The Impact of Financial Performance Indicators on Return on Equity: Evidence from Islamic Rural Banks in Indonesia

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Article Info	Abstract
	Introduction: ROE is the ratio that describes profit given to owner company on the capital that has been invested . Based on report Bank BPRS finances are proven that ROE development experienced significant decrease . **Research Methods** : Study This including study quantitative with approach associative . The data used in study This is quantitative data sourced from from secondary data . The method used in study This use ECM (*Error Correction Model*) method . **Results:** NPF is influential on ROE. FDR has an effect on ROE. CAR has an effect to ROE. BOPO does not influential towards ROE. In simultaneously , NPF, FDR, CAR, and BOPO have influence on ROE. **Conclusion:** Based on results research , BPRS should be more notice about cost too operational tall so that not enough efficient in to obtain profit .

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INTRODUCTION

Banking in Indonesia is increasingly crowded with the existence of Islamic banks that offer product finance and investment with different way compared to with conventional banks that have been around for a long time (Janah & Siregar, 2018). Although it is considered newcomer new , development Islamic banking is very rapidly . As a country with resident Muslim biggest , already Indonesia should be pioneer and kiblat development Islamic finance in the world , especially Islamic banking . Even conventional banks in Indonesia are following suit take part For establish a sharia bank or sharia business unit . This is done For get more Lots interested customers with the advantages of Islamic banks because based on law Islam , Islamic banking does not understanding loan interest due to loan interest considered usury and sin (Fitria, 2022).

Every bank always guard as well as increase quality service and performance its finances . Banks can it is said succeed if has reach point performance certain that have been targeted previously . Measurement performance operational company . With it was fixed performance operational the company can experience growth more finances Good as well as can compete with other companies (Ismail, 2017). The bank's financial performance describes condition finance company in time certain which includes from aspect fundraising and fund distribution . In the assessment report the finances presented will rated through ratios existing finances , so that will known condition actual financials and profits generated through profitability (Nuritomo , 2015).

Author's reasons using ROE because ratio This is one of the For measure profit / profitability performance company . ROE is used For measure effectiveness company in the produce profit with utilise equity it owns . ROE is ratio between profit after tax with total equity . Measuring tool performance a the most popular company among investors and senior managers are results on right holder share is *Return On Equity* (ROE). The more tall profit company so will the more high ROE (Idrus , 2018) . Based on report finance at Bank BPRS from publication acquired company from the official OJK (Financial Services Authority) website it is proven that ROE (*Return On Equity*) development experienced significant decrease . Decrease the shown in the table below .

Table 1. Development of ROE (*Return On Equity*) BPRS

Year	Month	ROE
2020	June	26.20%
	December	20.29%
2021	June	17.87%
	December	16.27%
2022	June	15.30%
	December	18.38%

Source : Processed data from report annual BPRS finance in Indonesia 2020-2022

Financial Services Authority (OJK) noted that until moment This The number of BPRS in Indonesia has reached 167. The Sharia People's Financing Bank (BPRS) shows performance

positive although is at in pressure Covid-19 pandemic . Positive performance This reflected from side growth assets , party funds third (DPK), up to credit or financing at BPR and BPRS is declining since beginning Covid-19 pandemic (Anggraini , 2024). Based on report profile industry Indonesian banking released by OJK, BPRS assets recorded a significant increase of 18.39 percent in a way year to 18.97 trillion in Q3 /2022. BPRS Third Party Funds (DPK) also grew by 18.02 percent to 12.73 trillion as of September 2022. From the side distribution of funds, BPRS has to record improvement financing 21.81 percent to 14 trillion . BPRS recorded ratio capitalization or a fairly solid Capital Adequacy Ratio (CAR) , namely 23.73 percent as of Q3 /2022. The BPRS CAR ratio Enough tall For can absorb potential risks faced . Temporary that , BPRS efficiency was recorded improving , reflected from BOPO which fell 130 basis points (bps) as of September 2022 to 86.51 percent (Ahmad, 2023).

RESEARCH METHODS

Study This including study quantitative with approach associative , namely research that aims For know connection between two variables or more (Rusiadi , 2016). The data used in study This is quantitative data sourced from from secondary data , namely data obtained from notes , books , magazines in the form of report finance publication company , report government , articles , books as theories , magazines , and so on (Sujarweni , 2014).

