

## PERFORMANCE INDEX AND OPERATING RATIO: EFFECTS ISLAMIC ON SHARIA PROFITABILITY IN INDONESIA



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### Abstract

This study aimed to to ascertain the impact of Islamic Performance Index and Operating Efficiency Ratio on the financial performance of Islamic banking for 2016-2020 period. Purposive sampling was used as the empirical methodology. Data analysis was done by using Eviews 12 software and moderated regression analysis (MRA). The findings indicated that while the Islamic income ratio did not have impact on profitability, the profit sharing ratio and operating efficiency ratio had a significant detrimental impact on it. The findings also showed that intellectual capital can influence profitability by reducing the impact of operating efficiency ratio and profit sharing ratio, but it cannot affect profitability by reducing the impact of Islamic income ratio.

## INTRODUCTION

Indonesian Islamic banking still remains expanding perfectly. The CAR ratio of sharia commercial banks increased by 105 as stated by Central Agency on Statistics (BPS) to 21.64% in 2020. The rapid development of sharia banking in Indonesia is partly due to the ability and toughness maintained by sharia banks in the competitive world in the face of conventional banks (Muslimatul Ikrima, 2020). This demonstrated the growing robustness of sharia banking consisting of sharia units and sharia people's financing institutions. Meanwhile, disbursed financing and third party funds were increased by 8.08 percent and 11.98 percent respectively from year to year (OJK, 2021). The previous development of Islamic banking in 2016 was also marked by positive growth after experiencing a slowdown in growth for three years. In 2016, assets, disbursed financing (PYD), and third-party funds (DPK) of the national Islamic banking industry; one of which was BUS, grew by 20.28 percent. Concurrently, the Islamic Financial Services Industry Stability Report 2016 stated that Indonesia is now one of the contributors to the growth of Islamic banking in the world, is estimated to have total resources of \$1.9 trillion at the end of 2016, and is grouped as emerging leaders as areas that have the potential to influence Islamic finance in the world (OJK, 2016). However, the process to keep Islamic commercial banks healthy is not easy. The most important factor to keep banks healthy is to maintain the trust of prospective bank users

them selves. This is because the main capital of banks is public trust (Adam, et al. 2018). There are several alternatives to measure Islamic banks' performance besides using profitability indicators and using various financial indicators with Islamic perspective aspects (Nugroho, et al. 2021).

The increase in the existence of Islamic banks has not been in line with the slight increase in the market share of Islamic banks, which is 6.51 percent in 2020. The details are Islamic commercial banks was at 65.21%, Islamic business units were at 32.33%, and Islamic people financing banks were at 2.46% (OJK, 2021). In addition, Islamic banking still has a small market share in Indonesia which only accounts for about 2.6 percent of the total national banking market. Thus, it is undeniable that the Islamic banking ecosystem in Indonesia has not been maximized completely, even though Indonesia is a country with the largest Muslim population in the world (Wicaksono, 2021). This shows that public interest and trust in Islamic banks as the providers of financial services are still low (Firdaus, et al. 2021). The durability of Sharia banks can be seen from the level of profitability (Afkar, 2015). If the natural economic conditions are good then the level of profit is also good assuming that the customer has no difficulty in paying his obligations. In addition, if a Sharia bank is able to manage the level of efficiency of its operational costs, it is likely to increase the profit obtained, because in research Habib (2006) explained that profitability becomes a measure of the company to maintain its existence (Afkar, et al. 2022).

Risk is an inherent part of how Islamic banks conduct business. The risk of not adhering to sharia is one of the risks. Failure to adhere to the sharia norms and principles established by the sharia supervisory board or related organization of the jurisdiction in which the sharia bank operates creates the danger of sharia non-compliance. Non-compliance with sharia law can have a negative impact on the asset value of Islamic banks, resulting in loss of investment or reinvestment income. Non-compliance can result in withdrawal of funds and termination of investment contracts, thereby reducing the profitability and performance of Islamic banks (Hamza, 2013). Profitability is one of the financial performance seen by investors (Tristingtyas & Mutaheer, 2013). Although profitability is a measure of financial performance in Islamic banks, profitability is not affected by mudharabah financing, musyarakah financing and murabahah financing (Afkar, et al. 2020). Ullah & Khanam (2018) investigated whether the effectiveness of Sharia compliance affects Bank Bangladesh Limited's Islamic financial performance (IBBL). The findings demonstrated that a number of other variables have an impact on IBBL's financial performance, but the level of Sharia compliance is the key determinant of success. By using a long-term event study methodology, Pepis & De Jong (2018) tested two hypotheses to see if adhering to sharia law would increase a company's long-term value. The study findings revealed that adhering to sharia law has a significant positive effect on long-term financial performance, as demonstrated by an increase in the value of return on assets and return on sales.

It is crucial to highlight that Islamic commercial banks have achieved great profitability, as the scale of bank performance in general is to observe the numerous benefits created by the business or banking sector (Adam & Wahyudi, 2018). The ability of a business to turn a profit in relation to sales, total assets, and its own capital during a specific time period is known as profitability (Siregar, 2021). Profitability can be measured by various indicators, especially by return on assets. Return on Assets (ROA) is one of the indicators applied in the measurement of profitability. ROA shows the bank ability to manage all of its assets to earn a profit. A bank is claimed to be healthy if it has a return on assets of more than 1.5%. This is according to the standard for measuring the soundness of the Bank Indonesia (Circular Letter of Bank Indonesia No. 13/24/DPNP 2011). The better the rate of return on assets (ROA), the greater the bank profit. According to OJK statistics for 2016-2020, ROA data for Islamic commercial banks fluctuates, with each Islamic bank on average tends to be below the set standards. In 2017, the ROA of Islamic commercial banks showed the same number as in 2016 which was 0.63%. In 2018, there was an increase of 1.28% and in 2019, there was 1.73%, but in 2020, there was a decrease of 1.40% (OJK, 2021).

