

Original Research Article

The Impact of Efficiency, Financing Risk, Liquidity, Independent Commissioner Composition, and Sharia Supervisory Board toward Financial Performance in Sharia Banks

ABSTRACT

Aims: This study aims to examine impact of Efficiency, Financing Risk, Liquidity, Independent Commissioner Composition, and Good Corporate Governance toward Financial Performance in Sharia Bank. The independent variables used in this study are Efficiency (BOPO), Financing Risk (NPF), Liquidity (FDR), Independent Commissioner Composition, and the Sharia Supervisory Board. While the dependent variable of this study is Financial Performance (ROA).

Study design: Quantitative, Panel data regression on time series data

Place and Duration of Study: Sample: with a purposive sampling approach, a total of 70 consisting of 10 companies listed on the Financial Service Authority in 2017-2023.

Methodology: This study utilized the Random Effect Regression Model based on the preliminary test result for panel data regression.

Results: The result on this study indicate that BOPO doesn't affect financial performance, NPF and FDR have a negative effect on financial performance, ICC doesn't affect financial performance, and GCG doesn't effect on financial performance.

Conclusion: This study concludes that improving on Islamic banks financial performance is influence by several factors, including NPF. The result can be reference for Islamic banks in making financial decision. In addition, this research can also help investors can make decision in Islamic banks.

Keywords: BOPO, NPF, FDR, Independent Commissioner Composition, Sharia Supervisory Board

1. INTRODUCTION

In Indonesia, the presence of Islamic Banks is exceptionally supportive for the community, particularly Muslims, to escape usuary practices. Islamic banking in Indonesia has been increasing since the existence of Law No. 21 of 2008 concerning Islamic banking, which gives a more straightforward working premise for Islamic banks [1].

The performance of the bank can be assessed from various indicators. One essential source of these indicators is the banks financial statements, which serve as the basis evaluation. From the report, several financial ratios will be calculated, which are commonly used to evaluate the bank's economic health [2].

The health level of banking in Indonesia is listed in OJK regulation No 4/PJOK.03/2016 using RGCE (Risk Profile Good Corporate Governance, Earnings, And Capital). A risk profile is a measurement of bank's health level. It interprets the consequence that arise and will influence the bank's quantitative and non-quantitative operational activities that affect bank financial reports. Good corporate governance (GCG) measures the quality of bank governance, as seen in transparency, accountability, liability, independence, and fairness of financial reports. Earning measures a bank's health level regarding the profit generated from its operational activities. Capital is measurement of the health level of bank based on the amount of capital against Risk Weighted Assets (RWA) set by OJK [3].

The bank health ratio shows a banks condition or performance by assessing efficiency, financing, liquidity, independent commissioner composition and corporate governance factors. These factors are assessed quantitatively after considering the influence of other factors, such as the condition of the banking industry and the national economy. Researcher use the Operational Efficiency, NPF, FDR, Independent Commissioner Composition and Sharia Supervisory Board ratios[4].

The main factor seen in assessing a company is its financial performance. This makes financial performance an factor to determine a company's financial position by measuring its ability to generate profits. Generating company profits can be seen from the effectiveness of a company in using assets, which will be used to evaluate financial performance[5].

One way to evaluate the performance of banks is to look at their profitability rank, which indicates how much money they make. Return On Asset (ROA) is the ratio that is typically use to gauge a bank's level of profitability. However, Bank Indonesia as supervisory bank, prioritizes bank's profitability as determined by its asset, with most of its funding coming from public savings and then the bank itself [6].

Table 1 is a graph of the average Return on Assets (ROA) growth at Bank Sharia Indonesia for the period 2017-2023:

Table 1
Development of Financial Ratio of Sharia Banks

Ratio	2017	2018	2019	2020	2021	2022	2023
ROA	0,63%	1,28%	1,73%	1,40%	1,55%	2,00%	1,88%
NPF	4,77%	3,26%	3,23%	3,13%	2,59%	2,35%	2,10%
FDR	79,65%	78,53%	77,91%	76,36%	70,12%	75,19%	79,06%
BOPO	94,91%	89,18%	84,45%	85,55%	84,33%	77,28%	78,31%

Source from OJK (2024)

Based on the table 1, financial performance in Islamic bank's fluctuated from 2017-2023. Although there have been improvements in several ratios, such as decrease in NPF and increase in terms of BOPO, the decrease in ROA in 2023 indicates that Islamic banks face challenges in increasing their profitability. The decrease in ROA by 0.22% in 2023 indicates obstacles in achieving optimal profits compared to the asset owned by the Islamic commercial banks. The phenomenon indicates challenges in Islamic commercial banks operations regarding cost efficiency and management of risky asset and financing.

