Banking Risk, Third-Party Fund And Performance: Cases of Conventional Bank in Indonesian Stock exchange

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A B S T R A C T

Banks are a high-risk industry, which is regulated by the government through the Financial Services Authority (FSA), so bank management must be very careful in managing banks so that risks can be controlled. The purpose of this study was to examine the effect of bank risk and third party funds on bank performance. Bank performance is measured by return on assets (ROA), while bank risk consists of operating risk which is measured by operating expenses to operating income ratio (EIR), liquidity risk is measured by loan to deposit ratio (LDR), capital risk is measured by capital adequacy ratio (CAR), and credit risk is measured by non-performing loans (NPL), and third party funds (TPF) are measured by the natural log of total credit. The research population consisted of 46 banks listed on the Indonesia Stock Exchange with a sample of 24 banks taken using a purposive sampling technique. The data collection period is four years with quarterly data (2019-2022). To test the hypothesis used panel data regression. After testing the model with the Chow-test and Hausman-test, the best regression model is the fixed effect model. The results of research using the fixed effect model show that operating risk (EIR) has a significant and negative effect on bank performance, while liquidity risk (LDR) has a significant positive effect on bank performance. Meanwhile, the capital adequacy ratio (CAR), non-performing loans (NPL), and third party funds (TPF) have no effect on bank performance.

Introduction

The existence of Covid-19 is a problem that disrupts the overall activities of the Indonesian people in various aspects. One of the sectors affected by the presence of Covid-19 is banking. Banking plays an important role in increasing economic growth and people's welfare. According to Rivai, Basir, Sofiyan, Sudarto, & Veithzal, (2013) a bank can simply be interpreted as a financial institution whose main activity is to collect funds from the public and reallocate these funds to the community and provide services or other bank financial services. The term banking according to RI Law Number 10 of 1998 is a business entity that collects funds from the public in the form of savings and distributes them to the public in the form of credit and or other forms in order to improve the standard of living of the common people. Banking that collects public funds must be able to build trust from the community itself towards the bank. Banks can build public trust with the level of soundness of the bank they have. In general, the soundness of a bank can be seen from an assessment of the bank's performance (Bansal, Singh, Kumar, & Gupta, 2018).

Given the important role of banking in Indonesia, banking institutions need to improve their performance in order to create sound and optimal banking. Assessing banking financial performance is an important aspect for banking institutions to evaluate whether the bank is operating properly or not (Derbali, 2021). From a financial perspective, there are several main indicators to assess a bank's performance. These indicators include a comparison of non-performing loans to total loans or Non-Performing Loans (NPL), a comparison between Operational Expense to Operating Income ratio (EIR), a comparison between total credit and total Third Party Funds (TPF) or Loan to Deposit Ratio (LDR), a comparison between the amount of capital in a bank and capital based on RWA or Capital Adequacy Ratio (CAR), and a comparison between bank profits before tax and average bank total assets or Return On Assets (Menicucci & Paolucci, 2016).

Return On Assets (ROA) is an indicator to measure the effectiveness of a company in generating profits by utilizing its assets. The greater the ROA, the better the company's performance, because the rate of return is higher (Jaouad & Lahsen, 2018). The higher the...
value generated from the ROA ratio, the greater the profit generated, so that it can reflect the bank’s good financial performance (Kuswara, Puji Lestari, & Retnaningsih, 2019). Return On Assets can be calculated by comparing profit before tax with total assets (total assets) of the bank.

The main indicator for assessing a bank's financial performance is Operational Costs to Operating Income (EIR). Operating Costs to Operating Income is one of the indicators showing bank efficiency. Bank efficiency can affect bank performance, namely to show whether the bank has optimized the use of all its production factors effectively and efficiently (Widarjono, 2018). The lower the EIR value, the more efficient the bank is in carrying out its business activities (Mukhibad & Khafid, 2018). This means that the lower the EIR level, the financial performance of a bank will increase. Based on BI Circular Letter No.3/30DPNP dated 14 December 2001 by Bank Indonesia, operational costs in the EIR calculation include total interest expense and total other operating expenses, while operating income includes total interest income and total other operating income (Bank Indonesia, 2011).