Differences in the concept of sharia in activities and implementation in the field are found. Limited trained and professional human resources, limited capital, and low public trust in sharia commercial banks are obstacles to the development of sharia banking itself. Thus, the development of a structured and adequate Islamic bank has not been perfectly formulated (Rusydhiana, 2016). By seeing the problems related to the profitability of Islamic banks during 2016-2020 as well as differences in activities with sharia concepts and the public doubts regarding Islamic banks, an instrument is needed to measure performance that will complement the financial goals of Islamic banks. Considering the characteristics of services between Islamic and conventional banks is the most basic thing in distinguishing them, which will make the assessment of the two types of banking different Ramdhoni & Fauzi (2020) it is also based on the concept of sharia enterprise theory which emphasizes accountability and responsibility to Allah SWT. The performance of Islamic banks should not only meet the needs of many stakeholders, but also ensure that all activities are carried out in accordance with sharia law. Islamic Performance Index of Islamic bank is a performance evaluation instrument that can demonstrate

sharia principles (Hameed et al., 2004). As in the study done by Putri & Gunawan (2019), which used the Islamic performance index (IPI) adopted from Hameed et al. (2004), it aims to measure sharia compliance and consists of seven ratios, including the profits sharing ratio, zakat performance ratio, Equitable distribution ratio, directors-employees welfare ratio, Islamic investment ratio, Islamic income ratio, and AAOIFI index.

Previous research on the ratio in the IPI which is thought to have an effect on ROA is the profits sharing ratio. Mudharabah and musharakah are two types of income derived from the concept of profit sharing. Mudharabah is a business cooperation contract with the proportion of profit sharing based on an initial agreement between the owner of the fund and the manager of the fund. In a mudharabah contract, all losses on investment are borne by Islamic banking, while profits on this investment are shared between the Islamic bank (shahibul maal) and the customer (mudarib) Aprilia & Mahardika (2019) Musyarakah is a cooperation agreement that combine capital between the owners of capital to earn a profit, where profits are distributed according to the previous contract (Arwani, 2016). Hence, this ratio aims to measure the extent to which mudharabah and musyarakah are given for total financing. Given that syirkah products are the primary product of Islamic commercial banks, profit sharing ratio is the most crucial element of Islamic banking (musyarakah and mudharabah). However, in comparison to purchasing and selling loans, this product is actually quite modest (murabahah) (Nurmawati, et al. 2020).

Table 1. Growth of Islamic Commercial Bank Profit Sharing Financing 2016-2020

Year	Profit Sharing Financing (Billion Rupiah)	Sales and Purchase Financing (Billion Rupiah)
2016	62.151	114.009
2017	67.535	120.028
2018	74.541	125.044
2019	90.423	132.046
2020	96.779	147.458

Table 1 shows that there is more information about profit sharing financing than buying and selling financing; thus, it is crucial to do empirical research on how profit sharing ratio affects Islamic commercial banks' ROA. The Islamic Income Ratio (IsIR) is also an indicator of the Islamic performance index and also thought to affect profitability. Islamic income ratio is a ratio that has aim of assessing halal income. Islamic principles encourage halal trade. However, to the present time, there is still a lot of non-halal income, as proven by the number of non-halal income obtained from reports on funds and the use of the 2016-2020 virtue funds. Therefore, empirical research on the impact of halal income on BUS profitability is important to do.

Sharia enterprise theory explains that essentially energy sources belong to Allah and it is the responsibility of humans to utilize and to manage them properly following Allah's commands. Thus, the purpose of financial reporting to achieve Al Falah (success) will be realized by practicing the conformity of sharia (Apriyanti, 2018). Triyuwono (2003) asserted that sharia enterprise theory is a subset of business theory that has been internally adapted to Islamic principles in order to develop a transcendental and more humane theory. In fact, sharia enterprise theory is able to accommodate the diversity of stakeholders because the economic power possessed is not only controlled by one person (shareholder), but is owned by stakeholders. Therefore, this theory of sharia enterprise is more suited for an economy founded on sharia values. The relation between sharia enterprise theory and the islamicity performance index is a consideration for entities in carrying out financial activities and reporting, which are not only focused on the interests of company owners, but can also be accountable to Allah SWT. Besides, all actions taken by Islamic banking are a form of sharia compliance and reflect that Islamic banking has carried out Islamic principles in accordance or not. Given the high level of sharia compliance as measured by the islamicity performance index, it can affect the level of public trust, especially prospective users of sharia banking products. In this case, it allows an increase in profitability, both from sharia bank financing product activities and sharia bank income reporting. Profit sharing ratio was found to have a significant positive effect on ROA in previous studies by (Bustamam & Aditia, 2016; Nurmawati et al., 2020; Nasution et al., 2018; Putri & Gunawan, 2019; Siswanti et al., 2021; Felafifah & Sunarsih, 2018). Islamic income ratio was found to have a significant positive effect on ROA in a previous study by (Azzahra, 2020; Dahlifah & Sunarsih, 2018; Putri & Gunawan, 2019; Rahmani, et al., 2020; Siswanti et al., 2021). This is different from the research of Khasanah (2016) and Rahmawati et al. (2020) rusy who found IsIR did not have significant effect and PSR had a significant negative effect.

The next factor is the operating efficiency ratio (OER) or BOPO. OER shows that the costs incurred are smaller than the profits earned and the bank is in very high profitability depending on its operational efficiency. The operational efficiency ratio (OER), also known as the ratio of Operating Expenses to Operating

