

PROFITABILITY DRIVERS OF ISLAMIC COMMERCIAL BANKS IN INDONESIA : A FINANCIAL INDICATOR APPROACH

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Abstract :

This study examines the influence of internal factors such as Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), Operating Expenses to Operating Income (BOPO), Non-Performing Financing (NPF), and Bank Size on Profitability, represented by Return on Assets (ROA), in Islamic Commercial Banks authorized by the Financial Services Authority (Otoritas Jasa Keuangan or OJK) in Indonesia Using quarterly data spanning 2021-2024 from 14 Islamic commercial banks—yielding 206 observations through purposive sampling—and employing a Fixed Effect Model panel data regression approach, this research aims to capture financial performance dynamics in a more granular and timely manner compared to the annual data predominantly used in prior studies. The novelty of this study lies in the adoption of quarterly data, which provides greater sensitivity to short-term economic fluctuations and seasonal effects in the post-pandemic and post-merger era, as well as the explicit inclusion of Bank Size as an independent variable—rather than merely as a control variable as in most previous research—allowing for a direct examination of its role in driving profitability. The analysis results indicate that only BOPO has a significant negative effect on ROA, while CAR, FDR, NPF, and Bank Size are insignificant. Practical implications include recommendations for bank management to optimize operational cost control and for OJK regulators to strengthen adaptive policies addressing short-term economic fluctuations. The findings indicate a dominance of operational efficiency over capital structure and business scale in determining profitability in post-merger Indonesian Islamic banks.

Keywords : *Islamic Banking, Profitability, ROA, CAR, FDR, BOPO, NPF, Bank Size*

INTRODUCTION

The financial performance of banks can be seen from the bank's profitability level, which reflects how effectively banks manage their business operations. In the context of Indonesian Islamic banking, profitability has become a critical issue during the 2021-2024 period, following the merger of state-owned Islamic banks and the post-pandemic economic recovery. During

this period, Islamic banks faced increasing operational costs, heightened competition, and economic uncertainty, making profitability—particularly measured by Return on Assets (ROA)—an important indicator of management efficiency and sustainability. A higher ROA indicates better asset utilization and plays a crucial role in supporting long-term growth while mitigating liquidity and financing risks (Nisa, et al., 2022).

Banking profitability in Indonesia shows quite varied figures for ROA, averaging 2.07% at the end of 2024 due to inflation and economic changes (Otoritas Jasa Keuangan, 2025). It means that profitability is not only a measure of banking performance but also a signal to stakeholders, as ROA reflects macroeconomic and regulatory dynamics.

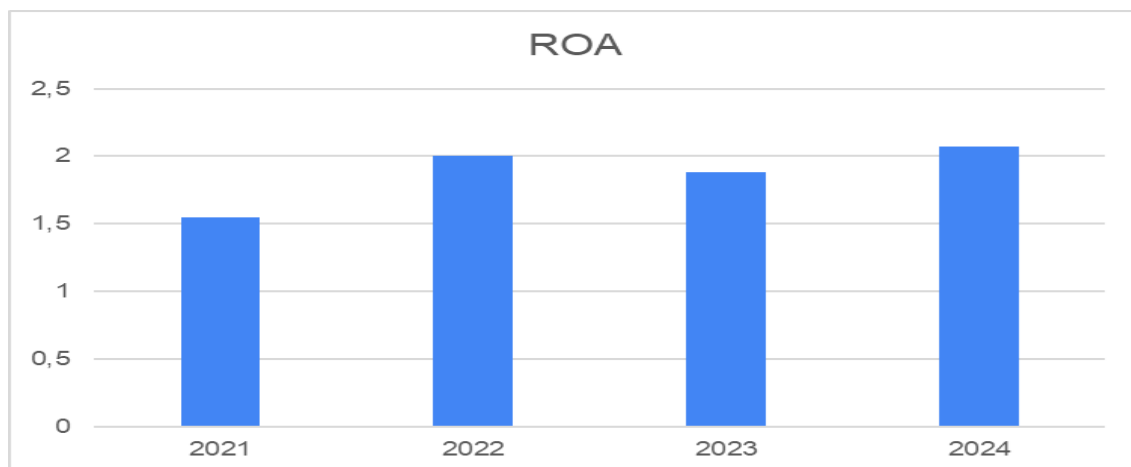


Figure 1. ROA of Islamic Commercial Banks in Indonesia for the period 2021-2024

Source : Financial Services Authority (OJK)

