CHAPTER I

INTRODUCTION

1.1.Background of the Research

Coronavirus has also known as Covid-19 is a virus that starts from the common cold to more severe respiratory illness. This virus first appeared in the province of Wuhan, China at the end of 2019. Covid-19 also has a wider and faster spread to several countries. This new virus can easily spread from one to another. The impact of Covid-19 is felt in almost all aspects, one of the aspects that is most affected is the state of the economy in a country. Economic conditions in several continents have decreased due to Covid-19 such in Europe, countries that use the euro currency in the first quarter of 2020 experienced a decline in economic growth by 3.8 percent, and in America, in the middle of March 2020, there was 35 million new unemployed soul which will cause poorness to increase (Hiscott et al., 2020)

In the context of Indonesia, the state of the economy continues to experience a decline in growth. Indonesia's financial growth within the second quarter of 2020 become -5.32 percent. The covid-19 pandemic has made the economy in several countries in the world deteriorate, including Indonesia. The impact of this pandemic is already starting to be felt in the domestic economy. One example is the weakening of the rupiah exchange rate. The government has also prepared a budget for various policies, such as the lockdown decision, in which the budget includes sufficient resources related to basic necessities so that public panic does not arise if a lockdown must be carried out.

As the wheel of the economy, the banking sector also played a role in the economic downturn. The disruption experienced by the banking sector is the impact of declining supply and demand in the real sector due to the function of the Bank as an intermediary institution that bridges the distribution of funds in the business world. With a decrease in demand, which means that people's purchasing power decreases, it causes bank income to decrease, thereby disrupting bank stability (Perwej, 2020).

In addition, the impact felt by banks is also experienced in their operational activities due to physical restrictions (social distancing). In this case, banks must be ready to digitize bank services. Another impact for banks due to Covid 19 is the possibility of the emergence of risks that will be faced by banks such as increasing liquidity difficulties, decreasing profitability, decreasing asset quality, and slowing growth which results in declining bank performance and financial performance (Tahlani, 2020). The causes of these risks are slow economic growth, financial difficulties, and currency depreciation which will affect bank liquidity. Meanwhile, the decline in profitability was caused by the decline in people's purchasing power and loss of income as an intermediary institution caused by: regulations, including regulations on delaying loan payments and the availability of government-guaranteed loans with low-interest rates. Interest rates, cannot prevent banks from increasing Non-Performing Loans at Conventional Banks or Non-Performing Financing at Islamic Banks which describe the quality of bank assets (Rizwan et al., 2020). In addition, the decline in bank profitability was also caused by financing or credit for Small and Medium Enterprises (UKH) which mostly moved in the tourism sector (Ozili & Arun, 2020).

In Indonesia, Banks are divided into 2, namely Islamic Banks and Conventional Banks, according to Law No. 10 of 1998 it is explained that conventional banks are banks that carry out their activities with conventional principles, while in Law No. 21 of 2008 Islamic banks are banks that use Islamic principles. Therefore, the principles used by each bank become a fundamental differentiator, both in terms of how to raise funds, distribute credit or financing, and how to earn profits. Banks play an important role to increase growth in economic and social welfare. A bank is a financial institution as fund collectors include deposits, demand deposits, savings, or other savings, then redistribute it to the community who need funds through sales financial services which in turn can improve people's welfare. One source of funding for the company is a bank, so failed banks can have an impact on companies outside the financial sector. The bank is an intermediary institution to raise funds from third parties, namely the public or investors who put their funds in the bank as investment, then as a distributor of funds to parties (society) who need in form of credit. The special staff of BUMN, Prof. Mohammad Ihsan, said that credit or financing income from the banking sector decreased by 7 percent to 10 percent, with the largest decline in customers in the micro sector which fell by 19 percent.

