

Do Islamicity Performance and Green Banking Improve Islamic Bank Stability in Indonesia?

ABSTRACT - Islamic banking has increasingly emphasized the integration of Sharia compliance and sustainability practices as part of its long-term resilience strategy. However, empirical evidence regarding the relationship between Islamicity-based performance, Green Banking, and bank stability remains inconclusive, particularly in emerging Islamic financial systems such as Indonesia. This study investigates the influence of Islamicity Performance Index (IPI) components and Green Banking practices on the stability of Islamic banks in Indonesia during the 2021–2024 period. Using balanced panel data from Islamic commercial banks, the study examines five IPI dimensions, namely Profit-Sharing Ratio (PSR), Zakat Performance Ratio (ZPR), Equitable Distribution Ratio (EDR), Directors–Employees Welfare Ratio (DEWR), and Islamic Income versus Non-Islamic Income Ratio (IslR). Moderated Regression Analysis (MRA) with pooled panel estimation and HC3 robust standard errors was employed to evaluate both direct and moderating effects. The findings reveal that Profit Sharing Ratio (PSR) has a positive and significant effect on bank stability, while Directors–Employees Welfare Ratio (DEWR) shows a significant negative effect. Meanwhile, ZPR, EDR, and IslR do not exhibit statistically significant effects. Green Banking does not moderate any of the relationships between IPI indicators and bank stability. These findings contribute to stakeholder theory, maqāsid al-sharī'ah, and sustainability theory by highlighting the limited institutional integration of ethical, social, and environmental governance within Islamic banking. The study emphasizes the importance of strengthening integrated Sharia–ESG governance, enhancing risk-sharing financing structures, and embedding sustainability considerations into banking operations and strategic decision-making.

ABSTRAK - Apakah Kinerja Islamicity dan Green Banking Meningkatkan Stabilitas Bank Syariah di Indonesia? Perbankan syariah semakin dituntut untuk mengintegrasikan kepatuhan syariah dan praktik keberlanjutan sebagai bagian dari upaya memperkuat ketahanan jangka panjang. Meskipun demikian, bukti empiris mengenai hubungan antara kinerja berbasis Islamicity, Green Banking, dan stabilitas bank masih menunjukkan hasil yang beragam, khususnya pada sistem keuangan syariah di negara berkembang seperti Indonesia. Penelitian ini menganalisis pengaruh komponen Islamicity Performance Index (IPI) dan praktik Green Banking terhadap stabilitas bank umum syariah di Indonesia selama periode 2021–2024. Studi ini menggunakan data panel seimbang dengan lima dimensi IPI, yaitu Profit Sharing Ratio (PSR), Zakat Performance Ratio (ZPR), Equitable Distribution Ratio (EDR), Directors–Employees Welfare Ratio (DEWR), serta Islamic Income versus Non-Islamic Income Ratio (IslR). Analisis dilakukan dengan Moderated Regression Analysis (MRA) menggunakan estimasi pooled panel dan HC3 robust standard errors untuk menguji pengaruh langsung dan efek moderasi. Hasil penelitian menunjukkan bahwa Profit Sharing Ratio (PSR) berpengaruh positif dan signifikan terhadap stabilitas bank, yang mengindikasikan bahwa pembiayaan berbasis bagi hasil berkontribusi terhadap peningkatan ketahanan perbankan syariah. Sebaliknya, Directors–Employees Welfare Ratio (DEWR) berpengaruh negatif dan signifikan terhadap stabilitas bank. Sementara itu, Zakat Performance Ratio (ZPR), Equitable Distribution Ratio (EDR), dan Islamic Income versus Non-Islamic Income Ratio (IslR) tidak menunjukkan pengaruh yang signifikan terhadap stabilitas bank. Selain itu, Green Banking tidak terbukti memoderasi hubungan antara indikator IPI dan stabilitas bank, yang menunjukkan bahwa praktik keberlanjutan belum terintegrasi secara optimal dalam kinerja syariah inti. Temuan ini memperkaya literatur terkait teori pemangku kepentingan, maqāsid al-sharī'ah, dan keberlanjutan, sekaligus menegaskan pentingnya penguatan integrasi Sharia–ESG, pengembangan pembiayaan berbasis bagi hasil, serta internalisasi prinsip keberlanjutan dalam strategi perbankan syariah.

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INTRODUCTION

Islamic banking has become an increasingly important component of the global financial system, particularly in countries seeking financial models that integrate economic objectives with ethical and social values. Operating under Sharia principles, Islamic banks emphasize justice, transparency, risk-sharing, and social responsibility in financial activities (Ansari et al., 2025; Radwan et al., 2023). Alongside the rapid development of Islamic finance, growing attention has also been directed toward sustainability issues within the banking sector. Financial institutions are now expected not only to maintain profitability and stability but also to demonstrate environmental and social responsibility in their operations. In this context, Islamic banking is considered well-positioned to support sustainable economic development because its underlying principles are closely connected to ethical finance and societal welfare.

One important framework frequently used to assess the performance of Islamic banks is the Islamicity Performance Index (IPI). The IPI evaluates financial and social dimensions simultaneously and reflects the extent to which banking activities comply with Islamic values and *maqashid al-shariah* objectives (Amala et al., 2023; Khansa & Violita, 2021). At the same time, green banking practices have emerged as a strategic approach that encourages financial institutions to incorporate environmental sustainability into operational and financing decisions. Previous studies suggest that sustainability-oriented banking practices can strengthen long-term financial resilience and improve institutional reputation (Khan et al., 2024). Within Islamic banking, the integration of Sharia-based performance and sustainability initiatives has also been associated with stronger public trust and greater institutional resilience, particularly in Indonesia and the Southeast Asian region (Jan et al., 2021, 2022; Puspitasari & Kasri, 2023; Wisandani et al., 2025). These developments are closely related to stakeholder theory and *maqashid al-shariah*, both of which emphasize value creation, social welfare, ethical responsibility, and sustainable development.

Despite the growing attention given to Islamic banking performance and sustainability, empirical findings regarding the relationship between the Islamicity Performance Index and bank stability remain inconclusive. Several studies indicate that components of the IPI, such as the Profit Sharing Ratio (PSR), Equitable Distribution Ratio (EDR), and Directors Employees Welfare Ratio (DEWR), do not significantly influence banking stability. In some cases, the Zakat Performance Ratio (ZPR) has even shown a negative relationship with financial stability (Bakhouche et al., 2022; Wisandani et al., 2025). Similar inconsistencies also appear in studies examining the role of green banking (Nursabna et al., 2023). Some findings report that sustainability practices supported by Sharia governance contribute positively to financial performance and institutional stability (Jan et al., 2021). However, other studies reveal insignificant effects and even indicate that green banking weakens the relationship between Islamic Income versus Non-Islamic Income (IsIR) and bank stability (Darmawan & Wandirah, 2025).

