

# Analysis of the effect of third party fund, capital adequacy ratio, and loan to deposit ratio on bank's profitability after the application of IFRS

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## ABSTRACT

The objective of this research is to analyze the effect of third party fund, capital adequacy ratio, and loan to deposit ratio on bank's profitability after the application of IFRS. The bank's profitability in this study is measured using return on assets (ROA). The samples used are 22 conventional commercial banking companies listed on the Indonesia Stock Exchange in the period from 2012 to 2013, which are selected through purposive sampling method. The analysis technique used is multiple linear regression analysis. The results of this study indicate that: (1) the variables of third party funds (TPF), capital adequacy ratio (CAR), and loan to deposit ratio (LDR) simultaneously have significant effect on return on assets (ROA); (2) the variable of third party fund (TPF) partially has positive but not significant effect on return on assets (ROA); (3) the variable of capital adequacy ratio (CAR) partially has positive and significant effect on return on assets (ROA); (4) the variable of loan to deposit ratio (LDR) partially has positive but not significant effect on return on assets (ROA) in conventional commercial banking companies listed on the Indonesia Stock Exchange (after the implementation of IFRS). The ability of the independent variables to explain the dependent variable in this study is 17.8%, while the remaining 82.2% is explained by other variables outside the models studied.

## ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh dana pihak ketiga, rasio kecukupan modal, dan LDR (loan to deposit ratio) terhadap profitabilitas bank sesudah penerapan IFRS. Profitabilitas bank dalam penelitian ini diukur dengan return on asset (ROA). Penelitian ini menggunakan sampel 22 bank umum yang terdaftar di Bursa Saham Indonesia periode 2012-2013, yang diseleksi dengan purposive sampling. Penelitian ini menggunakan regresi linier berganda untuk menganalisis datanya. Hasilnya menunjukkan bahwa (1) variabel dana pihak ketiga (TPF), rasio kecukupan modal (CAR), dan loan to deposit ratio (LDR) secara simultan berpengaruh secara signifikan dan positif terhadap return on asset (ROA), (2) variabel dana pihak ketiga secara parsial berpengaruh positif tetapi tidak signifikan terhadap return on asset (ROA), (3) variabel rasio kecukupan modal (CAR) secara parsial berpengaruh secara positif dan signifikan terhadap return on asset (ROA), (4) variabel loan to deposit ratio (LDR) berpengaruh positif tetapi tidak signifikan terhadap return on asset (ROA). Di bank konvensional yang terdaftar di bursa efek Indonesia sesudah penerapan IFRS. Kemampuan variabel bebas dalam menjelaskan pengaruh pada variabel bebas sebesar 17,8% sedangkan sisanya 82,2 kemungkinan oleh variabel lain.

## 1. INTRODUCTION

In modern economy, the existence of banking is quite necessary. It serves not only as a financial institution, but also as a mediator between those

who have surplus funds (domestic) and those who are in need of the funds (entrepreneur).

The financial statement issued by a company is a form of communication between the company's

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management and the owner. The financial statement can be used by the owner to assess the performance of the company's management. It is necessary for investors to analyze the current performance and position of the company in order to be able to predict the condition of the company in the future. Therefore, it is necessary to assess bank's profitability in order to know the effectiveness of the bank's operation periodically or regularly. Besides, its organization and employees are expected to be able to achieve their goals based on the objectives, standards and criteria established in advance.

Profitability is the most appropriate indicator to measure the performance of a bank in Indonesia. The size of profitability commonly used in banking industry is return on equity (ROE), which serves to measure the return of the bank earned from the investment of the owner of the company within the banking sector, and return on assets (ROA), which serves to measure the efficiency and effectiveness of a company in generating profit from the use of the assets owned by the company. So, the researchers use ROA as the dependent variable to measure profitability.

Some factors or ratios that affect bank's profitability (ROA) include TPF (third party fund), CAR (capital adequacy ratio) and LDR (loan to deposit ratio) etc. But in this study, the researchers only use TPF, CAR, and LDR as the independent variables.

