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FINANCIAL STABILITY OF INDONESIA'S ISLAMIC BANKS: ANALYSIS PROFITABILITY

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Abstract

The study explores the financial well−being of Islamic banks in Indonesia, focusing on profitability as reflected in the Return on Assets (ROA) ratio. This article brings attention to the issue of certain Sharia Commercial Banks in Indonesia exhibiting poor financial conditions, as indicated by low ROA figures. The primary aim of the research is to evaluate the impact of Good Corporate Governance (GCG), Non−Performing Financing (NPF), and the ratio of Operational Costs to Operational Income (BOPO) on the financial sustainability of these banks. This research adopts a quantitative approach, utilizing secondary data sourced from financial and Good Corporate Governance reports spanning the years 2018 to 2022. The analysis is conducted using panel data regression with the aid of EViews 12 software. The study covers 11 Sharia Commercial Banks in Indonesia over a five−year period, resulting in a sample of 55 observations obtained through purposive sampling. The findings indicate that Good Corporate Governance and Non−Performing Financing significantly influence the Return on Assets, underscoring the critical role these factors play in maintaining financial stability. In contrast, the BOPO ratio does not exert a significant effect on ROA. Furthermore, the results of the simultaneous regression analysis confirm that GCG, NPF, and BOPO collectively have a meaningful impact on the financial performance of Islamic banks, as measured by ROA.

Penelitian ini mengeksplorasi kesehatan finansial bank syariah di Indonesia, dengan penekanan pada profitabilitas yang diukur melalui rasio Return on Assets (ROA). Artikel ini menyoroti permasalahan beberapa Bank Umum Syariah di Indonesia yang menunjukkan kondisi keuangan yang kurang baik, yang tercermin dalam rendahnya angka Return on Assets (ROA). Penelitian ini bertujuan untuk menilai pengaruh Good Corporate Governance (GCG), Non-Performing Financing (NPF), dan rasio Biaya Operasional terhadap Pendapatan Operasional (BOPO) terhadap keberlanjutan keuangan bank-bank ini. Pendekatan penelitian ini bersifat kuantitatif, dengan menggunakan data sekunder yang diperoleh dari laporan keuangan dan laporan Good Corporate Governance dalam rentang waktu 2018 hingga 2022. Analisis dilakukan menggunakan regresi data panel dengan bantuan perangkat lunak EViews 12. Penelitian ini melibatkan 11 Bank Umum Syariah di Indonesia selama lima tahun, dengan total 55 observasi yang diperoleh melalui teknik purposive sampling. Hasil penelitian menunjukkan bahwa Good Corporate Governance dan Non-Performing Financing memiliki pengaruh signifikan terhadap Return on Assets, yang menggarisbawahi pentingnya kedua faktor tersebut dalam mempertahankan stabilitas keuangan. Sebaliknya, rasio BOPO tidak menunjukkan dampak yang signifikan terhadap ROA. Selain itu, hasil analisis regresi simultan mengukuhkan bahwa GCG, NPF, dan BOPO secara bersama-sama memberikan pengaruh yang berarti terhadap kinerja keuangan bank syariah, yang diukur melalui ROA.

INTRODUCTION

Nowadays, one of the expanding sectors in the industrial field is the economic sector, specifically banking. The Law of the Republic of Indonesia No. 21 of 2008 on Shariah banking provides a definition of an Islamic bank as an institution that conducts its operations in compliance with sharia principles. Islamic banking is further categorised into Islamic Commercial Banking and Islamic Rural Banking depending on their respective types (Rizkiyani, 2019).Islamic banking has emerged as an alternative to traditional banking to foster financial system stability and reduce the likelihood of a worldwide crisis. As of 2024, the Islamic banking sector comprises 173 BPRS, nineteen Islamic Business Units (UUS), and fourteen Islamic Commercial Banks (BUS). This stability of the financial system is essential for the economic prosperity of a nation. The exponential expansion of Indonesia's Islamic Commercial Banks can be linked to the establishment of

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Islamic units by conventional banks, which underscores the considerable potential and opportunities within the Islamic banking sector. This indicates a significant level of public interest in depositing money with Islamic banks. The growing public desire for a proliferation of Islamic banks is fuelled by the rising awareness and comprehension of Islamic banking concepts (Mahargiyantie, 2020).

The banking sector is undergoing rapid advancements, prompting banks to adopt strategies aimed at enhancing competitiveness and preserving their reputation, thereby ensuring the maintenance of healthy financial performance. A crucial indicator of a bank's financial health is its performance level, which also reflects the professionalism of bank management. The board of commissioners and directors, as key managers, play a vital role in evaluating the bank's health (Dangnga & Haeruddin, 2018).One specific area of interest is the manipulation of managerial actions, specifically related to corporate growth. A firm's financial well−being can be assessed by examining changes in its assets (Rusmana & Tanjung, 2019).

Financial system instability can stem from both structural and behavioral factors, which may be internal or external. Such instability often arises from implicit risks, particularly those that are systemic and pose significant threats to the economy (Awanti, 2017). To enhance value, performance, contribution, and long−term sustainability, companies must adhere to Good Corporate Governance (GCG) principles. GCG is a management and oversight framework that emphasises the significance of board commitment and leadership in its execution (Zai et al., 2022).