Table 1. 1 Bank Performance in Indonesia

Ratio	September 2019	June 2020	September 2020
LDR/FDR	93.76	↓ 88.64	↓83.16
NPL/NPF	2.66	↑ 3.11	↑ 3.14
BOPO	80.66	↑84.98	↑86.15
ROA	2.45	↓ 1.92	↓1.74

Source : Quarter III in 2020 Banking Industry Profile Report

The existence of Covid-19 can disrupt the banking sector, because it may make bank performance decline. Considering the important role of banks because banks are one of the driving wheels of the economy so that it continues to grow (Fahrial, 2018). In addition, the bank is an institution that sells trust to its customers and should maintain its performance. In addition, bank performance is an important aspect for the assessment of bank management. The assessment of bank management is used as a benchmark for what achievements have been carried out by the bank. With a good performance, the related parties will be more interested and entrust their funds to the bank and take credit or financing at the bank.

Financial statements are prepared by each company to be able to provide useful information for users of the report, especially to serve as a basis for consideration in the decision-making process, financial statements are essentially the result of the accounting procedure that can be used as a tool to communicate financial facts or company activities to the general public involved events. In assessing finance performance for investors, facts approximately the enterprise's financial performance may be used to look at whether they will hold their investment inside the corporation or search for different options. If the enterprise's performance is good, the business fee will be excessive. A high business, fee makes investors take a look at the organization to make investments in their capital in order that there will be an increase in shares. Or it can be said that the stock price is a function of the value of the company. The health condition and financial performance of the bank can be analyzed through financial reports. Financial statements which can be transparent in nature which the goal to offer information reports concerning the financial role, performance, and modifications in a financial role, in addition to a basis for decision making.

From several bank performances, the financial performance also needs to be maintained because it is a reflection of the economic results of a bank obtained within a certain period of time carried out with activities to gain profits effectively and efficiently (Thayib, 2017). In measuring financial performance using liquidity ratios, solvency ratios, asset quality ratios, and profitability ratios (Dendawijaya, 2003). With the Covid-19, the ratios that affect the measurement of financial performance in banks are the Capital Adequacy Ratio, hereinafter abbreviated as CAR, Return on Assets hereinafter abbreviated as ROA, Loan to Deposit Ratio hereinafter abbreviated as LDR, Non-Performing Loan hereinafter referred to as NPL (Ichsan et al., 2021). According to (Hery,2015), financial ratios are a calculation of ratios that use financial statements and are used as measuring tools to assess the financial condition and performance of a company. In addition, it can also be used as a consideration in making company decisions. In analyzing financial ratios, there are several calculations of financial ratios from certain aspects, such as liquidity, solvency, profitability, and asset quality ratios.

The liquidity ratio is represented by LDR. This ratio describes how a lot of financing is financed by using the bank with third-party funds, the greater this ratio shows the better the liquidity risk and the better the profitability. This ratio is used to evaluate the level of liquidity of a bank by dividing the quantity of credit provided by the bank to third-party funds. LDR ratio that high indicates the bank's performance is getting better, because this ratio is a measure of liquidity which measures funds in the form of credit or financing originating from funds raised by the bank from the public.

In the short term, there are several challenges that banks need to anticipate in maintaining liquidity conditions. First, the realization of economic growth which is predicted to slow down. In fact, the second quarter of 2020 will grow negatively. Furthermore, the withdrawal of TPF is increasing due to the emergence of the steady phenomenon *mantab* (*makan tabungan*) as a result of Covid-19. *Mantab* for all income groups, both income highest, middle, and lowest in the income pyramid (Kaaba et al., 2022). Some of the people who are in the middle group, this is good because some of them have been affected by Covid-19 such as layoffs. As for the middle group who are still working, they are affected by options given by the company such as salary cuts or transportation allowances or meal allowances. Meanwhile, in the lower income group, they sell liquid assets such as motorcycles for their daily needs. The health level of this ratio according to Bank Indonesia is between 89% to 115% (Taswan, 2010). From this explanation, it is known that LDR has a positive effect on profitability (Simatupang & Franzlay, 2016).

Solvency ratio, the ratio represented by CAR. The CAR ratio will show a picture of the Bank's ability to maintain its capital, the larger this ratio, the better the Bank's capital. The relationship with bank performance is, if this ratio is high then customer confidence will increase as well as profitability so that financial performance increases. From the explanation above, it is known that the relationship between CAR and profitability is positive (Simatupang & Franzlay, 2016). This ratio aims to see the bank's ability to maximize its operations so that there will be no losses in the future. Good capital adequacy can facilitate banks in carrying out their operational activities, the ideal standard of CAR according to Bank Indonesia is more than 8% so that it can be said to be healthy (Surya & Nur, 2020).