These inconsistent findings indicate that the relationship between Sharia-based performance and sustainability practices in Islamic banking has not yet been fully understood. Previous studies have largely examined the Islamicity Performance Index and green banking separately, while limited attention has been given to their combined or interactive effects on Islamic bank stability.

In addition, the integration of these variables within a unified theoretical perspective that connects stakeholder theory, sustainability principles, and *maqashid al-shariah* remains underexplored. Consequently, there is still insufficient empirical evidence explaining whether sustainability-oriented banking practices strengthen or weaken the contribution of Islamic performance indicators to banking stability.

This study addresses that gap by examining the interaction between the Islamicity Performance Index and green banking practices in influencing the stability of Islamic banks. Specifically, the study investigates how Sharia-based performance indicators and sustainability initiatives interact within a moderation regression model to explain Islamic bank stability. The study focuses on the role of *maqashid al-shariah* and stakeholder-oriented sustainability practices in shaping the resilience of Islamic financial institutions.

The findings of this study are expected to contribute to the development of Islamic banking literature by providing a more integrated understanding of the relationship between Islamic performance measurement, sustainability practices, and financial stability. In practical terms, the study may also provide insights for regulators, banking practitioners, and policymakers in strengthening sustainability-oriented governance within Islamic banking institutions, particularly in Indonesia and other Southeast Asian countries where Islamic finance continues to expand.

LITERATURE REVIEW

This study develops a conceptual framework that positions the Islamicity Performance Index (IPI) as the primary determinant of Islamic bank stability, while Green Banking functions as a moderating variable. The framework explains how each dimension of the IPI—Profit Sharing Ratio (PSR), Zakat Performance Ratio (ZPR), Equitable Distribution Ratio (EDR), Directors–Employees Welfare Ratio (DEWR), and Islamic Income versus Non-Islamic Income Ratio (IsIR)—relates to the stability of Islamic banks. In addition, the model illustrates the extent to which Green Banking practices strengthen or weaken these relationships within the broader context of sustainability and Islamic ethical governance.

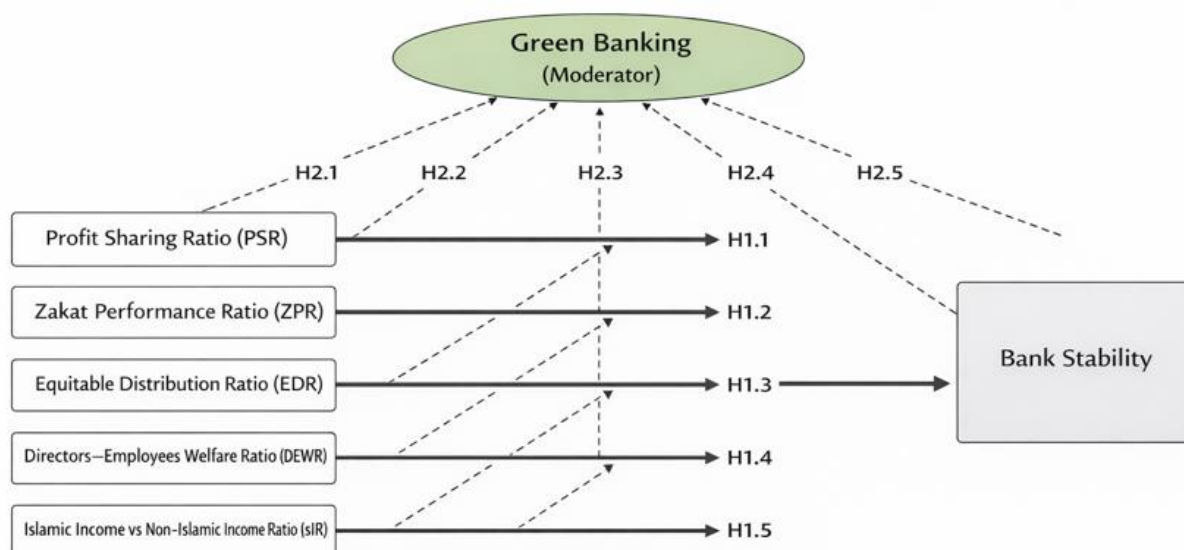


Figure 1. Conceptual Model

Profit Sharing Ratio (PSR) and Islamic Bank Stability

Profit-and-loss sharing contracts are central to Islamic banking because they reflect the principles of fairness, risk sharing, and partnership between financial institutions and customers. From the perspectives of stakeholder theory and *maqāsid al-sharī'ah*, these contracts are expected to support financial stability through a more equitable distribution of risk and return. Several studies report that the Profit Sharing Ratio (PSR) contributes positively to institutional resilience and strengthens the stability of Islamic banks (Abror et al., 2019).

Nevertheless, empirical findings remain inconsistent. Some studies indicate that financing schemes based on profit-and-loss sharing are associated with higher monitoring costs, information asymmetry, and operational complexity, which may reduce efficiency and increase risk exposure (Sutrisno & Widarjono, 2018). These mixed findings suggest that the contribution of PSR to bank stability is highly dependent on the effectiveness of risk management practices and institutional governance mechanisms within Islamic banks.

H1.1: Profit Sharing Ratio (PSR) is positively associated with Islamic bank stability, despite mixed evidence regarding its operational risks.

Zakat Performance Ratio (ZPR) and Islamic Bank Stability

Zakat represents one of the most important social instruments in Islamic finance because it promotes wealth redistribution, social welfare, and economic justice. In the context of Islamic banking, the Zakat Performance Ratio (ZPR) reflects the commitment of financial institutions to fulfilling their social and religious responsibilities. Previous studies argue that zakat distribution enhances institutional legitimacy, strengthens stakeholder trust, and contributes to long-term organizational resilience (Korbi & Bougatef, 2017; Nomran & Haron, 2022).

However, several studies also report that substantial zakat expenditures may create short-term liquidity pressures and reduce financial buffers, particularly when zakat management is not integrated effectively with broader financial strategies (Bakhouche et al., 2022; Wisandani et al., 2025). These contrasting findings indicate that the relationship between zakat performance and bank stability may vary according to the quality of zakat governance and financial management systems. Although empirical evidence remains mixed, zakat is theoretically expected to strengthen institutional sustainability through improved social reputation and reduced socioeconomic vulnerability.

H1.2: Zakat Performance Ratio (ZPR) is positively associated with Islamic bank stability, despite mixed empirical evidence regarding its short-term liquidity effects.

