



The Impact of Islamicity Performance Index and Non-Performing Financing on Profitability of Islamic Banking in Indonesia Period 2014-2023

Siti Mabruroh¹, Indah Dewi Maharany^{2*}

^{1,2}Islamic Banking, Faculty of Economic and Islamic Business, UIN Sunan Kudus, Kudus, Indonesia

*Email: indahdewi@uinsuku.ac.id

Abstract: Along with other variables like Non-Performing Financing (NPF), the study's objective is to ascertain how the Islamic Performance Index (IPI), which is represented by the Profit-Sharing Ratio (PSR), Zakat Performance Ratio (ZPR), and Islamic Income vs. Non-Islamic Income Ratio (IsIR) affects Return on Asset (ROA). This study uses purposive sampling and is causally associative in nature. The financial statements of Islamic Business Units (UUS) and Islamic Commercial Banks (BUS) submitted to the Financial Services Authority (OJK) on December 31, 2023, provided the secondary data for the study. In the meantime, 2014–2023 is the time frame. Although there are 33 banks in the entire population, a sample of 21 banks was selected using 210 data observations after several criteria were established. According to the study's findings, ROA was unaffected by PSR and IsIR factors. Whereas the NPF variable significantly and negatively affects ROA, the ZPR variable significantly and favourably affects ROA. Those findings reveal that Islamic banks that can distribute zakat are banks with good profitability and financial success. In Islamic banks with increasingly high NPF, the bank loses the opportunity to obtain profit and loses the funds used to cover NPF, thereby reducing profitability.

Keywords: Islamic Banking; Islamicity Performance Index; Non-Performing Financing; Profitability

Introduction

Indonesia's Islamic banking industry has expanded quickly (Makrufli, 2019). As of December 31, 2023, Indonesia had 173 Islamic Rural Banks (BPRS), 20 Islamic Business Units (UUS), and 13 Islamic Commercial Banks (BUS), according to data on Islamic banking from the Financial Services Authority (OJK) (OJK, 2023). To support this growth, the government has provided full support for the enactment of the Islamic Banking Law No. 21 of 2008 (UU, 2008). By introducing the Roadmap for the Development and Strengthening of Islamic Banking in Indonesia in November 2023, with the subject "Excellent Islamic Banks for a Prosperous Society," for the years 2023–2027, OJK further advanced Islamic banking (OJK, 2023).

Judging from total assets, Islamic banking growth also showed an increase despite experiencing a decline in recent years. In 2023, the development of Islamic banking assets declined to 9.99% from 13.47% in 2022 (OJK, 2023). Optimizing Islamic banks' performance, including through profit or return on investment, is crucial to sustaining the industry's annual expansion. This is because profit is a metric that can be used to evaluate

the performance of an organization. The more profit a bank makes, the better it manages its assets, which boosts investor trust in the money they put in. Conversely, if profitability declines, the bank is considered unable to manage its assets properly (Pudyastuti, 2018).

Profit measurement in banks is usually done with profitability ratios proxied by Return on Assets (ROA), a ratio that can measure the effectiveness of overall bank management in generating profits. (Awliya, 2022). ROA was chosen in this study because it can measure the overall performance of the bank (Ibrahim et al., 2022). In addition, compared to other ratios, ROA is also considered a suitable ratio to describe banking performance (Bayu et al., 2021). The following figure shows data on the development of ROA obtained by Islamic banks in Indonesia from 2014 to 2023.

Based on Figure 1, the level of profitability generated by BUS and UUS with the ROA ratio indicator fluctuates from year to year. The percentage of ROA for BUS from 2014 to 2017 was between 0.41% to 0.63%. Between 2018 and 2023, it was above 1% and the largest was 2% in 2022.

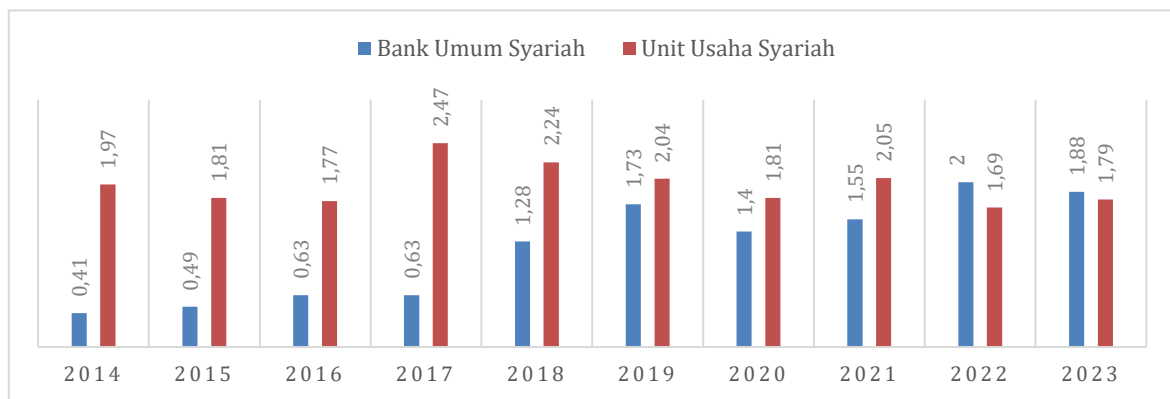


Figure 1. Diagram of the Percentage of Islamic Banking ROA in Indonesia

Source: Islamic Banking Statistics (2023) www.ojk.co.id

Likewise, UUS also experienced fluctuations, where the highest ROA percentage was in 2017 at 2.47% and the lowest occurred in 2022 at 1.69% (OJK, 2023). This variation demonstrates the volatility of Indonesian Islamic banks' ROA percentage between 2014 and 2023. Banks need to evaluate to improve their financial performance, including by measuring performance based on Sharia principles.

Research conducted by Hameed et al., (2004) On 'Alternative Disclosure and Performance Measures for Islamic Banks' has successfully developed and initiated banking performance in accordance with Sharia principles. The best way to evaluate how well Islamic banking performs in terms of financial factors, justice principles, and halal and purity is to use the Islamic Performance Index (IPI) (Hayati & Ramadhani, 2021). The IPI itself comprises seven indicators: the AAOIFI Index (Accounting and Auditing Organization for Islamic Financial Institutions), the Director and Employee Welfare Ratio, the Zakat Performance Ratio, the Profit Distribution Ratio, the Islamic Investment versus Non-Islamic Investment, and the Fair Distribution Ratio (Hameed et al., 2004).

