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PROFITABILITY ANALYSIS OF ISLAMIC REGIONAL DEVELOPMENT BANKS BEFORE AND DURING COVID-19

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ABSTRACT

Penelitian ini bertujuan untuk mengetahui pengaruh *financing to deposit* (FDR), *non peforming financing* (NPF), pembiayaan bagi hasil, dana pihak ketiga (DPK) dan *dummy* covid terhadap *return of assets* (ROA). Tulisan ini menggunakan metode regresi linear berganda. Observasi penelitian yaitu data triwulan Desember 2018 sampai September 2021 pada Bank Pembangunan Daerah Syariah di Indonesia. Hasil penelitian menunjukkan bahwa bahwa FDR, NPF, dan dummy COVID berpengaruh negatif terhadap profitabilitas. Sedangkan PSF dan DPK memberikan pengaruh positif terhdap profitbilitas. Selain itu, pada tes Kruskal-Wallis menunjukkan tidak ada perbedaan ROA, FDR, dan NPF sebelum dan selama Covid-19.

Kata Kunci : Profitabiltas, Return on Assets, Financing to Deposit, & Third Party Fund

This study aims to determine the effect of financing to deposit (FDR), non performing financing (NPF), profit sharing financing (PSF), third party funds (DPK) and dummy covid on return of assets (ROA). This paper uses multiple linear regression method. Research observations are data for the quarter December 2018 to September 2021 at Islamic Regional Development Banks in Indonesia. The results showed that FDR, NPF, and the COVID dummy had a negative effect on profitability. Meanwhile, PSF and DPK have a positive influence on profitability. In addition, the Kruskal-Wallis test showed no difference in ROA, FDR, and NPF before and during Covid-19.

Keyword: Profitability, Return on Assets, Financing to Deposit, & Third Party Fund

INTRODUCTION

Islamic finance is becoming a major topic for academics due to the global expansion of the Islamic finance industry to Muslims and non-Muslims alike (Ledhem & Mekidiche, 2021, p. 1166). Islamic banking literature has grown rapidly in the last decade, driving the success of the Islamic finance industry. Existing literature examines different aspects of the Islamic banking industry including risk, performance, efficiency and stability as opposed to conventional banking (Azad et al., 2020, p. 1). Although Islamic finance is booming, the reality is that in the world of banking work is still limited, and the lack of studies carried out makes it difficult due to data limitations (Alharbi, 2017, p. 332).

Islamic banks are financial institutions based on sharia principles, which do not use the element of usury in every financial transaction. The origins of Islamic finance date back to 1400 years ago, where in literary texts it is stated that the companions of the prophet Zubair ibn Awwam, accepted deposits as loans and invested the money. This has led some contemporary academics to call it Al-Zubai Bank (Alharbi, 2017, p. 331). Behind the story, Islamic Banks apply and use financial resources by creating profits through deposit accounts using profit and loss sharing (PLS). These Islamic banking principles increase the interest of academics, researchers and regulators to develop developing countries as a result of the basics of micro operations (Ben Khediri et al., 2009a, p. 410).

Every company has a goal to create corporate value. Company value is the accumulation of profitability and value from year to year (Johan, 2020, p. 448). Both Islamic and conventional banks are profitable institutions. The profitability of the banking sector contributes to the economy and also bears the negative side of the economy, such as the occurrence of external shocks in the financial industry that contribute to financial system stability (Masood & Ashraf, 2012, p. 255). For that reason, understanding the determination of profitability is crucial. In addition, research related to the determinants of profitability is one of the popular topics for researchers in the field of banking studies (Haron, 2004).