A non−performing finance (NPF) proportion is a metric used to evaluate the rate at which credit or financing repayments by the bank as a creditor are not being fulfilled. As per Bank Indonesia regulation No 6/10/PBI/2004 dated April 12, 2004, the Commercial Bank Health Level Assessment System states that a greater NPF score (over 5%) indicates a less healthy bank, leading to poorer credit quality and an increase in non−performing loans.

Operating efficiency can be assessed using the BOPO ratio, where the maximum allowable limit is 90%. The BOPO rate, which measures the ratio of operating expenses to operating income, is crucial in assessing the efficiency of a bank's utilisation of its production factors. By analyzing the bank's operating efficiency, it is possible to ascertain the alignment of its operations with its core business activities and whether the production factors have been employed according to pre−established plans (Rohimah, 2021).

The financial viability of Islamic Commercial Bank can be quantitatively assessed by analysing their profitability, particularly by utilising a Return on Assets (ROA) rate. ROA is a metric that assesses a bank's managerial proficiency in generating profits during a specific timeframe. A higher ROA indicates greater profitability and reflects the bank's effective use of its assets (Hasibuan, 2021). The financial viability of Indonesia's Islamic Commercial Banks can be observed through their ROA values as follows:

Table 1. Financial Stability of Indonesia's Islamic Commercial Banks over Period 2018−2022 (in %)

Islamic Commercial Bank	2018	2019	2020	2021	2022
PT. Bank Aceh Syariah	2,38	2,33	1,73	1,87	2,00
PT. BPD Riau Kepri Syariah	1,97	1,74	2,54	1,93	2,31
PT. BPD Nusa Tenggara Barat Syariah	1,92	2,56	1,74	1,64	1,93
PT. Bank Muamalat Indonesia	0,08	0,05	0,03	0,02	0,09
PT. Bank Victoria Syariah	0,32	0,05	0,16	0,71	0,45

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Islamic Commercial Bank	2018	2019	2020	2021	2022
PT. Bank Jabar Banten Syariah	0,54	0,79	0,41	0,96	1,14
PT. Bank Mega Syariah	20,54	19,96	1,74	4,08	2,59
PT. Bank Panin Dubai Syariah	0,26	0,25	0,06	−6,72	1,79
PT. Syariah Bukopin	0,02	0,04	0,04	−5,48	−1,27
PT. BCA Syariah	1,2	1,2	1,1	1,1	1,3
PT. Bank BTPN Syariah	12,37	13,58	7,16	10,72	11,43

Source : Islamic Banking Statistics, Financial Services Authority 2018-2022

Table 1 presents data on the ROA Indonesia's of Islamic Commercial Banks from 2018 to 2022. The data indicates that the ROA of these banks has shown fluctuations, with a general trend towards decline over the period. This pattern raises concerns regarding the management efficiency of these banks in utilizing their assets to generate profits. The declining ROA suggests that the banks may be experiencing difficulties in effectively managing their resources to yield profitable returns.

Research by Nur Syfa & Dailibas (2023), examined the influence of the BOPO ratio on ROA in Indonesia's Islamic commercial banks. Their findings, conducted using t−tests, reveal a significant negative correlation between BOPO and ROA (Nur Syfa & Dailibas, 2023). Specifically, an increase in BOPO, which reflects higher operating expenses relative to income, results in a decline in ROA. This relationship underscores the lack of effectiveness in banking operations, where rising costs are not adequately offset by increased income. Consequently, the banks experience reduced profitability, as indicated by a declining ROA.

In contrast, research by Rohimah (2021) challenges the notion that BOPO influences ROA, leading to the rejection of hypothesis H1, which posits such an effect. Rohimah's findings align with previous studies that also found no significant impact of BOPO on ROA (Rohimah, 2021). However, a high BOPO ratio is generally associated with poor management performance in resource utilization, which can result in a loss of profit before tax, thereby reducing ROA. This inefficiency highlights the challenges faced by Islamic banks in maintaining profitability amid rising operational costs. Oktaryani et al. (2017) conducted further studies to investigate the impact of Good Corporate Governance (GCG) upon the financial performance of companies (Oktaryani et al., 2017). Their study found that poor implementation of GCG negatively affects profitability, consistent with earlier research that links successful GCG practices with higher ROA and Return on Equity (ROE). However, Moeljadi argues that the application of GCG can also negatively impact ROE, suggesting that the connection within GCG and financial performance may be complex and context−dependent.

Winawati & Anam (2019) investigated the influence of NPF on ROA, focusing on the Bank Syariah Mandiri (BSM) (Winawati & Anam, 2019). Their results demonstrated a strong negative correlation among ROA and NPF. The research concluded that as the NPF rate increases, profitability decreases, reflecting the higher costs Islamic banks incur in addressing funding issues. This situation leads to increased provisioning costs for non−performing assets, which negatively impacts the banks' income and, consequently, their ROA. Similar findings were reported by Febriani and Manda (2021), who also noted that high NPF levels result in decreased financial performance, as measured by ROA (Febriani & Manda, 2021). These conclusions are supported by studies conducted by (Jordi Suwandi, 2017; Kansil et al., 2017; Pinasti & Mustikawat, 2018) all of which found a substantial negative impact of NPF on ROA.