The Profit Sharing Ratio (PSR), one of the IPI metrics utilized in this study, characterizes how well Islamic banks implement the profit-sharing idea (Hayati & Ramadhani, 2021). The Zakat Performance Ratio (ZPR) indicates the success of Islamic banks in implementing Islamic accounting (Fatmala & Wirman, 2021). In the meantime, the Islamic Income vs.

Non-Islamic Income Ratio (IsIR) shows how well Islamic banks implement riba-free rules and how halal they are (Wijaya et al., 2021). This third indicator has been used in research by Ibrahim et al., (2022) This suggests that PSR significantly lowers ROA, whereas ZPR and IsIR do not appear to have a substantial effect on ROA Furthermore, Bayu et al.,(2021) . Additionally, it is claimed that ZPR and IsIR have a large impact on ROA, whereas PSR has a significant negative impact.

Similar research has also been conducted by Fatmala dan Wirman (2021). Results show that partially ROA is not affected by PSR and is positively affected by ZPR. However, whereas Islamic Social Reporting has an adverse effect, all three have a positive effect on ROA. Research conducted by Rahma (2018) supports the finding that PSR does not affect ROA. In contrast, ZPR significantly and favorably affects ROA, whereas IsIR has no discernible impact on ROA. Furthermore, this study included Non-Performing Financing (NPF) as a ratio to assess Islamic banks' profitability. (Miranda, 2021). In general, high NPF indicates a decline in the profitability obtained by banks. This may affect banks' financial performance and lead to a decline in earnings from financing activity. (Khoiriyah & Wirman, 2021).

The aforementioned assertion aligns with the findings of Winawati & Anam (2019) which states that ROA is significantly and negatively affected by the NPF variable. This suggests that when NPF rises, the ROA value will fall, and vice versa. Similar findings were also seen in Suprianto et al. (2020). According

to research, NPF has a detrimental effect on Indonesian Islamic banks' profitability as measured by ROA. This finding differs from the results of Sampurno (2022) The study showed that the ROA of Islamic banks was positively, but marginally, impacted by the NPF variable. This suggests that, in the context of Islamic banks, there is no meaningful correlation between NPF and ROA.

Referring to the background explanation and several references from previous studies, there appears to be an inconsistency in the results of these studies. Researchers were therefore urged to carry out additional studies on IPI and NPF in connection with the profitability of Indonesia's Islamic banking industry. One distinction between this study and others is the utilization of a research period from 2014 to 2023. Additionally, this study uses three IPI indicators, namely PSR, ZPR, and IsIR, and modifies the model by adding the NPF variable. The purpose of this study is to ascertain how the Islamic Performance Index and Problem Financing affect Indonesian Islamic banks' profitability between 2014 and 2023.

Theoretical Review

Stewardship Theory

Donaldson and Davis (1991) developed the stewardship theory in order to show how managers maximize organizational objectives rather than individual ones. The key idea is that this theory, which has its roots in psychology and sociology, explains why a manager or steward would put the interests of the company's principal (owner) ahead of his own. This theory assumes that there is a strong relationship between organisational success and principal satisfaction because when the steward is successful in improving company performance, the principal will be satisfied (Anton, 2010). Similarly, in Islamic banking, a manager's actions might impact the bank's performance. When managers are able to conduct banking operations in accordance with Sharia principles, the bank can avoid harmful activities, protecting its reputation and improving customer welfare. In addition, public trust can be maintained so that the hope

can influence their decision to use Islamic bank services, and in turn can increase profitability (Maahir et al., 2024).

Signalling Theory

Spence (1973) put forward the signalling theory, which states that the party with information (the company) will provide a signal to the recipient (the stakeholder) in the form of information that can be used in making financial decisions. In companies, signalling theory is closely related to the transmission of information to market capital because it is directly related to the relationship between company management and stakeholders. Furthermore, this information is expected to change external parties' assessment of the company (Amanda et al., 2019). In a similar vein, Islamic banks also give pertinent parties information about the state and future possibilities of Islamic banking. Signals given in banking are generally in the form of financial reports, operational performance, or policies aimed at achieving specific objectives. Positive signals can indicate that the bank's profitability is stable. This tends to encourage investors to invest and vice versa. When the bank shows negative signals, it tends to be avoided (Methasari, 2021).

Islamic Banking

A financial institution that bases all of its operations on the precepts of Islamic sharia is generally referred to as Islamic banking. Islamic banks do not use an interest system because their entire business model is based on the Qur'an and hadith (Hakim, 2021). Law No. 21 of 2008, on the other hand, defines Islamic banking as banks that follow the fatwa of the Indonesian Ulema Council (MUI) and conduct their business in conformity with Sharia law or Islamic principles (Law of the Republic of Indonesia, 2008). As a result, the bank's method does not conflict with Islamic Sharia regulations, such as profit-sharing investments (Hakim, 2021). So, Islamic banking can be concluded as a financial institution whose operations are carried out according to Sharia principles with a profit-sharing system instead of interest.

Profitability

In general, profitability ratios are ratios that show the level of effectiveness and efficiency of a company's basic performance in generating profits (Sa'adah, Nurarifin, & Fitriana, 2024). A company's capabilities can be seen through its profit ratio, which reflects the company's ability to generate profits from sales activities, total assets, or equity capital over a specific period (Awliya, 2022). According to experts such as Kasmir (2016). A ratio called profitability gauges a business's capacity to turn a profit. Hery (2016) and Fahmi (2017) Also, explain that the ratio used to measure company profits based on their performance is referred to as profitability.

One metric for assessing profitability is the ROA ratio (Prihatini & Purbawati, 2021). This is because ROA can measure how well the bank's overall management is at generating profits (Awliya, 2022). In addition, the results of measuring ROA can also be used as a reference to evaluate the bank's potential to generate future profits (Hanafi & Halim, 2016). The following is the formula for calculating ROA (SEOJK, 2014).

$$ROA = \frac{\text{Profit Before Tax}}{\text{Average Total Assets}} \times 100\%$$

Index of Islamicity Performance

A technique for assessing how closely Islamic banking financial performance adheres to Islamic standards is the IPI (Kristianingsih & Wildan, 2020). This method allows us to thoroughly evaluate the performance of Islamic banking in various aspects, ranging from financial aspects to the application of Islamic values. In this study, several IPI components are used, including the profit-sharing ratio system, zakat payment, and the comparison of Islamic versus non-Islamic income (Bayu et al., 2021).

