



## Determinants of Profit Growth of Islamic Commercial Banks in Indonesia

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### A B S T R A C T

The growth of the Islamic banking industry in Indonesia requires continuous enhancement of financial performance, particularly in the banks' capacity to achieve profit growth amid fluctuating financing risks and operational efficiency challenges. This condition makes analysis of factors influencing profit growth crucial. This study aims to analyze the influence of the Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF), Net Operating Margin (NOM), and Operating Costs to Operating Income (BOPO) on profit growth in Islamic Commercial Banks in Indonesia. This study uses a quantitative approach with secondary data analyzed using multiple linear regression through the SPSS application. The results show that CAR, FDR, and NOM have a positive and significant effect on profit growth, while NPF and BOPO have a negative and significant effect on profit growth.

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## **INTRODUCTION**

Profit growth serves as a fundamental indicator in evaluating a company's financial performance, particularly within the banking sector. An upward trend in profits reflects a firm's ability to efficiently utilize its resources and indicates the effectiveness of managerial strategies in achieving business objectives. In the context of banking, profit growth is not only associated with profitability but also represents financial system stability and the level of public confidence in financial institutions. Banks that consistently achieve profit growth demonstrate strong operational capabilities and effective risk management in their business activities. Moreover, profit growth is a critical consideration for investors and stakeholders in assessing the long-term sustainability of financial institutions. Therefore, examining the determinants of profit growth is essential to understand how banking institutions maintain stable and sustainable financial performance (Kasmir, 2021:198).

In recent years, the Islamic banking industry in Indonesia has experienced significant growth, driven by increasing public awareness of Sharia-based financial systems. Data from the Financial Services Authority (OJK) indicate that total Islamic banking assets reached approximately IDR 980.30 trillion in 2024, with an annual growth rate of 9.88%. In addition, financing distribution amounted to IDR 643.55 trillion, while third-party funds reached IDR 753.60 trillion, both showing consistent year-on-year increases (OJK, 2025). This development highlights the substantial potential of Islamic banking in supporting the national financial system. Islamic banks function not only as financial intermediaries but also as institutions that uphold principles of fairness and transparency in accordance with Sharia values. Consequently, enhancing the financial performance of Islamic banks is essential to ensure their optimal contribution to the national economy.

The development of the Islamic banking industry in Indonesia is also supported by various strategic government policies aimed at strengthening the national Islamic financial ecosystem. One important step taken is strengthening Islamic banking institutions through the establishment of Bank Syariah Indonesia, a merger of several state-owned Islamic banks. This merger is expected to improve operational efficiency, strengthen the capital structure, and expand the reach of Islamic financial services to the public. With the presence of a large-scale Islamic bank, the Islamic banking industry is expected to be able to compete with conventional banks and increase its contribution to the national economy. However, the increase in assets and business expansion in Islamic banking is not always accompanied by a steady increase in profitability. This indicates that industry growth needs to be balanced with sound financial performance management so that Islamic banks can maintain sustainable profit growth.

One common approach to assessing banking financial performance is through financial ratio analysis. Financial ratio analysis is a method used to evaluate a company's financial condition by comparing various components in its financial statements, thus providing an overview of the company's health. In the banking industry, financial ratio analysis is crucial because it can be used to

assess various important aspects such as capital adequacy, asset quality, liquidity, and operational efficiency. Financial ratios can also help management and stakeholders identify potential risks that could impact the company's future performance. Through financial ratio analysis, companies can determine the effectiveness of their financial resource management and the appropriate strategies to improve company performance (Hery, 2020:55).

In the context of Islamic banking, various financial ratios are commonly utilized to evaluate a bank's financial health and performance. Among the most widely applied indicators are the Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF), Net Operating Margin (NOM), and the BOPO (Operating Costs to Operating Income) ratio. The Capital Adequacy Ratio (CAR) reflects a bank's ability to maintain sufficient capital to absorb potential losses arising from its operational activities. A higher CAR signifies a stronger capacity to withstand risks and sustain operational stability. Consequently, this ratio serves as a vital measure of a bank's soundness, as it is directly linked to its risk-bearing capability (Ismail, 2020:247).

Liquidity is another essential determinant of a bank's financial performance. In Islamic banking, liquidity is often measured using the Financing to Deposit Ratio (FDR), which indicates the bank's ability to channel funds collected from the public into financing activities. This ratio illustrates how effectively a bank performs its intermediation function. An optimal level of FDR reflects efficient liquidity management and enhances the bank's potential to generate income from financing activities. However, an excessively high FDR may increase liquidity risk, particularly if the bank lacks adequate reserves to meet its short-term obligations (Sudarsono, 2021:120).