Equitable Distribution Ratio (EDR) and Islamic Bank Stability

The Equitable Distribution Ratio (EDR) reflects the extent to which Islamic banks distribute economic benefits fairly among stakeholders. Within the framework of *maqāsid al-sharī'ah*, distributive justice (*al-'adl*) is regarded as an essential principle that promotes social trust, institutional legitimacy, and sustainable financial practices (Ismulina & Ibrahim, 2025). Several studies suggest that equitable distribution contributes positively to long-term organizational resilience and stakeholder confidence (Amin et al., 2021).

At the same time, empirical evidence concerning the financial impact of EDR remains inconclusive. Some researchers argue that equitable distribution generates stronger social legitimacy than direct financial benefits, which may explain why its short-term influence on financial performance and stability is often difficult to detect (Sri et al., 2022). These inconsistencies indicate that the contribution of EDR to Islamic bank stability may emerge gradually through reputational and relational advantages rather than immediate financial outcomes.

H1.3: Equitable Distribution Ratio (EDR) is positively associated with Islamic bank stability, despite inconclusive empirical findings.

Directors–Employees Welfare Ratio (DEWR) and Islamic Bank Stability

The Directors–Employees Welfare Ratio (DEWR) reflects the commitment of Islamic banks to employee welfare and fair compensation practices. Theoretically, better welfare conditions contribute to higher productivity, stronger ethical behavior, lower operational risk, and improved organizational commitment (Alias et al., 2025; Kamri et al., 2014). These conditions are expected to support institutional stability over the long term.

Despite these theoretical expectations, empirical findings remain varied. Some studies report a positive relationship between employee welfare and financial performance, while others find no direct effect on bank stability because the benefits of welfare-oriented policies often materialize gradually (Ugwu et al., 2025). The inconsistent evidence suggests that the impact of DEWR may depend on organizational culture, governance quality, and the long-term implementation of welfare programs.

H1.4: Directors–Employees Welfare Ratio (DEWR) is positively associated with Islamic bank stability, while recognizing that welfare effects may materialize gradually.

Islamic Income versus Non-Islamic Income Ratio (IsIR) and Islamic Bank Stability

The Islamic Income versus Non-Islamic Income Ratio (IsIR) measures the extent to which Islamic banks generate income from Sharia-compliant activities. A higher proportion of Islamic income is generally associated with stronger institutional credibility, lower Sharia non-compliance risk, and greater stakeholder confidence. Previous studies consistently report that income purity contributes positively to the stability and reputation of Islamic banks (Danlami et al., 2023; Mukhibad et al., 2024).

Although the majority of findings support a positive relationship, some studies suggest that strict income purification practices may reduce opportunities for income diversification and limit financial flexibility in certain situations. Even so, the overall literature continues to indicate that maintaining a high level of Sharia-compliant income strengthens the long-term resilience of Islamic financial institutions.

H1.5: Islamic Income versus Non-Islamic Income Ratio (IsIR) is positively associated with Islamic bank stability, despite limited evidence regarding potential short-term trade-offs.

The Moderating Role of Green Banking

Green Banking has increasingly become an important component of sustainability-oriented governance within Islamic financial institutions. Its principles are closely aligned with *maqāsid al-sharī'ah*, particularly in relation to environmental stewardship, social responsibility, and public welfare. Sustainability theory suggests that environmentally responsible banking practices enhance institutional legitimacy, stakeholder trust, and long-term financial resilience (Khan et al., 2024; Siddik et al., 2024). Similarly, stakeholder theory emphasizes that organizations with strong ethical, social, and environmental commitments tend to develop greater reputational capital and lower risk exposure (Korbi & Bougatef, 2017; Nomran & Haron, 2022).

Within this context, Green Banking is theoretically expected to strengthen the contribution of Islamicity Performance Index indicators to bank stability. Ethical financing, equitable wealth distribution, employee welfare, zakat management, and income purity all reflect broader forms of social value creation that may become more effective when integrated with sustainability-oriented banking practices.

Nevertheless, previous empirical studies reveal that the interaction between sustainability initiatives and Sharia-based performance does not always produce consistent outcomes. Several studies demonstrate that ESG-oriented governance enhances ethical financial performance and supports institutional resilience (Puspitasari & Kasri, 2023). In contrast, other studies report that sustainability initiatives may create additional compliance burdens, organizational fragmentation, or operational inefficiencies, particularly when ESG frameworks are not fully aligned with Islamic governance structures and institutional capabilities (Darmawan & Wandirah, 2025; Jan et al., 2022).

Mixed findings also appear across specific IPI dimensions. Some studies indicate that zakat distribution, equitable allocation, and welfare-oriented practices strengthen legitimacy and improve risk management (Alias et al., 2025; Amin et al., 2021). Other studies, however, report limited or inconsistent effects on financial outcomes (Sri et al., 2022; Ugwu et al., 2025). Similarly, although income purity is widely regarded as an important factor supporting Islamic bank stability (Danlami et al., 2023; Mukhibad et al., 2024), its interaction with sustainability initiatives may become less effective when operational integration remains weak.

These inconsistencies suggest that the moderating role of Green Banking depends on several institutional factors, including governance quality, sustainability maturity, organizational readiness, and the alignment between Islamic principles and ESG implementation. Therefore, while Green Banking is theoretically expected to strengthen the relationship between IPI indicators and Islamic bank stability, the hypotheses are formulated with careful consideration of the mixed empirical evidence reported in previous studies. Accordingly, the following hypotheses are proposed:

- H2.1:** Green Banking positively moderates the relationship between the Profit Sharing Ratio (PSR) and Islamic bank stability.
- H2.2:** Green Banking positively moderates the relationship between the Zakat Performance Ratio (ZPR) and Islamic bank stability.

- H2.3:** Green Banking positively moderates the relationship between the Equitable Distribution Ratio (EDR) and Islamic bank stability.
- H2.4:** Green Banking positively moderates the relationship between the Directors–Employees Welfare Ratio (DEWR) and Islamic bank stability.
- H2.5:** Green Banking positively moderates the relationship between the Islamic Income versus Non-Islamic Income Ratio (IsIR) and Islamic bank stability.

METHODOLOGY

Research Design

This study employed a quantitative research design to examine the influence of Islamicity Performance Index (IPI) indicators on the stability of Islamic banks in Indonesia, with Green Banking practices incorporated as a moderating variable. The study utilized balanced panel data to capture both cross-sectional variation among banks and time-series variation across the observation period. This approach allows a more comprehensive understanding of the relationships between Islamic financial performance, sustainability practices, and bank stability. The population consisted of Islamic commercial banks officially registered with the Financial Services Authority (*Otoritas Jasa Keuangan* [OJK]) during the study period. The observation period covered 2021–2024, reflecting recent developments in Islamic banking performance and sustainability practices in Indonesia.

