

## AN EXAMINATION OF THE IMPACT OF RETURN ON EQUITY (ROE) AND RETURN ON ASSETS (ROA) ON NTB SYARIAH BANK'S PROFIT GROWTH

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### Abstract

This study aims to determine the effect of Return on Assets and Return on Equity on Profit Growth. This study uses a quantitative method that emphasizes the proof of the hypothesis which is based on the formulation of the problem presented. Data collection techniques are carried out by collecting data obtained from the official website of Bank NTB Syariah. Data analysis was carried out using an analytical tool, namely E-views. Based on the results of the t-test, the probability value of X1 Return on Assets (ROA) is 0.0000 which means that the probability value is less than 0.05, so it can be said that the Return on Assets (ROA) has a significant effect, and has a coefficient value of 4.710385, so it can be said that Return on Assets (ROA) has a positive effect. The results of this study indicate that Return on Assets (ROA) (X1) has a positive and significant effect on Profit Growth (Y). Based on the results of the t-test, the probability value of X2 Return on Equity (ROE) is 0.0051 which means that the probability value is less than 0.05, so it can be said that Return on Equity (ROE) has a significant effect, and has a coefficient value of -0.379687, so it can be said that (Return on Equity (ROE) has a negative effect. The results of this study indicate that Return on Equity (ROE) has a negative and significant effect on Profit Growth (Y).

**Keywords:** *Return On Assets, Return on Equity, Profit Growth*

### 1. INTRODUCTION

The degree to which these two areas—the real and monetary sectors, respectively—are reinforced indicates the state of a nation's economy. Sharia banks are defined by Law No. 21 of 2008 as financial institutions that conduct all of their business using procedures based on sharia principles. To fulfill their role as real-world actors, Indonesian sharia banks must constantly innovate in the creation of new banking offerings. Sharia banking operations are regarded as significant in the community's chain of life because they provide exceptional service in meeting community needs through sharia mechanisms, facilitate the mobility of public funds that have not been fully absorbed by the current banking system, and increase the resilience of the country's banking system.

Users of sharia banking services, particularly in Indonesia's areas where the majority of people follow Islam, such as the Province of West Nusa Tenggara (NTB), have responded favorably to the growth of the sharia banking sector. In official capacity, the West Nusa Tenggara Regional Development Bank functions entirely as an NTB Syariah Bank. Following Bank Aceh's successful conversion to Bank Aceh Syariah in 2017, one year before Bank NTB's conversion, Bank NTB Syariah is the second Regional Development Bank (BPD) to undergo this process. The conversion of Bank NTB Syariah is anticipated to improve regional economic conditions and enable the people of NTB to choose banking services without having to worry about usury. In essence, the change is a surge in better than previous conditions. The Bank

NTB Syariah transition process is undoubtedly driven by strong motivation, but it also faces many difficulties and roadblocks, beginning with the planning, change, and early implementation phases. Several reasons affected Bank NTB Syariah's big transformation process, including both good aspects that helped the organization grow and other factors that created roadblocks for the organization's downfall. One significant innovation to strengthen the Sharia-based economy is the transformation of the West Nusa Tenggara Regional Development Bank into Bank NTB Syariah.

Formal changes to the law shift from traditional to sharia banking, the application of transformation policies based on management intentions through sharia principles, corporate governance, performance structures, product operations, finance, and human resources are among the innovations that are frequently discussed. The consumptive fund allocation process, which mandates that banks use sharia contracts like Murabahah, Musyarakah Mutanaqisah, Salam, and Ijarah, as well as innovation in product operational efficiency that is appropriate to customer expectations, is one way to see the issues that arise after the transition. The way banks perform will be significantly impacted by this after-transition Islamic law.

After a two-year conversion process, on September 24, 2018, Bank NTB became PT Bank NTB Syariah, with procedures and management aligned with sharia principles. This was made possible by the Financial Services Authority Number: Kep-145/D.03/2018 Decree of Members of the Board of Commissioners regarding the granting of permits to modify the business activities of conventional commercial banks to become Sharia commercial banks. According to PT Bank NTB Syariah's regulations, it must authorize the Mataram-based PT Bank NTB Syariah to convert Conventional Commercial Banks' operations into Sharia Commercial Banks operating under the name PT Bank NTB Syariah.

