



How Capital Adequacy, Liquidity and Profitability Impact Financial Distress in Islamic Rural Banks in Indonesia

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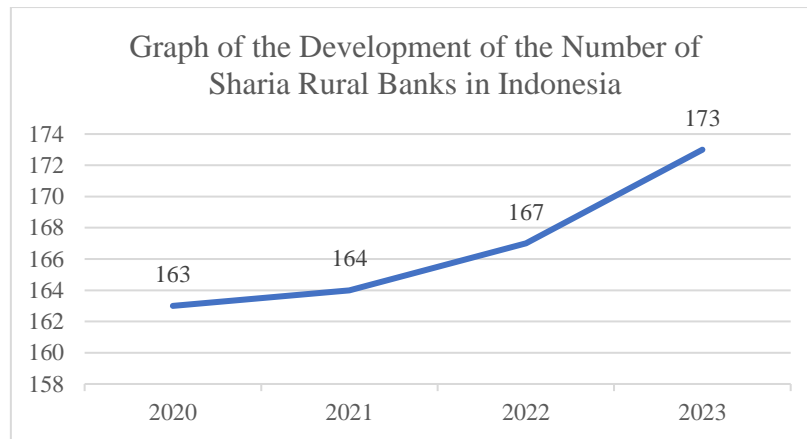
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Abstract. Competition in the banking industry is increasingly rapid at this time requiring each bank to have a stable healthy financial condition to avoid difficult financial conditions (financial distress). The purpose of this study was to determine how the influence of the Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), and Return on Equity (ROE) on the possibility of financial distress in Sharia Rural Banks registered with the Financial Services Authority in 2020-2023. The type of research used is descriptive quantitative research with the data source used is secondary data obtained from the financial statements of each Sharia Rural Bank. The results of this study found that the variables CAR, FDR, and ROE partially and simultaneously had a positive and significant effect on financial distress. The three independent variables together have an influence of 84.8% on the dependent variable, while the remaining 15.2% is influenced by other variables outside this study.

Keywords: Capital Adequacy Rasio, Financing to Deposit Rasio, Return on Equity, Financial Distress, Sharia Rural Bank.

1. INTRODUCTION

In Indonesia, the business form of Islamic banks consists of Islamic Commercial Banks, Islamic Business Units, and Sharia Rural Banks (SRB). All three have differences in their operational systems, where Islamic Commercial Banks and Islamic Business Units accept deposits in the form of demand deposits and participate in the payment system traffic. Meanwhile, the Sharia Rural Bank only collects funds in the form of deposits and distributes funds to the public in the form of financing (Otoritas Jasa Keuangan, 2017). This makes Sharia Rural Bank has a wide market potential as a financing institution chosen by small and medium entrepreneurs (MSMEs) in developing their business (Effendi & Haryanto, 2016). Based on data published by the Financial Services Authority, the development of the number of SRB in the last four years can be seen in the following figure 1.



Source : Sharia Banking Statistics

Figure 1. Graph of the Development of the Number of Sharia Rural Banks in Indonesia

The large number of SRB makes the competition to attract business people tighter. SRB that is still carrying out its operational activities not all financial conditions are in the healthy category. SRB conditions that are generally indicated in the unhealthy category cause SRB operations to be inefficient. Compared to other commercial banks, SRB which is currently widespread in every province in Indonesia has experienced more liquidations. This can be seen from the report of the Deposit Insurance Corporation which states that as many as seven SRB have been and are undergoing liquidation processes from 2019 to 2024, as shown in the following table.

