100	4.9700	2.322500	1.5272123
CAR	44	11.5100	49.4400	22.629773	9.0421181
BOPO	44	58.0700	217.4000	94.375000	22.3906537
BI RATE	44	.0380	.0600	.047750	.0083530
INFLASI	44	.0170	.0360	.027750	.0070583
DPS	44	2	5	2.30	.594
KI	44	.2500	1.0000	.624773	.1828138
Valid N (listwise)	44				

Source: SPSS 26 Output

Based on descriptive statistics in table 2, the amount of research data (N) is 44 data, and can be explained as follows:

### 1. Non Performing Financing

The results show that NPF in Islamic banking has the lowest value of 0.0100 at Bank BCA Syariah in 2020, this can happen because Bank BCA Syariah restructures

financing for customers affected by Covid-19. And the highest value of 4.9700 at Bank BRI Syariah in 2018 is due to the fact that in 2018 financing carried out by BRI Syariah increased by 14.96% or in Rupiah of 21.86 trillion, this made the percentage of non-performing financing increase compared to the previous year. The standard deviation value of 1.5272123 is less than the average value of 2.322500, according to the attachment to Bank Indonesia Circular Letter No.9/24/DPBs stipulates that the quality of financing is good if the amount of problematic financing is a maximum of 5% of the total financing provided. Therefore, the NPF ratio must be below 5% to avoid the risk of financing or bad financing.

## **2. Capital Adequacy Ratio**

The results showed that the CAR in Islamic banking had the lowest value of 11.5100 at Bank Panin Dubai Syariah in 2017. The highest value of 49.4400 at Bank BPTN Syariah in 2020 was due to Bank BTPN Syariah getting an increase in third party funds by 4%, this was in line with the increase in net profit so that the value of CAR was also raised, besides that the high value of CAR was also to meet the capital adequacy set by the regulator. The standard deviation value of 9.0421181 is less than the average value of 22.629773, according to the Financial Services Authority Regulation No. 21/POJK.03/2014 Article 2 Banks are required to provide a minimum capital of 8% of Risk-Weighted Assets (ATMR), the level of capital adequacy of banks is expressed by a certain ratio called the Capital Adequacy Ratio (CAR).

## **3. Operating Expenses Operating Income (BOPO)**

The results showed that BOPO in Islamic banking had the lowest value of 58.0700 at Bank BTPN Syariah in 2019. The highest value of 217,4000 at Bank Panin Dubai Syariah in 2017 was caused by changes in business activities carried out by PT Bank Pan Indonesia Tbk., as the majority shareholder so that operating expenses operating income would increase. The standard deviation value of 22.3906537 is smaller than the average value of 94.375000, with an average bopo value of 94.375000, it can be said that Islamic banks are inefficient in carrying out their operations.

## **4. BI rate**

The results show that the BI rate in Islamic banking has the lowest value of 0.0380 in 2020. And the highest value of 0.0600 in 2018. The standard deviation value of 0.0083530 is smaller than the average value of 0.047750, with an average BI rate value of 0.047750 this will give a domino effect to the public, with a high BI rate the public will have difficulty in making loan payments, this is based on the bank bank will increase the interest (return) received by the public when making deposits at the bank, So the bank must find a way to meet the interest (return) that has been set such as increasing the margin of the value of loans given to the public.

## **5. Inflation**

The results show that inflation in Islamic banking has the lowest value of 0.0170 in 2020. And the highest value of 0.0360 in 2017. The standard deviation value of 0.0070583 is less than the average value of 0.027750. The average inflation value of 0.027750 also illustrates that it also illustrates that Indonesia has a reasonable inflation

value because it is below 3%, hereby illustrating that the Indonesian population has purchasing power which ultimately makes the economic system in the country run well.

