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Investigating the impact of internal finance, ICG, and CSR on the profitability of Islamic Commercial Banks

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ABSTRACT

Despite the rapid growth of Islamic commercial banks, their Return on Assets (ROA) performance continues to lag significantly behind that of conventional banks, highlighting substantial challenges in enhancing efficiency and profitability. This discrepancy poses a potential threat to their competitiveness in an increasingly saturated banking market. The aim of this study is to assess the impact of internal finance management, the implementation of Islamic Corporate Governance (ICG), and Islamic Corporate Social Responsibility (ICSR) on the profitability of Islamic banks. The research sample comprises 10 Sharia-compliant commercial banks in Indonesia, covering the period from 2015 to 2023, with a total of 90 observations. This study examines the effects of Islamic Corporate Social Responsibility (CSR), Islamic Corporate Governance (ICG), Non-Performing Finance (NPF), Capital Adequacy Ratio (CAR), and Financing to Deposit Ratio (FDR) on the financial performance of Islamic commercial banks. The financial performance is measured using Return on Assets (ROA), while ICG and CSR are assessed through a social disclosure index. The data was analyzed using multiple linear regression in Eviews 10. The hypothesis testing revealed that NPF and ICSR negatively affect financial performance, while CAR, FDR, and ICG had no significant impact.

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INTRODUCTION

Currently, the Islamic economy, especially the banking sector, is receiving great attention around the world (Priyatno et al., 2022). There has been tremendous expansion in Islamic banking at

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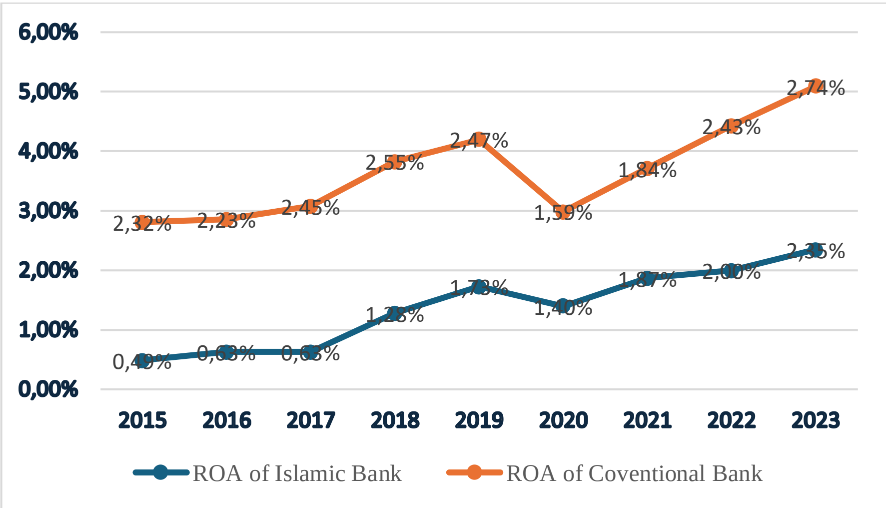
several of Indonesia's existing Islamic financial institutions. Year after year, more and more Islamic banks are popping up. After three banks merged in early 2021, the result was 14 Islamic Commercial Banks, which included 20 Islamic Business Unitsand made it the biggest Islamic commercial bank in Indonesia. Competition is fierce among Indonesia's many Islamic banks because of the country's vast Islamic banking sector. Conventional and Islamic banks are engaged in competition. This situation motivates and challenges Islamic banks. This situation encourages Islamic banks to demonstrate excellence, compete, and improve performance. According to Burvill's resource-based resource theory (2018). to support business performance, companies must have competitive resources.

The performance of banks, including Islamic banks, will be affected by the increasing competition in the financial services industry. As a result, the soundness of Islamic banks must be examined. The profitability is one of the factors by which the stability of an Islamic bank is evaluated. The financial performance of the bank is bad if there is little profit or money made. When profitability is high, on the other hand, it means that the bank's management is making the most of their financial resources to generate profits (Masturo & Hendrianto, 2019) . When looking at a bank's profitability, one metric to consider is return on assets (ROA). This is because, as a supervisory and regulatory body, Bank Indonesia places a premium on banks' profitability (Gholy & Nadya, 2020).