Figure 1 shows research on the performance of Islamic banks is becoming increasingly important to attract foreign investors to Indonesia, as ROA, a profitability indicator, reflects the financial health and potential for competitive returns in the rapidly growing global halal sector (Endrajati & Anggraeni, 2025). Foreign investors, such as those from the Middle East or Europe who focus on ethical investments, often view ROA as the main benchmark for assessing the operational efficiency and resilience of Islamic banks to risk. Therefore, stable performance can attract foreign capital flows into the Indonesian market thru instruments such as sukuk or equity participation (Fathiyyah & Muflih, 2023). With the fluctuating ROA of Islamic banks below 2.5% as shown in the graph, this research supports the identification of factors such as CAR and firm size to enhance competitiveness, thereby not only strengthening the domestic sector but also opening doors for foreign investment that can accelerate the growth of the national halal economy.

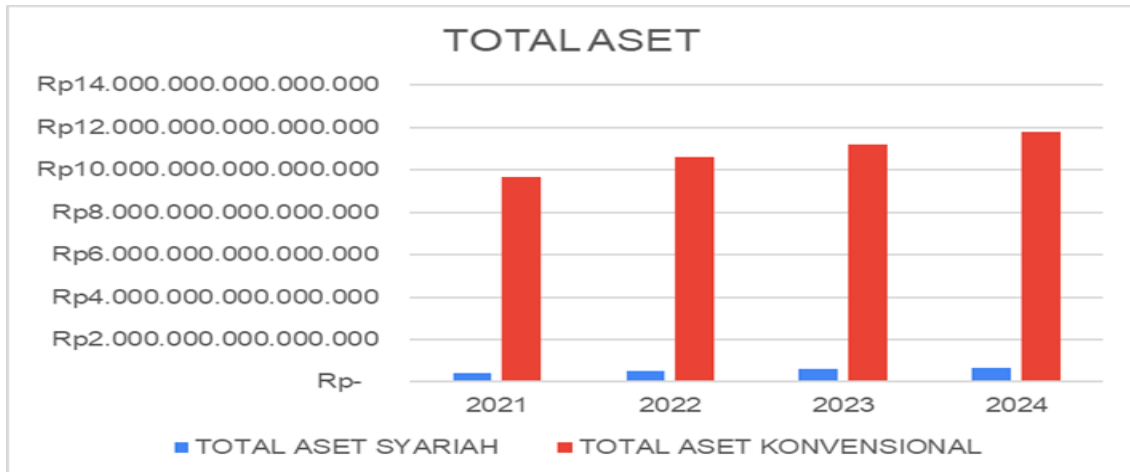


Figure 2. Total Assets of Islamic Commercial Banks and Conventional Banks in Indonesia for the period 2021-2024

Source : Financial Services Authority (OJK)

According to figure 2 from the Financial Services Authority (OJK), sharia banking assets experienced gradual growth from almost Rp600 trillion in 2021 to reach Rp980 trillion by the end of 2024, while conventional banking assets remained dominant at around Rp12–14 trillion throughout the period. This reflects that sharia's contribution is only about 6–7% of total national banking assets. This relatively small asset base implies that Islamic banks operate under tighter efficiency and profitability constraints, as limited scale may restrict cost absorption and revenue diversification. Consequently, improving profitability particularly measured by ROA becomes a critical challenge for Islamic banks during post merger period. This condition highlights the importance of examining internal performance factors such as operational efficiency (BOPO), capital adequacy (CAR), financing quality (NPF), liquidity management (FDR), and bank size in explaining profitability (Minarni, et al., 2023).

Islamic banking showed a fluctuating trend in financial ratios during the 2021–2024 period, characterized by instability in several performance indicators. The Capital Adequacy Ratio (CAR) varied from year to year, reflecting Islamic banks' responses to changing risk conditions and regulatory pressures. High CAR is generally expected to strengthen banks' resilience against potential losses and support profitability, thereby improving Return on Assets (ROA) (Ardichy & Rahayu, 2022; Subekti & Wardana, 2022). However, empirical findings on the relationship between CAR and ROA remain inconclusive. While some studies report a positive association, others find that CAR does not significantly affect ROA, particularly during periods of heightened economic volatility (Al-Eitan, et al., 2021). These inconsistencies may arise from differences in observation periods, economic conditions, and data frequency, as many prior studies rely on annual data that may not capture short-term fluctuations in bank capital and profitability. This study contributes to the literature by employing quarterly data, which allows for a more granular

examination of how changes in CAR influence ROA under dynamic post-merger and post-pandemic conditions in Indonesian Islamic banking.