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However, Muzakki (2014) presents a different perspective, arguing as NPF fails to have a substantial impact on ROA. Muzakki's research suggests that the business risk associated with NPF in Islamic Commercial Banks does not significantly impact ROA, likely due to the low nominal value of non−performing financing in these banks . This finding implies that, in some cases, NPF may not be a critical factor in determining the financial health of Islamic banks, especially if the amounts involved are relatively small (Jamaludin et al., 2023)

This research addresses three critical aspects: First, it provides more accurate insights into the effect of GCG on the financial stability of Indonesia's Islamic banks. Second, it elucidates the impact of NPF on the financial stability of those banks. Third, it analyses the impact of BOPO on the financial stability of Islamic banks in the nation. By analyzing these influences, the study seeks to pinpoint the crucial elements that impact the financial health of Islamic banks and propose potential improvements. The research integrates relevant sources to focus on the financial statements of Islamic banks for the 2018−2022 period, with the anticipated outcomes including recommendations for enhancing the financial performance of those banks.

LITERATURE REVIEW

Islamic Bank

Islamic banks are financial institutions that operate in compliance with Sharia rules. These principles are based on Islamic law and govern the agreements between banks and other parties for the protection of funds, commercial transactions, financing, and other activities that adhere to Sharia law (Ascarya & Yumanita, 2005). In essence, Sharia banks, also referred to as Islamic banks, operate under Islamic guidelines and are responsible for both the collection of funds from the public and their subsequent distribution. According to Law No. 21 of 2008, Islamic banks are banks that operate according to Sharia principles and can be classified into two primary types: Islamic Commercial Banking and Islamic Rural Banking (Ramadhan, 2023).

The performance of Shariah banks within the Indonesian economy is impressively strong, demonstrating a higher level of resilience in comparison to conventional banks. The operational framework of Shariah banking is deeply rooted in Islamic Muamalah, which refers to the rules of conduct governing transactions and social dealings in Islam (Basyirah et al., 2023). These operations are grounded in the foundational texts of Islamic Sharia, namely Al−Qur'an and As−Sunnah (Mahargiyantie, 2020).

The significant expansion of Indonesia's Islamic bankscan be mainly attributed to an ongoing rise in the number of Islamic banking units being established by conventional banks. This trend underscores the significant potential and opportunities within the Islamic banking sector. The rise in public interest in depositing funds with Islamic banks further demonstrates this potential. The continued expansion of Islamic banks can be accelerated if the community exhibits greater enthusiasm and demand, which is often influenced by enhanced knowledge and understanding of Islamic banking principles (Mahargiyantie, 2020).

Return On Asset (ROA)

Return on Assets (ROA) is a crucial performance metric that evaluates a bank's profitability in relation to its assets. A higher ROA indicates more efficient use of assets, leading to greater profitability. Consequently, companies with high ROA are likely to attract investors due to the potential for substantial returns (Roosmawarni, 2021).

According to Bank Indonesia's Circular Letter No. 12/11/DPNP dated March 31, 2010, the calculation of ROA involves dividing the profit before tax by the total assets. Profit before tax refers to the net income derived from operational activities prior to taxation,

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while total assets encompass all the assets owned by the bank (Fadhilah & Suprayogi, 2019). The formula for calculating ROA is as follows:

$$\text{RoA} = \frac{\text{Net Income}}{\text{Total Assets}} \text{ x } 100\%$$

Good Corporate Governance (GCG)

Good Corporate Governance (GCG) is able to be understood by breaking down its components: "*good*" refers to something beneficial, "*corporate*" pertains to a company, and "*governance*" indicates the process of managing or overseeing. The concept of GCG, while interpreted differently depending on the perspective, generally converges on the notion of a system encompassing practices, policies, and procedures that steer business conduct (Yuliani & Fithria, 2022). This system serves as a guideline for making accountable and ethical decisions within organizations, highlighting the inherent complexity of Corporate Governance (H. E. Puteri, 2023). The implementation of GCG principles is particularly significant in minimizing the impact of economic crises, as evidenced by its role in Indonesia's efforts to stabilize its economy (Rosihana et al., 2024). In the context of banking, GCG is employed to regulate the relationships among stakeholders, ensuring that strategic errors are prevented or promptly corrected to maintain the integrity of corporate strategies (Zahrawani & Sholikhah, 2021).
To enhance its value, improve performance, and sustain long−term viability, a company must adhere to the principles of GCG. The GCG is able to be described as a system of management and oversight that dictates how a company is directed and controlled. This broad definition underscores the importance of the Board's commitment and leadership in effectively implementing GCG principles (Zai et al., 2022).