The effectiveness of Islamic banks in implementing a profit-sharing-based financing system can be evaluated through the Profit-Sharing Ratio (PSR) (Hayati & Ramadhani, 2021). Technically, this ratio is calculated by comparing the nominal financing using the profit-sharing principle to the total financing

portfolio that has been disbursed. (Hameed et al., 2004).

$$PSR = \frac{\text{Mudharabah} + \text{Musyarakah}}{\text{Total Financing}}$$

The Zakat Performance Ratio (ZPR) metric can be used to evaluate how well Islamic banks are meeting sharia-based accounting goals. Through the role of zakat as a crucial component of the Islamic economic system, this ratio not only illustrates the commercial side of banking but also its social focus (Fatmala & Wirman, 2021). Technically, the ZPR calculation mechanism is carried out by comparing the nominal amount of zakat disbursed with the total value of assets owned by the Islamic financial institution (Hameed et al., 2004).

$$ZPR = \frac{\text{Zakat}}{\text{Net Assets}}$$

The Islamic Income Ratio, or IsIR, is a thorough assessment technique that can be used to determine whether Islamic banks' revenue complies with Sharia law. (Wijaya et al., 2021). Operationally, this ratio evaluates how much of the bank's overall revenue comes from sharia-based sources, even those that do not entirely satisfy halal requirements. (Hameed et al., 2004).

$$\text{IsIR} = \frac{\text{Islamic Income}}{\text{Islamic Income} + \text{Non Islamic Income}}$$

Non-Performing Financing

The non-performing finance (NPF) ratio in Islamic banking can be used to assess the risk of unproductive financing. Measuring NPF (Non-Performing Financing) is essential because it can affect the income earned by the Islamic bank itself if it has a high NPF rate. Where the bank needs a provision of funds to write off the non-performing financing, and in the end, the profit earned by the Islamic bank decreases, or the bank experiences a loss (Syah, 2018). In general, NPF has an unidirectional relationship with profitability. That is, when NPF increases, profitability will decrease and vice versa. (Suprianto et al., 2020). The following is the formula for calculating the NPF ratio. (Otoritas Jasa Keuangan, 2014).

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

Hypothesis Development

Profit Sharing Ratio (PSR) is closely related to profit sharing. This percentage indicates the extent to which Islamic banks offer profit-sharing financing options, including mudharabah and musyarakah, and illustrates the practical implementation of profit-sharing concepts in Islamic banks. High profit sharing will attract new investors to invest in Islamic banks, which in turn will increase the funds managed by the bank, thereby increasing ROA. (Akib & Muhammad, 2023). This opinion is in line with the findings of research by Mustion et al. (2023) and Pudyastuti (2018), who claim that PSR can have a favorable impact on financial performance. The following hypothesis can therefore be developed.

H₁. Profit Distribution Ratio affects Return on Assets

The Zakat Performance Ratio (ZPR) has a direct relationship with the bank's responsibility in distributing its social funds through zakat. Increasing the disbursement of zakat enables Islamic banks to fulfill their financial and social obligations. High zakat distribution reflects greater bank wealth, which indicates good profitability. (Ibrahim et al., 2022). Thus, the ZPR contributes to the improvement of Islamic banks' profitability. Research conducted by Fatmala and Wirman (2021) and Rahma (2018) Shows that the ZPR can have a positive impact on financial performance. Therefore, the following hypothesis can be formulated.

H₂. The Zakat Performance Ratio affects the Rate of Return on Assets.

The Islamic Income to Non-Islamic Income Ratio (IsIR) can be used to calculate the proportion of halal to non-halal income that Islamic banks receive. Islamic banks are more successful in operating on sharia principles and without usury when their halal income is greater. This can attract new investors because they feel confident and trust in the performance of banks based on Sharia

principles, which ultimately can increase profitability. (Mustion et al., 2023). Therefore, it is evident that IsIR contributes to higher profitability, as indicated by Islamic banks' ROA, Research by Bayu et al., (2021) and Mustion et al., (2023) Shows that IsIR can positively influence ROA. Therefore, the following hypothesis can be proposed.

H₃. The Comparison of Islamic and Non-Islamic Income Affects Asset Return Rates

Commonly known as non-performing financing (NPF), Islamic banks use non-performing financing to measure the default rate on financing. Islamic banks provide financing whose funds come from customer savings, with the hope that such financing will benefit borrowers and generate profits for the bank and its partners. This only occurs if the borrowers can repay their obligations to the bank on time. Since the financing cannot be returned to the bank, a high NPF ratio suggests that the bank is unable to manage the funds it has disbursed, even while the bank still has responsibilities to its clients. Low NPF values indicate a bank's ability to manage risk well, thereby improving bank performance and positively impacting profitability. (Suprianto et al., 2020). Research by Winawati dan Anam (2019) and Suprianto et al., (2020) It was also revealed that profitability in Islamic banks can be negatively affected by high NPF. Accordingly, a rise in NPF typically leads to a fall in ROA, and vice versa. This explanation leads to the formulation of the following hypothesis.

H₄. Non-performing financing affects Return on Assets

Based on the hypotheses formulated above, the following is a simplified framework for this research.

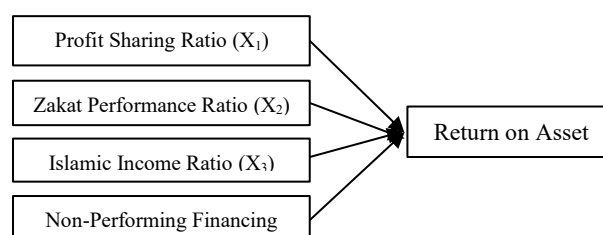


Figure 2. Research Framework

Method

To ascertain the causal relationship between independent and dependent variables, this study employed a causal-associative research methodology (Sugiyono, 2019). This study had a quantitative approach since it concentrated on gathering and analyzing numerical data. (Zulfikar et al., 2024). Secondary data is information used in this study that was gathered via literature reviews and documentation methods. The data sources are the financial reports of Sharia Commercial Banks (BUS) and Sharia Business Units (UUS) that were registered with the Financial Services Authority (OJK) as of December 31, 2023.

Table 1. Sample Criteria

Sample Criteria	Number
BUS and UUS that have been registered with the OJK as of 31 December 2023.	33
BUS and UUS have published complete annual reports from 2014 to 2023 on their respective official websites.	26
Seven eliminated banks: Bank Syariah Indonesia (BSI), Bank Aladin, BPD DKI, BPD Istimewa Yogyakarta, BPD Kalimantan Selatan, Bank Tabungan Negara, and Bank Jago.	
BUS and UUS that have complete data according to this research, such as PSR, ZPR, IsIR, NPF, and ROA data from 2014 to 2023.	21
Five eliminated banks: BPD Riau Kepri Syariah, BPD Nusa Tenggara Barat Syariah, Bank Tabungan Pensiunan Nasional, BPD Jawa Tengah, and BPD Jambi.	
Final Sample	21
Research Period	10
Total final sample	210

Source: Secondary data, processed (2025)

The study period spanned from 2014 to 2023. EViews 12 software was then used to evaluate the collected data using a panel data regression model. From a total population of 33 banks, 21 banks were selected as samples using purposive sampling, a method of determining samples based on specific criteria or characteristics (Abubakar, 2021). The criteria for sample selection are described in the Table 1.