The Financing to Deposit Ratio (FDR) also varies from year to year, indicating Islamic banks' adaptation to liquidity dynamics and customer financing needs in response to shifting economic conditions and regulatory environments during the 2021–2024 period (Otoritas Jasa Keuangan, 2025). Adequate FDR generally supports an increase in Return on Assets (ROA) through more effective channeling of third-party funds into productive sectors, as optimal fund allocation enhances margin income from Shariah-compliant financing activities (Aldi, 2023). Similar results were obtained by the studies which found a positive and significant relationship between FDR and ROA in the context of Indonesian Islamic banking profitability determinants and higher FDR levels contribute to improved asset returns by boosting intermediation efficiency in Shariah banks (Salman, et al., 2024). These findings are further reinforced by research showing that FDR's role in liquidity management positively influences overall profitability when aligned with stable deposit growth and low-risk financing distribution (Endrajati & Anggraeni, 2025).

As for the BOPO ratio, it measures a bank's operational efficiency by comparing operating expenses to operating income. In general, a higher BOPO indicates lower efficiency and is expected to negatively affect profitability. However, BOPO may exhibit a positive or insignificant relationship with Return on Assets (ROA) in certain contexts. For instance, increases in operational costs related to digital transformation, branch expansion, or post-merger integration may temporarily raise BOPO while laying the foundation for future revenue growth. In such cases, higher BOPO does not necessarily reflect inefficiency but rather strategic investment, particularly during periods of structural adjustment or economic recovery (Endrajati & Anggraeni, 2025). According to Siregar (2020), if the BOPO value is small, the bank is more efficient in carrying out its activities, so if the BOPO decreases, it will affect the increase in the bank's ROA value. This statement align with research which states that BOPO has a negative effect on ROA (Yolanda & Nasution, 2023). However, there is also research that says the opposite with the result that BOPO has a positive effect on ROA (Subekti & Wardana, 2022).

Non-Performing Financing is used to classify financing that is considered problematic, doubtful, or bad in terms of meeting its obligations. This ratio also evaluates the bank's management in handling problem financing with the bank's assets (Sjarief et al, 2023). In research, it is explained that the higher the NPF, the worse the bank's financing becomes, resulting in a large number of problem loans (Margaretha, 2023). This is also in line with the research which states that NPF has a negative effect on ROA (Aldi, 2023). However, there is also research that says the opposite (Ali et al, 2023).

Firm size is an important indicator that describes the scale of operations of a business entity, where larger companies tend to attract more attention from investors because they are considered to have higher stability and growth potential (Endrajati & Anggraeni, 2025). This requires large companies to be

more meticulous and transparent in financial reporting to maintain market confidence and avoid reputational risks that could affect share value or access to capital (Fauziyah & Wardana, 2022). Total assets, as the primary proxy for firm size, reflect the overall resources controlled by the company, including current and fixed assets that support operational activities and expansion in the Islamic banking sector (Rahmadita & Amri, 2024). Research consistently found that firm size has a positive effect on Return on Assets (ROA), as a larger scale allows for cost efficiency, risk diversification, and better access to funding sources, ultimately increasing the company's ability to generate profits from its assets in the context of Indonesian Islamic banking (Rahmadita & Amri, 2024; Ramadani & Nofirda, 2025; Shah et al., 2023).

This study offers significant novelty in the literature on the determinants of Indonesian Islamic banking profitability through two main contributions (Wahyudi, et al., 2021). First, by employing quarterly data, this study captures short-term fluctuations and adjustment dynamics in profitability that are often obscured in annual data, particularly during periods of economic volatility and post-merger integration. Quarterly observations allow for a more precise identification of how changes in operational efficiency, capital adequacy, and risk management affect ROA within shorter time horizons, providing insights that would not be observable using aggregated annual data. Second, this study explicitly integrates firm size as the main independent variable, rather than just a control variable as in the majority of previous studies, which only treated it as a supporting or moderating factor.

