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NON PERFORMING FINANCING FACTOR IN SYARIA COMMERCIAL BANKING IN INDONESIA

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Abstract

This research is based on one of the biggest risk faced by sharia banking that is related to problematic financing that happened due to failure in funding process at Bank Syariah. Sharia Banks must have the ability to manage risks on the distribution of financing so as to prevent the creation of non-performing financing (NPF). This study aims to examine the effect of return on Financing Profit and Loss Sharing (PLS), Bank Size and Inflation to Non Performing Financing (NPF). The method used in this research is analytical descriptive method to explain each research variable and verifikative with quantitative approach to show whether there is influence of free variable to dependent variable. The data to be analyzed in this study using panel data and will be analyzed by using multiple linear regression. The result of the research shows that the return of financing Profit and Loss Sharing has significant effect to Non Performing Financing with negative influence direction, bank size influence to Non Performing Financing with negative influence direction and inflation has no significant effect to Non Performing Financing with positive direction. This study also shows the result that the return of financing Profit and Loss Sharing, bank size and inflation simultaneously (simultaneously) have an influence on Non Performing Financing.

Keywords: *Non Performing Financing, Profit and Loss Sharing, Bank Size, Inflation*

1. Introduction

The global financial crisis that occurred in 1997 has many negative impacts on the world economy, especially in the banking sector. Banking is one of the most severely affected sectors, not to mention banking in Indonesia. The financial crisis that occurred then expanded into an economic crisis. The economic crisis caused some banks to be closed by the government. Therefore to prevent Bank from being closed, Banks need to manage risk. Banks in carrying out its functions will always be exposed to various risks, one of the risk is credit risk. The risk represents the risk of failure on the credit provided by the bank, in which the debtor does not perform the obligation on the loan. The Bank must be able to manage these risks so as not to result in the formation of non-performing loans that could be detrimental to the bank. Some examples of cases of credit failure that occurred in banks in Indonesia one of them is bad debts that occurred in Bukopin Bank worth Rp 65 billion, where the credit is distributed in order to procure drying equipment (drying center) in East Java and Central Java. The incident is considered to arise because there has been a deviation of lending procedures. Another case that occurs is the level of default in 2013 at Jatim Bank which is a government-owned bank, which reached 3.25 percent of the debtors. The percentage increase compared to the previous year of 2.96 percent, and the increase in non-performing loans came from real sector credit ie People's Business Credit.

The cases of non-performing loans in some conventional banks are evidence of failure in the lending process. The high NPL reflects bank failures in lending. The higher NPL will result in losses for the bank and also its investment customers. The bank suppresses the interest rate of the investment and applies high for credit in order to share its failure. In the distribution of risk, Islamic banks do not rely on interest rates a\s adopted by conventional banks. Sharia banking uses profit-sharing principles (PLS) in running its operations. Non-performing loans (NPL), in sharia banking are called non-performing financing (NPF). The distribution of funds in Islamic banks is known as financing. Banks should be able to manage the risks of financing disbursements in order to generate expected returns and can prevent the creation of problem financing (NPF).

Financing disbursed by Islamic banks is inseparable from the risk of non-performing financing, and is no exception to profit and loss sharing (PLS) financing. The risks contained in PLS financing are considered higher than other financing. PLS financing based on trust between the owner of the fund (shahibul maal) and the debtor as the entrepreneur (mudharib), and the absence of guarantee causes PLS financing to be highly vulnerable to the misuse of trust by the debtor. This can cause problems with financing disbursed. The risk level of each sharia bank financing based on bank perceptions summarized by International Research Training Institute (IRTI) can be shown in the following table:

Table 1
Level of Risk in Any Type of Financing

Financing Type	Credit Risk	Price Risk	Liquidity Risk	Operational Risk
Murabahah	2.56	2.87	2.67	2.93
Financing Type	**Credit Risk**	**Price Risk**	**Liquidity Risk**	**Operational Risk**
Mudharabah	3.25	3.0	2.67	3.08
Musyarokah	3.69	3.4	2.92	3.18
Ijarah	2.64	2.92	3.1	2.9
Istisna	3.13	3.57	3.0	3.29
Salam	3.2	3.5	3.2	3.25
Diminishing Musyarokah	3.33	3.4	3.33	3.4

Note:
Information:
Scale 1 to 5, where 1 as the least risky and 5 financing as risky financing.
Source: (Muntoha and Mulyo, 2011)

Referring to the data, if the distribution of PLS financing increases, it is considered will increase the level of risk of non-performing financing. According to Mustafa and Ranti (2007), the determination of a proper profit-sharing ratio will provide high returns for high-risk financing, ie profit sharing (PLS). This is a bank policy that is judged appropriate in an effort to reduce the risk of non-performing financing (NPF) from the debtors who are not responsible. Based on this, if the returns ratio of high risk financing (profit and loss sharing) increases then ideally NPF ratio will decrease. The same is also obtained from the research of Mustafa and Ranti (2007), that the increasing return ratio of PLS (mudharabah and musyarakah) will reduce the ratio of NPF at Bank Muamalat. Mutamimah and Siti Nur (2012) also concluded his research that return PLS give negative effect to NPF sharia bank.

