Journal of Finance and Islamic Banking
Vol. 7 No. 1 January - June 2024
P-ISSN: 2615-2967 | E-ISSN: 2615-2975

Financial Performance of Bank NTB Syariah: Before and After Becoming an Islamic Commercial Bank

Dedy Mainata
UIN Sultan Aji Muhammad Idris Samarinda
Email: dedy.mainata@uinsi.ac.id

Angrum Pratiwi
UIN Sultan Aji Muhammad Idris Samarinda
Email: angrum.pratiwi@uinsi.ac.id

Mauizatul Hasanah
UIN Sultan Aji Muhammad Idris Samarinda
Email: mauizahhsnh17@gmail.com

Abstract

This study evaluates the financial performance of Bank NTB Syariah before and after its conversion into an Islamic Commercial Bank (BUS) in 2018. The conversion aimed to foster more equitable economic growth and improve the overall status of the NTB community. Utilizing Financial Ratio Analysis (FRA), this research examines various financial ratios, including ROA, ROE, NIM, NPF, BOPO, FAR, FDR, ELR, EAR, CAR, DER, and DAR, to assess performance differences pre- and post-conversion. The findings indicate significant improvements in key financial indicators such as ROA, ROE, NIM, NPF Net, and BOPO after the conversion, demonstrating enhanced profitability and efficiency. However, there were no notable changes in the ratios of FAR, FDR, ELR, EAR, CAR, DER, DAR, and NPF Gross, suggesting stability in these areas. This comprehensive analysis highlights the positive impact of the conversion on Bank NTB Syariah's financial performance and provides valuable insights for investors, bank managers, and policymakers regarding the benefits of converting to an Islamic Commercial Bank. The study's findings underscore the importance of strategic structural changes in enhancing the financial health and operational efficiency of financial institutions.

Keywords: Islamic Commercial Bank, Financial Ratio Analysis, Bank NTB Syariah, and Financial Performance.

DOI: https://doi.org/10.22515/jfib.v7i1.8585

Introduction

The last few years, after the publication of the new rules of the Indonesian Financial Services Authority (OJK) through the regulation of OJK No. 12 of 2023 on the spin-off of the Shariah Business Unit (UUS), have raised many pros and cons not only among academics but also among policymakers (Majid & Nugraha, 2022) (Yuspin & Wardiono, 2017). Proponents of this policy argue that the more competitive the industry, the more efficient the function of banking intermediation. Other studies say that bank consolidation policy increases bank market strength and is an effective way to achieve overall financial stability (Abdul-Rahman et al., 2014) (Liu & Margaritis, 2014). Other studies say that the size of a bank can improve bank stability through efficient distribution, which means that the greater the market strength of the bank, the lower the bank risk and the more stable the financial system (Trinugroho et al., 2021).

The need of establishing a policy that distinguishes Shariah Business Units (UUS), or banks that operate under the system, from ordinary banks. It is critical to clarify the UUS position because this divergence will affect the bank's financial performance (Nur Rianto Al Arif et al., 2017) (Al Arif et al., 2020). The division of the company's Sharia Enterprise Unit from the Conventional Bank is addressed by Government Act No. 21 of 2008 and the Financial Services Authority (OJK) Regulations No. 10 of 2023, with the aim of establishing a Sharia General Bank by the year 2023 at the latest (Al Arif et al., 2023). The goal of the regulation is to increase Sharia Bank's independence so that it can keep growing and gaining market share in Indonesia. This regulation is known as the spin-off policy. If UUS and the Conventional Bank continue to operate together after 2023, the bank's operating license will be cancelled (Irwan Tri Nugroho, 2020) (Yuspin & Fauzie, 2018).

Previous research suggests that specialization could be the key to achieving bank performance efficiency (Bougatef & Korbi, 2018) (Amin et al., 2018). According to certain research, the way income and losses are distributed in sharia banks and conventional banks varies. Financial indices such bank efficiency, asset quality, and financial stability are impacted by the disparities in the business operations and ideologies of conventional and sharia banks (Yuspin & Fauzie, 2018) (Qayyum & Noreen, 2019) (Gafrej & Boujelbéne, 2022). The findings suggest that in order for the parent bank to focus on implementing Sharia law, the Sharia Business Unit (UUS) should be separated from it (Trinugroho et al., 2021).

A discussion over the sustainability and performance of Islamic banks (IBs) has been spurred by the growth of Islamic banking among economists and policymakers (Majeed & Zainab, 2021). The financial performance of Bank NTB Syariah in 2021 is regarded as rather good due to its significant growth in comparison to the accomplishments of Regional Development Banks (BPD) and National Banking throughout Indonesia. Conditions are still improving, as seen by the public's faith in Bank NTB Syariah. One sign is income from fees or sources other than profit-sharing and margin income, specifically the rise in ATM usage at Bank NTB Syariah. The Bank NTB Syariah application sees an increase in transactions since many other bank ATM cards are used at these ATMs (PT. Bank NTB Syariah, 2021).

One factor to consider when evaluating a company's performance is its financial performance (Majeed & Zainab, 2021) (Chang et al., 2019). According to the findings of earlier research, the expansion of investments and managed financing was the primary factor driving the rising growth of Islamic Banking assets (Abou Elseoud et al., 2020) (Al-Hunnayan, 2020). This demonstrates that the public's trust in investing and in those seeking financing from Islamic banks can still be sustained (Salih et al., 2019). As a result, the financial performance of Islamic banks in terms of capital, enough liquidity, financing quality, and efficiency supports Islamic banking (Maghfuriyah et al., 2019) (Majeed & Zainab, 2021).

This study differs from related studies carried out in Indonesia. The first distinction is that it makes use of the biggest dataset for the years 2016–2022, which is available. Second, assess financial results by contrasting them with those of other recently *spin-off* BUS. Finally, this research not only identifies comparative evidence of superior or worse performance, but it also aids in the comprehension and analysis of the rationale behind each conclusion. This demonstrates the continued need for study utilizing the most recent data sets. Furthermore, the rationale behind the results of earlier research was not always evident. Identifying the limitations of previous research, this study focuses on the main research question: Is the performance of Bank NTB Syariah different after becoming an Islamic Commercial Bank (BUS) compared to before?

This study is significant because a variety of stakeholders, including investors, bank managers, depositors, and policy makers, depend on financial performance. Investors and senior bank management can utilize this study to help them make better judgments about their investments and bank conversions.

Given the importance of understanding and discussing corporate performance review, this also gives bank managers guidance on how to perform better.

The results of this study shed light on the difficulties in performance development at Bank NTB Sharia, which have not received much attention in other studies conducted in Indonesia. The findings of this study will support the development of suitable rules by financial regulators. It is vital to reexamine research on the Performance Analysis of Bank NTB Syariah in light of the aforementioned facts and the research gap from many prior studies regarding the spin-off to become a BUS. Prior to and Following the Bank's Conversion to an Islamic Commercial Bank.