Figure 1. Graph of ROA of Islamic Bank and Conventional Bank



Source: Financial Services Authory (Data Processed), 2024

From the figure, it can be seen that the comparison of ROA of Islamic commercial banks and conventional banks shows a significant difference. The average ROA of conventional banks is higher than that of Islamic banks. When referring to the ROA standard from Bank Indonesia (BI) which is 1.5%, then the ROA of Islamic banks in 2015-2018 and 2020 is not ideal because its ROA shows a number below 1.5%. And conventional banks are still in an ideal condition because they have ROA values above the provisions of Bank Indonesia (BI).

More so, Islamic Commercial Banks (BUS) have a lower Return on Asset (ROA) than conventional Islamic Commercial Banks (BUS), suggesting that they are not as good at turning their assets into operational profit as conventional commercial banks are. Since Islamic Commercial Banks (BUS) have a high Return on Asset (ROA), it is important to pay greater attention to their level of ROA. Consequently, more research into the factors influencing Islamic banking's financial success is very necessary.

The profitability and performance of Islamic banks are affected by internal factors, including the Capital Adequacy Ratio (CAR) and Non-Performing Financing (NPF) (Damayanti et al., 2021). Total loans with poor ratios and potential non-collection status are referred to as non-performing finance (NPF). According to (Almunawwaroh et al., 2018) overall non-performing finance rises as NPF value rises. Therefore, banks have to face pressure when running their operations, which in turn will reduce their profitability (Damayanti et al., 2021).

A bank's and the financial industry's overall health may be impacted by inadequate credit risk management, according to (Chamberlain & Khokhar 2020). Through non-performing financing (NPF), we may evaluate the bank's capacity to handle debtors' non-performing loans. Banks confront credit risk as a business risk when there is ambiguity in the taking of credit or when debtors fail to repay loans. According to studies conducted by (Damayanti et al., 2021) and (La Difa et al., 2022), NPF reduces ROA. The results of the study by (Winawati & Anam 2023) indicate, however, that NPF increases ROA.

Another internal factor that can influence profitability is the Capital Adequacy Ratio (CAR). Capital Adequacy Ratio (CAR) is a helpful measure that indicates the amount of capital a bank has on hand to fund risky assets. The capacity of the bank to withstand credit risk increases as the CAR rises. In addition to extra cash from public deposits and loans, CAR shows how much of the bank's assets (including loans, investments, securities, and other bank bills) are financed by its own capital. (A. Maulana et al., 2021) found that ROA is negatively affected by the Capital Adequacy Ratio (CAR). (Damayanti et al 2021) is among the researchers that found that CAR increases ROA. (Said and Herni 2020) state that the Capital Adequacy Ratio (CAR) demonstrates a bank's ability to manage potential losses in securities transactions, like loans. The usual CAR, as stated by Bank Indonesia, is typically 8%. This shows that the bank is good at managing operational funds..

Additionally, FDR may be used as an internal metric for assessing the performance of banks. The liquidity level of a bank may be seen by looking at its financing-to-deposit ratio (FDR), which indicates that the bank can satisfy financing requests with all of its assets (Moorcy et al., 2020). If a bank has a high FDR ratio, it means that more of its assets are going into funding rather than protecting depositors' money. This means that the bank is less liquid. The opposite is true for a low Financing to Deposit Ratio (FDR), which indicates a high level of liquidity and also indicates that the bank has expanded its financing services (Darsita, 2020). Falling anywhere between 80% and 11% is optimal (Fachri & Mahfudz 2021).

One further thing that may help Islamic banks do better is Islamic corporate governance. Islamic corporate governance is crucial because Islamic banking uses a different method for governance than traditional banking. Islamic banks are distinct from their conventional counterparts due to the Shariah Supervisory Board. Islamic businesses, in contrast to their secular counterparts, are founded on Islamic legal principles outlined in the Quran and Hadith, as opposed to governmental rules and regulations. Islamic corporate governance is consistent with stakeholder theory since it stresses the need of considering all stakeholders, not just shareholders. Islamic corporate governance frameworks are consistent with the stakeholder idea since they place a priority on taking into account all relevant parties, not just shareholders (Puspitasari et al., 2023). When looking at the impact of Islamic Corporate Governance (ICG) on Islamic banks' ROA performance, the majority of research have shown conflicting findings. A number of studies have shown that financial performance improves after using ICG (Puspitasari et al., 2023) ; (Romadhonia & Kurniawati 2022); (Khan & Zahid 2020).