Profitability evaluation is a very important issue for investors and managers (Zarrouk et al., 2016, p. 47). This improves the performance and stability of the bank. Apart from that, it also signals depositors to deposit or withdraw their funds (Zarrouk et al., 2016, p. 47). To create bigger profits Islamic banks by getting a higher return on investment. This is not only the target of Islamic banks, but also the goal of depositors. Depositors also invest their money on a profit-sharing basis and the fact is that the increase in returns will benefit the depositors of the funds (Masood & Ashraf, 2012, p. 255). If Islamic banks are involved in real asset-based financing, then they must be more financially stable with higher profitability, then this has been studied by many researchers (Saleem & Ashfaque, 2020). However, the current uncertain conditions make this impossible. The impact of COVID-19

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on the Indonesian economy is unavoidable, at least on financial markets as indicated by two leading indicators. First, the exchange rate of the Rupiah against the US Dollar reached Rp. 16,575 per US Dollar on March 23, 2020, the weakest since the 1998 Asian financial crisis, secondly, the Indonesia Stock Exchange (IDX) was also affected by COVID-19 (KNEKS & Standard, 2020). Contrary to this fact, despite experiencing shocks in early 2020 due to COVID-19, the momentum of economic recovery during the Covid-19 pandemic, the Islamic financial services industry also experienced positive growth with Indonesian Islamic financial assets that were able to grow by 13.82%. (yoy) to Rp2,050.44 trillion from the previous year which was Rp1,801.40 trillion (OJK, 2021). This phenomenon is very interesting to study, especially at the micro level of Islamic banks.

Regional Development Banks (BPD) have an interest in developing their business in order to help financial services while increasing regional income and helping the distribution of the regional economy (Farikhah & Rani, 2019, p. 409; Ghozi & Hermansyah, 2018, p. 2). With that, the question arises whether Islamic BPD has unique characteristics, because it is directly related to the welfare of the community or the ummah. However, competition and innovation among banks is increasing rapidly because they provide a variety of financial services (Hassan & Bashir, 2003). So the evaluation of the performance of Islamic banks is very important for managerial. The safety and health of the banking industry is highly considered by regulators to maintain public trust. For this reason, internal factors are studied in this paper (Hassan & Bashir, 2003). The study Farikhah & Rani, (2019, p. 409) discusses the profitability of Islamic Regional Development Banks but only 11 banks. Several authors are interesteds in studying the profitability of Islamic banks, but emphasize different conclusions. So far, several attempts have been made to consider the specific impact of Islamic banks on profitability issues (Zarrouk et al., 2016). Therefore, this research was conducted in that direction to fill this gap.

Researchers are trying to find the determinants of profitability and it has become one of the most popular topics in banking research. Previous research has identified many factors that significantly affect bank profitability (Haron, 2004; Kuswara et al., 2019, p. 36). The term "profitability" refers to the ability of a business organization to maintain its profits from year to year (Menicucci & Paolucci, 2016). The first profitability study studies the performance of Islamic banks using financial ratios, while the other studies the comparative performance of Islamic banks with conventional banks (Saleem & Ashfaque, 2020). The literature divides the determinants of conventional bank profitability into two categories: internal and external (Haron, 1996, p. 50; Saleem & Ashfaque, 2020). Internal determinants of profitability consist of variables such as equity, time deposits, short-term funding, concentration, credit risk, overhead, management of sources and use of funds, management of capital and

liquidity, and cost management (Alharbi, 2017, p. 333). All these internal variables are considered to be controlled by bank management. Meanwhile, external factors include macro conditions such as inflation and gross domestic product (Alharbi, 2017, p. 333; Haron, 1996, p. 50). The main conclusion that emerges from most studies is that internal factors greatly affect bank performance. Although there is a large literature examining the profitability of the financial sector in developed countries (Menicucci & Paolucci, 2016).

In 1996, Haron, (1996) was one of the first researchers to empirically investigate the profitability of Islamic banks in his thesis Determinants of Islamic Banks Profitability. He used a sample of 13 banks from nine countries spanning 1984 to 1994. Haron, (1996, p. 52) suggests that market share is considered a determinant of profitability with the assumption that as a result of its efficiency, the company will gain a larger market share and increase its profitability. A larger market share also means more power for banks to control the prices and services offered to their customers. Alharbi, (2017, p. 332) Alharbi, (2017, p. 332) finds that profitability is highly correlated with liquidity, total expenditure, funds invested in Islamic securities, percentage of profit sharing ratio between banks and borrowers, interest rates, market share and bank size.

