Financial Performance of Islamic Commercial Banks in Indonesia

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Abstract

Assessment of the financial performance of banks is very important to be carried out by internal organizations and as a basis for corporate planning in the future. The financial performance in question is related to CAR, NPF, BOPO and FDR which theoretically and empirically affect bank profitability, namely ROA. The objectives of this study are: (1) to examine the effect of CAR on ROA; (2) examine the effect of NPF on ROA; (3) examine the effect of BOPO on ROA; (4) examine the effect of FDR on ROA. The Islamic Commercial Banks that are the locus of this research are BRI Syariah and BNI Syariah which represent Bank Syariah Indonesia before the merger in 2021. The research data is taken from the documentation of the two banks published by the Financial Services Authority of the Republic of Indonesia, from 2015 to 2020 in the form of data quarterly. The results of testing the research hypotheses can be stated: (1) CAR has a significant effect on ROA; (2) NPF has no significant effect on ROA; (3) BOPO has a significant effect on ROA and (4) FDR has a significant effect on ROA.

Keywords: Capital Adequacy Ratio, Non-Performing Financing, Financing to Deposit Ratio, Operational Costs on Operational Income, Return on Assets, Business Planning.

INTRODUCTION

Financial performance is an important factor for banks to evaluate their business operations based on past data, in order to obtain an overview to plan future business development effectively and efficiently. According to Pavol (2021), evaluation of financial health is used to make plans and to predict the future of the company. Whereas Manalu (2019) explained that financial performance can represent the condition of a company, whether profitable or even heading for bankruptcy which must be watched out for so that business closures do not occur. Financial performance in question is an assessment of financial ratios.

Financial performance that can be assessed based on these financial ratios is empirically divided into four, namely: liquidity ratios, activity ratios, solvency ratios and profitability ratios (Abuzarqa, 2019; Adam, 2014; Barus, 2017; Karyiyawasam, 2019; Putri, 2016; Tyas, 2020). In the context of banking, especially Islamic banking, which is the locus of this research, it is more focused on the study of the profitability ratio proxied by Return on Assets (ROA) which is influenced by the variables of Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), Operational Costs on Operational Income (BOPO) and Financing to Deposit Ratio (FDR). The theoretical reference regarding the financial ratios above as stated by Abbas (2020).

In relation to the capitalization of a bank, CAR (also known as the minimum capital requirement) can be used to describe a bank's ability to reduce the risk of default in credit transactions so as to practically assist in improving financial stability. Thus, the CAR that tends to increase indicates that the bank is getting stronger and healthier in its business operations (Abbas, 2020; Asraf et al., 2019; Sang, 2021). However Sang (2021) in his study in Vietnam found that a CAR that is too high in value has a negative impact on banks because banks are no longer efficient, especially in utilizing their capital and have a negative impact on financial stability and profitability.

The importance of CAR for banks cannot be separated from practical and empirical considerations...
that there is a linear relationship between CAR and ROA and ROE. Where the higher the CAR value, the higher the bank’s profitability as measured by ROA and ROE in a certain period of time. So that banks make every effort to increase their capital, both core and other capital (AGBEJA et al., 2019; Bateni et al., 2014; Bialas & Solek, 2010). In the context of Islamic banking, Ilyas (2018) argued that effective and efficient capital management is an important factor to obtain optimal results. While the source of bank capital comes from two sources, namely: (1) core capital obtained from bank owners, namely shareholders, retained earnings, reserves, mudharabah profit sharing funds and (2) deposit funds with al-wadiah contracts in the form of wadiah yad al-amnah and wadiah yad adh-dhamamah.

H1: CAR has a significant effect on ROA.

Meanwhile, to determine bank ratings, the criteria and at the same time measure the value of Islamic banks based on the CAR value are based on OJK (2014); PBI (2007); SEBI (2004) the following.

Table-1: CAR Rating, Criteria and Value Based on PBI No. 9/1/PBI/2007; SEBI No. 6/23/DPNP Year 2004 and SEOJK No. 10/SEOJK.03/2014

<table>
<thead>
<tr>
<th>Rating</th>
<th>Criteria</th>
<th>Mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CAR 12%</td>
<td>Very healthy</td>
</tr>
<tr>
<td>2</td>
<td>9% CAR &lt; 12%</td>
<td>Healthy</td>
</tr>
<tr>
<td>3</td>
<td>8% CAR &lt; 9%</td>
<td>Healthy enough</td>
</tr>
<tr>
<td>4</td>
<td>6% &lt; CAR &lt; 8%</td>
<td>Unwell</td>
</tr>
<tr>
<td>5</td>
<td>CAR 6%</td>
<td>Not healthy</td>
</tr>
</tbody>
</table>