Another significant predictive component in producing societal benefits is the competitiveness of Islamic banking, as well as the state of the industry as a whole (Gangi et al., 2019) According to Rahmawaty & Helmayunita (2021), ICSR is a form of CSR that is grounded in Islamic values found in the Quran and Hadith and adheres to Islamic principles in economics, law, ethics, and philanthropy.

The fulfillment of corporate social responsibility to society is reflected through the company's attention to various environmental issue (Mukhibad et al., 2020). Syamni et al. (2018) found that companies' bottom lines improved after implementing social responsibility programs. In the practice of social disclosure, companies are expected to be more tranparent, not just focussing on efforts to gain legitimacy from society (Arifin et al., 2021)

The topict of CSR practices in Islamic banks has become increasingly significant in recent years (Andraeny & Putri, 2017). The impact of ICSR on performance has been a topic of previous studies. ICSR disclosure has a positive and significant effect on the performance of Islamic financial institutions. According to prior research Riyadh, Al-Shmam, & Firdaus (2022) discovered that ICSR has a significant impact on the financial performance of Islamic banks in Indonesia.

The purpose of this research is to examine the relationship between Islamic banking in Indonesia and ROA by looking at metrics suchNPF, CAR, FDR, ICG, and ICSR. Information gleaned from accounts, occurrences, hypotheses, and other studies will form the basis of this investigation. This research will examine Islamic banking's internal financial procedures, including NPF, CAR, FDR, ICG and ICSR. Public knowledge of Islamic banks' ICSR reports which are mandated for publication on their websites can also contribute to a rise in public confidence in these financial institutions. Research on the effects of NPF, CAR, FDR, ICG, and ICSR on Islamic banks' bottom lines is the theoretical goal of this research

Literature Review

Resource Based View Theory

This research used the RBV hypothesis put out by Burvill (2018). A company's performance and competitive potential are greatly influenced by its resources and capabilities, according to Wernefelt's (1984) Resource Based View (RBV) thesis. According to RBV theory, a business may succeed in a competitive market by allocating its resources such that they help it reach its objectives.

This theory states that a company's competitive advantage comes from managing its resources. Internal finance is one of the important resources in supporting the company's operations and investments. The use of this theory explores how a firm's ability to manage its internal finance contributes to increased profitability.

Stakeholder Theory

This research makes use of Freeman's stakeholder theory. According to Stakeholder Theory, organizations aim to generate multiple benefits for different stakeholders (i. e., groups and individuals who can affect or be affected by the organ ization—e.g., civil societies, communities, customers, employees, governments, shareholders, suppliers) (Freeman, 1984). Islamic concepts of property rights and contracts provide credence to stakeholder theory from an Islamic viewpoint, painting a whole picture of Islamic-based accountability. A company's duty is to the people who have a stake in the company, says stakeholder theory. What this implies is that the firm is looking to be held accountable for its actions that have negative social and environmental impacts, in addition to looking out for its own interests and financial gain.

This theory emphasizes the importance of companies paying attention to the interests of various stakeholders including shareholders, employees, customers, communities and others. Through stakeholder theory, research can analyze how the company's involvement in ICSR affects the image, trust and loyalty of stakeholders which can then have an impact on profitability. The essence of stakeholder theory is to ensure corporate accountability without limiting economic or financial performance alone. This requires organizations to voluntarily disclose information related to intellectual, social, and environmental aspects to meet the expectations of stakeholders (Pertiwi et al., 2021)

Hypotheses Development

NPF and Financial Performance of Islamic Banking in Indonesia

A Bank's non-performing financing is a measure of the difficulty of the loans it has made. This ratio illustrates the proportion of a bank's financing that is non-performing relative to the total amount of financing that the bank has extended, as stated by (Almunawwaroh & Marliana 2018). The worsening financing quality for the bank is indicated by a larger ratio, resulting from more debtors failing to make credit installments. This has the potential to reduce the bank's income, which may result in a decline in asset growth and profitability. In addition, financing that is considered non-performing also includes financing that has a low collectability rate, is doubtful, or that has been completed quickly. Fachri & Mahfudz (2021), Hellen et al., (2019), Moorcy et al., (2020), and are among the researchers who have concluded that NPF does not have a detrimental effect on Islamic banks' ROA. This allows us to postulate the following:

H_1: NPF has a significant negative effect on profitability

CAR and Financial Performance of Islamic Banking in Indonesia

One way to determine whether a bank has sufficient capital to back its assets and withstand loss is to look at its capital adequacy ratio (CAR). Specifically, CAR has no effect on ROA, according to Rifai & Suyono (2019), and Maulana et al., (2021) are all similarly situated. The profitability of Islamic banks is unaffected by CAR, according to Darsita (2020).