Despite its growing prominence, GCG lacks a universally accepted definition. According to the Organisation for Economic Cooperation and Development (OECD), GCG is a system that governs and oversees a company's business activities. It outlines the duties, rights, and obligations of all parties involved in the company's operations, including shareholders, boards, managers, and other stakeholders (Njatrijani et al., 2019). The principles of GCG are crucial in mitigating economic crises, as they manage the relationships among various interested parties to prevent strategic missteps and ensure prompt correction of any errors. The evolution of management practices has highlighted the necessity of GCG as a new instrument to ensure that management processes are conducted effectively (Hapsari & Syamsudin, 2014).

In the last ten years, the idea of GCG has been increasingly popular, especially after it was supported by the Indonesian government and the IMF as an essential aspect of the corporate sector's economic recovery. GCG is considered one of the essential factors for a company's long−term success, profitability, and competitive advantage in the global marketplace (Wardhani & Cahyonowati, 2011). In summary, GCG is a complex yet vital framework that guides ethical and accountable business conduct. Its principles are essential not only for enhancing a company's value and ensuring its sustainability but also for preventing and correcting strategic errors that could jeopardize the company's success. As GCG continues to evolve, it remains a cornerstone of effective corporate management and a key driver of economic stability and growth, particularly in the global market.

Non Performing Financing (NPF)

NPF reflects a bank's effectiveness in managing the financing it extends. A higher NPF indicates deteriorating credit quality within the bank. This heightened credit risk arises from the uncertainty surrounding the repayment of the financing provided. The calculation for NPF is expressed as follows:

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$$\text{NPF} = \frac{\text{Non}-\text{Performing Financing}}{\text{Total Financing}} \text{ x } 100\%$$

An increase in NPF imposes additional financial strain on the bank, potentially leading to operational losses. As the NPF ratio rises, it signifies worsening credit quality, which in turn elevates the volume of non−performing loans. This adverse scenario results in the bank incurring losses, thereby diminishing its profitability, specifically its Return on Assets (ROA). Therefore, it is evident that NPF had a significant adverse effect on ROA, as demonstrated by Wibisono and Wahyuni (2017). The NPF ratio is a critical metric used to gauge the extent of credit repayment failures within a bank. As per Bank Indonesia rule No 6/10/PBI/2004 issued April 12, 2004, if a bank's NPF value exceeds 5%, it is classified as unhealthy according to the Health Level Rating System for Commercial Banks. Consequently, as the NPF increases, the bank's credit quality deteriorates, leading to a rise in non−performing loans. Non−performing financing represents a risk inherent in fund distribution. The NPF is assessed based on specific criteria: less than 2% is classified as current, 2% to 5% falls under special attention, 5% to 8% is considered substandard, 8% to 12% is deemed doubtful, and more than 12% is categorized as a loss (Abdul Karim, 2020).

BOPO (Ratio of Operating Costs to Operating Income)

The efficiency ratio, also known as the BOPO, is a key metric that assesses a bank's effectiveness in handling its operating expenses in relation to its operating income. A lower BOPO value indicates greater efficiency in controlling operating costs, thereby reducing the likelihood of the bank encountering financial difficulties. To determine operating expenses, all interest expenses and additional operational costs are included. Meanwhile, operating income comprises both interest income and other operational revenues (Usman Harun, 2016).

BOPO is utilized to assess operational efficiency, with an efficiency threshold set at a maximum of 90%. Operational efficiency plays a crucial role in determining the overall performance of a bank. BOPO is an indicator that helps evaluate how efficiently and productively a bank utilizes all its production elements. Assessing a bank's operational efficiency is crucial to determine if its operations, particularly those related to its core business activities, are functioning effectively according to the expectations set by management and shareholders. It also helps to assess whether or not the bank has maximised the utilisation of its production resources in a way that is both effective and efficient (Rohimah, 2021). Here is the formula for calculating BOPO:

$$\text{BOPO} = \frac{\text{Operating Costs}}{\text{Operating Income}} \text{x } 100\%$$

The Effect of Good Corporate Governance on Return On Asset

The fundamental responsibility of company management is to oversee the firm in a manner that generates profits. Management plays a crucial role in driving operational efficiency and effectiveness, ultimately bolstering the company's capabilities and solidifying its financial position. Achieving these objectives is often a result of effectively implementing GCG principles.

Research suggests that the application of GCG practices aims to improve operational efficiency, thereby positively influencing the company's profitability. Effective governance can lead to enhanced performance, which in turn may increase profitability. In this study, GCG is evaluated through the Self−Assessment Composite Value rating. The higher the composite score percentage, the better the GCG Self−Assessment rating, which reflects a higher degree of GCG implementation. As stated by Nugroho and Bararah (2018), the

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GCG score of 1 indicates that the execution of GCG in Islamic banks has been deemed highly satisfactory. According to this analysis, the study puts forth the following hypothesis:

H1 : Good Corporate Governance (GCG) has a significant positive effect on Return On Asset (ROA).