A purposive sampling technique was used to select banks that met several criteria. First, the banks consistently published audited annual reports during 2021–2024. Second, the reports disclosed Islamicity Performance Index indicators, including the Profit Sharing Ratio (PSR), Zakat Performance Ratio (ZPR), and Equitable Distribution Ratio (EDR). Third, the banks reported sustainability initiatives or Green Banking practices. Fourth, the banks were not involved in major mergers or acquisitions during the observation period to avoid structural distortions in the financial data. Based on these criteria, eight Islamic banks were selected as the research sample: Bank Syariah Indonesia, Bank BTPN Syariah, Bank Muamalat, Bank Mega Syariah, Bank BCA Syariah, Bank Victoria Syariah, Bank Panin Dubai Syariah, and Bank Aceh Syariah.

Data Collection Method

This study relied entirely on secondary data obtained from publicly available institutional documents and official publications. The primary data sources included annual reports, sustainability reports, and statistical publications issued by OJK and Bank Indonesia. Secondary data are widely used in banking and finance research because they provide high comparability, consistency, and reliability across institutions and observation periods (Hair et al., 2006; Majeed & Yan, 2021).

The study operationalized its variables using established frameworks commonly employed in Islamic finance and banking stability research. Bank stability served as the dependent variable and was measured using the Z-score, which reflects the distance from insolvency and indicates the overall financial soundness of a bank (Pham et al., 2021). The independent variables consisted of five dimensions of the Islamicity Performance Index: Profit Sharing Ratio (PSR),

Zakat Performance Ratio (ZPR), Equitable Distribution Ratio (EDR), Directors–Employees Welfare Ratio (DEWR), and Islamic Income versus Non-Islamic Income Ratio (IsIR). Green Banking practice was treated as the moderating variable and measured using the Green Disclosure-Based Index (GDBI).

Table 1. Measurement of Variables

Variable	Definition	Measurement	Scale
Dependent Variable			
Bank Stability (BS)	Financial condition in which a bank remains sound and faces a low probability of insolvency (Pham et al., 2021).	$Z\text{-score} = (\text{ROA} + E/A) / \sigma\text{ROA}$	Ratio
Independent Variables			
Profit Sharing Ratio (PSR)	Proportion of financing based on profit-sharing contracts (<i>mudharabah</i> and <i>musyarakah</i>) (Majeed & Yan, 2021).	$\text{PSR} = (\text{Mudharabah} + \text{Musharakah Financing}) / \text{Total Financing}$	Ratio
Zakat Performance Ratio (ZPR)	Ratio of zakat distributed relative to net assets (Wisandani et al., 2025).	$\text{ZPR} = \text{Corporate Zakat Distribution} / \text{Net Assets}$	Ratio
Equitable Distribution Ratio (EDR)	Measure of fairness in value distribution among stakeholders (Bi Rahmani, 2022).	$\text{Qard \& Donation} = (\text{Qard} + \text{Donation}) / (\text{Revenue} - \text{Zakat} - \text{Tax}); \text{Labor Expenses} = \text{Labor Expenses} / (\text{Revenue} - \text{Zakat} - \text{Tax}); \text{Shareholders} = \text{Dividends} / (\text{Revenue} - \text{Zakat} - \text{Tax}); \text{Net Income} = \text{Net Income} / (\text{Revenue} - \text{Zakat} - \text{Tax})$	Ratio
Directors–Employees Welfare Ratio (DEWR)	Comparison between average directors’ remuneration and employee welfare (Aisjah & Hadianto, 2013).	$\text{DEWR} = \text{Average Directors' Salary} / \text{Average Employees' Welfare}$	Ratio
Islamic Income versus Non-Islamic Income Ratio (IsIR)	Proportion of halal income relative to total income (Mayasari, 2020).	$\text{IsIR} = \text{Halal Income} / (\text{Halal Income} + \text{Non-Halal Income})$	Ratio
Moderating Variable			
Green Banking (GB)	Sustainability-oriented banking practices measured using the Green Disclosure-Based Index (GDBI) (Lalon, 2015).	$\text{GDBI} = \sum X_i / 7$	Ratio

(Source: Adapted from previous studies)

Note: The GDBI consists of seven disclosure items: (1) green financing commitment, (2) environmental risk management, (3) energy-efficiency initiatives, (4) paperless/digital banking programs, (5) environmental policies, (6) environmental employee training, and (7) environmental CSR activities. Each item is scored 1 if disclosed and 0 otherwise.

The Green Disclosure-Based Index (GDBI) was constructed from seven disclosure indicators: (1) green financing commitment, (2) environmental risk management, (3) energy-efficiency initiatives, (4) paperless or digital banking programs, (5) corporate environmental policies, (6) environmental training for employees, and (7) environmental corporate social responsibility activities. Each disclosure item received a score of 1 if disclosed and 0 if not disclosed, with the final index calculated as the total score divided by seven (Lalon, 2015).

All variables were measured using ratio scales. The IPI indicators—PSR, ZPR, EDR, DEWR, and IsIR—were transformed into ratio values ranging from 0 to 1 to improve comparability across banks and observation years. Descriptive statistics were subsequently presented in

percentage form for ease of interpretation. In addition, all variables were rechecked for unit consistency and normalized prior to statistical analysis to ensure comparability and analytical reliability.

Data Analysis Method

The study employed Moderated Regression Analysis (MRA) to investigate the moderating role of Green Banking in the relationship between Islamicity Performance Index indicators and Islamic bank stability. The panel dataset consisted of eight Islamic banks observed annually from 2021 to 2024. The use of panel data enabled the analysis to capture both temporal and cross-sectional variations, thereby improving statistical efficiency compared to purely cross-sectional estimation.

The empirical analysis began with a baseline regression model that examined the direct effects of the independent variables on bank stability:

$$Y_{it} = \alpha_0 + \alpha_1 X1_{it} + \alpha_2 X2_{it} + \alpha_3 X3_{it} + \alpha_4 X4_{it} + \alpha_5 X5_{it} + \varepsilon_{it} \quad (1)$$

where i represents the bank ($i = 1, \dots, 8$), and t represents the year ($t = 2021, \dots, 2024$).