Results and Discussion

Regression Model Selection

In this research, panel data estimations and hypothesis testing were conducted using Eviews software. In this analysis, three models were employed: the Random Effect Model (REM), Fixed Effect Model (FEM), and Common Effect Model (CEM). CEM is the simplest model because it does not consider differences between time-series and cross-sectional data. The FEM is an approach that assumes that the intercept for each entity is fixed over time but may vary between individuals. On the other hand, the REM is a more complex approach in panel data estimation because this model involves the use of error terms in its calculations.

Table 2. Selection of the Best Model

Test	Objective	Prob.	Conclusion
Chow Test	Choosing between CEM and FEM	Chi-sq: 0,000	FEM
Hausman Test	Choosing between FEM and REM	Cross-section: 0,122	REM
LM Test	Choosing between CEM and REM	Breusch Pagan: 0,000	REM

Source: Secondary data, processed (2025)

Table 2 shows that in panel data regression, there is a model selection test to choose the best model in this study. To determine which of these three models is the best, they will next be put to the test using the Chow, Hausman, and Lagrange Multiplier (LM) tests. Both CEM and FEM are used in the Chow test, which concludes that FEM is the best model with a Chi-square probability level of $0.000 < 5\%$. Then, proceed with the Hausman test because in the Chow test, the best model is FEM. The Hausman test involves two models, namely FEM and REM, where the REM model yields the best result because the cross-sectional probability level of $0.122 > 5\%$. The LM test is applied in the next test because the Hausman test selected REM. The LM test concludes that the Breusch Pagan probability

level of $0.000 < 5\%$, so that in this study, the best model is REM.

Panel Data Regression Analysis

The results of data processing in EViews using the REM model technique are shown in a panel data regression table. A regression equation test can be used to examine the relationship between the independent variables (PSR, ZPR, ISIR, and NPF) and the dependent variable (ROA), both independently and in combination.

Table 3. Panel Data Regression Equation Test Results Using the REM Model

Variable	Coeff.	Std. Error	t-Stat	Prob.
C	29.9152	74.188	0.4032	0.6872
PSR	-0.5137	0.5482	-0.9371	0.3498
ZPR	1142.15	506.14	2.2565	0.0251
ISIR	-27.905	74.213	-0.3760	0.7073
NPF	-0.2347	0.0821	-2.8595	0.0047
R-squared			0.0664	
Adjusted R-squared			0.0482	
F-statistic			3.6470	
Prob (F-statistic)			0.0068	

Source: Secondary data, processed (2025)

Table 3 includes the findings of the partial t-test, which determines if the independent and dependent variables have a partial relationship (Ghozali & Ratmono, 2017). The connection is considered significant if the t-test is greater than the critical t-value of 1.971 at a significance level < 0.05 . Conversely, the association is deemed insignificant if the t-test is less than the critical t-value of 1.971 at a significance level of > 0.05 . The following is a further debate.

The Effect of Profit-Sharing Ratio (PSR) on ROA

At a significance level of 5%, the t-value for PSR is -0.937, which is less than the t-table of 1.971. In the meantime, the probability value, which is higher than 0.05, is recorded at 0.349. Therefore, H1 is rejected, meaning that ROA in Indonesian Islamic banking from 2014-2023 is unaffected by the IPI, which is proxied by PSR. This finding is consistent with research by Fatmala and Wirman (2021) and

Rahma (2018) which states that the PSR variable does not influence ROA. Because profit-sharing-based financing contributes comparatively less to Islamic banks' overall profits than sale-based financing, there is no correlation between PSR and ROA. Instead of using profit-sharing financing, Indonesian Islamic banks typically use sale-purchase plans to allocate their capital. Sharia banks in Indonesia tend to channel their funds through sale and purchase schemes rather than profit-sharing financing. The reason for this is that financing through sale and purchase schemes has fixed characteristics with profits agreed upon at the outset, so that the income earned by sharia banks is more stable and easier to predict. In contrast, profit-sharing financing carries higher risks in terms of profit generation, as fluctuations influence its income based on the customer's business performance. Consequently, even while profit-sharing financing more closely adheres to Islamic precepts, it makes up a smaller portion of Islamic banks' total revenues than sale-purchase financing. For this reason, PSR does not affect ROA.

Figure 3 shows the average of PSR from each BUS and UUS registered with OJK as of 31 December 2023.

Each BUS and UUS registered with the OJK as of 31 December 2023 during the period 2014-2023 has an average PSR value below Rp1 million. The highest average value of PT Bank OCBC NISP is IDR999,000, and the lowest average value recorded at PT Bank Aceh Syariah is IDR127,000. This figure reflects that the contribution of PSR to the bank's performance is relatively small, so it does not have a significant effect on increasing the profitability of Islamic banks. The implications of stewardship theory on research findings stating that PSR does not affect ROA can be explained by understanding that managers have a responsibility to manage company assets and resources efficiently for the long-term interests of the company. Therefore, even though PSR in the context of Islamic banking regulates how profits are distributed among relevant parties, bank managers will still focus on the optimal use of assets to achieve operational efficiency and profitability, so

