

Factors Affecting the Profitability of Islamic Banks in Algeria

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Abstract

This study aims to analyze the impact of internal and external factors on the profitability of Islamic banks in Algeria over the period from 2018 to 2022. Using the descriptive and analytical approach and relying on data from Al Salam Bank Algeria, the study examines the effect of the independent variables, namely bank size, liquidity, inflation, and gross domestic product (GDP), on the profitability of Islamic banks. Profitability, as the dependent variable, is measured by the return on assets (ROA) and return on equity (ROE) ratios. The findings reveal a positive and statistically significant effect of inflation on the profitability of Islamic banks in Algeria. However, the results indicate that bank size, liquidity, and gross domestic product have no statistically significant effect on the profitability of Islamic banks in Algeria.

Keywords: Profitability; Islamic banks; liquidity; bank size; inflation; gross domestic product (GDP).

1. Introduction

Banks are among the most important institutions in the financial and economic sector. They act as intermediaries between those with deficits and those with surpluses, aiming to generate profits by accepting customer deposits and then reinvesting them through loans or diverse investments. This distinguishes Islamic banks from conventional banks, which generally generate profits through direct participation in the production process. Islamic banks are currently attracting significant attention from researchers and investors due to their substantial role in the financial sector and their continuously growing capital. A key differentiator from conventional banks is their adherence to the principle of not dealing with interest (riba), making them safer and more protective of depositors' funds and investment accounts. This is essential for achieving their primary objective: profitability. Profitability is crucial for banks' survival and continuity. It serves as an important indicator that helps bank management measure their efficiency in utilizing available resources. Furthermore, it is a matter of interest to regulatory bodies as it reflects the success of Islamic banks' performance. If maximizing profit is the primary goal of any business, then banks are even more obligated to achieve this goal, given their role as profit-driven financial institutions in addition to their economic, social, developmental, and other functions. However, most Islamic banks achieve weak profits, raising a crucial question about the reasons behind this phenomenon, which warrants further examination. Based on the foregoing:

The main problem

To what extent do internal and external factors affect the profitability of Islamic banks?

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the sub-questions

- What is the impact of bank size on the profitability of Islamic banks in Algeria?
- What is the impact of liquidity on the profitability of Islamic banks in Algeria?
- What is the impact of inflation on the profitability of Islamic banks in Algeria?
- What is the impact of GDP on the profitability of Islamic banks in Algeria?

Hypotheses:

- Liquidity has no impact on the profitability of Islamic banks in Algeria during the period (2018-2022).
- Bank size has no impact on the profitability of Islamic banks in Algeria during the period (2018-2022).
- Inflation has no impact on the profitability of Islamic banks in Algeria during the period (2018-2022).
- GDP has no impact on the profitability of Islamic banks in Algeria during the period (2018-2022).

The importance of the study:

The importance of this study stems from the significant role played by Islamic banks in the Algerian economy and their importance across all sectors. This study aims to understand the performance of Islamic banks by measuring the impact of internal and external factors on their profitability. Therefore, this study sheds light on profitability in Islamic banks to enable decision-makers to analyze future projections and formulate decisions that help them achieve higher returns, which is the primary objective of any bank. The study's importance is further demonstrated by its impact on various stakeholders in Islamic banking in Algeria, including investors and bank management. This study reveals the extent to which Islamic banks are able to improve or correct their financial positions and make informed decisions. It also highlights their capacity to mitigate risks. Furthermore, this study provides valuable information for researchers and those interested in investing in Islamic banks, contributing to finding solutions to problems related to the profitability of Islamic banks and achieving higher profitability levels.

Study Objectives:

- To identify the potential impact of liquidity on the profitability of Islamic banks in Algeria.
- To identify the potential impact of bank size on the profitability of Islamic banks in Algeria.
- To identify the impact of inflation on the profitability of Islamic banks in Algeria.
- To identify the impact of GDP on the profitability of Islamic banks in Algeria.