The second model incorporated Green Banking as an additive moderating variable to examine its direct influence on bank stability:

$$Y_{it} = \beta_0 + \beta_1 X1_{it} + \beta_2 X2_{it} + \beta_3 X3_{it} + \beta_4 X4_{it} + \beta_5 X5_{it} + \beta_6 Z_{it} + \varepsilon_{it} \quad (2)$$

The final specification introduced interaction terms between Green Banking and each IPI indicator to test moderation effects formally:

$$\begin{aligned} Y_{it} = & \gamma_0 + \gamma_1 X1_{it} + \gamma_2 X2_{it} + \gamma_3 X3_{it} + \gamma_4 X4_{it} + \gamma_5 X5_{it} + \gamma_6 Z_{it} \\ & + \gamma_7 (X1_{it} \times Z_{it}) + \gamma_8 (X2_{it} \times Z_{it}) \\ & + \gamma_9 (X3_{it} \times Z_{it}) + \gamma_{10} (X4_{it} \times Z_{it}) \\ & + \gamma_{11} (X5_{it} \times Z_{it}) + \varepsilon_{it} \end{aligned} \quad (3)$$

The interaction coefficients γ_7 to γ_{11} indicate whether Green Banking systematically changes the magnitude or direction of the relationship between the IPI indicators and Islamic bank stability.

Although panel econometric approaches such as Fixed Effects (FE) and Random Effects (RE) models are commonly used in panel data analysis, this study focused primarily on identifying moderation effects through interaction terms. Therefore, pooled panel Ordinary Least Squares (OLS) regression was considered more appropriate for the objectives of the study, particularly because Moderated Regression Analysis is widely recognized as an effective approach for examining interaction mechanisms in banking and finance research. In addition, MRA is more suitable for relatively small panel datasets and provides clearer coefficient-level interpretation compared to more complex approaches such as Structural Equation Modeling (SEM).

To improve estimation reliability, HC3 robust standard errors were employed to address potential heteroskedasticity and mild serial correlation. Several robustness checks were also conducted to evaluate the consistency of the empirical results. The first robustness procedure transformed the dependent variable into its natural logarithm form, $\ln(Y_{it})$, to reduce potential

skewness and assess scale sensitivity. The moderated regression models were then re-estimated using the transformed dependent variable. The second robustness procedure involved sensitivity testing through outlier exclusion. Observations located in the top decile of the dependent variable distribution, identified as potential high-leverage points, were excluded from the analysis. The regression models were subsequently re-estimated to assess whether the direction and significance of the coefficients remained consistent across specifications.

RESULTS AND DISCUSSION

Descriptive Statistics

This study utilized secondary data obtained from the annual reports and financial statements of Islamic commercial banks in Indonesia during the 2021–2024 period. The final sample consisted of eight Islamic commercial banks, resulting in 32 firm-year observations. Descriptive statistics for all research variables are presented in Table 2.

Table 2. Descriptive Statistics

Variable	N	Mean	Median	Maximum	Minimum	Std. Dev.
Bank Stability (BS)	32	19.05	6.71	96.44	4.71	27.04
Profit Sharing Ratio (PSR) (%)	32	54.33	57.25	95.46	11.00	28.66
Zakat Performance Ratio (ZPR) (%)	32	5.80	2.65	33.40	1.00	8.04
Equitable Distribution Ratio (EDR) (%)	32	29.39	20.28	63.52	7.30	21.66
Directors–Employees Welfare Ratio (DEWR)	32	1.67	1.79	3.78	1.20	1.21
Islamic Income Ratio (IsIR) (%)	32	96.91	99.94	99.99	49.90	9.59
Green Banking (GB) Index	32	0.58	0.62	0.76	0.24	0.13

(Source: Processed by authors with EViews 13, 2025)

Table 2 presents the descriptive characteristics of the variables used in this study. Bank Stability (BS), measured using the Z-score, records a mean value of 19.05 and a median of 6.71, with values ranging from 4.71 to 96.44. The relatively high standard deviation of 27.04 indicates substantial variation in stability levels among Islamic banks during the observation period. This finding suggests that the resilience and risk absorption capacity of Islamic banks in Indonesia remain uneven across institutions.

Among the Islamicity Performance Index (IPI) indicators, the Profit Sharing Ratio (PSR) shows an average value of 54.33%, with a median of 57.25%. The ratio ranges from 11.00% to 95.46%, indicating considerable differences in the proportion of profit-sharing financing adopted by Islamic banks. This variation reflects differences in financing strategies and the extent to which banks prioritize *mudharabah* and *musharakah* contracts in their operations. The Zakat Performance Ratio (ZPR) reports a mean value of 5.80% and a median of 2.65%, with the highest value reaching 33.40%. The relatively wide dispersion indicates that zakat allocation practices differ substantially among Islamic banks. Some banks appear to allocate zakat funds more actively than others, reflecting differences in social responsibility orientation and institutional capacity.

The Equitable Distribution Ratio (EDR) records an average value of 29.39%, with values ranging between 7.30% and 63.52%. The moderate standard deviation suggests variation in how Islamic banks distribute economic value among stakeholders, including employees, shareholders, and social beneficiaries. This finding reflects differences in distributive policies and institutional

approaches to social equity. The Directors–Employees Welfare Ratio (DEWR) has a mean value of 1.67 and a median of 1.79. Compared with the other variables, DEWR exhibits relatively lower dispersion, as indicated by a standard deviation of 1.21. This pattern suggests that welfare practices between directors and employees are relatively consistent across the sampled Islamic banks.

The Islamic Income versus Non-Islamic Income Ratio (IsIR) demonstrates a very high average value of 96.91%, with a median of 99.94%. The narrow range and relatively small variation indicate that most Islamic banks maintain a high proportion of halal income in their operational activities. This finding reflects strong adherence to Sharia principles regarding income generation and financial transactions. Finally, the Green Banking (GB) index records a mean score of 0.58 on a scale ranging from 0 to 1. The index ranges from 0.24 to 0.76, indicating moderate variation in the implementation and disclosure of environmentally responsible banking practices among Islamic banks in Indonesia. Although several banks demonstrate relatively strong sustainability commitments, the findings also suggest that Green Banking implementation remains uneven across institutions.

Baseline Regression Results (Model 1)

The first empirical model evaluates the direct influence of the Islamicity Performance Index indicators on Islamic bank stability before the inclusion of the moderating variable. The baseline regression model was estimated using pooled panel Ordinary Least Squares (OLS) with HC3 heteroskedasticity-consistent robust standard errors. The estimation results are presented in Table 3.