Literature Review

Sharia banking has grown throughout time and has traditionally been associated with Islam, but it is now gradually becoming recognized in a number of non-Muslim nations. In reality, sharia banks are not just for Muslims. In fact, in the UK, where they have been allowed to function for decades, two out of every five clients are not Muslims. Although Muslims make up a small portion of the population in other nations like France and Germany, Sharia banks can be founded and normal banks can have Islamic windows (UUS). According to the nation, this UUS makes financial sense commercially in addition to being a vehicle for financial inclusion. The idea is to outlaw high-risk financial products like derivative contracts, which are to blame for the current sub-prime crisis. One nation that makes good use of Islamic financing is India, which draws a lot of foreign investment, particularly from the nations that make up the Gulf Cooperation Council (GCC) (Masvood & Lokeswara Choudary, 2015).

Since the first Islamic bank, Bank Islam Malaysia Berhad (BIMB), was established in 1983, the number of Islamic banking products and services in Malaysia has expanded and improved. The introduction of the Interest-Free Banking Scheme (IFBS) in 1993 was a major factor in the expansion of Islamic Banking products and services in their early phases of development. Through Islamic Banking Window, conventional banks are now able to provide Sharia-approved goods and services due to the introduction of the interest-free banking program (Misman et al., 2020). Conversely, the Board of Directors of Conventional Commercial Banks with branches or UUS, as well as Islamic Banks and subsidiaries, must be composed of Directors who possess the requisite knowledge and skills in compliance with sharia regulations and principles. The primary concern in these rules is the way the Sharia Supervisory Board (DPS) for

Islamic Banks is optimized, which goes against the right and proper sharia financial practices (Alam et al., 2019).

The internal circumstances of the bank center on a few metrics, like profitability—that is, the bank's capacity to turn a profit within a given time frame—as well as financial ratio analysis (Khan et al., 2020). The bank's debt ratio, or leverage, is another indicator. The debt ratio illustrates the bank's ability to settle its obligation to a satisfactory degree. A fascinating feature of Islamic Banks, nevertheless, is that they continue to publish their social and financial reports regardless of their profitability or lack thereof, as well as the size of their debt. The reason Islamic Commercial Banks ensure proper community connections is because they implement Islamic principles and social values in their commercial operations (Jati et al., 2020).

In order to determine the level of business efficiency and profitability attained by the bank, the profitability ratio explains the bank's capacity to improve its profits. Both the ROE (Return on Equity) and ROA (Return on Assets) ratios are used to calculate the profitability ratio (Abdo et al., 2021). A financial ratio known as net income margin (NIM) is used by banks to calculate the difference between the amount of profit sharing they receive from their assets that generate profit sharing and the amount of profit sharing they pay to their lenders, such as depositors. A corporation can compare profits with the overall amount of money it generates by using the NIM ratio(Musa et al., 2021). The ratio that businesses use to assess how effective they are during operations is called net profit margin, or NPM. The more productive the company's performance is expected to be, the higher the ratio in the report (Mulyadi & Sinaga, 2020).

The equity-to-liability ratio, or ELR, measures how much shareholder equity is adequate to cover potential losses resulting from credit risk associated with the bank's financing portfolio (Abdul-Rahman et al., 2014). The relative percentage of a bank's total assets to its entire equity is known as the equity-to-asset ratio, or EAR. Higher EAR ratios show that bank assets are not reliant on outside funding (Thaker et al., 2022). A full picture of the financial health of banks is provided by the capital adequacy ratio, often known as the Capital Adequacy Ratio (CAR). A bank's reduced risk and better financial standing are reflected in a higher CAR value (Religiosa & Surjandari, 2021).

The Debt-to-Equity Ratio (DER) is a ratio used to compare the amount of equity to the quantity of debt. DER is frequently utilized for business activities and needs to be allocated proportionately. The ratio of a company's debt to its assets is known as the debt-to-asset ratio, or DAR. This ratio's unique purpose is to compute these two financial elements' ratios and compare them. It is preferable if the DAR value is lower (Gazi et al., 2021).

The NPF (Non-Performing Financing) ratio is one of the ratios used to evaluate the quality of producing assets. The ratio of non-performing financing to total financing is known as the NPF ratio (Priyadi et al., 2021). Evaluation of the BOPO ratio, which is used to determine bank operational efficiency. A comparison of operating income and costs is known as the BOPO ratio. The BOPO ratio is intended to assess the operational activity efficiency of sharia banks. Because the expenses incurred are less than the money obtained, a lower operational cost ratio is preferable (Rokhmawati & Halim, 2022).

Methods

Financial data is used as the study sample to evaluate the performance of capital, liquidity, profitability, risk, and efficiency during the course of the observation period, which runs from 2013 to 2022. Ten years of research were conducted: five years from 2013 to 2017 before becoming a BUS, and five years from 2018 to 2022 after being a BUS.Descriptive statistical tests, such as those involving minimum, maximum, mean, and standard deviation values, are used in this study (Suliyanto & MM, 2017). T

he occurrence of one or more variables in two or more different samples, or at different times, is then compared, a process known as a comparative analysis (Kumba Digdowiseiso, S.E., 2017). The Paired Sample t-test was the statistical test employed in this investigation. Finding out how the financial performance changed before and after the spin-off is the goal. When making decisions, the significance value is taken into account. If it is higher than 0.05 (α: 5%), H_a is approved, indicating that a difference exists (Suliyanto & MM, 2017).

Hypothesis:

H_1: There is a difference in the financial performance of Bank NTB Syariah after the Spin-Off to become a Islamic Commercial Bank.

H_0: There is no difference in the financial performance of Bnak NTB Syariah after the Spin-Off to become a Islamic Commercial Bank.

Result and Discussion

Based on the statistical test results in Table 1, FAR, FDR, ROA, ROE, NIM, NPM, ELR, EAR, CAR, DER, DAR, NPF Gross, NPF Net, and BOPO ratios are described in terms of the variables. The Financing to Asset Ratio (FAR) has a minimum value of 60.89% and a maximum value of 75.96%, according to the data. The ratio illustrates the extent to which bank assets can sustain bank financing. The Financing to Deposite Ratio (FDR), which indicates how well the bank can allocate financing from the money it receives, ranges from a minimum of 75.07% to a maximum of 105.56%. The better the bank's ability to disburse funds, the higher the FDR ratio. The ROI ratio, or return on assets, ranges from a minimum of 1.48% to a maximum of 5.10%.

This ratio demonstrates the bank's capacity to turn a profit on its holdings. In the meantime, the ROE ratio has a low of 8.92% and a maximum of 31.56%. The bank's ability to make money off of the capital it owns is demonstrated by the return on equity ratio, which is a ratio. The Net Operating Margin (NOM) ratio, which measures the bank's capacity to manage all of its productive assets in order to produce large profits, has a minimum value of 4.38% and a maximum value of 11.08%. The Net Profit Margin (NPM) ratio has a minimum value of 13.26% and a maximum value of 27.78%, according to the results of descriptive statistics. The purpose of this ratio is to assess the efficiency with which the business runs by calculating the percentage of net profit that remains after taxes are subtracted.