The correlation between CAR and ROA is positive, according to Agam and Pranjoto's (2021) study. Rahmawati et al. (2021) find that CAR affects ROA. Although CAR and ROA may seem to be positively related, study by (Moorcy et al., (2020) reveals otherwise. On the other hand, Fachri & Mahfudz's (2021) study indicated that CAR negatively affects ROA, but to a negligible degree. Additionally, Hellen et al. (2019) found that CAR significantly reduces ROA in a negative way. The following theory may be developed from this account:

H_2: CAR has a significant positive effect on the financial performance of Islamic commercial banks.

FDR and Financial Performance of Islamic Banking in Indonesia

The Financing to Deposit Ratio (FDR) measures a bank's liquidity. This ratio shows how capable the bank is to fulfil financing demand using all of its assets (Moorcy et al., 2020). Conversely, a lower FDR ratio indicates that the bank may be less efficient in meeting financing demand. According to (Gusmawanti et al., 2020) Collecting funds from various sources and giving them back as financing to the public is an intermediary task that must be properly controlled by bank management. This is done with the aim of increasing bank income, which in turn will increase bank profits.

There are distinctions in the correlation between the FDR and ROA variables, as shown in the study summary. Several research have shown a favorable correlation between FDR and ROA; for example, Darsita (2020) and Fachri & Mahfudz (2021). Nonetheless, some research has shown no significant relationship between FDR and ROA; for example, Rahmawati et al (2021), and Rifai & Suyono (2019),. On the other hand, Hanafia and Karim (2020) study indicated that FDR and ROA are inversely related.

H_3: FDR has a significant positive effect on the financial performance of Islamic commercial banks.

ICG and Financial Performance of Islamic Banking in Indonesia

The goal of Islamic Corporate Governance (ICG) is to increase responsibility and success by regulating a company's activities in line with Islamic principles. In addition to holding the firm accountable to its stakeholders both vertically and horizontally, ICG also makes sure that the business operates in line with sharia principles. Corporate governance becomes a value system in Islamic financial institutions islamic that provide equal legal protection to all stakeholders, because it will have an impact on the effectiveness and even sustainability on the institution (Sukardi, 2013)

Islamic corporate governance (ICG) has a significant impact on financial performance, according to Khan and Zahid's (2020) research. Romadhonia & Kurniawati (2022) discovered that Islamic Commercial Banks (BUS) are impacted financially by ICG, lending credence to this conclusion. This demonstrates that Islamic banks generate more profit when Islamic Corporate Governance is well implemented. In monetary terms, this proves that Islamic banks do better. We may formulate the following research hypothesis in light of these results:

H_4: Islamic Corporate Governance has a significant positive effect on the financial performance of Islamic commercial banks.

ICSR and Financial Performance of Islamic Banking in Indonesia

According to Utami & Yusniar (2020), "Corporate Social Responsibility" (CSR) refers to a company's acknowledgment that its actions and decisions have accountable implications that will affect the company's survival and be recognized by stakeholders.To fulfill their religious, economic, legal, ethical, and discretionary responsibilities as financial intermediaries for individuals and institutions, Islamic financial institutions engage in Corporate Social Responsibility (ICSR), according to AAOIFI. This includes all activities undertaken by these institutions. This shows that management may affect stakeholder views via corporate social responsibility (CSR) disclosure.

According to Reyad et al., (2020), Islamic banks in Oman have benefited from sharia-compliant business practices, which have led to increased profits and improved reputations on a global scale.. The investment and financing policies of banks and other financial organizations might carry out ICSR (Bidari & Djajadikerta 2020). According to Bidari & Djajadikerta (2020), this is a good example of an ethical and eco-conscious business. According to Puspitasari et al., (2023), one goal of ICSR is to boost Islamic banks' financial performance by increasing public faith in the firm. This is due to the fact that ICSR disclosure helps establish a positive reputation for a firm, which in turn encourages investment and boosts the bottom line (Yaparto et a l., 2013). So, this is the way the study hypothesis should be organized.