Table 3. Baseline Regression Results (Model 1 – Main Effects)

Dependent Variable: Bank Stability (BS)				
Variable	Coefficient	Robust SE	t-statistic	p-value
Constant	0.215	0.084	2.56	0.016
PSR	4.030	1.543	2.61	0.014
ZPR	-3.112	2.924	-1.06	0.296
EDR	0.442	0.876	0.50	0.619
DEWR	-12.498	4.181	-2.99	0.007
IsIR	-0.019	0.218	-0.08	0.937
R ²	0.539			
Adjusted R ²	0.448			
Observations	32			

(Source: Processed by authors with EViews 13, 2025)

The baseline model explains approximately 53.9% of the variation in Islamic bank stability, as indicated by the coefficient of determination ($R^2 = 0.539$). This result suggests that the explanatory variables included in the model provide relatively strong explanatory power for a balanced panel dataset consisting of eight Islamic banks observed over four years.

The regression results identify two statistically significant variables. First, the Profit Sharing Ratio (PSR) demonstrates a positive and statistically significant relationship with bank stability ($\beta = 4.030$; $p = 0.014$). This finding indicates that higher levels of profit-sharing financing are associated with improved bank stability. The result suggests that financing arrangements based on risk-sharing mechanisms may contribute positively to the resilience of Islamic banks. Second,

the Directors–Employees Welfare Ratio (DEWR) exhibits a negative and statistically significant relationship with bank stability ($\beta = -12.498; p = 0.007$). The negative coefficient indicates that increases in the welfare ratio are associated with lower levels of bank stability during the observation period. This finding may reflect inefficiencies or additional operational burdens associated with welfare-related expenditures in the short term.

Meanwhile, the remaining variables—Zakat Performance Ratio (ZPR), Equitable Distribution Ratio (EDR), and Islamic Income versus Non-Islamic Income Ratio (IsIR)—do not show statistically significant effects on bank stability. The insignificance of IsIR may partly be explained by its limited variation across the sample, as most Islamic banks consistently maintain high levels of Sharia-compliant income. Overall, the baseline model establishes the direct relationships between the Islamicity Performance Index indicators and Islamic bank stability. These findings provide the empirical foundation for evaluating whether Green Banking contributes additional explanatory value in the subsequent regression models.

Additive Moderation Results (Model 2)

The second regression model introduces Green Banking as an additional explanatory variable to examine whether it exerts a direct influence on Islamic bank stability. The results of the additive moderation model are presented in Table 4.

Table 4. Additive Moderation Results (Model 2)

Dependent Variable: Bank Stability (BS)

Variable	Coefficient	Robust SE	t-statistic	p-value
Constant	0.217	0.091	2.38	0.024
PSR	3.923	1.598	2.46	0.020
ZPR	-3.035	2.992	-1.01	0.323
EDR	0.407	0.901	0.45	0.654
DEWR	-12.217	4.356	-2.80	0.010
IsIR	-0.021	0.227	-0.09	0.930
GB	0.053	0.096	0.54	0.590
R ²	0.544			
Adjusted R ²	0.430			
Observations	32			

(Source: Processed by authors with EViews 13, 2025)

The inclusion of Green Banking produces only a slight increase in explanatory power, with the coefficient of determination rising from 0.539 in Model 1 to 0.544 in Model 2. Despite this marginal improvement, the Green Banking variable does not demonstrate a statistically significant relationship with bank stability ($\beta = 0.053; p = 0.590$). This result indicates that Green Banking practices do not independently influence the stability of Islamic banks within the observed sample period. The significance patterns of the main explanatory variables remain largely unchanged after the inclusion of the moderator. Profit Sharing Ratio (PSR) continues to exhibit a positive and statistically significant effect on bank stability ($\beta = 3.923; p = 0.020$), reinforcing its role as an important determinant of stability. Similarly, Directors–Employees Welfare Ratio (DEWR) remains negatively associated with bank stability ($\beta = -12.217; p = 0.010$).

In contrast, Zakat Performance Ratio (ZPR), Equitable Distribution Ratio (EDR), and Islamic Income versus Non-Islamic Income Ratio (IsIR) remain statistically insignificant. The stability of these results suggests that the inclusion of Green Banking as an additive variable does not materially alter the direct relationships identified in the baseline model. Overall, the findings indicate that Green Banking does not contribute significant independent explanatory power in predicting Islamic bank stability. Nevertheless, the additive model serves as an important intermediate stage before testing whether Green Banking operates through interaction effects in the full moderated regression model.

Full Moderated Regression Results (Model 3)

The third model incorporates interaction terms between Green Banking and each Islamicity Performance Index indicator to examine whether Green Banking moderates the relationship between Islamic performance indicators and Islamic bank stability. The estimation results for the full moderated regression model are presented in Table 5.

Table 5. Full Moderated Regression Results (Model 3)

Dependent Variable: Bank Stability (BS)				
Variable	Coefficient	Robust SE	t-statistic	p-value
Constant	0.229	0.143	1.60	0.123
X1	5.342	9.487	0.56	0.587
X2	-7.493	10.633	-0.70	0.489
X3	3.911	10.925	0.36	0.723
X4	-20.083	15.983	-1.25	0.222
X5	0.217	0.643	0.34	0.740
Z	-0.129	0.254	-0.51	0.611
X1Z	3.714	26.849	0.14	0.892
X2Z	-5.305	45.003	-0.12	0.908
X3Z	10.298	35.424	0.29	0.772
X4Z	17.936	69.635	0.26	0.798
X5Z	-29.319	80.059	-0.37	0.717
R ²	0.586			
Adjusted R ²	0.358			
Observations	32			

(Source: Processed by authors with EViews 13, 2025)

The inclusion of interaction terms increases the coefficient of determination from 0.544 in the additive model to 0.586 in the full moderated model. However, the adjusted R^2 decreases to 0.358, indicating that the additional interaction variables do not substantially improve the explanatory efficiency of the model after accounting for model complexity. Importantly, none of the interaction terms between Green Banking and the Islamicity Performance Index indicators are statistically significant. The interaction coefficients for PSR, ZPR, EDR, DEWR, and IsIR all record p-values above conventional significance thresholds ($p > 0.70$). These findings indicate that Green Banking does not significantly alter the direction or magnitude of the relationships between the Islamicity Performance Index indicators and Islamic bank stability.

The results also show that the direct effects of the main explanatory variables lose statistical significance once the interaction terms are introduced into the model. This pattern is relatively common in Moderated Regression Analysis involving small panel datasets because the inclusion of interaction terms often increases multicollinearity and reduces coefficient precision. Overall,

the findings from Model 3 do not provide empirical support for the moderating role of Green Banking. Although Green Banking demonstrates sufficient variation across the sampled banks, it does not strengthen or weaken the relationships between the Islamicity Performance Index indicators and bank stability within the context of this study.