According to [7] in Islamic banking, execution is one of the indicators that bank must consider in order to survive. The performance of Islamic banks may be a picture of each financial result that can be achieved by a banking company in a certain period through activities carried out by the company to create profits viably and effectively, which are stated in the financial and non-financial reports of Islamic banks.

The level of profitability is considered the measure a bank's performance. Return on assets (ROA) is commonly used as a profitability metric in the banking sector because it focuses on the bank's ability to generate earnings through its operations[8].

Another factor that can influence financial performance is operating efficiency. According to Bank Indonesia, operating efficiency is assessed by comparing total

operational costs to total operating income commonly referred as BOPO[9]. Efficiency is interpreted as a comparison between output and input. A company is considered efficient if it produces greater output than others using the same input. Alternatively, it produces the same output but less than other companies input. Efficiency is the right way to carry out something without wasting time, energy, and money. The assessment of the efficiency aspect is intended to measure the bank's ability to utilize its fund and the costs incurred to operate these funds[10]. Thus, the operating efficiency of a bank proxied by the BOPO ratio will affect the bank's performance [8]. The result of research conducted by [11], [12], and [13] result that BOPO has significant positive effect on financial performance. This is different from the results of research conducted by [14], [15], and [16] result that BOPO has significant negative effect on financial performance. While research from [17], [18], and [19] stated that BOPO has no effect on financial performance.

Non-performing financing (NPF) is also one of the factors that affect the financial performance of sharia banks. NPF is a ratio that describe the amount of problematic financing compared to the total financing. The more unprofitable financing carried out by the bank, the more it shows the bank inability as a lender to recognize its customers. To minimize the risk of non-performing financing, banks can recognize their customers further with 5C, namely (Character, Capacity, Capital, Collateral, and Condition) the customer before providing financing[20]. The result of research conducted by [21], [22], and [23] result that NPF had a positive effect on financial performance. This is different from the results of research conducted by [18], [24], and [6] result that NPF has negative effect on financial performance. While research from [25], [19], and [26] stated that NPF has no effect on financial performance.

Liquidity is another factor that can affect financial performance, which is represented by the Financing-to-Deposit Ratio (FDR). The financing-to-deposit ratio (FDR) assess a bank's capacity to fulfill obligations to customers who have deposited funds. Therefore, the value of the FDR ratio will influence the financial performance of Islamic banks. The result of research conducted by [18], [21], and [27] result that FDR had a positive effect on financial performance. This is different from the result of research conducted by [28], [29], and [26] result that FDR has negative effect on financial performance. While research from [16], [30], and [31] stated that FDR has no effect on financial performance.

Other factor that can also affect financial performance is composition independent commissioner. The board of commissioners is the peak of the internal management system and has role in supervisory activities. It is composed of a large number of independent commissioners who are tighter on supervision in the bank's operations. The importance of an independent board of commissioners in the Islamic banking is to help plan long-term strategies and, on a scale, to review the implementation of the strategy [32]. The result of research conducted by [33] and [34] stated that composition independent commissioner has positive effect on financial performance. This is different from the result of research conducted by [35] and [36] stated that composition independent commissioner has negative effect on financial performance. While research from [37], [38], and [39] stated that ineffective monitoring has no effect on financial performance.

The performance of Islamic banking can be influenced by several factors, one of which is the existence of the Sharia Supervisory Board in the corporate governance system. The function and role SSB in Islamic banking institutions in Indonesia are very strategic in the practice of Sharia compliance[40]. The function and role of SSB have a strong relationship with the management of Islamic banking risk, namely reputation risk, which gives impression of other risks, such as liquidity risks[41]. The result of research conducted by [42], [43], and [44] stated that SSB has positive effect on financial performance. This is different from the result of research conducted by [25], [45], and [16] stated that SSB has negative effect on financial performance. While research from [2], [46], and [47] stated that SSB has no effect on financial performance.