H_5: Islamic Corporate Social Responsibility has a significant positive effect on the financial performance of Islamic commercial banks.

METHOD

Research Design

This study employs a quantitative research technique, which is a method under positivist philosophy that involves statistical analysis of data collected from populations or samples. The information used in this analysis is derived from secondary sources, namely the annual reports and financial reports that were made public on the websites of the participating companies from 2015 to 2023. Utilizing panel data, this financial report is evaluated.

Sample Selection and Data Sources

The population analyzed consists of Islamic commercial banks registered with the Financial Services Authority (OJK) during the period from 2015 to 2023. The Financial Services Authority published data on Islamic banking in December 2023, and among them, 14 are Islamic commercial banks. Purposive sampling was employed to obtain samples in this research by considering specific norms, according to Sugiyono (2014). The sample consists of companies selected based on specific criteria established by the researchers, as outlined below (1) Commercial Islamic Banks that have been registered with the Financial Services Authority between 2015 and 2023, (2) Islamic commercial banks must post their yearly reports on official websites such as the BUS, (3) The study's variables were calculated using comprehensive data from Islamic commercial banks.

Based on the established criteria, ten Islamic banks are eligible for sampling. Here is a rundown of Islamic financial institutions that are eligible for the sample:

Table 1. Data Distribution of Observation Years

Number	Bank	Number of period
1	BCA Syariah	9
2	Bank NTB Syariah	9
3	Bank Bukopin Syariah	9
4	Bank Panin Dubai Syariah	9
5	Bank Mega Syariah	9
6	Bank Muamalat Indonesia	9
7	BTPN Syariah	9
8	Bank Victoria Syariah	9
9	Bank Jabar & Banten Syariah	9
10	Bank Aceh Syariah	9
	Totally	90

Source: Financial Services Authory (ojk.co.id)

Variable Operational Definition

This study's independent variables are NPF, CAR, FDR, ICG, and ICSR. The dependent variable is ROA.

Return On assets is a profitability ratio that shows the ratio between profit before tax and total bank assests, which illustrates the level of efficiency of asset management carried out by the bank corcerned (Maulidia & Fahlevi, 2022).

$$ROA = \frac{profit\ before\ tax}{total\ assets} \text{ x } 100\%.$$

NPF (Non-Performing Financing) is a ratio that compares the amount of non-performing financing with the total financing provided by Islamic banks. Non-performing financing refers to credit or financing that has been channeled by the bank to customers, but customers are unable to fulfill their obligations to repay, either in full or in installments. This includes principal installments as well as interest or profit sharing from investments that have been agreed upon in the agreement. (Muhammad et al., 2020) The Non Performing Financing (NPF) ratio is a measure of the potential loss that might occur if a debtor fails to repay their loan to the bank.

$$NPF = \frac{Total\ non-performing\ financing}{Total\ financing} \text{ x } 100\%$$

A bank's capital is represented by the CAR, which is used as an indicator of the ability of the bank's assets to cover the potential risks financed by its capital (Muhammad et al., 2020). There is a ratio scale for CAR that displays the percentage of a bank's risk-containing assets funded by capital funds and the percentage financed by money from outside the bank.

$$CAR = \frac{Total\ capital}{Total\ risk-weighted\ assets} \text{ x } 100\%$$

FDR (Financing to Deposit Ratio) represents the ratio between the financing provided by the bank and the third-party funds (TPF) it has collected. A high FDR reflects the Islamic bank's strong capacity to effectively distribute financing (Muhammad et al., 2020). The liquidity ratio (L ratio) is a measure of a bank's capacity to meet financing demands with its total assets. It is one metric for FDR.

$$\text{FDR} = \frac{Total\ funds\ provided}{third\ party\ funds} \text{ x } 100\%$$

ICG will be calculated by the composite value of GCG self-assessment results of Islamic banks with scores ranging from 1 to 5 published by BUS on each bank's website.