Previous studies

Previous studies have extensively investigated the determinants of profitability in Islamic banks from different perspectives. In this regard, Ben Chaabane and Baabacha (2021) examined the factors affecting the profitability of Islamic banks through a case study of Al Salam Bank Algeria. Their findings revealed a positive relationship between profitability and the sustainability of Islamic banks, indicating that higher profitability contributes to greater institutional continuity. However, the study also showed that profitability indicators remained relatively low due to the significant increase in certain operating expenses, particularly penalties imposed by the monetary authority. Similarly, Mahlab and Ben Khalil (2022) explored the internal determinants of profitability in Al Salam Bank Algeria over the period 2016–2020 using a descriptive analytical approach. The results demonstrated that total assets, shareholders' equity, deposit volume and structure, branch network size, and the number of employees all have a positive impact on profitability. The authors further recommended increasing investments and deposits while expanding and diversifying banking services to enhance financial performance. In a broader context, Elgadi and Pei Yi Yu (2018) investigated the determinants of profitability in 27 Sudanese Islamic banks during the period 2005–2013 by incorporating variables related to Islamic financing modes, such as Musharakah and Salam contracts. Their findings indicated that equity, capital adequacy, and asset utilization positively affect Return on Assets (ROA), whereas operational efficiency, bank age, leverage, and specialization exert negative effects. Moreover, the Profit-and-Loss Sharing (PLS) financing model was found to have a significant positive influence on both Return on Assets (ROA) and Return on Equity (ROE). Likewise, Bakkeri and Ben Ali (2020) analyzed the impact of internal and external determinants on the profitability of 30 Islamic banks operating in the Middle East and North Africa between 2005 and 2018 using Ordinary Least Squares (OLS) panel data estimation. Their empirical results showed that management quality, liquidity, capital adequacy,

service quality, female participation, and employee efficiency constitute significant drivers of profitability, while diversification, bank size, and inflation do not have a statistically significant effect on the profitability of Islamic banks.

The Conceptual Framework of Islamic Banks:

Regarding the concept of Islamic banks, we will present the following definitions: (Hussein and Moussa, 2015, page 26)

- They are commercial banks licensed to conduct business in accordance with Islamic law.
- They are financial, investment, developmental, and social institutions that adhere to the principles and rulings of Islam and strive to achieve its objectives. The Islamic bank attracts monetary resources from members of society, invests them effectively, and ensures their growth within the framework of Islamic law (Aasi, 2010, page 08).

the characteristics of Islamic banks

- Abstaining from interest-based transactions, whether paid or paid.
- Adherence to what is permissible (halal) and avoidance of what is forbidden (haram).
- Linking Islamic banks' financing operations to real economic transactions.
- Accepting depositors' funds on the basis of profit-sharing (mudharabah) (no guarantee of capital except in cases of negligence or misconduct).
- Relying on short-term financing, especially through the Murabaha structure.
- Allocating a portion of the bank's profits for the benefit of society (Zakat).
- Facilitating and stimulating trade between Islamic countries.
- Contributing to comprehensive development.

Objectives of Islamic Banks:

The objectives of Islamic banks stem from their characteristics. These objectives are based on the principles and values of Islamic Sharia, through which they strive to achieve economic, social, cultural, and religious and ethical goals. Thus, we observe that the bank's objective is not merely to maximize profit, but to achieve a range of goals related to spiritual values and connected to humanity's role in the development of the earth. And fulfilling its assigned mission, the ultimate goal of the Muslim investor is to perform the required religious duty, and the growth of wealth is part of this religious requirement. The objectives of an Islamic bank can be classified as follows:

- Financial Objectives

Since an Islamic bank is an Islamic banking institution that performs the role of financial intermediation based on the principle of profit-sharing, it has several financial objectives that reflect its success in performing this role in light of the provisions of Islamic Sharia. These objectives are:

Attracting and Growing Deposits:

This is considered one of the most important objectives of Islamic banks, as it represents the first party in the intermediation process. Its importance stems from the fact that it is considered an application of the Sharia principle of investing funds in a way that generates profits for the Muslim community. Deposits are also the main source of funds for an Islamic bank, whether in the form of investment deposits, demand deposits, or savings deposits (Ahmed, 2005, p. 85).