The Loan to Deposit Ratio (LDR) is a ratio that measures a bank's ability to meet financial obligations that must be met, such as paying third party funds using credit returns obtained from interest charged to deposits (assuming no bad credit). Bank performance will increase if the bank is able to effectively distribute credit (Munteanu, 2012). This credit distribution is considered effective when the LDR ratio has a higher value so that it is able to generate profits. That way, the level of profit generated by the bank is higher which has an impact on bank performance which is also increasing. Loan to Deposit Ratio is calculated by comparing the total credit with the amount of funds obtained from third parties (Agarwal, 2019).

The Capital Adequacy Ratio (CAR) is a capital ratio that indicates a bank's ability to provide funds for business development purposes and accommodate the risk of loss of funds caused by bank operations (Dao & Nguyen, 2020). The high or low CAR usually has an impact on the level of customer trust from the bank which will ultimately have an impact on profitability. In BI Circular Letter No.3/30DPNP 14 December 2001, the Capital Adequacy Ratio is calculated by comparing the bank's capital with risk-weighted assets (Bank Indonesia, 2011).

Non Performing Loan (NPL) is used to measure the ability of bank management to manage problem loans provided by banks (Simpasa & Pla, 2016). The lower the NPL value, the smaller the credit risk borne by the bank. A decreased NPL value will actually increase ROA, this will cause the bank's financial to increase. Non-Performing Loans are measured by the ratio of non-performing loans to total loans (Y. S. Sari, Ardiansari, & Widia, 2022).

Third Party Funds (TPF) according to (Riva et al., 2013), refer to funds originating from the public in general and have an important role in bank operations. The source of TPF is a source of funds obtained from the public in the form of savings, demand deposits and time deposits. The funds that have been collected will later be channeled back by the bank in the form of financing for profit (Hermuningsih, Sari, & Rahmawati, 2020). So in theory, an increase in the number of TPF will increase the bank's productive assets including financing, which will have an impact on increasing bank profitability (Pradana, Diana, & Rofiq, 2022).

**Theoretical Framework and Hypothesis**

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Theory and Hypothesis Development

Credit risk and financial performance

Loans provided by banks have a sizable risk, namely the risk of the customer failing to pay interest or principal on the loan. This credit risk is measured by a non-performing loan (NPL). According to BI Circular Letter No.3/30DPNP dated 14 December 17 2001, NPL is the ratio used to assess credit risk at banks (Havidz & Setiawan, 2015). The NPL ratio is measured by the ratio of non-performing loans to total loans. According to Bank Indonesia Regulation No. 13/1/PBI/2011 the maximum NPL ratio set by Bank Indonesia is 5%. The smaller the NPL, the smaller the credit risk borne by the bank. Conversely, the higher this ratio, the worse the quality of bank credit, which means that the number of non-performing loans is greater, so that the probability of a bank being in a problematic condition is greater (Siddique, Khan, & Khan, 2022). The higher the NPL, the lower the ROA because the bank loses the opportunity to earn profits. Low profitability shows low financial performance. The research results are in line with research conducted by Sari & Murni, (2017), Budianto (2021) and Huang, Nga, & Oanh., (2021) which state that NPL has a significant negative effect on ROA. Thus the hypothesis can be formulated as follows:

\[ H_1: \text{NPL has a significant negative effect on ROA} \]

Liquidity risk and financial performance

One measure for calculating bank liquidity is the Loan to Deposit Ratio (LDR), which is how much bank funds are released into credit. The Loan to Deposit Ratio reflects the main activities of a bank which can be interpreted as the level of credit distribution also affects the value of ROA, which is the ratio that measures the ratio of the amount of credit provided by a bank to the funds received by the bank (Incekara & Çetinkaya, 2019). The LDR ratio is calculated from a comparison between total credit and third party funds. According to government regulations, the maximum loan to deposit ratio is 110% (Bank Indonesia, 2011). For the best standard of LDR is above 85% less than 110%. To be able to obtain an optimum LDR, banks still have to maintain NPLs. If the LDR is above 110%, the bank will experience liquidity difficulties and have an impact on decreasing profitability. The higher the LDR, the higher the funds channeled to third party funds, so that an increased LDR can increase bank profitability (Abdelmagid, 2020). High profitability will also show high company financial performance. The results of the research are in line with research conducted by Dao & Nguyen., (2020), Huang et al., (2021) and Sahyouni & Wang., (2019) which state that LDR has a significant positive effect on ROA. Thus the hypothesis can be formulated as follows:

\[ H_2: \text{LDR has a significant positive effect on ROA} \]