Different results were obtained from research conducted by Siti (2008), where the coefficient of profit return return and loss sharing value was positive, ie every increase of profit return return and loss sharing ratio followed by increase of NPF. The results of Muntoha and A Mulyo (2011) concluded that the return PLS no significant effect on non-performing financing. The results of this study is strengthened by the results of research Nur Anis Qadriyah and Tettet Fitrijanti (2004) ie the different types of financing products for the results and financing the sale and purchase has no effect on the NPF. Based on the research gap, it is necessary to do further research in order to know the actual results.
Ahmed (2006) identified the factors that led to the emergence of NPLs, one of the factor is the state of the bank. The state of the bank can be measured one of them with a variable size of the bank. The size of the bank contributes to the NPL or in the Sharia Bank is called the NPF. Large banks are considered to grow and able to expand financing. Total assets are indicators that can measure the size of a bank. Based on this it can be concluded that large banks will be able to manage risk better. This is evidenced by the ability of banks in managing the portfolio and impact on rising profits. These conditions indicate the good quality of the bank's productive assets, thereby being followed by a decrease in non-performing financing (NPF).

The result of Ahmed's research (2006), is that bank size is one factor that has negative correlation with NPL. In addition, Kheemraj (2005) also mentioned that, the large total assets make banks more able to manage the business and risk. The greater the total assets, will improve the quality of productive assets and the growth of bank financing, thus reducing the NPF ratio. Gunsel (2007) agrees that opinion, which according to him, the larger bank assets will negatively affect the problematic condition of the bank. Different results are shown by Kevin J Stiroh and Adriene Rumble (2005), in their research in the United States, that assets have a significant positive effect on business risks. Distinguin, et al. (2010) also states that the larger the bank, allowing greater incentives also in taking a greater level of risk. This indicates that the larger the size of a bank will be followed by an increase in the bank's business risk, one of which is the financing risk. Thus it is seen that the existence of a research gap related to the influence of bank size to NPF, so it is necessary to do further research.

Problem financing can also be caused by external factors of the bank ie macroeconomic factors, one of which is inflation. Bbc.co.uk recorded July inflation soared exceeding market expectations of 3.29%, posting the highest rate since 2008. The calendar year inflation rate from January to July 2013 stood at 6.75% and the annual inflation rate from July 2012 to July 2013 jumped 8.61%. High inflation is expected to encourage the banking sector to exercise restraint in channeling financing to communities. High inflation leads to an increase in the prices of basic necessities, resulting in the ineffectiveness of the debtor's business, resulting in a weakening of the debtor's income which ultimately affects the borrower's ability to pay the financing. Failure of financing repayment by debtors will increase the ratio of non performing financing (NPF). Inflation is proportional to Non Performing Financing (NPF), where if inflation rises or falls, it will be followed by an increase or decrease in NPF.

With the increase in inflation it will result in the ability of customers to pay installments will also be disrupted. Chandra and Monita (2013), revealed that in theory the base, the NPL of commercial banks will increase if inflation and interest rates increase. The essence of NPLs and NPFs is similar, as it reflects the channeling of credit / financing. The result of Siti (2008) research, that inflation affects the ups and downs of NPF in Syariah Mandiri Bank. The condition of the NPF increase is influenced by bank external factors that occur suddenly and disrupt the financial performance of the community. Zribi and Boujelbene (2011) concluded the results of his research that inflation has a positive effect on Non Performance Loan. This is because the increase in inflation affects the ability to pay from debtors (payment capacity). Different research resulted from Fofack (2005) research that inflation has negative relation with NPL. Similar results were also obtained from Mutamimah and Siti (2012) studies, in which inflation had a negative effect on the NPF of Sharia Commercial Banks. It is considered that inflation is well responded by the bank, and the debtor is perceived to have a responsibility or commitment to fulfill its obligation in paying off its loan to the bank. Arya Wikutama (2010) concludes his research findings that inflation does not have a significant impact on NPL changes. The existence of a gap of existing data in certain years and the results of previous research, then it is necessary to do research.