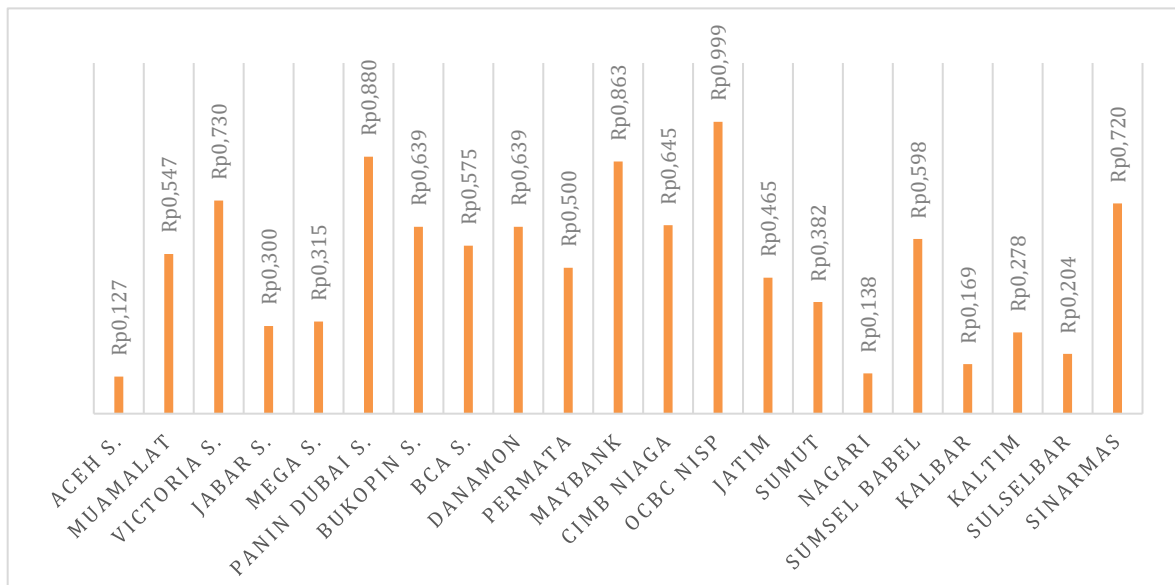


Figure 3. Diagram of Average Profit-Sharing Ratio (PSR) 2014-2023 (In Millions Rupiah)

Source: Secondary Data, Processed (2025)

managers will not allow profit distribution to influence their decisions in managing assets. Thus, it can be concluded that the steward theory prioritizes efficient asset management and focuses on the sustainability of the company, while profit distribution does not alter how managers utilize assets to achieve optimal performance, thereby explaining why PSR does not affect ROA.

The Effect of Zakat Performance Ratio (ZPR) on ROA

The t -value for ZPR is $2.256 > t_{\text{table}}$ (1.971) at a significance level of 5%. Furthermore, the 0.025 probability value is

below 0.05. From 2014 to 2023, the IPI, as measured by ZPR, significantly improved ROA in Indonesian Islamic banking. A higher ZPR value indicates that the profitability of Islamic banks also increases. These results are consistent with the findings of studies by Bayu et al. (2021), Fatmala and Wirman (2021) Rahma (2018) also found that ZPR positively influences ROA. The bank's ability to distribute zakat well shows the optimal financial performance of the bank, so that its existence can contribute to the increase in assets and profitability of Islamic banks. The following is the average ZPR value of each BUS and UUS registered with OJK as of 31

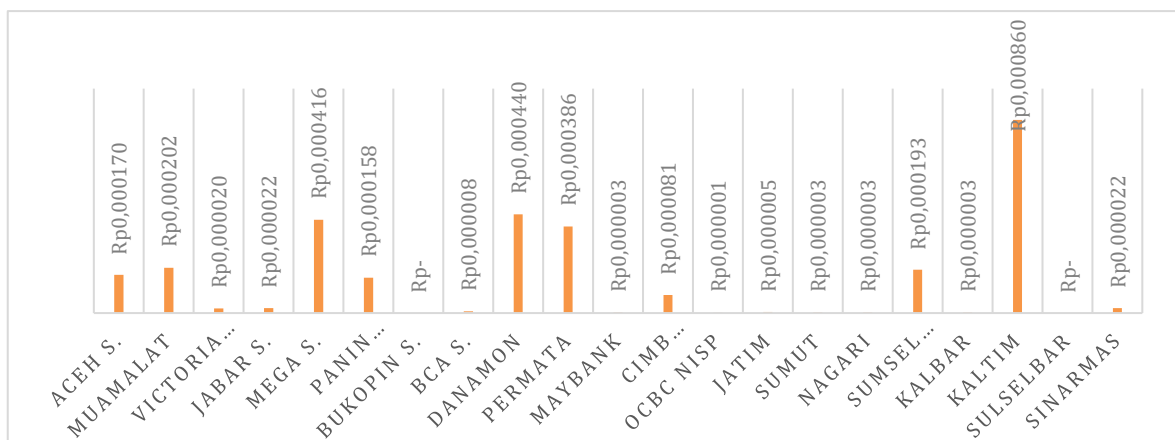


Figure 4. Average Zakat Performance Ratio (ZPR) Year 2014-2023 (In Millions Rupiah)

Source: Secondary Data, Processed (2025)

December 2023. The distribution of zakat is an important indicator of good financial performance. As explained in Islam, the obligation to pay zakat only applies to those who have met specific requirements, such as reaching the *nisbah* or minimum wealth threshold. This shows that an individual or company is only required to pay zakat when they have reached an adequate level of prosperity. In other words, zakat payments reflect profitability and financial success. For companies, the ability to distribute zakat shows that they are not only capable of generating profits but also have a commitment to share and contribute to the welfare of society. Therefore, companies that pay zakat are considered to have strong financial performance, as evidenced by increased profitability.

Each BUS and UUS registered with the OJK as of December 31, 2023, during the period 2014-2023, has an average value above zero rupiah. The highest value of PT BPD Kalimantan Timur is IDR 860, and PT Bank Mega Syariah is IDR 461. This means that although the average value of ZPR is small, through effective management, it can increase customer confidence, which in turn can encourage the growth of Islamic bank profitability. The consequence of the stewardship theory on the findings, which indicate that ZPR significantly improves ROA in Indonesian Islamic banking, can be explained by the idea that managers have an

obligation to ensure the company's long-term viability and expansion. Thus, through good zakat management, banks could contribute positively to ROA because it reflects the banks' ability to fulfill their social responsibility and financial balance.

The Effect of Islamic Income vs Non-Islamic Income Ratio (IsIR) on ROA

It is known from the data in Table 3 that, at a significance level of 5%, the t-value for the IsIR variable, which is -0.376, is less than the t-table value, which is 1.971. Additionally, the probability value obtained is 0.707, which exceeds the significance threshold of 0.05. Between 2014 and 2023, ROA of Indonesian Islamic banking is not significantly influenced by the IPI. This finding is consistent with the results of studies conducted by Ibrahim et al. (2022) and Destiani et al. (2021), which state that IsIR does not affect the profitability of Islamic banks. The existence of non-halal revenue in financial statements categorized as charitable funds is one of the elements contributing to the study's finding that IsIR has a negligible impact on ROA. Since it is not taken into consideration when assessing the financial performance of Islamic organizations, the existence of this non-halal income has no bearing on profitability levels. The average ZPR value for each BUS and UUS registered with OJK as of December 31, 2023, is shown below.