Table 1. Sharia Rural Bank Sharia Rural Banks in liquidation

No.	Name Of Sharia Rural Banks	Region	CIU Date	Position
1	PT. SRB Jabal Tsur	Jawa Timur	21 January 2019	Completed liquidation
2	PT. SRB Safir Bengkulu	Bengkulu	30 January 2019	Completed liquidation
3	PT. SRB Muamalat Yotefa	Papua	15 May 2019	Completed liquidation
4	PT. SRB Hareukat	Aceh	11 October 2019	Completed liquidation
5	PT. SRB Gotong Royong	Jawa Barat	5 June 2020	Completed liquidation
6	PT. SRB Asri Madani Nusantara	Jawa Timur	15 September 2021	Completed liquidation
7	PT. SRB Mojo Artho Kota Mojokerto (Perseroda)	Jawa Timur	26 January 2024	Completed liquidation

Source : Deposit Insurance Corporation (2024)

Competition in the banking industry is increasingly rapid at this time requiring each bank to have a stable healthy financial condition. This is done to avoid financial distress. Financial distress is a condition of a company experiencing financial difficulties that can occur for various reasons, for example, mistakes in managing finances will cause insufficient or lack of capital, losses occur, and even bankruptcy (Nurhayati, 2022).

One of the ways used to predict bankruptcy conditions is to analyze the financial performance of published financial reports as a first step to determine the financial condition and health of banks (Syuhada et al., 2020). The Altman Z-Score proposed by Edward Altman in 1968 found 22 financial ratios of which 5 were found to contribute most to the bankruptcy prediction model. Then in 1995 Edward Altman redeveloped the formula to be more flexible and can be used to examine all sectors of the company (Altman, 2013).

When a company has good capital adequacy, it is considered capable of dealing with the potential risk of loss. Capital Adequacy Ratio (CAR) is a ratio used to calculate the capital adequacy of a company in one period. A high CAR indicates the bank's ability to carry out operational activities optimally so as to minimize the potential for financial distress (Humaira et al., 2021). according to Wulandari & Kusairi (2017) CAR has an influence in predicting the occurrence of financial distress in a bank.

Banks experiencing financial distress usually have a liquidity ratio below 1, which means that the company's current assets are unable to cover the company's current debt (Faradila & Aziz, 2016). Financing to Deposit Ratio (FDR) is one of the bank's liquidity ratios which is the result of total financing channeled through funds raised from third parties. The higher this ratio, the lower the bank's liquidity, which means it will increase the possibility of financial distress (Hariono & Azizuddin, 2022). This is supported by Ikhsan et al. (2018) which states that FDR affects financial distress conditions. However, Hariono & Azizuddin (2022) states otherwise, that CAR and FDR have no effect on financial distress.

Profitability for banks experiencing financial distress is usually negative (Faradila & Aziz, 2016). Profitability is a ratio that is able to describe the measure of the company's success in generating profits through sales or investment approaches. Return On Equity (ROE) is a ratio to measure the effectiveness of banks in using investor funds to generate profits. The higher the ROE, the better the condition of a company and the possibility of experiencing financial distress is smaller, this is stated by Desiyanti et al. (2019) that ROE has an influence on financial distress. Another study states that ROE has no effect on financial distress conditions. Kareem et al. (2022) who conducted research on banking showed that the calculated ROE cannot be used to predict financial distress.

Basically, banks are established with the aim of making a profit and being able to survive in the long term. To achieve these goals, banks must pay attention to financial performance by developing strategies or maintaining consistent performance standards. Based on existing phenomena and associated with the conditions that support it. Therefore, the authors need to conduct further research to analyze financial performance on the prediction of financial distress at SRB in Indonesia.

2. LITERATURE REVIEW

Islamic Banking

The legal basis for the existence of Islamic banks in Indonesia is Law Number 21 of 2008 concerning Islamic Banks. Islamic banks are banks that carry out business activities based on sharia principles as regulated in the fatwa of the Indonesian Ulema Council such as the principles of justice and balance, goodness, universalism, and do not contain obscenity, gambling, usury, zalim and other haram things (Hakim, 2021).

Islamic bank products and services that can be provided to the public depend on the type of Islamic bank (Muwazir & Anwar, 2018). In Indonesia there are 3 types of Islamic banks, namely Islamic commercial banks, Islamic business units and Islamic rural banks. In this study, the object is Islamic rural banks. Islamic rural banks are banks that carry out business activities based on sharia principles which in their activities do not provide services in payment traffic. SRB cannot carry out payment traffic transactions or transactions in chiral traffic because the function of SRB is generally limited to the collection and distribution of funds (Muwazir & Anwar, 2018).