Based on the explanation above, it can be explained as there are several differences from the result of previous studies, further research is needed to assess the performance of Sharia banks registered with the Indonesian Financial Services Authority (OJK). This research is a development of research conducted by [15]. The difference between this research and previous research is adding the financing to deposit ratio variable as an independent variable. By adding FDR as an independent variable, this research can provide a more complete picture of how Sharia banks manage funds obtained from customers and the impact on financial performance. Second, the difference lies in the sample of companies where previous studies used sample of Islamic commercial banks in Indonesia registered with the Financial Service Authority in 2014-2019. While this study uses sample of Islamic commercial bank companies registered with the Financial Service Authority with a period of 7 years from 2017-2023.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Literature Review

2.1.1 Stewardship Theory

Stewardship theory is an attitude of service, where management has an attitude of serving its stakeholders. This means that when management carries out operational activities, the management company also provides services in the economic sector that are in accordance with Sharia principle [24].

The stewardship theory illustrates a situation where managers focus on achieving their primary goals for the organization's benefit than on achieving individual goals. It is based on the psychological and sociological idea that executive (stewards) are motivated to act by the principal's interest. In addition, the steward's actions will remain in the company because it aims to achieve the organization's goals [48].

According to this theory, managers prioritizing the company's interest over their own will be less driven to achieve their personal goals. Since humans are generally reliable, accountable, and honest with each other, stewardship theory was developed based on this assumption [49].

2.2 Hypothesis Development

2.2.1 Effect of Efficiency on Financial Performance

BOPO measures a bank's efficiency and ability to run business. It measures efficiency and performance in implementing the bank's business. The maximum limit for operational banking ratios regulated by Indonesia financial services authority under guideline number 3/PJOK.03/2016 the amount of normal BOPO ranges between 94%-96% [9]. A lower BOPO ratio indicates greater efficiency in the bank's operations, which sends a positive signal to stakeholders [50]. Stewardship is the theory that managers focus not on personal motivation but the organization interest. Then, all fund management activities are carried out with a mandate and uphold a sense of responsibility in their management [51].

According to [52], research has shown that BOPO has a negative effect on financial performance. This research is in line with [14] and [15] showing that BOPO has a negative and significant effect on financial performance.

H1: Efficiency (BOPO) has a negative effect on financial performance

2.2.2 Effect of Financing Risk (NPF) on Financial Performance

NPF is a ratio that measures the bank's ability to cover the risk of debtor's failure to return credit. The maximum limit for non-performing financing ratio regulated by Bank

Indonesia under guideline number 23/2/PBI/2021 the amount of normal NPF ranges between 2%-5% [53]. Higher NPF levels can lower bank's profitability, as funds allocated to financing and other productive asset may become a loss and fail to generate income. The implication between NPF and ROA suggest that a high NPF indicates the banks failure to properly assess risk before financing to debtors [27]. In stewardship theory, banks as servant, manage and channel funds from customers through financing. Banks get these funds distributed will certainly affect profitability [16]

According to [24], research has shown that NPF has negative effect on financial performance. This research in line with [16] and [6] showing that NPF has negative and significant affects the financial performance.

H2: Financing Risk (NPF) have negative affect on financial performance

2.2.3 Effect of Liquidity on Financial Performance

According to [18] FDR is determined by dividing by financing third-party funds. If the amount of third-party funds collected increases, the distribution of financing also rises. The maximum limit for financing-to-deposit ratio regulated by Bank Indonesia guideline number 6/23/DPNP/2011, is between 85%-100% [53]. Higher financing can lead to greater profits, enhancing the company's profitability. When a bank's FDR ratio is within the ideal range, the bank's profit will increase. Under the stewardship theory in financing products. Islamic bank as principals entrust the management of funds to customers as trustees, who ideally can consider all common interest [16].

According to [18], research has shown that FDR has positive effect on financial performance. This research in line with [21] and [27] showing that FDR has positive and significant affects the financial performance.

H3: Liquidity have positive affect on financial performance

2.2.4 Effect Independent Commissioner Composition on Financial Performance

Independent commissioners are not affiliated with other commissioners, act as neutral parties, and ensure company management can run according to applicable rules and regulations. The existence of independent commissioners can minimize the occurrence of differences in interest between principals in the company. Independent commissioners are needed to control the actions of the board of directors so that opportunistic actions do not occur and to increase the company's effectiveness. Therefore, the company's independence will be protected from pressure from people with personal interest [33]. The increasing proportion of independent commissioners in a sharia banks can affect the Islamic bank's financial performance is increasing because it encourages the actions taken by the board of directors to be more effective [54]

According to [34] state that composition commissioners independent has positive effect on financial performance. This research in line with [33] showing that composition commissioners independent has positive effect on financial performance.