Based on diagram 4 above, each BUS and UUS registered with OJK as of 31 December

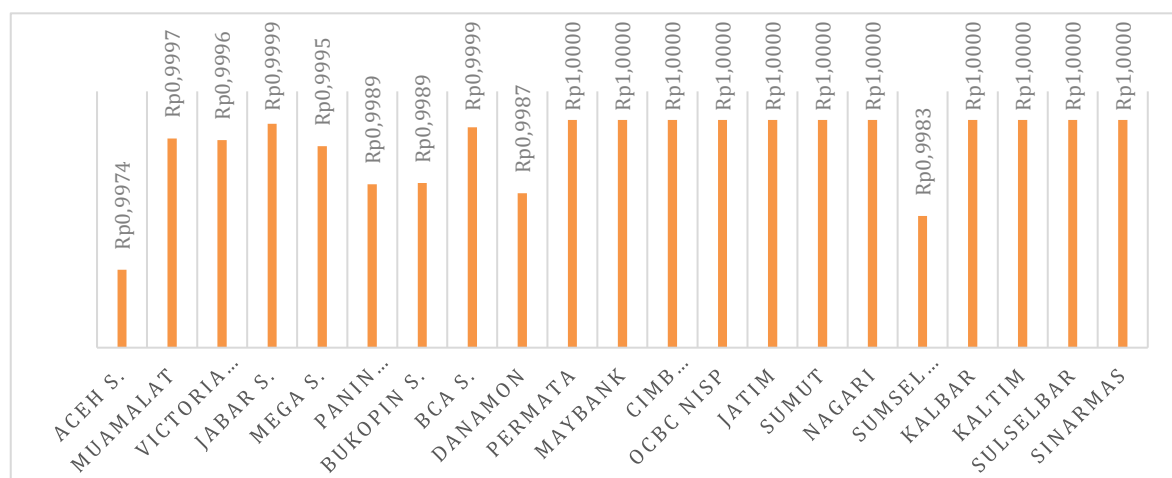


Figure 5. Average Islamic Income vs Non-Islamic Income Ratio (IsIR) 2014-2023 (In Millions of Rupiah)

Source: Secondary Data, Processed (2025)

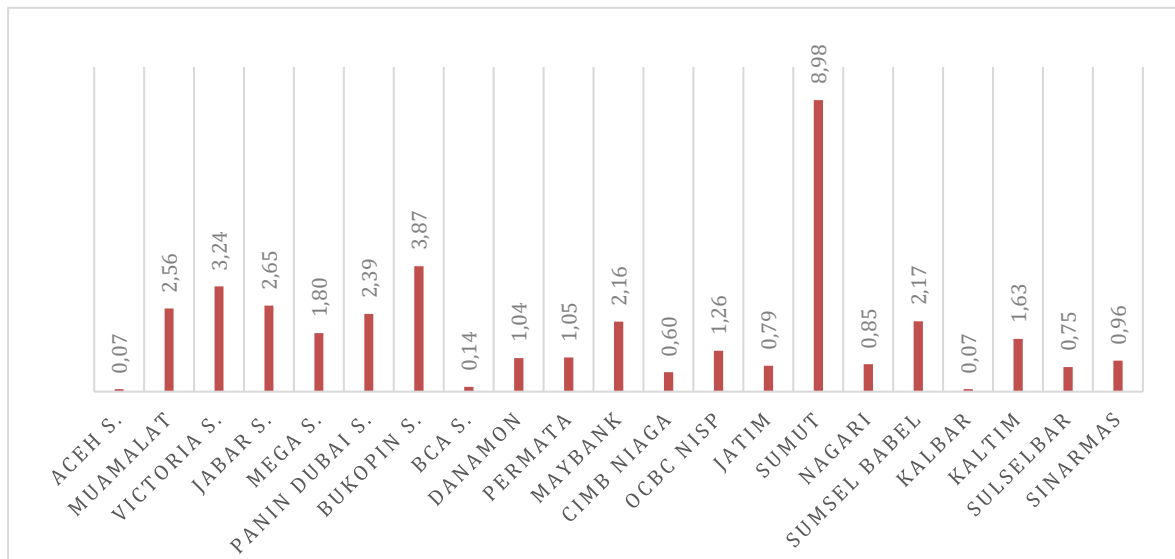


Figure 6. Average Non-Performing Financing for the period 2014-2023 (%)

Source: Secondary Data, Processed (2025)

2023 during the period 2014-2023 has an average value of Rp 1 million. However, there are still some Islamic banks with low average values, such as PT Bank Aceh Syariah of Rp997,400 and PT BPD South Sumatra and Bangka Belitung of Rp998,300. These findings indicate that non-halal income components are still included in the IsIR indicator calculation but are not recognised as part of income in the financial performance assessment of Islamic banks. Therefore, their existence does not contribute to profitability. From the perspective of stewardship theory, these results reflect that managers, as trustees, have an orientation to act in the long-term interests of Islamic banking institutions. This encourages more cautious asset management based on Islamic principles. Thus, the insignificant impact of IsIR on ROA can be explained by the managerial tendency to prioritise Sharia compliance, even though this is not always directly reflected in financial profitability performance.

The Effect of Non-Performing Financing (NPF) on ROA

According to Table 3, the *t*-value for the Non-Performing Financing (NPF) variable is -2.859, which is more than the *t*-table value of 1.971 at a 5% significance level. Additionally, the probability value of 0.004 is below the significance level of 0.05. According to these findings, ROA in Indonesian Islamic banking

from 2014 to 2023 is significantly impacted negatively by the NPF variable. This finding aligns with the results of studies conducted by Mustion et al. (2023), Winawati and Anam (2019), and Suprianto et al. (2020), which state that an increase in the non-performing financing ratio significantly reduces the profitability of Islamic banks as measured by the ROA indicator. This adverse effect is due to the unidirectional relationship between NPF and ROA. When there is an increase in NPF, ROA also decreases, and vice versa. When problematic financing arises in the form of bad credit, it affects the bank's ability to earn profit sharing. In addition, banks must also reserve funds to cover non-current financing, resulting in decreased profitability for Islamic banks. The following is the average NPF value of each BUS and UUS registered with OJK as of 31 December 2023.

