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Impact Of The Covid-19 Pandemic On The Financial Performance Of Sharia Commercial Banks: An Empirical Evidence From Indonesia

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Abstract

The Covid-19 pandemic has obstructed economic activity throughout many sectors, with important aftermaths for businesses and households. Companies lost revenue and were not able to repay the loan. Households experienced a decrease in income which results in not be able to pay their loans or credit installments. In relation with the banking sector, this results not only in lost revenue but also to losses which negatively affect bank profits and capital. In this regard, this study was conducted with the aim of investigating the impact of the economic shock triggered by pandemic on the financial performance of sharia commercial banks in Indonesia. Secondary data obtained from the Indonesia Financial Service Authority were used in the study. The dependent sample t-test was performed to test the proposed hypotheses. It was revealed that sharia commercial banks' financial performance was not completely affected by the Covid-19 pandemic. Three out of seven of the banks' financial performance measures were not significantly affected by the pandemic. These include growth rate of total assets, the capital adequacy ratio and operating efficiency ratio. Financial performance measures which were significantly and negatively affected by the pandemic include non-performing financing, returns on assets, financing to deposits ratio, and net operating margin. The findings of this study provide quite substantial information indicating that sharia commercial banks in Indonesia were considered to have adequate resilience in facing of economic shocks caused by pandemics such as the ongoing COVID-19 pandemic.

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A. INTRODUCTION

The Covid-19 pandemic has substantially changed the world. Social, economic, culture as well political landscapes have been fractured by the pandemic and, accordingly, are forced to adapt to a new normal—a previously unfamiliar or atypical situation that has become standard, usual, or expected. Various crisis shocks triggered by the Covid-19 pandemic hit the global economy, marked by slow growth rates, sluggish trade and investment, historically high debt levels, increasing inequality, and extensive environmental degradation (UNCTAD, 2020).

Many research results indicate that the Covid-19 pandemic has begun to devastate the economy in the form of various types of macroeconomic indicator problems including aggregate demand, production, supply, trade flows, savings, investment and employment, which can exacerbate poverty and potentially trigger a recession or depression (i.e., Pak et al., 2020; Barua & Barua, 2021).

These macroeconomic problems have, to some degree, obstructed economic activity throughout many sectors, with important aftermaths for businesses and households. Companies that have stopped operating will lose revenue, and, therefore, may not be able to repay the loan. Equally, households where family members lose their job or leave will experience a decrease in income which, in turn, will not be able to pay their loans or credit installments. This occurrence will result not only in lost revenue but also losses—i.e., if repayment capacity is permanently impaired—which has the potential to negatively affect bank profits and capital (Demirgüç-Kunt, Pedraza & Ruiz-Ortega, 2020; Economic Observatory, 2021).

In the Indonesian financial system, the banking sector plays a very strategic role since more than 75 percent of assets in the financial system are in this sector. In the Indonesian banking system, banks are divided into two groups based on how they are managed, namely conventional banks and sharia banks. Different from conventional banking system which are interest-based banking, sharia bank operates its intermediary accomplishments including funds collections and funds channelizations based on interest-free principles (Indonesia Financial Service Authority/IFSA, 2017) and, more importantly, it follows Islamic principles which include are *riba* free, *gharar* free, free *tadlis*, free *maisir*, halal and amanah (Zaini, Shuib & Ahmad, 2019).

Sharia banking in Indonesia is relatively new as to compare with its counterpart i.e., conventional banking, however, since their first existence approximately three decades ago, they have experienced substantial and promising progress. In the last sixteen years (2005-2021) sharia banking has experienced a very substantial increase both in terms of the number of banks and their total assets. During this period, sharia commercial banks increased from just two units in 2005 to 14 units in 2021 (an increase of 600%); sharia business units increased from nine units to 22 units (122.22%) and sharia rural banks increased from 79 units to 179 units (126.58%). Total sharia banking assets increased from approximately 15 trillion IDR in 2005 to approximately 586 trillion IDR in January 2021. A very significant increase of more than 38 times (Bank of Indonesia, 2005; IFSA, 2021).