Investing Funds:

This represents the second party in the intermediation process and is one of the most important objectives of Islamic banks. Investments are a cornerstone of the work of both Islamic and conventional banks to generate profits. There are many Sharia-compliant investment methods that can be used to invest funds, provided that the bank considers the achievement of social development when investing funds.

Profit Generation:

The outcome of Islamic banking activity is the result of investment processes and banking operations, which are reflected in the form of profits distributed to depositors and shareholders. As a financial institution, the Islamic bank considers profit generation one of its primary objectives in order to compete and survive in the banking market, and to demonstrate the success of its banking operations. (Kamal, 2011, pp. 16-18).

Social Objectives:

In addition to achieving investment and the returns it generates, it also aims to achieve social objectives through:

- The Islamic bank's contribution to collecting Zakat and Sadaqah and distributing them fairly to those entitled.
- Strengthening ties between Muslim communities.
- Attending to the conditions of Muslims in both Muslim and non-Muslim countries and supporting them in times of prosperity and adversity. Providing interest-free loans to meet social needs

3. Determinants of Profitability for Islamic Banks**Gross Domestic Product (GDP):**

GDP can be defined as an economic indicator that represents the total monetary and market value of all goods and services produced within a country during a specific period. It often reflects the economic health of a country. The GDP growth rate measures the speed of economic growth in a country.

GDP is defined as the overall result of economic outcomes, resulting in an increase in real GDP that exceeds the increase in population growth(Mourad, 2002, p. 9)

Inflation:

Inflation is a topic that continues to be debated in all countries of the world. The chronic problem of inflation has dominated the attention of researchers and economists. It is among the economic problems that all countries suffer from, hindering their progress and the achievement of their goals. It is an old yet ever-present phenomenon that poses a significant challenge due to its social and economic effects.

There are several definitions of inflation, varying according to the opinions of thinkers and the different historical periods in which it emerged. One such definition is:

- Inflation is defined as that portion of price increases resulting from government intervention in the money supply. (Saeed, 2016, p. 182)

Liquidity:

Liquidity plays a crucial role in seizing opportunities without compromising asset convertibility. It often refers to the ability to quickly access funds when needed, especially in the event of unforeseen circumstances or financial setbacks.

Liquidity is a relative concept that expresses the relationship between cash and assets easily convertible to cash (near-cash assets) and the outstanding liabilities that must be met. (kourichi, 2009, p. 265).

Liquidity is a company's ability to provide the necessary cash to cover its expected and unexpected short-term obligations on time without incurring losses. (Duraïd, 2009, p. 26).

Company (Bank) Size:

A bank's size can impact profitability, although empirical research on the impact and economics of scale on banking sector profitability supports this conclusion. A bank's size is measured by the amount of assets or equity it holds. Companies typically benefit from their large size in research and development, as well as increased access to the latest advanced technologies. However, numerous studies and research have indicated that size can have a negative impact on a company, as it will be more complex than its smaller counterparts, thus affecting its financial performance.

Profitability:

Profitability can be defined as follows:

Profitability is one of the main sources of capital generation, as the financial system is based on profitable banks with adequate capital. (Mundhir Marhej, 2014, p. 325).

Profitability is defined as the relationship between the profits achieved by an entity and the investments that contributed to achieving these profits. Profitability is considered a goal and a measure for judging its efficiency at the overall unit and unit levels. Partial profitability is measured through the relationship between profits and sales. (Sabri, 2014, p. 382).

5. Analysis of Results

- Study Population

Statistics from the Bank of Algeria indicate that there are (06) six public and private banks and specialized banks that market Islamic banking products, out of a total of 29 banks and financial institutions. We chose Al Salam Bank-Algeria, which is considered the second Islamic bank in Algeria after Al Baraka Islamic Bank. It is a comprehensive bank that operates in accordance with Algerian laws and the provisions of Islamic Sharia in all its transactions.

