

DOES SPIN-OFF INCREASE PROFITABILITY? A STUDY IN 8 INDONESIAN SHARIA BANKS.

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Abstract

This study aims to analyze the profitability differences in sharia banking before and after the spin-off. If the profitability after spin-off is higher than before spin-off, then the spin-off is favorable. Samples in this study are 8 Sharia Banks in Indonesia. The profitability indicators comprise five indicators, which are ROA, CAR, FDR, NPF, and ROA. The descriptive data shows that there is increasing profitability after the spin-off, but the analysis of the mean differences shows different results.

This study implements the Wilcoxon test to analyze the mean differences of profitability before and after the spin-off, since the data is not normally distributed. The result of this study shows that there is no difference in four profitability indicators. The only difference profitability indicator before and after spin-off is CAR. The results suggest that spin-off doesn't increase profitability in Sharia Banks.

Keywords: Spin off, ROA, CAR, FDR, NPF, ROA.

1. Introduction

1.1. *Introduce the Problem*

Many sharia banking studies in Indonesia analyzed the spin-off policy after the effectiveness of Act Number 21 of 2008 concerning Sharia banking on July 16, 2008. Act Number 21 of 2008 gives the contributions in sharia banking development. Islamic bank in Indonesia in the last ten years shows a positive trend. The average asset growth of sharia banking is 30%, much higher than the average asset growth of conventional banks, which is only 15% (Hilman, 2018). Even though the higher growth of sharia banking compares to the conventional bank, the results of Arima forecasting found that there are no Islamic banks that could achieve the fifty percent asset of the parent's bank within fifteen years after the Act Number 21 of 2008 implemented (Haribowo, 2017; Al Arif et al., 2018a)

There are two types of sharia banking, as referred to Act Number 21 of 2008 concerning sharia banking. The kind of sharia banking comprises of Sharia Commercial Bank and Sharia Rural Bank (from now on shall be referred to as BUS) and Sharia Business Unit (from now on shall be referred to as UUS) as seen to in Act Number 21 of 2008 concerning Sharia Banking.

Conventional Commercial Bank (from now on referred to as BUK) is a Conventional Commercial Bank, as seen in Act Number 21 of 2008 concerning Islamic Banking, which has an Islamic Business Unit. The BUK that has UUS should separate the UUS and transform it to BUS (spin-off), as referred to Act Number 21 of 2008 Article 68, based on two conditions. First, if the value of the assets of UUS at least 50% (fifty percent) of the parent's bank assets and second 15 years after the effectiveness of Act Number 21 of 2008.

Some studies support the arguments that spin-off increase sharia bank's performance or differences (Naomi, 2017; Al Arif, 2018; Hilman, 2018; Hamid, 2015), while other studies found that there is no performance difference or worse performance in sharia banks before and after the spin-off (Naomi, 2017; Al Arif et al., 2018b). Hamid (2015) analyzes the impact of the spin-off policy on profitability in Indonesian Islamic Banking. The study implemented an ordinary least square regression. The variables comprise the spin-off, which used as a dummy variable, and internal factors of industry such as deposit margin, non-performing financing (NPF), and efficiency ratio (measured by BOPO). The results show that spin-off affects profitability and non-performing financing (NPF), and efficiency ratio (measured by BOPO) as well. Al Arif (2018) analyzed the deposit funds and found that there is a difference in deposit funds between the spin-off banks and non-spin-off banks. Al Arif et al. (2018b) found that after the spin-off, sharia banks are less efficient than before spin-off.

Some studies found the mix results in analyzing the spin-off and sharia bank's performance. Naomi (2017) found the market share of unit business sharia increase after the spin-off, but there is no difference in profitability and operational efficiency before and after the spin-off.

The inconsistency results in the spin-off and sharia bank's performance motivate this study. This study analyzes the profitability differences in sharia banking before and after the spin-off. If the profitability after spin-off is higher than before spin-off, then the spin-off is favorable and vice versa.

In Indonesia, the Sharia bank established by a variety of processes, types, or different methods. Table 1 shows the 13 BUS, establishment year, and establishment method. Table 1. informs that only one bank that deliberately set up from the beginning as a BUS, which is P.T. Bank Muamalat Indonesia, Tbk. The other sharia banks established with the spin-off process.