It is believed that the financial performance of the banking sector in Indonesia is affected by the Covid-19 pandemic. How resilient the banking sector is in dealing with the negative economic caused by the pandemic is interesting and important to examine as it has a further impact on other financial sectors or institutions and even lead to disruption the health of the national financial system. Studies on the effect of the pandemic on banks' financial performance has been very limited (i.e., Cakranegara, 2020; Ali, Abbasi, Abbasi, Abbas, Sarwar, Shafique & Dastgeer. 2020; Bobade & Alex, 2020) especially those studies focusing on sharia banks (i.e., Sutrisno, Panuntun & Adristi, 2020). In this regard, this research was conducted with the aim of analyzing the effect of the Covid-19 pandemic on the performance of sharia commercial banks. The criteria used for measuring the performance, following the Indonesia Financial Service Authority (2021), are total assets, capital adequacy ratio, return on assets, non-performing financing, bank intermediation function, operational efficiency ratio, and net operating margin.

B. THEORITICAL

Banking System in Indonesia

The banking sector in Indonesia dominates the national financial system. More than 75 percent of all assets in the financial system are owned by this sector. Therefore, the banking sector contributes substantially in developing and maintaining the stability of the national financial system. In general, banking in Indonesia is divided into two major groups, namely commercial banks and rural banks. Based on the management system, both commercial banks and rural banks are divided into two types: conventional—conventional commercial banks and conventional rural people's banks, and sharia—sharia commercial banks and rural sharia banks (IFSA, 2012).

As of February 2021, there are 121 commercial banks in Indonesia, consisting of 107 conventional commercial banks and 14 sharia commercial banks. The total assets, third party funds, and the amount of funds distributed (credit or financing) of these two types of commercial banks are presented in the following table.

Table 1. Number of banks, total asset, third party funds, and distributed funds

	Attributes	Types commercial banks	
		Conventional	Sharia
Number of banks	Unit	107	14
	%	*88.43*	*11.57*
Total asset	Trillion IDR	9,121,696	394,862
	%	*95.85*	*4.15*
Third party funds	Trillion IDR	7,201,564	321,421
	%	*95.73*	*4.27*
Distributed funds	Trillion IDR	5,482,054	245 926
	%	*95.71*	*4.29*

Sources: Indonesia Financial Service Authority (Indonesia Banking Statistics, February 2021)

Referring to the data in the table, it is clear that the contribution of sharia commercial banks to the national financial system is much smaller than conventional commercial banks, however, considering that Indonesia is the largest Muslim country in the world i.e., 13.11% (World Population Review, 2021) sharia commercial banks have a sound prospect and very promising (Zaini et al., 2019). Therefore, sharia commercial banks are always interesting to continue to be further researched in a more comprehensive manner.

Economic Impact of the Covid-19 Pandemic

It is believed that almost all countries in the world have been hit by the very complex problems caused by the Covid-19 pandemic. In Indonesia, like in other countries, its spread has forced national economies and businesses to calculate costs to reduce the speed at which it spreads, as the government has struggled with policies to implement large-scale social restrictions (PSBB) to contain the spread of the virus.

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Pandemics, including the Covid-19 pandemic, are affecting the economy from the demand side and the supply side. Accordingly, theoretically, the Covid-19 pandemic can be analyzed as a supply and demand shock where (i) aggregate supply disrupted by changes and distraction in global supply chains and reductions in labor supply as a result from quarantine and social distancing policies; meanwhile (ii) aggregate demand is disrupted not only because of the decrease in consumption of durable goods (i.e., cars, household appliances, and consumer electronics) and services (i.e., restaurants and tourism) caused by the implementation of the lockdown policy—in Indonesia known as large-scale social restrictions (PSBB)—but also due to uncertainty about covid-19 itself (Lanchimba, Bonilla-Bolanos & Diaz-Sancez, 2020). In addition, the pandemic prompted households to increase preventive savings by reducing consumption, some casual or informal sector workers and rental house owners, lost income which led to reduced consumption, and, due to uncertainty and reduced liquidity, some companies stopped investing.