Capital risk and financial performance

According to BI Circular Letter No.3/30DPNP dated 14 December 2001, the CAR ratio can be formulated as a comparison between a bank's capital to risk-weighted assets. The Capital Adequacy Ratio is a ratio that shows how much the total bank's assets are at risk. The CAR ratio is used to measure the adequacy of the bank's capital to support assets that contain or generate risk. If the CAR value is high (according to Bank Indonesia regulations of 8%), it means that the bank is able to finance bank operations and can make a
sizeable contribution to bank profitability (ROA). Because the high and low CAR ratios will automatically have an impact on the level of customer trust from the bank, which will ultimately have an impact on profitability (Nuvijanti & Anggono, 2014). The CAR ratio is positively related to bank profitability as measured by the ROA ratio, whereby an increase in CAR will be followed by an increase in ROA. In this case it shows that the financial performance is getting better because the profit generated increases along with the increase in CAR. In theory, the higher the CAR of a bank will increase the opportunity to increase its productive assets, including financing because it is supported by large capital which will increase bank profitability. High profitability will show the company’s financial performance is also high. So the higher the CAR, the better the performance of a bank (Setiawan & Muchtar, 2021). The results of the research are in line with research conducted by Mehzabin, Shahriar, Hoque, Wanke, & Azad., (2022), Siddique et al., (2022) and Mir & Shah., (2022) which state that CAR has a significant positive effect on ROA. Thus the hypothesis can be formulated as follows:

H1: CAR has a significant positive effect on ROA

Operational risk and financial performance

According to BI Circular Letter No.3/30DPNP dated 14 December 2001, to measure operating risk by comparing operating costs with operating income, where operating costs are calculated based on the sum of total interest expenses and total other operating expenses, while operating income is the sum of total income interest and other total operating income. The greater the EIR, the more risky the risk of bank operations in carrying out its business activities (Dao & Nguyen, 2020). The smaller the EIR, the higher the financial performance of a bank. Bank Indonesia Regulation No. 13/1/PBI/2011, setting the best standard for the EIR ratio is around 80-90%. A healthy bank has a low EIR ratio, and conversely, an unhealthy bank has a higher EIR ratio.

The smaller the operational risk, the more efficient the bank is in carrying out its operations (Bhattarai, 2019). Through this ratio, it is measured whether the bank's management has used all its production factors effectively and efficiently. Any increase in operational costs will result in reduced profit before tax which will ultimately reduce the profit or profitability of the bank concerned. Low profitability will show the company’s financial performance is also low. The results of the research are in line with research conducted by Siddique et al., (2022), Derbeli (2021), and Sahyouni & Wang., (2019) which state that EIR has a significant negative effect on ROA. Thus the hypothesis can be formulated as follows:

H2: EIR has a significant negative effect on ROA

Third party funds and financial performance

Most of the sources of bank funds come from public deposits in the form of demand deposits, savings and time deposits. These community funds are often referred to as third party funds (TPF). Third Party Funds according to (Rivai et al., 2013) are funds sourced from the wider community, which are an important source for bank operational activities and are a measure of the success of a bank, if the bank can bear its operating costs from this source of funds. Third Party Funds are the largest source of funds that banks rely on (reaching 80%-90%). The higher this ratio, the better the level of public trust in the bank concerned (N. Sari & Murni, 2017). In theory, an increase in the number of TPF will increase the opportunity to increase a bank's productive assets, including financing, so that it will also increase bank profitability as measured by ROA. High profitability then shows high company financial performance as well. The results of the research are in line with research conducted by Pradana et al., (2022) and Hermuningsih et al., (2020) which state that TPF has a significant negative effect on ROA. Thus the hypothesis can be formulated as follows:

H3: TPF has a significant negative effect on ROA

Research Method

The population in this study are all public banks listed on the Indonesia Stock Exchange during the 2019-2022 period. While the sample in this study was selected using purposive sampling. There were 24 samples of banking companies listed on the Indonesia Stock Exchange for the 2019-2022 period. The data in this study uses secondary data in the form of panel data, namely time series and cross section data, where the data is obtained from banking financial reports listed on the Indonesia Stock Exchange for the 2019-2022 period.