Up until 2021, Bank NTB documented the following performance milestones:

**Tabel 1 Overview of Bank NTB Syariah Financial Reports**

Description	2021	2020	(In Million Rupiah)	
			2019	2018
Npf/Npl <i>Gross</i>	1,18%	1,26%	1,36%	1,63%
NPL/Npl <i>Nett</i>	0,63%	0,77%	0,61%	0,57%
<i>Return On Asset</i> (ROA)	1,64%	1,74%	2,56%	1,92%
<i>Return On Equity</i> (ROE)	10,04%	9,54%	12,05%	8,92%
<i>Net Rewards</i> (NI)	4,80%	4,38%	5,51%	6,61%
<i>Net Operating Margin</i> (NOM)	1,16%	1,22%	2,18%	2,20%
Operational Costs to Operational Income (BOPO)	82,56%	81,39%	76,83%	86,86%
<i>Financing to Deposit Ratio</i> (FDR)	90,96%	86,53%	81,89%	98,93%
<i>Capital Adequacy Ratio</i> (CAR)	29,53%	31,60%	35,47%	35,42%

Source: [www.bankntbsyariah.co.id](http://www.bankntbsyariah.co.id)

The positive performance achieved by Bank NTB Syariah in 2019 became strong capital for the regional bank to improve its performance in 2020. Based on general management

records, Bank NTB Syariah's performance is above the national sharia banking industry average. Financial ratios show positive results compared to 2018, for example, NPF 1.36 percent, ROA 2.56 percent, ROE 12.05 percent, CAR 35.47 percent, BOPO 76.83 percent, NI 5.51 percent and FDR 81.89 percent. This achievement shows that in general Bank NTB Syariah has succeeded in achieving the targets set in the Bank Business Plan.

Based on the description above, this research aims to further analyze various index components related to bank resilience through performance, ROA and ROE.

## 2. METHODOLOGY

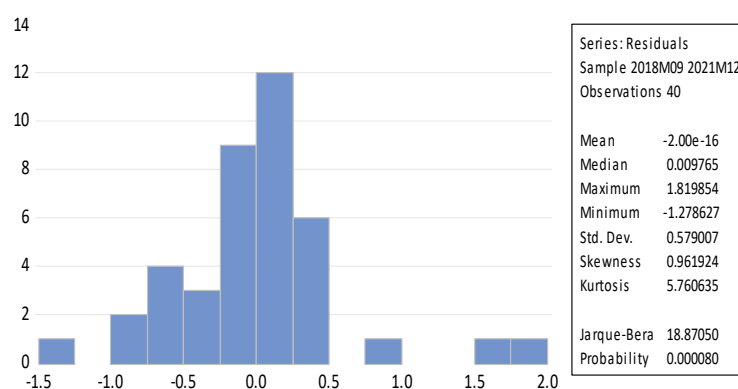
This study employed quantitative research methods. Research that uses hypothesis testing to explain how one variable affects other variables is known as quantitative research. Bank NTB Syariah's monthly financial report data is used as secondary data in this study. Return on Equity (ROE) and Return on Assets (ROA) are the independent variables employed in this study. Profit growth is the dependent variable that is being employed. The study's population was drawn from information on Bank NTB Syariah's monthly financial report values for the years 2018 through 2021.

Time series data were utilized in this study. Data that is gathered and tracked over an extended period is called a time series. Daily, weekly, monthly, quarterly, or annual time series data are all possible. The monthly time series data utilized in this study was obtained from Bank NTB Syariah's official website.

The E-views application is the statistical tool utilized in this study to handle data. Multiple linear regression analysis was one of the statistical techniques used in this study to support the quantitative analysis. To determine how much the independent variable (independent variable) influences the dependent variable (dependent variable), multiple linear regression is used.

## 3. RESULT AND DISCUSSION

**Figure 1 The Result of the Normality Test**



Source: E-views Result

The results of the Normality Test can be determined by looking at the probability value of the data. If the probability value is greater than 0.05, the data is considered to be normal; if

it is less than 0.05, the data is considered abnormal, and further testing is required to convert it to normal.

The combination of Variable Y, or Profit Growth data, and Variable X, or ROA and ROE data, has a probability value of 0.00, which indicates the value is less than 0.05, as can be seen from the data above. Thus, the aforementioned data is categorized as anomalous.

**Table 2 Multiple Linear Test**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.345556	0.174206	-7.723956	0.0000
X1	4.710385	0.947470	4.971543	0.0000
X2	-0.379687	0.127459	-2.978898	0.0051

Source: E-views Result

From the table above, we can take the following regression equation:

$$Y = -1.34555630919 + 4.71038525316 \cdot X1 - 0.379686935521 \cdot X2$$

1. According to the constant of -1.345556, the profit growth value is -1.345556% if the variables for return on equity (ROE) and return on assets (ROA) are constant (fixed).
2. Regression coefficient X1 is 4.710385, which means that profit growth will increase by 4.710385% for every 1 unit of ROA added, and vice versa, if 1 unit of ROA decreases, profit growth would fall by 4.710385%.
3. The regression coefficient X2 is -0.379687 means that for every additional 1 unit of Return On Equity (ROE), it will increase profit growth by -0.379687% and conversely if every decrease of 1 unit of Return On Equity (ROE), it will reduce profit growth by -0.379687%.