Effect of Non Performing Financing on Return on Asset

According to the regulations established by Bank Indonesia, an optimal NPF level is considered to be below 5%. The calculation of NPF involves determining the proportion of non−performing loans in relation to the overall loans provided by the bank. A higher NPF value indicates a greater proportion of funds that cannot be collected, which in turn hampers the bank's capacity to finance other productive assets. xThis inability to allocate funds efficiently results in diminished income for the bank, thereby negatively impacting its profitability (Almunawwaroh & Marliana, 2018). In light of this, the study posits the following hypothesis:

H2 : Non Performing Financing (NPF) has a significant negative effect on Return On Asset (ROA).

Effect of BOPO on Return on Assets

The advancement of technology has led to the emergence of numerous financial technology (fintech) services, presenting new competitive challenges for the banking sector. This heightened competition has driven banks to adopt more efficient business processes and strategies that are responsive to customer needs. To sustain a competitive edge while ensuring high performance, banks must enhance efficiency, particularly by offering branchless services.

Maintaining a high level of consumer trust is crucial for banks to remain the preferred choice for saving and as reliable business partners. Consequently, banks must manage their expenses effectively to avoid being perceived as wasteful. One key metric in this context is the BOPO ratio, which provides a comparison between a bank's operational costs and its revenue from operations. Efficient management of BOPO enables banks to control costs, thereby increasing their potential income and improving their ROA (Nugroho & Bararah, 2018).

BOPO, the ratio of total operating expenditures to total operating income, is a valuable metric for evaluating a bank's operational efficiency. A lower BOPO ratio indicates a more efficient bank, capable of conducting its business activities with minimal waste. Banks are considered financially sound if their BOPO ratio does not exceed 93.5%. Given the information provided, the study puts forth the following hypothesis:

H3 : BOPO has a significant negative effect on Return On Asset (ROA).

METHOD

This study utilised a method of quantitative research, characterized by the utilization of measurements, calculations, formulas, and numerical data throughout the entire research process, including planning, implementation, hypothesis testing, data analysis, and conclusion formulation. In this context, numerical data serves both as a tool for data analysis and as the scientific foundation for evaluating research hypotheses (Dewi et al., 2024). The quantitative nature of the study is underscored by the representation of numerical data through tables or graphs, along with the application of statistically testable hypotheses and research instruments in a systematic and methodical manner (H. Puteri, 2020). The study aims to analyse the correlation between Variable X (GCG, NPF, and BOPO) and Variable Y (Financial Stability) through the application of panel data regression analysis (Waruwu, 2023).

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The data source in research refers to any entity that provides the information required for data analysis. This study utilizes secondary data, specifically annual banking financial reports and Good Corporate Governance reports, covering the years 2018 through 2022. Secondary data, as defined is data obtained indirectly from the research object. The data for this study were sourced from the official website of the Islamic Commercial Bank, accessed through the Indonesian Financial Services Authority's (OJK) official website, www.ojk.go.id.com.

The documentation method was employed as the primary data collection technique in this research. Documentation involves gathering data by examining documents owned by the relevant company that align with the data requirements of the study. In this instance, the documents consist of annual financial statements, which constitute the research sample. The documentation method involved collecting all relevant secondary data from the financial statements of each Indonesia's Islamic Commercial, as well as from the official website of the Financial Services Authority (OJK) (Nugroho & Bararah, 2018).

This research is designed as a hypothesis—testing study aimed at investigating the relationship between GCG, NPF, and BOPO on financial stability. The data utilised in this investigation are in the format of panel data, which is an amalgamation of time series and cross—sectional data. The data were collected from 11 Islamic Commercial Banks in Indonesia, which were selected as a cross—sectional sample. The time series data covers the period from 2018 to 2022. The sample size was calculated through the utilisation of a purposive sampling technique, which yielded a total of 11 samples. This research utilises descriptive statistical methods and regression analysis of panel data as its analytical approaches, with the assistance of Eviews 12 software (Hadya et al., 2017; H. E. Puteri & Roza, 2018)

The study utilises a panel data regression analysis model, which incorporates the Chow Test, Hausman Test, and different panel data regression approaches, including the random effect model, fixed effect model, and common effect model (Sugiyono, 2018). Assumption testing and designs adjustments, such as tests for normality, heteroscedasticity, multicollinearity, and autocorrelation, were important aspects of this study. In addition, the study utilised determination testing to evaluate the coefficient connection between both the dependent and the independent variables. Hypothesis testing was conducted using the f—statistical test (simultaneous test) as well as t—statistical test (partial test).

RESULT AND DISCUSSION

RESULT

This section will delve into the findings of the data analysis, that was carried out using Eviews 12 software and included descriptive analysis as well as panel data regression analysis. As part of the model selection process, both the Chow test and Hausman test are commonly used. In addition, we discuss the classical assumption tests, which include the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. Finally, the hypothesis evaluation is performed, which includes the t—test, F—test, and the coefficient of determination test.