In addition, financing quality represents a critical factor influencing the financial performance of Islamic banks. This aspect is captured by the Non-Performing Financing (NPF) ratio, which measures the proportion of problematic financing within a bank. A high NPF ratio indicates that a portion of the bank's financing is experiencing repayment difficulties, which can reduce income and elevate the risk of losses. Such conditions ultimately affect the bank's ability to generate profits. Therefore, maintaining sound financing quality is essential to ensure the stability of financial performance in Islamic banking institutions (Fahmi, 2021:214).

A bank's capacity to generate operating income is a key indicator in evaluating its financial performance. This aspect can be assessed using the Net Operating Margin (NOM) ratio, which reflects the bank's ability to earn operating income from its productive assets. The NOM ratio illustrates how efficiently a bank manages its productive assets to generate revenue. A higher NOM value indicates a stronger capability to optimize these assets, resulting in greater operating income (Kasmir, 2021:182).

In addition, operational efficiency plays a vital role in determining a bank's profitability. This efficiency can be measured using the BOPO (Operating Costs to Operating Income) ratio, which compares operating expenses with operating income. A lower BOPO ratio signifies that the bank is able to manage its

operational costs more effectively, thereby enhancing profitability. On the other hand, a higher BOPO ratio indicates relatively greater operating expenses compared to income, which may weaken the bank's ability to generate profits (Hery, 2020:318).

Previous studies have extensively examined the financial performance of Islamic banking institutions. For instance, research conducted by Lukman, Sujianto, Sugiartono, and Andini (2022) found that the Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), and BOPO have a significant effect on Islamic bank profitability, whereas Non-Performing Financing (NPF) does not show a significant influence. Similarly, a study by Qhotimah, Fatmawati, Putri, and Sujianto (2023) revealed that NPF and BOPO significantly affect the profitability of Islamic commercial banks. Furthermore, research by Badriyah and Firawati (2024) showed that CAR, FDR, BOPO, and NOM simultaneously influence Islamic bank financial performance.

Another study by Subekti and Wardana (2022) found that BOPO and FDR significantly influence Islamic bank profitability, while CAR and NPF do not. Research by Lestari and Oktavia (2024) shows that CAR, NPF, and BOPO significantly influence the profitability of Islamic commercial banks in Indonesia. Furthermore, research by Maolana and Rosia (2024) found that CAR and FDR have a positive influence on bank stability, while BOPO has a negative influence. Research by Hadiani and Sari (2023) shows that FDR has a positive effect on the level of Non-Performing Financing (NPF), while Return on Assets (ROA) has a negative effect on NPF. Research by Pratama and Sari (2021) also shows that NPF has a negative effect on the profitability of Islamic commercial banks.

Based on these various studies, it can be seen that the results of research on the influence of financial ratios on Islamic banking performance still show mixed results. Some studies indicate that financial ratios such as CAR, FDR, and BOPO have a significant effect on bank performance, but other studies show different results, especially for the variables NPF and NOM. Furthermore, most previous studies used profitability indicators such as Return on Assets (ROA) as the dependent variable. Research specifically analyzing the influence of financial ratios on profit growth in Islamic Commercial Banks in Indonesia is still relatively limited. Therefore, this study was conducted to analyze the influence of the Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF), Net Operating Margin (NOM), and BOPO on profit growth in Islamic Commercial Banks in Indonesia.

## **LITERATURE REVIEW**

### **Capital Adequacy Ratio to Profit Growth**

The Capital Adequacy Ratio (CAR) is a financial indicator used to assess a bank's ability to maintain sufficient capital in order to absorb potential losses arising from its operational activities. This ratio indicates a bank's ability to provide sufficient capital to cover various risks it faces. A higher CAR indicates a bank's strong capitalization, enabling it to absorb potential losses that may arise from financing and investment activities (Ismail, 2020:247). Strong capital provides opportunities for banks to expand their business activities and increase

financing distribution to the public. With increased financing activity, banks can generate income from margins and profit sharing, ultimately increasing corporate profits. Research conducted by Lukman, Agus Eko Sujianto, Sugiartono, and Andini (2022) shows that the Capital Adequacy Ratio has a significant impact on the profitability of Islamic banks in Indonesia. The results indicate that banks with a high level of capital adequacy have a better ability to improve financial performance. Another study conducted by Lestari and Oktavia (2024) also shows that CAR influences the profitability of Islamic commercial banks in Indonesia. This demonstrates that capital adequacy is a crucial factor in supporting bank operational stability and enhancing its ability to generate profits. It can be concluded that the higher a bank's capital adequacy, the greater its ability to expand its business activities and increase operating income. This ultimately leads to increased bank profit growth.

H1: Capital Adequacy Ratio (CAR) has a positive effect on the profit growth of Islamic Commercial Banks in Indonesia.