Descriptive statistical test findings indicate that the ELR ratio of Bank NTB Syariah ranges from a minimum of 13.58% to a maximum of 23.42%. The ratio of the quantity of acquired and non-renewable emergency supplies to renewable emergency resources is known as the Expected Loss Ratio, or ELR ratio. The proportion of funds from assets when funding is derived from equity is known as the Equity to Asset Ratio (EAR), a variable ratio. The EAR ratio has a minimum of 11.95% and a high of 18.97%. The Capital Adequacy ratio (CAR), which banks utilize to achieve capital adequacy requirements, has a minimum value of 17.21% and a maximum value of 35.47%, according to the descriptive statistical statistics. Based on the descriptive statistics results, the DER ratio ranges from a minimum of 427.06% to a maximum of 736.48%. A financial measure called the Debt-to-Equity measure (DER) contrasts the amount of debt with equity. A proportionate quantity of equity and accounts payable and receivable must be utilized for business activities.

Descriptive Statistics				
	N	Minimum	Maximum	Mean
FAR	10	60.89	75.96	67.7440
FDR	10	75.07	105.56	92.6460
ROA	10	1.48	5.10	2.9760
ROE	10	8.92	31.56	17.2150
NIM	10	4.38	11.08	6.8900
NPM	10	13.26	27.78	20.5200
ELR	10	13.58	23.42	18.0430
EAR	10	11.95	18.97	15.2350
CAR	10	17.21	35.47	28.3110
DER	10	427.06	736.48	568.8880
DAR	10	81.03	88.05	84.7650
NPFGross	10	1.05	1.73	1.3530
NPFNet	10	.22	.77	.4690
BOPO	10	64.19	86.86	75.2140
Valid N (listwise)	10			

Tabel 1 Source: Secondary data processing results, 2023

One debt ratio used to compare total debt and total assets is the debt to total asset ratio, or DAR. That is, it illustrates the extent to which debt may finance assets or the extent to which debt affects asset management. 81.03% is the lowest value that DAR's statistical tests yield, while 88.05% is the highest. Productive asset loss allowance (PPAP) is not factored into the Gross Non-Performing Finance (NPF) ratio. PPAP is considered in the Net NPF ratio. A minimum value of 1.05% and a maximum value of 1.73% are shown by the Gross NPF ratio results, while a minimum value of 0.22% and a maximum value of 0.77% are shown by the Net NPF ratio results. The BOPO ratio, which stands for operating costs divided by operational income, demonstrates how well a company controls its level of efficiency. 64.19% is the least and 86.86% is the greatest value that is obtained.

The Financing to Asset Ratio (FAR) and the Financing to Deposite Ratio (FDR) are the ratios that are used to show liquidity performance in statistical tests and graphs. According to Table 4.2, Bank NTB Syariah's financing to asset ratio (FAR) for the observation period of 2013 to 2022 peaked in 2013 at 75.96% and peaked in 2017 at 60.89%. 2013 saw the highest percentage FDR ratio at 105.56%, while 2017 saw the lowest percentage at 75.07%. After becoming a

BUS, the FDR ratio generated is still comparatively good, ranging from 80% to 99%.

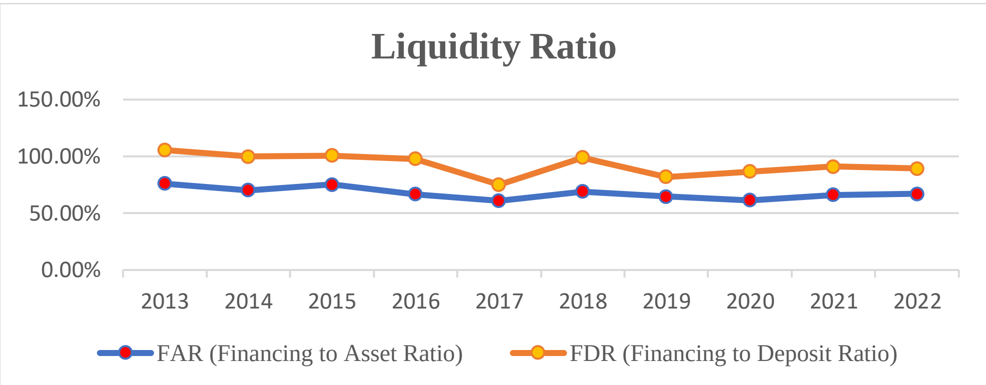
Table 2: FAR and FDR

Liquidity Ratio	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
FAR (Financing to Asset Ratio)	75,96%	70,30%	75,29%	66,54%	60,89%	69,17%	64,61%	61,53%	66,04%	67,11%
FDR (Financing to Deposit Ratio)	105,56%	99,78%	100,87%	97,66%	75,07%	98,93%	81,89%	86,53%	90,96%	89,21%
Average FAR	69,79%					65,69%				
Average FDR	95,79%					89,50%				

Source: Secondary data processing results, 2023

Table 2 above indicates that the average FAR ratio was 69.79% before to becoming a BUS and dropped to 65.60% following BUS status by 4.10%. Before becoming a BUS, Bank NTB Syariah produced an average FDR ratio that was higher than the average FDR ratio after becoming a BUS. Before turning into a BUS, Bank NTB Syariah's FDR ratio was 95.79%; after becoming a BUS, it dropped to 89.50% by 6.28%.

There was a corresponding rise in the value of Bank NTB Syariah's DPK once the financing value increased. However, Bank NTB Syariah's FDR ratio seems to be comparatively declining each year because the growth in the value of its DPK is bigger than the value of its financing. The FAR and FDR ratios of Bank NTB Syariah declined following its conversion to a BUS, and the average FAR and FDR ratios generated also tended to diminish following the conversion to a BUS. This demonstrates rather clearly how much the liquidity position changed following BUS compared to when it was still a commercial bank. But once Bank NTB Syariah became a BUS in 2018, its FAR and FDR ratios have also started to rise once more.



Graph. 1: Source: Secondary data processing results, 2023

The rise of the FAR ratio is displayed by the blue FAR ratio in Liquidity Ratio Graph 1 There is no discernible rise or fall in the graph, which indicates very steady growth. In the meantime, it looks like the FDR ratio, shown in yellow, dropped considerably in 2017 before rising once more in 2018.

Due to their requirement to only make real asset investments, Islamic Banks have greater challenges and complexity in managing their liquidity. The additional checks and balances that sharia banks have raise the cost of transactions. Comparing the investment possibilities offered by Islamic Banks to those of Commercial Banks, one finds that the former generally have more Sharia-compliant options. Sharia regulations apply to the capital market sales of securities by sharia banks as well.

The fact that BUS has a larger liquidity ratio indicates that it was under financial difficulty during the research period and that it provided a lot of financing. Banks often don't care whether contracts are legal; they just care about getting money. Sometimes banks will rather fund more lucrative companies or engage in the derivatives markets. On the other hand, Islamic banks are more cautious when it comes to Sharia regulations, like the ban on engaging in immoral ventures like gambling and interest-bearing securities. The requirement that the funding provided by Sharia Banks support the actual sector is another one of their characteristics.