Robustness Checks

Additional robustness tests were conducted to evaluate the consistency and stability of the empirical findings. Two alternative procedures were employed. The first procedure transformed the dependent variable into its natural logarithm form to reduce potential skewness and scale sensitivity. The second procedure re-estimated the moderated regression model after excluding observations above the 90th percentile of the dependent variable distribution to assess the influence of high-leverage observations.

Log-Transformed Moderated Regression Model

The first robustness test estimated the full moderated regression model using the natural logarithm of bank stability as the dependent variable. The results are presented in Table 6.

Table 6. Robustness Check: Log-Transformed Full Moderation Model

Dependent Variable: ln(BS)

Variable	Coefficient	Robust SE	t-statistic	p-value
Constant	-0.915	0.763	-1.20	0.243
PSR	12.641	15.825	0.80	0.437
ZPR	-18.921	28.463	-0.66	0.519
EDR	-5.316	17.658	-0.30	0.771
DEWR	-37.986	13.293	-2.85	0.010
IsIR	-0.431	1.021	-0.42	0.679
GB	2.386	2.356	1.01	0.322
PSR × GB	11.370	11.188	1.02	0.315
ZPR × GB	9.972	54.112	0.18	0.855
EDR × GB	-2.542	30.691	-0.08	0.934
DEWR × GB	-13.460	53.262	-0.25	0.807
IsIR × GB	-1.927	78.692	-0.02	0.981
R ²	0.556			
Adjusted R ²	0.310			
Observations	32			

(Source: Processed by authors with EViews 13, 2025)

The results indicate that none of the interaction terms become statistically significant under the log-transformed specification. The direction and magnitude of the coefficients remain broadly consistent with those reported in the primary regression model. Directors–Employees Welfare Ratio (DEWR) continues to demonstrate a statistically significant negative effect on bank stability, while the remaining variables remain statistically insignificant.

These findings indicate that the absence of moderation effects is not caused by scale sensitivity or skewness in the dependent variable distribution. The consistency of the coefficient patterns supports the stability of the main empirical results across alternative model specifications.

Outlier-Adjusted Moderated Regression Model

The second robustness test excluded observations within the top 10% of the dependent variable distribution to assess whether extreme values influenced the regression results. After removing these high-leverage observations, the full moderated regression model was re-estimated using 28 observations. The results are presented in Table 7.

Table 7. Robustness Check Outlier Adjusted Full Moderation Model

Variable	Coefficient	Robust SE	t-statistic	p-value
Constant	0.301	0.166	1.81	0.089
PSR	2.874	11.492	0.25	0.806
ZPR	-5.810	12.091	-0.48	0.638
EDR	1.665	11.887	0.14	0.885
DEWR	-14.293	18.655	-0.77	0.450
IsIR	-0.109	0.803	-0.14	0.893
GB	0.201	0.319	0.63	0.541
PSR × GB	5.124	28.968	0.18	0.861
ZPR × GB	-7.442	52.993	-0.14	0.892
EDR × GB	6.773	38.799	0.17	0.868
DEWR × GB	25.554	79.790	0.32	0.755
IsIR × GB	-33.921	97.781	-0.35	0.731
R ²	0.393			
Adjusted R ²	0.101			
Observations	28			

(Source: Processed by authors with EViews 13, 2025)

The outlier-adjusted results remain consistent with the main regression findings. None of the interaction terms achieve statistical significance, and the coefficient directions remain generally stable compared with the full-sample estimation. Although the coefficient of determination decreases due to lower variability in the dependent variable, the overall conclusions remain unchanged. The consistency between the primary estimation and the robustness tests indicates that the empirical findings are relatively stable across different model specifications and subsamples. Both robustness procedures confirm that Green Banking does not moderate the relationship between Islamicity Performance Index indicators and Islamic bank stability within the observed dataset.

Discussion

The findings of this study provide important insights into the relationship between the Islamicity Performance Index (IPI), Green Banking practices, and the stability of Islamic banks in Indonesia. Overall, the results indicate that only certain dimensions of the Islamicity Performance Index demonstrate meaningful relationships with bank stability, while Green Banking does not function as a significant moderating variable. These findings highlight the complexity of integrating Sharia-based performance indicators with sustainability-oriented banking practices within Islamic financial institutions.

The Profit Sharing Ratio (PSR) demonstrates a positive and significant relationship with Islamic bank stability in the baseline and additive regression models. This finding supports the theoretical argument that profit-and-loss sharing mechanisms contribute to financial resilience through risk-sharing arrangements and equitable financing structures. Within the framework of

stakeholder theory and *maqāṣid al-sharī'ah*, profit-sharing contracts are expected to strengthen trust, reduce exploitative financial practices, and improve long-term institutional sustainability (Abror et al., 2019). The result also suggests that Islamic banks with greater involvement in *mudharabah* and *musharakah* financing may possess stronger risk-sharing capacities that support institutional stability.

At the same time, previous studies have noted that profit-sharing financing often involves higher monitoring costs and information asymmetry, which may weaken short-term financial performance (Sutrisno & Widarjono, 2018). However, the positive coefficient observed in this study indicates that the benefits of risk-sharing financing appear to outweigh these operational challenges within the sampled Islamic banks. This finding suggests that Islamic banks in Indonesia may have gradually improved their capacity to manage profit-sharing financing more effectively.

In contrast, the Directors–Employees Welfare Ratio (DEWR) demonstrates a negative and statistically significant relationship with bank stability. This finding indicates that higher welfare expenditures relative to operational capacity may reduce financial efficiency and create additional cost pressures in the short term. Although employee welfare is theoretically associated with stronger organizational commitment, productivity, and ethical behavior (Alias et al., 2025), the empirical evidence in this study suggests that welfare-related expenditures may not immediately translate into stronger financial stability.

The result also aligns with previous research indicating that welfare-oriented policies often generate long-term organizational benefits rather than immediate financial improvements (Ugwu et al., 2025). Consequently, the financial impact of welfare distribution may depend on how effectively banks balance employee compensation, operational efficiency, and long-term institutional sustainability.

Meanwhile, the Zakat Performance Ratio (ZPR), Equitable Distribution Ratio (EDR), and Islamic Income versus Non-Islamic Income Ratio (IsIR) do not demonstrate statistically significant effects on Islamic bank stability within the primary regression models. The insignificance of ZPR suggests that zakat distribution may function primarily as a social and religious responsibility rather than a direct determinant of short-term financial stability. Although zakat contributes to social legitimacy and stakeholder trust (Korbi & Bougatef, 2017; Nomran & Haron, 2022), its financial effects may emerge indirectly through reputational and social mechanisms rather than immediate balance-sheet performance.

