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# SHARIA RURAL BANK'S PERFORMANCE: CAPITAL, FINTECH, FUNDS AND CREDIT RISK

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**ABSTRACT**
This research examines the interrelationship among capital adequacy ratio, financial technology, and third-party funds on financial performance, focusing on the moderating role of credit risk. The sample consisted of twenty-five Islamic Rural Banks in Indonesia, selected through purposive sampling from those listed in the Financial Services Authority (OJK) from 2019 to 2024 and cooperating with PT Komunal Indonesia. The research employed panel data regression analysis conducted with E-Views 12 software, with quarterly financial statements as the primary data source. The findings reveal that while the capital adequacy ratio partially does not determine financial performance, it significantly impacts when credit risk is considered a moderator. Additionally, financial technology partially affects financial performance, and credit risk enhances the relationship between financial technology and performance. Conversely, third-party funds did not significantly affect financial performance, and credit risk did not moderate the two variables. According to the study's findings, Sharia Rural Bank management should be able to make informed decisions regarding business strategy and the utilization of productive assets by considering the evolving technological landscape to maintain public trust.

**Keywords:** Financial Performance, Capital, Technology, Sharia Bank

## INTRODUCTION

Public trust is a critical element for the success of any bank, particularly an Islamic bank. A lack of trust in the financial sector can impact financial performance, access to credit, and can lead to uncontrolled deposit withdrawals (Wulansari, 2020). Islamic banks have a dual purpose, not only to maximize profits but also to enhance the well-being of the community (Trimulato, 2019). As per Law Number 21 of 2008, there are currently 174 Sharia Rural Banks that directly serve the community through savings, deposits, and financing for the Micro, Small, and Medium Enterprises (MSME) sector.

The bank's financial performance reflects its overall health and operational efficiency, encompassing various aspects such as financial, marketing, and digital technology (Azwa & Afriani, 2016). According to the data supplied by the Financial Services Authority (2024), the Sharia Rural Bank's efforts to uphold the trust of the Indonesian people have resulted in a 15% growth in total assets after the Covid-19 pandemic (Oktaviana et al., 2024). However, in the period of July 2024, the ROA ratio was 1.46%, which is lower than the value of 2.61% in December 2023. This indicates that although the assets have increased after the pandemic, the Sharia Rural Bank has not been able to generate high returns and fully optimize its profits (Syuhri et al., 2025). In order to achieve optimal assets, the Sharia Rural Bank must identify opportunities and make strategic decisions that consider their effect on the firm's financial performance (Wardani, 2024).

The Covid-19 pandemic officially ended in 2023, posing a challenge for Sharia Rural Bank as stimulus policies related to loan restructuring for those affected by the pandemic are normalized (Financial Services Authority, 2024). Competition in the micro, small, and medium enterprises (MSME) segment between Sharia Rural Bank and government programs such as the People's Business Credit and other fintech lenders is becoming increasingly intense (Oktaviana et al., 2024). However, Sharia Rural Bank's contribution in various regions remains low regarding financial performance, lending, and third-party fundraising. Additionally, the bank faces internal challenges such as low capital,

suboptimal implementation of governance and risk management, and inadequate technology.

Signaling theory is concerned with decision-making and communication, where the signaler provides a signal in the form of credible information regarding the company's quality (Connelly et al., 2024). The information disclosed by the company serves as a signal and reflects the perspectives of investors and management in assessing the company's prospects and making decisions (Setyaningsih et al., 2024.) The company is responsible for disclosing information desired by investors and the public, particularly in financial statements. This disclosure is crucial for maintaining transparency and improving market efficiency. In this context, the disclosure of the capital adequacy ratio, which measures the bank's capital adequacy and ability to raise third-party funds, can significantly impact its financial performance (Rosada & Aulia, 2023).

The ability to achieve profitability in measuring financial performance is closely tied to managing productive assets, particularly credit distribution. Sharia Rural Banks' core purpose is to offer quality financing services to the community. In order to achieve this, it is crucial to increase productive assets by strengthening capital (Agung & Wardana, 2022). This could be estimated by the capital adequacy ratio, which assesses the adequacy of a bank's capital to shield potential losses (Magdalena & Lizabeth, 2018). Substantial capital utilization also perform a notable role in reducing systematic risk in the banking sector (Fitriana, 2024).

The largest funds for banks come from third parties, such as savings, current accounts, and deposits (Kasmir, 2017). These funds are then distributed to productive assets in order to maximize profitability. As third-party funds increase, so does credit growth, resulting in higher profitability for the bank (Sondakh et al., 2021). Third-party involvement enables banks to effectively perform their intermediary functions by aggregating funds from the community and disbursing them as credit. These third-party funds are indispensable for all banking operations and represent a substantial portion of a bank's capital.