2. Review Of Literature And Development Of Hypotheses

2.1 Return Financing Profit and Loss Sharing

Return on profit and loss sharing is the amount of gain or loss attributable to an equity or equivalent in a business (cooperation) with another party, and using Profit and Loss Sharing on the result of the business. The profit-sharing ratio as well as the losses to be gained, determined and agreed upon in the contract. Barenberg (2004) in Mustafa and Ranti (2007), reveals how to obtain higher returns can be obtained by increasing the profit ratio for banks in agreements with debtors.

2.2 Bank Size

The size of an institution in finance sector can be assessed through its assets, deposits or equity capital. Total assets / assets are commonly used in banking. This is in line with what is stated by the office of advocacy in Elisa Tjondro (2007) who conducted a study on "Rank and Size Description for 1996 Study", that bank size reflects asset size of financial institutions. Banks with large assets will have the opportunity to place funds in the credit sector. Companies that continue to grow is certainly a fresh breeze for investors because they hope the funds invested in the company is able to create attractive benefits. This is in line with that stated by Vogt (1997) in Tan (2012), that a growing company will be responded positively by the market. Stever's research (2005) in Jakubík (2013) demonstrates a strong evidence that regulators determine the asset risk limits of each bank, regardless of the size of the bank. Therefore, small banks have risks associated with loan portfolios. This is because these banks are not able to diversify the risks as big banks do. According to Jakubík (2013), the limitations of these small banks are an accumulation of insufficient funding, less diverse types of borrowers (including lack of access to large-scale borrowers), and limited accessible areas.

2.3 Inflation

According to Bustama (2013), inflation is one of the problems in the economy that every country always faces. Meanwhile, according to Prathama and Mandala (2004) in Bustama (2013), inflation is a symptom of a general increase in the price of goods that are continuous. Inflation can be inferred a condition of continuous increase in the average price level. Inflation is one of the bank's external factors that can lead to the creation of problem financing in banks (NPF). The high value of inflation will impact on the hampering economic development. Inflation will have an impact on the rising prices in the market, so that if the price increase is continuous, it will also affect the weakening of people's purchasing power, the decrease of income of society and entrepreneurs and will eventually decrease the prosperity of society.

2.4 Bank Response to Inflation

In order to respond to adverse economic conditions such as inflation, banks must carry out rescue measures in order to remain in good operation. The Bank must exercise prudent principles in disbursing financing, particularly in the event of inflation. The Bank shall establish allowance for possible losses in accordance with the respective risk profile of financing. In addition, the Bank must perform other rescue actions, such as Bank Muamalat Indonesia which has compiled a work plan to respond to these economic conditions, among others: (a) Run a financial and operational restructuring strategy by improving the capital structure, services to customers through product development and by offering better revenue-sharing to maintain loyal customers in support of revenue-sharing systems; (b) Implement prudential and selective principles in channeling financing emphasized on small business by utilizing the network of sharia financial institutions; (c) Improving the level of collectibility of financing so that it becomes healthy by reducing the portfolio of non-performing financing.

The settlement of deteriorating economic conditions depends on the government's current and future monetary and fiscal policies to be taken by the government to nourish the economy, an act that is beyond the control of the bank, such government measures, among other things, ensuring payment of deposits from customers in the form of demand deposits, savings deposits and deposits, lower the obligation to meet the minimum capital requirement, to change provisions for allowance for productive asset and to conduct recapitalization programs for commercial banks.

2.5 Non Performing Financing

An effort, to achieve a goal cannot avoid the existence of a risk of failure. There is a rule in Islam that is "al ghunmu bil ghurmi theory" and "alkharaju bidh dhamani" meaning profit is the reward for the readiness to bear the loss and income is the reward for the dependents taken. The purpose of the rule is where the business can run and benefit along with the risks. Islam prohibits any kind of profit-making transaction without any willingness to bear losses. Bank as a business institution cannot avoid the risk of failure of its distributed financing. The bank needs to mitigate the risk of problem financing by conducting good risk management.

Indicators that can show the loss due to credit risk is reflected in the large non-performing loan (NPL), in terminology of Islamic banks called non-perfoming financing (NPF). Bank Indonesia Regulation Number 8/21 / PBI / 2006 dated October 5, 2006 concerning Quality Rating of Commercial Banks conducting business activities based on sharia principles Article 9 paragraph (2), states that the quality of productive assets in the form of financing is divided into 5 groups namely current, special mention, substandard, doubtful and pass. NPF is the ratio between non-performing financing with total financing channeled by sharia banks. Criteria included in the NPF and already stipulated by Bank Indonesia are financing substandard, doubtful and pass. Financing is categorized current if the installment payment is done on time, special attention if the arrears have not exceeded 90 days, less smooth if the arrears have exceeded 90 days-180 days, doubt if the arrears have exceeded 180 days- 270 days, and pass if has exceeded 270 days.