Islamic Corporate Social Responsibility is a balanced approach for companies to address economic, socail and environmental issues in a way that benefits both individuals and society (Maulidia & Fahlevi, 2022). The six components that make up the disclosure index used to assess ICSR are as follows: investment and money, goods and services, personnel, community, atmosphere, and governance. In order to gauge ICSR disclosure, the content analysis approach makes use of the disclosure index methodology developed by Othman et al. (2010) for Islamic social reporting (ISR).

$$\text{ICSR Disclosure} = \frac{number\ of\ items\ disclosed}{the\ total\ number\ of\ disclosure\ items} x\ 100\ \%$$

Data Analysis

This study examines the independent variable using multiple regression analysis techniques and incorporates a hypothetical testing model.

$$\mathbf{ROA_{i,t} = \alpha - \beta_0 + \beta_1 NPF_{i,t} + \beta_2 CAR_{i,t} + \beta_3 FDR_{i,t} + \beta_4 ICG_{i,t} + \beta_6 ICSR_{i,t} + + \varepsilon}$$

Notes :

ROA = Financial Performance (Dependent Variable)
NPF = Financing risk (Independent Variable)
CAR = Capital Adequacy (Independent Variable)
FDR = Financing to Deposit Ratio (Independent Variable)
ICG = Islamic Corporate Governance (Independent Variable)
ICSR = Islamic Corporate Social Responsibility (Independent Variable)

RESULTS AND DISCUSSION

Results

Table 2. Descriptive Statistics

Variable	Min	Max	Mean	Std. Dev	N
ROA	-10.770	13.580	1.3625	3.7781	90
NPF	0,320	22.040	3.3984	3.4788	90
CAR	1151.00	14968.00	2707.1	1678.1	90
FDR	1176.00	19673.00	8591.3	1949.2	90
ICG	3.00	5.00	3.8777	0.5963	90
ICSR	0.2790	0.6744	0.5410	0.0933	90
Valid N (*listwise*)					90

Source : Secondary data processed by the author (2024)

This research begins with classical assumption testing, before conducting regression testing on the proposed hypothesis model. The data analysis process includes a classic assumption test which includes normality, multicollinearity, autocorrelation, and heteroscedasticity tests. Based on the test results, the data meets the criteria of Best Linear Unbiased Estimator (BLUE). The data is normal because the α value is greater than 0.05, and there is no multicollinearity, considering the correlation between the dependent and independent variables is less than 0.85. In this study, the Lagrange

Multiplier test was not conducted because the Chow and Hausman tests showed a consistent and simple model. In addition, the data proved free from heteroscedasticity as the significance values of the five variables (X1, X2, X3, X4, and X5) were greater than 0.05 in each matrix.

Table 3. Hypothesis Test Result

Variable	Coefficient	Prob.	Result
Constant	0.336914	0.8975	
NPF	-0.407875	0.0000*	Supported
CAR	-0.000133	0.3856	Not Supported
FDR	-0.000064	0.6099	Not Supported
ICG	-0.159438	0.7840	Not Supported
ICSR	7.284356	0.0298**	Supported

Adj R^2: 0.753, F-Value : 20.399, Sig : 0.000
Explanation: ***, **, * significant level 1%, 5%, and 10%.
Source : Secondary data processed by author

The analysis reveals that the significance value for Non-Performing Finance (NPF) is 0.000, which is below 0.05, and the t-count is -5.60378, smaller than the t-table value of 1.978861. Thus, the hypothesis stating that NPF has a negative impact on Return on Assets (ROA) is accepted at a 1% significance level. This implies that an increase in NPF significantly decreases ROA in Islamic Commercial Banks. Regarding the Capital Adequacy Ratio (CAR), the significance value is 0.3856, exceeding 0.05, and the t-count is -0.872770, lower than the t-table value of 1.978861. This indicates that CAR does not have a statistically significant effect on ROA. Similarly, the Financing to Deposit Ratio (FDR) has a significance value of 0.6099, which is higher than 0.05, with a t-count of -0.512430, suggesting that FDR does not significantly influence ROA. The Internal Corporate Governance (ICG) variable also demonstrates no statistically significant effect on ROA, with a significance value of 0.7840, greater than 0.05, and a t-count of -0.275182. Conversely, the Islamic Corporate Social Responsibility (ICSR) variable shows a significance value of 0.0298, which is below 0.05, and a t-count of 2.214921. This supports the hypothesis that ICSR positively influences ROA, accepted at a 5% significance level. It suggests that enhanced ICSR practices significantly improve ROA. Table 4 presents an R-squared (R^2) value of 0.753, indicating that 75.3% of the variation in profitability is explained by the variables NPF, CAR, FDR, ICG, and ICSR, while the remaining 24.7% is attributed to other factors.