The theory proposed by Schumpeter (2021) in the book "The Theory of Economic Development" emphasized that innovation, including new technology, is the key to increasing efficiency and competitiveness. Fintech start-ups create innovative services that increase access to finance and transform the banking industry to reduce transaction costs and enhance banking performance. Based on Bank Indonesia Regulation Number 19/12/PBI/2017, Financial technology (fintech) merges financial services with technological advancements to develop innovative products, services, and business models. This integration is fundamental to enhancing the stability, efficiency, and reliability of payment systems.

Companies that invest in innovation tend to have higher performance (ROA) because they can meet customer needs well (Robertson, 2023). Innovation regarding the collaboration of Islamic banks with fintech can improve the performance of both companies. One of the characteristics of the fintech model that can be adopted by Sharia Rural Bank is collaboration with fintech companies with e-commerce applications to sell products from banks (Priyo et al., 2021). A fintech company that has collaborated with many Sharia Rural Bank with an e-commerce application model is PT Komunal Indonesia. This e-commerce service application is called DepositoBPR. Financial Services Authority inaugurated This collaboration on December 10, 2021, with the hope that Sharia Rural Bank can expand collaboration and join the financial ecosystem.

Sharia Rural Banks capital providers for MSMEs have the main task of channelling credit. Many of the Sharia Rural Banks experience non-performing financing due to less thorough credit analysis (Putra, A, 2019). Non-performing financing is loans that are not paid and reduce the bank's financial performance (ROA) (Marliyah et al., 2021). The

addition of moderating variables, namely credit risk, is based on research (Kurnia & Wahyudi, 2022; Rosada & Aulia, 2023), which shows that non-performing financing can increase the effect of capital adequacy ratio on return on assets, but not on the third party funds variable of Sharia Rural Bank in Indonesia.

Some previous studies have shown that research results can vary over time. Therefore, this study builds upon previous research (Muchtar et al., 2021; Rosada & Aulia, 2023; Safitri & Nur, 2024; Yudaruddin, 2023) , which examines the relationship between capital adequacy ratio, third-party funds, and credit risk. The novelty of the study lies in introducing new variables, namely financial technology, into the analysis of Islamic Rural Bank's financial performance, especially in the context of cooperation with PT Komunal Indonesia. The reason for selecting this sample is to test the influence of the bank's financial performance on the cooperation between the two companies by looking at the periods before and after the cooperation. This approach highlights the research gap by testing the moderating effect of these variables on different objects compared to previous studies. Financial technology variables are taken from research (Indrianti et al., 2022; Yudaruddin, 2023), proving that financial technology influences banking financial performance. This study seeks to identify the factors that affect the financial performance of the Sharia Rural Bank.

## LITERATURE REVIEW

### Signaling Theory

According to Spence (1973), signaling theory describes a situation in which the sender (company) conveys a positive information signal to the recipient (investors or other stakeholders). In the context of financial management, this theory serves as an important foundation, as explained by Fahmi (2014). The information disclosed in financial reports reflects the company's perception of its business prospects and serves as a basis for investor decision-making. Therefore, companies are obliged to convey the information investors need to ensure transparency and support market efficiency (Hughes, 1986). Financial reports are an important medium for demonstrating company performance. For BPRS, conveying positive signals to customers is a way to build trust and reliability in fund management (Prastika, 2019).

### Schumpeter's Theory of Innovation

Schumpeter (2021), in his work, The Theory of Economic Development, emphasized that innovation, particularly in the form of new technology, is a driving force for increasing economic efficiency and competitiveness. In the context of modern banking, the presence of fintech start-ups has made a significant contribution through innovations that expand financial access, reduce transaction costs, and improve banking operational efficiency. Shanmugam and Nigam (2020, in Indrianti, 2022:351) added that technology-based innovation not only opens opportunities and increases profitability but also encourages banks to create new products to attract investors. However, this situation also creates intense market competition, so that the adoption of fintech can simultaneously improve financial performance and challenge the existence of conventional banking.

### Financial Performance

Financial performance reflects a company's achievements over a specific period and serves as a benchmark for management effectiveness in managing resources. Kasmir (2014) states that financial performance is the result of a company's financial activities, aimed at assessing whether the company's targets and objectives have been achieved. The financial structure shown in financial statements provides an overview of how optimally assets are managed to generate profits (Kusumadyahdewi et al., 2024).

Financial ratios are a key tool in analyzing financial performance. Fitriana (2024) explains that bank financial ratios can be used to periodically evaluate financial condition. One important ratio is the profitability ratio, which measures a company's effectiveness in

generating profits. Using Return on Assets (ROA) as a profitability indicator allows for an evaluation of the extent to which a company utilizes its assets efficiently (Suhadi & Inaroh, 2018).

**Return on Assets (ROA)**

ROA is a key indicator for assessing a company's profitability based on the comparison between net profit and total assets. According to Fitriana (2024), ROA indicates the rate of return on assets used in a company's operational activities. In Fundamentals of Financial Management (2008), ROA is described as the percentage of net profit to total assets, reflecting management's efficiency in utilizing its resources.