Income (BOPO), is a measure of bank efficiency in generating revenue, reducing costs, and managing its assets. Thus, this ratio shows the ability to minimize expenses as well as increase productivity Wahyudi, Rosmanita, Prasetyo & Putri, (2015) ye. Bank Indonesia stated that the level of BOPO ratio can be said to be healthy is <85% (SE BI No. 13/24/DPNP 2011). OJK statistical data shows that the BOPO ratio from 2016-2020 fluctuated. In 2016, the BOPO ratio for Islamic commercial banks showed 96.22%; in 2017, it showed 94.91%; in 2018, it was at 89.18%; in 2019, it was at 84.45 %; and in 2020, it was at 85.44% (OJK, 2021). This needs to be investigated considering the limited capital of Islamic banks, causing banks to be more efficient in managing their assets. Efficiency Structure Theory argues that an efficient firm outperforms others and therefore achieves a larger market share, resulting in a more concentrated market structure. Higher income, according to this idea, results from increased efficiency and reduced costs (Ye & Fang, 2012). The higher the efficiency level of Islamic banking, it also means that if the resources are managed adequately and the costs will be reduced indirectly, it will increase the bank profitability. This will make the bank gain more profit because it is more efficient in its operations than its competitors (Onuonga, 2014). In other words, this will have an impact on the profitability of Islamic banks. Research conducted by (Abdillah et al., 2016; Gaber, 2021; Kusumastuti & Alam, 2019; Mubarok, 2019; Onuonga, 2014; Putri & Gunawan, 2019; Porawouw et al., 2014; Sitompul & Nasution, 2019; and Wicaksono, 2021) show that the operating efficiency ratio or BOPO has a significant negative effect on ROA. The research of Harahap (2018) stated the opposite, finding that BOPO did not have effect on ROA.

Global organizations have realized that a company intangible resource is more likely to help build and maintain excellent performance in today economic era. Thus, the most important source of value creation and competitive advantage in the present business, especially financial services, is the effective management of intellectual capital (Nawaz & Haniffa, 2017). Intellectual capital is one of the company intangible assets, with three main indicators such as human, structural, and customer capital, all of which are related to knowledge and technology that can contribute value to the organization (Sawarjuwono, 2003). High intellectual capital is caused by the company ability to manage and to utilize knowledge so that it has a merciless advantage and competitiveness in business (Nurramayuningsih & Sufyani, 2020). In an accounting perspective, several researchers from various countries have conducted research to examine the measuring tools used in identifying intellectual capital (IC). One of them is in measuring the Islamic banking industry named iB-VAIC™ (value added intellectual coefficient). IC itself began to develop and became a concern in Indonesia after the PSAK No. 19 (revised 2015), where intangible assets are non-monetary assets that can be recognized but do not have a physical form and can be used to buy products or services or be rented out to others. Studies related to IC are still relatively new in the corporate sector and have not been discussed in depth in Indonesia, and the limited human resources of Islamic banking make IC important to research (Khasanah, 2016). IC can be a strong predictor variable and represents a valuable strategic knowledge-based resource, is difficult to imitate and when utilized effectively, generates superior operational and competitive advantages (Scafarto, 2016). In their 2019 study, Arslan & Kızıl (2019) measured and compared the intellectual capital of Turkish banks listed on BIST XBANK using the Market Value (MV)/Book Value (BV) method and the Value Added Intellectual Coefficient (VAIC) model. The findings revealed that VAIC had a significantly positive impact on ROA. This is also supported by research by Marzuki, et al. (2022) which revealed that intellectual capital has a significant positive effect on financial performance.

Sharia enterprise theory reveals that Islamic banks are not only focused on the interests of company owners, but also all activities can be devoted to Allah SWT. In addition, sharia enterprise theory is extremely relevant to an economic system based on sharia values. This reveals that Islamic banks should carry out activities in accordance with Islamic corridors. One of the activities it has is the profit-sharing ratio (Putri & Gunawan, 2019). The existence of profit-sharing financing activities for customers makes the bank contribute to the balance and ratio. In the end, the financing will be the bank profit. The existence of profit-sharing financing activities provided to customers makes the bank provide an estimate of the imbalance and profit-sharing ratio for financing which will ultimately become the bank profit. In this sense, the existence of a high profit-sharing ratio will affect the resulting imbalance of results and the profitability of Islamic banks (Fitriana, Yulianto & Solikhah, 2019). So profit sharing ratio has a significant positive effect on profitability (ROA).

Sharia enterprise theory predicts the higher the sharia income ratio, the more profitable the sharia bank is. This is related to the sharia income ratio, which is income earned according to sharia principles, and is a form of obedience or accountability to Allah SWT. Since the sharia income ratio is thought to be equivalent to the net interest margin in traditional banks, an increase in the sharia income ratio could lead to greater profitability (Dahlifah & Sunarsih, 2018). So islamic income ratio has a significant positive effect on profitability (ROA).



According to the Efficiency Structure Theory, efficient businesses outperform their competitors and therefore gain a larger market share, resulting in a more concentrated market structure. This theory implies increased income earned through higher efficiency and cost reduction (Ye et al., 2012). The high level of efficiency of Islamic banking also means that resources are managed properly and will indirectly reduce costs, but increase bank profitability. The operating efficiency ratio or BOPO is an indicator used to evaluate the efficiency and operational capacity of a bank. The higher the BOPO, the lower the profit before tax, so it will reduce or decrease the profitability of Islamic banks (ROA) (Sitompul & Nasution, 2019). So operating efficiency ratio has a significant negative effect on profitability (ROA).

Disclosure of intellectual capital helps investors and other stakeholders to analyze the company future capabilities, so that banks can achieve better profitability (Nandaria & Kusuma, 2014). In carrying out profit-sharing financing transactions, it is necessary to understand and apply more soft skills of human resources (intellectual capital) so that Islamic banks can achieve the financing targets set. Meaning that, if the profit-sharing financing target from customers is met, it will have an impact on the profitability of Islamic banks. Therefore, the relation between profit sharing ratio and the profitability of Islamic banks can be moderated by the presence of intellectual capital, especially human resources. Research conducted by Scafarto et al. (2016) & Onofrei et al. (2018) supports this by revealing that intellectual capital can be a strong predictor variable and represents a valuable strategic knowledge-based resource, difficult to imitate or replace and when utilized effectively, generate superior operational and competitive advantages (Onofrei et al. , 2018). Another relevant research was conducted by (Nurmawati et al., 2020). So Intellectual capital moderates the effect of profit sharing ratio on profitability (ROA).