As a result, this study enriches our understanding of how the scale of Islamic banking operations directly influences profitability (ROA) in the context of asset expansion that still lags behind conventional banks, while also providing deeper methodological and empirical contributions to the development of management strategies and OJK regulatory policies in promoting the sustainable growth of the Islamic banking sector.

RESEARCH METHOD

This study uses quantitative methods with research sources taken from Annual Reports and Quarterly Reports from each Islamic bank. The research population includes all Islamic Banks registered with the Financial Services Authority (OJK) during 2021-2024. Although the relationship between bank-specific variables and profitability may evolve over time, this study employs a static fixed effects model for several reasons. First, the use of quarterly data over a relatively short observation period (2021-2024) allows the model to capture contemporaneous effects of internal bank performance on ROA, which is the primary focus of this study.

Second, the fixed effects approach effectively controls for unobserved, time-invariant heterogeneity across banks, such as managerial quality and institutional characteristics. Third, potential endogeneity concerns are mitigated by the use of bank-level fixed effects and clustered robust standard errors, which reduce bias arising from omitted variables and serial correlation.

Therefore, the static fixed effects model is considered sufficient to explain the short-term profitability dynamics examined in this study.

Table 1 Sample Selection Criteria

No.	Criteria	Indicators
1.	Sharia Commercial Banks registered with the OJK for the period 2021-2024	14 banks
2.	Initial number of observations of Islamic banking per quarter for the period 2021-2024	224 observations
3.	Islamic banks converted from conventional banks	(6 observations)
4.	Islamic banks newly established in 2024	(12 observations)
Number of Observations		206 observations

Source : owned works

This study obtained unbalanced data consisting of 206 observations. The secondary data was taken from financial reports and quarterly reports from each Islamic bank. The variables used in this study consisted of one dependent variable, namely profitability, and three independent variables, namely Capital Adequacy Ratio, Financing to Deposit Ratio, Operating Expenses to Operating Income, Non-Performing Financing, and Company Size.

Regression Math (Direct Relations) :

$$ROA = \beta_0 + \beta_1CAR + \beta_2FDR + \beta_3BOPO + \beta_4NPF + \beta_5SIZE + \varepsilon$$

The data was analyzed using regression analysis assisted by STATA version 17. There are three tests that can be performed in selecting a panel data regression model, namely common effect, fixed effect, and random effect. Testing of the panel data regression estimation model uses the Chow test and Hausman test. The selected model will be examined for hypothesis testing.

Although macroeconomic factors such as inflation, interest rates, and economic growth may influence bank profitability, this study focuses on bank-specific determinants to examine internal performance dynamics during the post-merger period. Macroeconomic conditions are assumed to affect all banks similarly within each quarter; therefore, their effects are partially absorbed by time-specific effects and the use of quarterly data. Consequently, the model emphasizes cross-bank variation driven by internal managerial and operational factors.

RESULTS AND DISCUSSION

Results

Table : 2 Statistics Descriptive

Variable	Obs	Mean	Std. Deviations	Minimum	Maximum
ROA	206	1,401262	3,179235	-10,85	11,57
CAR	206	48,65024	7845134	15,06	506,43
FDR	206	80,29908	24,38028	0	175,97

BOPO	206	96,43481	55,08978	56,81	497,13
NPF	206	2,438306	1,957658	0	10,92
SIZE	206	30,41484	1,216129	27,79855	33,64379

Source : STATA 17, 2025

According to table 2, the average Return on Assets (ROA) of 1.40% indicates that, in general, the Islamic banks sampled in the study had relatively low but still positive profitability during the 2021–2024 period (Otoritas Jasa Keuangan, 2025). This value indicates that Islamic banks are able to generate profits from managed assets, although their efficiency is not yet optimal compared to overall banking industry standards. The average Capital Adequacy Ratio (CAR) reached 48.65%, far exceeding the OJK minimum requirement of 8% (Otoritas Jasa Keuangan, 2025). This exceptionally high level indicates that Islamic banks in the sample possess strong capital buffers and tend to be over-capitalized. While high capital adequacy enhances financial resilience, excessive capital may also signal inefficient capital allocation, as surplus funds are not fully transformed into productive financing activities. Such conditions can lead to higher opportunity costs and a weaker intermediation function, thereby limiting the contribution of capital strength to profitability. This may explain why CAR does not exhibit a significant impact on ROA, despite the robust capital position of Islamic banks during the observed period. The average Financing to Deposit Ratio (FDR) of 80.30% indicates that Islamic banks in the sample channeled an average of around 80% of third-party funds in the form of financing. This figure is within the range considered healthy according to OJK guidelines (78%–92%), which describes the bank's ability to maintain a balance between financing distribution and liquidity maintenance.