### **Financing to Deposit Ratio on Profit Growth**

The Financing to Deposit Ratio (FDR) is a ratio used to measure a bank's ability to channel funds collected from the public in the form of financing. This ratio indicates the extent to which a bank is able to carry out its financial intermediation function effectively. A higher FDR indicates a more active bank in channeling financing to the public (Sudarsono, 2021:120). Optimal financing distribution can increase bank revenue through margins and financing profit sharing. Increasing revenue from the financing sector also increases the bank's profit potential. Research conducted by Subekti and Wardana (2022) shows that the FDR has a significant impact on the profitability of Islamic banks in Indonesia. These results indicate that a bank's ability to channel funds to the public is a crucial factor in improving financial performance. Another study by Maolana and Rosia (2024) also shows that the FDR has a positive effect on the stability of Islamic banks. Based on theory and previous research, it can be concluded that the greater a bank's ability to channel funds to the public, the greater the bank's opportunity to generate income from financing, thereby increasing bank profit growth.

H2: Financing to Deposit Ratio (FDR) has a positive effect on the profit growth of Islamic Commercial Banks in Indonesia.

### **Non-Performing Financing on Profit Growth**

Non-Performing Financing (NPF) is a ratio used to assess the proportion of problematic financing within a bank. It reflects the percentage of financing that is either overdue or uncollectible in accordance with the agreed terms. A higher NPF ratio signifies poor financing quality and increases the potential for financial losses (Fahmi, 2021:214). Non-performing financing can reduce bank revenue because disbursed funds cannot be optimally recovered. Furthermore, banks must also establish reserves for financing losses, which can reduce company profits. Research conducted by Pratama and Sari (2021) shows that NPF has a

negative impact on the profitability of Islamic banks. The results indicate that the higher the level of non-performing financing, the lower the bank's ability to generate profits. Another study conducted by Qhotimah, Fatmawati, Putri, and Agus Eko Sujianto (2023) also shows that financing quality influences the financial performance of Islamic banks. It can be concluded that an increase in the level of non-performing financing can reduce bank revenue and increase the risk of losses, thereby reducing bank profit growth.

H3: Non-Performing Financing (NPF) has a negative effect on the profit growth of Islamic Commercial Banks in Indonesia.

### **Net Operating Margin to Profit Growth**

Net Operating Margin (NOM) is a ratio used to measure a bank's ability to generate operating income from its productive assets. This ratio indicates the bank's efficiency in managing productive assets to generate profits. A higher NOM value indicates a better ability of the bank to generate income from its productive assets (Kasmir, 2021:182). Research conducted by Badriyah and Firawati (2024) indicates that Net Operating Margin influences the financial performance of Islamic banks. The results of this study indicate that a bank's ability to optimize productive assets is a crucial factor in increasing company profitability. Based on theory and previous research, it can be concluded that the greater a bank's ability to generate income from productive assets, the greater the potential for increased profits.

H4: Net Operating Margin (NOM) has a positive effect on the profit growth of Islamic Commercial Banks in Indonesia.

### **BOPO on Profit Growth**

BOPO is a ratio used to measure a bank's operational efficiency by comparing operating costs with operating income. This ratio indicates the extent to which a bank is able to efficiently manage operating costs in carrying out its business activities. A lower BOPO value indicates a more efficient bank management of operating costs, thereby increasing company profitability (Hery, 2020:318). Research conducted by Qhotimah, Fatmawati, Putri, and Agus Eko Sujianto (2023) shows that BOPO has a significant impact on the profitability of Islamic banks. Research by Subekti and Wardana (2022) also indicates that BOPO affects the financial performance of Islamic banks. Based on theory and previous research results, it can be concluded that a higher BOPO ratio indicates that a bank's operating costs are greater than the operating income earned, thereby reducing the bank's ability to generate profits.

H5: BOPO has a negative effect on the profit growth of Islamic Commercial Banks in Indonesia.

Based on the proposed research hypothesis, the following is a conceptual framework for the research.