In Indonesia, the accounting standard used to prepare financial statements that have a significant public accountability is PSAK. However, the demands of globalization to harmonize the accounting perceptions in each country have resulted in the emergence of IFRS (International Financial Reporting Standards), which aims to facilitate business reconciliation process in the cross-border business. There are three stages in performing IFRS convergence in Indonesia, namely: (1) Stage of Adoption from 2008 to 2011, (2) Stage of Final Preparation in 2011, and (3) Stage of Implementation in 2012.

From the background described above, the researchers intend to analyze the effect of TPF (third party funds), CAR (capital adequacy ratio), and LDR (loan to deposit ratio) on the profitability (ROE) of conventional commercial banking companies listed on the Indonesia Stock Exchange (IDX) from 2012 to 2013 after the application of IFRS. This is done to find out more about the effect of the variables of third party fund, capital adequacy ratio, and loan to deposit ratio on return on assets partially or simultaneously in conventional commercial banking companies listed on IDX.

## 2. THEORETICAL FRAMEWORK AND HYPOTHESIS

### Bank

Based on Regulation of the Republic of Indonesia Number 10 of 1998: bank or financial institution is a business entity whose role is to collect funds from the public in the form of savings and then channels the funds back to the public in the form of loans or other products which are useful for improving standards of living of, especially, the people of Indonesia.

### IFRS

IFRS (International Financial Reporting Standards) are standards-based principles. So, the approach of IFRS is focused more on a business or having economic purposes of a transaction and the underlying rights and liabilities. In addition to providing guidelines or rules, IFRS provide guidance in the form of principles (Ankarath 2012). The aim of the adoption of IFRS in Indonesia is to make the power of information generated from the financial statements continue to increase so that the financial statements can be more easily understood and used by the users, such as compilers, investors, auditors, readers and other users.

### Profitability

Profitability is a ratio that sees the ability of a company or bank to generate profits for a certain period.

### Return On Assets (ROA)

Return on Assets (ROA) is a ratio that measures the company's ability to generate profits by using total assets (wealth) owned by the company, after being adjusted with the costs, to fund the assets. ROA can be interpreted as the result of a series of corporate policy (strategy) and influence of environmental factors (Hanafi 2009).

### TPF (Third Party Fund)

Third Party Fund (TPF) is derived from the people, both individuals and entities, through various products owned or offered by the bank. Third Party Fund (TPF) is the largest capital or fund owned or acquired by a bank (Suhardjono & Bastian 2006). The third party fund is collected by the bank through several products, such as current accounts, deposits, and savings accounts.

### CAR (Capital Adequacy Ratio)

The Capital Adequacy Ratio that must be owned by a bank is at least 8% (eight percent). The Capital

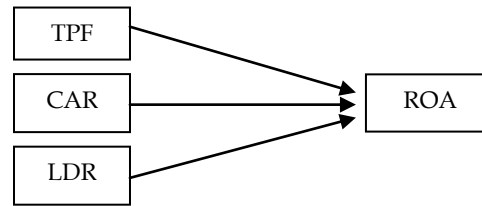


Figure 1  
Framework

Source: Processed.

Adequacy Ratio can be seen from the ratio between the capital owned by the bank and the Risk Weighted Assets (RWA), while the calculation of Risk Weighted Assets (RWA) for market risk and credit risk is based on the value of assets recorded in the balance (SEBI No. 13/24/DPNP/2011).

#### **LDR (Loan To Deposit Ratio)**

Loan to Deposit Ratio (LDR) is a ratio related to loan or distributed to third parties in the form of IDR currency and foreign currency. The loan itself does not include the loan to other banks, but to the Third Party Fund, which includes savings, deposits in IDR or foreign currency, and checking accounts. Interbank funds are also not included (SEBI No. 13/24/DPNP/2011).