Discussion

First hypothesis test findings demonstrate that NPF influences ROA. Consistent with other studies, this one confirms that Islamic banks lose money due to financing risk (NPF), which in turn imposes cost burdens. Siddique et al. (2022) adds that Islamic commercial banks' return on assets (ROA) value would decrease when non-performing lending increases. This ratio reveals the extent to which non-performing loans constitute a percentage of the bank's total loans. An increase in this percentage indicates that the quality of the given financing is poor, as an increasing number of borrowers are unable to meet their credit payment requirements. This, in turn, threatens the revenue of the bank, which in turn affects the growth and profitability of the bank's assets.

Also, bad financing lowers operational revenue, makes investments less attractive, and might trigger a liquidity crisis which could result in insolvency and economic harm (Khan & Zahid 2020). In order to maximize profits, Islamic commercial banks should do their best to minimize NPF to a minimum. The rationale for this is that a decrease in NPF might enhance financial performance, particularly return on assets (ROA) (Puspitasari et al., 2023).

We find no evidence that CAR influences ROA in our second hypothesis test. Consistent with similar studies by Rifai & Suyono (2019), and Wahyudi (2020), this study also found. As a result of banks' extreme caution when investing their money, the CAR value is always in line with the provisions, and the distribution of capital is kept to a minimum, so CAR has no effect on profitability. The amount of the capital does not dictate the size of the profit made; hence, CAR has no influence on profitability, while Bank Indonesia laws need a minimum CAR value of 8%.

This research period's data reveals that, the global average FDR value reached 85.83%, however at some time, notably during the latter two years of the epidemic, several Islamic banks still had FDR levels below 80%. Results from testing the third hypothesisa reveal that FDR does not influence ROA. As an example, the FDRs of Bank Mega Syariah, Bank Victoria Syariah, and Bank Muamalat Indonesia are all higher than 100%. Both Bank Bukopin Syariah in 2022 and Bank Victoria Syariah in 2023 experienced this, although with different FDR ratios: 196.73% for Bukopin and 107% for Victoria. All Islamic banks examined had less than perfect finance distribution functions, as this demonstrates. This study aligns with the findings of (Rahmawati et al., 2021), and Rifai & Suyono (2019).

The findings of the fourth hypothesis test indicate that ROA is unaffected by Islamic Corporate Governance. This confirms what previous research by Indriyani & Asytuti (2019) has found. This indicates that financial success may not be the best indicator of the advantages of ICG, which may be more apparent in intangibles like reputation, consumer loyalty, and risk reduction. Also, new systems and procedures need to be invested in, employees need to be trained, and careful monitoring is needed to operate it. Operating expenses can rise in the near future as a result of all these variables. Because of this, Islamic Corporate Governance has no impact on the bottom line.

Islamic corporate social responsibility (ICSR) affected by return on assets (ROA), ICSR has the potential positively influence company profitability, which is reflected in Return on Assets (ROA). Planned and sustainable implementation of ICSR can improve operational efficiency, corporate reputation, and employee satisfaction, all of which contribute to increased profitability.

CONCLUSION

Several conclusions on the profitability of Islamic banks have been drawn from a panel data regression study. The first is that Islamic banks' bottom lines take a hit when non-performing financing pile up. Meanwhile, ICSR has significant effect on profitability. There seems to be no correlation between profitability and islamic corporate governance, capital adequacy ratios, financing to deposit ratios, or Islamic corporate governance. Based on these findings, Islamic financial institutions should follow prudential standards to reduce the likelihood of default and put public funding distribution first. Furthermore, in order to minimize risks linked to changes in profitability, Islamic banks must have competent human resources and efficient management methods. Taken together, these results stress the need for Islamic banks to strike a balance between operating ethically and achieving excellent financial success.

Academically, this research contributes to Islamic finance, especially in understanding the factors that affect profitability in the Islamic banking sector, and practically, the results of this study provide insight for Islamic bank management to increase profitability through better internal financial management, implementation of sharia-compliant governance, and effective corporate social responsibility. Future researchers are encouraged to expand this study by including additional independent variables that could affect the financial performance of commercial Islamic banks, as the current study only examines a limited range of factors influencing Islamic bank profitability.Researchers in the future may broaden their focus to include Islamic business units and find other metrics to quantify NPF, CAR, FDR, ICG, and ICSR.

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