



Sharia-Oriented Performance of Local Government-Owned Islamic Rural Banks in Indonesia: A Disclosure-Based Descriptive Assessment Using the Islamicity Performance Index

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Abstract:

This study evaluates the sharia-oriented financial performance of local government-owned Islamic rural banks (BPRS) in Indonesia using a disclosure-based Islamicity Performance Index (IPI). The sample comprises 21 BPRS observed during the 2024 financial year. A cross-sectional quantitative descriptive approach was applied by calculating bank-level ratios and reporting descriptive statistics without hypothesis testing or econometric estimation. Six indicators were examined: profit-sharing distribution, Zakat Performing Ratio, equitable distribution, employee-to-director welfare, Islamic Investment Ratio, and Islamic Income Ratio. Proxy construction and missing-data treatment were explicitly specified because public reports did not consistently disclose all canonical IPI components. The available profit-sharing proxy ($n = 14$) averaged 9.21%, while the Zakat Performing Ratio, equitable-distribution proxy, and employee-to-director welfare ratio averaged 0.099%, 28.10%, and 26.34%, respectively. Following standardization, Islamic investments accounted for 99.823% of total investments, while Islamic income accounted for 99.976% of total income. The findings demonstrate consistently strong alignment in investment and income sources but greater variation in profit-sharing, zakat, and distributive outcomes. OJK, PERMABIDA, local government shareholders, and BPRS management should therefore establish standardized IPI disclosure fields and institution-specific social performance targets to strengthen comparability, accountability, and policy oversight.

INTRODUCTION

Islamic finance has developed from a niche segment into a systemically relevant component of the international financial architecture (Andriani et al., 2025, Ismail et al., 2026). The Islamic Financial Services Board reports that global Islamic financial services assets reached approximately USD 3.88 trillion in 2024, with banking remaining the largest segment. This global expansion has increased the demand for performance measures that do more than reproduce conventional profitability and risk indicators. Islamic financial institutions are also expected to demonstrate the ethical, distributive, and sharia-compliant qualities that justify their institutional identity.

Indonesia provides an important setting for this assessment because it operates a dual banking system and has a large network of Islamic commercial banks and Islamic rural banks. Under Law No. 21 of 2008, BPRS serve communities and smaller businesses that are often outside the main market of commercial banks (Law of the Republic of Indonesia Number 21 of 2008 Concerning Islamic Banking, 2008). Their proximity to micro, small, and medium enterprises gives them a distinct regional-development function. Regional autonomy has also enabled provincial and district governments to establish BPRS as regionally owned enterprises intended to combine financial intermediation, local public value, and potential contributions to regional own-source revenue (Rahman et al., 2025; Sija, 2026).

The public ownership of BPRS creates both an opportunity and a governance challenge. Local-government ownership can provide institutional support and a strong mandate to serve underserved markets. However, public ownership also requires transparent performance criteria that distinguish commercial outcomes from social and sharia objectives. International evidence shows that ownership structure and political conditions can shape the risk and governance environment of Islamic banks (Athari et al., 2023; Mateev et al., 2023; Boulanouar, et al., 2026). For local government-owned BPRS, a performance evaluation based solely on assets, financing growth, or profit would therefore be incomplete.

Local-government-owned BPRS have a dual institutional character. They operate as regulated banks, but they are also regional enterprises whose owners may expect contributions to inclusion, MSME financing, and local development. This dual mandate makes accountability especially important. A high level of halal income may demonstrate compliance with revenue sources. However, it does not, by itself, establish that financing is partnership-oriented, zakat is proportionate, or economic benefits are distributed equitably.

Prior studies of ownership and political risk suggest that government-related banks may benefit from support and market access while remaining exposed to governance pressures (Eichengreen et al., 2026; Song et al., 2026). Studies on Indonesian regional government-owned BPRS emphasize their strategic role and the need for stronger management and digital capacity (Syaifuddin & Turmudi, 2024; Yulianty et al., 2024). An IPI assessment can support this governance agenda only when the underlying disclosures are consistent, and the operational definitions are transparent.

Conventional bank ratios remain useful for assessing profitability, liquidity, efficiency, and asset quality, but they do not directly measure the distinctive objectives of Islamic finance. Hameed (2004) proposed the IPI to evaluate whether bank operations reflect values such as risk sharing, social responsibility, distributive justice, and avoidance of non-halal activities. The framework is therefore not a substitute for prudential analysis; it is a complementary lens that examines whether the sources, uses, and distribution of financial resources are consistent with the stated identity of an Islamic institution.