## 6. Sharia Supervisory Board

The results showed that DPS in Islamic banking had the lowest value of 2 at Bank Muamalat Syariah (2019,2020), Bank BRI Syariah (2017 – 2020), Bank BNI Syariah (2017, 2018, 2020), Bank Syariah Bukopin (2017 – 2020), Bank BCA Syariah (2017 – 2020), Bank BTPN Syariah (2017 – 2020), Bank Mega Syariah (2017, 2018, 2020), Bank Victoria Syariah (2017 – 2020), Bank Jabar Banten Syariah (2020), Bank Panin Dubai Sharia (2017 – 2020). And the highest score of 5 at Bank Mandiri Syariah in 2019. The standard deviation of 0.594 is less than the average of 2.30. Based on Bank Indonesia Regulation Number. 11/33/PBI./2009 About Sharia Commercial Banks, the number of DPS members is at least 2 (two) people or at most 50% (fifty percent) of the number of directors, hereby illustrates that Islamic banks have complied with the rules of Bank Indonesia which states that the minimum number of DPS is 2 people.

## 7. Independent Commissioner

The results show that IP in Islamic banking has the lowest value of 0.25 at Bank BNI Syariah in 2017. And the highest value of 1.00 at Bank Mega Syariah in 2017, 2018, 2019, 2020. The standard deviation of 0.1828138 is less than the average value of 0.624773. In OJK regulation No., 57/POJK/04/17 article 19 paragraph 2 states that the Board of Commissioners consists of more than 2 (two) people, the percentage of the number of Independent Commissioners must be at least 30% (thirty percent) of the total members of the Board of Commissioners, so it can be said that the independent commissioners of Islamic banks are in accordance with existing regulations. The results show that IP in Islamic banking has the lowest value of 0.25 at Bank BNI Syariah in 2017. And the highest value of 1.00 at Bank Mega Syariah in 2017, 2018, 2019, 2020. The standard deviation of 0.1828138 is less than the average value of 0.624773. In OJK regulation No., 57/POJK/04/17 article 19 paragraph 2 states that the Board of Commissioners consists of more than 2 (two) people, the percentage of the number of Independent Commissioners must be at least 30% (thirty percent) of the total members of the Board of Commissioners, so it can be said that the independent commissioners of Islamic banks are in accordance with existing regulations.

## Normality Test

Table 3. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		44
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	1.06031764
Most Extreme Differences	Absolute	.085
	Positive	.083
	Negative	-.085
Test Statistic		.085
Asymp. Sig. (2-tailed)		.200 <sup>c</sup>

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

Source: SPSS 26 Output

The results of the Kolmogorov-Smirnov One Sample Test above show a Statistical Test value of 0.085 and an Asymp. Sig. (2-tailed) of 0.200 is greater than 0.05, so it can be concluded that the residual data in this regression model is normally distributed.

### Multicolonicity Test

Table 4. Multicolonicity Test Results  
**Coefficients<sup>a</sup>**

Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
CAR	.623	1.606
BOPO	.692	1.445
BI RATE	.754	1.326
INFLASI	.715	1.398
DPS	.818	1.222
KI	.992	1.008

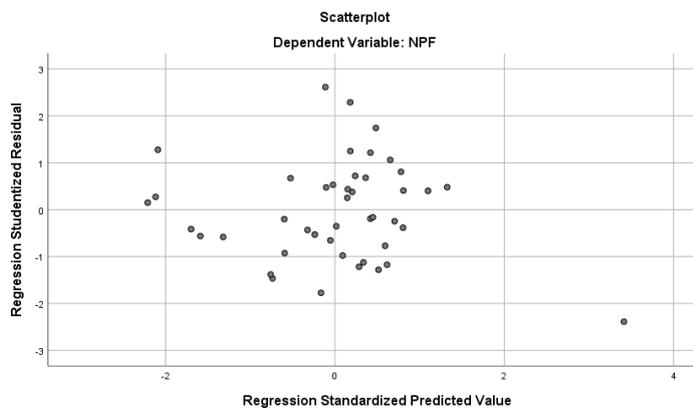
a. Dependent Variabel: NPF

Source: SPSS 26 Output

The results of the Multicolonicity Test using tolerance and VIF values show that the variables X1 (CAR), X2 (BOPO), X3 (BI Rate), X4 (Inflation), X5 (DPS), and X6 (KI) have tolerance values > 0.10 and VIF < 10.