There are several obstacles faced by sharia banks in channeling financing that trigger the formation of problem financing, including: (1) Uncertainty of market conditions, which will impact on the ability of debtors in returning the loan to the bank (risk ability to pay); (2) There is an error in the analysis of collateral pricing on debtors' financing. This resulted in the creation of the risk of not returning loan funds if the debtor has defaulted; (3) The occurrence of asymetric information, where the debtor has more information than the bank. This is because the debtor does not provide all or inaccurate information to the bank at the beginning of the financing application. This condition will cause the bank to incorrectly analyze the risk profile of the financing it provides, thus potentially creating default risk by the debtor. Sharia banks as financial institutions that are trusted by third parties to manage their funds in order to generate profits must be able to manage the risks of uncertainty of return on financing. Sharia banks should be able to cope with the problem of financing disloyalty by conducting risk management to suppress rising NPF. Troubled financing, if not promptly overcome, a very unexpected impact may occur, namely the bank rush (massive withdrawal by customers / fund owners).

2.6 Influence of Bank Size on Non Performing Financing at Sharia Commercial Bank in Indonesia

The size of the bank is closely related and can affect the bank's operations. Asset ownership can give an idea of the size of an enterprise and in this case is a sharia bank. Assessment of firm size based on total assets owned. The company (in this case is an Islamic bank) which has a larger total asset is considered to have a better performance outlook, which the company can grow and benefit. This is because large banks are considered more capable of expanding financing. According to Miller and Smith (2002) in Tan (2012), the larger the size of a bank, the greater the bank's ability to disburse credit. Credit in sharia bank terminology is called financing. Banks have a larger financing capacity so banks will tend to better manage risk.

According to Stever (2005) in Jakubík (2013), small banks have risks associated with loan portfolios (in sharia bank terminology called financing). This is because the small banks are not able to diversify the risks as well as large banks. The large total assets will make it easier for banks to channel financing to productive sectors so that they are expected to provide attractive returns and improve the quality of productive assets. Large banks (large assets) have a chance to grow better. Large banks will have lower debt and will seek to minimize agency problems. It was also revealed by Smith and Watss (1992) in Jakubík (2013), which have found empirical evidence that firms with a greater opportunity to grow have lower debt to equity ratios. Banks in their equity financing decisions tend to reduce potential agency problems associated with the existence of risky debt in their capital structure. Based on this, the size of the bank will certainly affect the performance of banks, especially in the distribution of financing and also to the problems that often arise in it. The amount of financing disbursed by banks is one component of the assets of sharia banks. The greater the financing will be to increase the amount of assets.

The growing size of the bank (large total assets), with better growth prospects, is expected to help banks reduce the probability of problem financing. Thus, the financing disbursed by the bank can generate maximum profit. An attractive advantage will stimulate the market to further entrust the funds invested through sharia banks. Thus the amount of third party funds will increase and the total assets of banks will be greater, where the bank is able to expand financing. Financing is an asset for sharia banks. The greater the asset value reflects the greater the size of the bank. Septrivia Wahyu gives conclusions on the results of his research, ie variable size has a significant negative effect on NPF. That is, the greater the total assets, the problematic financing ratio will decrease further. Usually a bank with a large asset is a long-standing bank, thus more experienced in managing financing risks, which in turn can reduce the NPF ratio. It is also supported by Kheemraj (2005) which states that, banks with large total assets have better risk management strategies in designing an optimal financing portfolio. The results of Gunsel's (2007) study also proves that the larger bank assets will negatively affect the problem condition at the bank. Thus, large banks (large total assets) have a negative effect on NPF, where banks will be able to prevent non performing financing.

2.7 Inflation Influence on Non Performing Financing at Sharia Commercial Banks in Indonesia

The monetary crisis that occurred in 1998 and 2008 has caused many losses for many parties and country. Such conditions affect the development of the Indonesian banking industry, not least the sharia banking industry, especially in lending, or in the terminology of sharia banks, credit is called financing. The inflation rate affects the decline in credit quality channeled by the bank, one of which is marked by increasing ratio NPL. The condition is also in accordance with the results of Messai (2013), where inflation has a positive effect on credit risk. Credit in sharia banking terms is called financing and NPL with NPF.