Based on diagram 5, each BUS and UUS registered with OJK as of 31 December 2023 during the period 2014-2023 showed a healthy predicate because the average value was between 2% and 5%. However, there is one Islamic bank that shows an unhealthy predicate, namely PT BPD North Sumatra at 8.98%. This indicates that when an Islamic bank is in a healthy position, its profitability increases; otherwise, when it is in an unhealthy position, it reflects a decrease in the profitability of the Islamic bank. According to signaling theory, the finding that NPF has a

significant negative impact on ROA in Indonesian Islamic banking can be explained by the manner in which banks signal their financial quality to the market and stakeholders. High NPF can be considered a negative signal indicating problems in financing management, which can reduce customer and investor confidence in the banks' performance. In addition, high NPF also reflects default financing that reduces potential income from profit sharing, thereby directly impacting ROA. This negative signal may cause investors to withdraw or postpone investments, and customers to hesitate to conduct financial transactions with the bank, thereby worsening the bank's financial condition. In other words, sound and transparent NPF management is crucial to sending positive signals to the market, maintaining trust, and overall improving the financial performance of Islamic banks.

Conclusion and Recommendations

This study aims to examine the effect of the Islamicity Performance Index (IPI) on the profitability of Islamic banking in Indonesia from 2014 to 2023 using proxies such as the Profit-Sharing Ratio (PSR), Zakat Performance Ratio (ZPR), and the ratio of Islamic Income to non-Islamic Income (IsIR), in addition to other variables like Non-Performing Financing (NPF). The analysis's main conclusions are: PSR does not affect ROA, ZPR significantly increases ROA, IsIR has no effect on ROA, and NPF significantly decreases ROA.

Islamic banks must concentrate on several key areas to enhance their financial performance. First, in order to provide substantial added value, attract a larger client base, and boost financing volume, it is imperative to enhance the quality of profit-sharing goods and services. Furthermore, effective management of zakat distribution plays a crucial role in strengthening the bank's reputation and attracting customers with a social conscience. Additionally, diversifying revenue sources through the development of fee-based services is a strategic step to increase the bank's overall income. Better risk management is needed to maintain the

financial health of banks, especially in credit risk assessment and NPF management.

To improve the research contribution, future studies on the same subject should measure the IPI using different indicators or proxies and include additional variables that could affect profitability. To improve the representativeness of the research findings, it is advised to broaden the research population by incorporating different kinds of additional Islamic financial institutions, such as Islamic Rural Banks (BPRS), Islamic Cooperatives, Islamic Insurance, Islamic Pawnshops, and other comparable establishments.

References

- Abubakar, R. (2021). *Pengantar Metodologi Penelitian*. SUKA-Press UIN Sunan Kalijaga.
- Akib, B., & Muhammad, S. (2023). *Pengaruh Profit Sharing Financing Dan Istisna Terhadap Profitabilitas Bank Umum Syariah Di Indonesia Periode 2018-2023*. 66-83.
- Amanda, A. L., Efrianti, D., & Marpaung, B. Sahala. (2019). Analisis Pengaruh Kandungan Informasi Komponen Laba Dan Rugi Terhadap Koefisien Respon Laba (Erc) Studi Empiris Pada Perusahaan Manufaktur Sektor Industri Dasar Dan Kimia Yang Terdaftar Di Bursa Efek Indonesia (Bei). *Jurnal Ilmiah Manajemen Kesatuan*, 7(1), 188-200. <https://doi.org/10.37641/jimkes.v7i1.212>
- Anton, F. (2010). Menuju Teori Stewardship Manajemen. *Majalah Ilmiah INFORMATIKA*, 1(2), 61-80.
- Awliya, M. (2022). Analisis Profitabilitas (Return On Asset (RoA) dan Return On Equity (RoE) Pada PT Sido Muncul Tbk (Periode 2015-2018). *Journal of Economic Education*, 1(1), 10-18.
- CAHYA, B. T., Sari, D. A., Paramitasari, R., & Hanifah, U. (2021). Intellectual Capital, Islamicity Performance Index, dan Kinerja Keuangan Bank Syariah di Indonesia (Studi Pada Tahun 2015-2020). *AKTSAR: Jurnal Akuntansi Syariah*, 4(2), 155.

- <https://doi.org/10.21043/aktsar.v4i2.12031>
- Destiani, N. A., Juliana, J., & Cakhyaneu, A. (2021). Analisis Pengaruh Islamicity Performance Index Terhadap Tingkat Profitabilitas Pada Bank Syariah Indonesia. *Coopetition: Jurnal Ilmiah Manajemen*, 12(3), 301–312. <https://doi.org/10.32670/coopetition.v12i3.554>
- Donaldson, L., & Davis, J. H. (1991). Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns. *Australian Journal of Management*, 16(1), 49–64. <https://doi.org/10.1177/031289629101600103>
- Fahmi, I. (2017). *Analisis Laporan Keuangan*. ALFABETA.
- Fatmala, K., & Wirman. (2021). Pengaruh Islamicity Performance Index Dan Islamic Social Reporting Terhadap Kinerja. *Invoice: Jurnal Ilmu Akuntansi*, 3(1), 30–43.
- Ghozali, I., & Ratmono, D. (2017). *Analisis Multivariat dan Ekonometrika: Teori, Konsep, dan Aplikasi dengan EViews 10* (2nd ed.). Badan Penerbit Universitas Diponegoro.
- Hakim, L. (2021). *Manajemen Perbankan Syariah* (S. Handayani & L. S. Imama (eds.)). Duta Media Publishing.
- Hameed, S., Wirman, A., Alrazi, B., Nazli, M., & Pramono, S. (2004). Alternative Disclosure and Performance Measures for Islamic Banks. *Second Conference on Administrative Sciences: Meeting the Challenges of the Globalization Age*, King Fahd University of Petroleum & Minerals, Dhahran, Saudi Arabia, 19–21.
- Hanafi, M. M., & Halim, A. (2016). *Analisis Laporan Keuangan*. Unit Penerbit dan Percetakan Sekolah Tinggi Ilmu Manajemen YKPN.
- Hayati, S. R., & Ramadhani, M. H. (2021). Analisis Kinerja Keuangan Bank Umum Syariah Melalui Pendekatan Islamicity Performance Index. *Jurnal Ilmiah Ekonomi Islam*, 7(2), 970–979. <https://doi.org/10.29040/jiei.v7i2.2253>
- Hery. (2016). *Analisis Laporan Keuangan, Integrated and Comprehensive Edition*. Kompas Gramedia.
- Ibrahim, Amin, A., Yunus, R., & Mochtar, H. (2022). Meningkatkan Profitabilitas Bank Umum Syariah di Indonesia Melalui Islamicity Performance Index dan Operating Efficiency Ratio. *EJournal Al-Buhuts*, 18(2), 250–259.
- Indonesia, R. (2008). *Undang-Undang Nomor 21 Tahun 2008 Tentang Perbankan Syariah*. 1998, 282.
- Kasmir. (2016). *Analisis Laporan Keuangan*. Rajawali Pers.
- Khoiriyah, S., & Wirman, W. (2021). Pengaruh NPF dan FDR Terhadap Profitabilitas (ROA) Bank Umum Syariah Di Indonesia (Studi Pada Bank Umum Syariah Yang Terdaftar Di Indonesia Periode 2010- 2019). *AlInfaq: Jurnal Ekonomi Islam*, 12(1), 69. <https://doi.org/10.32507/ajei.v12i1.951>
- Kristianingsih, & Wildan, M. (2020). Penerapan Islamicity Performance Index Pada Pengukuran Kinerja Keuangan Bank Umum Syariah Di Indonesia. *Sigma-Mu*, 12(2), 65–74. <https://doi.org/10.35313/sigmamu.v12i2.2585>
- Lailatus Sa'adah, Muhammad Rifqy Nurarifin, & Nur Aidah Fitriana. (2024). Analisis Rasio Profitabilitas Sebagai Alat Ukur Kinerja Keuangan PT Bank Central Asia. *Lokawati : Jurnal Penelitian Manajemen Dan Inovasi Riset*, 2(5), 144–155. <https://doi.org/10.61132/lokawati.v2i5.1188>
- Maahir, Z. M., Fathiah, D., Faradilla, A. A., Islam, U., Syarif, N., & Jakarta, H. (2024). *Efektivitas Pengawasan Syariah Dalam Menjamin Kepatuhan bank Syariah*. 2(3).
- Makrufli, M. (2019). Pengukuran Kesehatan Bank Syariah Berdasarkan Islamicity