### Heteroscedasticity Test

Table 5. Heteroscedasticity Test Results



Source: SPSS 26 Output

It can be seen in the graphic display of scatterplots that the points spread randomly both above and below the number 0 on the Y axis.

### Autocorrelation Test

From the results of the autocorrelation test above, the Z value is 0.458 and the significant probability level is 0.647. Since the P value (Asymp. Sig.) is greater than the significant level of 0.05 (0.647 > 0.05), it can be concluded that the residual data in this regression model do not have autocorrelation.

Table 6. Autocorrelation Test Results  
**Runs Test**

Unstandardized Residual	
Test Value <sup>a</sup>	-.08279
Cases < Test Value	22
Cases ≥ Test Value	22
Total Cases	44
Number of Runs	25
Z	.458
Asymp. Sig. (2-tailed)	.647

a. Median

Source: SPSS 26 Output

### Test Coefficient of Determination (R<sup>2</sup>)

Table 7. Test Results of Coefficient of Determination (R<sup>2</sup>)  
**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.720 <sup>a</sup>	.518	.440	1.1430609

a. Predictors: (Constant), KI, CAR, BI RATE, DPS, INFLASI, BOPO

b. Dependent Variable: NPF

Source: SPSS 26 output

The results of the coefficient of determination (R<sup>2</sup>) test show that the variables CAR, BOPO, BI Rate, Inflation, DPS and KI are only able to explain the variation of the dependent variable by 0.440 or 44%. The remaining 56% (100% - 44%) was explained by other factors not included in the model.

### Simultaneous Significance Test (Statistical Test F)

Table 8. Statistical Test Results F  
**ANOVA<sup>a</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	51.948	6	8.6586626		.000 <sup>b</sup>
Residual	48.344	37	1.307		
Total	100.292	43			

a. Dependent Variable: NPF

b. Predictors: (Constant), KI, CAR, BI RATE, DPS, INFLASI, BOPO

Source: SPSS 26 output

The results of the F test count are greater than F table (6.626 > 2.36) and the significance level is smaller than (0.000 < 0.005), then simultaneously the variables CAR, BOPO, BI Rate, Inflation, DPS and KI affect NPF.

## Statistical Test of Individual Parameters (Statistical Test t)

Table 9. Statistical Test Results t  
Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	4.149	2.099		1.976	.056
CAR	-.088	.024	-.523	-3.616	.001
BOPO	.020	.009	.298	2.174	.036
BI RATE	5.648	24.033	.031	.235	.815
INFLASI	-2.725	29.201	-.013	-.093	.926
DPS	-.968	.325	-.376	-2.982	.005
KI	.449	.957	.054	.469	.642

a. Dependent Variable: NPF

Source: SPSS 26 output

1. The results of the CAR test have a significant level of 0.001, which is smaller than the probability value ( $0.001 < 0.05$ ) and the calculated t value is smaller than the table t value ( $-3.616 < 2.02619$ ), so it can be concluded that H1 is accepted which means that the Capital Adequacy Ratio variable has a significant negative effect on Non-Performing Financing. Hasil uji BOPO memiliki tingkat signifikan 0,036 yaitu lebih kecil dari nilai probabilitas ( $0,036 < 0,05$ ) serta nilai t hitung lebih besar dari nilai t tabel ( $2,174 > 2.02619$ ), sehingga dapat disimpulkan bahwa H2 diterima yang berarti variabel Beban Operasional Pendapatan Operasional berpengaruh positif terhadap *Non Performing Financing*.
2. The BI Rate test results have a significant level of 0.815, which is greater than the probability value ( $0.815 > 0.05$ ) and the calculated t value is smaller than the table t value ( $0.235 < 2.02619$ ), so it can be concluded that H3 is rejected which means that the BI Rate variable has no significant effect on Non-Performing Financing.
3. The results of the Inflation test have a significant level of 0.926, which is greater than the probability value ( $0.926 > 0.05$ ) and the calculated t value is smaller than the table t value ( $-0.093 < 2.02619$ ), so it can be concluded that H4 is rejected which means that the Inflation variable does not have a significant effect on Non-Performing Financing.
4. The test results of the Sharia Supervisory Board have a significant level of 0.005, which is smaller than the probability value ( $0.005 < 0.05$ ) and the calculated t value is smaller than the table t value ( $-2.982 < 2.02619$ ), so it can be concluded that H5 is accepted which means that the Sharia Supervisory Board variable has a significant negative effect on Non-Performing Financing.
5. The test results of the Independent Commissioner have a significant level of 0.642, which is greater than the probability value ( $0.642 > 0.05$ ) and the calculated t value is smaller than the table t value ( $0.469 < 2.02619$ ), so it can be concluded that H6 is rejected which means that the Independent Commissioner variable does not have a significant effect on Non-Performing Financing.