#### **The Effect of Third Party Fund (TPF) on Bank's Profitability (ROA)**

Third Party Fund (TPF) is the fund obtained from the public (third party), both enterprises and individuals. The fund will then be distributed to the public in the form of loans. The loans granted or distributed to the public, both individuals and enterprises, are able to stimulate the revenue generated by a bank so that the bank can earn interest from the provision of credit. Thus, from the interest earned, that bank can earn income or profit so that it can add or improve the bank's profit.

The effect of TPF on profitability (ROA) is supported by the research conducted by Rizal Kurniawan (2012) stating that TPF has insignificant effect on ROA. Based on the description above, it can be formulated the following hypotheses:

H1: There is an effect between third party fund (TPF) and bank's profitability (ROA) after the implementation of IFRS.

#### **The Effect Capital Adequacy Ratio (CAR) on Bank's Profitability (ROA)**

The capital adequacy ratio (CAR) which must be met by a bank is at least 8% (eight percent) whose role is to accommodate the risk of loss that may be experienced by the bank. The higher the bank's

CAR, the better the bank's ability to bear the risk of loss resulting from any loans disbursed by the bank. It also serves as a signal that the bank is able to finance its operations, in which it will make a major contribution to the bank profitability.

It is supported by the research conducted by Hiras Pasaribu (2011) stating that Capital Adequacy Ratio (CAR) simultaneously has significant effect on profitability (ROA). Based on the description above, it can be formulated the following hypotheses:

H2: There is an effect between capital adequacy ratio (CAR) and bank's profitability (ROA) after the implementation of IFRS.

#### **The Effect of Loan to Deposit Ratio (LDR) on Bank's Profitability (ROA)**

Loan to deposit ratio (LDR) is a ratio used to measure the level of liquidity of a bank. If the bank's LDR is high, it indicates that the bank distributes or lends all of its funds, or it can be said that the bank is relatively illiquid. Conversely, if the bank's LDR is low, it indicates that the bank is liquid with an excess amount of funds that will be ready for distribution to beneficiaries who receive funds or credit.

It is supported by the research conducted by Hiras Pasaribu (2011) stating that the level of loan to deposit ratio (LDR) has an effect on profitability (ROA). Based on the description above, it can be formulated the following hypotheses:

H3: There is an effect between Loan To Deposit Ratio (LDR) and bank's profitability (ROA) after the implementation of IFRS.

The framework underlying this study can be described in Figure 1.

### **3. RESEARCH METHOD**

#### **Sample Selection**

This study uses conventional commercial banking companies listed on the Indonesia Stock Exchange as the samples. The technique used to select the samples in this study is purposive sampling technique, in which the sampling is determined based

on the criteria that have been determined in advance. The criteria include: (1) conventional commercial banking companies which issued the financial statements of 2012-2013, (2) go public conventional commercial banking companies, (3) conventional commercial banking companies that are listed on the Indonesia Stock Exchange (IDX).

Of the 40 conventional commercial banking companies, acquired 23 conventional commercial banking companies as the study samples according to the sample selection criteria.

### Research Data

The data used in this study are quantitative data, while the type of data is secondary data. Secondary data are the data obtained from the literature, documentation, and internet (Suryana 2010). The data in this study are obtained from the annual financial statements of the banking companies issued by the Indonesia Stock Exchange (IDX) through [www.idx.co.id](http://www.idx.co.id) and by Bank Indonesia (BI) through [www.bi.go.id](http://www.bi.go.id).

### Research Variables

This study uses one dependent variable and three independent variables. The dependent variable is return on assets (RPA), while the independent variables are third party funds (TPF), capital adequacy ratio (CAR), and loan to deposit ratio (LDR).