Methods used in study This use ECM method (*Error Correction Model*), is tool time series data analysis whose variables own dependency . The purpose of this is to testing This that is For identify existence connection balance term long and term short that happened Because existence cointegration between variable research . Error Correction Model (ECM) estimation was carried out in a number of stage among others; stationarity test (unit root test), cointegration test , estimation term length , estimate term short (Basuki & Prawoto , 2016).

Population in study This is report finance monthly Islamic People's Financing Bank (BPRS) which can accessed on the OJK website. The method of taking sample This done using time series data , namely data that is used in time to time at one object The sample in the study This is report BPRS monthly 2020-2022 , namely as many as 36 samples .

RESULTS AND DISCUSSION
Statistics Descriptive

Statistical Test Results Descriptive

	NPF	FDR	CAR	BOPO	ROE
Mean	7.876389	111.1300	25.38167	87.40583	20.55806
Median	7.965000	109.7550	23.95000	87.18500	17.81000
Maximum	9.270000	119.7200	33.26000	92.25000	30.29000
Minimum	5.910000	103.3800	22.05000	83.22000	14.91000

Based on results table 2, it is known that NPF has an average of 7.87%, a median of 7.96%, a value of maximum 9.27% and minimum 5.91%. FDR has the average value is 111.13%, the median is 109.75%, the value maximum of 119.72% and a minimum of 103.38%. CAR has

the average value is 25.38%, the median is 23.95%, the value maximum by 33.26% and minimum value of 22%. The BOPO variable has average value 87.45%, median value 87.18%, value maximum of 92.25% and a minimum of 83.22%. The ROE variable has an average of 20.55%, a median of 17.81%, a value of maximum of 30.29% and a minimum of 14.91%.

Error Correction Model (ECM) Test
a. Data Stationarity Test: Unit Root Test (Root Test)

Table 3. AugmentedDickey-Filler Results at Level Level

Variables	ADF Test Statistic Value	Probability	Information
NPF	-6.062166	0.0000	Stationary
FDR	-5.729513	0.0000	Stationary
CAR	-7.011778	0.0000	Stationary
ROE	-7.285136	0.0000	Stationary

Source : Processed data use Eviews 9, 2023

b. Cointegration Test

Cointegration Test Results

| *Augmented Dickey-Fuller statistics*	*t-statistic*	Probability	Information
	-3.653617	0.0095	Stationary

Source : Processed data use Eviews 9, 2023

Based on the table mark probability show the number 0.0095. because mark probability not enough from 0.05 then stated that its value stationary . So that can concluded that there is cointegration or connection term long between variable X , namely NPF, FDR, CAR and BOPO against Y , namely ROE, so that Can continued to the next stage testing furthermore .

Classical Assumption Test
a. **Normality Test**

Normality Test Results
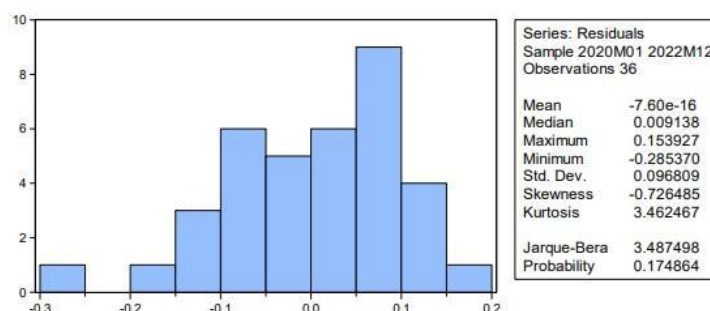
Based on the picture known the resulting probability value is of 0.174864 > 0.05 means the residual in the regression term short Error Correction Model is normally distributed . So it can to be continued for assumption testing classic other .

b. Heteroscedasticity Test

Heteroscedasticity Test Results

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
Obs *R-squared	2.174407	Chi-Square Prob. (4)	0.7037

Source : Secondary Data Processed Use Eviews 9, 2023

Based on results heteroscedasticity test data processing obtained mark chi-square probability of Obs *R-Squared is 0.7037 > 0.05 so that can interpreted in the equation model term short Error Correction Model no happen problem heteroscedasticity .