Table 1. BUS, Establishment Year and Method

No.	Sharia Bank	Established	The way of Establishment
1	P.T. Bank Muamalat Indonesia, Tbk	1991	Islamic banks since established
2	P.T. Bank Mandiri Syariah	1999	Conversion
3	P.T. Bank Mega Sharia Indonesia	2004	Conversion
4	P.T. Bank BNI Sharia	2010	Pure Spin-Off
5	P.T. Bank BRI Syariah	2008	Acquisition, Conversion
6	P.T. Bank BCA Sharia	2010	Conversion
7	P.T. Bank Bukopin Sharia	2008	Acquisition, Conversion
8	P.T. Panin Dubai Shariah, Tbk	2009	Conversion
9	P.T. Bank Victoria Sharia	2010	Conversion
10	P.T. Bank BJB Sharia	2010	Pure Spin-Off
11	P.T. Bank Maybank Indonesia Islamic	2010	Conversion
12	P.T. Bank BTPN Sharia	2014	Acquisition, Conversion
13	P.T. Bank Aceh Sharia	2015	Conversion

Source: Statistics of Islamic Banks (Financial Service Agency/FSA, 2015).

1.2. *Relevant Literature*

Sharia Bank is a Bank that conducts its business activities based on the Sharia Principles and, according to its types, comprises BUS and UUS as described in the earlier part. BUS is a Bank that conducts its business activities based on the Sharia Principles and, according to its types, comprises Sharia Commercial Bank and Sharia Rural Bank, as referred to in Act Number 21 of 2008 concerning Sharia Banking. The function of UUS is the same as the parent office or units that conduct business activities.

As mention in the earlier part of this study, the BUK that has UUS should separate it from the parent's bank and transform it into BUS (spin-off), as referred to Act Number 21 of 2008 Article 68, based on two conditions. First, if the value of the assets of UUS at least 50% (fifty percent) of the parent's bank assets and second 15 years after the effectiveness of Act Number 21 of 2008.

One of the considerations for the Establishment of a sharia bank, as referred to Act Number 21 of 2008, is the increasing need for services of the Indonesian people in Islamic banking. The more the number, the bigger the size and also the better performance of sharia banking will be better to fulfill the increasing need.

Many studies examine and analyze the performance of sharia banking and spin-off. Some studies support the argument that spin-off increases performance, some studies show that there are no performance differences before and after the spin-off, and some studies show the mixed results. Some studies also predict the assets of sharia banks, whether they could achieve at least 50% (fifty percent) of the parent's bank assets after 15 years after the effectiveness of Act Number 21 of 2008 as in Haribowo (2017) and Al Arif et al. (2018a).

Haribowo (2017) evaluated the Indonesian Islamic Bank's Spin-Off in Regional Banks and analyzed the spin-off strategy in a regional development bank. The main problem in the regional bank is a small size. The study employed ARIMA, simulation, and descriptive-qualitative and found that there is no sharia unit can achieve the 50% share asset of its parents. The study also found that spin-off is one of the policies, among other strategies, to develop the sharia banking industry.

Al Arif et al. (2018a) evaluate the spin-off by implementing ARIMA and simulation to forecast the asset growth to fifteen years after the Islamic Banking Act (Act Number 21 of 2008). The samples comprise of is four Islamic spin-off's banks, five Islamic banking units, and two full-fledged Islamic banks. The result shows that there are no Islamic banks that could achieve the fifty percent asset of the parent's bank. Base on the simulation analysis, this study found that the sharia banks need high growing assets to accomplish the intended market share.

Naomi (2017), Al Arif (2018), Hilman (2018), and Hamid (2015), support the arguments that spin-off increase sharia bank's performance or there is a difference in sharia banks performance before and after the spin-off. Naomi (2017) analyzed financial performance in four sharia banks before and after the spin-off to test whether BUS as a result of spin-off has a better performance than before spin-off, as a UUS. The study found that the market share of unit business sharia increase after the spin-off. Another study, Al Arif (2018), analyzed the relationship between spin-off, market structure, and deposit fund. The study implemented regression analysis and found that the deposit fund influenced by spin-off and market structure. The study also found that there is a difference in deposit funds between the spin-off banks and non-spin-off banks. Other result shows that there is a relationship between spin-off, market structure, and deposit funds in the Indonesian Islamic banking industry.