The profitability ratio is used as the dependent variable which measures the bank's ability to generate income compared to its expenses and other relevant costs incurred during a certain period. The effectiveness of management operations is measured by profitability. Thus, this study will also apply bank profitability as the dependent variable. Theoretically there are several indicators to measure bank profitability, such as: return on assets (ROA), return on equity (ROE) and net interest margin (NIM) (Zarrouk et al., 2016). However, this study will focus on ROA because this ratio explains bank profits in general. ROA is the main indicator of bank profitability and researchers will measure bank performance through these financial ratios. This ratio is used to measure management performance in order to achieve overall profit. The higher the ROA, the higher the profit to be achieved and the better the position of the use of the asset. It shows how a bank can convert its assets into net income. A higher ratio indicates higher capability and is therefore a better indicator of performance (Shinta Amalina Hazrati Havidz & Setiawan, 2015, p. 163)

According to financial intermediation theory, a high financing to deposit ratio (FDR) indicates high funding to increase yields (Chabachib et al., 2019). Masood & Ashraf, (2012, p. 263) Masood & Ashraf, (2012, p. 263) show that FDR and return on assets ROA have a positive relationship and have a positive impact on the profitability of Islamic banks. In the research of Shinta Amalina Hazrati Havidz & Setiawan, (2015, p. 161) FDR berpengaruh positif dan signifikan terhadap ROA. According Azad et al., (2020, p. 2) FDR is significantly higher for Islamic banks than conventional banks, while fee income is lower for Islamic banks compared to conventional

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banks. This implies that FDR contributes more to the profitability of conventional banks than Islamic banks. Furthemor Azad et al., (2020, p. 12) concluded that statistically LDR/FDR was not significant (and negative) for Islamic banks. Farikhah & Rani, (2019, p. 409) also confirms that FDR has no significant effect on ROA of Islamic BPD.

Financing risk is the risk most faced by banks that can cause failure. Non-performing financing (NPF) is financing that is included in the substandard, doubtful and loss categories. The greater the NPF ratio, the more exposed the bank to financing risk. The higher the financing risk, the greater the opportunity offered for a reduction in profit sharing from financing disbursed by banks (Chabachib et al., 2019). NPF plays an important role in determining the quality and performance of banks because financing is the main function of banks in contributing to economic development. Islamic banks need to regulate the NPF level specifically because it will have an impact on their performance in competing with conventional banks (Priyadi et al., 2021). Masood & Ashraf, (2012, p. 263) show that the NPF ratio is negatively related to ROA and the coefficient is significant which is at 0 percent significance level. In the study of Said & Ali, (2016) and Farikhah & Rani, (2019, p. 409) NPF has a negative effect on the profitability of Islamic banks.

The basis of sharia compliance there are two concepts of profitability: Profit and Loss Sharing (PLS) and mark-up (Ben Khediri et al., 2009b, p. 412). For the principle of profit sharing, the most widely used financing modes are musharaka and mudarabah. Profit sharing reflects the commitment of Islamic banks in developing Islamic finance. However, financing based on profit sharing has a higher risk compared to financing that involves buying and selling because the bank's income is not fixed because it depends on the profits generated by the customer's business (Priyadi et al., 2021). Profit Sharing Financing (PSF) has no significant effect on ROA (Farikhah & Rani, 2019, p. 409). Fajriah & Jumady, (2021), Riyadi & Yulianto, (2014) and Azhar & Arim, (2018) suggested that PSF had a significant negative effect on ROA. So it can be stated that the higher the PSF value, the lower the ROA level. Different from other research, Elgadi & Yu, (2018) Elgadi & Yu, (2018) show that PSF has a positive and significant effect on ROA.

The amount of third party funds (DPK) collected by a bank will affect its ability to provide financing. While financing provides profitability to Islamic banks (Muhammad et al., 2020; Said & Ali, 2016). However, contrary to this mechanism, DPK shows a negative effect on ROA. Third party funds have a negative effect on the profitability of Islamic banking, meaning that an increase in third party funds actually results in a decrease in bank profitability (Said & Ali, 2016). hypothesize that deposits such as (current accounts, savings, and investments) show a statically significant effect on the profitability of Islamic banks and also conclude that Islamic bank management is more efficient in environmental competition compared to its

competitors. However, his research shows that TPF has a negative effect on ROA (Masood & Ashraf, 2012, p. 263). Farikhah & Rani, (2019, p. 409) also confirmed that DPK had a negative and significant effect on ROA of Islamic BPD.