## Multiple Linear Regression Analysis Test

The regression model in this study based on statistical results is as follows:

$$\text{NPF} = 4,149 - 0,088\text{CAR} + 0,020\text{BOPO} + 5,648\text{BIRATE} - 2,725\text{INF} - 0,968\text{DPS} + 0,449\text{KI} + e$$

## Discussion

### 1. Effect of Capital Adequacy Ratio on Non-Performing Financing

Based on the results of the hypothesis test above, it can be seen that the Capital Adequacy Ratio has a significant negative effect on Non-Performing Financing. So it can be concluded that H1 is accepted which means that the Capital Adequacy Ratio has a negative effect on Non-Performing Financing.

This proves that when the CAR value of an Islamic bank is high, it will be in line with the increase in the income of the Islamic bank itself, this is because when the Islamic bank has a large capital, the Islamic bank will freely expand its market share itself, with a large market share will add customers to make transactions using Islamic banks. Large capital (enough) alone can reduce the value of non-performing financing of the bank. According to the Financial Services Authority Regulation No. 21/POJK.03/2014 article 2. The minimum value of CAR is 8%, banks that are considered healthy are banks that have a CAR above 8%, so the higher the CAR indicates the better the level of bank health. This is in line with research conducted by Amelia (2019) and Muhammad et al., (2020) who in their research explained that when CAR is a large bank, banks will be able to develop better than banks that have.

### 2. Effects of Operating Expenses Operating Income on Non-Performing Financing

Based on the results of the hypothesis test above, it can be seen that Operating Expenses Operating Income has a significant effect on Non-Performing Financing. So it can be concluded that H2 is accepted, which means that the variable Operating Expenses Operating Income has a positive effect on Non-Performing Financing.

This shows that the greater the value of BOPO, it will affect the number of non-performing financing because if an operational burden of a bank is large, Islamic banks cannot carry out promotions which results in the public not knowing the advantages of Islamic banks themselves. This makes the profit of Islamic banks reduced which directly makes the value of non-performing financing of Islamic banks high because Islamic banks cannot find new customers to make transactions which makes the value of non-performing financing of Islamic banks itself will be greater when old customers default when making loans. This is in line with research conducted by Perdani et al., (2014) and Rofi'ah & A'yun (2019) BOPO affects the high non-performing financing of Islamic banks which can be interpreted as more efficient operational costs incurred by banks. So that problematic financing in banks is getting more and more.

### 3. Effects of BI Rate on Non-Performing Financing

Based on the results of the hypothesis test above, it can be seen that the BI Rate does not have a significant effect on Non-Performing Financing. So it can be concluded that H3 is not accepted, which means that the BI Rate variable does not have a significant effect on Non-Performing Financing.

This is because Islamic banks do not recognize the determination of interest rates and Islamic banks are able to prove that Islamic banks are anti-crisis business institutions that apply the principles of revenue sharing and risk sharing as the basis of their operational systems. This is in accordance with research conducted by Fauzukhaq et al., (2020) and Supriani & Sudarsono (2018) which found that the BI Rate in the long

term does not affect the level of non-performing financing of Islamic banks.

#### **4. Effects of Inflation on Non-Performing Financing**

Based on the results of the hypothesis test above, it can be seen that inflation does not have a significant effect on Non-Performing Financing. So it can be concluded that H4 is not accepted which means that the Inflation variable does not have a significant effect on Non-Performing Financing.