H4: Independent commissioner composition have positive affect on financial performance

2.2.5 Effect Sharia Supervisory Board on Financial Performance

The Sharia Supervisory Board has a central role in Islamic financial institution. It serves as supervisor who screen and control operational activities. Its primary objective is to guarantee the integrity, validity, and transparency of Islamic banks [55]. The size of the Sharia Supervisory Board is the number of Sharia supervisors at the end of the year during

the annual period of Sharia banks. The larger the size of SSB, the more supervision is carried out, which can impact the Islamic banking business and improve its performance[56].

According to [42] state that Sharia supervisory board has positive effect on financial performance. This research in line with [43] and [44] showing that sharia supervisory board has positive affect on financial performance.

H5: Sharia supervisory board have positive effect on financial performance

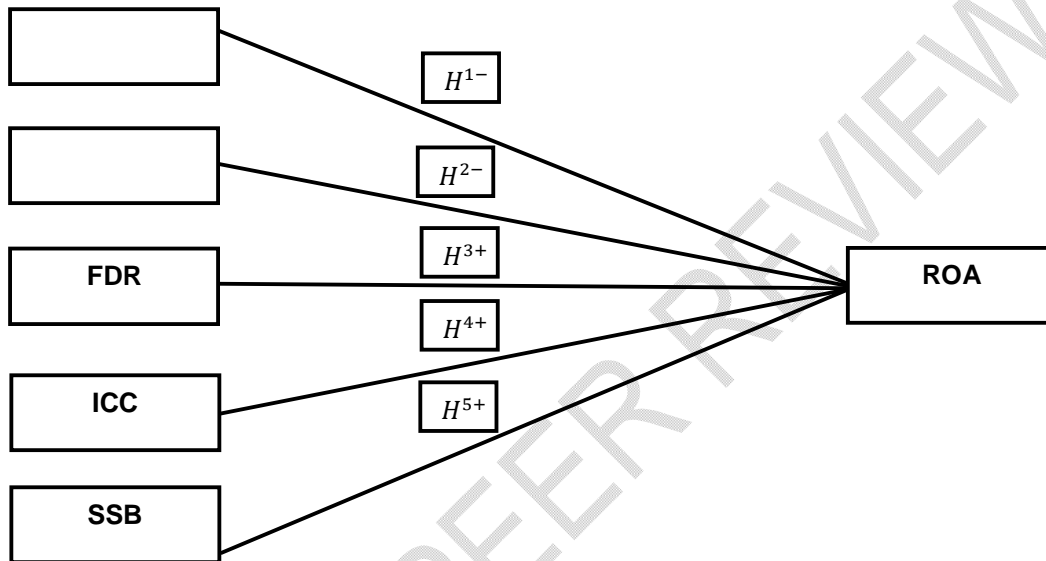


Fig. 1. Conceptual Framework

2.3 Methods

2.3.1 Data and Collection

This type of research used in quantitative research. The data used in this study is secondary data contained in the annual report obtained on the Financial Service Authority website or the company's official website.

Population and Sample

The population in this study is all Sharia Commercial Banks registered with the Financial Service Authority. The sample used in this study is Islamic commercial banks registered with the Financial Service Authority for the 2017-2023 period. The sample determination procedure uses the purposive sampling method or with predetermined criteria.

The sampling criteria in this study were as follows:

1. Sharia Commercial Banks that have been registered with the Financial Service Authority in 2017 – 2023.
2. Sharia Commercial Banks that publish annual financial reports on their official website in 2017-2023
3. Disclosing complete data related to research variable during the period 2017-2023.