Descriptive Analysis

Descriptive analysis was employed in this study to summarize the data characteristics, utilizing the Eviews 12 application for statistical computation. The descriptive analysis generated statistics such as the mean, median, maximum value, minimum value, standard

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deviation, skewness, and kurtosis. The outcomes of the descriptive analysis are presented below:

Table 2. Descriptive Test

	Y	X_1	X_2	X_3
Mean	2.462.727	2.181.818	1.499.273	8.957.800
Median	1.200.000	2.000.000	0.940000	8.686.000
Maximum	2.054.000	3.000.000	4.950.000	2.027.400
Minimum	−6.720.000	1.000.000	0.010000	5.807.000
Std. Dev.	4.910.949	0.611341	1.482.897	2.367.113
Skewness	2.120.342	−0.109514	0.774136	2.896.734
Kurtosis	8.069.571	2.553.567	2.302.975	1.421.032
Observations	55	55	55	55

Source : *Output Eviews* 12 (2023)

From the descriptive statistics summarized above, the following insights can be inferred: the Return on Asset (ROA), denoted as Y, exhibited considerable variability across the sample. The minimum value of ROA was recorded at −6,720,000 by PT Bank Panin Dubai in 2021, indicating a significant decline in profitability compared to the previous year, which positioned this value as the lowest among the observed banks. Conversely, the maximum ROA value was observed at 20,540,000 for PT Syariah Bukopin in 2021. This range suggests a substantial disparity in profitability across the sample banks. The mean ROA was calculated at 2,462,727, with a standard deviation of 4,910,949, indicating high variability in profitability levels across the observed entities.

Good Corporate Governance (GCG), labeled as X1, also demonstrated variation in the dataset. The minimum GCG value was 1,000,000, recorded by PT Bank Panin Dubai in 2021, reflecting a decrease in governance quality from previous years and placing this value as the lowest in the sample. The maximum value for GCG was 3,000,000, observed at PT Syariah Bukopin in 2021. The mean value for GCG was 2,181,818, with a standard deviation of 611,341, indicating a relatively moderate range of governance practices among the banks.

Non−Performing Financing (NPF), represented as X2, showed significant variation as well. The minimum NPF value was 10,000, also observed at PT Bank Panin Dubai in 2021, indicating a reduction in non−performing loans compared to previous data. The maximum NPF value reached 4,950,000 at PT Syariah Bukopin in 2021, highlighting a considerable discrepancy in credit risk management across the sample banks. The mean NPF was calculated at 1,499,273, with a standard deviation of 1,482,897, suggesting notable differences in the level of non−performing loans among the banks.

The BOPO variable, indicated as X3, which measures operational efficiency, also showed wide−ranging values. The minimum BOPO value was 58,070,000, recorded by PT Bank Panin Dubai in 2021, suggesting a decline in operational efficiency compared to earlier data. The maximum BOPO value was 2,027,400,000 at PT Syariah Bukopin in 2021, indicating significant variability in operational efficiency across the banks. The mean BOPO was 8,957,800, with a standard deviation of 2,367,113, reflecting a broad range in operational cost management within the sample.

Panel Data Regression Analysis

After carrying out various stages of data processing starting from descriptive analysis tests, classical assumption tests to panel data model selection tests, the next stage is to

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test panel data regression equation models which are carried out to test research hypotheses, which are as follows:

Table 3. Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.51799	3.490499	3.013319	0.0044
X1	−3.414841	1.447452	−2.359209	0.0232
X2	1.321991	0.652718	2.025363	0.0494
X3	−0.028877	0.024140	−1.196199	0.2358

Source : *Output Eviews* 12 (2023)

The regression analysis was carried out using the Fixed Effect Model (FEM), with the EGLS method employed to estimate the coefficients. The resulting regression equation is as follows:

$$Y = 10.5179859927 - 3.41484109729 * X1 + 1.32199102795 * X2 - 0.0288767489765 * X3 + [CX = F]$$

Interpretation:

The constant coefficient in the regression equation was determined to be 10.51799. This value indicates that if all independent variables—GCG, NPF, and BOPO—are held constant at zero, the expected ROA would be 10.51799. This serves as the baseline ROA in the absence of any changes in the independent variables.

The coefficient for GCG, denoted as X1, was found to be −3.41484. This negative coefficient suggests that a 1% increase in GCG would lead to a 3.41484% decrease in ROA, assuming all other factors remain constant. This finding implies that, within the context of this study, an increase in GCG is associated with a reduction in profitability, as measured by ROA.

The NPF variable, represented as X2, had a coefficient of 1.32199. This positive coefficient indicates that a 1% increase in NPF would result in a 1.32199% increase in ROA, assuming other variables are held constant. This result suggests a positive relationship between NPF and ROA, indicating that higher levels of non−performing financing are linked to an improvement in profitability. However, this counterintuitive result may reflect complex interactions between credit risk and profitability that require further exploration.

The BOPO coefficient, denoted as X3, was found to be −0.02888. This coefficient suggests that a 1% increase in BOPO would lead to a 0.02888% decrease in ROA, holding other variables constant. The negative relationship between BOPO and ROA implies that higher operational costs, as reflected by BOPO, are associated with a slight reduction in profitability.