Hilman (2018) identify and measure the effectiveness of the implementation of the spin-off business unit into a sharia/Islamic banks (BUS). The data of sharia banks in Indonesia motivates this study. The average of assets growth in sharia banks is 30% in the last ten years, much higher than conventional banks, which is only 15%. But, unfortunately, the contribution of sharia banks to the national banking system is minimal. The low market share that is only 5.30% at the end of December 2016 supports the argument of the little contribution. The results show that the growth rate of BUS business activity is better than Sharia Business Unit (UUS). Still, in terms of profitability and efficiency, the level of UUS is better than BUS.

While some studies support the argument that spin-off increase sharia bank's performance, other research found that there is no performance difference (Naomi, 2017; Al Arif et al., 2018b;

Hilman, 2018, Chotib and Utami, 2014; Nasuha (2012) and also worse performance after spin-off (Asprilia, 2017).

Al Arif et al. (2018b) analyzed the spin-off's impact on the efficiency (operational efficiency ratio as BOPO) in four spin-off banks. The method implemented in this study is a difference-in-differences analysis. The proxy of the spin-off is a dummy variable, which is 0 is before the spin-off period, and one is after the spin-off period. The result of the spin-off coefficient is positively significant. The finding suggests that after the spin-off, sharia banks are less efficient since the BOPO after spin-off is higher than before spin-off.

Naomi (2017) also found that there is no difference in profitability and operational efficiency before and after the spin-off. Other studies that found the mixed results are Sarifudin and Faturrohman (2017) and Al Arif (2015). Sarifudin and Faturrohman (2017) examine the significant level of the efficiencies before and after conducting spin-off on four sharia banks. The proxy of efficiency is Variable Return to Scale (VRS). The descriptive data shows that there are increasing efficiencies after spin-off in BRI Sharia, BNI Sharia, and BJB Sharia, but decreasing efficiency in Bukopin Sharia. The result of the mean difference analysis shows that there are no significant differences in efficiency in BRI Sharia and BNI Sharia, before and after the spin-off. In contrast, Bukopin Sharia and BJB Sharia show a significant efficiency difference.

Al Arif (2015) analyzes the impact of the spin-off on asset growth on Islamic banking in Indonesia. The proxy of the spin-off is a dummy variable, and there are some other independent variables, comprise of internal and external factors. The results show that the only variable that has an impact on asset growth is deposited, while other variables including a spin-off, do not affect asset growth

2. Method

2.1. Profitability Indicators

The performance variable in this study is profitability, comprises of five indicators, which are Return on Assets (ROA), Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF), and Operational expenditure to Operating Income (BOPO) as in Purnawan (2017). ROA is a ratio between Profit Before Interest and Tax divided by Total Asset. The higher the ROA, the better the sharia banks' performance. CAR can be obtained by dividing the total capital to risk-weighted assets (RWA). CAR shows the ability of banks to provide funds used to cope with the possible risk of loss.

FDR is a total fund issued by sharia banks to support investments that have been planned for a particular time from the association of third party funds. The FDR formula is Total Financing divided by Third Party Funds. NPF is a risk due to the inability of customers to return the number of deposits of sharia banks and their remuneration following a predetermined period. This ratio shows the financing problems, which consist of financing those classified as substandard, substandard, doubtful, and loss. NPF is measured by using a ratio measurement scale that exists in the annual financial statements in Islamic banks. BOPO is one of the measurement ratios of banking efficiency in its operations activities. Operational expenditure is

interest expense given to customers while operating income is interest earned on clients. The smaller value means the more efficient bank operation. BOPO is a ratio between Operational Expenditure divided by Operating Income.

2.2. Spin-Off Sharia Banks

Separation or spin-off is differentiated from pure spin-off and quasi-spin-off as referred to Limited Company Act (Act Number 40 of 2007) Article 135. Absolute separation is a separation that results in the entire assets and liabilities of the company being transferred by law to two or more other companies that accept the transition and the company, which makes the separation is subject to the law. The spin-off in sharia banking is as referred to Act Number 21 of 2008 Article 68. The BUK that has UUS should separate it from the parent's bank and transform it into BUS (spin-off), based on two conditions. First, if the value of the assets of UUS at least 50% (fifty percent) of the parent's bank assets and second 15 years after the effectiveness of Act Number 21 of 2008.

2.3. Population and Sample

The population in this study is BUS in the Indonesia period 2006-2017. The samples in this study selected base on a purposive sampling technique with some criteria as follows.