c. Autocorrelation Test

Autocorrelation Test Results

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
Obs *R-squared	7.480134	Chi-Square Prob. (4)	0.0238

Source : Secondary Data Processed Use Eviews 9, 2023

Based on table 4.6 it is known that results from calculation equality term short obtained Chi-Square probability of 0.0238 < 0.05 means in equality term short with the ECM model there is autocorrelation .

d. Multicollinearity Test

Multicollinearity Test Results

Variables	Centered VIF
C	NA
NPF	2.797769
FDR	3.439727
CAR	1.645968
BOPO	1.842247

Based on the results of the multicollinearity test known that the Centered VIF NPF is 2.797779, the Centered VIF FDR is 3.439727, the Centered VIF CAR is 1.645968 and the Centered VIF BOPO is 1.842247, the value is more small from number 10, so can interpreted as a free model from multicollinearity .

Hypothesis Testing Results
1. **Connection Term Short**
   a. **Partial Test (t-Test)**

Partial Test Results Term Short

Variables Independent	t-Statistic	Probability
NPF	- 0.134223	0.8942
FDR	3.275612	0.0027
CAR	2.653585	0.0128
BOPO	-1.189533	0.2439

1) NPF variable against ROE

Based on the results table above , can known that the t-statistic is - 0.134223 and it is obtained mark probability of 0.8942. Because the value probability more big from α = 5% (0.8942> 0.05) then accept H01, so that can concluded that NPF variables in term short No influential significant on ROE.

2) FDR variable against ROE

Based on the results table above , can known that the t-statistic is 3.275612 and it is obtained mark probability of 0.0027. Because the value probability more small from α = 5% (0.0027< 0.05) then reject H03, so that can concluded that FDR variable in term short influential significant on ROE.

3) CAR variable against ROE

Based on the results table above , can known that statistics of 2.653585 and obtained mark probability of 0.0128 Because the value probability more small from α = 5% (0.0128 < 0.05) then accept H05, so that can concluded that CAR variable in term short influential significant on ROE.

4) BOPO variable against ROE

Based on the results of Table 4.10, it can be known that statistics of - 1.189533 and obtained mark probability of 0.2439. Because the value probability more big from α = 5% (0.2439> 0.05) then receive H07, so can concluded that BOPO variable in term short No influential significant on ROE.

b. **Simultaneous Test (F Test)**

Table 9. Simultaneous Test Results term Short

	F-Statistic	Probability
Mark	5.913369	0.000694

Based on the table above , can known that FStatistic prob value by 0.000649 more small from value α = 5% (0.000649 < 0.05) then reject Ho9 which means in a way simultaneous independent variables NPF, FDR, CAR and BOPO in term short influential significant on ROE.

c. Coefficient of Determination

Determination test results from regression term short obtained The Adjusted R-Squared value is 0.504839, which means variable independent NPF, FDR, CAR and BOPO in equality term short affects ROE by 50.48% and the rest 49.52 % is influenced by other factors outside the model.

2. **Connection Long- term**
   a. **Partial Test (t-Test)**

Partial Test Results Long- term

Variables Independent	t-Statistic	Probability
NPF	1.619170	0.1155
FDR	3.352196	0.0021
CAR	4.823157	0.0000
BOPO	-0.745501	0.4616

1) NPF variable against ROE

Based on the results of Table 4.12, it can be known that statistics of 1.619170 and obtained mark probability of 0.1155. Because the value probability more big from α = 5% (0.1155> 0.05) then accept H02, so that can concluded that NPF variables in term long No influential significant against ROE

2) FDR variable against ROE

Based on the results of Table 4.12, it can be known that statistics of 3.352196 and obtained mark probability of 0.0021. Because the value probability more small from α = 5% (0.0021< 0.05) then reject H04, so that can concluded that FDR variable in term long influential significant on ROE.

3) CAR variable against ROE

Based on the results of Table 4.12, it can be known that statistics of 4.823157 and obtained mark probability of 0.0000. Because the value probability more small from α = 5% (0.0000< 0.05) then reject H06, so that can concluded that CAR variable in term long influential significant on ROE.