Financial Distress

Financial distress is a condition of a company that is experiencing financial difficulties because the company is less able to manage finances properly so that it has the potential to experience losses (Wahyuni, 2021). Financial distress occurs before bankruptcy which begins with the company's inability to fulfill its obligations, especially obligations that are current obligations, namely liquidity and solvency (Abadi & Misidawati, 2023). Indications of financial distress or financial difficulties can be known from the financial performance of a company. In the banking world, the initial indication of financial distress can be seen from the income statement, where the bank experiences a negative net profit and experiences a negative spread due to the lower cost of loan interest than deposit interest. The cause of financial distress is because management lacks the ability and experience in anticipating the risks that might befall the Company. The financial aspect is something that must be maintained in balance to

avoid potential bankruptcy (Abadi & Misidawati, 2023). There are several factors that cause the company to experience financial distress, such as the inability of capital, the amount of debt and interest expense, the failure of asset utilization which results in company losses (Silanno & Loupatty, 2021).

There are a number of indicators that can be used by financial management to identify symptoms of financial distress. The first is indicators from the company's internal parties which include, a decrease in sales levels due to management's inability to implement strategies in competing, a decrease in the company's ability to generate profits, and the existence of large debts owned by the company (Sari et al., 2019). Second, several indicators to determine the signs of financial distress seen from external parties include a decrease in the amount of dividends distributed to shareholders for several consecutive periods, a continuous decline in profits until the company experiences losses, massive employee dismissals, and market prices begin to decline continuously (Sari et al., 2019).

One of the analysis models that can be used to predict the bankruptcy of a company is the Altman Z-scores discovered by an American researcher named Edward I Altman who studied financial ratio analysis as a tool to predict corporate bankruptcy (Altman, 2013). The Z-score formula used is the Modified Altman Z-Score with the following equation:

$$Z = 6,56X1 + 3,26X2 + 6,72X3 + 1,05X4$$

Description:

$Z =$ *bankruptcy index*

$X1 =$ *working capital / total asset*

$X2 =$ *retained earnings / total asset*

$X3 =$ *earning before interest and taxes / total asset*

$X4 =$ *book value of equity / book value of total debt*

The classification of healthy and bankrupt companies on the modified Altman Z-score value is:

- a. If the Z value < 1.1 then it is a bankrupt company.
- b. If the value of $1.1 < Z < 2.6$, it includes a gray area (it cannot be determined whether the company is healthy or experiencing bankruptcy).
- c. If the Z value > 2.6, it includes companies that are not bankrupt or the company is healthy.

Financial Performance

Financial performance is a description of the financial condition that can be a measure of the success of a company (Fadhillah & Burhany, 2020). Financial performance is evaluated

by financial analysis methods to see the state of the company. To measure financial performance on financial statements, financial ratio analysis can be used (Daryanto et al., 2020). There are several ways to measure the company's financial performance. In this study the measuring instruments used are capital adequacy, liquidity, and profitability. Capital Adequacy Ratio is a ratio used to measure the efficiency and ability of banks in carrying out activities to find sources of funds to finance banking operations (Syafrizal et al., 2023). A bank that has sufficient capital can maximize profits, because the greater the capital owned, the better it will be in avoiding risky assets (Fadhillah, 2022). To calculate the CAR ratio by dividing total capital by risk-weighted assets.

One of the liquidity ratios that can be used is the Financing to Deposit Ratio, which is a ratio to measure the amount of funds placed in the form of financing sourced from collecting third party funds (Budiman et al., 2022). To measure this ratio is done by dividing total financing by third parties funds. One of the profitability measurement ratios that can be used is Return On Equity (ROE). ROE is a ratio to measure the effectiveness of banks in using investor funds in generating profits (Budiman et al., 2022). To measure this ratio is done by dividing net income by the total capital owned by the company.