Capital development in Indonesia especially in Islamic bank continued to increase at the end of August last year 2020, although in June 2020 there was a decrease but not too much significant and continues to increase until August 2020. This can be concluded that there is no impact of the Covid-19 Pandemic on development Islamic Bank capital in Indonesia. Islamic banks continue to show increasing capital development. In terms of assets, Islamic banks recorded higher growth, an increase of 10.97% year-on-year, compared to conventional banks which grew by 7.7% year-on-year. Which is in line with research conducted by (Thamrin, 2021) stated that the Covid-19 pandemic had no impact on the financial performance of Islamic banks.

The profitability ratio is used to measure profitability and business efficiency. The ratio to measure profitability using ROA, the ROA ratio describes how much profitability the Bank gets, thus increasing this ratio indicates more profitability is obtained (Simatupang & Franzlay, 2016). ROA is used to measure the net profit after dividing by total assets which give the return on total assets. Low returns on assets can occur due to the use of large debt, in this case, the high-interest expense causes net income to be low (Brigham & Houston, 2018). Unhealthy conditions experienced by bank BTN which have decreased due to the corona virus began to spread in Indonesia. Bank BTN is a bank that focuses on housing finance, meanwhile during a pandemic, people prefer to save their money or buy liquid goods compared to non-liquid houses or apartments (Kusumawardani, 2022). The ideal standard of ROA according to Bank Indonesia is more than 1.22% so it can be said to be healthy (Surya & Nur, 2020).

Asset quality ratio is represented by NPL. This ratio shows the amount of financing or bad loans so this ratio has an inverse relationship with profitability (Syakhrun et al., 2019). NPL is credit arrears of more than 90 days and is divided into substandard, doubtful, and bad loans. By calculating the NPL it can be seen whether the bank experienced non-performing loans during the Covid-19 pandemic. From table 1.1 There was an increase in NPL due to many debtors experiencing problems with cash flow, especially this problem had arisen before the covid-19 pandemic. One of the consequences of the impact of the pandemic is the increase in the NPL ratio which causes debtors to state-owned commercial banks, most of which are micro and medium enterprises (MSMEs) (Febrianti, 2021). Which are also directly affected by government policy efforts to reduce the spread of the virus, such as the lockdown, which causes companies and micro-enterprises to reduce or even shut down their production activities.

There are several studies examining the impact of Covid-19 on the financial performance of the banking sector. Studies carried out through Muhammad Suhail Rizwan, Ghufron Ahmad, and Dawood Ashraf entitled device change: the effect of Covid-19 indicates the effects that there is possibly be a danger so as to rise up in Islamic Banks at some stage in the Covid-19 pandemic is the threat of financing, marketplace risk, change related to liquidity and risk of operation.

In previous research, research has been carried out on banking financial performance before and during the Covid-19 pandemic. Research conducted by (Seto & Septiani, 2021) shows that there are differences in bank financial performance measured by ROA and there is no difference in bank financial performance as measured by CAR and FDR. Different from the research conducted by (Sullivan & Widoatmodjo, 2021) and (Rahmawati et al., 2022) showing the results that there are differences in bank financial performance measured by FDR and CAR, while there is no difference in financial performance measured by ROA.

Furthermore, another study on bank financial performance before and during the covid-19 pandemic conducted by (Surya & Nur, 2020) on the impact of the Covid-19 pandemic on banking financial performance shows that there are differences in financial performance as measured by the ROA, ROE, BOPO and CAR ratios. Meanwhile, research conducted by (Bustami & Sarmigi, 2021) showed that there was no difference in financial performance measured by the ROA, CAR and BOPO ratios.

Subsequent research conducted by (Sudarmawanti & Pramono, 2017) showed that there is a significant effect of CAR, NPL, BOPO, NIM, and LDR on ROA. This is in line with research conducted by (Prasetyo, 2015) which shows the results that the ratio of NPL, BOPO, and NIM has an effect on bank profitability. Different from the research conducted by (Seto & Septiani, 2021) which showed the results that there was no significant difference effect using CAR, LDR, and NPL ratio before and during covid-19.