More specifically, from the demand side, consumers and investors tend to lose confidence in the markets affected by the pandemic which leads to reduced household spending, and the increased business uncertainty about future demand which depresses business investment. The result is a depreciation of the market demand side (Correia, Luck & Verner, 2020). From the supply side, labor absenteeism and labor reduction policies, which result in a fall in total labor supply, a rise in the risk-premium, and an increase in the costs of production in all sectors, lead to a depletion of the supply side (McKibbin & Fernando, 2020).

In addition, public health and the response of the international community in overcoming problems caused by pandemics have an impact on economic and development policies in the fields of trade, travel and handling of health problems. The direct impact of the pandemic on economic activity was caused by the restriction of output from many industries such as travel and entertainment and the restriction of social contacts which forced a number of people to work from home or not work at all which resulted in the decline in output (Hevia & Neumeyer, 2020). The pandemic has also affected the economy in the form of a slowdown in economic growth which, in the long run, will lead to a decline in trade and increased poverty (Shrestha, Shad, Ulvi & Khan, 2020; Laktos, 2021). Gross domestic product (GDP)—a measure of a country's economic performance over a period of time—is one of the most important and most frequently used economic indicators. In summary, the impact of the covid-19 pandemic, both through the demand and supply channels, will ultimately lead to a decline in economic growth.

This phenomenon—the decline in economic growth as measured by GDP—is also experienced by Indonesia, as shown in the following figure. A very substantial negative impact from the Covid-19 pandemic was firstly experienced in the second quarter of 2020 where Indonesia's GDP reached the lowest figure of -5.32%. It is to be grateful and proud that the government has succeeded in improving economic growth, although it is still negative, after that it has gradually improved.

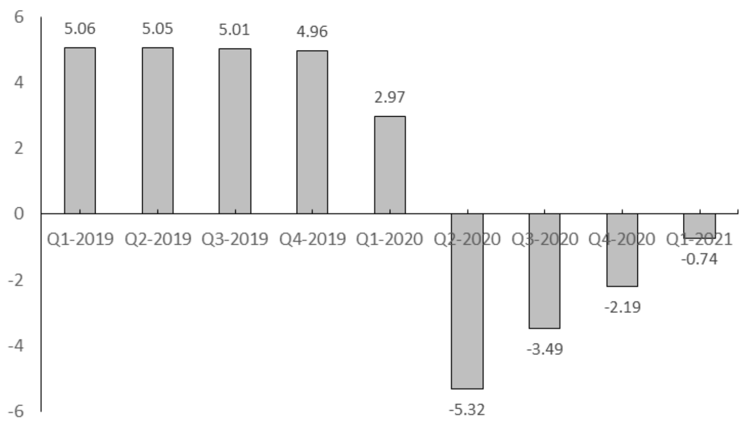

Figure 1. GDP Growth Q1-2019 – Q1-2021 (%)
(Source: Statistics Indonesia, 2021)

Impact of the Covid-19 Pandemic on Banking Sector: Theoretical Reviews

The implementation of a large-scale social restriction (PSBB) policy by the Indonesian government with the aim of preventing the spread of Covid-19 has stopped most economic activities in many sectors. The negative impact of the interruption of economic activities have been suffered by companies and households. Companies whose activities rely on direct contact with customers (i.e., hotels and transportation) are suddenly losing their source of income. Meanwhile, households whose economic pillar and family members work in this sector lose income (Rahma & Arvianti, 2020; Rodríguez-Antón & Alonso-Almeida, 2020).