In this study there is one dependent variable, namely financial performance (ROA), and five independent variables consisting of credit risk (NPL), liquidity risk (LDR), capital (CAR), operating risk (EIR), and third party funds (TPF). The measurement of each variable is as follows:
Table 1: Variables and Measurement

<table>
<thead>
<tr>
<th>Variable</th>
<th>Symbol</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependen Variable:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on assets</td>
<td>ROA</td>
<td>EBIT/Earining Before Interest and Tax</td>
</tr>
<tr>
<td><strong>Independen Variable:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non performing loan</td>
<td>NPL</td>
<td>Non perform credit/Total Credit</td>
</tr>
<tr>
<td>Loan to deposit ratio</td>
<td>LDR</td>
<td>Total loan/Thurd Party Fund</td>
</tr>
<tr>
<td>Capital adequacy ratio</td>
<td>CAR</td>
<td>Total equity/Risk weighted Assets</td>
</tr>
<tr>
<td>Operating expense to Income ratio</td>
<td>EIR</td>
<td>Operating expenses/Operating income</td>
</tr>
<tr>
<td>Third Party Fund</td>
<td>TPF</td>
<td>Ln (Demand + Saving + Time Deposit)</td>
</tr>
</tbody>
</table>

The analytical tool for testing the hypothesis uses panel data regression analysis which consists of the common effect model (CEM), fixed effect model (FEM), and random effect model (REM). To select the best model, Chow-test, Hausman-test and Lagrange Multiplier-test will be used. The panel data regression model is as follows:

\[
ROA_t = \alpha + \beta_1 NPL_t + \beta_2 LDR_t + \beta_3 CAR_t + \beta_4 EIR_t + \beta_5 TPF_t + \epsilon_t
\]

**Result and Discussions**

The research data consists of 24 banks with an observation period of 4 years (2019-2022) with quarterly data, so that a total of 384 observational data are obtained. The table below is a descriptive statistic of the research data.

Table 2: Statistics Descriptive

<table>
<thead>
<tr>
<th>Variable</th>
<th>ROA</th>
<th>BOPO</th>
<th>LDR</th>
<th>CAR</th>
<th>NPL</th>
<th>DPK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>1.049141</td>
<td>89.49727</td>
<td>87.65430</td>
<td>24.59245</td>
<td>1.730156</td>
<td>31.52641</td>
</tr>
<tr>
<td>Median</td>
<td>1.090000</td>
<td>87.15500</td>
<td>84.80500</td>
<td>21.92000</td>
<td>1.240000</td>
<td>31.40000</td>
</tr>
<tr>
<td>Maximum</td>
<td>4.740000</td>
<td>259.5700</td>
<td>210.4300</td>
<td>127.4200</td>
<td>4.960000</td>
<td>34.80000</td>
</tr>
<tr>
<td>Minimum</td>
<td>-1.061.000</td>
<td>39.94000</td>
<td>29.67000</td>
<td>11.02000</td>
<td>0.000000</td>
<td>28.02000</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>1.941971</td>
<td>26.82667</td>
<td>25.48380</td>
<td>1.196413</td>
<td>4.032669</td>
<td>0.105184</td>
</tr>
<tr>
<td>Skewness</td>
<td>-1.924.636</td>
<td>2.894359</td>
<td>3.451.933</td>
<td>0.912306</td>
<td>0.105184</td>
<td>0.105184</td>
</tr>
<tr>
<td>Observations</td>
<td>384</td>
<td>384</td>
<td>384</td>
<td>384</td>
<td>384</td>
<td>384</td>
</tr>
</tbody>
</table>