Hypothesis

a. Capital Adequacy Ratio and Financial Distress

Capital Adequacy Ratio is a ratio used to measure the efficiency and ability of banks in carrying out activities to find sources of funds to finance banking operations (Syafrizal et al., 2023). If the bank has sufficient capital to overcome losses and the potential to create greater profits, it is less likely that the company will experience financial distress (Kareem et al., 2022). Research conducted by Asyikin et al. (2018) states that CAR has no effect on the occurrence of financial distress of a bank, while research conducted by Margaretha & Wijaya (2023) states that CAR has a positive influence on financial distress conditions. The greater the CAR, the more capital the bank has to prevent and avoid losses (Kareem et al., 2022). Based on these assumptions, the hypotheses proposed are :

Hypothesis 1 : CAR affects financial distress

b. Financing to Deposit Ratio and Financial Distress

FDR is a ratio that shows the liquidity of the bank, which is the result of funds channeled and funds raised. The higher this ratio, the lower the liquidity of the bank,

which means it will increase the possibility of financial distress. The significant relationship between FDR and financial distress can be used as an early warning system to prevent financial crises that occur in Islamic banking. Research conducted by Asyikin et al. (2018) states that FDR has a positive influence on financial distress, while research conducted by Amalia et al. (2020) found that FDR does not affect financial distress. The higher the FDR, the higher the financial distress. This is because FDR is a comparison of funds channeled with funds collected from third parties. Based on these assumptions, the proposed hypothesis is:

Hypothesis 2 : Financing to Deposit Rasio affects financial distress

c. Return On Equity and Financial Distress

Profitability as measured by ROE shows the extent to which the capital owned can provide a return on profits as expected. Effective use of company capital will reduce expenditure costs so that it has sufficient funds to run its business and avoid financial distress (Wahyuni, 2021). Research conducted by Asyikin et al. (2018) states that ROE has a significant effect on financial distress in Islamic banking, while research conducted by Kareem et al. (2022) obtained research results that ROE has no effect on financial distress in banking companies. The higher the ROE, the better the condition of a company and the less likely to experience financial distress (Wahyuni, 2021). Based on these assumptions, the hypotheses proposed are:

Hypothesis 3 : ROE affects financial distress

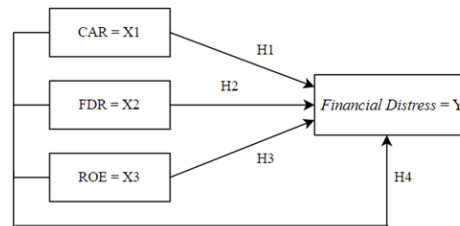
d. Capital Adequacy Rasio, Financing to Deposit Rasio, Return On Equity, and Financial Distress

This research will try to find the relationship between Capital Adequacy Ratio, Financing to Deposit Ratio, Return On Equity with Financial Distress together. therefore a hypothesis is proposed:

Hypothesis 4 : Capital Adequacy Rasio, Financing to Deposit Rasio, and Return On Equity affects financial distress

Conceptual Framework

The conceptual framework proposed in this study is as shown in Figure 2.



Source : Processed by The Author

Figure 2. Relationship Between Variables

3. RESEARCH METHOD(S)

The type of research used is quantitative research with a descriptive approach. The data source used in this study is secondary data obtained or collected periodically from financial reports. The population in this study is SRB registered with the Financial Services Authority in 2020-2023 totaling 173 SRB. This study uses purposive sampling technique in taking the number of samples with the following criteria:

Table 2. Results of Sample Selection

No	Sample Criteria	Total
1	SRB in Indonesia registered with the Financial Services Authority by the end of December 2023	173
2	SRB that publishes financial reports for 2020-2023 on their respective official websites.	(158)
3	SRB whose data can be accessed and provide the information needed in accordance with the research variables	(1)
Number of Companies		14
Year of Observations		4
Total Research Sample		56

Source: Processed by The Author

Quantitative data analysis techniques in this study using IBM SPSS Statistics software version 25.

Descriptive Statistics

Descriptive statistics are needed to provide an overview of data by looking at the results of descriptive statistical data processing in terms of minimum, maximum, mean, and standard deviation values as a measure to determine whether all variables are normally distributed or not. In the observation period 2020 to 2023, overall, each variable has a different minimum

value, maximum value, mean, and standard deviation. The results of the descriptive statistical test in this study can be seen in the following table 3.