Table 1. Description Of Research Variables

Variable	Description	Measure	Expected Effect
Dependent variable			
ROA	Return on Assets	Net Income/Total Assets %	
Independent Variables			
FDR	Financing to deposit ratio	Total Financing/Total Deposit %	+
NPF	Non Peforming Financing	Financing problem/total financing %	-
PSF	Profit Sharing Financing	Mudarabah and Musyarakah Financing	+
DPK	Third party fund	Current, Savings, And Investment	+
DCOVID	Dummy Covid	1= COVID Period, 0=Before Covid Period	-

RESEARCH METHODS

Empirical studies on the profitability of Islamic banks have paid particular attention to using the cross-country panel model. Masood & Ashraf, (2012, p. 258) stated that the study of literature that aims to explain the profitability of Islamic banks has covered Indonesia, Malaysia, the Middle East, Bahrain, Egypt, Sudan, and Saudi Arabia. Zarrouk et al., (2016, p. 47) used the system-generalized method of moments (system-GMM) econometric technique to analyze the relationship between profitability indicators and bank features and country-level characteristics. Based on these arguments the researcher has tried to use static and dynamic panel data models. However, the results obtained indicate a mismatch of the model in the data, this is due to the fact that there are two Islamic BPDs in Commercial Banks, where the value of financing and third party funds is greater than the Islamic bank unit. So the author only uses multiple linear regression.

Regression is an analytical tool to determine the effect of an independent variable on the dependent variable, but generally in a linear model, data is needed that does not affect the assumption of heteroscedasticity or normality. Then the data transformation process is needed in order to get an accurate predictive value, namely, box cox transformation. The Box-Cox transformation is a power transformation on the response variable developed by Box and Cox, which aims to normalize the

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data, linearize the regression model and homogenize the variance. Box and Cox consider a single-parameter transformation class, namely raised to the power of the response variable Y, so that the transformation model is Y^{λ} where is the parameter that must be estimated (Wilujeng, 2018). The author also uses a comparative test on each variable. Based on the Shapiro Wilk normality test, all variables were in abnormal conditions, so a nonparametric test was used to obtain comparative results before and during COVID with the Kruskal-Wallis Test.

The object of observation is the financial statements of Islamic Regional Development Banks throughout Indonesia as presented in Table 2. Islamic BPD in Indonesia consists of 2 Islamic Commercial Banks and 13 Islamic Bank Units. The data sources were obtained from the https://www.ojk.go.id/ website and the official websites of each bank. The data used is quarterly data from December 2018- September 2021. The observation sample obtained is 222.

Tabel. 2. Bank Pembangunan Daerah Syariah di Indonesia

Islamic Regional Development Banks	Category
BPD Aceh Syariah	Islamic Commercial Bank
BPD Nusa Tenggara Barat Syariah	Islamic Commercial Bank
BPD DKI Syariah	Islamic BankUnit
BPD Yogyakrta Syariah	Islamic BankUnit
BPD Jawa Tengah Syariah	Islamic BankUnit
BPD Jawa Timur Syariah	Islamic BankUnit
BPD Jambi Syariah	Islamic BankUnit
BPD Sumatera Utara Syariah	Islamic BankUnit
BPD Sumatera Barat Syariah	Islamic BankUnit
BPD Riau Syariah	Islamic BankUnit
BPD Sumatera Selatan dan Bangka Belitung Syariah	Islamic BankUnit
BPD Kalimantan Selatan Syariah	Islamic BankUnit
BPD Kalimantan Barat Syariah	Islamic BankUnit
BPD Kalimantan Timur Syariah	Islamic BankUnit
BPD Sulawesi Selatan dan Barat Syariah	Islamic BankUnit

RESULTS AND DISCUSSION

Table 3. shows the descriptive statistical results of the observations. ROA as the independent variable is described as having the smallest data distribution, the maximum profitability of the bank is 8.47 percent, while the minimum profit is 0.01, and the average value of Islamic BPD profitability is around 2.57. FDR has a fairly high data distribution value of the three ratios. FDR has a mean value of 106.71 which indicates that the Islamic BPD does not experience liquidity. This is also shown in the NPF ratio where the average obtained is 1.61, and the maximum value is 15.46 percent. This

shows that BPD Islam is in a healthy condition in terms of financing problems.