- Study Methodology and Data Collection Sources

- Study Methodology

In order to achieve the study objectives, answer the research question, and verify the hypotheses, it was necessary to choose a methodology that defines the steps the researcher follows to reach the goal for which the research was designed. Due to the nature of the subject of this study, we used the experimental method, which relies on field research, documents, and statistics to identify and measure the factors affecting the phenomenon and predict it in the future. It is based on a case study.

- Statistical Data Collected for the Case Study

To achieve the study objectives, we relied on the financial data available on the electronic portal of Al Salam Bank-Algeria and analyzed this data. Financial data was analyzed using the SPSS statistical software for the period from 2018 to 2022. The aim was to answer the research questions, test the hypotheses, and then formulate the results and recommendations. Below, we will present the most important data collected from the bank's website, which we will need to complete the data analysis.

Financial Indicators of Al Salam Bank

This section addresses the financial indicators, including: - Return on Assets (ROA) of Al Salam Bank - Algeria

This measure of a company's ability to generate profit from its assets. It is a vital indicator of a company's efficiency in using its resources to generate profits. The following mathematical formula is used to calculate it:

$$\text{Return on assets} = \text{Annual net profit} / \text{Total assets} \times 100$$

Table No. (03): Return on Assets (Million Dinars)

years	2018	2019	2020	2021	2022
Total assets	110109	131019	162626	237804	261693
Net result	2418	4007	3069	3389	4393
Return on assets	2.20%	3.06%	1.89%	1.43%	1.68%

Source: Bank Annual Reports

Table (03) shows us how, through calculating the Return on Assets (ROA) ratio, investors and analysts can assess the bank's effectiveness in deploying its assets to generate profits, its ability to adapt to future requirements, and its investment capacity.

-Return on Equity (ROE) Rate for Al Salam Bank – Algeria This rate is calculated by dividing the company's net profit by total shareholders' equity, and is calculated according to the following mathematical formula:

$$\text{Return on equity} = \text{Net income} / \text{Equity}$$

Table No. (04): Return on Equity Rate (Million Dinars)

years	2018	2019	2020	2021	2022
Private funds	17305	19012	18900	27263	27312
Net result	2718	4007	3069	3389	4393
Return on equity	14%	%21	%16	%12	%16

Source: Bank Annual Reports

The return per unit of equity can be measured, and the higher this return, the better, as it means the bank can distribute more profits to shareholders.

Liquidity Ratio:

Liquidity is one of the most important profitability indicators for an organization, and several ratios can be used to measure it. In this study, total assets were used as an indicator to measure company size, calculated by taking the logarithm of the total assets of the companies in the study sample.

Current Ratio: This ratio measures the organization's ability to meet its obligations on time using its current assets. It is considered a measure of the security of the company's current capital and is expressed mathematically by the following equation:

$$\text{Current ratio} = \text{Current assets} / \text{Liabilities}$$

Table No. (05): Trading ratio (million dinars)

years	2018	2019	2020	2021	2022
Current assets	105343	125333	156493	230794	254547
Current liabilities	86231	104595	133509	198881	217544
Liquidity ratio	%1.22	%1.19	%1.17	%1.16	%1.17

Source: Bank Annual Reports

After reviewing the financial data of Al Salam Bank and commenting on the indicators and financial data of the bank's activity during the period from 2018 to 2022, we will address the factors that could affect the bank's profitability according to the questions we based this study of the bank's activity during the period from 2018 to 2022. We can comment on the relationship of these factors to the profitability of Islamic banks in Algeria, represented by Al Salam Bank-Algeria, and this is through the following table

Table (06) Proportions of Study Variables

years	Liquidity ratio	Company size	Inflation	GDP	Profitability ratio
2018	1.22	2.20	2.7	1.2	0.344
2019	1.19	3.06	2.4	1.0	0.429
2020	1.17	1.89	3.5	-5.1	0.398
2021	1.16	1.43	8.5	3.40	0.365
2022	1.17	1.68	9.3	3.20	0.394