Hypothesis Testing

T-Test

The t−test is commonly used to assess the impact of an independent variable on the variability of a dependent variable. It evaluates the importance of this impact by comparing the calculated value of each regression coefficient with the corresponding critical value from the t−table, according to the predetermined significance level. In this study, the significance level was set at 0.05 (α=5%). The outcomes of the t−test are presented below:

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Table 4. T Test Result

Variable	Coefficient	Std. Error	t−Statistic	Prob.
C	10.51799	3.490499	3.013319	0.0044
X1	−3.414841	1.447452	−2.359209	0.0232
X2	1.321991	0.652718	2.025363	0.0494
X3	−0.028877	0.024140	−1.196199	0.2358

Source : Output Eviews 12 (2023)

Based on the data presented in the table, it can be observed that the t−test results for the GCG variable (X1) indicate a calculated t−value of −2.359, which is lower than the critical t−value of 2.0057. As a result, the null hypothesis (H1) is rejected. The GCG coefficient is −3.414841, which suggests a negative effect on Return On Assets (ROA). Moreover, with a probability value of 0.0232 being lower than α (0.05), it indicates that GCG has a significant impact on ROA from a statistical standpoint. Therefore, it can be inferred that GCG has a substantial and adverse impact on ROA.

In the analysis, the t−test results for the NPF variable (X2) show a calculated t−value of 2.025, which exceeds the t−table value of 2.0057. Based on the findings, the hypothesis (H1) is supported. Based on the coefficient of 1.321991, it can be inferred that there is a positive relationship between NPF and ROA. In addition, the probability value of 0.0494, which is lower than α (0.05), indicates that NPF has a noteworthy influence on ROA. Thus, it can be deduced that the variable of NPF has a positive and significant impact on ROA.

On the other hand, the t−test results for the BOPO, variable (X3) show a calculated t−value of −1.196, which is lower than the critical t−value of 2.0057. Consequently, the null hypothesis (H1) is rejected. There is a negative relationship between BOPO and ROA, as indicated by the coefficient of −0.028877. Nevertheless, with a probability value of 0.2385 surpassing the significance level of α (0.05), it indicates that the impact of BOPO on ROA is not statistically significant. Therefore, it can be inferred that the impact of BOPO on ROA is negative, although it is not statistically significant.

F Test

The F−test is employed to assess if the independent variables collectively explain the dependent variable adequately, as well as for assessing the overall fit of the regression model. Specifically, the F−statistic test examines the combined effect of all independent variables (GCG, NPF, and BOPO) on the dependent variable (ROA). Here are the results of the F−test:

Table 5. F Test Result

R−squared	0.714279
Adjusted R−squared	0.623684
S.E. of regression	3.012603
F−statistic	7.884337
Prob(F−statistic)	0.000000

Source : *Output Eviews* 12 (2023)

The F−test results in the table show that the calculated F−statistic is 7.8843, which exceeds the critical F−table value of 2.7862. Based on this finding, the alternative hypothesis (Ha) is supported while the null hypothesis (H0) is rejected. Moreover, the

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probability value is extremely low at 0.000000, which is below the significance level of α (0.05). This suggests that the independent variables GCG, NPF, and BOPO together exert a substantial influence on ROA.

R Square (Rİ)

The coefficient of determination (RÄ) is a valuable tool for assessing the level of explanation provided by the independent variables (GCG, NPF, and BOPO) in relation to the variance observed in the dependent variable (ROA). The RÄ value indicates that the independent variables have a limited ability to explain the dependent variable. Here is a detailed explanation of the coefficient of determination:

Table 6. R Squared Result

R−squared	0.714279
Adjusted R−squared	0.623684
S.E. of regression	3.012603
F−statistic	7.884337
Prob(F−statistic)	0.000000

Source : *Output Eviews* 12 (2023)

From the determination test results presented in the table, the R−squared value is 0.714279. This value indicates that 71.4% of the variation in ROA is explained by the independent variables GCG, NPF, and BOPO, acting in concert. The remaining 28.6% of the variance in ROA is attributable to factors not included in this study.

In summary, the t−test results demonstrate that GCG negatively and significantly affects ROA, Non−Performing Financing positively and significantly impacts ROA, and BOPO has an insignificant negative effect on ROA. The F−test corroborates that the combined effect of the independent variables on ROA is significant. The R−squared value further confirms that a substantial proportion of the variance in ROA is accounted for by the independent variables examined in this research.

DISCUSSION

The Effect of Good Corporate Governance on Return On Assets

The analysis reveals that GCG exerts a negative influence on ROA, as indicated by the regression coefficient value (β1) of −3.414841 obtained from the panel data regression analysis. The calculated t−value of −2.359, which is less than the critical t−table value of 2.0057, leads to the rejection of the hypothesis (H1), while a probability value of 0.0232, being less than the significance level of 0.05, demonstrates that GCG significantly impacts ROA.

This negative relationship suggests that fluctuations in GCG correspondingly affect ROA, either increasing or decreasing it. The GCG can be leveraged as an indicator to predict the trends in ROA since a higher composite value percentage, indicative of a superior GCG Self−Assessment rating, correlates with an improved GCG rating and, consequently, a higher ROA. Notably, the study identifies a GCG rating of 1 as the highest achievable rank. Therefore, when Islamic banks implement GCG effectively, they attain this top rank, which in turn enhances their ROA (Nugroho & Bararah, 2018).