2.3.1 Operational Definition and Measurement of Variables

2.3.1.1 Financial Performance (ROA)

This study used ROA as a dependent variable because it is used to measure the effectiveness of companies in making income by utilizing assets owned. A high ROA indicates that the bank is effectively utilizing the assets it has well [57].

$$ROA = \frac{Net\ Income}{Total\ Asset} \times 100\%$$

2.3.1.2 Efficiency (BOPO)

This operating costs ratio is commonly referred to as the efficiency ratio and it measures the bank management's capacity to control operating costs against operating income [58]. The smaller this ratio, the more efficient the operating costs incurred by the bank concerned, so the possibility of a bank being difficult condition is smaller [59].

$$BOPO = \frac{Operational\ Expenses}{Operating\ Income} \times 100\%$$

2.3.1.3 Non-Performing Financing (NPF)

Non-Performing Financing (NPF) is a measure of credit risk that becomes a bank soundness parameter. The higher the NPF level, the less professional the bank is in managing credit. This shows that level of risk in lending to the bank is generally high, which is in line with the high NPF [60].

$$NPF = \frac{Total\ Bad\ Financing}{Total\ Financing} \times 100\%$$

2.3.1.4 Financing to Deposit Ratio (FDR)

Financing to Deposit Ratio (FDR) measures the financing given to the total funds and capital owned. That has been given to the amount of funds and capital owned. The result can serve as an indicator of the bank's ability to repay withdrawals that customers will make [61].

$$FDR = \frac{Total\ Financing}{Third\ Parties\ Financing} \times 100\%$$

2.3.1.5 Independent Commissioner Composition

An independent commissioner is a commissioner who is not a member of management or majority shareholder or who is not directly affiliated with the majority shareholder in the company and supervises the management of the company [32].

$$ICC = \frac{Total\ of\ Independent\ Commissioners}{Total\ Board\ of\ Commissioner} \times 100\%$$

2.3.1.6 Sharia Supervisory Board

Sharia Supervisory Board is tasked with supervisor of Islamic financial institutions, directing every Islamic banking operational activity, including Islamic banks, Islamic insurance, Islamic capital market, and other, so that all Islamic financial institutions can run

in accordance with the demands of Islamic law [62]. Every increase in SSB meetings can potentially reduce financial performance in Islamic banking. This shows that SSB intervention in management policy increases along with the frequency of meetings to increase the condition of the company's financial performance, so the level of earnings management should decrease along with improvement in the quality of the report [63].

$$\text{Number SSB Meeting} = \sum \text{Meeting in one year}$$

2.3.2 Data Analysis Technique

This study uses the panel data regression model for hypothesis testing. The effect between BOPO, NPF, FDR, Independent Commissioner Composition, and Sharia Supervisory Board. On the effect toward ROA is certified by panel data analysis. OLS (Ordinary Least Square), FE (Fixed Effect), and RE (Random Effect) models are used in panel data analysis to analyze time series and intercepts. The Chow test is used to compare the fixed effect model and the ordinary least squares model. On the other hand, the ordinary least squares regression model vs the random effects regression model is tested using the Breusch and Pagan Lagrangian Multiplier Test. The best panel data regression model between fixed effect and random effect models is determined using the Hausman test. In this study uses a model to test the effect of BOPO, NPF, FDR, Independent Commissioner Composition, and Sharia Supervisory Board on the relationship toward ROA. The following is the regression equation model used in this study:

$$\text{ROA} = \alpha + \beta_1 \text{BOPO} + \beta_2 \text{NPF} + \beta_3 \text{FDR} + \beta_4 \text{ICC} + \beta_5 \text{DPS} + \epsilon$$

Descriptions:

- ROA : Return on Asset
- α : Constant
- β_1 - β_5 : Regression coefficient in each independent variable
- BOPO : Operating Expense Operating Income
- NPF : Non-Performing Financing
- FDR : Funding-to-Deposit Ratio
- ICC : Independent Commissioner Composition
- SSB : Sharia Supervisory Board
- ϵ : Error term

3. RESULTS AND DISCUSSION

3.1 RESULTS

3.1.1 Descriptive Statistical Analysis

Descriptive statistical analysis provides an overview of data seen from the minimum value, maximum value, mean value, and standard deviation of data. The standard deviation serves as a measure of how spread out the data is, and a smaller standard deviation implies that the data is more tightly clustered around the mean. The output of the descriptive statistics analysis on table 2 shows the number of observation respondents as many as 70. The minimum ROA is -37.49 and the maximum is 10.80, where the average is 0.39 or 0.39% which can be interpreted as the ROA value in Islamic banking being not good because, according to Bank Indonesia regulation No. 13/1/PBI/2011, a good ROA is more than 1.5% [53]. The minimum BOPO is -5.59 and the maximum is 550.80, where the average is