Source: Prepared by the researcher

It is clear from the table above the ratios of the various internal and external variables adopted in the study, as well as the profitability ratios, which reflect the dependent variable. As for the internal variables, it is clear from the aforementioned table that the liquidity ratio represented by the bank's trading ratio has an inverse relationship with the profitability ratio, that is, the higher the liquidity ratio, the lower the profitability ratio, and vice versa, as in 2018 the liquidity ratio reached 1.22. It links current assets to short-term debts, meaning the company's ability to pay its short-term obligations through its current assets, which is reflected in the financial position during the years of the study in general. As for the variable The size of the company, and it seems that this percentage is reasonable considering that this variable is usually characterized by stability. The table above also reflects the external variables adopted in the study, which are inflation and gross domestic product. As for inflation, which expresses the influence of the general level of prices, it is the most fluctuating variable, from approximately 2 to 9. This fluctuation is explained by the nature of the Algerian economy as a rentier and non-diversified economy, so it is greatly affected by fuel prices. As for the gross domestic product variable, it witnessed generally increasing rates, as in 2018 it reached what It is estimated at 1.20, reaching 3.2 in the year 2022. The table also shows profitability ratios as the dependent variable, as great attention is given to profitability as long as the survival and continuity of the bank is linked to its ability to achieve profits, and profitability is linked to the return achieved from stocks, deposits, their assets, or their ownership rights, and in Islamic banks it is limited to a range between 14.0 and 25.0

5.1 Discussion of Results

Table No. (07): Results of the descriptive study of the study variables

values	Profitability ratio	Liquidity ratio	Company siz	inflation	GDP
Lowest value	-1.5	2.4	1.43	1.16	0.14
Highest value	4.3	3.9	3.06	1.22	0.27
Arithmetic mean	0.74	5.28	2.05	1.18	0.20
Standard deviation	28.63	3.34	0.63	0.02	0.05
Coefficient of variation %	74.465	28.63	30.72	2.02	26.75

Source: Prepared by the researcher using SPSS software

The table above shows:

- Bank profitability ranges from a low of 0.14 in 2021 to a high of 0.27 in 2019. This translates to a mean of 0.20, a standard deviation of 0.50, and a coefficient of variation of 26.75%.
- The liquidity ratio ranges from a low of 1.16 in 2021 to a high of 1.22 in 2019. This translates to a mean of 1.18, a standard deviation of 0.02, and a coefficient of variation of 2.02%.
- Company size ranges from a low of 1.43 in 2021 to a high of 3.06 in 2019. This translates to a mean of 2.05, a standard deviation of 0.63, and a coefficient of variation of 30.72%.
- Inflation ranged from a low of 2.4% in 2019 to a high of 3.9% in 2022, with a mean of 25.5, a standard deviation of 34.3, and a coefficient of variation of 28.63%.
- Gross Domestic Product (GDP) ranged from a low of -5.1% in 2020 to a high of 4.3% in 2021, with a mean of 74.0%, a standard deviation of 28.63, and a coefficient of variation of 74.465%.

- Correlation between Study Variables

A linear correlation matrix indicates a relationship between two or more factors, where each affects the others, either positively or negatively. For this purpose, we use the simple linear correlation coefficient (Pearson's coefficient).

Table No. (06): Correlation Matrix between Indicators

	Y	X1	X2	X3	X4
Y	1	0.75	0.94	-0.91	-0.29
Sig		0.143	0.016	0.031	0.627
X1		1	0.51	-0.68	0.005

sig			0.325	0.201	0.994
X2			1	-0.77	-0.14
sig				0.127	0.811
X3				1	0.58
Sigs					0.301
X4					1
Sig					

Source: Prepared by the researcher based on the outputs of SPSS.26

We observe from the table that:

- There is a linear correlation between bank profitability and the liquidity ratio, with a probability value of 143.0, which is greater than 0.05.
- There is no linear correlation between bank profitability and bank size, with a probability value of 0.016, which is less than 0.05.
- There is no linear correlation between bank profitability and inflation, with a statistical significance value of 0.031, which is less than 0.05.
- There is a linear correlation between bank profitability and GDP, with a statistical significance value greater than 0.05.