Some of the results of previous studies as mentioned above still show different and inconsistent results. Based on the background above, researcher are extracted in researching about How is the impact of Covid-19 on the financial performance of Banks in Indonesia in 2020 because financial performance is an important thing for the bank in maintaining the trust of customers and investors as well as one of the benchmarks of the achievements that have been achieved by the bank. Therefore, the title for this research is **“Analysis of Company Financial Performance Before and**

During the Covid-19 Pandemic on Bank Listed on The Indonesia Stock Exchange".

1.2.Research Question

Based on the description in the introduction, the research question can be formulated as follow:

1. Is there a significant difference in the liquidity ratios that are proxies by Loan to Deposit Ratio (LDR) in the Banking sectors in Indonesia before and during Covid-19 from 2019-to 2020?
2. Is there a significant difference in the leverage ratios that are proxies by Capital Adequacy Ratio (CAR) in the Banking sectors in Indonesia before and during Covid-19 from 2019-to 2020?
3. Is there a significant difference in the profitability ratios proxies by the Return on Asset (ROA) in the Banking sectors in Indonesia before and during Covid-19 from 2019-to 2020?
4. Is there a significant difference in the asset quality ratios that are proxies by Non-Performing Loan (NPL) in the Banking sectors in Indonesia before and during Covid-19 from 2019-to 2020?

1.3. Objectives of the Research

Based on the formulation of the problem, the research objectives are as follows:

1. To find out the significant difference in the liquidity ratios proxied by the Loan to Deposit Ratio (LDR) in the Banking sectors in Indonesia before and during Covid-19 from 2019-to 2020.
2. To find out the significant difference in the leverage ratios proxied by Capital Adequacy Ratio (CAR) in the Banking sectors in Indonesia before and during Covid-19 from 2019-to 2020.
3. To find out the significant difference in the profitability ratios proxied by the Return on Asset (ROA) in the Banking sectors in Indonesia before and during Covid-19 from 2019-to 2020.
4. To find out the significant difference in the asset quality ratios proxied by Non-Performing Loan (NPL) in the Banking sectors in Indonesia before and during Covid-19 from 2019-to 2020.

1.4. Contribution of the Research

The contribution of this research is:

1. For Science

   This research is intended to add insight and knowledge in terms of analyzing the company's financial performance comparison using financial ratios.

2. For Investors

   This research can be used as a reference as material for consideration in making the right decisions for investors in the investment sector, especially in the banking sector.

3. For Researchers

   This research can add to the knowledge of researchers about analyzing the company's financial performance based on financial ratios that will be carried out in various corporate sectors in Indonesia. And also, as a form of application of theory in making the right decisions.

1.5.Scope of the Research

In this study, the researcher provides a number of problem limitations where the company to be studied are a banking company in Indonesia listed on the Indonesia Stock Exchange (IDX). According to data from the IDX, the number of registered banking companies is 47 banks which are divided into two groups, namely conventional banks and Islamic banks. The period used in this study uses quarterly reports from 2019-2020.

1.6.Outline of Research

This research is divided into five chapters which systematically consist of:

CHAPTER I INTRODUCTION

This chapter examines the background or the research, research question, the objectives of the research, the contribution of research, the scope of the research, and the systematics of research writing.

CHAPTER II LITERATURE REVIEW

This chapter includes a description of the theoretical basis which includes theories and concepts regarding the company's financial performance and other factors that influence it, the results of previous research, developing hypotheses, and the theoretical framework.

CHAPTER III RESEARCH METHODS

This chapter examines the research methodology which describes the type of research, the time and location of the study, the population, samples and sampling techniques, descriptions of operational variables, and analytical methods.

CHAPTER IV RESULTS AND DISCUSSION

This chapter discusses analysis and discussion of research results, which were carried out by comparing the data collected with the theoretical basis. This chapter also discuss the general description of the research, samples and the relationship between the dependent and independent variables.

CHAPTER V CONCLUSION

This chapter contained the conclusion of the conducted research, the implication of the research, the limitation of research, and suggestions from the description of the discussion in this study.