### Operational Definition of Variables

#### Return On Asset (ROA)

Return on assets (ROA) is used to analyze and measure the level of efficiency and effectiveness of a banking company in generating profit or profitability by utilizing the assets owned by the bank. The formula of Return on Assets (ROA) is as follows:

$$ROA = \frac{\text{EarningsBeforeTax}}{\text{TotalAsset}} \times 100\%. \quad (1)$$

#### Third Party Funds (TPF)

Third party fund (TPF) is raised from the public, both individuals and enterprises, through the banking products such as current account, savings accounts, etc. The formula to calculate the third party fund is as follows:

$$TPF = \frac{\text{TotalT hirdPartyFunds}}{\text{TotalLiabilities}} \times 100\%. \quad (2)$$

#### Capital Adequacy Ratio (CAR)

The capital adequacy ratio (CAR) that must be met by a bank is at least 8% (eight percent) whose role is to accommodate the risk of loss that may be experienced by the bank. The formula to measure capital adequacy ratio (CAR) is as follows:

$$CAR = \frac{\text{Capital}}{\text{TotalRiskWeightedAssets (RWA)}} \times 100\%. \quad (3)$$

#### Loan To Deposit Ratio (LDR)

Loan to deposit ratio (LDR) is a ratio used to measure the level of liquidity of a bank. If the bank's LDR is high, it indicates that the bank distributes or lends all of its funds, or it can be said that the bank is relatively illiquid. Conversely, if the bank's LDR is low, it indicates that the bank is liquid. The formula to measure loan to deposit ratio (LDR) is as follows:

$$LDR = \frac{\text{CapitalTotalLoanstal}}{\text{TotalT hirdPartyFunds}} \times 100\%. \quad (4)$$

### Analysis Tools

Multiple linear regression analysis is used to test the relationship between the independent variables (TPF, CAR, LDR) and the dependent variable (ROA) in conventional commercial banking companies listed on the Indonesia Stock Exchange (IDX) in 2012-2013. The regression equation is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e. \quad (5)$$

Where:

$Y$  = Return on Assets

$a$  = Constant

$b_1, b_2, b_3$  = Regression Coefficient

$X_1$  = Third Party Funds (TPF)

$X_2$  = Capital Adequacy Ratio (CAR)

$X_3$  = Loan to Deposit Ratio (LDR)

$e$  = error

## 4. DATA ANALYSIS AND DISCUSSION

### Descriptive Test

The descriptive test of the data is viewed from the number of data (N), the average value (mean), standard deviation, maximum value, and minimum value of each variable used in this study. Table 1 is the results of descriptive test using test tools of SPSS 16.0.

### Return on Equity (ROE)

Based on Table 1, the data used in this study, after being conducted outlier once, are 41 (forty-one), in which the data are obtained from the financial statements issued by the conventional commercial banking companies through [www.idx.co.id](http://www.idx.co.id) in 2012-2013. The table above shows that the minimum value of ROA variable is 0.046% acquired by PT. QNB Bank Kesawan Tbk in 2013, and the maximum value of 5.189% acquired by PT. Bank Mes-tika Dharma in 2013. This indicates that the bank's profitability is not always high. The mean value of ROA of the conventional commercial banking companies in Indonesia is 1.955%. Viewing from

**Table 1**  
**Results of Descriptive Analysis**

	N	Minimum	Maximum	Mean	Std. Deviation
Third Party Funds	41	72.572	98.903	90.04431	6.667011
Capital Adequacy Ratio	41	10.090	26.988	16.45451	3.627571
Loan to Deposit Ratio	41	53.019	114.214	86.19887	11.106239
Return on Asset	41	.046	5.189	1.95521	1.025321
Valid N (listwise)	41				

Source: SPSS output.

**Table 2**  
**Results of Normality Test before Outlier**

	Unstandardized Residual
N	46
Normal Parameters <sup>a</sup>	
Mean	.000
Std. Deviation	1.72924
Most Extreme Differences	
Absolute	.223
Positive	.132
Negative	-.223
Kolmogorov-Smirnov Z	1.510
Asymp. Sig. (2-tailed)	.021

Source: SPSS output.

the ROA value, it can be concluded that, statistically, the ROA value of conventional commercial banking companies listed on IDX during the period 2012-2013 (after the application of IFRS) is above 1.5%. This shows that the ROE of conventional commercial banking companies listed on IDX has had compliance with the Regulation of BI (Bank Indonesia), in which the banks, which are categorized healthy, are the banks that have ROE value of at least 1.5%. A standard deviation of 1.025% indicates that the data used on ROA variable has a small distribution because the standard deviation is smaller than the mean value, so the deviation of data on ROA variable can be declared "good".