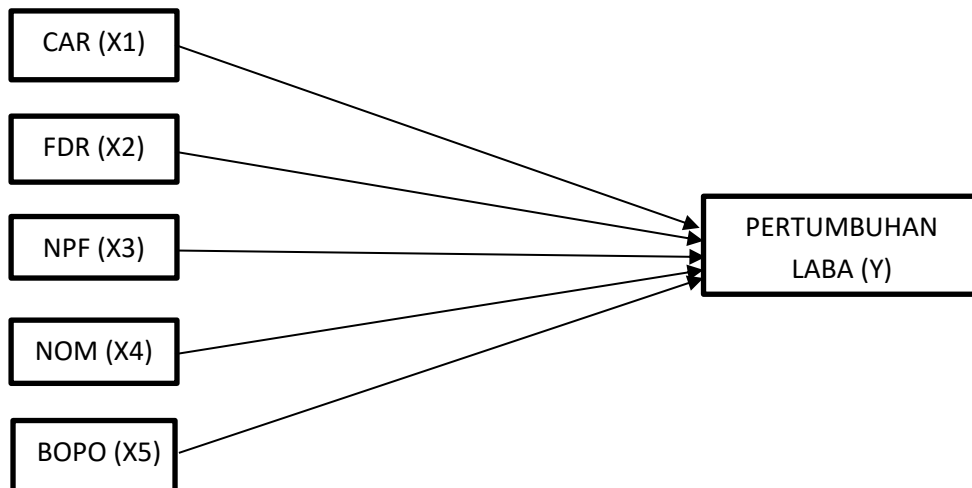


Figure 1. Conceptual Framework

## METHODOLOGY

This study employs a quantitative approach with an associative research design, aiming to examine the relationships between independent and dependent variables through numerical data analyzed using statistical methods. Associative research is intended to identify the relationships or influences among two or more variables within a research framework (Sugiyono, 2022:65). In this context, the study investigates the effect of the Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF), Net Operating Margin (NOM), and BOPO on profit growth in Islamic commercial banks in Indonesia.

The population of this study consists of all Islamic Commercial Banks operating in Indonesia and registered with the Financial Services Authority. These banks are financial institutions that conduct business activities based on Islamic principles, including fund collection, financing distribution, and other financial services in accordance with Sharia regulations. The sampling technique applied is purposive sampling, which selects samples based on specific criteria aligned with the research objectives (Sugiyono, 2022:85). The criteria include Islamic commercial banks registered with the Financial Services Authority, banks that consistently publish annual financial reports during the observation period, and banks that provide complete data related to the variables under study, namely CAR, FDR, NPF, NOM, BOPO, and profit growth. Banks that meet these requirements are then selected as the research sample.

The data utilized in this study are secondary data derived from officially published annual financial reports of Islamic commercial banks. These data are obtained from the official websites of each bank, as well as from Islamic banking statistics published by the Financial Services Authority. Additionally, supporting data are collected from various academic sources, including journals, books, and other relevant scientific publications. The data collection technique employed is documentation, which involves gathering, recording, and analyzing documents related to the research variables (Sugiyono, 2022:240).

To analyze the data, this study applies multiple linear regression to evaluate the influence of independent variables on the dependent variable. The regression model is formulated as:  $Y = \alpha + \beta_1CAR + \beta_2FDR + \beta_3NPF + \beta_4NOM + \beta_5BOPO + \varepsilon$ , where Y represents profit growth,  $\alpha$  denotes the constant,  $\beta$  represents the regression coefficients of each independent variable, and  $\varepsilon$  is the error term. Prior to conducting regression analysis, classical assumption tests are performed, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests, to ensure that the model satisfies the required statistical assumptions. Hypothesis testing is carried out using the partial test (t-test) to examine the effect of each independent variable individually, and the simultaneous test (F-test) to assess their collective influence on the dependent variable. Furthermore, the coefficient of determination ( $R^2$ ) is used to measure the extent to which the independent variables explain the dependent variable. All data analyses in this study are conducted using statistical software.

## RESEARCH RESULT

### Residual Normality Test

The purpose of the normality test is to examine whether the residual data in the regression model are distributed normally.

Table 1. Residual Normality Test

	Unstandardized Residual
N	60
Normal Parameters a,b	
Mean	0.000000
Standard Deviation	0.842156
Most Extreme Differences	
Absolute	0.087
Positive	0.061
Negative	-0.087
Test Statistics	0.087
Asymp. Sig. (2-tailed)	0.200
a. Test distribution is Normal	
b. Calculated from data	

The test results show that the Test Statistic value is 0.087. Furthermore, the Asymp. Sig. (2-tailed) value is 0.200, which is greater than the 0.05 significance level. This value indicates that the residual data in this study is normally distributed. Accordingly, the regression model fulfills the normality requirement, indicating that it is appropriate to proceed with regression analysis.

### Multicollinearity Test

Multicollinearity testing is carried out by looking at the Tolerance and Variance Inflation Factor (VIF) values for each independent variable.