Understanding a company's asset optimization is important for investors and creditors to assess the company's ability to generate profits. Wardani (2024) adds that management's ability to make strategic decisions also determines the effectiveness of asset utilization. Meanwhile, a low ROA may reflect a deliberate management strategy, for example, to obtain greater credit funding despite high interest expenses (Brigham, 2021).

**Capital Adequacy Ratio (CAR)**

Capital plays a crucial role in maintaining stability and supporting the continuity of bank operations. Fitriana (2024) states that strong capital helps mitigate systemic risk in the banking industry. In the context of Islamic banks, according to Auliyah (2010), types of capital include core capital, quasi-equity (mudharabah funds), and deposit funds (wadiah).

The Capital Adequacy Ratio (CAR), or Minimum Capital Adequacy Requirement, is a ratio that reflects a bank's ability to cover the risk of losses on risk-weighted assets (RWA). The higher the CAR, the better the bank's ability to bear the risk of its assets. Ismaulina (2021) explains that CAR is used to evaluate the adequacy of a bank's capital structure to support risky operations, such as credit.

**Financial Technology (Fintech)**

Fintech, or financial technology, is an internet-based digital innovation operating in the financial services sector. According to Bank Indonesia Regulation No. 19/12/PBI/2017, fintech is defined as the integration of financial services and technology to create new products, services, and business models that support the efficiency, stability, and reliability of payment systems.

Fintech offers numerous benefits to banks, including expanding customer reach, accelerating product development, and opening up new revenue streams. The application of this technology not only expands the market but also increases efficiency and customer trust, ultimately positively impacting banks' financial performance (Almulla & Aljughaiman, 2021).

## HYPOTHESIS

The disclosure of a bank's Capital Adequacy Ratio (CAR) can be a strong indicator for investors and the public when considering financing options. A higher CAR value indicates that the bank is effectively utilizing its productive assets and experiencing an increase in Return On Assets (ROA). According to research by Rosada and Aulia (2023) and then Iska (2020), there is a significant correlation between capital adequacy and profitability. This is because a sufficient amount of capital allows banks to cover losses from non-performing financing and maintain the quality of their assets, resulting in optimal asset usage. However, Safitri and Nur (2024) argue that a high CAR can lead to excess reserves, making it challenging for banks to utilize their capital and ultimately leading to decreased performance. On the other hand, studies by (Amalia et al., 2022; Muchtar et al., 2021; Rahma & Sutrisno, 2023) have found no significant influence of CAR on ROA. This may be due to the fact that banks receive funds not only from their capital but also from other sources. As a result, many banking companies do not maintain a high CAR as it can reduce their income. These conflicting findings have led to the formulation of the following hypothesis:

**$H_1$: Capital Adequacy Ratio has a determined on Financial Performance**

Shanmugam and Nigam (2020) explain Schumpter's innovation theory about technological advances that create opportunities and benefits. This encourages the emergence of innovative products in the banking sector, which are then invested in by other parties. However, this also leads to a reduction in the profit margin of innovation for banks. The emergence of fintech companies significantly impacts the performance and profitability of Sharia Rural Bank, as they are unable to compete in terms of human resources and knowledge of information technology (Ika, 2019). Similarly, Trimulato's (2019) study shows that the fintech pattern (crowdfunding, peer-to-peer lending, payment) positively impacts the development of Islamic microfinance institutions such as BMT and Sharia Rural Bank. This finding is supported by Yudaruddin's (2023) research on fintech startups in the payment category, which also indicate a positive assessment of the performance of Islamic banks.(Yudaruddin, 2023).

Financial technology provides practical access to financial products, making it more affordable for the public to access banking products. This aligns with previous research (Evita, 2024; Ika, 2019; Indrianti et al., 2022; Supriyadi et al., 2023; Yudaruddin, 2023). However, Almulla's (2021) research suggests that fintech services may have a negative impact on bank performance. On the other hand, Aini's (2024) research shows that financial technology does not significantly impact regional banks' financial performance. Based on these findings, the hypothesis that is being tested is:

**$H_2$: There is a determine of Fintech on Financial Performance**

The utilization of strategic partnerships with e-commerce platforms provides more funds from the community. These funds are then used to distribute financing to MSMEs. Signal Theory explains how parties can use credible information, such as financial reports, to communicate with external parties (Connelly et al., 2024). These reports can help to reduce information asymmetry, giving external parties better access to information about the company's financial performance. In particular, disclosing information about Third Party Funds (TPF), which shows an increase in funds from the public, can serve as a positive signal to investors, indicating that the bank is able to maintain public trust and attract funds. Research by (Aranita et al., 2022; Meliza, 2023; Nurmasari, 2022; Setiati et al., 2021) shows that TPF has a significant and positive impact on profitability, meaning that an increase in TPF can lead to an increase in Return on Assets (ROA). However, research conducted by (Rahma & Sutrisno, 2023; Sondakh et al., 2021; Triya & Dewi, 2023; Viciwati, 2021) presents a contradictory perspective, asserting that third-party fund does not have an impact on ROA. Therefore, the hypothesis being studied is:

**$H_3$: Third Party Fund has a determined on Financial Performance**

Non-performing financing increases bank losses, misses opportunities for income from loans, and can negatively impact overall rentability (Pujiyanty et al., 2022). The Non-Performing Financing (NPF) ratio is a crucial measure for assessing credit risk in banks. It is worth noting that the NPF ratio differs between Islamic banks and conventional banks, as Islamic banks do not have a specific credit period (Widiyaningtias & Dura, 2022).
In signal theory, companies can utilize these signals to communicate important information, such as performance and risk (Hapsari & Firmansyah, 2024). This allows investors to assess the company's credit risk and potential profitability. A lower credit risk can lead to higher profits for the bank, which can be reflected in the financial statements and serve as a positive signal to investors (Marliyah et al., 2021). On the other hand, a bank with a high credit risk may experience lower profits and a decrease in capital efficiency, which can impact its ability to finance purchases and sales (Zaenudin & Saadati, 2023).

Several studies (Kurnia & Wahyudi, 2022; Muchtar et al., 2021; Rosada & Aulia, 2023) have shown that Non-Performing Financing can moderate the interaction between Capital Adequacy Ratio and Return on Assets. This means that banks that effectively manage

credit risk and maintain public trust through raising funds are more likely to see increased profits. Based on this, the hypothesis being studied is:

**$H_4$: Credit risk can moderate the determine of Capital Adequacy Ratio (CAR) on Financial Performance**

Effective utilization and collaboration of financial technology innovations require careful management decisions and a thorough financial performance review. One crucial aspect that must be considered is credit risk, as it directly impacts the future performance prospects of a company. Signaling theory describes how management decisions significantly build investor and creditor confidence through positive signals (Connelly et al., 2024). This is especially important when assessing a bank's credit risk. Research conducted by (Az Zahra & Miranti, 2023; Ilmang & Nawirah, 2020) has shown that fintech has the potential to improve operational efficiency and service access, but this impacts stability and profitability. Meanwhile, credit risk, in the form of NPF/NPL, has consistently been shown to be a crucial variable affecting bank financial performance, both in terms of stability and profitability. Therefore, effective financial technology integration, coupled with sound financing risk management, is key to driving optimal performance in banking institutions.

Research by (Amalia et al., 2022; Zubaidah & Hartono, 2019) has shown that non-performing financing (NPF) have a harmful effect on return on assets (ROA). In other words, if a bank has many of problematic loans, it can significantly decrease its financial performance. This, in turn, can affect the bank's ability to collaborate with fintech companies. Therefore, the researcher suspects that:

**$H_5$: Credit risk can moderate the determine of Fintech on Financial Performance**

Credit risk, as assessed by Non-Performing Financing (NPF), exerts a considerable influence on third-party fund and return on assets. When a bank's non-performing financing increases, it can decrease third-party funds due to a lack of public trust (Rosada & Aulia, 2023). Public trust is a crucial factor for companies, as reflected in their financial reports. According to the signaling theory, information about lower credit risk levels results in higher financial performance, thus encouraging people to invest their funds in banks (Hapsari & Firmansyah, 2024). Recent research by Pandhega (2021) has shown that NPF can moderate the relationship between TPF and ROA, while Mujairimi's study (2023) suggests that NPF may not have a moderating effect on this relationship. The presence of Non-Performing Financing can hinder lending and limit the collection of excess funds, ultimately impacting the bank's financial performance. Based on previous research, it is suspected that:

**$H_6$: Credit risk can moderate the determine of Third Party Fund (TPF) on Financial Performance.**

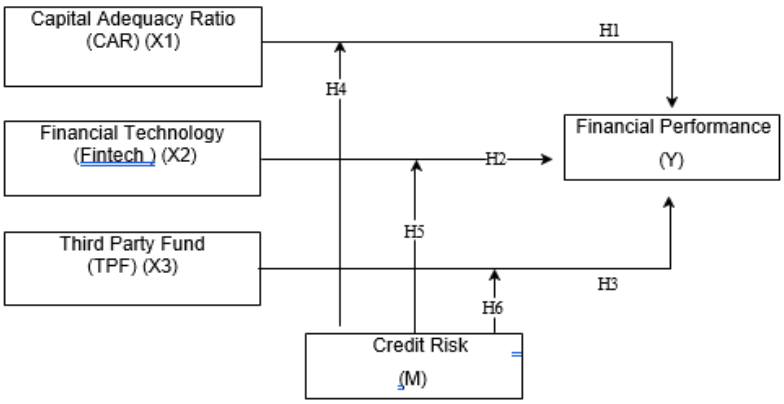


**Figure 1. Theoritical Framework**
**Source: Research Data (2024)**

This research examines the capital adequacy ratio, financial technology and third-party funds on financial performance enhanced by credit risk as a key moderating factor. This conceptual framework can be shown in Figure 1.