### Third Party Fund (TPF)

Based on Table 1, it shows that the number of data tested is as many as forty-one data. The minimum value of TPF variable is 72.572% acquired by PT. Bank Danamon Indonesia.Tbk in 2013, while the maximum value of TPF variable is 98.903% acquired by PT. Bank Maspion Indonesia in 2012. The mean value of TPF is 90.044%, indicating that TPF is the largest source of funds that are relied upon by the banks. The standard deviation of TPF is 6.667%. Viewed from its standard deviation, it indicates that the data used on TPF variable has a small distribution because the standard deviation is

smaller than the mean value, so the deviation of data on TPF variable can be declared "good".

### Capital Adequacy Ratio (CAR)

Based on Table 1, it shows that the number of data tested is as many as forty-one data. The minimum value of CAR variable has is 10.090% acquired by PT. Bank Mutiara, Tbk in 2012, and the maximum value of CAR variable is 26.988% acquired by PT. Bank Mestika Dharma in 2013. From the minimum and maximum values, indicate that the CAR value of conventional commercial banking companies in Indonesia is good. The mean value of CAR variable of conventional commercial banking companies in Indonesia is 16.454%. Judging from the mean value, it can be concluded that, statistically, the CAR value of conventional commercial banking companies during the study period is far above the standard set by Bank Indonesia with a minimum value of 8%. So, it can be said that the conventional commercial banking companies have met the CAR qualification as stipulated by Bank Indonesia. This automatically indicates the better ability of the banks to bear the risk that might be resulted from any credit. The standard deviation of CAR is 3.622%, which indicates that the data used on CAR variable has a small distribution because the standard deviation is smaller than the mean value, so the deviation of data on CAR variable can be declared "good".

**Table 3**  
**Results of Normality Test after Outlier**

		Unstandardized Residual
N		41
Normal Parameters <sup>a</sup>	Mean	.000
	Std. Deviation	.89381
Most Extreme Differences	Absolute	.091
	Positive	.091
	Negative	-.081
Kolmogorov-Smirnov Z		.582
Asymp. Sig. (2-tailed)		.887

Source: SPSS output.

**Table 4**  
**Results of Multiple Linear Regression Analysis**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	-2.011	2.783		-.723	.474
Third Party Funds	.018	.024	.114	.727	.472
Capital Adequacy Ratio	.128	.043	.454	2.984	.005
Loan to Deposit Ratio	.003	.015	.034	.214	.832

Source: SPSS output.

### Loan to Deposit Ratio (LDR)

Based on Table 1, it shows that the number of data tested is as many as forty-one data. The minimum value of LDR variable is 53.019% acquired by PT. Bank Mega Tbk in 2012, and the maximum value of LDR variable is 114.214% acquired by PT. Bank Danamon Indonesia.Tbk. The mean value of LDR is 86.198%. Viewing from the mean value, it shows that, statistically, the LDR value is above the standard established by Bank Indonesia, ie. 80%. This indicates that the conventional commercial banking companies in Indonesia have been effective in extending credit. With a standard deviation of 11.106%, it indicates that the data used on LDR variable has small distribution because the standard deviation is smaller than the mean value, so the deviation of data on LDR variable can be declared "good".

### Normality Test

Normality test is conducted to determine whether the data used in this study have normal distribution or not. The regression model used in this study will be declared "good" if all variables, both independent and dependent, are normally distributed. Table 2 is the output of normality test before outliers. Based on the output generated from the normality test using Kolmogorov-Smirnov test, it shows that the value of Asymp. Sig. (2-tailed) is 0.021.

Since the significant value is  $0.021 < 0.05$ , it can be concluded that the data are not normally distributed.