Table 2. Multicollinearity Test

Model	Unstandardized Coefficients	Std. Error	Standardized Coefficients Beta	t	Sig.	Tolerance	VIF
(Constant)	2,314	1.102		2.101	0.040		
CAR	0.218	0.095	0.246	2,284	0.026	0.742	1,348
FDR	0.145	0.072	0.201	2,014	0.048	0.691	1,447
NPF	-0.287	0.104	-0.312	- 2,756	0.008	0.655	1,527
NOM	0.364	0.121	0.338	3,012	0.004	0.703	1,423
BOPO	-0.198	0.082	-0.257	- 2,418	0.019	0.668	1,497

a. Dependent Variable: Profit Growth

The test results show that the Capital Adequacy Ratio (CAR) variable has a tolerance value of 0.742 and a VIF value of 1.348. The Financing to Deposit Ratio (FDR) variable has a tolerance value of 0.691 and a VIF value of 1.447. The Non-Performing Financing (NPF) variable has a tolerance value of 0.655 and a VIF value of 1.527. The Net Operating Margin (NOM) variable has a tolerance value of 0.703 and a VIF value of 1.423, while the BOPO variable has a tolerance value of 0.668 and a VIF value of 1.497. All variables have tolerance values above 0.10 and VIF values below 10, so it can be concluded that the regression model in this study does not experience symptoms of multicollinearity.

### Heteroscedasticity Test

The heteroscedasticity test in this study was conducted using **the Glejser test** by regressing the absolute residual value against the independent variable.

Table 3. Heteroscedasticity Test

Model	Unstandardized Coefficients	Std. Error	t	Sig.
(Constant)	1,842	0.913	2,017	0.048
CAR	0.041	0.050	0.822	0.414
FDR	0.036	0.041	0.874	0.386
NPF	0.052	0.047	1,106	0.273
NOM	0.028	0.043	0.651	0.517
BOPO	0.039	0.045	0.860	0.392

a. Dependent Variable: Abs\_RES

The test results show that the **CAR variable** has a significance value of **0.414**, the **FDR variable** is **0.386**, the **NPF variable** is **0.273**, the **NOM variable** is **0.517**, and the **BOPO variable** is **0.392**. As all significance values exceed the 0.05 threshold, it can be inferred that the regression model does not suffer from heteroscedasticity, implying that the residual variance is stable and homoscedastic.

**Autocorrelation Test**

The autocorrelation test is used to determine whether in the regression model there is a correlation between the nuisance error (residual) in a period with the nuisance error in the previous period.

Table 4. Autocorrelation Test

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Durbin-Watson
1	0.712	0.507	0.463	0.915	1,932

a. Predictors: (Constant), CAR, FDR, NPF, NOM, BOPO

b. Dependent Variable: Profit Growth

Based on the regression output, the Durbin-Watson value was 1.932. This value ranges from 1.5 to 2.5, indicating no signs of autocorrelation in this research's regression model. Therefore, it can be concluded that there is no correlation between residuals from one observation period and another.

**t-test**

The t-test was conducted to determine the effect of each independent variable on the dependent variable partially.

Table 5. t-test

Model	Unstandardized Coefficients	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	2,314	1.102		2.101	0.040
CAR	0.218	0.095	0.246	2,284	0.026
FDR	0.145	0.072	0.201	2,014	0.048
NPF	-0.287	0.104	-0.312	-2,756	0.008
NOM	0.364	0.121	0.338	3,012	0.004
BOPO	-0.198	0.082	-0.257	-2,418	0.019

a. Dependent Variable: Profit Growth

Based on the regression test results table, the constant value is 2.314, the regression coefficient for the CAR variable is 0.218, the FDR variable is 0.145, the NPF variable is -0.287, the NOM variable is 0.364, and the BOPO variable is -0.198. Thus, the multiple linear regression equation in this study can be formulated as follows:

$$Y = 2.314 + 0.218CAR + 0.145FDR - 0.287NPF + 0.364NOM - 0.198BOPO + e$$

The constant value of 2.314 indicates that if all independent variables, namely CAR, FDR, NPF, NOM, and BOPO, are considered constant or zero, then the profit growth value is estimated at 2.314. The CAR regression coefficient of 0.218 indicates that every one-unit increase in CAR will increase profit growth by 0.218 assuming other variables remain constant. The FDR regression coefficient of 0.145 indicates that every one-unit increase in FDR will increase profit growth by 0.145. The NPF regression coefficient of -0.287 indicates that every one-unit increase in NPF will decrease profit growth by 0.287. The NOM regression coefficient of 0.364 indicates that every one-unit increase in NOM will increase

profit growth by 0.364. The BOPO regression coefficient of -0.198 indicates that every one-unit increase in BOPO will decrease profit growth by 0.198.

**F test**

The F test is conducted to determine the influence of independent variables on dependent variables simultaneously.