The fact that BUS has a larger liquidity ratio indicates that it was under financial difficulty during the research period and that it provided a lot of financing. Banks often don't care whether contracts are legal; they just care about getting money. Sometimes banks will rather fund more lucrative companies or engage in the derivatives markets. On the other hand, Islamic banks are more cautious when it comes to Sharia regulations, like the ban on engaging in immoral ventures like gambling and interest-bearing securities. The requirement that the funding provided by Islamic Banks support the actual sector is another one of their characteristics.

Profitability Performance

The growth in the ROA ratio, or net profit to average productive assets, is displayed in Table 1.3. In terms of percentage terms, Bank NTB Syariah's ROA ratio peaked in 2013 at 5.10% and peaked again in 2022 at 1.48%. The ROA ratio for Bank NTB Syariah indicates a percentage that keeps going down from 2013 to 2022. Just one year after becoming a BUS, in 2013, the greatest ROE ratio was 31.56%, while the lowest was 8.92% in 2018. The NIM ratio displayed a maximum percentage of 11.08% in 2013 and a minimum percentage of 4.38% in 2020. Based on Table 4.3, the NPM ratio exhibits a maximum of 27.78% in 2023 and a minimum of 14.35% in 2020.

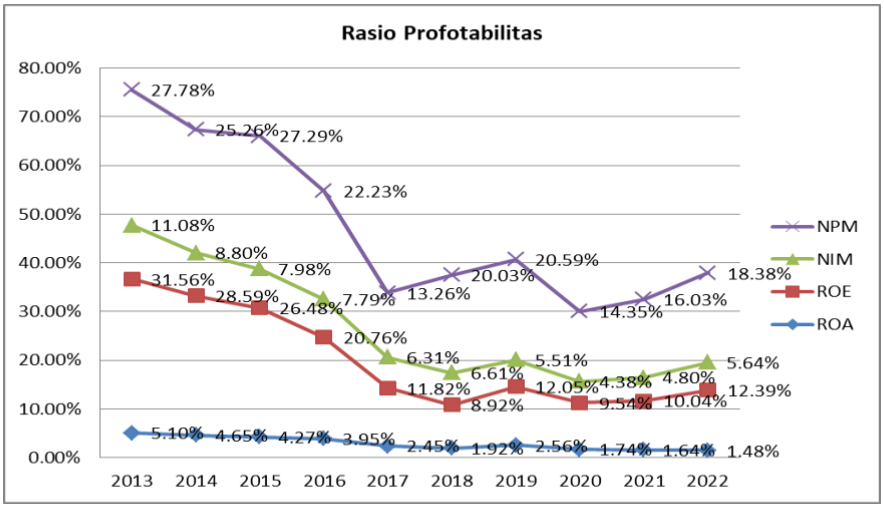
Before and after becoming a BUS, Bank NTB Syariah's average ROA, ROE, NIM, and NPM ratios differed significantly. The average return on assets (ROA) ratio was 4.08% from 2013 to 2017, then it dropped to 1.87% from 2018 to 2022. Prior to becoming a BUS, the average ROE ratio was 23.84%; it thereafter dropped to 10.59%. Prior to becoming BUS, the average NIM ratio was 8.39%; it then decreased to 5.39%. Prior to becoming a BUS, the average NPM ratio was 23.17%; following the change, the average dropped by 5.42% to 17.88%.

Table 3
ROA, ROE, NIM and NPM

Profitability Ratio	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
ROA	5,10%	4,65%	4,27%	3,95%	2,45%	1,92%	2,56%	1,74%	1,64%	1,48%
ROE	31,56%	28,59%	26,48%	20,76%	11,82%	8,92%	12,05%	9,54%	10,04%	12,39%
NIM	11,08%	8,80%	7,98%	7,79%	6,31%	6,61%	5,51%	4,38%	4,80%	5,64%
NPM	27,78%	25,26%	27,29%	22,23%	13,26%	20,03%	20,59%	14,35%	16,03%	18,38%
Average ROA	4,08%					1,87%				
Average ROE	23,84%					10,59%				
Average NIM	8,39%					5,39%				
Average NPM	23,17%					17,88%				

Source: Secondary data processing results, 2023

The blue color in Table 3 Profitability ratios represents the rise of the ROA ratio, which decreases throughout the course of the 2013–2022 observation period. In fact, after becoming a BUS, the ROA ratio dropped even further in 2020–2022, to 1.64%. The ROE ratio is displayed on the red graph, which indicates that it will continue to slope in the direction of 10.04% in 2022. The ROE ratio declines after becoming a BUS in 2018–2022, according to the graph. Despite a minor increase in NIM in 2019, the NIM ratio graph, which is colored green and whose movement mirrors that of the ROE ratio, keeps declining until 2022. It is extremely easy to see that the NPM ratio, shown in purple, moved in a dramatic downward direction from 2014 to 2017, then BUS numbers surged once more in 2019 before declining until 2022.



Source: Secondary data processing results, 2023

A ratio called the return on assets (ROA) indicates how well a business uses all of its assets to generate net profit after taxes. A decline in the ROA ratio indicates subpar asset management by the business. For shareholders and prospective investors, the return on equity (ROE) ratio is a crucial metric for assessing a bank's capacity to generate net profits from dividend payments. The higher this ratio is, the more likely it is that the bank's paid-in capital will increase shareholder earnings.

The reduction in profitability of Islamic Banks was due by several variables. First, Islamic banks with tiny market shares or sizes face challenges in realizing economies of scale, which eventually results in reduced profitability. Second, poorer profitability is the result of interest-free transactions and services. Islamic banks must distribute funding with greater caution due to sharia compliance and stringent prudential norms. Third, their low profitability is correlated with their low asset quality. Other aspects include the bank's external environment, which includes things like economic growth, circumstances, and unforeseen events.

Capital Adequacy Performance

Capital adequacy and capital management adequacy are assessed as part of the capital factor assessment. Islamic Commercial Banks use the relevant regulations pertaining to the requirement to provide minimum capital for Islamic Commercial Banks for determining capital. Furthermore, when determining capital adequacy:

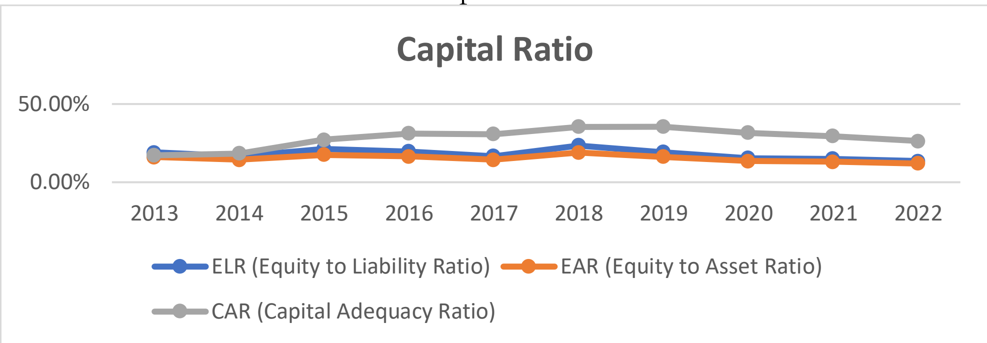
Table 1.4
ELR, EAR, and CAR

Capital Ratio	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
ELR (Equity to Liability Ratio)	19,14%	16,74%	21,38%	19,67%	16,77%	23,42%	19,34%	15,48%	14,91%	13,58%
EAR (Equity to Asset Ratio)	16,07%	14,34%	17,62%	16,44%	14,36%	18,97%	16,21%	13,41%	12,98%	11,95%
CAR (Capital Adequacy Ratio)	17,21%	18,36%	27,12%	31,17%	30,87%	35,42%	35,47%	31,60%	29,53%	26,36%
Average ELR	18,74%					17,35%				
Average EAR	15,77%					14,70%				
Average CAR	24,95%					31,68%				

Source: Secondary data processing results, 2023

The ELR ratio rise from 2013 to 2022 is displayed in Table 1.4. In terms of percentage terms, Bank NTB Syariah's ELR ratio peaked in 2018 at 23.42% and peaked in 2022 at 13.58%. After becoming a BUS in 2018, Bank NTB Syariah's ELR ratio actually improved from 2013 to 2022, but it then declined until 2022. Prior to becoming a BUS, Bank NTB Syariah's average ELR ratio was 18.74%; however, following its BUS status, the average ELR ratio of the bank is now 17.35%. Following its conversion to a BUS, Bank NTB Syariah's EAR ratio peaked in 2018 at 18.97% and peaked in 2020 at 13.41% percent. Following its conversion to a BUS, Bank NTB Syariah's EAR ratio grew; nevertheless, in 2020 and 2022, it tends to decline. Prior to becoming a BUS, Bank NTB Syariah's average EAR ratio was 15.77%; however, following its BUS status, the average EAR ratio increased to 14.70%. Following its conversion to BUS, the greatest CAR ratio in 2018 was 35.42%. 2013 saw the lowest CAR ratio at 17.21%. Prior to becoming a BUS, the average CAR ratio was 24.95%; however, upon BUS status, the average CAR ratio rose to 31.68%.

The increase in Bank NTB Syariah's capital ratio between 2013 and 2022, both before and after switching to BUS, is shown in Graph 1.3. The 2018 graph illustrates how, one year after becoming BUS, the ELR, EAR, and CAR ratios all climbed at the same time. Nevertheless, from 2019 to 2022, capital performance declined as a result of the Covid-19 epidemic.



Source: Secondary data processing results, 2023

Solvency Performance

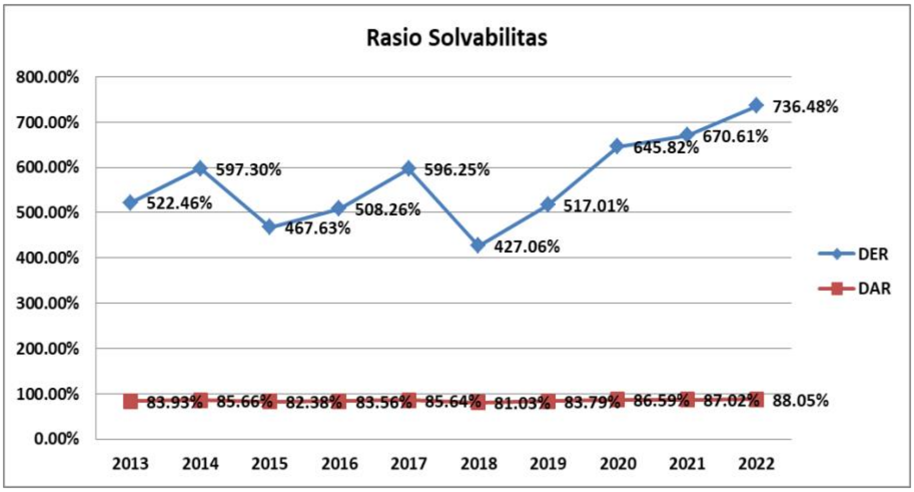
The proportion of the DER ratio generated by Bank NTB Syariah for the years 2013 to 2022 is displayed in Table 1.5. The DER ratio for Bank NTB Syariah was 427.06%, or 4.27, in 2018, the lowest percentage in 2018, and the highest percentage in 2021, 670.61%, or 6.71. Prior to being designated as a BUS, Bank NTB Syariah's average DER ratio was 523.91%, or 5.23; upon its designation as a BUS, the average DER ratio was 599.39%, or 5.9. From 2013 to 2021, Bank NTB Syariah's DAR ratio consistently displayed a value between 80 and 88%. Prior to being a BUS, the average DAR ratio was 84.32%, or 8.4, and after becoming a BUS, it changed to 85.30%, or 8.5. The DAR value cannot be high because debt is a financial factor that needs to be managed. DAR < 0.5 indicates that capital funds the bulk of the assets, which is a good value factor. A DAR number between 0.6 and 0.7 is typically still regarded as fair and decent; a value > 0.5 indicates that the majority of assets are debt.

Table 4.5
DER and DAR

Rasio Solvabilitas	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
DER	522.46%	597.30%	467.63%	508.26%	596.25%	427.06%	517.01%	645.82%	670.61%	736.48%
DAR	83.93%	85.66%	82.38%	83.56%	85.64%	81.03%	83.79%	86.59%	87.02%	88.05%
Average DER	523.91%					599.39%				
Average DAR	84.23%					85.30%				

Source: Secondary data processing results, 2023

Graph 4.5 demonstrates how the DAR and DER ratios' rise is readily apparent. The DER ratio grew until 2022, when it started to decline in growth. There was no discernible increase in the DAR ratio.



Source: Secondary data processing results, 2023

Risk Performance and Efficiency

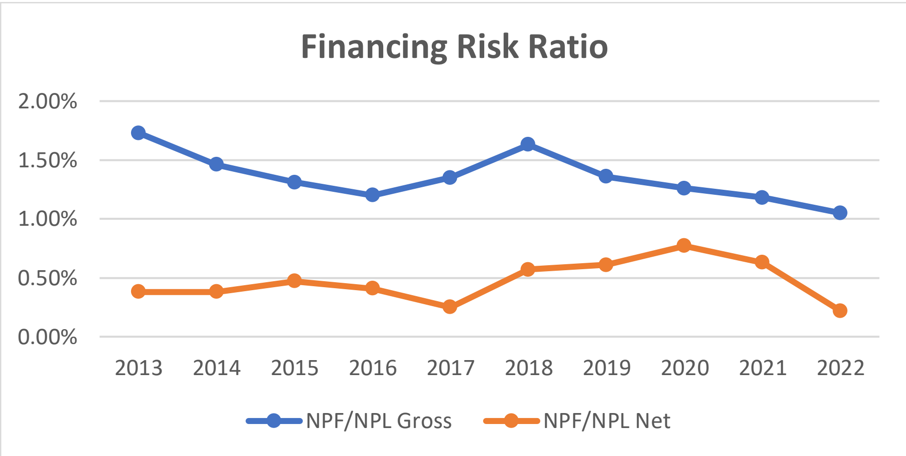
Table 1.6 illustrates how Bank NTB Syariah's Gross NPF ratio fluctuated as they made the switch to BUS (2018) and then declined until 2022. In the meantime, there was little change in Bank NTB Syariah's Net NPF ratio. 2% to 1% is a good NPF ratio based on the parameters. The ratio of problematic financing to total finance is called NPF. Measuring the extent of banks' funding issues is the goal. The lower the quality of financing at Islamic banks, the greater this ratio is.