Islamic principles encourage to avoid transactions related to usury, gambling, and gharar. According to sharia enterprise theory, the responsibility of the company is not only on stakeholders, but also on Allah SWT. Therefore, it is appropriate for Islamic banks to earn income from halal transactions (Hameed et al., 2004). Despite the fact that non-halal income from Islamic banks is included in the report of the benevolent fund, it is appropriate for the bank to honestly disclose every transaction made. In this case, the existence of strong intellectual capital is expected to enable Islamic banks to honestly report related income which is permitted or prohibited by Islam to develop a positive image in the eyes of the public, which will ultimately affect profitability. This is supported by research conducted by (Azizah & Senjani, 2019). So Intellectual capital moderates the effect of Islamic income ratio on profitability (ROA).

The operating efficiency ratio is generally used to assess the efficiency of bank performance in generating revenue, minimizing costs, and managing its assets. To develop operational efficiency as a multidisciplinary job requires knowledge to support the company. Therefore, the importance of intellectual capital as a major component of human resource activities is clear to achieve efficiency, which in turn affects profitability. A study conducted by (Saeidi, 2021). So intellectual capital moderates the effect of operating efficiency ratio on profitability (ROA).

Based on the previous description, the conceptual framework is formed as follows:

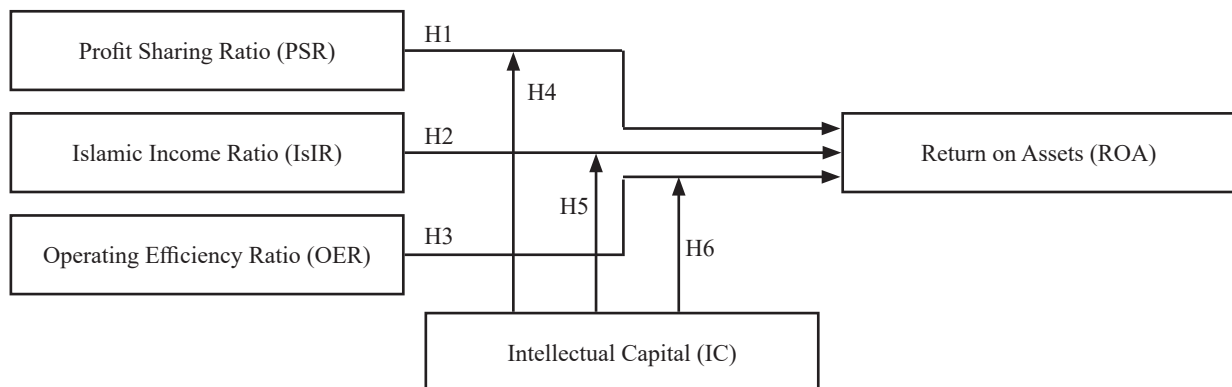


Figure 1. Conceptual Framework

The conceptual framework is a framework that contains the variables studied, both containing the influence or relation between one variable and another. In this case, there are three independent variables, namely profits sharing ratio ( $X_1$ ), Islamic income ratio ( $X_2$ ), operating efficiency ratio ( $X_3$ ) and one dependent variable, namely return on assets ( $Y$ ) and one moderating variable, namely intellectual capital ( $Z$ ). In this study, moderated regression analysis (MRA) using Eviews 12 tool was the method of analysis.

The relation between sharia enterprise theory and the Islamic performance index is a consideration for entities in carrying out financial activities and reporting, which are not only focused on the interests of company owners, but it can also be accountable to Allah SWT. In other words, all actions taken by Islamic banking are a form of sharia compliance and reflect that Islamic banking has carried out Islamic principles in accordance or not. Given the high level of sharia compliance as measured by the Islamic performance index, it can affect the level of public trust, especially prospective users of sharia banking products, which in this case allows an increase in profitability, both from the activities of Islamic bank financing products and the reporting of Islamic bank income. Efficiency Structure Theory argues that an efficient firm outperforms others and therefore achieves a larger market share, resulting in a more concentrated market structure. Higher income according to this idea results from increased efficiency and reduced costs (Ye et al., 2012). The high level of efficiency of Islamic banking also means that the resources are managed properly and will indirectly affect the profitability of the bank.

The emphasis in this study is the effect of IPI (profit sharing ratio and Islamic income ratio) and operating efficiency ratio on ROA with intellectual capital that can moderate it. Previous research was conducted by Nurmawati et al. (2020) which states that IC moderates PSR on ROA and according to research by Azizah & Senjani (2019) which states that IC can moderate the relation between sharia income ratio and ROA but not with the relation between profit sharing ratio and ROA. In a study conducted by Li et al. (2020), it was shown that each aspect of intellectual capital, such as human, structural, and customer capital, has an effect on how well SMEs employ financial resources as a moderator. According to the research, having human resources directly increases SMEs productivity, whereas having financial resources as a moderator lessens the effect. The effectiveness of SMEs is nevertheless increased by financial resources as well as the channels of social and consumer capital. However, SMEs efficiency does not automatically rise as a result of social capital and customer capital. This needs to be investigated to provide an overview of the relation between these variables and to see how well Islamic banking is represented by the performance measurement. Another contribution of this research is to develop a financial and non-financial-based performance measurement framework in the aspect of human resources.

## METHOD

The population used in the research is Islamic commercial banks registered with the OJK (Financial Services Authority) during the 2016-2020 period comprising of 14 banks. The sampling process is based on the purposive sampling method which is intended to select certain criteria that will be used as research samples with the criteria of Islamic Commercial Banks (BUS) located in Indonesia during the 2016-2020 period and Islamic Commercial Banks registered with the OJK and publishing financial reports with the required data during the 2016-2020 period, so that a sample is obtained. The study consisted of 11 BUS with a total of 51 observations. The data collection technique used was documentation. The data was obtained from the financial statements of Islamic commercial banks registered with the OJK (Financial Services Authority) for the 2016-2020 period, by accessing (OJK, 2016) and the websites of each bank. BPD NTB Syariah, Maybank Syariah Indonesia, and the National Syariah Pension Savings Bank are the three Islamic Commercial Banks that do not meet the criteria for the research sample. This is because the BPD Syariah NTB was not registered with the OJK in 2016, and was finally recorded in 2018. Meanwhile, research data on the profit sharing ratio variable is not complete enough at PT Bank Tabungan Pensiunan Nasional Syariah and PT. Bank Maybank Syariah Indonesia also has incomplete data on the Islamic income ratio variable.