Previous research on the effect of CAR on banking ROA as stated by Mainata & Ardiani (2018) who found that at 9 Islamic Commercial Banks (BUS) in Indonesia from 2012 to 2016 CAR had a significant positive effect on ROA. The higher the CAR value, the more beneficial it is for the bank to contribute in generating profits. The same study as Simanjuntak (2016) who found a significant positive effect of the CAR variable on ROA in 23 banking companies in Indonesia in 2010-2014. However, there are different study results, that CAR has a negative effect like research Maulana et al., (2021) on banks listed on the Indonesia Stock Exchange in 2017-2020 which explains the insignificant negative effect of the CAR variable on ROA caused by credit risk. Likewise with studies Latifah et al., (2012) that CAR has a negative effect on ROA of foreign exchange banks that go public on the Indonesia Stock Exchange in 2009-2010.

Another important aspect for the world of Islamic banking is NPF, which conventional banks use the term Non-Performing Loan (NPL) according to Abbas (2020); Haryanto et al. (2020); Rahman & Safitri (2018), NPF is related to the risk of bad credit caused by default by the debtor or other parties who are obligated to the bank. This NPF affects bank profitability which is proxied by ROA and ROE, so that according to Kuswaharjani et al., (2020); Sugiharto et al., (2019). The higher the value of the NPF or NPL ratio in conventional banks, the higher the risk of non-performing financing faced by the bank so that it can reduce profitability. It was further explained that this NPF ratio could be influenced by internal and external factors of the bank, such as the exchange rate, inflation and national income (GDP).

Meanwhile, the strategy to prevent the higher NPF that poses a risk to bank profitability as recommended by Riyadi et al., (2014) namely by improving the CAR aspect. Earning Asset Quality (KAP) and Operating Costs and Operating Income (BOPO). Other recommendations are Rahayuni & Dalimunte (2021) that financing restructuring is a step and strategy to save financing as a bank’s effort to improve the financing position and financial condition of the customer company by reinstating the financing, which is carried out among others through rescheduling, reconditioning and restructuring. This strategy is also relevant to Sitianggang (2019) that in order to deal with the problem of default through the application of 3R programs, namely rescheduling, reconditioning and restructuring. Likewise with Sa’idiyah (2019) that with family approach strategies, revitalization, management assistance, collection agents and settlements through guarantees are expected to minimize problem financing.

H2: NPF has a significant effect on ROA.

Meanwhile, to determine bank ratings, the criteria and at the same time measure the value of Islamic banks based on the NPF value are based on OJK (2014); PBI (2007); SEBI (2004) the following.

Table-2: Rating, Criteria and Value of NPF Based on PBI No. 9/1/PBI/2007; SEBI No. 6/23/DPNP Year 2004 and SEOJK No. 10/SEOJK.03/2014

<table>
<thead>
<tr>
<th>Rating</th>
<th>Criteria</th>
<th>Mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>NPF &lt; 2%</td>
<td>Very healthy</td>
</tr>
<tr>
<td>2</td>
<td>2% NPF &lt; 5%</td>
<td>Healthy</td>
</tr>
<tr>
<td>3</td>
<td>5% NPF &lt; 8%</td>
<td>Healthy enough</td>
</tr>
<tr>
<td>4</td>
<td>8% NPF &lt; 12%</td>
<td>Unwell</td>
</tr>
<tr>
<td>5</td>
<td>NPF 12%</td>
<td>Not healthy</td>
</tr>
</tbody>
</table>

Previous research that analyzed the effect of NPF on the profitability (ROA) of Islamic banks that the NPF path analysis had a positive effect on the ROA of nine BUS in Indonesia in 2012 to 2015 (Wibisono & Wahyuni, 2017). Likewise, the ROA of Islamic Banks in Indonesia during the 2009-2019 period, which in its development was more influenced by the NPF of 0.78% (Hasibuan et al., 2021). However, the results of different studies explain that NPF (seven Islamic banks in the period of observation, namely 2014–2018) has a negative and significant effect on ROA (Rohansyah et al., 2021). Likewise according to Almunawaroh & Marliana (2018) that NPF has a significant negative effect on the profitability of BUS and Islamic Unit Banks in Indonesia for the period January 2009 to
December 2016. Pravasanti (2018) argued that any increase in NPF will reduce ROA.