Increased inflation will affect the ratio of NPF (Non Performing Financing) sharia bank. Inflation is one of the bank's external factors that can create problematic financing. The problem occurs because the soaring prices of some products on the market that resulted in weakening purchasing power. These conditions have an impact on the decrease in income earned by the debtor for his business. Such conditions affect the ability to pay from debtors to be weak, so as to create problem financing (NPF). This is also in line with the results of research conducted by Tan (2012), that inflation has a positive effect on NPL. Research Tan (2012) also concluded that inflation has a positive influence on the ups and downs of NPF. Conditions where when there is an up (or fall) inflation will be followed also by an increase (or fall) of the NPF. In this case it means that inflation has a positive effect on the NPF. Thus, this study refers to the results of previous research that inflation has a positive effect on NPF.

2.8 Effect of Return on Financing of Profit and Loss Sharing on Non Performing Financing at Sharia Commercial Banks in Indonesia

According to Mustafa and Ranti (2007), in the distribution of risk, Islamic banks offer a better concept than the conventional banking concept. Mustafa and Ranti (2007) stated that sharia banking rejects the existence of interest in its operations, and makes a profit sharing system known as profit and loss sharing (PLS) as a substitute for interest. This type of profit and loss sharing (PLS) financing consisting of mudharabah and musyarakah is the most popular and ideal financing scheme in sharia banking. The profit-sharing system (PLS) is the hallmark of sharia banks that distinguishes the interest system adopted by conventional banks. PLS financing is considered to have a high risk, this is because the profit earned on a business run by the debtor as mudharib is relatively uncertain, so the owner of the fund must be ready to bear the loss.

Ranti Wiliasih (2005), stated that the absence of guarantee provisions in the financing of PLS, causing the bank faces a very high risk. The risk is mainly related to the risk of moral hazard and adverse selection. This happens because of the information asymmetry. PLS financing is relatively more risky to make this scheme less attractive by sharia banks. This is because the rate of return generated from the business financed could be positive or negative. This is reinforced by the results of research conducted by Khan and Ahmed (2001) on the risk level of sharia financing models based on bank perceptions, which put the profit and loss sharing model in the most risky financing positions compared with other financing models.

Lack of monitoring by the bank's management of the financing process disbursed leads to unexpected risks being truly occurring. Weak bank supervision, can provide opportunities for debtors to commit fraud. The debtor has the opportunity to be lax in fulfilling the obligation to pay off the loan to the bank, so that the financing disbursed becomes non performing. According to Škarica (2014), it is worth noting that the increase in profit-sharing financing was at the same time followed by an increase in non-performing financing. The financing disbursed to finance a business is expected to provide an attractive return at the end cause loss because of non performing financing.

Banks are urgently needed to manage the financing portfolio appropriately, in order to reduce the probability of non performing financing. Thus, if the portfolio has been executed in accordance with the proper procedures, and carried out intensive monitoring, it will suppress the occurrence of non performing financing. Sharia bank management needs to create policies related to the effectiveness of the distribution of financing, in order to generate expected returns by depositors. Determination of the appropriate portion of financing, including the ratio of profit sharing ratio of the financing becomes one of the bank policy that is expected to suppress the occurrence of problems in the distribution of financing.

The appropriate return policy, especially for high risk PLS financing, will have an effect on the decrease of NPF ratio. If the resulting return is high, then it should be followed by a decrease in the NPF ratio. This is in line with the results of research conducted by Mustafa and Ranti (2007), that the return is seen significant at a certain level of confidence with a negative direction, which means the increase of return ratio of PLS (mudharabah and musyarakah) to the return of financing will reduce the ratio of Non Performing Financing (NPF) at Muamalat Indonesia Bank. Similar results were also obtained from Mutamimah and Siti (2012) research, where the ratio of return on PLS financing to total return of financing negatively affects NPF at Sharia Commercial Bank in Indonesia. Septrivia Revelation also agrees both results that the PLS financing return has a negative effect on the NPF. Referring to the previous research, then if the ratio of return PLS financing rise will be followed by the decline in the ratio of NPF. Thus the return variable PLS financing has a negative influence on NPF. This financing return variable reflects the syariah bank financing policy related to the return generated from high-risk financing, ie PLS financing. As for giving clarity of relationship among variable, hence in figure 1 presented framework that show relation between research variable, that is as follows:

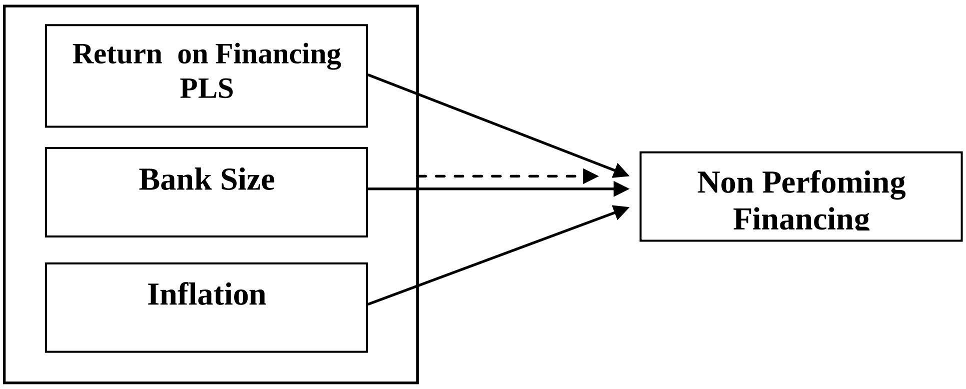

Figure 1
Conceptual Framework

2.9 Hypothesis

Based on the conceptual framework previously described, the research hypothesis is as follows: (1) Return of Financing Profit and Loss Sharing negatively affect Non Performing Financing at Sharia Commercial Bank in Indonesia; (2) Bank size negatively affects Non Performing Financing at Sharia Commercial Banks in Indonesia; (3) Inflation has a positive effect on Non Performing Financing at Sharia Commercial Banks in Indonesia; (4) Return on Financing of Profit and Loss Sharing, Bank Size, and Inflation simultaneously affect Non Performing Financing at Sharia Commercial Bank in Indonesia.

3. Research Methods

The research design used in this research is analytical and verificative descriptive method with quantitative approach. Descriptive analytical by Sekaran (2009) is a study conducted to determine and be able to explain the characteristics of variables studied in a situation. Descriptive analytical methodology or methodology is used to explain each research variable, that is independent variable consisting of return of profit and loss sharing (X1), bank size (X2), and inflation (X3), and dependent variable that is non performing financing (Y) . While verifikative method is a method used to indicate whether or not the influence of the independent variable to the dependent variable.

The data to be analyzed in this research is by using panel data. Panel data is a combination of cross section data with time series. If each cross section unit has the same amount of time series observation then it is called a balanced panel (total number of observations = N x T). Conversely, if the number of observations is different for each cross section unit then it is called unbalanced panel. Due to the age of each bank is different, so the data obtained was not the same amount. Therefore, the data analysis used is unbalanced panel. Incomplete panel data often occurs in cases in the economic sector. The data in this study were analyzed by using multiple linear regression analysis. Because the data used in the form of panel data, then before the analysis using multiple linear regression model (multi linear regression model), first test model consisting of Chow Test and Hausman Test. Chow test is used to decide whether the model used is Common Effect or Fixed Effect. The Hausman test is performed to determine whether the test model uses Fixed Effect or Random Effect.

4. Discussion And Findings

4.1 Research result

Multiple linear regression analysis was used to test the effect of independent variables, namely profit and loss sharing, bank size and inflation to non performing financing. Estimation of multiple linear regression model can be seen from the output as follows:

Table 2
Multiple Linear Regression Analysis Result

Dependent Variable: NPF?
Method: Pooled EGLS (Cross-section weights)
Date: 07/24/17 Time: 07:51
Sample (adjusted): 2006Q1 2016Q3
Included observations: 43 after adjustments
Cross-sections included: 10
Total pool (unbalanced) observations: 218
Linear estimation after one-step weighting matrix
Cross-section weights (PCSE) standard errors & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.027977	0.186548	21.59216	0.0000
RETURN PLS?	-0.019100	0.004814	-3.967272	0.0001
TOTAL ASET?	-5.06E-08	9.80E-09	-5.160672	0.0000
INFLASI?	0.008856	0.015354	0.576784	0.5647
Fixed Effects (Cross)				
_BM—C	1.551310			
_BSM--C	2.497501			
_BSMI--C	-1.430090			
_BRIS--C	0.230143			
_BNIS--C	-0.078616			
_BCAS--C	-3.247866			

_BJBS--C	-0.326348		
_BUKS--C	0.073304		
_PANS--C	-2.455169		
_VICS--C	-1.883172		
Effects Specification			
Cross-section fixed (dummy variables)			
Weighted Statistics			
R-squared	0.786608	Mean dependent var	3.002238
Adjusted R-squared	0.774117	S.D. dependent var	1.689238
S.E. of regression	1.235848	Sum squared resid	313.1005
F-statistic	62.97274	Durbin-Watson stat	0.876682
Prob(F-statistic)	0.000000		