- Performance Index. *IQTISHADUNA: Jurnal Ilmiah Ekonomi Kita*, 8(2), 225–236. <https://doi.org/10.46367/iqtishaduna.v8i2.176>
- Methasari, M. (2021). *Analisis Nilai Perusahaan Perbankan Dengan Kebijakan Deviden Sebagai Variabel Moderasi Di Bursa Efek Indonesia*. Mitra Abisatya.
- Miranda, R. (2021). Pengaruh Modal Kerja dan Investasi Terhadap Non Performing Financing Pada Bank Pembiayaan Rakyat Syariah Periode 2015-2019. *JYRS: Journal of Youth Research and Studies*, 2(1), 1–20.
- Mustion, S., Wira, A., & Novia, A. (2023). The Influence of Islamicity Performance Index and Non Performing Financing on Return on Asset of Indonesian Sharia Commercial Bank. *Jurnal Masharif Al-Syariah ...*, 8(30), 1185–1205.
- OJK. (2023a). Indonesia Banking Statistic December 2023. *Otoritas Jasa Keuangan Indonesia*, 21, 130.
- OJK. (2023b). Roadmap Pengembangan dan Penguatan Perbankan Syariah Indonesia (RP3SI) 2023-2027. In *Otoritas Jasa Keuangan*.
- Otoritas Jasa Keuangan. (2014). Surat Edaran Otoritas Jasa Keuangan Nomor 10/SEOJK.03/2014 Tentang Penilaian Kesehatan Bank Umum Syariah dan Unit Usaha Syariah. *SEOJK No. 10/SEOJK.03/2014*, 246.
- Otoritas Jasa Keuangan. (2023). Statistik Perbankan Syariah Desember 2023. *Statistik Perbankan Syariah, December*, 1–116.
- Prihatini, A. E., & Purbawati, D. (2021). Analisis kesehatan Keuangan dengan Menggunakan Metode Altman Z-Score Pada PT Tiga Pilar Sejahtera Food Tbk. *Jurnal Administrasi Bisnis*, 10(2), 155–164. <https://doi.org/10.14710/jab.v10i2.36791>
- Pudyastuti, L. W. (2018). Pengaruh Islamicity Performance Index Dan Financing To Deposit Ratio (Fdr) Terhadap Kinerja Keuangan Perbankan Syariah Di Indonesia the Effect of Islamicity Performance Index and Financing on Deposit. *Jurnal Manajemen Bisnis Indonesia Edisi 2*, 2(1), 170–181.
- Rahma, Y. (2018). The Effect Of Intellectual Capital And Islamic Performance Index On Financial Performance. *Akuntabilitas*, 11(1), 105–116. <https://doi.org/10.15408/akt.v11i1.8804>
- Sampurno, F. R. M. Z. R. D. (2022). ROA Bank Umum Syariah Di Indonesia (Studi Pada Tahun 2015-2020). *11(1)*, 1–10.
- Spence, M. (1973). Job Market Signaling. *The Quarterly Journal of Economics*, 87(3), 355–374. <https://doi.org/10.2307/1882010>
- Sugiyono. (2019). *Metode Penelitian Kuantitatif, Kualitatif, dan R&D*. Alfabeta.
- Suprianto, E., Setiawan, H., & Rusdi, D. (2020). Pengaruh Non Performing Financing (NPF) Terhadap Profitabilitas Bank Syariah di Indonesia. *Wahana Riset Akuntansi*, 8(2), 140. <https://doi.org/10.24036/wra.v8i2.110871>
- Syah, T. A. (2018). Pengaruh Inflasi, BI Rate, NPF, dan BOPO terhadap Profitabilitas Bank Umum Syariah di Indonesia. *El-Jizya : Jurnal Ekonomi Islam*, 6(1), 133–153. <https://doi.org/10.24090/ej.v6i1.2051>
- Wijaya, I., Kustyarini, E., & Maulida, P. (2021). Analisis Kinerja Bank Umum Syariah Berdasarkan Islamicity Performance Index Pada Bank Syariah Mandiri. *Jurnal Riset Keuangan Dan Akuntansi*, 7(2), 60–75. <https://doi.org/10.25134/jrka.v7i2.4859>
- Winawati, D. Y., & Anam, C. (2019). Pengaruh FDR dan NPF Terhadap Return On Asset (ROA) Pada Bank Syariah Mandiri Tahun 2009-2019. *Istithmar*, 4(2), 1–21.
- Zulfikar, R., Sari, F. P., Fatmayati, A., Wandini, K., Haryati, T., Jumini, S., Nurjanah, Annisa, S., Kusumawardhani,

O. B., Mutiah, R., Linggi, A. I., & Fadilah, H. (2024). Metode Penelitian Kuantitatif Teori, Metode dan Praktik. In *Jurnal Ilmu*

Pendidikan (Vol. 7, Issue 2). Widina Media Utama.