Aspects of bank profitability as measured by BOPO is used to measure the level of bank efficiency (Abbas, 2020; Haryanto et al., 2020). Efficiency is also a measure of the success of an entity, including Islamic banking in Indonesia, so a balance between costs and operating income is needed. Suryadi et al. (2020) explained that the lower the BOPO ratio, it can be explained that the managerial performance of the bank is more efficient, especially in the utilization of the bank's production factors. And vice versa, namely when the BOPO is higher, the bank is increasingly inefficient as revealed by Puteh et al. (2018) that studies on Islamic banking in Indonesia show that in the five years 2012-2016 the average Islamic commercial bank in Indonesia has not been at an efficient level, which is in the range of 89.73% to 94.16%.

Studies on BUS in Indonesia for the period 2009-2019 suggest that profitability is affected by BOPO, and this is very likely to happen because banks are able to manage their financial resources efficiently (Hasibuan et al., 2021). Same study as research Suryadi et al., (2020) on 9 BUS in Indonesia in 2012-2018 that BOPO has a significant effect on ROA with a positive direction of influence. This positive effect reflects an increase in operating income which is higher when compared to an increase in operating costs, or banks are able to create conditions that are efficient in using their source of funds. However, different research results were found by Maulana et al., (2021); Wibisono & Wahyuni (2017) that there is a negative effect of BOPO on the profitability of BUS.

H3: BOPO has a significant effect on ROA.

Meanwhile, to determine bank ratings, the criteria and at the same time measure the value of Islamic banks based on the BOPO value based on OJK (2014); PBI (2007); SEBI (2004) the following.

Table-3: BOPO Rating, Criteria and Value Based on PBI No. 9/1/PBI/2007; SEBI No. 6/23/DPNP Year 2004 and SEOJK No. 10/SEOJK.03/2014

<table>
<thead>
<tr>
<th>Rating</th>
<th>Criteria</th>
<th>Mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>BOPO 94%</td>
<td>Very healthy</td>
</tr>
<tr>
<td>2</td>
<td>94% ≤ BOPO 95%</td>
<td>Healthy</td>
</tr>
<tr>
<td>3</td>
<td>95% ≤ BOPO 96%</td>
<td>Healthy enough</td>
</tr>
<tr>
<td>4</td>
<td>96% ≤ BOPO 97%</td>
<td>Unwell</td>
</tr>
<tr>
<td>5</td>
<td>BOPO &gt; 97%</td>
<td>Not healthy</td>
</tr>
</tbody>
</table>

The fourth financial ratio which is also the independent variable of this study is the FDR ratio. Abbas (2020) explained that FDR is the ratio of BUS financing obtained from the amount of financing to non-bank third parties to third party funds. Meanwhile BI (2021) explained that FDR is a comparison of financing disbursed with funds from third parties in total. Total Funding Disbursed consists of total Mudharabah Financing; Musyarakah Financing; Murabahah Receivables; Receivables Receivable; Ishtisna's Receivables; Qardh Receivables; Ijarah Receivables; Other Financing and Multi-service Receivables (especially for Sharia Rural Banks) Third Party Funds consist of total Wadiah Savings Funds and Unrestricted Investment Data.

Previous research on FDR in relation to bank profitability as the study Hasibuan et al., (2021) that ROA is affected by FDR. Meanwhile, according to research Almamawarah & Marliana (2018); Pravasanti (2018) and Wibisono & Wahyuni (2017) found that FDR had a significant positive effect on banking ROA. However, there can be a negative effect of the FDR variable on ROA as research Rohansyah et al., (2021) that in the period 2014-2018 7 Islamic banks in Indonesia showed that FDR had an insignificant negative effect on ROA.

H4: FDR has a significant effect on ROA.

As with previous research variables, namely CAR, NPF and BOPO, to determine bank ratings, the criteria and at the same time measure the value of Islamic banks based on the FDR value based on OJK (2014); PBI (2007); SEBI (2004) the following.