## METHODS

This research employs quantitative methods and approaches. The population for this study consisted of 174 Sharia Rural Banks located in all provinces of Indonesia. The study utilised a purposive sampling technique. The sample used in the study included quarterly financial reports from Sharia Rural Banks are endorsed with the Financial Services Authority from the first quarter of 2021 to the third quarter of 2024. The criteria for selecting research samples are outlined in Table 1 below:

**Table 1. Sample Preference Criteria**

| Sample Criteria | Total |
|---|---|
| Sharia Rural Banks are listed with the Financial Services Authority | 173 |
| Sharia Rural Banks that do not cooperate with PT Komunal Indonesia through the DepositoBPR e-commerce application | (137) |
| Sharia Rural Banks without complete published financial reports can be accessed from the first quarter of 2021 to the third quarter of 2024 | (11) |
| Total Sharia Rural Banks sampled | 25 |
| Total observation data (n x research quarter period first quarter 2021 to third quarter 2024) (25 x (4 x 4 - 1)) | 375 |

**Source: Data Processed (2024)**

Based on the criteria for the research sample, a total of twenty-five Sharia Rural Banks were included, resulting in 375 observational data points from the first quarter of 2021 to the third quarter of 2024. In this study, financial technology is measured using dummy variables, with a value of 1 for banks that have worked with PT Komunal Indonesia and 0 for those that have not. The other variables in the study are measured as follows:

**Table 2. Variabel Measurement**

| Variable | Definition | Indicator | Source |
|---|---|---|---|
| *Capital Adequacy Ratio* (CAR) (X1) | The bank's capability to provide adequate capital reserves for managing possible risk-related losses. | (Bank Capital ÷ Risk Weighted Asset) x 100% | (Zaenudin & Saadati, 2023) |
| *Financial Technology* (X2) | Sharia Rural Banks cooperation with PT Komunal Indonesia through the DepositoBPR application | Dummy variable, number 0 for the period before cooperation and number 1 for the period after cooperation with PT Komunal | (Almulla & Aljughaiman, 2021) |
| *Third Party Fund* (X3) | The quantity of third party funds obtained from customers | Current Account + Savings + Deposit | (Meliza, 2023) |
| *Financial Performance* (Y) | Financial performance seen from the risk of bank profitability in generating profits | (Net Profit ÷ Total Assets) x 100% | (Rosada & Aulia, 2023) |

| Variable | Definition | Indicator | Source |
|---|---|---|---|
| Credit Risk (M) | Problem financing due to bad debt | Non-performing financing (NPF) | (Zaenudin & Saadati, 2023) |

**Source: Research Data (2024)**

The study evaluated the hypothesis using several tests, including classical assumption tests (heteroscedasticity and multicollinearity), descriptive statistical analysis, panel data regression analysis with partial tests, moderated regression analysis, and determination coefficient tests. The model used in the study is outlined below.

$$\gamma it = \alpha - \beta 1X1it + \beta 2X2it + \beta 3X3it + \beta 4X1it(M) + \beta 5X2it(M) + \beta 6X3it\,(M) + \varepsilon it \ldots\ldots\ldots\ldots (1)$$

Desciption :
γit = Return On Asset
α = Constant
β1,2,3 = Regression Coefficient
X1 = Capital Adequacy Ratio (CAR)
X2 = Financial Technology
X3 = Third Party Fund (TPF)
M = Credit Risk
ε_ = Error
*i* = Sharia Rural Banks in Indonesia
*t* = Time Period

## RESULTS

Descriptive statistics serve to comprehensively understand and characterize data. The fundamental characteristics of the dataset are illustrated through the minimum value, maximum value, mean, and standard deviation of the relevant variables employed in the study. Table 3 displays the descriptive statistics results for the 375 samples used in the study.

**Table 3. Statistic Desciptive**

| | Y | X1 | X2 | X3 | M |
|---|---|---|---|---|---|
| **Mean** | 1.532107 | 30.42347 | 0.322667 | 1.09E+11 | 6.720427 |
| **Median** | 1.510000 | 25.91000 | 0.000000 | 5.36E+10 | 4.910000 |
| **Maximum** | 7.380000 | 113.7900 | 1.000000 | 1.31E+12 | 85.52000 |
| **Minimum** | -13.8100 | 12.33000 | 0.000000 | 3.83E+09 | 0,080000 |
| **Std. Dev.** | 1.921312 | 16.41567 | 0.468121 | 2.05E+11 | 6.715377 |
| **Observations** | 375 | 375 | 375 | 375 | 375 |

**Source: Processed Data (2024)**

The firm's financial performance is reflected in the average ROA of 1.532107. This indicates that the sample companies have a relatively good financial performance. However, there are some outliers, such as BPRS Al-Barokah in the first quarter of 2023, which has a minimum value of -13.8100, indicating poor financial performance. On the other hand, BPRS Mitra Harmoni Semarang City has the highest value of 7.380000.
The Capital Adequacy Ratio (CAR) is used as an independent variable in this study to measure how well assets can cover the risk of bank losses. The sample average for this variable is 30.42347, which suggests that the banks included in the study have a good level of capital adequacy. However, there are some banks with lower CAR values, such as BPRS Artha Madani in the third quarter of 2024, which has a minimum value of 12.33000. While this value is still within the sufficient range, it is important to note that the minimum CAR standard is 12.5%. On the other hand, BPRS Al-Barokah in the first quarter of 2021 has the highest CAR value of 113.7900. While this value may be high enough to cover losses, it can also lead to hoarding of assets and not maximizing profits.