4) BOPO variable against ROE

Based on the results of Table 4.12, it can be known that statistics of 0.745501 and obtained mark probability of 0.4616. Because the value probability more big from α = 5% (0.4616> 0.05) then receive H82, so can concluded that BOPO variable in term long No influential significant on ROE.

b. Simultaneous Test (F Test)

Table 11. Simultaneous Test Results long- term

	F-Statistic	Probability
Mark	41.33922	0.000000

Based on table 10, it can be known that FStatistic prob value by 0.000649 more small from value α = 5% (0.000000 < 0.05) then reject Ho10 which means in a way simultaneous independent variables NPF, FDR, CAR and BOPO in term long influential significant on ROE.

c. Coefficient of Determination

Determination test results from regression term short obtained The Adjusted R-Squared value is 0.842124, which means variable independent NPF, FDR, CAR and BOPO in equality term short affects ROE by 84.21% and the rest 15.78 % is influenced by other factors outside the model.

CONCLUSION

Based on research that has been done through stage testing hypothesis and data analysis using Error Correction Model analysis variables that influence *Return On Equity* (ROE) at BPRS Indonesia for the period 2020-2022.

1. The effect of NPF on ROE

Results of the long-term test short and term NPF length is not influential significant on ROE in 2020 to 2022. Based on the results obtained from the t -term test short NPF variable has mark probability more big from α = 0.05 , namely (0.8942 > 0.05), then accepted Ho1 means in term short NPF no influential significant towards ROE. Then in term test long known that mark probability more big from α = 0.05 , namely (0.1115 > 0.05), then accepted Ho2 means in term NPF length is not influential significant on ROE. In the study this , the NPF value is not influential significant to ROE value , because in report finance and charts show from 2020 to 2022 the NPF value tends to down which is also balanced with the descent ROE value , one of the the factors is time covid-19 pandemic .

2. The effect of FDR on ROE

Results of the long-term test short and term FDR length has an effect significant on ROE in 2020 to 2022. Based on the results obtained from the t -term test short NPF variable has mark probability more small from α = 0.05 , namely (0.0027 < 0.05), then reject Ho3

meaning in term short FDR influential significant towards ROE. Then in term test long known that mark probability more small from $\alpha = 0.05$, namely $(0.0021 < 0.05)$, then reject Ho4 meaning in term FDR length has an effect significant on ROE. This is show that financing distributed by BPRS can increase profit for the bank. So that can it is said that financing provided by banks is very effective so that amount financing the problem small .

3. The effect of CAR on ROE

   Results of the long-term test short and term CAR length has an effect significant on ROE in 2020 to 2022. Based on the results obtained from the t -term test short CAR variable has mark probability more small from $\alpha = 0.05$, namely $(0.0128 < 0.05)$, then reject Ho5 meaning in term short CAR has an effect significant towards ROE. Then in term test long known that mark probability more small from $\alpha = 0.05$, namely $(0.0000 < 0.05)$, then reject Ho6 meaning in term CAR length has an effect significant on ROE. This is shows high CAR , then the more Good tolerance bank risk for all financing risky . High bank CAR capable to finance its operation as well as give contribution to ROE. With Thus , the CAR coefficient has an effect positive on ROE. Having sufficient capital, banks can manage its operation in a way effective .

4. The effect of BOPO on ROE

   Results of the long-term test short and term BOPO length is not influential significant on ROE in 2020 to 2022. Based on the results obtained from t -term test short NPF variable has mark probability more big from $\alpha = 0.05$, namely $(0.2449 > 0.05)$, then accepted Ho7 means in term short BOPO no influential significant towards ROE. Then in term test long known that mark probability more big from $\alpha = 0.05$, namely $(0.4616 > 0.05)$, then accepted Ho8 means in term BOPO length is not influential significant to ROE. BOPO does not influential to ROE due to costs operational like wages employees issued by the bank too tall causing BPRS not to get profit (benefit). Continuous operating costs increase will cause the bank not to efficient so that benefits gained No develop

5. The effect of NPF, FDR, CAR and BOPO on ROE

   Long-term test results short and long variable independent influential significant to variable dependent in 2020 to 2022. Based on the results of the long-term F test short independent variables have mark probability more small from $\alpha = 0.05$, namely $(0.000694 < 0.05)$, then reject Ho9 meaning in term short NPF, FDR, CAR and BOPO have an effect significant towards ROE. Then in term test long known that mark probability more small from $\alpha = 0.05$, namely (0.000000)

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