The banking sector, whose main activity relies on companies and households, either directly or (mostly) indirectly, was also affected by this covid-19 pandemic-based policy. It is true that banking services can be provided remotely and are less dependent on direct contact with customers as in the hospitality and transportation sectors. However, the linkage of this sector to the real sector through its role as a provider of payment, savings, credits and risk management services amplifies the negative effects of the Covid-19 pandemic to banks and other financial institutions. This is because markets of banking and other non-banking financial institutions such as securities and insurance have become increasingly integrated, with linkages across the markets rapidly increasing (World Bank, 2016).

How the covid-19 pandemic affects the banking sector is clearly illustrated in the following figure. There are four ways in which the Covid-19 pandemic affects the banking sector. First, as shown in Figure 2, most of the economic activity stops which results in a loss of company income sources and loss or reduction of household income. The two partner entities of the bank lose their ability to repay the loan, as a result the profit obtained by the bank and the capital owned by the bank is reduced.

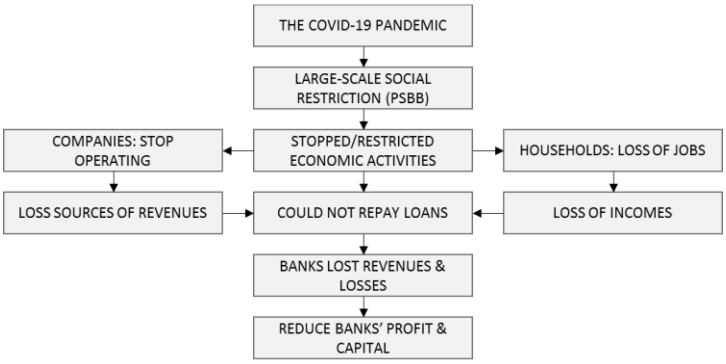

Figure 2. The Covid-19 pandemic effect on banking sectors
(Source: Extracted from Economic Observatory, 2021)

Second, banks experience losses because stocks, bonds and other financial instruments traded on the capital market experience a decline in value. Third, banks are faced with a situation where demand for credit is increasing, because companies experiencing decreased liquidity require additional cash flow to meet their costs. The request is even submitted when there is no or reduced income. In some cases, this higher demand has presented itself in the withdrawal of lines of credit by borrowers. Fourth, the non-interest income earned by banks is decreasing because the demand for their different services has also decreased (Demirgüç-Kunt et al., 2020; Economic Observatory, 2021).

Impact of the Covid-19 Pandemic on Banking Sector: Empirical Studies

Beck & Keil (2021) identified a decrease in the volume and average amount of syndicated loans to banks that were more affected by the pandemic, followed by an increase in interest differentials and an accelerated decline in maturity. These findings indicate the existence of the negative impact of the pandemic and the fast response from banks. A study of Barua & Barua (2021) in Bangladesh suggest that all banks are likely to experience a fall in risk-weighted asset values, capital adequacy ratios, and interest income either at the individual bank or sectoral levels.

A recent study in Indonesia came to the conclusion that banking conditions in this country are currently more resilient to crises (Cakranegara, 2020). Other research in Indonesia (Nabir and Wardana, 2020) shows that NPLs have increased along with the outbreak of the Covid-19 pandemic accompanied by a decrease in loan demand, a decrease in bank deposits and loan interest rates. It was also assumed that capital in the banking sector (i.e., the capital adequacy ratio) is still at a strong level, which is considered to be sufficient to maintain the stability of banks for at least 2020, however, if economic growth is not able to be restored, the level of bank capital has the potential to decline. They further estimate that Covid-19 pandemic has more of an impact on loan problems than liquidity, especially with regard to the ability of borrowers, both companies and households, to repay their loans. This will have an impact on the level of non-performing loans, namely an increase in non-performing loans or non-performing financing. In the meantime, net income tends to experience a substantial decrease due to an increase in provisions (Habir & Wardana, 2020).