Source : Data Processed

The constant value of 4.03% shows the average value of non performing financing at Sharia Commercial Bank in Indonesia if return on profit and loss sharing, Bank size and inflation equal to zero. Return on profit and loss sharing is negative coefficient of 0,019, meaning that the increase of profit and loss sharing return of 1 percent is predicted to decrease non performing financing at sharia bank in Indonesia by 0,019%. The size of the Bank has a coefficient marked negative of 0.0000051, meaning that any increase in the size of the Bank of 1 million rupiah is predicted to reduce non-performing financing in Islamic banks in Indonesia by 0.0000051%, or increase the size of the Bank of 1 trillion rupiah is predicted to reduce non-performing financing at sharia banks in Indonesia by 0.051%. The results are in accordance with the hypothesis that the greater the size of a bank proxied by total assets, it will be followed by a decrease in non-performing financing at Sharia Commercial Banks. Inflation has a positive signified coefficient of 0.009, meaning that any 1% inflation increase is predicted to increase non performing financing at Sharia Commercial Bank by 0.009%.
The coefficient of determination is calculated to know how big the influence of the three independent variables (return of profit and loss sharing, bank size and inflation) simultaneously to non performing financing variable. Based on the results of data processing contained in table 2, obtained value of adjusted R-Square of 0.774 or 77.4% indicates that the return variable profit and loss sharing, Bank size and inflation simultaneously able to explain changes that occur in non performing financing Commercial Bank Sharia in Indonesia is 77.4 percent. In other words, profit and loss sharing returns, Bank size and inflation together contributes 77.4% to the non performing financing. The remaining influence of other factors not observed is 22.6%, that is the influence of other factors outside the variable return of profit and loss sharing, Bank size and inflation.

4.2 Effect of Return on Financing of Profit and Loss Sharing on Non Performing Financing

Based on statistical test results, it can be seen that the return of profit and loss sharing financing has a significant effect on non performing financing. The test results show that the return of profit and loss sharing financing has a negative effect on non performing financing at Sharia Commercial Bank In Indonesia. The negative direction corresponds to the initial built hypothesis. The hypothesis is: "Return of Financing Profit and Loss Sharing negatively affect Non Performing Financing".

Financing with this model (PLS) is a high risk financing compared to other model financing. PLS financing is becoming more risky because it does not require a guarantee to the debtor, thus PLS financing is based on trust between the bank and the debtor. Most banks entrust entirely the business it finances to the debtor as a mudarib. It is the belief that is the base of the agency problem. Debtors have more information about the business, while the information obtained by the bank is less. The same is expressed by Jensen and Meckling (1976), that the contract between shareholders and managers is an agency relationship. In relation to the financing of the PLS, the bank is the shareholder and debtor as the manager running the business. Another risk in the distribution of financing is the uncertainty of return. The absence of uncertainty of return is due to the lack of certainty of business results, in other words that the return of PLS financing depends on the results of the financed business.

Associated with the test results, where the return of high-risk financing (PLS) has a negative effect on problem financing (NPF), the sharia bank is considered to be quite careful in channeling this financing. Sharia banks are considered capable of managing the risks that may arise from PLS financing. Islamic banks have run the financing portfolio appropriately so that the probability of non-performing financing can be lowered. This research is also supported by research result of Mustafa and Ranti (2007) which conclude that the return is significant in certain confidence level with negative direction, it means that increasing the return ratio of PLS (mudharabah and musyarakah) will reduce the ratio of Non Performing Financing (NPF) to Muamalat Indonesia Bank. The results of Mutamimah and Siti (2012) study, stated that the ratio of return on financing of PLS to the total return of financing negatively affect the NPF at Sharia Commercial Bank in Indonesia. Similar results are also expressed by Septrivia Wahyu, the PLS financing return has a negative effect on the NPF. Therefore, any increase in retun obtained from PLS financing can lower the NPF ratio.

4.3 Influence of Bank Size on Non Performing Financing

Based on the output obtained from the statistical test, it can be concluded that the size of the bank affects the Non Performing Financing. The t-count values obtained through statistical tests for partial testing are then compared with the t-table value, it is decided to accept the hypothesis constructed. Thus it can be seen that the size of Islamic banks have a negative effect on Non Performing Financing at Sharia Commercial Bank in Indonesia. This means that any increase in bank size will be able to reduce the ratio of Non Performing Financing at Sharia Commercial Bank in Indonesia. Negative directions are caused by: (1) Large banks (large assets) have good managerial skills compared with small banks. According to Nkusu (2011), the larger the size of a bank, the greater the bank's ability to distribute credit (financing). Large banks have larger financing capacities so banks will tend to better manage risk. According to Stever (2005) in Jakubík (2013), argues that small banks have risks associated with loan portfolios (in terminology of sharia banks called financing). This is because the small banks are not able to diversify the risks as well as large banks. The large total assets will make it easier for banks to channel financing to productive sectors so that they are expected to provide attractive returns and improve the quality of productive assets. Thus, the larger the size of the bank (the greater the total asset) can decrease the probability of problem financing (NPF ratio decreases); (2) Large banks with large asset holdings have better policies relating to financing (allocation) of financing compared to small banks. Large banks have the ability to obtain additional funds from third parties in order to expand larger productive sector. Large banks can diversify the risk, in which banks can freely allocate financing in accordance with the risk profile of each type of financing to be distributed; (3) The greater the financing disbursed by the bank, it shows that the assets owned by the bank is even greater. The amount of financing disbursed is the greater one is the policy (strategy) of banks to be able to reduce (decrease) the ratio of NPF. This indicates that the greater the total financing disbursed will have an impact on the shrinking value of problem financing so that the NPF ratio is low.