The average Operating Expense to Operating Income (BOPO) ratio of 96.43% indicates a low level of operational efficiency in Islamic banks during the observation period. A value close to 100% means that almost all operating income is absorbed to finance operating expenses, leaving a very thin profit margin. The average Non-Performing Financing (NPF) rate of 2.44% indicates that the level of non-performing financing at Islamic banks remains below the safe limit set by the OJK (maximum 5%) (Otoritas Jasa Keuangan, 2025). This average value reflects relatively good financing quality and effective credit risk management, although there is still room for improvement to further reduce potential losses due to non-performing financing. The average bank size (SIZE) measured by Ln(total assets) is 30.41, equivalent to average total assets of around Rp 1.6 trillion. This value indicates that the research sample is dominated by medium to large Islamic banks, especially after the merger that formed Bank Syariah Indonesia.

Table 3 Model Selection Test

Test	Condition	Scale	Result	Conclusion
Chow Test	H0 Model OLS	Prob. < 0,05	0,0000	FEM

H1 Model Fixed Effect				
Hausman Test	H0 Model Random Effect	Prob. < 0,05	0,0001	FEM

Source : STATA 17, 2025

Table 3 presents the results of the model selection test to determine the most appropriate panel data regression approach for this research. The first test is the Chow test, which compares the Pooled OLS (Common Effect) model with the Fixed Effect model. Since the p-value is 0.0000, which is far below 0.05, H0 is rejected and the Fixed Effect model is better than Pooled OLS. Next, the Hausman test was conducted to compare the Fixed Effect model with the Random Effect model. The p-value of 0.0001 is also less than 0.05, so H0 is rejected and the Fixed Effect model is still selected as the most appropriate model (Ani Silvia, 2023).

Table 4 Normality Test

Test	W	Z	Prob > z
Shapiro Wilk W	0,72512	8,617	0,0000

Source : STATA 17,2025

Based on table 4, the results of the residual normality test using the Shapiro-Wilk test on 206 observations show a W value of 0.72512, which is far below 1, a z-value of 8.617, and a p-value (Prob > z) of 0.0000. Since the p-value is much smaller than the significance level of 0.05, the null hypothesis (H₀: residuals are normally distributed) is rejected, so it can be concluded that the regression model residuals are not normally distributed. This violation of the normality assumption often occurs in quarterly Islamic banking panel data due to the presence of outliers in financial ratios and a distribution that tends to be skewed as a result of post-pandemic economic fluctuations and post-merger consolidation processes. Nevertheless, the coefficient estimates remain valid and consistent thanks to the use of robust standard errors, which are independent of the assumption of residual normality, especially with a sufficiently large sample size (Ani Silvia, 2023).

Table 5 Multicollinearity Test

Variable	Tolerance	VIF
CAR	3,95	0,253402
FDR	1,28	0,780306
BOPO	2,92	0,342250
NPF	1,24	0,807188
SIZE	1,41	0,709428
Mean VIF	2,16	

Source : STATA 17, 2025

Based on table 5, the results of the multicollinearity test using the Variance Inflation Factor (VIF) method on the independent variables indicate no serious multicollinearity issues in the regression model. The highest VIF value was recorded for CAR at 3.95, while the other variables were below 3, with an overall average VIF of only 2.16—well below the common tolerance threshold of 10. This condition indicates that variables such as CAR, FDR, BOPO, NPF, and SIZE are relatively independent of each other, so there is no high correlation that could disrupt the stability of the regression coefficient estimates. These findings strengthen the validity of the Fixed Effect model used for the quarterly panel data of Islamic banks from 2021–2024, where the assumption of no severe multicollinearity is met despite the conceptual interconnectedness of these financial ratios in Islamic banking operations (Ani Silvia, 2023).