This illustrates when inflation occurs, where customers are provided with financing, it will cause a large increase in profits so that the process of financing payments to banks will be smooth and the ratio of non-performing financing will decrease. This is in line with research conducted by Perdani et al., (2014) which found that rising inflation in the long run has no effect on non-performing financing, because Islamic banks as intermediaries are not as investments like conventional banks.

#### **5. Influence of Sharia Supervisory Board on Non-Performing Financing**

Based on the results of the hypothesis test above, it can be seen that the Sharia Supervisory Board has a significant negative effect on Non-Performing Financing. So it can be concluded that H5 is accepted which means that the Sharia Supervisory Board variable has a negative effect on Non-Performing Financing.

This can happen because the sharia supervisory board only functions as a supervisor of bank operational activities for its compliance with sharia principles. So that the policy taken by the sharia supervisory board will affect the bank's non-performing financing ratio. This is in line with the research of Ekaputri (2013) the sharia supervisory board in this case as a supervisor in order to improve GCG principles and as an input on policies taken by management so that the policies taken are still in accordance with sharia principles.

#### **6. Influence of Independent Commissioner on Non-Performing Financing**

Based on the results of the hypothesis test above, it can be seen that the Independent Commissioner has no significant effect on Non-Performing Financing. So it can be concluded that H6 is not accepted which means that the Independent Commissioner variable does not have a significant effect on Non Performing Financing.

This illustrates that the independent commissioner is only to perfect the GCG principles of the Islamic bank itself. Because Islamic banks will run in accordance with existing sharia principles. This is in line with research conducted by Nanda et al., (2021) that no matter how many independent boards of commissioners there is, it will not affect the NPF of Islamic banking.

### **CONCLUSION**

This study aims to examine the effect of Capital Adequacy Ratio, Operating Expenses, Operating Income, BI Rate, Inflation, Sharia Supervisory Board and Independent Commissioner on Non-Performing Financing, it can be concluded that:

1. Capital Adequacy Ratio negatively affects Non-Performing Financing in Indonesian Sharia Banking companies in 2017-2020. This illustrates that the CAR of a large bank will be able to develop better than banks that have a small CAR value, this

- makes when Islamic banks get many customers it will reduce the percentage of non-performing financing.
2. Operating Expenses Operating Income has a positive effect on Non-Performing Financing in Indonesian Sharia Banking companies in 2017-2020. This proves that the large value of BOPO will affect the number of non-performing financing. When BOPO is large, it will be difficult for banks to promote because the money earned from profits is only for operational costs.
  3. The BI Rate does not have a significant effect on Non-Performing Financing in Indonesian Sharia Banking companies in 2017-2020. This proves that Islamic banks are anti-crisis business institutions that make the BI Rate value in the near future does not affect non-performing financing.
  4. Inflation did not significantly affect Non-Performing Financing in Indonesian Sharia Banking companies in 2017-2020. This proves that the increase in inflation in the long run has no effect on NPF, because Islamic banks as intermediaries are not as investments like conventional banks.
  5. The Sharia Supervisory Board has a significant negative effect on Non-Performing Financing in Indonesian Sharia Banking companies in 2017-2020. This proves that the number of sharia supervisory boards will affect the value of non-performing financing of Islamic banks.
  6. The Independent Commissioner has no significant effect on Non-Performing Financing in Indonesian Sharia Banking companies in 2017-2020. This proves that the number of independent commissioners does not affect the NPF value of Islamic banks.

## SUGGESTION

1. For the next researcher

Further research is expected to add variables that were not studied in this study, and add additional criteria to obtain a more accurate sample, making it possible to find out the variables that affect non-performing financing of Islamic banks in Indonesia.

2. For investors

For investors or other interested parties who use financial statements, they should pay attention to the value of non-performing financing so that they can find out how the condition of the Islamic bank itself.

3. Research limitations

From this study, there are limitations that cause interference and lack of research results. The limitation contained in this study is that it does not include criteria and samples so that it affects the results of research that is less than optimal.

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