Table 6. F Test

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	0.712	0.507	0.463	0.915

a. Predictors: (Constant), CAR, FDR, NPF, NOM, BOPO

b. Dependent Variable: Profit Growth

The *R Square value* obtained was 0.507. This value indicates that 50.7% of the variation in profit growth can be explained by the CAR, FDR, NPF, NOM, and BOPO variables used in this research model. In addition, the remaining 49.3% is affected by external variables not examined in this study, such as risk management strategies, broader operational efficiency measures, macroeconomic environments, and bank management policies. The Adjusted R Square value of 0.463 indicates that after adjusting for the number of independent variables in the model, the ability of the CAR, FDR, NPF, NOM, and BOPO variables to explain the profit growth variable is 46.3%. This Adjusted R Square value is used as a more accurate measure in the multiple regression model because it has taken into account the number of variables used in the study.

**DISCUSSION**

***Capital Adequacy Ratio (CAR) to Profit Growth***

The results show that CAR positively and significantly influences profit growth, highlighting the importance of capital adequacy in improving profitability. Adequate capital allows banks to expand their operational activities, particularly in financing distribution to the public. Furthermore, strong capital also provides protection against various financial risks that may arise from bank operations. With this capability, banks can perform their intermediation function more optimally, thereby increasing revenue, which ultimately impacts profit growth.

Theoretically, *the Capital Adequacy Ratio (CAR)* is a ratio used to measure a bank's ability to provide capital to cover potential losses from its operational activities. CAR also reflects the soundness of the banking sector in terms of capital. According to Kasmir (2021:324), CAR indicates a bank's ability to provide funds for business development and to accommodate potential losses arising from operational activities. Banks with a high level of capital adequacy are better able to maintain financial stability and increase productive business activities. Furthermore, Ismail (2020:211) explains that strong capital adequacy allows banks to expand financing activities, thereby increasing operating income.

Therefore, the higher the level of capital adequacy, the greater the bank's potential to increase profits.

The results of this study align with several previous studies showing that CAR has a positive impact on bank financial performance. Research conducted by Rahman and Safitri (2021) found that capital adequacy positively impacts Islamic bank profitability because strong capital enables banks to increase financing and investment activities. Another study by Hidayat and Nurhayati (2022) also showed that CAR has a positive impact on profit growth in Islamic banking. However, other studies have shown conflicting results. Research conducted by Sari and Wibowo (2020) found that CAR had no significant impact on bank profitability because high levels of capital adequacy were not always accompanied by optimal capital utilization in bank business activities. These differences in research findings indicate that the influence of CAR on bank financial performance can be influenced by operational conditions and the capital management strategies implemented by each bank.

The empirical condition of Islamic banking in Indonesia during the research period shows that most Islamic commercial banks had CAR levels above the minimum limit set by banking regulators. This condition indicates that Islamic banks have a capital structure strong enough to support their operational activities. A high level of capital adequacy allows banks to increase financing distribution to the public and expand other business activities. This increase in financing activity will generate income for banks in the form of margins and profit sharing, thereby increasing their profit growth.

Based on the analysis and discussion, it can be concluded that *the Capital Adequacy Ratio* (CAR) has a positive and significant effect on profit growth at Islamic commercial banks in Indonesia. This indicates that the higher a bank's capital adequacy, the greater its ability to increase financing activities and generate profit growth.

### ***Financing to Deposit Ratio (FDR) on Profit Growth***

The results show that FDR positively and significantly affects profit growth. A higher FDR leads to increased profit growth, indicating that greater financing relative to deposits enhances the bank's income-generating potential. Financing activities are the main source of income for Islamic banks because banks earn profits from margins, profit sharing, and other financing contracts. Therefore, the more optimal a bank is in channeling third-party funds into productive financing, the greater the bank's potential to increase revenue and profit growth.

Theoretically, the FDR is a ratio used to measure a bank's ability to perform its financial intermediation function, namely collecting funds from the public and redistributing them in the form of financing. According to Ismail (2020:226), the FDR illustrates a bank's ability to utilize funds collected from the public for redistribution in the form of productive financing. The higher the FDR, the more optimal the bank's intermediation function. Furthermore, Kasmir (2021:315) explains that a high level of fund disbursement indicates a bank's

ability to utilize its funds to generate operational income. Therefore, the higher the FDR, the greater the bank's potential to increase revenue and profits.

The results of this study align with several previous studies showing that the FDR has a positive impact on the financial performance of Islamic banks. Research conducted by Pratiwi and Hidayat (2021) showed that the FDR has a positive and significant effect on the profitability of Islamic banks because a high level of financing disbursement can increase bank revenue. Another study conducted by Rahman (2022) also found that optimizing the bank's intermediation function through increased financing can boost profit growth. However, other studies have shown conflicting results. Research conducted by Suryani (2020) found that the FDR has no significant effect on the profitability of Islamic banks because increased financing is not always accompanied by an increase in financing quality. If the disbursed financing carries a high level of risk, this can actually lead to problematic financing, which can degrade the bank's financial performance.