Pradipta (2020) found that the Covid-19 pandemic in Indonesia had an effect on slowing the growth of bank loans, but from the capital side, the banking sector was considered not much affected where third party funds were still stable and liquidity was adequate. However, the banking sector's financial performance experienced a decline, particularly from the perspective of asset quality and profitability. Almonifi, ul Rehman & Gulzar (2021), in the Kingdom of Saudi Arabia, discovered that return on equity, return of asset, liquid asset/total asset and capital adequacy ratio of sharia banks had significantly reduced due to the covid-19 pandemic. The growth of Islamic banking entities in Oman experienced a slowdown due to the sluggish economic situation triggered by the Covid-19 pandemic (Mihajat, 2021).

Sutrisno, Panuntun & Adistri (2020) found an empirical evidence indicating that return on equity, net operating margin, and financing to deposit ratio of sharia banks in Indonesia were affected the covid-19 pandemic. Meanwhile, CAR, NPF, ROA, and OEIR remain unchanged amid the pandemic. In Pakistan growth of sharia banking was not interrupted by the covid-19 pandemic (IsDB, 2020). The State Bank of Pakistan (2020) reported that NPLs was negatively affected by the covid-19 pandemic, on the other hand, banks' profitability have not been affected by this pandemic and have even continued to increase so that this condition encourages the better level of bank financial health, which is marked by an increase in the capital adequacy ratio. Other study in Pakistan revealed that banks experienced liquidity shock which was triggered by the pandemic (Ali et al., 2020). In India, Bobade & Alex (2020), found that banks in this country have been forced to experience non-performing assets, non-recovery of loan, customer frauds, bad loans by the Covid-19 pandemic which, the long run, will expedite the collapse of Indian banking business.

Research Hypotheses

The Covid-19 pandemic has forced the governments of all countries to make efforts to prevent its spread, which in Indonesia these efforts are called large-scale social barriers (PSBB). Almost all economic activities have stopped so that companies lose their source of income and households experience a reduction in income. Both of these banking partner entities experienced the reduced ability to repay their loans which resulted in reduced bank profitability. Accordingly, it can be assumed that the Covid-19 pandemic had a negative impact on the banking sector. The financial performance of banks, including sharia commercial banks, will be under pressure. Therefore, in an effort to further analyze the impact of the pandemic on sharia banking entities performance, the following hypotheses are formulated and then tested in this study.

H_1: Total asset growth of sharia commercial banks is negatively affected by the Covid-19 pandemic.

H_2: Capital adequacy ratio growth of sharia commercial banks is negatively affected by the Covid-19 pandemic.

H_3: Return on asset growth of sharia commercial banks is negatively affected by the Covid-19 pandemic.

H_4: Non-performing financing growth of sharia commercial banks is negatively affected by the Covid-19 pandemic.

H_5: Financing to deposit ratio growth of sharia commercial banks is negatively affected by the Covid-19 pandemic.

H_6: Operating efficiency ratio growth of sharia commercial banks is negatively affected by the Covid-19 pandemic.

H_7: Net operating margin growth of sharia commercial banks is negatively affected by the Covid-19 pandemic.

C. METHODOLOGY

Monthly data of total asset, capital adequacy ratio, return on asset, non-performing financing, financing to deposit ratio, operating efficiency ratio, and net operating margin of sharia commercial banks for the periods between 2018 and 2021 which were obtained from the Indonesia Financial Service Authority were used in this study. Per month annual growth (year-on-year) of the studied variables for the whole period between 2019 and 2021 (i.e., April 2019 to February 2020 and April 2020 to February 2021) were calculated using the following formula.

$$\text{Growth} = \frac{\mathrm{VEt1} - VEt0}{VEt0}\ x\ 100\ percent \qquad (1)$$

Where, Growth = year-on-year growth; VEt_1 = the value of the estimated variable in the same month this year; VEt_0 = the value of the estimated variable in the same month last year.

Since the objective of the study was to analyze the pandemic by comparing the rate of growth of the examined variables in two different conditions i.e., before and during the pandemic, the dependent sample t-test was accomplished. Therefore, proposed research hypotheses were tested using the dependent sample t-test.