Profitability is the dependent variable in this study which is proxied by Return On Assets (Y). ROA is a ratio that measures a bank's ability to profit from its assets. The independent variable in this study is the Islamicity performance index which is proxied by the Profit Sharing Ratio ( $X_1$ ) and Islamic Income Ratio ( $X_2$ ). Islamic Performance Index of Islamic banks is a performance evaluation instrument that can demonstrate sharia principles. Profit sharing ratio is intended to measure the extent to which mudharabah and musyarakah are given on total financing and the Islamic income ratio aims to measure halal income. In addition, the independent variable used is Operating Efficiency Ratio ( $X_3$ ) is a proportion of the total operational costs of Islamic banks based on the amount of income collected during a certain period and the moderating variable is the third variable that has a strong contingent impact between the relation between the independent variable and the dependent variable (Kurniullah et al., 2021) the moderating variable in this study is intellectual capital (Z). Intellectual capital is one of the company intangible assets, with three main indicators namely human capital, structure, and customers; all of which are related to knowledge and technology that contribute value to the organization (Sawarjuwono, 2003). The operational variables are shown in Table 2.

Table 2. Variable Operationalization

Variable	Indicators	Scales
Profit Sharing Ratio ( $X_1$ )	Profit Sharing Ratio = $\frac{\text{Mudharabah} + \text{Musyarakah}}{\text{Total Financing}}$	Ratio
Islamic Income Ratio ( $X_2$ )	Islamic Income Ratio = $\frac{\text{Halal Income}}{\text{Halal Income} + \text{Non Halal Income}}$	Ratio
Operating Efficiency Ratio ( $X_3$ )	Operating Efficiency Ratio = $\frac{\text{Operating Expenses}}{\text{Operating Income}}$ Return on Assets = $\frac{\text{Net Profit}}{\text{Total Assets}}$	Ratio
Profitability (Y)	<ul style="list-style-type: none"> <li>• iB-VAICTM = iB-VACA + iB-VAHU + iB-STVA</li> <li>• iB-Value Added (iB-VA) = output – input</li> </ul>	Ratio
Intellectual Capital (Z)	<ul style="list-style-type: none"> <li>• iB-Value Added Capital Employed (iB-VACA) = VA/CE</li> <li>• iB-Value Added Human Capital (iB-VAHU) = VA/HC</li> <li>• iB-Structural Capital Value Added (iB-STVA) = SC/VA</li> </ul> Information: Output : Non-operating income and net income from sharia operations Input : Operating expenses and non-operating expenses (except employee expenses) CE : Total equity HC : Human capital SC : Structural capital (iB-VA – HC)	Ratio

The methods used are descriptive and verification. The verification analysis method uses moderated regression analysis to test the hypothesis; the hypothesis testings used are the T test, F test and the Coefficient of Determination ( $R^2$ ) test. Before testing the hypothesis, there is a test for selecting the best estimation model and a classic assumption test. The selection of the best estimation model consists of the Chow test, Hausman test and the Lagrange multiplier test. While the classical assumption test uses normality, multicollinearity, and heteroscedasticity tests. Hypothesis testing is carried out using the following analytical model. The data analysis tools used in this study are Microsoft Excel and Economic Views (Eviews) version 12. Hypothesis testing is carried out by using the following analytical model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 Z + \varepsilon$$

$$Y = \beta_0 + \beta_5 X_1 + \beta_6 X_2 + \beta_7 X_3 + \beta_8 Z + \beta_9 X_1 * Z + \beta_{10} X_2 * Z + \beta_{11} X_3 * Z + \varepsilon$$

Where Y represents return on assets, and  $\beta_0$  is intercept,  $\beta_i$  stands for regression coefficient,  $X_1$  represents profit sharing ratio,  $X_2$  represents Islamic income ratio,  $X_3$  represents operating efficiency ratio, Z represents intellectual capital and  $\varepsilon$  is error.

## RESULTS

Analyzing descriptive statistics to see how good they can describe the study variables.

Table 3. Descriptive Statistics Result

	Minimum	Maximum	Mean	Std. Deviation
ROA	-0,1077	0,0251	0,005539	0,017756
PSR	0,0786	0,9551	0,465025	0,238775
IsIR	0,9907	1,0000	0,999492	0,001350
OER	0,7695	2,1740	0,947218	0,188443
IC	-5,7872	2,5692	1,436441	1,355744

Source: the results of data processing with excel (2022)

From the results of the descriptive statistical analysis in table 3, it can be concluded that the minimum value of ROA is at PT. Panin Dubai Syariah Bank in 2017 was -0.1077, while the maximum ROA value was at PT. Bank Aceh Syariah in 2017 amounted to 0.0251. The average result (mean) of the Return on Assets (ROA) variable is 0.005539 with a standard deviation of 0.017756 which indicates that there is a deviation between one company and another of 0.017756. The standard deviation value is greater than the mean value indicating that the distribution of the data varies/there is a large fluctuation.

Furthermore, for the Profit Sharing Ratio (PSR) variable, it can be concluded that the minimum value is at PT. Bank Aceh Syariah in 2017 was 0.0786, while the maximum value was at PT. Panin Dubai Syariah Bank in 2019 amounted to 0.9551. The average result of the PSR variable is 0.465025 with a standard deviation of 0.238775 which indicates a deviation between one company and another of 0.238775. The standard deviation value is smaller than the mean value indicating that the distribution of the data is less varied/there is a small fluctuation.

The variable Islamic Income Ratio (IsIR) in this study has a minimum value contained in PT. Bank Aceh Syariah in 2019 is 0.9907, while the maximum value is 1.0000. The average result of the IsIR variable is 0.999492 with a standard deviation of 0.001350 which indicates that there is a deviation between one company and another of 0.001350. The standard deviation value is smaller than the mean value indicating that the distribution of the data is less varied or there is a small fluctuation.