The next independent variable is fintech, which is measured by a dummy variable. The average value for the research sample is 0.322667, indicating that the number of banks that worked with PT Komunal Indonesia before is more dominant. Another independent variable is Third Party Fund (TPF), which is measured by the total amount of wadiah savings, wadiah current accounts, mudharabah savings, and mudharabah deposits. The average value for TPF is 109,000,000,000, which is smaller than the standard deviation of 205,000,000,000, indicating that the data is heterogeneous. The highest value for TPF is 1,310,000,000,000 and the lowest value is 3,830,000,000. The mean value of TPF for the sample companies is significantly lower than the maximum value, suggesting that the funds managed by the bank on average are quite low. This could potentially limit the bank's potential for increasing income and improving financial performance.

The study utilized the moderating variable of non-performing financing, with an average value of 6.720427. This value suggests that the banks included in the research sample had a poor NPF value, as it exceeded 5%. The lowest NPF value in the study was recorded at 0.080000, specifically at BPRS Hijra Alami in the third quarter of 2024, indicating a good NPF level for the bank. On the other hand, the highest NPF value of 85.52000 was also observed at BPRS Hijra Alami, but in the fourth quarter of 2022. This indicates an increase in the NPF rate for the bank, but it was able to successfully manage and overcome non-performing financing.

The outcomes of the model selection testing in this research indicate that the fixed effect model (FEM) is the most suitable. FEM falls under the category of Ordinary Least Squares (OLS) models, which require the use of classic assumption tests such as multicollinearity and heteroscedasticity (Ariefianto, 2019). Upon processing the data, the regression model employed in this study has successfully passed the classical assumption tests. The findings from the panel data regression analysis pertaining to the hypothesis are presented below.

**Table 4. The Findings of Partial Test (t-Test)**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 1.595943 | 0.281236 | 5.674753 | 0.0000 |
| X1 | -0.003148 | 0.007409 | -0.424948 | 0.6711 |
| X2 | 0.361216 | 0.176259 | 2.049352 | 0.0412 |
| X3 | -7.76E-13 | 1.42E-12 | -0.544626 | 0.5864 |

**Source: Processed Data (2024)**

Table 4 displays the coefficient of the Capital Adequacy Ratio (X1) variable, which is recorded at -0.003148, with an associated probability value of 0.6711. The observed probability value passes the conventional significance threshold of 0.05, which indicates that the Capital Adequacy Ratio variable does not reliably impact Return on Assets. In other words, the first hypothesis in the partial test of this study must be rejected.
On the other hand, the Financial Technology variable (X2) has a coefficient value of 0.361216, indicating that a 1 per cent increase in this variable will result in a 0.361216 increase in the ROA variable, assuming all other independent variables remain unchanged. The associated probability value for this variable is 0.0412, which is below the conventional significance threshold of 0.05. This suggests that the financial technology variable has a positive correlation with return on assets; therefore, the second hypothesis in the partial test of this study has been accepted.

The results of the partial testing for the Third Party Funds variable indicate a coefficient value of -7.76E-13, accompanied by a probability value of 0.5864. This probability value passes the established significance threshold of 0.05, suggesting that the Third Party Funds variable does not significantly influence on Return on Assets. Consequently, the third hypothesis in this study's partial test is rejected.

Table 5 displays the regression coefficient for the cooperation between the Capital Adequacy Ratio variable and non-performing financing (X1M). The coefficient value is

0.003514, accompanied by a probability value of 0.0000. This probability is below the conventional significance threshold of 0.05, indicating that the non-performing financing variable has the capacity to moderate the interaction between the capital adequacy ratio on ROA. Therefore, the fourth hypothesis of this study is supported.

**Table 5. Results of Moderated Regression Analysis**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 3.038153 | 0.422500 | 7.190888 | 0.0000 |
| X1M | 0.003514 | 0.000647 | 5.434248 | 0.0000 |
| X2M | 0.081314 | 0.037395 | 2.174446 | 0.0304 |
| X3M | 3.55E-13 | 2.54E-13 | 1.396576 | 0.1634 |

**Source: Processed Data (2024)**

Similarly, when testing the impact of the Financial Technology variable on Return On Asset moderated by non-performing financing (X2M), the coefficient value is 0.081314 with a grade of probability is 0.0304. The observed possibility value overextends the established significance threshold of 0.05, indicating that the non-performing financing variable can moderate the correlation between Financial Technology and Return On Asset. In other words, the fifth hypothesis of this study is also supported.