Source: Data processed

Based on table 2, an average ROA of 1.04% is obtained with a maximum of 4.74% and a minimum value of -10.61%. The average ROA variable is 1.04 indicating that the company is classified as in a healthy condition according to the provisions of Bank Indonesia. The average value of the EIR variable is 89.49%, with a maximum value of 259.57% and a minimum value of 39.94%. Because the average EIR value is 89.49%, the risk of banking operations is classified as good. The average value of the LDR variable is 87.65%, with a maximum value of 210.43% and a minimum value of 29.67%. Because the average value of the LDR variable is 87.65%, this indicates that liquidity risk is still relatively good, because it does not exceed 90.00%. While the average value of CAR is 24.59% with a maximum value of 127.42% and a minimum value of 11.02%. This indicates that the average bank has met the minimum CAR requirement of 8%. The NPL variable has an average value of 1.73%. The median value of the NPL variable is 1.240000. The standard deviation value of the NPL variable is 1.287375. While the maximum value of the NPL variable is 4.960000 and the minimum value of the NPL variable is 0.0000. Obtained an average NPL value of 1.73%, so it can be concluded that the soundness of the bank is very good. This shows that the bank has a relatively low level of non-performing loans when compared to the total credit it has.

**Hypothesis test results**

**Model selection**

To choose the best model between the common effect model (CEM), fixed effect model (FEM) and random effect model (REM) it is necessary to test. The first stage is to select a model between CEM and FEM using the Chow-test. The result is that if the prob value < 0.05 FEM is better, but if the prob. ≥ 0.05 CEM is better. Table 3 shows the results of the Chow-test with a prob value of 0.000 < 0.05, so that the chosen one is fixed effect capital (FEM). The next step is to choose between FEM and REM using the Hausman-test where if the prob <0.05 then FEM is better than REM and if the prob ≥ 0.05 then REM is better. Table 3 shows the results of the Hausman-test with a probability of 0.0011 <0.05, so the FEM is better. Thus, because FEM is the best model, henceforth the analysis will use fixed effect capital (FEM)
Table 3: The result of Chow-test and Hausman-test

<table>
<thead>
<tr>
<th>Type of test</th>
<th>Statistic</th>
<th>d.f</th>
<th>Prob</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chow-test</td>
<td>7.845.737</td>
<td>-24.344</td>
<td>0.0000</td>
</tr>
<tr>
<td>Hausman-test</td>
<td>16.208.794</td>
<td>5</td>
<td>0.0063</td>
</tr>
</tbody>
</table>

Source: Data processed

Fixed Effect Model Regression Test

After selecting the regression model and it turns out that the fixed effect model (FEM) is the best, FEM will be used to test the hypothesis. Table 4 is the result of panel data regression with FEM.

Table 4: Hypothesis result with Fixed Effect Model

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>1.138.302</td>
<td>3.470.987</td>
<td>3.279.475</td>
<td>0.0011</td>
</tr>
<tr>
<td>NPL</td>
<td>-0.055713</td>
<td>0.028671</td>
<td>-1.943.209</td>
<td>0.0528</td>
</tr>
<tr>
<td>LDR</td>
<td>0.007001</td>
<td>0.001733</td>
<td>4.038.935</td>
<td>0.0001</td>
</tr>
<tr>
<td>CAR</td>
<td>-0.004342</td>
<td>0.002501</td>
<td>-1.736.370</td>
<td>0.0834</td>
</tr>
<tr>
<td>EIR</td>
<td>-0.061917</td>
<td>0.001302</td>
<td>-4.755.663</td>
<td>0.0000</td>
</tr>
<tr>
<td>TPF</td>
<td>-0.165037</td>
<td>0.107618</td>
<td>-1.533.552</td>
<td>0.1260</td>
</tr>
</tbody>
</table>

Source: Data processed

Based on table 4, it shows that NPL has a negative coefficient with a significance value of 0.0528 greater than 0.05, which means that NPL has no effect on financial performance. Non Performing Loan (NPL) shows the ability of bank management to manage non-performing loans provided by banks. NPL reflects credit risk, the higher this ratio, the worse the quality of bank credit, so that the greater the number of non-performing loans borne by the bank, the greater. Banks must bear losses in their operational activities which will affect the decrease in profit (ROA) obtained by the bank. According to theory, a high NPL ratio equals a high number of non-performing loans that are being faced by banks. If the NPL is high, the bank's opportunity to profit from credit interest and credit repayments will be lost. The results of this study are in line with research conducted by Nwude & Okeke., (2018) and Hamza (2017), banks experience low credit risk, but do not have an impact on increasing ROA, so NPL is not significant effect on profitability.