H_0: $\mu_1 = \mu_2$ The means of the variable in 2019/2020 and 2020/2021 are the same.
The covid-19 pandemic has no effect on sharia commercial banks' performance

H_1: $\mu_1 \neq \mu_1$ The means of the variable in 2019/2020 and 2020/2021 differ.
The covid-19 pandemic significantly affects sharia commercial banks' performance

The test statistic t is calculated using the formula which follows.

$$t = \frac{\bar{X}_d}{S_{\bar{X}_d}} \qquad (2)$$

Where, $\bar{X}_d$ = means difference; $S_{\bar{X}_d}$ = standard deviation of the means

D. RESULTS AND DISCUSSION

Descriptive Statistical Analysis of Research Variables

The difference in the growth rate of the variables studied between the period 2019/2020 (before the pandemic) and the period 2020/2021 (during the pandemic) along with their associated means and standard deviations are presented in the following table. Differences on growths of total asset (TA), capital adequacy ratio (CAR), and operating efficiency ratio (BOPO) before and during the pandemic are found to be positives which mean that growth of these variables during the covid-19 pandemic were higher than those of before the pandemic. The mean difference and its associated standard deviations, are, respectively, as follows: 3.24% and 0.31 (TA), 3.83% and 4.84 (CAR), and 4.58% and 2.01 (BOPO). In the meantime, differences in growth rate of return on asset (ROA), non-performing financing (NPF), financing to deposit ratio (FDR), and net operating margin (NOM) before and during the pandemic are negatives indicating that during the pandemic, the growth rate of these four variables has decreased in different magnitudes. The mean difference and its associated standard deviations of these variables respectively are as follows -35.90% and 11.37 (ROA), -7.44% and 10.39 (NPF), -2.60% and 2.59 (FDR), -37.27% and 22.44 (NOM). In other words, growth of these variables during the pandemic was lower or, more precisely, lower than those of before the pandemic.

To ascertain whether this difference, both positive and negative, is statistically significant and to analyze whether the COVID-19 pandemic has an impact on the performance of sharia commercial banks, an inferential statistical analysis—i.e., a dependent sample t-test was accomplished. Results of the analysis are presented and discussed in the following section.

Table 2. Differences of growth (y-o-y) of TA, CAR, ROA, NPF, FDR, BOPO, and NOM of sharia commercial banks between 2019/2020 and 2020/2021

Month	TA (%)	CAR (%)	ROA (%)	NPF (%)	FDR (%)	BOPO (%)	NOM (%)

April	3.08	-6.80	-21.06	-21.26	-3.06	0.42	-35.79
May	3.88	1.37	-26.55	-23.92	-4.80	2.28	-42.82
June	0.61	10.13	-30.40	-11.77	-1.81	3.86	-42.26
July	0.24	11.78	-34.39	-12.94	0.86	4.28	-45.26
August	1.74	6.61	-38.46	-8.83	-2.09	4.18	-44.56
September	9.24	4.08	-35.32	-11.85	-8.83	4.51	-40.97
October	4.70	3.32	-48.66	-2.67	-2.51	4.88	-54.58
November	5.50	3.65	-52.13	-4.49	-3.53	5.24	-56.16
December	2.70	2.35	-54.48	1.93	-1.20	6.59	-58.33
January	2.95	3.15	-28.36	9.54	-1.67	6.82	-1.80
February	0.97	2.51	-25.04	4.37	0.00	7.33	12.60
Mean	3.24	3.83	-35.90	-7.44	-2.60	4.58	-37.27
Std. dev.	0.31	4.84	11.37	10.39	2.59	2.01	22.44

Source: Estimated using equation (2) from the Indonesia Financial Service Authority (Indonesia Banking Statistics December 2018, December 2019, December 2020, February 2021)

Inferential statistical analysis

Results of the dependent sample t-test on variables under study are depicted in the following table.