Table 1.6
NPF Gross, Rasio NPF Net and BOPO

Rasio Risiko Pembiayaan	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
NPF Gross	1.73%	1.46%	1.31%	1.20%	1.35%	1.63%	1.36%	1.26%	1.18%	1.05%
NPF Net	0.38%	0.38%	0.47%	0.41%	0.25%	0.57%	0.61%	0.77%	0.63%	0.22%
BOPO	64.19%	65.79%	67.19%	68.69%	78.10%	86.86%	76.83%	81.39%	82.56%	80.54%
Averange NPF Gross	1.41%					1.30%				
Averange NPF Net	0.38%					0.56%				
BOPO	68.79%					81.64%				

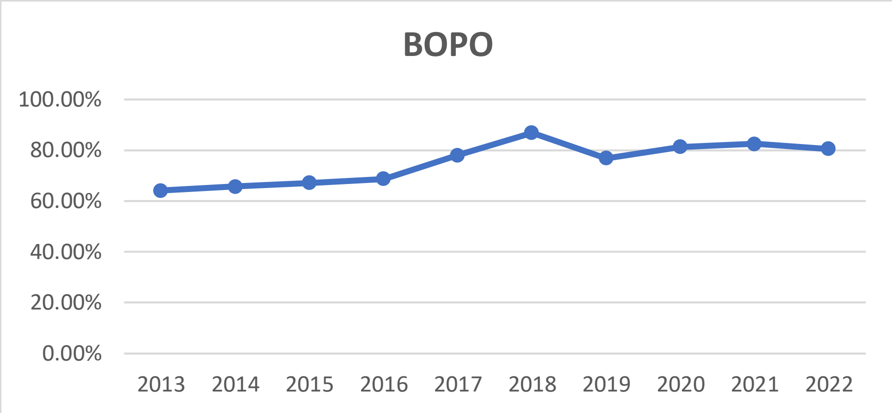
Source: Secondary data processing results, 2023

Table 1.6 demonstrates that, prior to becoming a BUS, the BOPO ratio was less than 70%, indicating that Bank NTB's efficiency level was rated as extremely good. In 2018, the BOPO ratio increased from 78.01% to 8.76% to 86.86% following the switch to a BUS. Because it is between 83% and 87%, Bank NTB Syariah's BOPO ratio is still comparatively good through 2022. The BOPO ratio increased in 2018, the year after it became a BUS, and then decreased the following year, as Graph 4.7 makes evident.



Source: Secondary data processing results, 2023

A comparison of operating income and costs is known as the BOPO ratio. It goes without saying that there are significant operational expenses involved in converting a conventional bank's banking operations to a sharia commercial bank. The BOPO ratio's objective is to assess the operational activity efficiency of banks. Because the expenses incurred are less than the money obtained, a lower operational cost ratio is preferable.



Source: Secondary data processing results, 2023

Results of Differential Tests of Bank NTB Syariah's Financial Performance

Based on the financial ratios' pre- and post-spin-off results from Table 1.7 Paired Samples Test Results. The financial ratios that are tested total fourteen (14) and include the following: FAR, FDR, ROA, ROE, NIM, NPM, ELR, EAR, CAR, DER, DAR, NPF Gross, NPF Net, and BOPO. The statistical test employs a paired samples test for an observation period of four years after the spin-off and five years prior to the spin-off, with an error rate of 5% (Sig. 0.05). The ROA, ROE, NIM, NPF Net, and BOPO ratios have significant values, according to the data. < 0.05 indicates a change in the ratio's performance following Bank NTB's conversion to an Islamic Commercial Bank or Bank NTB Syariah. In the meantime, there is no change in the financial performance before and after becoming an Islamic Commercial Bank, according to the ratios of FAR, FDR, ELR, EAR, CAR, DER, DAR, and NPF Gross value, all of which have Sig. > 0.05.

Table 1.7
Paired Samples Test

Paired Samples Test										
		Paired Differences					t	df	Significance	
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference Lower	Upper			One-Sided p	Two-Sided p
Pair 1	FARBefore - FARAfter	4.10400	7.45892	3.33573	-5.15748	13.36548	1.230	4	.143	.286
Pair 2	FDRBefore - FDRAfter	6.28400	12.42005	5.55442	-9.13753	21.70553	1.131	4	.161	.321

Pair 3	ROABefore - ROAAfter	-19.75800	6.80109	3.04154	-28.20267	-11.31333	-6.496	4	.001	.003
Pair 4	ROEBefore - ROEAfter	13.25400	8.80349	3.93704	2.32303	24.18497	3.366	4	.014	.028
Pair 5	NIMBefore - NIMAfter	3.00400	1.41721	.63379	1.24430	4.76370	4.740	4	.005	.009
Pair 6	NPMBefore - NPMAfter	5.28800	6.59838	2.95089	-2.90498	13.48098	1.792	4	.074	.148
Pair 7	ELRBefore - ELRAfter	1.39400	4.55538	2.03723	-4.26225	7.05025	.684	4	.266	.531
Pair 8	EARBefore - EARAfter	1.06200	3.23154	1.44519	-2.95049	5.07449	.735	4	.252	.503
Pair 9	CARBefore - CARAfter	-6.73000	10.49990	4.69570	-19.76735	6.30735	-1.433	4	.113	.225
Pair 10	DERBefore - DERAfter	-61.01600	136.66248	61.11732	-230.70488	108.67288	-.998	4	.187	.375
Pair 11	DARBefore - DARAfter	-1.06200	3.23154	1.44519	-5.07449	2.95049	-.735	4	.252	.503
Pair 12	NPFGBefore - NPFGAfter	.11400	.10945	.04895	-.02190	.24990	2.329	4	.040	.080
Pair 13	NPFNBefore - NPFNAfter	-.18200	.12518	.05598	-.33743	-.02657	-3.251	4	.016	.031
Pair 14	BOPOBefore - BOPOAfter	-12.84400	7.26188	3.24761	-21.86081	-3.82719	-3.955	4	.008	.017

Source: Secondary data processing results, 2023

Measures of liquidity, profitability, capital sufficiency, solvency, and risk and efficiency performance are used to assess Bank NTB Syariah's financial performance. Table 1.7's findings indicate that, following the administration of an alternative test (a paired samples test), the ratios of ROA, ROE, NIM, NPF Net, and BOPO revealed variations in performance following the bank's conversion to an Islamic Commercial Bank (BUS). In the meantime, the results of the same test, which included the FAR, FDR, ELR, EAR, CAR, DER, DAR, and Gross NPF ratios, did not alter between the pre- and post-Islamic Commercial Bank periods.