Because the data are not normal, the researchers conducted outlier to generate the data that have normal distribution. Then the data will be tested using normality test again to determine whether the data, after the outlier, will have normal distribution or not. Table 3 is the results of the normality test of the data after outlier: Based on the output generated from the normality test in Table 3 using Kolmogorov-Smirnov test, after the outlier, there are five data that are eliminated, so the remaining data that will be used in this study are as many as forty-one data. The normality test shows that the value of Kolmogorov-Smirnov Z is 0.582, and the value of Asymp. Sig. (2-tailed) generated on all variables of TPF, CAR, and LDR is 0.887. Since the significant value is  $0.887 > 0.05$ , from the results of Kolmogorov-Smirnov test, it can be concluded that  $H_0$  is accepted, which means that the data are normally distributed, so that further testing can be done using multiple regression analysis.

### Multiple Linear Regression Analysis

Table 4 shows the output of multiple linear regression analysis. Based on Table 4 above, the equation of multi linear regression can be formulated as follows:

$$ROA = -2.011 + 0.018 X_1 + 0.128 X_2 + 0.003 X_3 + e. \quad (6)$$

Where :

Y = Return on Assets

a = Constant

$b_1, b_2, b_3$  = Regression Coefficients

$X_1$  = Third Party Funds (TPF)

$X_2$  = Capital Adequacy Ratio (CAR)

$X_3$  = Loan to Deposit Ratio (LDR)

e = error

Based on the results of multiple linear regression equation above, it can be seen that the constant value is -2.011, indicating that the independent variables of TPF ( $X_1$ ), CAR ( $X_2$ ) and LDR ( $X_3$ ) are considered constant. So, the dependent variable, profitability (ROA), decreased by -2.011 %.

The regression coefficient value of TPF ( $X_1$ ) is positive. It indicates a positive direction or a unidirectional relationship between TPF variable and Return on Asset (ROA). This can be said that if the value of TPF increases, the bank's ROA will also increase, although it is not significant. And vice versa, if ROA decreases, it can be caused by the TPF that also experiences a decrease, or it can be caused by a breakdown in lending of the third party funds. The effect of TPF ( $X_1$ ) on profitability (Y), when it is seen from its regression coefficient value of 0.018%, it means that any change in TPF variable ( $X_1$ ) by one percent, the variable of profitability (Y) will increase by 0.018%. This can happen by assuming that the value of the variables of CAR ( $X_2$ ) and LDR ( $X_3$ ) is constant.

The regression coefficient value of CAR ( $X_2$ ) is positive. It indicates a positive direction or a unidirectional relationship between CAR variable and Return on Asset (ROA). This can be said that if the value of CAR increases, the bank's ROA will also increase. And vice versa, if the value of CAR decreases, the bank's ROA will also decrease. Since CAR is the ratio of capital whose role is to accommodate the risk of loss that may be experienced by a bank, the higher the CAR of a bank, the better the ability of the bank to bear the risk of loss resulted from any bank loans. The effect of CAR ( $X_2$ ) on profitability (Y), when it is seen from its regression coefficient value of 0.128%, it means that any change in CAR variable ( $X_2$ ) by one percent, the variable of profitability (Y) will increase by 0.128%. This can happen by assuming that the value of the variables of TPF ( $X_1$ ) and LDR ( $X_3$ ) is constant.

The regression coefficient value of LDR ( $X_3$ ) is positive. It indicates a positive direction or a unidirectional relationship between LDR variable and Return on Asset (ROA). This can be said that if the value of LDR increases, the bank's ROA will also

increase, although the increase is not significant. And vice versa, if the value of LDR decreases, the bank's ROA will also decrease. The effect of LDR ( $X_3$ ) on profitability (Y), when it is seen from its regression coefficient value of 0.003%, it means that any change in the variable of LDR ( $X_3$ ) by one percent, the variable of profitability (Y) will increase by 0.003%. This can happen by assuming that the value of the variables of TPF ( $X_1$ ) and CAR ( $X_2$ ) is constant.