The last moderated regression analysis test, which examined the interaction between the Third Party Fund variable and non-performing financing (X3M), yielded a coefficient value of 3.55E-13 and a probability value of 0.1634. This probability value is lower than the standard significance level of 0.05, indicating that the non-performing financing variable does not moderate the relationship between the Third Party Fund and Return On Asset. Therefore, the sixth hypothesis of this study is rejected.
The coefficient of determination measures how much variation in the dependent variable is explained by the independent variable. Below are the results of the analysis conducted on this coefficient.

**Table 6. Coefficient Determination Test**

| | |
|---|---|
| R-squared | 0.498325 |
| Adjusted R-squared | 0.452984 |

**Source: Processed Data (2024)**

Based on the table 6, the R-squared value is 0.452984. This indicates that 45.3% of the variation in ROA is due to the independent variables: Capital Adequacy Ratio, Financial Technology, and Third Party Fund. The remaining 54.7% is attributed to further elements not included in the research model.

**Capital Adequacy Ratio (CAR) has a determined on Financial Performance**
Hypothesis testing reveals no significant effect of capital adequacy ratio on financial performance. This finding is supported by prior studies (Amalia et al., 2022; Nurmasari, 2022; Rahma & Sutrisno, 2023; Viciwati, 2021). Over the last five years, that the capital adequacy ratio of Sharia Rural Banks in the last five years has consistently been above 8%, indicating a good level of capital adequacy to cover potential losses. However, this does not necessarily translate to an increase or decrease in financial performance. Various research studies (Nadratuzzaman Hosen et al., 2021; Pujiyanty et al., 2022; Rosada & Aulia, 2023) indicate that a high Capital Adequacy Ratio (CAR) suggests that a bank is not utilizing its capital efficiently. Conversely, a low CAR signifies that the bank is in a critical condition, as it is unable to effectively manage risk.

The decision to maintain the minimum capital at 8% may result in inefficiency in utilizing capital to maximize productive assets. The management of Sharia Rural Bank may disclose information on good capital adequacy to signal to investors that the bank's capital stability is healthy. However, their considerations may focus more on credit management and business strategy than capital adequacy. Additionally, the capital or

funds obtained by banks are often from loans or other external sources, which may not have a direct impact on financial performance (Rahma & Sutrisno, 2023).

**There is an determine of Fintech on Financial Performance**

The outcome of hypothesis testing have shown that financial technology has a significant impact on financial performance. This finding is supported by prior research (Evita, 2024; Ika, 2019; Indrianti et al., 2022; Supriyadi et al., 2023; Yudaruddin, 2023), which has also found that the use of financial technology leads to an increase in the financial performance of Sharia Rural Banks. This suggests that the collaboration between Sharia Rural Bank and the financial platform provided by PT Komunal Indonesia has played a crucial role in improving the bank's financial performance.

Through a strategic partnership, Sharia Rural Bank and PT Komunal Indonesia stand to elevate their profitability while captivating a wider customer base. By harnessing cutting-edge payment methods and a diverse array of fintech solutions, they can revolutionize the banking experience and foster greater financial inclusion. This is in line with Schumpeter's theory (2021), which states that innovation is key to enhancing a company's competitiveness.

**Third Party Fund has a determined on Financial Performance**

Founded on the yield of hypothesis testing, third-party funds have no influence on financial performance. This finding is compatible with previous research (Nadratuzzaman Hosen et al., 2021; Rahma & Sutrisno, 2023; Sondakh et al., 2021; Triya & Dewi, 2023; Viciwati, 2021) which has also found that an intensify in third-party funds does not lead to an improvement in financial performance. This can be attributed to the fact that the amount of funds collected from third parties or customers is not balanced with the amount of credit being channelled to the community. In other words, Sharia Rural Bank has not been able to effectively utilize its intermediary function in collecting and channelling public funds, which ultimately has no impact on its financial performance. In addition, technological change is the main factor affecting third-party funds, so increasing them does not optimize financial performance (Nadratuzzaman Hosen et al., 2021).

Research (Aranita et al., 2022; Meliza, 2023; Setiati et al., 2021) has different results that confirm that third-party funds influence financial performance. The funds raised by the bank indicate that they are not used for maximum financing, so they are idle, and profitability decreases.

**Credit risk Can Moderate The Determine of Capital Adequacy Ratio (CAR) on Financial Performance**

Based on the results, it has been shown that credit risk can moderate and strengthen the correlation between the CAR and financial performance. Companies can use the disclosure of information to send signals to users of financial statements, allowing them to assess the performance and risk of the company (Connelly et al., 2024). This means that a lower credit risk for a bank can result in higher profits, which can be viewed as an encouraging signal for investors when looking at financial statement information (Marliyah et al., 2021). On the other hand, if a bank has a high credit risk, it may experience lower profits and a decrease in capital efficiency, which can have a negative impact on the financing available for purchases and sales (Zaenudin & Saadati, 2023).