The capacity of the bank to meet its immediate responsibilities, such as its sufficiency in cash management, is known as liquidity performance. A statistic called the Financial to Deposite Ratio (FDR) is used to gauge how well a bank can direct funding from money that has been obtained from third parties (DPK). In order to channel community monies back into the form of financing, the bank will attempt to boost third-party funds from the community in the form of savings, deposits, or current accounts after it becomes a BUS. The ratio of financing receivables to total assets is known as the Financing to Asset Ratio, or FAR. A ratio called the FAR ratio is used to assess a bank's capacity to provide collateral for a variety of owned assets in order to fulfill lending requests. Banks' primary function is that of an intermediary organization, gathering money from the public and returning it to the public. Of course, the bank's primary responsibility remains to provide credit to customers regardless of the terms of the bank's new structure, which is based on Sharia law rather than conventional law.

What happens to the bank's earnings if it converts to a Islamic Commercial Bank (BUS). A bank must incur and make sacrifices for the Islamic banking window when it chooses to become a Islamic Commercial Bank and concentrate on growing its business. Due to the allocation of capital for company expansion, the bank's profitability will decline. This is the reason for the variations in Bank NTB Syariah's return on assets (ROA), return on equity (ROE) ratio, and net income margin (NIM) following its conversion to a Islamic Commercial Bank.

In summary, the financial position of Bank NTB Syariah underwent significant changes both before and after it became an Islamic Commercial Bank. These changes included the need to set aside money for operational expenses like hiring new staff, building new offices, opening branches, and paying for product development and innovation. The BOPO ratio and bank efficiency are closely associated. Bank profits will be impacted when the BOPO ratio rises since it indicates that operational expenses would rise along with operational income. Because paid-in capital is used to fund infrastructure, human resources, bolster the company's sound corporate governance, and cover risk mitigation expenses, it has declined.

There will be a rise in third party funds (DPK) following the conversion to a Islamic Commercial Bank (BUS). This is because the bank is stepping up its public fundraising efforts. The liquidity performance of Bank NTB Syariah has improved since it converted to a Islamic Commercial Bank. ROA and ROE ratio profitability, however, declined as a result of increased earnings going toward improving infrastructure, products, technology, and human resources. The premise is that many investors invested their funds in the form of main capital, core capital, or supplementary capital and were supported by funds from third parties, especially the public, which further reinforced bank capital.

As a result, capital or equity actually increased. In the meanwhile, bank assets come in two varieties: liquid assets and fixed assets, such as real estate or structures. By conducting extensive advertising and promotions, it is still possible to improve the funding process. A financial statistic called solvency performance gauges a company's capacity to pay off all debt, including long- and short-term. Solvency demonstrates the company's capacity to use all of its assets to pay down all of its outstanding debts. Following its conversion to an Islamic Commercial Bank, Bank NTB Syariah's LER and DAR ratios grew. This is to be expected as the bank grows to become a BUS, requiring significant capital and management expenses.

Conclusion

The conclusion of this study indicates that the conversion of Bank NTB to Bank NTB Syariah has had a significantly positive impact on several key financial performance indicators, such as ROA, ROE, NIM, NPF Net, and BOPO. These improvements demonstrate that Bank NTB Syariah has successfully enhanced its profitability and efficiency after converting to an Islamic Commercial Bank (BUS). However, some other ratios, such as FAR, FDR, ELR, EAR, CAR, DER, DAR, and NPF Gross, did not show significant changes, indicating stability in these aspects.

This study provides important insights for various stakeholders, including investors, bank managers, and policymakers, about the benefits and impacts of converting a conventional bank to an Islamic bank. The results of this study can serve as a basis for strategic decision-making to improve the financial and operational performance of other financial institutions considering similar conversions. Additionally, this research underscores the importance of strategic structural changes in enhancing the financial health and operational efficiency of financial institutions, particularly in the context of Islamic banking in Indonesia.

References:

Abdo, K., Qudah, H. A., Zyadat, A., Al-makadmah, I., Manaseh, M. A., AlQudah, M., & Aldmour, H. M. (2021). Impact Of Economic And Financial Determinants Affecting The Profitability Of Jordanian Islamic Banks (2012 -2019). *Academy of Strategic Management Journal*, *20*, 1–10.

Abdul-Rahman, A., Abdul Latif, R., Muda, R., & Abdullah, M. A. (2014). Failure and potential of profit-loss sharing contracts: A perspective of New Institutional, Economic (NIE) Theory. *Pacific Basin Finance Journal*, *28*, 136–151. https://doi.org/10.1016/j.pacfin.2014.01.004

Abou Elseoud, M. S., Yassin, M., & Ali, M. A. M. (2020). Using a panel data approach to determining the key factors of Islamic banks' profitability in Bahrain. *Cogent Business and Management*, *7*(1). https://doi.org/10.1080/23311975.2020.1831754

Al-Hunnayan, S. H. (2020). The capital structure decisions of Islamic banks in the GCC. *Journal of Islamic Accounting and Business Research*, *11*(3), 745–764. https://doi.org/10.1108/JIABR-02-2017-0026

Al Arif, M. N. R., Ihsan, D. N., & Fatah, D. A. (2023). The impact of conversion on market share in Indonesian Islamic banks. *Banks and Bank Systems*, *18*(2), 1–12. https://doi.org/10.21511/bbs.18(2).2023.01

Al Arif, M. N. R., Mufraini, M. A., & Prabowo, M. A. (2020). Market Structure, Spin-Off, and Efficiency: Evidence from Indonesian Islamic Banking Industry. *Emerging Markets Finance and Trade*, *56*(2), 329–337. https://doi.org/10.1080/1540496X.2018.1553162

Alam, K., Rahman, S. A., Mustafa, H., Shah, S. M., & Hossain, S. (2019). Shariah governance framework of Islamic banks in Bangladesh: Practices, problems and recommendations. *International Journal of English Language and Literature Studies*, *9*(1), 118–132. https://doi.org/10.18488/journal.aefr.2019.91.118.132

Amin, S. I. M., Ali, M. H., & Nor, S. M. (2018). Cost efficiency and liquidity risk in banking: New evidence from oic countries. *International Journal of Business and Management Science*, *8*(2), 255–276.