The empirical situation of Islamic commercial banking in Indonesia shows that most banks are able to channel third-party funds collected from the public into financing activities. This financing activity is one of the main sources of income for Islamic banks. By increasing financing distribution to the productive sector, banks will earn income from margins and profit sharing, thereby improving financial performance and profit growth. This condition indicates that optimizing the intermediation function plays a crucial role in supporting profit growth in Islamic banking. The results of the analysis confirm that the Financing to Deposit Ratio (FDR) exerts a positive and significant impact on profit growth, suggesting that greater financing allocation from collected funds strengthens the bank's capacity to generate revenue and improve profitability.

### ***Non Performing Financing (NPF) on Profit Growth***

Empirical findings reveal that NPF has a negative and significant relationship with profit growth in Islamic Commercial Banks in Indonesia. This suggests that as the proportion of non-performing financing increases, the bank faces a greater risk of losses, resulting in declining profit growth. Non-performing financing can hamper a bank's cash flow because customers are unable to fulfill their obligations in accordance with financing agreements. This condition forces banks to provide provisions for financing losses, which can reduce bank income. Therefore, an increase in NPF will have an impact on declining financial performance and bank profit growth.

Theoretically, Non-Performing Financing (NPF) is a ratio used to measure the level of non-performing financing held by Islamic banks. This ratio indicates the quality of financing disbursed by banks to customers. According to Ismail (2020:232), NPF is an indicator that describes the quality of Islamic banks' productive assets. The higher the level of non-performing financing, the greater the risk of loss borne by the bank. Furthermore, Kasmir (2021:334) explains that high levels of non-performing loans or financing can reduce bank profitability because banks must bear the costs of provisioning for losses and the loss of

potential income from such financing. Therefore, the higher the NPF level, the greater the negative impact on the bank's financial performance and profit growth.

The results of this study align with several previous studies showing that NPF negatively impacts the financial performance of Islamic banking. This research, conducted by Hidayat and Pratiwi (2021), found that increasing levels of non-performing financing can reduce the profitability of Islamic banks due to the increased risk of losses borne by the banks. Another study by Rahman and Fauzi (2022) also showed that non-performing financing (NPF) had a negative and significant effect on profit growth in Islamic banks. However, other studies have shown different results. Research by Suryani (2020) found that non-performing financing (NPF) had no significant effect on Islamic bank profitability because banks were able to manage financing risks through a robust risk management system, thus minimizing the impact of non-performing financing.

The empirical conditions of Islamic banking in Indonesia show that the Non-Performing Financing (NPF) level at several Islamic Commercial Banks continues to fluctuate from year to year. The increase in non-performing financing can be caused by various factors such as economic conditions, customer repayment capacity, and the quality of the bank's financing analysis. When the NPF level increases, banks must provide larger reserves for financing losses, which can reduce their income. This condition causes bank profit growth to be lower than when the non-performing financing level is at a lower level. Based on the analysis and discussion, it can be concluded that Non-Performing Financing (NPF) has a negative and significant effect on profit growth at Islamic Commercial Banks in Indonesia. This indicates that the higher the level of non-performing financing held by a bank, the greater the negative impact on financial performance and profit growth.

### ***Net Operating Margin (NOM) to Profit Growth***

The results show that NOM positively and significantly influences profit growth, where higher NOM leads to increased profitability. The results of this study indicate that the greater the bank's ability to generate operating income from its productive assets, the greater the bank's ability to increase profits. Net Operating Margin reflects the bank's effectiveness in managing productive assets such as financing, investments, and other financial instruments to generate operating income. When a bank is able to maximize income from these productive assets, the bank's operating income will increase, thereby contributing to increased profit growth.

Theoretically, Net Operating Margin (NOM) is a ratio used to measure a bank's ability to generate operating income from its productive assets. According to Ismail (2020:239), NOM reflects a bank's level of effectiveness in managing productive assets to generate operating income. The higher the NOM value, the greater the bank's ability to generate income from financing and investment activities. Furthermore, Kasmir (2021:336) explains that a bank's ability to efficiently manage productive assets will increase operating income, thereby

impacting financial performance and profits. Therefore, the higher the Net Operating Margin, the greater the bank's potential for increasing profit growth.

The results of this study align with several previous studies showing that Net Operating Margin has a positive impact on the financial performance of Islamic banks. Research conducted by Rahman and Hidayat (2021) found that NOM positively impacts Islamic bank profitability because the bank's ability to generate operating income from productive assets can increase bank profits. Another study conducted by Prasetyo and Nurhayati (2022) also showed that increasing Net Operating Margin improves the financial performance of Islamic banks. However, other studies have shown conflicting results. Research conducted by Sari (2020) found that NOM does not significantly impact bank profitability because the bank's ability to generate operating income is not always accompanied by efficiency in its operational costs.