- a. BUS already registered with Bank Indonesia and the Financial Services Authority from 2006 to 2017 period.
- b. BUS outcome of the spin-off, with the type of spin-off the pure, or acquisition, merger, and conversion.
- c. Quarterly financial reports published in Bank Indonesia and the Financial Services Authority from 2006 to 2017 period.

2.4. Technical Analysis

This study employs a horizontal comparison analysis to compare the profitability in sharia banking before and after the spin-off. The technical analysis implemented in this study is Paired Sample T-Test if the data normally distributed, but if the data is not normally distributed, the mean profitability differences tested using a non-parametric test or Wilcoxon test.

3. Results

3.1. Samples

Based on the sample selection criteria mentioned in the method part, the samples in this study comprises of eight sharia banks. The samples are P.T. Bank BNI Sharia, PT Bank BRI Syariah, P.T. Bank BCA Sharia, PT Bank Bukopin Sharia, PT Bank BJB Sharia, PT Bank Maybank Indonesia Islamic, P.T. Bank BTPN Sharia, and P.T. Bank Panin Dubai Shariah.

3.2. Descriptive Statistics

Table 2 describes the descriptive statistic, comprises of the number of samples (N), the sample average (mean), minimum amount, maximum number, and the deviation standard in each variable.

Table 2. Descriptive Statistics

Profitability	Spin-off	N	Mean	Min	Max	Deviation Sta.
ROA	Before	8	0.24	-4.9	5.1	3.07
	After	8	1.99	0.36	8.45	2.76
CAR	Before	8	90.3	17.69	285.36	89
	After	8	31.22	13.29	65.58	17.95
FDR	Before	8	108	11.81	227.21	70.92
	After	8	107.38	72.73	213.26	44.64
NPF	Before	8	5.67	0	19.21	7.58
	After	8	1.84	0.12	3.05	1.13
BOPO	Before	8	118.71	37.84	208.17	55.08
	After	8	87.76	58.91	102.46	14.16

The mean numbers in each variable in table 2 show the better performance of sharia banks after spin-off compares to before the spin-off. But this number needs to analyze more to conclude whether those numbers are statistically different or not.

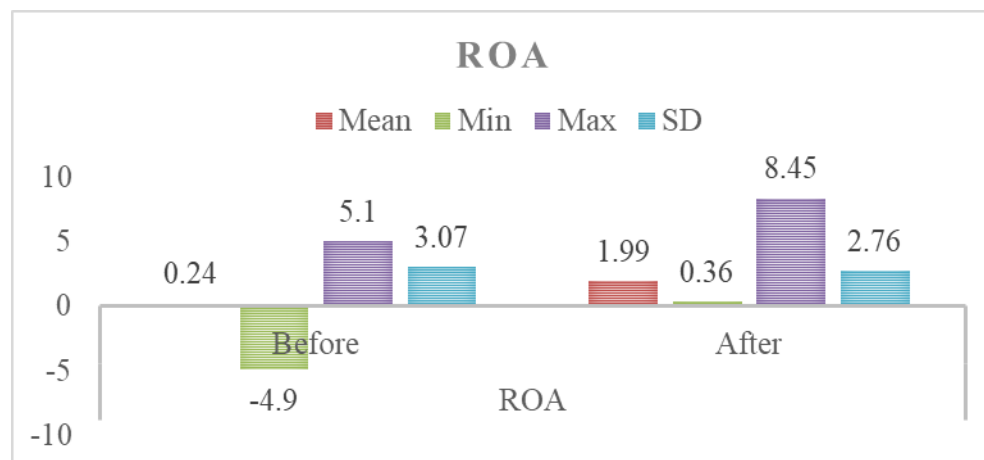


Figure 1.ROA Descriptive Statistics

The results of ROA descriptive statistics showed that in 8 samples for data, the highest ROA before the spin-off is 5.1% while the lowest ROA is -4.9%. The highest ROA after the spin-off is 8.45%, while the lowest is 0.36%. The mean number suggests that the ROA after spin-off (1.99%) is higher than before spin-off (0.24%), which implies better performance.