Similarly, the Equitable Distribution Ratio (EDR) does not significantly influence bank stability. This finding indicates that distributive fairness may contribute more strongly to institutional legitimacy and stakeholder relationships than to short-term financial resilience. Previous studies have also reported that equitable distribution practices often generate long-term reputational value rather than immediate financial returns (Amin et al., 2021; Sri et al., 2022). As a result, the influence of EDR may become more visible over longer observation periods.

Although IsIR exhibits a very high average value across the sampled banks, its effect on bank stability remains statistically insignificant. This outcome may be associated with the relatively limited variation in IsIR values among Islamic banks, as most institutions consistently maintain

high levels of Sharia-compliant income. Consequently, the variable may not possess sufficient variability to explain differences in bank stability within the sample. Nevertheless, the consistently high IsIR values reflect strong compliance with Islamic financial principles among Indonesian Islamic banks.

One of the central findings of this study concerns the role of Green Banking. Despite theoretical expectations derived from sustainability theory and stakeholder theory, Green Banking does not exhibit a significant direct or moderating effect on Islamic bank stability. The additive moderation model shows that Green Banking does not independently influence bank stability, while the full moderated regression model indicates that Green Banking does not strengthen or weaken the relationships between the Islamicity Performance Index indicators and stability.

This finding contrasts with previous studies suggesting that sustainability-oriented governance enhances institutional legitimacy, risk management quality, and long-term financial resilience (Khan et al., 2024; Siddik et al., 2024). Several possible explanations may account for this result. First, Green Banking practices among Indonesian Islamic banks may still be relatively procedural and disclosure-oriented rather than deeply integrated into core financial operations and strategic decision-making. In such circumstances, sustainability initiatives may function more as regulatory compliance mechanisms than as operational drivers of stability.

Second, the implementation of Green Banking within Islamic banking institutions may still be at an early stage of development. Although many banks disclose sustainability activities, the extent to which environmental considerations influence financing decisions, risk management systems, and institutional governance may remain limited. As a result, Green Banking practices may not yet generate measurable financial effects capable of influencing bank stability directly or through interaction with Islamic performance indicators.

Third, the absence of significant moderation effects suggests that Islamic ethical performance and environmental sustainability practices may currently operate as separate institutional dimensions rather than mutually reinforcing systems. Previous studies have emphasized that successful integration between Sharia governance and sustainability frameworks requires strong institutional alignment, organizational maturity, and cohesive governance structures (Jan et al., 2022; Puspitasari & Kasri, 2023). The findings of this study suggest that such integration may still be developing within Indonesian Islamic banks.

The robustness tests further strengthen the consistency of these findings. Both the log-transformed regression model and the outlier-adjusted estimation produce results that remain generally consistent with the primary analysis. The absence of significant moderation effects persists across alternative model specifications, indicating that the findings are not driven by scale sensitivity or extreme observations. This consistency enhances the reliability of the empirical evidence reported in this study.

Overall, the findings contribute to the growing literature on Islamic banking performance and sustainability by demonstrating that Islamicity Performance Index indicators and Green Banking practices do not always interact in theoretically expected ways. The results indicate that profit-sharing financing remains an important determinant of Islamic bank stability, while Green Banking has not yet emerged as a significant reinforcing mechanism within the observed

institutional context. These findings highlight the importance of deeper integration between Islamic ethical principles and sustainability-oriented banking practices to strengthen the long-term resilience of Islamic financial institutions.

CONCLUSION

This study examined the influence of Islamicity Performance Index (IPI) components and Green Banking practices on the stability of Islamic banks in Indonesia using panel regression analysis. The findings indicate that the Profit Sharing Ratio (PSR) has a positive and statistically significant effect on Islamic bank stability, suggesting that profit-sharing financing contributes to strengthening the resilience of Islamic banking institutions. In contrast, the Directors–Employees Welfare Ratio (DEWR) demonstrates a significant negative effect on bank stability. Meanwhile, the Zakat Performance Ratio (ZPR), Equitable Distribution Ratio (EDR), and Islamic Income versus Non-Islamic Income Ratio (IsIR) do not exhibit statistically significant direct effects on stability. The study also finds that Green Banking does not moderate the relationship between IPI indicators and bank stability. This result suggests that sustainability initiatives within Indonesian Islamic banks have not yet been integrated operationally with Sharia-based performance systems. Overall, the findings imply that profit-sharing financing remains an important determinant of Islamic bank stability, while sustainability initiatives represented by Green Banking have not yet functioned as a significant reinforcing mechanism within the observed institutional context.

From a theoretical perspective, the findings provide partial support for stakeholder theory, *maqāsid al-sharī'ah*, and sustainability theory. Although ethical responsibility, social welfare, and environmental stewardship are central principles within Islamic finance, only selected dimensions of Islamicity performance demonstrate measurable associations with financial stability, while others remain statistically insignificant within the observed period. The findings indicate that Sharia governance and sustainability governance still operate largely as separate institutional mechanisms rather than integrated strategic systems. In practical terms, the results carry several important implications for regulators and Islamic banking practitioners. Regulatory authorities such as OJK and Bank Indonesia may need to strengthen supervisory frameworks that encourage Islamic banks to develop more balanced risk-sharing portfolios alongside halal income generation. Incentive-based regulatory mechanisms, including integrated Sharia–sustainability performance assessments and support for high-quality *mudharabah* and *musharakah* financing, could encourage stronger alignment between ethical finance and financial resilience. Islamic banks also need to move beyond sustainability disclosure practices and incorporate Green Banking principles into financing decisions, risk management systems, environmental due diligence, and long-term investment strategies. Greater institutional integration may be achieved through sustainability audit mechanisms, enhanced employee competencies, unified Sharia–ESG governance structures, and performance evaluation systems that incorporate environmental and ethical indicators simultaneously.

Several limitations should be acknowledged in interpreting the findings of this study. The relatively small sample size and short observation period may limit the statistical power of the analysis, particularly in detecting moderation effects within the moderated regression models. In addition, the measurement of Green Banking relied primarily on disclosure-based indicators,

which may not fully capture the substantive implementation of sustainability practices within Islamic banking operations. Future studies may benefit from using larger datasets, longer observation periods, or cross-country comparisons to provide broader empirical evidence regarding the interaction between Islamic performance indicators and sustainability governance. Further research may also explore alternative sustainability measurements, qualitative governance dimensions, or institutional factors that influence the integration of Sharia principles and ESG practices within Islamic financial institutions. Such approaches could provide deeper insights into how Islamic banks can strengthen long-term resilience while simultaneously advancing ethical finance, environmental responsibility, and sustainable economic development.

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