Table 3. Results of the dependent t-test for the mean differences in growth (y-o-y) of TA, CAR, ROA, NPF, FDR, BOPO, and NOM of sharia commercial banks between 2019/2020 and 2020/2021

Variables	Mean Differences (%)	Change direction	Prob.	Hypothesis
Total Asset	3.24	Increased by 3.24%	0.0020	Rejected**
Capital adequacy ratio	3.83	Increased by 3.83%	0.0155	Rejected*
Return on asset	-35.90	Decreased by 35.90%	0.0000	Accepted
Non-performing financing	7.44	Increased by 7.44%	0.0389	Accepted
Financing to deposit ratio	-2.60	Decreased by 2.60%	0.0076	Rejected**
Operating efficiency ratio	4.58	Increased by 4.58%	0.0000	Accepted
Net operating margin	-37.27	Decreased by 37.27%	0.0002	Accepted
Mean	-8.10			

Source: MS Excel Output
Notes: *significant at alpha 5% but in the opposite direction
**significant at alpha 1% but in the opposite direction

Growth of total asset, capital adequacy ratio, non-performing financing, financing to deposit ratio, and operating efficiency ratio during the covid-19 pandemic were higher than those of before the pandemic. This indicates that total asset of the sharia commercial banks growth rate during the pandemic was higher than that of before the pandemic meaning that the banks' total asset growth was not affected by the pandemic in negative direction. The same phenomenon was experienced by the banks' capital adequacy ratio. It grew higher or faster during the pandemic than that of before the pandemic which means that it was not negatively affected by the pandemic.

Growth rate of non-performing financing must be carefully explained since sharia commercial banks having lower value of non-performing financing indicates that the banks' performance with respect to this variable or indicator is acceptable—the lower the value of NPF the better. Sharia commercial banks' NPFs before the pandemic were higher than those of during the pandemic indicating that the banks' NPFs during the pandemic were better (i.e., lower) than that of before the pandemic. The banks' performance from the NPF perfectives was getting better—improved—amid the pandemic, however, the rate of changes or more appropriately the rate of declines before the pandemic were higher than those of during the pandemic. These indicate that the rate of NPFs growth of sharia commercial banks were negatively affected by the covid-19 pandemic.

In the reverse direction as to compare with the NPFs, the financing to deposit ratio (FDR) should be interpreted carefully because sharia commercial banks that have high FDR values indicate that these banks' liquidity are not acceptable. FDRs values—i.e., levels of liquidity ratio—of the sharia commercial banks before the pandemic were significantly higher than those of during the pandemic which means that the banks' liquidity were lower before the pandemic and getting better (more liquid) during the pandemic. The rate of decline of FDRs values, during the pandemic were significantly higher (i.e., become more liquid) than those of before the pandemic indicating that the liquidity ratio of the sharia commercial banks was not negatively affected by the pandemic; otherwise, the banks' liquidity increased amid the pandemic.

Unlike the previous indicators of the sharia commercial banks, the three others indicators such as operating efficiency ratio (BOPO), return on asset (ROA) and net operating margin (NOM) of the sharia commercial banks were significantly affected by the covid-19 pandemic in negative ways. These indicators experienced significant reduction during the pandemic as to compare with before the pandemic hit the country.

Similar with the banks' FDRs, the operating efficiency ratio (BOPO) of the banks should also be interpreted in careful manner since the banks that have high BOPO values indicate that these banks are operated in an inefficient manner. BOPOs values—i.e., levels of operating efficiency ratio—of the sharia commercial banks before and during the pandemic were not significantly different from each other which means that the banks were operated or managed in the same way in these periods of time. However, the rate of decline of BOPOs (i.e., become more efficient), before the pandemic were higher than those of during the pandemic indicating that the operating efficiency ratio of the sharia commercial banks were negatively affected by the pandemic.