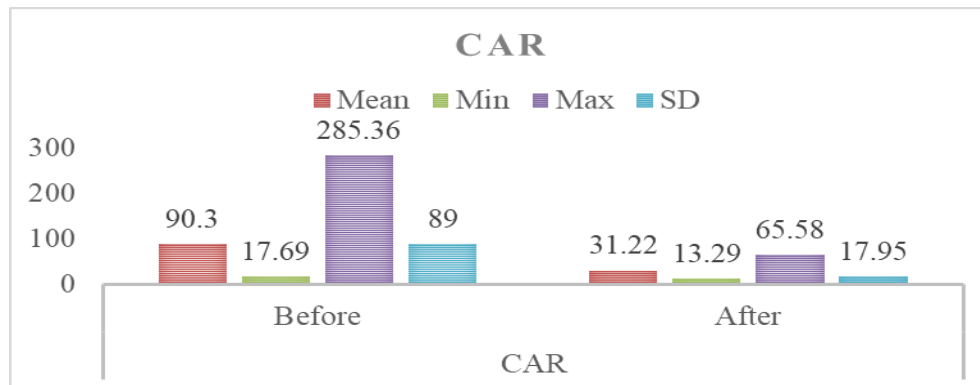


Figure 2. CAR Descriptive Statistics

The highest value of CAR before the spin-off is 285.36%, while the lowest is 17.69%. The highest amount of CAR after the spin-off is 65.58%, while the lowest is 13.9%. The mean of CAR prior spin-off is higher (90.3%) than after spin-off (31.22%)

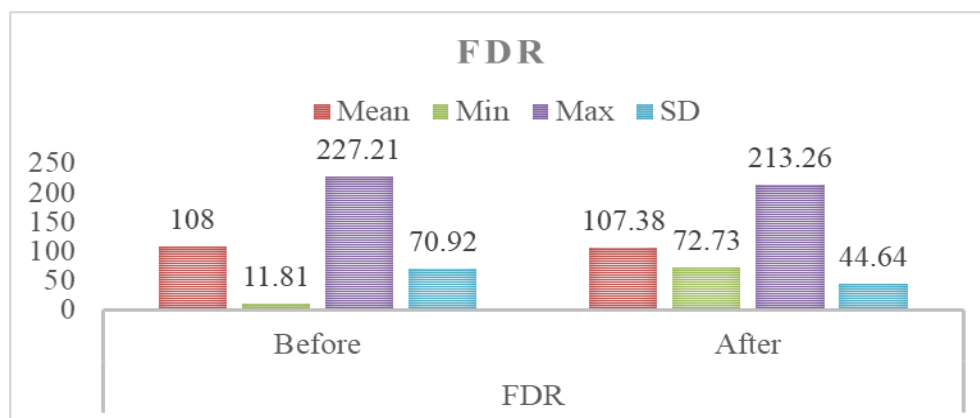


Figure 3. FDR Descriptive Statistics

The mean value of FDR is a bit higher (108%) than after the spin-off (107.38%). The highest amount of FDR before the spin-off is 227.21%, while the lowest is 11.81%. The lowest number of FDR after spin-off 72.73%, while the highest number is 231.23%.

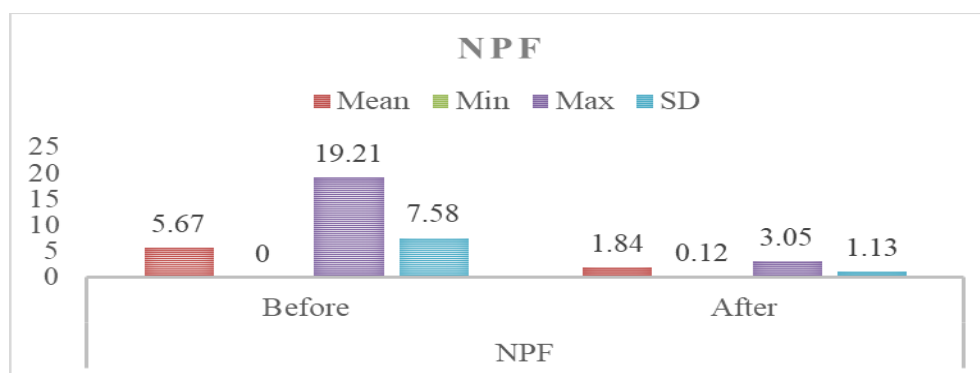


Figure 4. NPF Descriptive Statistics

The highest value of NPF before the spin-off is 19.21%, while the lowest is 0%. The highest amount of NPF after spin-off has 3.05%, while the lowest is 0.12%. The mean value before the spin-off is higher (5.67%) than after the spin-off (1.84). The smaller NPF after the spin-off suggests better performance.