### Simultaneous Test (F Test)

This study includes simultaneous test (F test) to determine whether the independent variables, consisting of TPF, CAR and LDR, simultaneously have an effect on profitability (ROA). Besides, F test is used to test whether the model used "fit". Based on the statistical test by using SPSS produces an F test output as shown in Table 5. Based on the F test, it is obtained F value of 3.896, with significance probability value of 0.016. This indicates that the significance value generated from the F test output is less than alpha 0.05. So, it can be concluded that  $H_0$  is rejected, which means that the regression model is said "Fit", or in other words, the independent variables consisting of TPF, CAR, and LDR jointly or simultaneously affect the dependent variable of return on assets (ROA).

### Determination Coefficient ( $R^2$ Test)

Determination coefficient (adjusted  $R^2$ ) is used to measure the ability of the model to explain variations of dependent variable used in this study. The determination coefficient is ranging from zero to one ( $0 \leq R^2 \leq 1$ ). This means that if the value of  $R^2 = 0$ , the result shows that there is no effect of independent variable on dependent variable. If the value of  $R^2$  is getting very close to 1, the result shows the growing effect of independent variable on dependent variable. However, if the value of  $R^2$  is getting closer to 0, the result shows the smaller effect of independent variable on dependent variable. Table 6 is the results of the output of  $R^2$  test by using SPSS.

All independent variables used in this research are Third Party Funds (TPF) ( $X_1$ ), Capital Adequacy Ratio (CAR) ( $X_2$ ), and Loan to Deposit Ratio (LDR) ( $X_3$ ), have influence or can explain the variation of the dependent variable of Return on Assets (ROA), of 17.8%. This is evidenced by looking at the result of  $R^2$  test (coefficient of determination) of 0.178, indicating that the bank's profitability (ROE) can be explained by the three independent variables used in this research, namely third-party

**Table 5**  
**Simultaneous Test (F Test)**

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10.095	3	3.365	3.896	.016 <sup>a</sup>
	Residual	31.956	37	.864		
	Total	42.051	40			

Source: SPSS output.

**Table 6**  
**Determination Coefficient (R2 Test)**

	Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1		.490 <sup>a</sup>	.240	.178	.929340

Source: SPSS output.

**Table 7**  
**Partial Test (T test)**

	Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.011	2.783		-.723	.474
	Third Party Funds	.018	.024	.114	.727	.472
	Capital Adequacy Ratio	.128	.043	.454	2.984	.005
	Loan to Deposit Ratio	.003	.015	.034	.214	.832

Source: SPSS output.

fund (TPF), capital adequacy ratio (CAR), loan to deposit ratio (LDR), while the remaining 82.2% indicating that the bank's profitability (ROE) is affected by other factors that are not included in the regression model equation.

#### **Partial Test (t test)**

Partial test (t test) is used to test the effect of each independent variable partially on the dependent variable used in this study. Thus, Table 7 is the results of t test using SPSS.

The results of the t test show that the variable of capital adequacy ratio (CAR) has the biggest effect on return on assets (ROA) with the value of unstandardized coefficient of 0.128. Meanwhile, the results of hypothesis test using partial test show the effect of each independent variable on the dependent variable are as follows:

#### **The Effect of Third Party Fund (TDF) on Return on Asset (ROA)**

Based on linear regression model, Third Party Fund (TDF) has a positive regression coefficient value. It indicates a positive direction or a unidirectional relationship between TDF and ROA. In other words, it can be said that if the value of TDF increases, the value of ROA will also increase, and vice versa.

Based on t test, the significance value of TDF

is 0.472, indicating that TPF has no effect on ROA. This can be caused by an imbalance between the number of incoming funds and the amount of credit provided to the public. The high third party funds collected by the bank should be balance with the loan provision. Otherwise, the bank will likely suffer from loss or a decrease in profitability because interest income from lending to borrowers is not sufficient to cover the cost of interest paid to depositors. This is not in accordance with the theory described by Taswan (2008) that with the increasing number of third party funds as the main source of the bank, the bank places the funds in the form of productive assets, like credit. The placement in the form of credit will contribute to the bank's interest income that will have an effect on profitability (earnings) of the bank.