Table 3. Descriptive Statistics

	ROA	FDR	NPF	PBH	DPK
Mean	2.52	106.71	1.61	923743	3470544
Max	8.47	349.14	15.46	5262476	23417983
Min	0.01	0.47	0.01	7393	148386
St.Dev	1.75	48.01	2.79	1183088	5031929

Source: Processed Data

The descriptive results obtained a large variety of data variations from FDR, PBH and DPK so that it can interfere with the model estimation results, then the Box Cox transformation is carried out. The use of transformation to obtain data that is normally distributed and free from heteroscedasticity symptoms. The results of the transformation are obtained in the table. 4. with different lambda values for each variable.

Table 4. Lambda value results for each variable

Variable	Lambda
ROA	0.48008
FDR	0.39759
NPF	0.01416
PBH	0.05202
DPK	0.27424

Source: Processed Data

Table 5. Estimated Multiple Linear Regression

	Coef	Standar Error	t
Constat	21.89754 ***	6.096531	0.000
FDR	-20.72782***	5.190583	0.000
NPF	-1856.451***	462.8248	0.000
PSF	1596.886***	397.7665	0.000
DPK	297.0152 ***	74.55433	0.000
DCOVID	-.0219623	.1299029	0.866
R-squared	0.352		
Adj R-squared	0.337		
F	23.52***		

legend: * p<0.05; ** p<0.01; *** p<0.001

Table 5. shows multiple linear regression. Based on the regression results, it was found that FDR, NPF, and the COVID dummy had a negative effect on profitability. Meanwhile, PSF and DPK have a positive influence on

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profitability. The R-squared value of 0.352 indicates that the variable correlation is very weak, and the R-Squared Adj 0.337 and this value states that there are 66% of other variables that can explain the dependent variable, namely profitability. The F test got a significance result of 0.00 < 0.05, simultaneously the independent variables were able to have a significant effect on profitability.

This regression specification model is not disturbed by classical assumptions. In the normality test, the p-value obtained is 7.393 in the Shapiro-Wilk normality test. For the autocorrelation test, the Durbin Watson value is 2.3026, this indicates that the Durbin Watson value is greater than dU and greater than 4-DW. In the heteroscedasticity test, the p.value was 0.6601 with the studentized Breusch-Pagan test, so there were no symptoms of heteroscedasticity. The results of multicollinearity also showed no symptoms, where the VIF value of each variable, as shown in the table. 6 below 10 so it can be concluded that there is no correlation between the independent variables.

Tabel 6. Classic Assumption

	VIF	Shapiro-Wilk normality test	Durbin Watson test	studentized Breusch-Pagan test
FDR	4.755246			
NPF	1.575901			
PBH	1.522346	p-value = 7.393	2.30260	p-value = 0.6601
DPK	8.888278			
DCOVID	1.051946			

Source: Processed Data

Based on the nonparametric Kruskal-Wallis Test, each variable (Table 7.) shows that ROA did not experience any difference before and during Covid-19. This is because BPD Islam is able to adapt and rise due to the Covid-19 outbreak, this is not followed by PSF and DPK. While FDR and NPF there are no differences before and during Covid-19. The results of this study are in line with the research of Rolianah et al., (2021, p. 136) that examined the Islamic People's Financing Bank, that there is no significant difference between ROA and NPF, but the FDR variable contradicts the results of this study.

Table 7. Kruskal-Wallis Test

	Kruskal-Wallis Test	
	chi2	P value
ROA ~ COVID	0.46411	0.4957
FDR~ COVID	0.08304	0.7732

NPF~ COVID	2.7975	0.0944
PSF~ COVID	13.325	0.0002
DPK~ COVID	5.4041	0.0200

Source: Processed Data

Table 5 shows that FDR has a negative and significant effect on ROA with a coefficient value of -20,72782 and a significance of 0.000. This is contrary to the expectation of the hypothesis that FDR is able to have a positive influence. The results of this study support the research of Azad et al., (2020, p. 12), where FDR has a negative effect. This is different from the research of Masood & Ashraf, (2012, p. 263), Shinta Amalina Hazrati Havidz & Setiawan, (2015, p. 161) which shows FDR has a positive effect on ROA. The success of this ratio is highly dependent on the quality of financing distribution, which means that although the amount of financing disbursement is high, if it is not accompanied by a low NPF, it will not provide profitability for the bank. On the contrary, it will bring losses to the bank (Said & Ali, 2016).