22.10 or 22,1%. This means that the average value of BOPO in Islamic banking is considered good. BOPO is a ratio that reflects the efficiency of operational costs in banks, and in the provision of Bank Indonesia regulation No.13/1/PBI/2011, a good BOPO ratio standards ranges from <94%[53].The minimum NPF is 0 and the maximum is 1602.29, where the average is 27.35 or 27,35%. This means that the average value of NPF in Islamic bank is considered bad. NPF ratio reflects the level of problematic financing and the bank's credit risk. In the provision of Bank Indonesia regulation No.23/2/PBI/2021, a good NPF ratio standards range from<5%[53].The minimum FDR is 0 and the maximum is 18.77, where the average is 0.89 Or 0,89%. This means the average value of FDR in Islamic banking is consider good. FDR is ratio that reflects the proportion of financing the bank distributes concerning its total funds and in the provision of Bank Indonesia, guideline number 6/23/DPNP/2011 a good FDR ratio standards range from<85% [53].The minimum Independent Commissioner Composition is 0.333 and the maximum is 1, where the average is 0.62. This means that the average value of independentcommissioner compositionin Islamic banking is consider bad because there are still several companies still lack the average proportion of independent board of commissioners.The minimum SSB is 4 and the maximum is 68, where the average is 17.52. This means that the company complies with the existing regulations and strives to ensure more effective supervision by holding meetings more frequently than the minimum standards. In the provision of Bank Indonesia regulations No.11/33/PBI/2009, sharia banks are required to hold SSB meetings at least once every month or 12 every year [64].

Table 2. Result Of Descriptive Statistical Analysis

Variable	Mean	Std. Deviation	Min.	Max.
ROA	0.3909147	5.454064	-37.49519	10.80234
BOPO	22.1001	69.57132	-5.588359	550.7996
NPF	27.35143	191.4377	0	1602.291
FDR	0.8898624	2.56083	0	18.77456
ICC	0.6280952	0.981738	0.33333333	0
SSB	17.52857	10.73896	4	68
Observation	70			

3.1.2 Preliminary Test Result

3.1.2.1 Chow Test

The Chow test compares the OLS regression model to the FE model. The hypothesis is that if $P > 0.05$ or if the p-value is less than 0.05, it more appropriate to use the fixed effects (FE) model (H1). Otherwise, it is ideal to use the ordinary least square (OLS) model (H0). The output of the chow test on the table 3 indicates that the OLS model is the model that has been accepted.

Table 3. Chow Test (OLS vs FE)

Chow Test	Prob>F	Result
OLS vs FE	0.8039	OLS

3.1.3 Breusch and Pagan Lagrangian Multiplier Test

The Breusch and pagan lagrangian multiplier test compare the OLS vs RE models. The hypothesis assumes that if the p-value is higher than 0.05, it is more appropriate to use the Ordinary Least Squares (OLS) model (H0). However, if the p-value is less than 0.05, it is

more appropriate to use the Random Effect (RE) model. The output of the Breusch Pagan test on the table 4 indicates that OLS model is the model that has been accepted.

Table 4. Breusch and Pagan Lagrangin Multiplier Test

Breusch and Pagan Test	Prob>Chibar2	Result
OLS vs RE	0.0613	OLS

3.1.3.1 Hausman Test

The Hausman test selects the appropriate panel regression model, specifically between the random effects (RE) model and the fixed effects (FE) model. The hypothesis assumes that if the p-value is greater than 0.05 it is more appropriate to use the random effect (RE) model (H0). While if the p-value is less than 0.05 it is more appropriate to use the fixed effect (FE) model (H1). The output of the Hausman test on the table 5 indicate that RE model that has been accepted.

Table 5. Hausman Test

Hausman Test	Prob> Chibar2	Result
FE vs RE	0.8039	RE

3.1.4 Heteroscedasticity and Serial Correlation Result

According to [65] The modified Wald statistic can be used to measures residual of aHeteroscedasticity in the fixed-effect regression model. However, the random effect model. However, the random effect model uses likelihood ratio test. Model 1 in this study show heteroscedasticity because the P-value is below the 0.05 significance level of 0.0000. According to [66], states that the Wooldridge test can be used to determining whether serial correlation is present. If the P-value is less than 0.05, it indicates the presence of serial correlation. In this study show an insignificant serial correlation, as indicated by the P-values of 0.8032, which are more than 0.05.