### Hypothesis Test

**Table 3 Result of t-test**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.345556	0.174206	-7.723956	0.0000
X1	4.710385	0.947470	4.971543	0.0000
X2	-0.379687	0.127459	-2.978898	0.0051

Source: E-views Result

The aforementioned table illustrates how to assess a variable's significance by examining its probability value for each independent variable. If the probability value is less than 0.05, the variable is considered to have a significant effect; if the probability value is greater than 0.05, on the other hand, the variable is considered to have an insignificant effect.

By examining the positive or negative coefficient values, you may determine the impact of each independent variable—positive or negative—in the table above. As a result, the following deductions can be made:

1. It is clear from the above table that the probability value of the X1 Return on Assets (ROA) is 0.0000, which indicates that the probability value is less than 0.05. As a result, it can be concluded that ROA has a positive effect and a significant influence. Additionally, the coefficient value of 4.710385 further supports this conclusion. From the results of multiple linear tests, the Return On Asset (X1) regression coefficient value of 4.710385 states that every additional 1 unit of Return On Asset (ROA), it will increase profit growth by 4.710385% and vice versa, if every decrease of 1 unit of Return On Asset (ROA) will reduce profit growth by 4.710385%. From the results of the t-test, the probability value of X1 Return On Asset (ROA) is 0.0000, which means that the probability value is less than 0.05, so it can be said that Return On Asset (ROA) has a significant effect, and has a coefficient value of 4.710385, so it can be said that Return On Asset (ROA) has a positive effect. The results of this study indicate that Return On Asset (ROA) (X1) has a positive and significant effect on Profit Growth (Y). The results of this study are in line with Widiyanti's research in 2019 entitled "The Effect of Net Profit Margin, Return On Assets and Debt To Equity Ratio on Earnings Growth in LQ-45 Companies". The results of the study show that return on assets and net profit margin are positive and significant on the profit growth of LQ-45 companies, while the debt to equity ratio has a negative and insignificant effect on profit growth in LQ-45 companies.
2. It can be inferred from the above table that Return On Equity (ROE) has a significant influence and a negative effect because the coefficient value of -0.379687 indicates that the probability value of X2 Return On Equity (ROE) is 0.0051, meaning that the probability value is less than 0.05. From the results of multiple linear tests, the regression coefficient X2 value of -0.379687 states that every additional 1 unit of Return On Equity (ROE), it will increase profit growth by -0.379687% and vice versa if every decrease of 1 unit of Return On Equity (ROE), it will decrease profit growth by -0.379687%. From the results of the t-test test, the Probability value of X2 Return On Equity (ROE) is 0.0051, which means that the probability value is less than 0.05, so it can be said that Return On Equity (ROE) has a significant effect, and has a coefficient value of -0.379687, so it can be said that (Return On Equity (ROE)) has a negative effect. The results of this study indicate that Return On Equity (ROE) has a negative and significant effect on Earnings Growth (Y). The results of this study are in line with Ravasadewa's research in 2018 entitled "The Effect of Financial Ratios on Profit Growth in Coal Companies on the Indonesia Stock Exchange" This study explains that gross profit margin has a significant negative effect on profit growth, net profit margin has no effect on profit growth, return on assets has a positive effect on profit growth, and return on equity has a negative effect on profit growth.

#### 4. CONCLUSION

Based on the results of data analysis and research results, conclusions can be drawn:

- a. Based on the test results, it can be seen from the t-test table that the Return on Asset (X1) variable is significant to profit growth (Y). With a probability value of  $0.0000 < 0.05$ . The

- results of this study indicate that Return on Asset has a significant effect on earnings growth. In other words, the value of Return on Asset will affect earnings growth.
- b. Based on the test results, it can be seen from the t-test table that the Return on Equity (X2) variable is significant to profit growth (Y). With a probability value of  $0.0051 < 0.05$ . So from this discussion it shows that the Return On Equity variable has a significant effect on earnings growth.
  - c. Based on the test results, it can be seen from the t-test table that Roa with a probability value of  $0.0000 < 0.5$  and ROE with a probability value of  $0.0051 < 0.05$ . Then the results of the two variables together have a significant effect on profit growth.
  - d. Based on the test results, it can be seen from the results of the coefficient of determination test that the value of the coefficient of determination is 0.708721, which means that the effect of the independent variable on changes in the dependent variable is 70.8%, while 29.2% ( $100\% - 70.8\%$ ) is influenced by other variables. So the effect of ROA and ROE on Profit Growth is 70.8% while the influence of other variables is 29.2%. Based on the interval level of the coefficient of determination, the correlation coefficient found of 0.708721 is included in the strong category. So there is a strong influence between the three independent variables and the dependent variable. Thus, it means that the research ability is greater influenced by ROA and ROE rather than being influenced by other variables.

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