Research conducted by (Kurnia & Wahyudi, 2022; Muchtar et al., 2021; Pujiyanty et al., 2022; Rosada & Aulia, 2023) has also shown NPF serves as a moderating factor in the interaction between the CAR and ROA. Therefore, banks that are able to minimize credit risk and maintain public trust through effective fundraising strategies are likely to experience increased profits. The NPF (Non-Performing Financing) ratio can impact the bank's profitability. A higher NPF ratio indicates poorer management of problematic productive assets. This finding contrasts with the research by Triya and Dewi (2023), which suggests that NPF significantly enhances on Return on Assets (ROA).

**Credit risk Can Moderate The Determine of Financial Technology on Financial Performance**

Based on the results, it has been found that credit risk plays a significant role in moderating and strengthening the correlation between financial technology and financial performance. The utilization and collaboration of financial technology innovations require careful management decisions and a thorough financial performance review. Credit risk is a crucial aspect that must be considered when evaluating a company's future performance prospects, including when assessing the bank's credit risk. According to research by Amalia et al. (2022) Non-Performing Financing significantly hampers on Return on Assets. This means that if a bank has problematic financing, it can significantly decrease its financial performance. As a result, this can also affect the collaboration between fintech companies and banks.

Widarjono and Rudatin (2020) conducted research that demonstrates a long-term relationship between operational efficiency and non-performing financing. Their findings indicate that enhancing operational efficiency can help reduce NPF rates. Additionally, cooperation between Sharia Rural Bank and fintech significantly impacts operational efficiency. This efficiency can be observed through products offered in payment categories, which provide easier access to financial products, thereby making banking services more accessible to the public.

Furthermore, Yudaruddin (2023) identified that the convenience of financial technology can positively influence a bank's financial performance. Supporting this view, other studies (Amalia et al., 2022; Nadratuzzaman Hosen et al., 2021) indicate that if a bank faces high credit risk, it can adversely affect its overall financial performance.

**Credit risk Can Moderate The Determine of Third Party Fund (TPF) on Financial Performance**

The results indicate that credit risk does not serve as a moderator in the correlation of third-party funds and financial performance. Non-performing financing directly impacts Third Party Funds and ultimately affects ROA. As explained by Amrina Rosada and Fira Aulia (2023), an increase in NPF in a bank can lead to a reduction in third-party funds due to low public trust in banks.

The determination of this study aligns with prior research (Mujairimi, 2023; Rosada & Aulia, 2023) indicating that Non-Performing Financing does not act as moderator in the interaction between Third Party Funds (TPF) and Return on Assets (ROA). NPF, which refers to non-performing financing, can hinder lending and limit the accumulation of excess funds. When financing levels are low, the risk associated with non-performing financing also diminishes, resulting in minimal impact on bank profitability. This observation is supported by research (Agung & Wardana, 2022; Suhadi & Inaroh, 2018) that suggests Islamic banks experience low levels of fund distribution and problematic financing, which do not significantly affect their financial performance. In contrast, research by Pandhega (2021) presents different findings, stating that TPF negatively affects ROA when NPF serves as a moderator. In this scenario, the presence of NPF undermines the capacity of third-party funds to enhance financial performance. When client or third parties fail to meet their debt, the bank incurs losses from the distribution of these funds.

## CONCLUSION

This study examines the interrelationship among capital adequacy ratio, financial technology, and third-party funds on financial performance, focusing on the moderating role of credit risk. The research demonstrates the determine of fintech on financial performance. It is critical to note that the presence of financial technology companies is often seen as a competitor to traditional banks and other financial institutions. However, this study reveals a new perspective on the potential for collaboration between financial technology companies and banks, particularly Sharia Rural Banks, to improve overall financial performance. One of the key findings of this study is that capital adequacy, as

estimated by the capital adequacy ratio, and third-party funds did not substantially affect the financial performance of Sharia Rural Banks. This suggests that Sharia Rural Bank management may not be effectively utilise the capital and funds raised for operational activities, such as lending. In addition, the study highlights the role of credit risk, as estimated by non-performing financing, in moderating the effect of capital adequacy on financial performance. This means that having sufficient capital can help mitigate the potential losses caused by credit risk. Furthermore, the study also reveals that credit risk can moderate the association between financial technology and financial performance; however, it does not affect the correlation of third-party funds with financial performance. This highlights the importance of managing credit risk in order to maintain a strong financial performance, particularly in the face of increasing competition from financial technology companies.

This research is limited by the focus on Sharia Rural Banks in Indonesia in collaboration with PT Komunal Indonesia. Prospective research could develop the scope to comprise other sectors or financial institutions. Additionally, future studies could address the limitations of this research by expanding the sample size or including other variables that were not considered in this study. For example, incorporating measurement proxies that are more closely aligned with sharia principles, government policies, or technology could could give greater insight into the factors influencing financial performance in this context.

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