Table 6 Heteroscedasticity and Serial Correlation Test Result

Model	
Full Sample	70
Heteroscedasticity	
Chi2	252.48
Prob> Chi2	0.0000
Serial Correlation	
F	0.46
Prob> F	0.8039

3. 1. 5 Hypothesis Test Result

In the result of this hypothesis test, the Random Effect model was determined as the most suitable panel data model for this study after conducting three tests: Cow Tests, Breusch Pagan Lagrangian Multiplier Test, and Hausman Test.

Table 7 Hypothesis Test Result

Independent Variable	Dependent Variable
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	ROA			
	Coefficient	Std. Err.	t	P> t
Const.	2.492229	4.341268	0.57	0.566
BOPO	0.0006618	0.0045442	0.15	0.884
NPF	-0.0035734	0.0006517	-5.48	0.000
FDR	-0.146283	0.0272352	-5.37	0.000
ICC	-3.286174	6.237415	-0.53	0.598
SSB	0.009157	0.0259669	0.35	0.724
R-square	0.0124			
Chi2	8820.10			
Prob>chi2	0.000			
No. Observation	70			
*5% Significance				

4. DISCUSSION

4.1 First Hypothesis Testing Result

Testing the first hypothesis show that there is no significant affect between BOPO and ROA with P values of 0.884 at the 5% significance level and a t value of 0.15. These results is not in line with the stewardship theory that managers focus not on individual motivations but on the organization interests. This lack of significance indicates that changes in BOPO do not necessarily cause variations in ROA. Therefore, BOPO cannot be used as reliable predictor of ROA trends [67]. The average sample has relatively good efficiency level so that it can cover operating costs with its operating income, the amount of the BOPO ratio is not shown to affect financial performance [68]. The result of this study are in line with [17], [18], and [19] which shows that there is no significant affect between BOPO and ROA. Thus, it can be concluded that H1 is rejected in this study.

4.2 Second Hypothesis Testing Result

Testing the second hypothesis show that there is a significant negative affect between NPF and ROA with P value of 0.000 at the 5% significance level and a t value of -5.48. These results is in line with the stewardship theory that management is not motivated by individual goals but rather by the results of particular interests. The smaller the NPF level, the higher the bank's profitability [69]. Funds channeled through financing on other productive assets can generate more stable and maximum income, there by reducing the potential for losses and increasing the efficiency of asset use [27]. The possibility of debtor failing to fulfil obligations to the bank at maturity is a factor of the high NPF in the bank because the NPF ratio is used to find out non-performing financing, one of which is bad debts [16]. The result of this study are in line with [18], [24], and [6] which shows that there is a significant negative relationship between NPF and ROA. Thus, it can be concluded that H2 is accepted in this study.

4.3 Third Hypothesis Testing Result

Testing the third hypothesis show that there is significant negative affect between FDR and ROA with P value of 0.000 at the 5% significance level and t value of -5.37. These results is not in line with the stewardship theory developed in Islamic bank financing products, where the principal entrust the management of funds to customers as trustees. Where the principal entrust the management of funds to the customer as a trustee who ideally can consider all common interest. Low liquidity indicates that the bank is unable to meet short-term obligations. Unfulfilled term duties can cause customers to lose trust in the company and in the long term can cause the bank to go bankrupt [70]. This FDR ratio reflects the

bank's ability to meet its short-term liquidity needs from its loan portfolio rather than deposits. Financing has a direct role in determining the amount of money. It can be generate and profits also increase. However, a low FDR ratio indicates low banks income[26]. The financing-to-deposit ratio used as a benchmark for a bank regarding financing funds customer withdraw. An FDR value that is to low (<80%) means that the bank can only channel funds collected by the bank form third-party fund as the fund owner excess to parties requiring funds of <80%. This means that idle funds are stored in the bank and are not utilized [20].The result of this study are in line with[28],[29], and[26] which show that there are significant negative affect between FDR and ROA. Thus, it can be concluded that H3 is rejected in this study.