Table 6 Heteroscedasticity and Autocorrelation Test

Test	Prob.
Heteroscedasticity	0,0000
Autocorrelation	0,0000

Source : STATA 17, 2025

Based on table 6, the results of classical assumption testing indicate problems of heteroscedasticity and autocorrelation in the standard panel data regression model. The heteroscedasticity test produced a p-value of 0.0000, which means that the residual variance is not constant between observations, indicating heteroscedasticity. Meanwhile, the autocorrelation test also produced a p-value of 0.0000, indicating serial correlation in the residuals, where the error in one time period is correlated with the error in the previous period. The problems of heteroscedasticity and autocorrelation in panel data with the Fixed Effect method can be overcome by using robust standard error. Robust standard error basically only corrects the calculation of standard error without changing the regression coefficient estimation results. Although the regression coefficient estimation results remain inefficient, statistical inference can still be performed (Ani Silvia, 2023). Based on the results of the Fixed Effect model estimation on quarterly panel data for the period 2021–2024, the regression equation obtained is as follows:

$$\text{ROA} = 53,67709 - 0,0004813 \text{ CAR} - 0,0200974 \text{ FDR} - 0,0310627 \text{ BOPO} - 0,1396735 \text{ NPF} - 1,555245 \text{ SIZE} + \varepsilon$$

Table 7 Hypothesis Test

ROA	Coefficient	P > [t]	Result
CAR	-0,0004813	0,968	H1 rejected
FDR	-0,0200974	0,102	H2 rejected
BOPO	-0,0310627	0,016	H3 accepted

NPF	-0,1396735	0,345	H4 rejected
SIZE	-1,555245	0,245	H5 rejected
Cons	53,67709	0,198	
R-Squared	0,0826		
F	206,38		
Prob > F	0,0000		

Source : STATA 17, 2025

Discussion

The Effect of CAR on ROA

Based on table 7, the regression analysis reveals that CAR exerts a negative but statistically insignificant influence on ROA, suggesting that higher capital adequacy does not substantially enhance profitability in the sampled Indonesian Islamic banks over the 2021–2024 period. From a signal theory perspective, a high CAR should be a positive signal to OJK regulators and investors regarding the bank's capital resilience to risk, thereby increasing confidence and potentially supporting long-term profitability. This outcome may stem from over-capitalization, where excessive capital reserves lead to idle funds that fail to generate optimal returns through Shariah-compliant financing activities, particularly in a post-pandemic recovery phase characterized by regulatory stringency from the OJK. While numerous studies have reported a positive and significant relationship between CAR and ROA, attributing it to enhanced risk absorption and investor confidence in Islamic banking contexts, the negative direction in this study could be due to the unique dynamics of quarterly data capturing short-term fluctuations and merger effects like those in Bank Syariah Indonesia, where capital buffers prioritize stability over immediate profit maximization.

The Effect of FDR on ROA

FDR demonstrates a negative and insignificant effect on ROA, indicating that increased financing relative to deposits does not markedly improve asset utilization for profit generation in the examined Islamic banks. Within the stakeholder theory framework, FDR reflects the ability of Islamic banks to fulfill the interests of depositors (fund security) and financing customers (access to Islamic funds), where the optimal ratio should create shared value through efficient intermediation. This finding might reflect liquidity pressures in the post-pandemic era, where elevated FDR levels expose banks to higher default risks amid economic uncertainty, thereby offsetting potential profitability gains from expanded financing. Contrasting with several investigations that affirm a positive and significant FDR-ROA linkage, positing that efficient fund allocation boosts returns in Indonesian Islamic banking, the

negative yet insignificant result here could arise from the granular quarterly data revealing seasonal imbalances and merger-induced adjustments, such as in BSI, which prioritize liquidity management over aggressive financing growth.

The Effect of BOPO on ROA

BOPO exhibits a negative and statistically significant impact on ROA, underscoring that heightened operational inefficiency substantially erodes profitability by consuming a larger share of income, leaving minimal margins for asset-based returns in Indonesian Islamic banks during 2021–2024. This relationship aligns with the inherent cost pressures from digital transitions and branch expansions post-pandemic, amplifying the adverse effects on overall financial performance. From a stakeholder theory perspective, a high BOPO indicates an imbalance in meeting the interests of employees (personnel costs), customers (service costs), and shareholders (profit margins), thereby eroding the shared value that is at the core of Islamic bank management.