The empirical conditions of Islamic banking in Indonesia show that the Net Operating Margin (NOM) value of Islamic Commercial Banks varies between banks and between research periods. Banks with higher NOM values indicate that they are able to utilize their productive assets more effectively to generate operating income. This condition contributes to improving the bank's financial performance. With increased operating income from productive assets, the bank will earn greater profits, thus increasing profit growth. Therefore, it can be concluded that the Net Operating Margin (NOM) has a positive and significant effect on profit growth in Islamic Commercial Banks in Indonesia. This indicates that the greater a bank's ability to generate operating income from its productive assets, the greater the bank's potential to increase profit growth.

### **Operating Expenses to Operating Income (BOPO) to Profit Growth**

The results show that BOPO negatively and significantly influences profit growth, where higher BOPO leads to lower profitability. The results of this study indicate that the level of bank operational efficiency plays a very important role in determining the bank's ability to generate profits. BOPO is an indicator that describes the comparison between operational costs incurred by a bank and the operating income earned. A higher BOPO value indicates that the bank's operational costs incurred are greater than the income earned. This condition indicates a low level of operational efficiency, which can suppress the bank's profits. Conversely, a lower BOPO value indicates a more efficient bank in managing its operational costs, thereby increasing profits.

Theoretically, BOPO is a ratio used to measure a bank's operational efficiency. This ratio indicates a bank's ability to manage operating costs to generate operating income. According to Kasmir (2021:338), the BOPO ratio is used to assess a bank's operational efficiency. The lower the BOPO value, the more efficient the bank is in carrying out its operational activities. According to Ismail (2020:241), operational efficiency is essential for strengthening a bank's financial performance, since effective management of operating expenses enhances profitability. Thus, an increase in BOPO signifies rising operational costs, which can negatively affect profits.

The results of this study align with several previous studies showing that BOPO has a negative impact on bank financial performance. Research conducted by Rahman and Safitri (2021) found that increasing operating costs that are not matched by an increase in operating income can reduce bank profitability. Another study conducted by Pratiwi and Hidayat (2022) also showed that BOPO has a negative and significant effect on profit growth in Islamic banking. However, other studies have shown conflicting results. Research conducted by Suryani (2020) found that BOPO does not significantly impact bank profitability because some banks were able to increase their operating income despite relatively high operating costs.

The empirical conditions of Islamic banking in Indonesia show that the BOPO (Operating Cost to Operating Income) rate at Islamic Commercial Banks still shows variation between banks and between research periods. Banks with high BOPO values indicate that their operating costs are relatively high compared to their operating income. This condition can reduce the bank's operational efficiency, resulting in decreased profits. Conversely, banks that are able to reduce operating costs and increase operating income will have a better level of efficiency, thereby increasing profit growth. The results confirm that the Operating Cost to Operating Income (BOPO) exerts a negative and significant impact on profit growth, suggesting that an increase in operating expenses relative to operating income diminishes the bank's profitability.

## **CONCLUSIONS AND RECOMMENDATIONS**

The study finds that CAR and FDR positively and significantly contribute to profit growth, indicating that strong capital positions and effective fund distribution support better financial outcomes. Additionally, NOM has a positive and significant impact, showing that efficient management of productive assets enhances profitability. However, NPF and BOPO negatively and significantly affect profit growth, implying that higher non-performing financing and greater operational costs can hinder the bank's ability to generate profits. Based on the research results, the management of Islamic Commercial Banks in Indonesia is expected to strengthen their capital structure, optimize productive financing distribution, and improve productive asset management capabilities to generate higher operating income. Furthermore, banks need to improve the quality of financing risk management to reduce the level of non-performing financing and increase operational efficiency so that operational costs can be optimally controlled. For future researchers, this research is expected to be developed by adding other variables that have the potential to influence profit growth, such as bank size, management efficiency, and macroeconomic factors, as well as expanding the research object not only to Islamic Commercial Banks but also to Islamic Business Units and other Islamic financial institutions to obtain more comprehensive research results.

### **Advanced Research**

This study has several limitations, including the use of variables that are still limited to internal banking factors, namely the Capital Adequacy Ratio

(CAR), Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF), Net Operating Margin (NOM), and Operating Costs to Operating Income (BOPO) in explaining profit growth in Islamic Commercial Banks in Indonesia. In addition, this study is also limited to the observation period and research objects that only cover Islamic Commercial Banks, so it does not fully represent the condition of the Islamic financial industry as a whole. Therefore, further research is expected to add other variables that have the potential to influence profit growth, both originating from internal and external factors such as macroeconomic conditions, as well as expanding the research object by involving Islamic Business Units or other Islamic financial institutions to produce more comprehensive findings.

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