Bougatef, K., & Korbi, F. (2018). The determinants of intermediation margins in Islamic and conventional banks. *Managerial Finance*, *44*(6), 704–721. https://doi.org/10.1108/MF-11-2016-0327

Chang, M.-Y., Cui, X., Liu, C.-C., & Lai, Y.-T. (2019). Evaluating the criteria for financial holding company operating ability based on the DEMATEL approach–the case of Taiwan. *Economic Research-Ekonomska Istraživanja* , *32*(1), 2972–2988. https://doi.org/10.1080/1331677X.2019.1656096

Gafrej, O., & Boujelbéne, M. (2022). The impact of performance, liquidity and credit risks on banking diversification in a context of financial stress. *International Journal of Islamic and Middle Eastern Finance and Management*, *15*(1), 66–82. https://doi.org/10.1108/IMEFM-09-2020-0488

Gazi, M. A. I., Alam, M. S., Hossain, G. M. A., Islam, S. M. N., Rahman, M. K., Nahiduzzaman, M., & Hossain, A. I. (2021). Determinants of profitability in banking sector: Empirical evidence from bangladesh. *Universal Journal of Accounting and Finance*, *9*(6), 1377–1386.

https://doi.org/10.13189/ujaf.2021.090616

Irwan Tri Nugroho. (2020). Is spin-off policy an effective way to improve performance of Islamic banks?Evidence from Indonesia. *Journal Pre-Proof.*

Jati, K. W., Agustina, L., Muliasari, I., & Armeliza, D. (2020). Islamic social reporting disclosure as a form of social responsibility of Islamic banks in Indonesia. *Banks and Bank Systems*, *15*(2), 47–55. https://doi.org/10.21511/bbs.15(2).2020.05

Khan, Z. T., Ramirez, A., & Ketcham, D. (2020). The effect of the Arab spring on the performance of Islamic and conventional banks in Egypt: Which model performs better amidst crisis? *International Journal of Financial Research*, *11*(4), 180–194. https://doi.org/10.5430/ijfr.v11n4p180

Kumba Digdowiseiso, S.E., M. A. E. (2017). Metode Penelitian Ekonomi dan Bisnis. In *Universitas Pendidikan Indonesia* (Vol. 1, Issue Metodologi Penelitian).

Liu, M.-H., & Margaritis, D. (2014). Inflation, monetary policy and reserve requirement ratio adjustments in China. *Frontiers of Business Research in China*, *8*(2), 137–153. https://doi.org/10.3868/s070-003-014-0007-6

Maghfuriyah, A., Ferdous Azam, S. M., & Shukri, S. (2019). Market structure and islamic banking performance in indonesia: An error correction model. *Management Science Letters*, *9*(9), 1407–1418. https://doi.org/10.5267/j.msl.2019.5.010

Majeed, M. T., & Zainab, A. (2021). A comparative analysis of financial performance of Islamic banks vis-à-vis conventional banks: evidence from Pakistan. *ISRA International Journal of Islamic Finance*. https://doi.org/10.1108/IJIF-08-2018-0093

Majid, R., & Nugraha, R. A. (2022). Crowdfunding and Islamic Securities: the Role of Financial Literacy. *Journal of Islamic Monetary Economics and Finance*, *8*(1), 89–112. https://doi.org/10.21098/jimf.v8i1.1420

Masvood, Y., & Lokeswara Choudary, Y. (2015). Islamic banking-a cross cultural patronage study among the students in Chennai. *Asian Social Science*, *11*(4), 310–318. https://doi.org/10.5539/ass.v11n4p310

Misman, F. N., Ahmad, W., Khairani, N. S., & Amran, N. H. (2020). Credit risk, Islamic contracts and ownership status: Evidence from Malaysian Islamic banks. *International Journal of Financial Research*, *11*(3), 106–114. https://doi.org/10.5430/ijfr.v11n3p106

Mulyadi, D., & Sinaga, O. (2020). Analysis of current ratio, net profit margin, and good corporate governance against company value. *Systematic Reviews in*

Pharmacy, *11*(1), 588–600. https://doi.org/10.5530/srp.2020.1.74

Musa, H., Musova, Z., Natorin, V., Lazaroiu, G., & Boďa, M. (2021). Comparison of factors influencing liquidity of European Islamic and conventional banks. *Oeconomia Copernicana*, *12*(2), 375–398. https://doi.org/10.24136/OC.2021.013

Nur Rianto Al Arif, M., Nachrowi, N. D., Nasution, M. E., & Zakir Mahmud, T. M. (2017). The Islamic banking spin-off: Lessons from Indonesian Islamic banking experiences. *Journal of King Abdulaziz University, Islamic Economics*, *30*(2), 117–133. https://doi.org/10.4197/Islec.30-2.11

Priyadi, U., Utami, K. D. S., Muhammad, R., & Nugraheni, P. (2021). Determinants of credit risk of Indonesian Sharīʿah rural banks. *ISRA International Journal of Islamic Finance*, *13*(3), 284–301. https://doi.org/10.1108/IJIF-09-2019-0134

PT. Bank NTB Syariah. (2021). *Laporan Tahunan PT. Bank NTB Syariah 2021*.

Qayyum, N., & Noreen, U. (2019). Impact of capital structure on profitability: A comparative study of islamic and conventional banks of Pakistan. *Journal of Asian Finance, Economics and Business*, *6*(4), 65–74. https://doi.org/10.13106/jafeb.2019.vol6.no4.65

Religiosa, M. W., & Surjandari, D. A. (2021). The Relation of Company Risk, Liquidity, Leverage, Capital Adequacy and Earning Management: Evidence from Indonesia Banking Companies. *Mediterranean Journal of Social Sciences*, *12*(1), 1. https://doi.org/10.36941/mjss-2021-0001

Rokhmawati, A., & Halim, E. H. (2022). Does Spin-off Obligation of Sharia Business Units from its Parent Commercial Banks Enhance Their Performance? *Iranian Economic Review*, *26*(4), 819–832. https://doi.org/10.22059/ier.2022.90658

Salih, A., Ghecham, M. A., & Al-Barghouthi, S. (2019). The impact of global financial crisis on conventional and Islamic banks in the GCC countries. *International Journal of Finance and Economics*, *24*(3), 1225–1237. https://doi.org/10.1002/ijfe.1713

Suliyanto, S. E., & MM, S. (2017). *Metode Penelitian Kuantitatif*.

Thaker, K., Charles, V., Pant, A., & Gherman, T. (2022). A DEA and random forest regression approach to studying bank efficiency and corporate governance. *Journal of the Operational Research Society*, *73*(6), 1258–1277. https://doi.org/10.1080/01605682.2021.1907239

Trinugroho, I., Santoso, W., Irawanto, R., & Pamungkas, P. (2021). Is spin-off policy an effective way to improve performance of Islamic banks? Evidence from Indonesia. *Research in International Business and Finance*, *56*. https://doi.org/10.1016/j.ribaf.2020.101352

Yuspin, W., & Fauzie, A. (2018). The effectiveness of Spin off as a breakthrough in promoting Islamic Banking in Indonesia. *Journal of Social Sciences Research*, *2018*(Special Issue 6), 213–216. https://doi.org/10.32861/jssr.spi6.213.216

Yuspin, W., & Wardiono, K. (2017). Islamic banking trajectories of Indonesia: Dealing with the present and shaping the future. *International Journal of Economic Research*, *14*(16), 29–42.