Return on asset of the sharia commercial banks during the pandemic were lower than those of before the pandemic. They declined significantly with the rate of decrease higher during the pandemic. Not different from ROA, the net operating margin (NOM) of the banks' experienced decreased during the pandemic where the rate of decrease during the pandemic were higher than those of before the pandemic. It is clear that the banks' NOM were negatively affected by the covid-19 pandemic.

From seven indicators of the sharia commercial banks' performance there were three indicators that were not affected by the Covid-19 pandemic. This indicates that sharia commercial banks' in Indonesia could be categorized to relatively resilient to economic shock or crisis such the one triggered by the covid-19 pandemic. Cakranegara's (2020) study is in harmony with this finding that banking conditions in Indonesia was found to has been ready to cope with such a damaging condition.

Return on asset, operating efficiency ratio, and net operating margin were indicators of the sharia commercial banks performance which were negatively affected by the covid-19 pandemic. This findings are generally in accordance with studies of Beck & Keil (2021) in the US, Barua & Barua (2021) in Bangladesh, and Habir & Wardana (2020) in Indonesia who determined that the covid-19 pandemic exists and provides severe disturbance to the profitability of banking industries. Study by Sutrisno *et al.* (2020) in Indonesia found that profitability of sharia commercial banks in the country i.e., return on equity and net operating margin were similar with this study findings.

The total asset, capital adequacy ratio, non-performing financing, and financing to deposit ratio of the sharia commercial banks were recognized to have avoided the negative effects caused by the Covid-19 pandemic. The phenomenon was different from IsDB's (2020) investigation which recognized that NPLs of banks in Pakistan were severely depleted by the pandemic. But, these discoveries are in line with Pradipta's (2020) study in Indonesia which discovered that banking sector was believed not to be affected negatively by the pandemic especially in their capital sides. However, as already been proven in this study that from the perspectives of asset quality and profitability banking sector are vulnerable towards crisis such the covid-19 pandemic.

Findings of the study which indicates that capital adequacy ratio, and liquidity were not affected by the pandemic in negative manner were different from the findings of Almonifi *et al.* (2021) in the Kingdom of Saudi Arabia which found that these three indicators were negatively affected by the pandemic. These are also different from Mihajat (2021) study in Oman which assumed that sharia banking in this country was deteriorated by the covid-19 pandemic; Bobade & Alex (2020) in India and Ali et al. (2020) in Pakistan where banking sector these countries experienced liquidity shock and higher non-performing loan due to the pandemic. These differences are assumed to closely related with different setting in economic environment and banking system regulations in each country.

E. CONCLUSION

The results of this study indicate that in general, sharia commercial banks in Indonesia were considered relatively resilient in dealing with economic storms triggered by the Covid-19 pandemic. This was supported by research findings which revealed that of the seven financial performance indicators of sharia commercial banks, there are three performance indicators were not negatively affected by the Covid-19 pandemic. These indicators include total assets—which describe the growth of sharia commercial banks—capital adequacy ratio and operational efficiency ratios. Meanwhile, indicators that have been discovered to be negatively affected by the pandemic include non-performing financing, return on assets, financing to deposit ratio, and net operating margin. Consequently, these three indicators require attention in the sense that they need to be investigated further to identify the factors that affect their vulnerability to unfavorable economic conditions.

Sharia commercial banks have been empirically confirmed to have relatively adequate resilience to deal with adverse economic conditions, such as the one triggered by the Covid-19 pandemic, nevertheless their number of banks and contribution to the national financial system and, in turn, to the economy are still infinitesimal. Since the prospects for the development of this group of banks are considerably conceivable and promising, considering that Indonesia is a country with the largest Muslim population in the world, more comprehensive investigations on this entity is necessary. It is, therefore, the responsibility of the government of Indonesia and the Indonesian Muslim community to cerebrate of the right policies and approaches to develop this group of banks. In this regard, referring to the study findings, it is strongly recommended that further and more comprehensive research on sharia commercial banks and other sharia-based banks are accomplished for providing the policy makers to make appropriate decisions and policies.

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