The results of this study are also consistent with study conducted by Yoli Lara Sukma (2013) stating that the Third Party Fund (TPF) has no effect on profitability in the banking sector.

#### **The Effect of Capital Adequacy Ratio (CAR) on Return on Asset (ROA)**

Based on linear regression model, Capital Adequacy Ratio (CAR) has positive regression coefficient value. It indicates a positive direction or a unidirectional relationship between CAR and ROA. In other words, it can be said that if the value of CAR in-



creases, the value of ROA will also increase, and vice versa. This is because CAR has the aim to determine whether the existing bank's capital is sufficient to support the bank's activities that are carried out efficiently, whether the bank's capital will be able to absorb unavoidable losses, and whether the bank's wealth will be greater or smaller.

Based on t test, the significance value of CAR is 0.005. So, it can be concluded that CAR has an effect on ROA. It is because the banking companies generally seek to maintain their CAR in accordance with the provisions issued by Bank Indonesia at least 8%. So, it can be said that the banks have better ability to bear the risk that might occur in the credits or the productive assets which may give rise to risk.

The results of this research are also in line with the research conducted by Fatoni et al. (2012) stating that CAR has positive and significant effect on profitability in the banking sector.

#### **The Effect of Loan to Deposit Ratio (LDR) on Return on Asset (ROA)**

Based on linear regression model, LDR has a positive regression coefficient value. It indicates a positive direction or a unidirectional relationship between LDR) and ROA. In other words, it can be said that if the value of LDR increase, the value of ROA will also increase, and vice versa if the value of LDR decreases, the value of ROA will also decrease.

Based on t test, the significance value of LDR is 0.832. So, it can be concluded that LDR has no effect on ROA. The results of this study are not consistent with the concept and logic operations of banks, in which, the increased funding lent to customers will increase the Return on Asset (ROA). The efforts that can be made by the management to increase ROA are to improve the quality of credit or loans to customers through a more stringent assessment of credit customer so as to reduce or avoid credit problems.

The results of this research are in line with the research conducted by Bambang Sudiyatno (2010) stating that LDR has positive but not significant effect on profitability in banking sector.

#### **5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS**

Based on the results of data processing performed in this study, it can be concluded as follows: (1) the variables of third party funds (TPF), capital adequacy ratio (CAR), and loan to deposit ratio (LDR) simultaneously have significant effect on return on

assets (ROA) in conventional commercial banking companies listed on the Indonesia Stock Exchange (after the implementation of IFRS); (2) the variable of third party fund (TPF) partially has positive but not significant effect on return on assets (ROA) in conventional commercial banking companies listed on the Indonesia Stock Exchange (after the implementation of IFRS); (3) the variable of capital adequacy ratio (CAR) partially has positive and significant effect on return on assets (ROA) in conventional commercial banking companies listed on the Indonesia Stock Exchange (after the implementation of IFRS); (4) the variable of loan to deposit ratio (LDR) partially has positive but not significant effect on return on assets (ROA) in conventional commercial banking companies listed on the Indonesia Stock Exchange (after the implementation of IFRS).

This study has several limitations, such as: (1) the presentation of the data in the form of annual financial statements of conventional commercial banking companies obtained from [www.idx.co.id](http://www.idx.co.id) is incomplete; (2) the period of observation in this study is only between 2012 and 2013. So, it cannot show the trend of each variable.

Based on the results and limitations of the study, the suggestions for future research are: (1) it is expected to increase the number of independent variables to be studied, such as NPL, Operating Cost & Operating Income, and NIM, so that later it will be able to note any variables that may affect the bank's profitability (ROA), because in this study shows only 17.8% of independent variables that can explain the dependent variable; (2) it is expected to add research objects on conventional commercial banking companies which are not listed on the Indonesia Stock Exchange as research samples.

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