The results of the liquidity risk variable hypothesis test (LDR) show a significance value of 0.0001 which is less than 0.05. The results of the analysis above prove that LDR has a significant and positive effect on banking performance. A high Loan Deposit to Ratio value indicates that a bank is able to manage its lending properly, so that the profit the bank gets will increase. Thus, the bank is declared to have carried out its intermediary role properly. Good credit distribution will help improve the bank's financial performance. A high LDR value can show that the bank's lending to current TPF results in an increase in ROA. When the LDR is low, lending to TPF is not smooth and causes increased costs. As a result of non-smooth credit distribution, it will cause a decrease in ROA at the bank. The results of this study are in line with research conducted by Dao & Nguyen., (2020), Sahyouni & Wang., (2019), Kinanti & Purwohandoko., (2017), and Syafi’i & Rusliati., (2016) which state that a high LDR indicates the high profitability of a bank.

The CAR variable produces a significance value of 0.0834 which is greater than 0.05. These results prove that CAR has no effect on banking performance. The Capital Adequacy Ratio is a capital adequacy ratio that functions to accommodate the risk of loss that a bank may face. There is no effect on capital adequacy on Return On Assets because the money or funds owned by banks do not only come from their own capital, but can also come from other parties, for example, from outside loans. In addition, in general, banking companies do not want to set CARs that are too high for their companies because high capital will reduce the income earned by bank owners. A high CAR value can reduce a bank's ability to expand its business because the larger capital reserves are used to cover the risk of loss. The delay in business expansion due to the high CAR will affect the bank's financial performance. The results of this study are in line with research conducted by Mehzabin et al., (2022), Siddique et al., (2022), Hosen, Muhari, & Costner Kardius., (2021), Mir & Shah., (2022), and Dao & Nguyen., (2020) which shows that banks that were operating in that year really took care of their capital.

Table 4 also shows that operating risk (EIR) has a significance value of 0.0000 which is smaller than 0.05 with a negative coefficient. The results of the analysis above prove that EIR has a significant and negative effect on banking performance. Operational costs to operating income shows the high level of efficiency and the ability of the bank to carry out its operational activities. The smaller the value of the EIR ratio, the better the condition of the bank and vice versa. The influence of BOPO and the performance of banks listed on the Indonesia Stock Exchange shows that bank management is able to control the operational costs that must be borne by the bank against the operating income earned by the bank. In accordance with banking management theory, where high operating costs are not always followed by high operating income as well, this will lead to reduced profit before tax resulting in a low ROA.
value. The results of this study are in line with research conducted by Sahyouni & Wang., (2019), Dao & Nguyen., (2020), Derbali (2021), and Siddique et al., (2022) which shows that if operating costs to operating income increase, efficiency will decrease, meaning ROA profitability will also decrease.

The TPF variable hypothesis test produces a significance value of 0.1260 greater than 0.05. The results of the analysis above prove that TPF has no effect on banking performance. Third party funds have no effect on ROA due to an imbalance between the number of incoming funding sources and the amount of credit extended to the public. The higher the TPF that is collected at the bank but is not balanced with lending, the bank will experience a loss or decrease in profitability, so that the ROA or effectiveness of the bank in obtaining profits also decreases. The results of this study are in line with research conducted by Viciwati (2021), Hosen et al., (2021), and Sari & Murni., (2017) which states that TPF has no significant effect on ROA, which shows that the greater the TPF owned by a bank, it does not necessarily reflect the large profits that the bank will obtain.

Conclusion and Recommendations

Based on the results and tests above, it can be concluded that Operational Costs to Operating Income (EIR) has a negative and significant effect on Return on Assets. This shows that the first hypothesis is accepted. Loan to Deposit Ratio (LDR) has a positive and significant effect on Return on Assets. This shows that the second hypothesis is accepted. Capital Adequacy Ratio (CAR) has a negative and insignificant effect on Return on Assets. This shows that the third hypothesis is rejected. Non-Performing Loan (NPL) has a negative and insignificant effect on Return on Assets. This shows that the fourth hypothesis is rejected. Third Party Funds (TPF) have a negative and insignificant effect on Return on Assets. This shows that the fifth hypothesis is rejected.

The results of this study are expected to be utilized by management in managing banks, especially those related to risk control. It is also hoped that academics can use it as a reference for research related to the banking industry. Of course, this research still has many weaknesses because it only uses banking internal variables, so it can be done for further research by adding bank samples or adding external variables such as inflation and exchange rates.

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