Table 3. Results of Descriptive Statistics Test

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
CAR	55	-.47	2.41	.1499	.33192
FDR	55	-.42	2.84	.5182	.43701
ROE	55	-.57	.43	.0427	.14674
FINANCIAL DISTRESS	55	-.74	5.83	1.0140	.92882
Valid N (<i>listwise</i>)	55				

Source : Output SPSS 25

Before conducting regression tests, classical assumption testing is required as a statistical requirement that must be met so that the data obtained can be accounted for and is not biased. The classic assumption test in this study consists of 4 research tests, namely normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

1. Normality Test

The normality test is used to determine whether the residual values that have been standardized in the regression model are normally distributed or not. Based on the table below, it can be seen that Asymp. Sig. (2-tailed) is 0.200, where the value is > 0.05, meaning that the data is normally distributed. In this case, the data has met the assumption of normality, so it can be used in research.

Table 4. Result of Kolmogorov Smirnov Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		55
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.35237690
	Most Extreme Differences	
	Absolute	.100
	Positive	.047
	Negative	-.100
Test Statistic		.100
Asymp. Sig. (2-tailed)		.200 ^{c,d}

Source : Output SPSS 25

2. Multicollinearity Test

A good regression model should not have a correlation between the independent variables. To detect the absence of multicollinearity symptoms in the test results of a study, it can be seen in the variance inflation factor (VIF) value with provisions of 1-10 ($VIF < 10$) and the tolerance value with a limit of > 0.10 .

Table 5. Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	CAR	.765	1.307
	FDR	.798	1.254
	ROE	.954	1.049

Source : Output SPSS 25

Based on the multicollinearity test results in the table above, it can be seen that all tolerance values of each variable > 0.10 and VIF values < 10 , it can be concluded that in this study there is no multicollinearity between independent variables in the regression model.

3. Heteroscedasticity Test

The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another. A good regression model is one that does not occur symptoms of heteroscedasticity. One alternative test that can show symptoms of heteroscedasticity is to use the Spearman's rho test by looking at the sig value. (2-tailed) on each variable with a standard > 0.05 .

Table 6. Result of Spearman's rho Test

			CA R	FD R	RO E	Unstand- dized Residual
Spearman's rho	CAR	Sig. (2-tailed)	.091	.832	.227	
	FDR	Sig. (2-tailed)	.091	.677	.859	
	ROE	Sig. (2-tailed)	.832	.677	.338	
	Unstandardized Residual	Sig. (2-tailed)	.227	.859	.338	
		N	55	55	55	55

Source: Output SPSS 25

Based on the results of the heteroscedasticity test in the table above, it shows that the sig value. (2-tailed) CAR is 0.227, FDR is 0.859, and ROE is 0.338. So that the data has met the standard provisions to avoid symptoms of heteroscedasticity.

4. Autocorrelation Test

The autocorrelation test aims to test whether the linear regression model has a correlation between confounding errors in period t and confounding errors in period t-1 or t before. A good regression model is a regression model that is free from autocorrelation symptoms.

Table 7. Result of Autocorrelation Test

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.925 ^a	.856	.848	.36259	1.796

Source: Output SPSS 25

5. Analysis of Multiple Linear Regression

Multiple linear regression analysis is used to determine the effect or linear relationship between two or more independent variables and one dependent variable. The results of multiple linear regression data processing can be seen in the following table:

Table 8. Result of Multiple Linear Regression Analysis

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.164	.094		-1.743	.087
	CAR	2.668	.170	.953	15.697	.000
	FDR	1.419	.126	.668	11.226	.000
	ROE	.996	.344	.157	2.894	.006

Source: Output SPSS 25

Based on the results of the multiple linear regression analysis data processing above, the equation is obtained:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3$$

$$Y = -0,164 + 2,668 X_1 + 1,419 X_2 + 0,996 X_3$$

The coefficient value on each variable is entered into the equation so that the following interpretation is obtained:

- a. The constant value (*a*) shows a negative value of 0.164. This means that when the CAR (*X*₁), FDR (*X*₂), and ROA (*X*₃) variables are 0%, the financial distress (*Y*) variable will be -0.164.