Table-4: Rating, Criteria and Value of FDR Based on PBI No. 9/1/PBI/2007; SEBI No. 6/23/DPNP Year 2004 and SEOJK No. 10/SEOJK.03/2014

<table>
<thead>
<tr>
<th>Rating</th>
<th>Criteria</th>
<th>Mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>FDR 75%</td>
<td>Very healthy</td>
</tr>
<tr>
<td>2</td>
<td>75% ≤ FDR 85%</td>
<td>Healthy</td>
</tr>
<tr>
<td>3</td>
<td>85% ≤ FDR 100%</td>
<td>Healthy enough</td>
</tr>
<tr>
<td>4</td>
<td>100% ≤ FDR 120%</td>
<td>Unwell</td>
</tr>
<tr>
<td>5</td>
<td>FDR &gt; 120%</td>
<td>Not healthy</td>
</tr>
</tbody>
</table>

Table-5: Rating, Criteria and Value of ROA Based on PBI No. 9/1/PBI/2007; SEBI No. 6/23/DPNP Year 2004 and SEOJK No. 10/SEOJK.03/2014

<table>
<thead>
<tr>
<th>Rating</th>
<th>Criteria</th>
<th>Mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ROA &gt; 1.5%</td>
<td>Very healthy</td>
</tr>
<tr>
<td>2</td>
<td>1.25% ≤ ROA 1.5%</td>
<td>Healthy</td>
</tr>
<tr>
<td>3</td>
<td>0.5% ≤ ROA 1.25%</td>
<td>Healthy enough</td>
</tr>
<tr>
<td>4</td>
<td>0% ≤ ROA 0.5%</td>
<td>Unwell</td>
</tr>
<tr>
<td>5</td>
<td>ROA 0%</td>
<td>Not healthy</td>
</tr>
</tbody>
</table>

METHODOLOGY

This research design uses a quantitative approach because the main research data is numerical and the data analysis uses econometrics. This type of research is associative because this research wants to test the strength of the influence of the independent variable on the dependent variable. The ROA variable was chosen as the dependent variable that explains the bank's profitability, which is theoretically and empirically influenced by the independent variables, namely: CAR, NPF, BOPO and FDR. Each variable is measured by a ratio scale and using percent (%). The
data collection technique uses the documentation of the quarterly financial statements of Islamic banks which can be accessed on the website of the Financial Services Authority.

The sample of this research is BRI Syariah and BNI Syariah, with an observation period of six years starting from 2015 to 2020, or before the merger into Bank Syariah Indonesia (BSI). The amount of data observed in each BUS is 24 quarters. Because Bank Mandiri Syariah data was not available, this bank was excluded from observation. The research hypotheses were tested with multiple regression which first tested for normality and the classical assumption test.

**RESULTS AND DISCUSSION**

The comparison of the average performance of BRI Syariah and BNI Syariah over a period of six years from 2015 to 2020 is presented in the following table.

<table>
<thead>
<tr>
<th>Bank</th>
<th>ROA</th>
<th>CAR</th>
<th>NPF</th>
<th>BOPO</th>
<th>FDR</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRI Syariah</td>
<td>4.08</td>
<td>20.90</td>
<td>4.27</td>
<td>Healthy</td>
<td>94.12</td>
</tr>
<tr>
<td>BNI Syariah</td>
<td>16.79</td>
<td>17.53</td>
<td>2.17</td>
<td>Healthy</td>
<td>16.33</td>
</tr>
</tbody>
</table>

Table 6 explains that based on the profitability ratio, BNI Syariah is better than BRI Syariah because of the higher ROA value and is ranked 1 which reflects the condition of the bank which is generally very healthy. According to OJK (2014) regarding the performance of banks in generating profits is calculated based on the ratio of the value of profit before tax divided by the average total assets. In terms of the capital adequacy ratio as measured by CAR, BRI Syariah is higher in value so it can be stated that BRI Syariah is better. According to Harahap (2013) CAR ratio is used to assess the safety and health of companies including banks from the side of the owner's capital. This means that most of the CAR value can indicate that a work is safe and healthy.

A high NPF value reflects the higher risk of non-performing financing faced by banks so that it can reduce profitability (Kuswaharani et al., 2020; Sugiharto et al., 2019). The instruments of this ratio are total loans disbursed and total third party funds or total savings. The more credit the more risky, while too low then the bank is not effective in channeling funds. Based on table 6, BNI Syariah tends to be safer against the risk of non-performing financing. BOPO is the ratio of total operating expenses to total operating income. The lower the BOPO value, the lower the burden, so the better or profitable. If the BOPO is above 100% like BNI Syariah, it is called an operating loss because operating income is smaller than operating expenses. So based on the BOPO, BRI Syariah is more efficient than BNI Syariah (see table 6).