4.4 Fourth Hypothesis Testing Results

Testing the fourth hypothesis show that there is no significance relationship between ICC and ROA with P values of 0.598 at the t value of -0.53.This result not in line with stewardship theory, where management is expected to act as a responsible to safeguard the interest of company owners [63]. Independent commissioners who function as supervisors also do not guarantee the efficiency of agent performance, which does not impact the financial performance in sharia banks [71]. The composition of the independent board commissioner may fulfill the company's formalities in implementing good corporate governance. At the same time , the majority shareholder still play an important role so that the independence board of commissioners performance does not significantly impact the bank's financial performance [72]. Lack of competence and the existence of independent commissioners who are only structural complements without actual performance can also be the cause of the ineffective role of independent commissioners in increasing financial performance [37].

The result of this study are in line with[37], [38], and[39]which show that there are no significant affect between Independent Commissioner Composition and ROA.Thus, it can be concluded that H4 is rejected in this study.

4.5 Fifth Hypothesis Testing Results

Testing the fifth hypothesis show that there is no significance effect between SSB and ROA with P values of 0.724 and a t value of 0.35.This is not in line with stewardship theory, which states that management is expected to act as a responsible manager to protect the interest of the company's owner. Therefore, earnings management practices that can harm the company are not justified, because management must focus on the sustainability and long-term good of the company [63].Based on Bank Indonesia Regulation No. 11/33/PBI/2009, Islamic banks are required to hold a SSB meeting at least once a month. However, data from the annual report shows that Islamic banks in Indonesia have held meeting 12 times, following the regulation set by BI and OJK. However, not all SSB members attended each meeting, and Islamic Banks did not explain the reasons for their absence. This situation can impact the quality of SSB meetings because the decision taken may be of poor quality if the members involved are not present. Islamic banks need to ensure the presence of all members of the Sharia Supervisory Board at each meeting to ensure the quality of decision taken. In addition, to improve effectiveness and compliance with regulations, bank must conduct regular assessment of SSB meetings. This will help ensure that GCG principles are appropriately implemented in bank operations [64].The more often the Sharia supervisory board conducts coordination meetings, this does not

directly affect the financial performance [73]. This may be because the discussion in the DPS meeting only focuses on Islamic banks compliance with sharia principles, so the management of Islamic banks still does not directly impact their financial performance [74]. The result of this study are in line with [47], [46], and [2] which shows that there are no significant affect between SSB and ROA. Thus, it can be concluded that H5 rejected in this study.

5. CONCLUSION AND RECOMMENDATION

This study aims to find empirical evidence regarding the factor that influence ROA of Islamic banks. Previous research has examined many factor that affect ROA. This research is more focused on internal influences namely, BOPO, NPF, FDR, Independent Commissioner Composition and SSB. The object is the Islamic banking sector listed on the Financial Services Authority. Based on the regression analysis that has been done, the following conclusions can be obtained:

- a) BOPO has an insignificant effect on financial performance at Islamic banks. This show that increasing in operating income does not offset the increase in operating costs.
- b) NPF has negative and significant effect on financial performance at Islamic banks. So, it can be explained that bad financing quality causes a large amount of financing, which mean the bank must bear losses in its operational activities. In this case, the financial performance at Islamic banks will decrease.
- c) FDR has negative and significant effect on financial performance at Islamic banks. tis explain that Islamic banking's function in distributing third party fund financing has not been optimized.
- d) Independent Commissioner Composition has an insignificant effect on financial performance at Islamic banks. This shows that the proportion of independent commissioners do not affect Islamic bank's financial performance.
- e) Sharia Supervisory Board has an insignificant effect on financial performance at Islamic banks. This shows that the size of the SSB and the frequency of SSB meetings do not affect Islamic bank's financial performance.

Based on the result of this study, recommendations and suggestions for further research are to add more factors or variables to be able to discover and prove what influence can affect Islamic banks financial performance, such as firm debt, company size, sales growth, and etc. Proxy of independent variable can also be done in other ways, such as using the capital adequacy ratio and operational efficiency ratio. This study's limitations lies in the number of sample used, namely the limited number of Islamic commercial banks in Indonesia during the period 2017-2023. Future research can expand the number of samples by covering Islamic banks troughout the ASEAN region so that the results obtained are more representative and comprehensive.

COMPETING INTERESTS DISCLAIMER:

Authors have declared that they have no known competing financial interests OR non-financial interests OR personal relationships that could have appeared to influence the work reported in this paper.

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