This study shows that NPF has a negative and significant effect on ROA, with a coefficient value of -1856,451 with a significance of 0.000. This research supports the research of Farikhah & Rani, (2019, p. 409), Masood & Ashraf, (2012, p. 263) and Said & Ali, (2016) which shows that NPF is negatively related to ROA. If the company targets a low NPF, it means that the bank's management will apply a more stringent profit sharing financing distribution policy (be careful). On the other hand, if the targeted NPF is larger, the distribution of profit-sharing financing will be easier (loose). Thus, the policies taken will have an impact on the profitability of the bank. Meanwhile, in this study, the NPF data used was not in accordance with what was targeted by bank management. Thus, the profitability of the bank in this study is not influenced by non-performing financing (NPF), as described above (Said & Ali, 2016).

PDF has a positive and significant effect with a significance value of 0.000 and a coefficient value of 1596,886. The results of this study support research Elgadi & Yu, (2018), and contrary to research (Fajriah & Jumady, 2021), (Riyadi & Yulianto, 2014) and (Azhar & Arim, 2018) which PSF has a negative effect on ROA. This happens because it is caused by trust that is abused by customers. Islamic banks entrust their funds to customers through financing distribution to be managed and later will be returned according to the agreement made. However, there is a possibility that the customer will abuse the trust of the Islamic Bank, so that it is not certain that the profit-sharing financing distributed by the bank to the customer will be returned according to the mutually agreed agreement between the bank and the customer, so that this can reduce the level of profit of a bank. (Fajriah & Jumady, 2021). According to Izhar & Asutay, (2007) because most Islamic bank loans are in the form of profit-sharing loans (PLS) with equity features,

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the loan-performance relationship is highly dependent on the expected economic performance. During a strong economy, only a small proportion of PLS loans will default, and bank profits will increase. On the other hand, banks can be badly damaged during a weak economy, as some borrowers tend to default on their loans. Ideally, banks should take advantage of favorable economic conditions and protect themselves during adverse conditions.

The results showed that DPK had a positive and significant effect on ROA with a coefficient value of 297.0152 and a significance of 0.000. This research is contrary to the research of Said & Ali, (2016), Masood & Ashraf, (2012, p. 258) dan Farikhah & Rani, (2019, p. 409) which confirms DPK has a negative and significant effect on ROA. According to Menicucci & Paolucci, (2016) actually customer deposits are positively related to bank profitability; but, on the other hand, the bank's inability not to issue money through loans can reduce its level of profitability because of the interest paid to depositors, therefore research shows a negative effect. This is also supported by the opinion of (Said & Ali, 2016) that the increase in lending capacity resulted in increased income, so that bank profits also increased. However, if it has a negative effect, then it is caused by the lack of maximum distribution of third party funds to financing so that they do not benefit from their financing activities. The results of the Covid Dummy variable have a negative and significant effect, of course this fact is in accordance with the perceived phenomenon and in accordance with national conditions, where at the beginning of the Covid period all bank operations were limited.

CONCLUSIONS AND LIMITATIONS

The results showed that FDR, NPF, and the COVID dummy had a negative effect on profitability. Meanwhile, PSF and third party funds have a positive influence on profitability. In addition, the Kruskal-Wallis test showed no difference in ROA, FDR, and NPF before and during Covid-19. This study obtained different results in general, there were several findings that contradicted the results of previous research. So there are several suggestions for further researchers, namely to include asset size variables. Bigger assets get higher profitability (Masood & Ashraf, 2012, p. 258). While the Islamic BPD itself already exists in the category of Islamic Commercial Bank, so this research cannot proceed to the panel data method. Or it can be concluded that the Islamic BPD does not have its own characteristics or is the same as its two divisions, UUS and BUS. This is confirmed by the adjusted R square value of 33%, which means that other variables are needed to explain the profitability of Islamic banks.

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