The FDR ratio is also known as the liquidity ratio, which is the ratio of the bank's inability to meet its maturing obligations from its funding source. So this ratio instrument is the amount of financing disbursed and the amount of third party funds or total savings. The more credit the more risky, while too low...
Based on table 7 it can be stated that

1. The research data is normally distributed because the Kolmogorov-Smirnoff Sig. and Shapiro-Wilk Sig. greater than 0.05;
2. The research data does not occur heteroscedasticity because the value of Sig. (Dependent Variable: ABS) for all independent variables greater than 0.05;
3. The research data does not autocorrelate because the value of Durbin-Watson (DW) = 1.264, which according to Field (2009) if the DW value is 1 to 3 intervals, then there is no autocorrelation;
4. The research data does not occur multicollinearity because the value of Tolerance of the independent variable is > 0.10 and the value of VIF of the independent variable is < 10;
5. The value of the coefficient of determination (R2) = 0.694, which means the contribution of the independent variable to the dependent variable is 69.4%, while the remaining 30.6% or 30.6% is influenced by variables other than CAR, NPF, BOPO and FDR.
6. The econometric equations that can be built are:
\[ Y = 8.625 – 0.013 X1 – 0.023 X2 – 0.087 X3 + 0.007 X4 \]
Where:
- Y is ROA; X1 is CAR; X2 is NPF; X3 is BOPO and X4 is FDR

The results of hypothesis testing, namely

Hypothesis 1: CAR has a significant effect on ROA. The results of this hypothesis test are based on the t test value of Sig. that is equal to 0.000 < from = 0.05 so that hypothesis 1 is tested. Empirically this research supports theory and research Abbas (2020); AGBEJA et al., (2019); Asraf et al., (2019); Batchen et al., (2014); Sang (2021). However, the results of this study are different from previous studies, especially regarding the pattern of the relationship between the two variables which shows negative notation. Which means an increase in CAR results in a decrease in ROA. This result is due to the observation period in which this study also analyzes data for 2020, where this year there was a health crisis that resulted in banking conditions and the national economy.

Hypothesis 2: NPF has a significant effect on ROA. The results of this hypothesis test are based on the t test value of Sig. that is equal to 0.192 > from = 0.05 so that hypothesis 2 is not tested. The results of this study are not relevant to previous research. Although Abbas (2020) and previous research Haryanto et al., (2020); Kuswahariani et al., (2020); Rahman & Safitrie (2018); Sugiharto et al., (2019). The negative effect of NPF on ROA is also not relevant to previous research due to the observation period. Where this study includes NPF and ROA data until 2020 which is full of economic and banking failures due to the Covid-19 crisis. At the beginning of 2020 the OJK Board of Commissioners Meeting decided to extend the relaxation period for bank credit restructuring for one year from March 31, 2022 to March 31, 2023. This extension of relaxation of credit restructuring also applies to BPR and BPRS. The credit restructuring issued since early 2020 has greatly helped banks and debtors, including MSME players. In fact, to maintain momentum and mitigate the impact of the still high spread of Covid-19, the validity period of the restructuring relaxation was extended until 2023.

Hypothesis 3: BOPO has a significant effect on ROA. The results of this hypothesis test are based on the t test value of Sig. that is equal to 0.000 < from = 0.05 so that hypothesis 3 is tested. The results of the study that BOPO has a significant effect on ROA are relevant to the study Abbas (2020); Hasibuan et al., (2021); Puten et al., (2018); Suryadi et al., (2020). The negative effect of BOPO on ROA is relevant to the results of the study Maulana et al., (2021); Wirisano & Wahyuni (2017) that there is a negative effect of BOPO on the profitability of BUS.

Hypothesis 4: FDR has a significant effect on ROA. The results of this hypothesis test are based on the t test value of Sig. that is equal to 0.002 < from = 0.05 so that hypothesis 4 is tested. Previous research that supports this finding that FDR has a positive and significant effect on ROA as carried out by Almunawwaroh & Marliana (2018); Hasibuan et al., (2021); Pravasanti (2018); Wirisono & Wahyuni (2017).

CONCLUSION

As a banking based on sharia principles, the performance of BUS, namely BRI Syariah and BNI Syariah, which is measured by the profitability ratio, namely ROA is influenced by other financial ratios, namely CAR, NPF, BOPO and FDR. In detail the results of this study can be concluded:

1. CAR Ratio. Although both are in the very healthy category, BRI Syariah is better at taking the risk of any risky financing/productive assets.
2. NPF ratio. Even though they are both in the healthy category, BNI Syariah has a lower risk of financing failure both in the bad, doubtful and substandard categories.
3. BOPO ratio. BRI Syariah is more efficient than BNI Syariah, because much of it is supported by growth in operating income compared to growth in operating costs.
4. FDR ratio. In terms of FDR, BRI Syariah is healthier because the bank is able to maintain its financial liquidity for funds distributed to third parties.
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