5.2 Interpretation of Hypothesis Test Results

We attempted to estimate each variable model separately because the number of observations was small. If the number of observations exceeded 30, we could estimate the model for the effect of the liquidity ratio on bank profitability.

Table (07) The effect of the liquidity ratio on bank profitability

Source: Prepared by the researcher based on the program outputs

DependentVariable: Y

Method: Least Squares

Date: 05/24/24 Time: 20:42

Sample: 2018 2022

Includedobservations: 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.809474	1.018526	-1.776561	0.1737
X1	1.701754	0.861557	1.975209	0.1427
R-squared	0.565309	Meandependent var		0.202000
Adjusted R-squared	0.420412	S.D. dependent var		0.054037
S.E. of regression	0.041139	Akaike info criterion		3.254558
Sumsquaredresid	0.005077	Schwarz criterion		3.410782
Log likelihood	10.13639	Hannan-Quinn criter.		3.673850
F-statistic	3.901451	Durbin-Watson stat		1.914324
Prob(F-statistic)	0.142721			

Table No. (08) The effect of company size on bank profitability
Source: Prepared by the researcher based on the program outputs.

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Dependent Variable: Y

Method: Least Squares

Date: 05/24/24 Time: 20:43

Sample: 2018 2022

Included observations: 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.035876	0.034625	1.036107	0.3763
X2	0.080957	0.016271	4.975572	0.0156
R-squared	0.891916	Mean dependent var		0.202000
Adjusted R-squared	0.855889	S.D. dependent var		0.054037
S.E. of regression	0.020514	Akaike info criterion		-4.646289
Sum squared resid	0.001262	Schwarz criterion		-4.802514
Log likelihood	13.61572	Hannan-Quinn criter.		-5.065581
F-statistic	24.75632	Durbin-Watson stat		2.138078
Prob(F-statistic)	0.015600			

above that the partial and overall significance of the model is not statistically significant, as the probability of both the constant and the independent variable (liquidity ratio) is greater than 0.05, meaning they have no effect given the available data

The effect of bank size on bank profitability

We note from the table above that the partial significance of the independent variable "bank size" and the overall significance of the model reached 0.015, which is a value less than 0.05, and is statistically significant, which explains the good model.

Impact of Inflation on Bank Profitability

Table No. (09) Impact of Inflation on Bank Profitability

Dependent Variable: Y

Method: Least Squares

Date: 05/24/24 Time: 20:44

Sample: 2018 2022

Included observations: 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
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C	0.279909	0.023203	12.06355	0.0012
X3	-0.014755	0.003824	3.858173	0.0308
R-squared	0.832266	Mean dependent var	0.202000	
Adjusted R-squared	0.776355	S.D. dependent var	0.054037	
S.E. of regression	0.025555	Akaike info criterion	-4.206816	
Sum squared resid	0.001959	Schwarz criterion	-4.363041	
Log likelihood	12.51704	Hannan-Quinn criter.	-4.626108	
F-statistic	14.88550	Durbin-Watson stat	2.422725	
Prob(F-statistic)	0.030771			

Source: Prepared by the researcher using SPSS software output.

We observe from the table above that the partial significance of the independent variable "inflation" is statistically significant, reaching 0.0012, which is less than 0.05. Therefore, there is a statistically significant relationship between company size and inflation. Furthermore, the overall significance of the model is 0.03, a value less than 0.05, which is statistically significant, thus indicating a good model.