Previous research supporting this research is a study conducted by Ahmed (2006) which concludes that bank size has a negative correlation with NPL. Kheemraj (2005) in Jakubík (2013) also mentioned that, the large total assets make banks more able to manage the business and risk. The greater the total assets, will improve the quality of productive assets, where bank financing will grow and generate profits. This will have an impact on the NPF ratio. In addition Khemraj (2009), stated that the greater bank assets will negatively affect the problematic condition of banks. Thus, the larger the size of the bank will cause the decline in non-performing financing at Sharia Commercial Bank in Indonesia.

4.4 Influence of Bank Inflation on Non Performing Financing

The statistical test for partial hypothesis test shows that, inflation has no significant effect on non performing financing. The test direction shows positive and in the same direction with the hypothesis built. However, the positive direction of inflationary influence on non-performing financing is not significant. Test results also show that the value of t-count is smaller than the t-table value, so Ho accepted and Ha rejected. The positive direction of inflation to non-performing financing shows that the greater the inflation rate will be followed by the rising NPF ratio. Inflation is a tendency to increase market prices in general. The increase occurs suddenly and affects the weakening of people's purchasing power. Inflation can also lower the real value of people's incomes, where the income-generating community will experience a decline in the real value of salaries (income). This condition also affects the ability of the debtor to fulfill the obligation of its financing installment to the bank to decrease. Thus, inflation will trigger the creation of problem financing and form an increasing NPF ratio. The positive effect of inflation on NPF is insignificant, meaning that the effect is only applicable to the research sample alone, but has no effect on aggregate or can not be generalized to all Sharia Banks. The results are supported by the results of Arya Jakubík (2013), that inflation does not have a significant impact on NPL changes.

4.5 Effect of Return on Financing of Profit and Loss Sharing, Bank Size, and Inflation on Non Performing Financing

Based on the results of statistical tests, it can be seen that the return of profit and loss sharing, bank size, and inflation simultaneously (simultaneously) have an influence on non-performing financing. These results are in accordance with the initial built hypothesis. The influence of the three independent variables is quite large, ie almost eighty percent. The remaining approximately twenty percent is influenced by other factors outside of this research variable. This shows that the influence of the three independent variables in this research is the return of profit and loss sharing financing, bank size, and inflation have a strong and big influence on non performing financing at Sharia Commercial Bank in Indonesia. Other factors beyond research that may affect the NPF include financing allocation, Gross Domestic Product, and others.

5. Conclusion:

Referring to the result of analysis of research data and testing of hypotheses built and the discussion that has been described in the previous chapter, the researcher can draw the following conclusion: (1) The bigger profit and loss sharing return will be followed by decreasing non performing financing at Commercial Bank Sharia in Indonesia. This condition occurs because Islamic banks have become more wise in managing the financing portfolio of PLS which is considered high risk based on the principle of prudence. The ability to manage risks in distributing PLS financing impacts on the returns to be earned by banks. The better the bank in managing the financing of PLS, it will be followed by the better (magnitude) return to be obtained by the bank. Thus, the higher return of PLS financing will be followed by decreasing probability of problem financing (NPF); (2) The larger the size of sharia banks will reduce the ratio of non-performing financing at Sharia Commercial Bank in Indonesia. The effect is due to the increasing size of the bank, the customer will see that the bank has a good ability to operate. In addition, management has the opportunity to expand financing to productive sectors that can generate attractive returns; (3) Inflation as an external factor of the bank, partially the greater the value of inflation will increase the amount of NPF. Inflation can cause market prices to soar, thus undermining public purchasing power and lowering debtor income. Such conditions resulted in the ability of the debtor to pay off its obligations to the bank also decreased and eventually formed an increasing NPF ratio; (4) Simultaneously, return on profit and loss sharing, bank size, and inflation have an effect on non performing financing at Sharia Commercial Bank in Indonesia. The effect is 77.4%, while the rest of 22.6% is influenced by other factors.

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