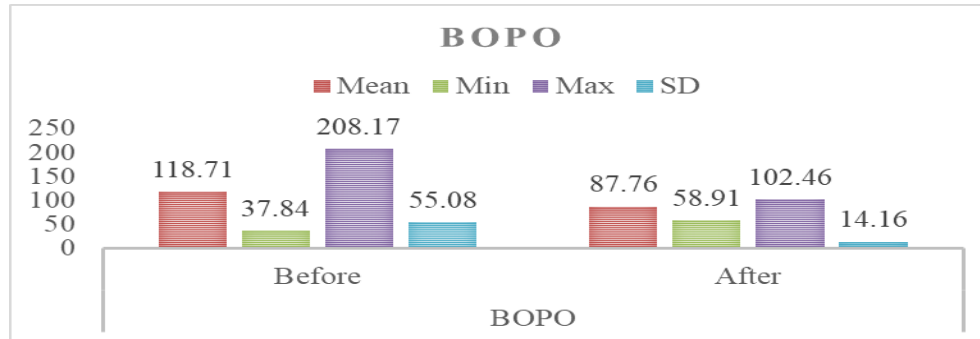


Figure 5. BOPO Descriptive Statistics

The highest value of BOPO before the spin-off is 208.17%, while the lowest is 37.84%. The highest amount of BOPO after the spin-off is 102.46%, while the lowest is 58.91%. The mean value of BOPO before the spin-off is higher (118.71) than after the spin-off (87.76). The lower cost of BOPO suggests better performance.

3.2. Normality Test

Paired Sample T-Test required the normally distributed data. This study employs the Shapiro-Wilk test the normality data because the sample size is less than fifty (sample <50). Table 3 describes the results of The Shapiro-Wilk Normality Test for five indicators of profitability.

Table 3. The Results of the Shapiro-Wilk Normality Test

Profitability	Spin-off	Sig.
ROA	Before	1.000
	After	0.001
CAR	Before	0.028
	After	0.192
FDR	Before	0.595
	After	0.002
NPF	Before	0.007
	After	0.254
BOPO	Before	0.858
	After	0.208

Table 3 shows that there are no pairs of data that normally distributed except for BOPO. Because most of the data are not normally distributed, then this study employs the Shapiro-Wilk test to examine the profitability differences before and after the spin-off.

3.3. Wilcoxon Test

Wilcoxon test is a non-parametric test that used to test and analyze whether there are profitability differences before and after the spin-off on Sharia banking. The results of Wilcoxon tests are as table 4.

Table 4. Wilcoxon Test Results

		N	Mean	Significance. (2-tailed)
ROA Before - After ROA	Negative Ranks	2	5.00	0.263
	Positive Ranks	6	4.33	
CAR Before - CAR After	Negative Ranks	7	4.86	0.025**
	Positive Ranks	1	2.00	
FDR Before - After FDR	Negative Ranks	5	4.20	0.674
	Positive Ranks	3	5.00	
NPF Before - After NPF	Negative Ranks	5	5.40	0.208
	Positive Ranks	3	3.00	
BOPO Before - After BOPO	Negative Ranks	6	4.67	0.161
	Positive Ranks	2	4.00	

Note: **) Statistically significant at α 5%

There are two classification groups in the Wilcoxon profitability test before and after the spin-off of sharia comprise-off two groups. The two groups are negative ranks and positive rank. In the first column and first line, profitability indicator Before is before the spin-off, or when the type of sharia bank is UUS. In the second line and first column, the profitability After group classification is after the spin-off, or when the kind of sharia banks is BUS. The negative ranks suggest the decreasing value after the spin-off, while positive ranks group classification means that there is an increasing value after the spin-off. N is the number of sharia banking, while mean the average number of negative ranks and positive rank as well. The results of five profitability indicators, as in table 4 are as follows.

a. ROA

The negative ranks number is 2, and the mean is 5.00. Those numbers mean that there are 2 sharia banking that has decreasing ROA after the spin-off. The average number of ROA falling is 5%. The number of positive ranks is 6, and the mean is 4.33. Those numbers mean that there are 6 sharia banking that has increasing ROA after the spin-off. The average number of ROA increasing is 4.33%. The significance value in the last column is 0.263, not significant statistically, and suggests that the ROA changes after spin-off are not statistically significant, or there is no ROA difference before and after the spin-off.

b. CAR

The negative rank number is 7, and the mean is 4.86. Those numbers mean that there are 7 sharia banking that has decreasing CAR after the spin-off. The average number of CAR decreasing is 4.86%. The number of positive ranks is 1, and the mean is 2.00. Those numbers mean that there is 1 sharia banking that has increasing CAR after the spin-off.