Table No. (10): The impact of GDP on bank profitability

Dependent Variable: Y

Method: Least Squares

Date: 05/24/24 Time: 20:45

Sample: 2018 2022

Included observations: 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.205448	0.027401	7.497934	0.0049
X4	-0.004660	0.008643	-0.539134	0.6272
R-squared	0.088330	Mean dependent var	0.202000	
Adjusted R-squared	-0.215560	S.D. dependent var	0.054037	
S.E. of regression	0.059577	Akaike info criterion	-2.513916	
Sum squared resid	0.010648	Schwarz criterion	-2.670140	
Log likelihood	8.284789	Hannan-Quinn criter.	-2.933208	
F-statistic	0.290665	Durbin-Watson stat	1.062316	
Prob(F-statistic)	0.627235			

Source: Prepared by the researcher based on the outputs of the SPSS program.

As can be seen from the table above, the partial and overall significance of the model is not statistically significant, as the probability of both the constant and the independent variable (liquidity ratio) is greater than 0.05, meaning they have no effect given the available data.

Conclusion:

The study period, during which we collected data, coincided with a challenging time for the national economy in particular, and the global economy in general. Due to the small sample size used in the analysis, statistical significance was observed in only one variable: bank size and inflation. This does not necessarily mean that the other variables are unimportant; rather, the small sample size limited the visibility of their effects. It is expected that with a larger sample size, the effects of these variables will become more apparent, given their significant importance.

The results also revealed considerable variability in the data, which allowed us to gain insight into the extent to which Islamic banks are affected by global economic crises. The study highlighted the importance of maintaining the continuity of Islamic banks' operations and developing their financial revenues to ensure their ability to fulfill their economic and social roles sustainably. This study, along with previous research, contributes to identifying internal factors such as liquidity and company size, and external factors such as inflation and GDP, that affect the profitability of Islamic banks (return on assets) in Algeria. The aim is to identify and reinforce positive aspects, while simultaneously mitigating negative factors that could hinder the outstanding performance of Islamic banks in the country.

Hypothesis Testing Results

The results of the study hypotheses can be presented as follows:

- The first hypothesis concerns the impact of liquidity on the profitability of Islamic banks in Algeria. The study revealed a negative impact factor, meaning that increased liquidity reduces the profitability of Islamic banks in Algeria, all other factors being equal. Therefore, the first hypothesis is rejected.
- The second hypothesis states that company size has no effect on the profitability of Islamic banks in Algeria. However, the study demonstrated a statistically significant negative effect of company size on the profitability of Islamic banks in Algeria. In other words, increasing company size negatively impacts the profitability of Islamic banks, all other factors being equal. Therefore, the second hypothesis is accepted.
- The third hypothesis concerns the absence of an effect of inflation on the profitability of Islamic banks in Algeria. However, the results of the applied study showed that inflation has no effect on the profitability of Islamic banks. Therefore, the third hypothesis is accepted.
- The fourth hypothesis states that there is no effect of GDP on the profitability of the Islamic bank. The study shows that the effect coefficient is positive, meaning that if the value of GDP increases, the profitability of the Islamic bank increases, while other factors remain constant. On this basis, the validity of the fourth hypothesis is accepted.

Study Results

After addressing the theoretical and applied aspects of the impact of various internal and external factors on the profitability of Islamic banks in Algeria, starting with theoretical and then applied determinants, and shedding light on the Islamic banking market and its realities, and following the analysis of financial data, the results of the applied study can be summarized as follows:

The study results showed no correlation between the independent variables.

The study results showed a negative impact of both liquidity and company size on the profitability of Islamic banks in Algeria, meaning that an increase in these factors would reduce the profitability of the Islamic bank.

The study results also showed a positive impact of GDP on the profitability of Islamic banks, meaning that an increase in GDP leads to an increase in the profitability of Islamic banks. The study results showed that inflation has no impact

on the profitability of Islamic banks, meaning that any change in the inflation rate does not affect their profitability.

Recommendations of the Study

Based on the above, the following recommendations can be made to improve the profitability of Islamic banks in Algeria:

- Developing legislative and legal frameworks that support Islamic banking and facilitate its growth and development.
- Striving to enhance product and administrative innovation in Islamic banks to reduce costs and increase profitability.
- Working to raise public awareness about the advantages of Islamic finance to attract more customers and increase financial deposits.

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