- b. The CAR (X1) coefficient is 2.668 when it increases by 1%, the financial distress (Y) variable will increase by 2.668 assuming that other variables are consistent.
- c. The FDR (X2) coefficient is 1.419 when increasing 1%, the financial distress (Y) variable will increase by 1.419 assuming that the other variables are consistent.
- d. The ROE (X3) coefficient is 0.996 when increasing 1%, the financial distress (Y) variable will increase by 0.996 assuming that the other variables are consistent.

4. FINDINGS AND DUSCUSSION

This research was conducted within a 6-month observation period by exploring SRB financial reports published for 4 years from 2020 to 2024. During the observation, the results were obtained in the form of answers to the hypotheses proposed in this study consisting of the t test, F test, and coefficient of determination (R^2) test as follows:

a. t Test (Partial)

The t test or partial test is used to explain whether each independent variable individually has an influence on the dependent variable by comparing the t value with the t table. The results of the t test in this study are as follows:

Table 9. Result of t Test (Partial)

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.164	.094		-1.743	.087
	CAR	2.668	.170	.953	15.697	.000
	FDR	1.419	.126	.668	11.226	.000
	ROE	.996	.344	.157	2.894	.006

Source: Output SPSS 25

Based on the data results in the table above, it is known that:

- 1) Variable X1 or CAR has a t value of 15.697 and a significance value of 0.000. While the t table value is 1.675 (5%; 51), it can be concluded that $t_{count} > t_{table}$ and $sig\ value < 0.05$, which means that the CAR variable has a significant positive effect on financial distress.
- 2) The X2 or FDR variable has a t value of 11.226 and a significance value of 0.000. While the t table value is 1.675 (5%; 51), it can be concluded that $t_{count} > t_{table}$ and

sig value 0.000 <0.05, which means that the FDR variable has a significant positive effect on financial distress.

- 3) The X3 or ROE variable has a t value of 2.894 and a significance value of 0.000. While the t table value is 1.675 (5%; 51), it can be concluded that tcount > t table and sig value 0.006 <0.05, which means that the ROE variable has a significant positive effect on financial distress.

b. F Test (simultaneously)

The F test is conducted to see the effect of the independent variables together on the dependent variable. The independent variable is simultaneously considered to have an effect on the dependent variable if the F value is greater than the F table. The results of the F test in this study are as follows:

Table 10. Result of F Test (Simultaneously)

		ANOVA ^a				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	39.881	3	13.294	101.112	.000 ^b
	Residual	6.705	51	.131		
	Total	46.586	54			

Source: Output SPSS 25

Based on the results in the table above, it can be seen that the calculated F value is 101.112 and the significant value is 0.000. While the F table value (5%; 3, 51) is 2.79. So it can be concluded that Fcount > Ftable and sig value 0.000 <0.05 which means that all independent variables in this study when tested simultaneously have a significant positive effect on financial distress.

c. Coefficient of Determination (R²)

The Coefficient of Determination (R²) is used to determine how much the independent variable provides a precise explanation of the dependent variable by looking at the R² value. If the value is close to one, then the value indicates that the independent variables have an influence on the dependent variable being tested and the remaining value is influenced by other independent variables.

Table 11. Determination Coefficient Test Results

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.925 ^a	.856	.848	.36259

Source: Output SPSS 25

The result of the coefficient of determination test which explains the influence of the independent variable on the dependent variable shows the Adjusted R Square value of 0.848 or 84.8%. This shows that there is an influence of 84.8% between the CAR, FDR, and ROE variables together on the financial distress variable.

d. Effect of CAR on Financial Distress

Based on the test results in the previous discussion, it is known that CAR affects financial distress positively. This indicates that when SRB has good capital adequacy, it is considered capable of dealing with the potential risk of loss. Based on observations in the study, almost all SRB are able to manage capital adequacy, thus having an impact on the financial capability of SRB which is still in the stable range. Although there are SRB that are still unable to manage capital such as SRB Harta Insan Karimah Insan Cita which obtained the category of distress or potential financial difficulties, if it is associated with the results of capital adequacy which obtained the category less healthy it is allegedly closely related.