The Effect of NPF on ROA

NPF displays a negative but insignificant association with ROA, implying that rising problematic financing does not exert a pronounced detrimental effect on profitability within the studied Indonesian Islamic banks over the specified timeframe. This could be attributed to effective provisioning and regulatory interventions by the OJK, mitigating the immediate fallout from defaults amid UMKM recovery post-COVID. From a signaling theory perspective, an increase in NPF should be a negative signal about asset quality and risk management to creditors and regulators, which could reduce market confidence in Islamic banks. Although multiple researches highlight NPF's negative and significant correlation with ROA (Fatiha & Mustofa, 2025), viewing it as a direct indicator of asset quality erosion in Islamic banking, the insignificance in this instance may result from the quarterly data's sensitivity to temporary resolutions and Shariah-specific restructuring mechanisms, diverging from the stronger negative patterns in annual studies that aggregate longer-term impairments. This contrast illustrates how data frequency and post-merger resilience strategies can attenuate the anticipated adverse influence noted in broader empirical works.

The Effect of SIZE on ROA

Bank size, proxied by the natural logarithm of total assets, reveals a negative and insignificant effect on ROA, suggesting that larger scale does not reliably translate to superior profitability in the sampled Islamic banks from 2021 to 2024. From the stakeholder theory framework, larger firms should enable Islamic banks to fulfill broader stakeholder interests, such as community financing and contributions to the national halal economy. This pattern may emerge from diseconomies of scale, where bigger institutions face heightened coordination costs and regulatory scrutiny post-merger, offsetting potential efficiency benefits. Diverging from investigations that often find bank size positively and significantly linked to ROA through enhanced resource access in Indonesian Islamic finance, the negative insignificance here could be influenced by the quarterly dataset capturing transient inefficiencies during integration

phases like BSI's consolidation, unlike the positive trends in studies with annual data that overlook short-term volatilities. Such differences emphasize the moderating role of temporal resolution and economic context in shaping size-profitability dynamics.

CONCLUSION

This study reveals that of various internal factors such as Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), Operating Expenses to Operating Income (BOPO), Non-Performing Financing (NPF), and Bank Size, only BOPO with a significant negative impact on Return on Assets (ROA). These results confirm that operational efficiency is the key to profitability, while other variables such as CAR, FDR, NPF, and Bank Size fail to show a significant influence, as if they were supporting players who have yet to find their role on the quarterly economic stage of 2021–2024. The main reason for the insignificance of these variables may lie in the unique context of the post-merger of Bank Syariah Indonesia and economic recovery, where external factors such as macroeconomic volatility, Bank Indonesia's monetary policy, and OJK regulatory intervention are more dominant than internal ratios alone.

Overall, the dominance of negative coefficients and the insignificance of other variables reflect that the profitability of Indonesian Islamic banks during this period was more influenced by external factors (strict regulations, economic volatility, and the consolidation process) than by traditional internal ratios. Quarterly data, which is sensitive to short-term fluctuations, further strengthens this finding, as the long-term effects of variables such as CAR or Bank Size have not yet fully materialized in ROA (Endrajati & Anggraeni, 2025).

For example, high CAR may be considered a “defensive fortress” but actually creates idle funds that are not optimally used for financing, so that the signal of stability is not translated into higher profits. Similarly, FDR and NPF, which fluctuate due to the impact of Covid-19 on MSME customers, may be weakened by sharia restructuring mechanisms, making their impact on ROA less pronounced. Meanwhile, large bank size often brings the burden of post-expansion operational complexity, which obscures economies of scale. This situation reminds us that the profitability of Islamic banks is not just a ratio, but the result of dynamic interactions between internal and external factors that are unpredictable. This discovery has opened the eyes of Islamic banking practitioners to focus more on controlling operational costs as a “powerful weapon,” while regulators such as the OJK can consider policies that are more adaptive to quarterly dynamics. This study emphasizes the resilience of the sharia sector, which is poised for growth if these invisible factors are managed wisely, paving the way for future studies that integrate macro variables and sharia governance.

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