The findings of this study are consistent with the research conducted by Oktaryani et al. (2017), which also underscores the significant impact of robust GCG implementation on a company's profitability. Specifically, the study corroborates that weak GCG practices are associated with lower profitability, aligning with the significant effect observed in the present research.

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The Effect of Non-Performing Financing on Return On Assets

The results further indicate that NPF positively influences ROA, as evidenced by the regression coefficient value (β1) of 1.321991 derived from the panel data regression analysis. The t−value of 2.025 surpasses the t−table value of 2.0057, resulting in the acceptance of the hypothesis (H1). Moreover, with a probability value of 0.0495, which is below the threshold for significance level of 0.05, it is evident that NPF has a significant impact on ROA.

The positive correlation between NPF and ROA implies that changes in NPF are accompanied by corresponding shifts in ROA. NPF can be utilized as an indicator to assess fluctuations in ROA, as a higher NPF value detrimentally impacts the bank's profitability by reducing its ability to collect funds and finance other productive assets. This ultimately results in diminished bank revenues, thereby disrupting profitability (Almunawwaroh & Marliana, 2018).

These findings are supported by the research of Winawati and Anam (2019), which also identifies a significant relationship between NPF and ROA. Their study highlights that a higher NPF value in Bank Syariah Mandiri leads to a decline in profitability. The increase in costs incurred by Islamic banks in response to problematic financing raises the cost of maintaining reserve productive assets, which in turn diminishes income. As a result, a higher NPF value leads to lower profitability, confirming the negative effect of NPF on ROA.

The Effect of Operating Expenses Operating Income on Return on Assets

According to the study's findings, the value of the regression coefficient (β1) of −0.028877 suggests that the BOPO variable has a negative effect on ROA. Nevertheless, with a t−value of −1.196, which falls short of the t−table value of 2.0057, the hypothesis (H1) is deemed invalid. In addition, the probability value of 0.2385, which is higher than the significance level of 0.05, indicates that BOPO does not have a significant impact on ROA.

This lack of significance indicates that changes in BOPO do not necessarily lead to variations in ROA. BOPO, therefore, cannot be reliably used as a predictor for ROA trends. The findings suggest that if a bank efficiently conducts its operations, it may still fall within the healthy category as long as the BOPO ratio does not exceed 93.5%. A reduction in the BOPO ratio could potentially enhance the bank's profitability (Nugroho & Bararah, 2018).

These findings align with the research conducted by Rohimah (2021), which also concludes that BOPO does not have a significant impact on ROA. A strong BOPO ratio reflects less efficient management of resources within the bank, leading to reduced profit before tax and, ultimately, a decrease in ROA. Therefore, a higher BOPO ratio negatively impacts the bank's profitability (Rohimah, 2021).

The Combined Effect of Good Corporate Governance, Non-Performing Financing, and BOPO on Return on Assets

The analysis reveals that the combined impact of GCG, Non−Performing Financing, and BOPO on ROA is statistically significant. The F−statistics value of 7.8843 exceeds the F−table value of 2.7862, indicating a statistically significant result. Additionally, the probability value of 0.000000 is below the significance threshold of 0.05, further supporting the findings of the study. The results of this study confirm the acceptance of the hypothesis (Ha) and the rejection of the null hypothesis (H0), suggesting that these three independent variables collectively have a significant impact on the Return on Assets (ROA) in Sharia Commercial Banks. It is crucial to take into account GCG, NPF, and

BOPO simultaneously when assessing their impact on ROA in Islamic banks in Indonesia. This emphasises the significance of a comprehensive analysis in this context. By examining the interplay of various variables, this study sheds light on how they collectively impact the financial performance of Sharia Commercial Banks. These findings offer valuable insights into how strategic management of these factors can enhance profitability.

CONCLUSION

To summarise, the analysis and discussion of the data indicate that Good Corporate Governance (GCG) has a notable adverse effect on Return on Assets (ROA). The reason for this is because improved GCG, as reflected by higher composite value percentages, exerts a substantial influence on ROA. Additionally, Non−Performing Financing (NPF) exhibits a favourable and substantial impact on ROA. Higher NPF values diminish bank profitability due to the accumulation of uncollectible funds, thereby hindering the bank's capacity to finance other productive assets. This leads to a reduction in the bank's income and subsequently disrupts overall banking profitability. Conversely, the BOPO exhibits an adverse effect on ROA, but this effect is not statistically significant. A high BOPO ratio signals inefficiency in the bank's management performance, reflecting an inability to optimally utilize available resources, which in turn reduces pre−tax profits and ultimately diminishes ROA. The combined impact of GCG, NPF, and BOPO variables significantly influences ROA.

For future research, it is advisable to incorporate additional financial variables such as the Debt−to−Equity Ratio (DER), Current Ratio, or Inventory Turnover to further explore their effects on ROA. Additionally, a more detailed examination of the specific dimensions of GCG, such as ownership structure, transparency, and accountability, is recommended to ascertain the individual effects of these dimensions on ROA.

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