The results of this study are in line with the theory put forward by (Margaretha & Wijaya, 2023) which states that CAR has a positive influence on financial distress. An increase in the capital adequacy ratio needs to be considered, because if CAR is well managed it indicates an increase in bank health, so that it will reduce the risk of financial distress because high capital indicates low credit (Syafrizal et al., 2023).

e. Effect of FDR on Financial Distress

Based on the test results in the previous discussion, it is known that FDR affects financial distress positively. This is because FDR is the ratio of funds channeled to funds collected from third parties, the higher this ratio, the lower the liquidity of the bank. The high FDR ratio occurs due to an increase in the amount of financing that causes SRB to be unhealthy, where in this study 58.93% of FDR is still below the healthy category shown from SRB PNM Mentari, SRB HIK Cibitung, SRB Bandar Lampung, SRB HIK Insan Cita, SRB Haji Miskin, SRB Kotabumi, SRB HIK Mitra Cahaya Indonesia, SRB Madinah,

and SRB Fadhilah Bengkulu City. This increase in financing is allegedly not in line with the addition of third party funds so that it has an impact on the possibility of liquidity risk.

The results of this study are in line with the theory put forward by Asyikin et al. (2018) which states that FDR has a positive influence on financial distress. The positive value in this case can be explained that the higher the FDR, the higher the financial distress. FDR should have a negative effect on financial distress because the healthy FDR value according to the Financial Services Authority Regulation (POJK) is less than 75%, so the lower the FDR, the less difficult financial conditions will occur.

f. Effect of ROE on Financial Distress

Based on the test results in the previous discussion, it is known that ROE affects financial distress positively. ROE that shows a positive number is considered good, because SRB is considered capable of using capital efficiently and effectively to get profit, this is a signal given by SRB in making decisions. Although in recent years there are still some SRB that are considered less capable of maximizing capital and profit income. as in SRB Fajar Sejahtera Bali, SRB Bhakti Sumekar, SRB Madinah, and SRB Fadhilah Bengkulu City which show unhealthy results, so it is necessary to evaluate financing instruments in order to minimize the risk of bankruptcy. The results of this study are in line with the theory put forward by Asyikin et al. (2018) found that ROE has a positive effect on financial distress. SRB with an ROE ratio that shows a greater positive number, the less likely SRB will experience financial distress.

g. Effect of CAR, FDR, and ROE on Financial Distress

Based on the test results in this study, it shows that simultaneously CAR, FDR, and ROE have a positive effect on financial distress. This shows that when SRB is able to manage capital, maintain the stability of financing channeled with the collectivity of third party funds and maximize profit potential through existing capital, thus avoiding the condition of the possibility of financial distress. It is also known that the Adjusted R Square value is 0.848 or 84.8%. This shows that there is an influence of 84.8% between the CAR, FDR, and ROE variables together on the financial distress variable, while the remaining 15.2% is influenced by other variables outside this study.

5. CONCLUSION AND RECOMMENDATION

Based on the test results and discussion that has been stated, it is concluded that the capital adequacy ratio as measured by the Capital Adequacy Ratio (CAR), the liquidity ratio as measured by the Financing to Deposit Ratio (FDR), and the profitability ratio as measured by Return On Equity (ROE) partially have a significant positive effect on financial distress in SRB. While CAR, FDR, and ROE simultaneously have a significant positive effect on financial distress in SRB. Then based on the test coefficient of determination (R²) the three independent variables have an influence of 84.5% on the dependent variable, while the remaining 15.2% is influenced by other variables outside this study.

Based on the conclusions obtained from the research results, the advice given is that SRB is expected to be able to know the financial condition through periodic adaptive and responsive performance analysis to avoid difficult financial conditions. In addition, SRB needs to determine strategic steps in company operations in order to achieve healthy practices while still prioritizing prudential aspects.

The suggestions for further research are expected to use more varied variables to explain the causes of financial distress such as solvency ratios or leverage ratios. Research that discusses the prediction of company bankruptcy can use other financial distress measurement models, such as the Springate (S-Score), Zmijewski (X-Score), and Grover (G-Score) models. Future research should not only use variables in financial ratios but can also see from other sides such as company size, board size, audit committee, and others.

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