The average number of CAR increases is 2%. The significance value in the last column is 0.025, statistically significant at and suggests that the ROA changes after spin-off are not statistically significant at $\alpha 5\%$ or there are CAR differences before and after the spin-off.

c. FDR

The negative rank number is 5, and the mean is 4.20. Those numbers mean that there are 5 sharia banking that decreases FDR after the spin-off. The average number of FDR decreasing is 4.20%. The number of positive ranks is 3, and the mean is 5.00. Those numbers mean that there are 3 sharia banking that has increasing ROA after the spin-off. The average number of FDR increasing is 5.00%. The significance value in the last column is 0.674, not significant statistically, and suggests that the FDR changes after spin-off are not statistically significant, or there is no FDR difference before and after the spin-off.

d. NPF

The negative rank number is 5, and the mean is 4.20. Those numbers mean that there are 5 sharia banking that has decreasing NPF after the spin-off. The average number of NPF decreasing is 4.20%. The number of positive ranks is 3, and the mean is 3.00. Those numbers mean that there are 3 sharia banking that has increasing NPF after the spin-off. The average number of NPF increasing is 3.00%. The significance value in the last column is 0.208, not significant statistically, and suggests that the NPF changes after spin-off are not statistically significant, or there is no NPF difference before and after the spin-off.

e. BOPO

The negative rank number is 6, and the mean is 4.67. Those numbers mean that there are 6 sharia banking that has decreasing BOPO after the spin-off. The average number of BOPO decreasing is 4.67%. The number of positive ranks is 2, and the mean is 4.00. Those numbers mean that there are 2 sharia banking that has increasing BOPO after the spin-off. The average number of BOPO increasing is 4.00%. The significance value in the last column is 0.161, not significant statistically, and suggests that the BOPO changes after spin-off are not statistically significant, or there is no BOPO difference before and after the spin-off.

4. Discussion and Conclusion

This study analyzes the profitability differences in Indonesian sharia banking before and after the spin-off. The profitability indicators in this study are ROA, CAR, FDR, NPF, and BOPO. The results of descriptive statistics show that all of the profitability indicators increase after the spin-off, but the results of mean differences show different results. This study employs the Wilcoxon test to analyze the mean differences since the data are not normally distributed.

This study doesn't support the arguments that spin-off increases sharia banks' performance. The results of the Wilcoxon tests show that the mean differences of ROA, FDR, NPF, and BOPO are not statistically significant. The results suggest that there are no differences in the profitability indicators before and after the spin-off. This study supports Naomi (2017), Al Arif et al. (2018b),

Hilman (2018), Chotib and Utami (2014), Nasuha (2012), and Muharomah (2013). Chotib and Utami (2014) found that there was no significant difference in NPF ratio, ROA, and FDR. Nasuha (2012) 's study suggests that there was no significant difference in ROA and FDR, while Muharomah (2013) observed that substantial differences do not occur in ROA and BOPO.

CAR is the only profitability indicator that difference before and after the spin-off. The result of the Wilcoxon test found that there are 7 sharia banking that has decreasing CAR after the spin-off, and there is 1 sharia banking that has increasing CAR after the spin-off. The smaller the CAR, the lower profitability, and worse performance. This study inline with Asprilia (2017). Asprilia (2017) observed that there is a significant difference in financial performance in the CAR before and after the spin-off. The average value of CAR after the spin-off decreased.

The results of this study found that spin-off doesn't increase profitability, since there are no profitability differences in four out of the five profitability indicators; even one profitability indicator is worse. The descriptive statistics show that there is increasing profitability after the spin-off. Unfortunately, the differences are not statistically significant. The higher profitability needed after the spin-off to make the differences. Further research may employ a more extended period to analyze the spin-off impact on sharia bank performance.

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