Variable Operating Efficiency Ratio (OER) in this study has a minimum value contained in PT. Bank Aceh Syariah in 2019 was 0.7695, while the maximum value was at PT. Panin Dubai Syariah Bank in 2017 amounted to 2.1740. The average result of the OER variable is 0.947218 with a standard deviation of 0.188443 which indicates that there is a deviation between one company and another of 0.188443. The standard deviation value is smaller than the mean value indicating that the distribution of the data is less varied or there is a small fluctuation.

While the results of the descriptive statistical analysis of the Intellectual Capital (IC) variable in this study have a minimum value found in PT. Panin Dubai Syariah Bank in 2017 was -5.7872, while the maximum value was at PT. Bank Aceh Syariah in 2017 amounted to 2,5692. The average result of the IC variable is 1.436441 with a standard deviation of 1.355744 which indicates that there is a deviation between one company and another of 1.355744. The standard deviation value < mean value indicates that the data distribution is less varied or there is a small fluctuation.

Before determining the regression method to be used, testing is carried out first to select the best estimation model from the common effect model, fixed effect model, and random effect model.

Table 4. Chow Test Result

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	5.824798	(10,33)	0.0001
Cross-section Chi-square	51.870741	10	0.0000

Source: results of data processing with Eviews 12, 2022

Based on the results of the Chow test from the table above, the probability value of F or cross-section Chi-square is significant (0.0001 and 0.000), because the value is less than 5%, then  $H_0$  is rejected. These results indicate that the Fixed Effect model is better than the Common Effect model and will be continued by comparing with the Random Effect model.

Table 5. Hausman Test Result

Correlated Random Effects – Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	12.654549	7	0.0810

Source: results of data processing with Eviews 12, 2022

Based on Table 5, it can be concluded that the probability F value displayed is 0.0810, the value is greater than 5%; thus,  $H_0$  is accepted. These results indicate that the Random Effect model is better than the Fixed Effect model and will continue to compare with the Common Effect model.

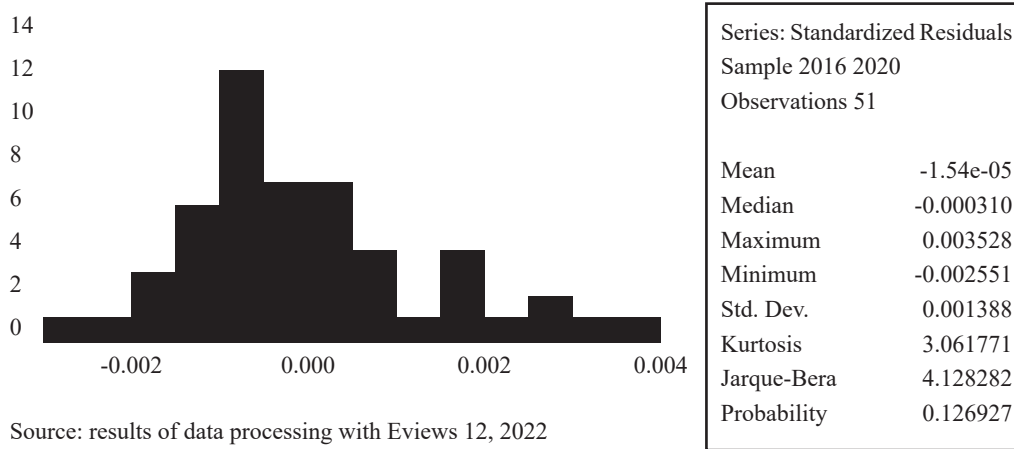
Table 6. Lagrange Multiplier Test Result

Lagrange Multiplier Test for Random Effects			
Null hypotheses: No effects			
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others alternative)			
	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	11.97455	0.665407	12.63996
	(0.0005)	(0.4147)	(0.0004)

Source: results of data processing with Eviews 12, 2022



Based on the table above, it can be concluded that the Breusch-Pagan cross-section value displayed is 0.0005, the value is less than 5%; hence, H0 is rejected. It can be concluded that the selected regression model is the Random Effect Model.



Source: results of data processing with Eviews 12, 2022

Figure 2. Normality Test

Viewed from Figure 2 above, which shows the normality test using the Jarque-Bera test, the probability value is more than the 0.05 significance threshold, or 0.126927. Consequently, the data can be regarded to be regularly distributed.

Table 7. Multicollinearity Test Result

	X <sub>1</sub>	X <sub>2</sub>	X <sub>3</sub>	Z
X <sub>1</sub>	1.000000	0.169642	0.425425	-0.394523
X <sub>2</sub>	0.169642	1.000000	0.134509	-0.087358
X <sub>3</sub>	0.425425	0.134509	1.000000	-0.885693
Z	-0.394523	-0.087358	-0.885693	1.000000

Source: results of data processing with Eviews 12, 2022

As shown in the table above, namely the multicollinearity test using the correlation coefficient test, it can be stated that the independent or independent variables in this study are not correlated with each other, which can be seen from the value < 0.90. Therefore, it can be concluded that the research data is free from the symptoms of multicollinearity.

Table 8. Heteroskedasticity Test Result

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
Null hypothesis: Homoskedasticity			
F-statistic	1.514804	Prob. F(4,46)	0.2135
Obs*R-squared	5.935935	Prob. Chi-Square(4)	0.2040
Scaled explained SS	5.914416	Prob. Chi-Square(4)	0.2056

Source: results of data processing with Eviews 12, 2022

Viewed from table 8 above, namely the heteroscedasticity test using the Breusch-Pagan-Godfrey test, it can be concluded that the value of Obs\*R-squared with Prob. Chi-Square(4) is greater than 0.05 which is 0.2040. This indicates that the data is free from heteroscedasticity symptoms. In addition, this is also supported by the chosen model, which is the random effect model, so that this model has the advantage of eliminating the symptoms of heteroscedasticity.

Table 9. Random Effect Test Result Model 1

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	0.035325	0.120388	0.293427	0.7705
X <sub>1</sub>	-0.003729	0.001315	-2.835649	0.0068
X <sub>2</sub>	0.055235	0.120551	0.458182	0.6490
X <sub>3</sub>	-0.088835	0.001861	-47.73502	0.0000
Z	0.000629	0.000259	2.428399	0.0191
Weighted Statistics				
R-squared	0.995455	Mean dependent var		0.002373
Adjusted R-squared	0.995060	S.D. dependent var		0.015006
S.E of regression	0.001055	Sum squared resid		5.12E-05
F-statistic	2518.632	Durbin-Watson stat		1.580748
Prob(F-statistic)	0.000000	Mean dependent var		0.002373
Unweighted Statistics				
R-squared	0.993892	Mean dependent var		0.005539
Sum squared resid	9.63E-05	Durbin-Watson stat		0.839780

Source: results of data processing with Eviews 12, 2022

As seen from the data panel test, random effect was chosen as the method. Constant value amounted to 0.035325 described that if islamicity performance index (PSR & IsIR), operating efficiency ratio, intellectual capital as variables were to amounted 0 or constant, then the value of profitability (ROA) would be 0.035325. Positive value of constants reveals income increase pattern of return on assets. From data panel regression result (Table 3), it indicates that profit sharing ratio, islamic income ratio, and operating efficiency ratio director were able to describe of influence the value ROA in the amount of 99,50%. The value of prob (F-statistic) in the amount is 0.000000.

Table 10. Random Effect Test Result Model 2

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	0.797027	0.756525	1.053537	0.2980
X <sub>1</sub>	0.010376	0.003927	2.642060	0.0114
X <sub>2</sub>	-0.709036	0.757829	-0.935616	0.3547
X <sub>3</sub>	-0.094251	0.002992	-31.49975	0.0000
Z	-0.351607	0.313031	-1.123234	0.2676
M1	-0.008399	0.002362	-3.556342	0.0009
M2	0.354671	0.313407	1.131662	0.2640
M3	0.001891	0.000916	2.063048	0.0452
Weighted Statistics				
R-squared	0.996605	Mean dependent var		0.002476
Adjusted R-squared	0.996052	S.D. dependent var		0.015063
S.E of regression	0.000946	Sum squared resid		3.85E-05
F-statistic	1803.082	Durbin-Watson stat		1.422178
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.995065	Mean dependent var		0.005539
Sum squared resid	7.78E-05	Durbin-Watson stat		0.703899

Source: results of data processing with Eviews 12, 2022

From the data panel test, random effect was chosen as the method. Constant value amounted to 0.797027 described that if islamicity performance index (PSR & IsIR), operating efficiency ratio, intellectual capital, and moderating effect as variables were to amounted 0 or constant, then the value of profitability (ROA) would be 0.797027. Positive value of constants indicating income increase pattern of return on assets. From data panel regression result (Table 4), indicating that profit sharing ratio, islamic income ratio, and operating efficiency ratio director were able to describe of influence the value ROA in the amount of 99,60%. The value of prob (F-statistic) in the amount of 0.000000.

## DISCUSSION

From the results obtained in Table 4 the results of Prob. profit sharing ratio is 0.0068, meaning that the probability value is smaller than a by 0.05 or 5%. Furthermore, testing the relationship between variables shows that the profit sharing ratio variable has a regression coefficient of -0.003729. Thus, it is concluded that PSR has a significant negative impact on profitability (ROA). These results are not in line with the predictions of the sharia enterprise theory used. The high profit sharing ratio will reduce the profitability of Islamic banks because the profit sharing financing distributed to customers is relatively smaller than buying and selling financing. In addition, low profitability can also be affected by signs of non-current financing. The number of non-performing loans (Non Performing Financing/NPF), namely in 2016 was 4.42%, in 2017 it rose to 4.76%, in 2018 it was 3.26%, in 2019 it was 3.23% and in 2020 it was 3, 13%. From this data, it can be seen that the NPF value fluctuates from 2016-2020 (OJK, 2021). The company's profitability has decreased along with the increase in the NPF value. Even though the quantity of profit-sharing financing increases, the profitability of Islamic banking will decrease if consumers do not pay enough or do not pay on time (Khasanah, 2016). Therefore, the profit sharing contribution is less able to maximize the potential of Islamic Commercial Banks to generate profits. As a result, this will have an impact on the decline in profit or return on assets of Islamic banks. This finding explains that Islamic commercial bank financing through mudharabah and musyarakah contracts has not been effective in generating profit for banks. The results of thid study support previous research conducted by (Dewanata, et al. 2016), Khasanah (2016), (Felani, et al. 2020), Destian et al. (2021), Djuwita et al. (2019), Rahmawati et al. (2020), (Azhar, I. & Nasim, 2016).

Acquired from table 4, the result of Prob. Islamic income ratio, specifically 0.6490, means that the probability value is greater than a, which is 0.05 or 5%. Furthermore, testing the relation between variables shows that the Islamic income ratio variable has a coefficient value of 0.055235. Thus, the Islamic Income Ratio (IsIR) is considered to not have a significant impact on profitability (ROA). These results are not in line with the predictions of the shariah enterprise theory used. Islamic income ratio is considered to not have effect on the high and low profitability of Islamic banking. The Islamic income ratio does not have effect on profitability as proxied by ROA which can be seen from the ratio values in Bank Syariah Mandiri (BSM), Bank Muamalat Indonesia (BMI), and Bank Syariah Bukopin (BSB). The 2016 BSM IsIR showed a figure of 0.9999, and rose to 1.0000 in 2017. However, the increase in this figure was not in line with the ROA value, namely in 2016 & 2017 in which both showed a figure of 0.59%. Meanwhile, BMI in 2018 and 2019 IsIR showed 0.9998. However, this is not same as the ROA value, where the ROA value was 0.08 in 2018 and decreased to 0.05 in 2019. In addition, seen from the BSB IsIR ratio value showing 0.9984 in 2019, and increased to 0.9992 in 2020. The increase in the IsIR value is not in accordance with the ROA value in 2019 and 2020 which both have a value of 0.04%. Meanwhile, there are still earnings management techniques in Islamic banks that include income, and earnings management for any reason can result in reporting false (misleading) financial statements. In fact, there are values of honesty, transparency, and openness that must be considered to fulfill Islamic principles. Profit is used as information to show one of the financial performance of a company that is shown in the financial statements, therefore accountability in disclosure and preparation of financial statements is one of the principles that must be obeyed. (Afkar & Fauziyah, 2021). Asia result, income collated in accordance with sharia law cannot provide a significant contribution to improve the financial performance of islamic banks (Djuwita, et al, 2019). The result of this study support previous research by (Nasution, et al. 2018), (Khasanah, et al. 2019), (Destiani, et al. 2021).

Table 4 shows the results of Prob. operating efficiency ratio which is 0.0000; meaning that the probability value is smaller than a by 0.05 or 5%. Furthermore, the test of the relation between variables shows that the operating efficiency ratio variable has a coefficient value of -0.088835. Thus, the Operating Efficiency Ratio (OER) can be determined to have a significant negative impact on profitability (ROA). These results support the efficiency structure theory; efficient businesses outperform their competitors and therefore gain a larger market share, resulting in a more concentrated market structure (Ye et al., 2012). The high level of efficiency of Islamic banking means that resources are managed properly. Operating efficiency ratio or BOPO is a ratio used to assess the efficiency and capacity of a bank to run its operations. The higher the BOPO, the smaller the profit before tax will be. Therefore, it will reduce or decrease the profitability (ROA) of the Islamic bank (Sitompul & Nasution, 2019), (Kusumastuti, W. I. dan Alam, 2019), Gaberi(2021), Sitompul & Nasution (2019), Putri & Gunawan (2019) Mubaroki, et al. 2019), Andi nuonga (2014).

Results of Prob. moderating 1, namely 0.0009, indicates a probability value smaller than a, specifically 0.05 or 5%, as shown in table 5. Thus, it can be concluded that Intellectual Capital (IC) moderates the Profit Sharing Ratio (PSR). As displayed in table 4, it is also interpreted that intellectual capital has a fairly large positive effect on the value of 0.0191. This can be interpreted as a pure moderating. In addition, the coefficient value in table 5 of -0.008399 indicates that intellectual capital can act as a moderator by weakening the impact of profit sharing

ratio on return on assets. In carrying out profit-sharing financing transactions, it is necessary to understand and apply more soft skills of human resources (intellectual capital) so that Islamic banks can achieve the financing targets set. In this sense, if the profit-sharing financing target from customers is met, it will have an impact on the profitability of Islamic banks. On the other hand, if there is still a lot of profit sharing financing that cannot meet the set targets, this means that intellectual capital has not been able to maximize profitability in running the profit sharing ratio or in this case weakens the relationship between the two. So that the presence of intellectual capital can moderate the relationship between profit sharing ratio and the profitability of Islamic banks as proxied by return on assets. This is supported by research by Scafarto (2016) and Onofrei (2018) which state that intellectual capital can affect profitability and research conducted by (Nazra, M. & Suazhari, 2019) which stated that intellectual capital has a significant negative effect on the islamicity performance index (PSR and ZPR).

In table 5, the results of Prob. moderating 2 is 0.2640, which means that the probability value is greater than a by 0.05 or 5%. So it can be concluded that Intellectual Capital (IC) does not moderate the Islamic Income Ratio (IsIR) to Profitability (ROA). In addition, based on table 4, intellectual capital has a significant positive effect on the value, namely 0.0191. This can be interpreted that there is a homologizer (potential to moderate). Islamic principles encourage avoiding from transactions related to usury, gambling, and gharar. In accordance with sharia enterprise theory, the responsibility of the company is not only on stakeholders, but also to Allah SWT. Therefore, it is appropriate for Islamic banks to earn revenue from halal transactions (Hameed et al., 2004). In this case, the existence of a strong intellectual capital is expected to enable Islamic banks to honestly report permissible related income or avoid transactions prohibited by Islam to develop a positive image in the eyes of the public. However, in practice, non-halal income still exists. Thus, in this case, intellectual capital has not been able to maximize profitability in obtaining halal income if Islamic banks have not been able to avoid non-halal income. In this context, intellectual capital cannot moderate the Islamic income ratio on the profitability of Islamic banks. This is in line with research conducted by Kesuma & Irkhami (2021) which stated that intellectual capital cannot moderate the Islamic income ratio to profitability.

Established on table 5, the results of Prob. moderating 3 is 0.0452 meaning that the probability value is less than 5%. Hence, it can be concluded that Intellectual Capital (IC) moderates the Operating Efficiency Ratio (OER) to Profitability (ROA). Furthermore, from table 4, it can be concluded that IC also has a significant positive effect on the value, namely 0.0191. This can be interpreted that there is a pure moderating. IC can be a moderator by strengthening the effect of the operating efficiency ratio on return on assets. This can be seen from the regression coefficient value which shows the number 0.001891. The operating efficiency ratio is generally used to assess the efficiency of a bank performance in generating revenue, minimizing costs, and managing its assets. To develop operational efficiency as a multidisciplinary job, it requires knowledge to support the company. Therefore, the importance of intellectual capital as a major part of human resource activities is clear so that efficiency can be achieved and automatically affects profitability. This is relevant to the study conducted by Saeidi, et al., (2021).

## CONCLUSION

Profitability is significantly affected simultaneously by the Islamicity Performance Index as Measured by Profit Sharing Ratio and Islamic Income Ratio (return on assets). Profitability is significantly negatively impacted by operating efficiency ratio and profit sharing ratio, whereas profitability is not affected by the Islamic income ratio. The research findings also reveal that intellectual capital can moderate the relation between profit sharing ratio and operating efficiency ratio on profitability, but it cannot moderate the relation between Islamic income ratio and profitability. In this case, the islamicity performance index is carried out to reveal materialistic and spiritual values in fulfilling the duties of a sharia commercial bank. Hence, it is recommended for Islamic banks to further develop professionalism in carrying out activities in accordance with sharia principles.

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