The six indicators used in this study represent different performance domains. Profit-sharing measures examine the practical role of partnership-based finance. The Zakat Performing Ratio reflects institutional social responsibility. Equitable distribution considers how income is shared with stakeholders. The directors-employees welfare measure addresses internal fairness. Islamic investment and Islamic income ratios evaluate whether assets and revenues are derived from sharia-compliant activities. Taken together, the indicators capture operational, social, and ethical dimensions that cannot

be inferred from profit alone (Tawfik et al., 2024; Karuitha et al., 2026; Meinhold et al., 2026).

The literature also shows that IPI indicators lack universally accepted regulatory cutoffs. Studies commonly compare banks, years, or countries using relative scores, ranks, and distributional statistics rather than a single health threshold. Consequently, the present study uses the cross-sectional mean, median, dispersion, and range as empirical benchmarks. It avoids labeling a bank as healthy or unhealthy based solely on the IPI ratio unless a formal benchmark is available.

The Islamicity Performance Index (IPI) was developed to broaden the assessment of banks by incorporating profit-sharing orientation, zakat, equitable distribution, internal welfare, halal investment, and halal income (Nasim, et al., 2025). Indonesian studies have applied IPI mainly to Islamic commercial banks, either within one country or in comparisons between Indonesia and Malaysia (Mutia et al., 2019; Prasetyo et al., 2020). ASEAN studies likewise focus predominantly on commercial banks and cross-country differences (Rahayu & Septiarini, 2019; Chairunesia, 2023). Recent research has extended IPI to a broader sample of Indonesian BPRS, but it does not isolate the institutional characteristics of local-government ownership (Pitriani et al., 2025).

Research in Indonesia generally finds that performance varies substantially across IPI dimensions. Profit-sharing and distributive indicators often differ more between banks than Islamic income indicators do, while zakat performance tends to depend on bank policy, profitability, and disclosure practices (Mutia et al., 2019). This pattern cautions against constructing an overall claim based on a single favorable dimension.

ASEAN comparisons reinforce the need for multidimensional analysis. Rahayu and Septiarini (2019) compared banks in Indonesia, Malaysia, Brunei Darussalam, and Thailand. Prasetyo et al. (2020) reported different relative strengths for Indonesian and Malaysian banks across IPI dimensions. Wahyuni et al. (2023) found statistically significant differences among four ASEAN Islamic banks across nine IPI ratios, while Chairunesia (2023) also documented mixed outcomes between Indonesia and Malaysia. Related *maqasid*-based evidence shows that conclusions depend on the dimensions included and should not be reduced to asset size or profitability (Naja et al., 2023).

These studies provide useful regional benchmarks but are dominated by Islamic commercial banks. Islamic rural banks have different market segments, disclosure capacities, ownership structures, and developmental mandates. The present study contributes by focusing specifically on local-government-owned BPRS, presenting indicator-level descriptive statistics, and distinguishing canonical ratios from disclosure-based proxies.

This leaves a specific empirical gap. There is limited evidence on how local government-owned Islamic rural banks perform across the individual IPI dimensions and on how disclosure limitations affect the comparability of those dimensions. This issue is important because the meaning of an IPI result depends on the formula, the disclosure base, and the treatment of unavailable data. Unqualified claims of strong sharia performance can be misleading when a reported ratio is a proxy, when missing observations are coded as zero, or when non-Islamic amounts are compared with Islamic amounts without a common denominator.

Accordingly, this study assesses the 2024 sharia-oriented performance of 21 local-government-owned BPRS in Indonesia. The analytical focus is threefold: (1) to describe the cross-bank distribution of six disclosure-based IPI indicators; (2) to identify

dimensions with relatively consistent or heterogeneous outcomes; and (3) to derive managerial, shareholder, regulatory, and research implications from the observed patterns. Because the design is cross-sectional and descriptive, the study does not formulate causal hypotheses or use inferential or econometric testing.

RESEARCH METHODS

This study uses a quantitative, cross-sectional, descriptive design. The unit of analysis is an individual local-government-owned BPRS, and the observation period is the 2024 financial year. The design is intended to document the level and variation of sharia-oriented performance indicators at one point in time. It does not estimate causal relationships, test hypotheses, or use regression, panel-data, or other econometric techniques (Creswell & Creswell, 2018).

The population consists of BPRS identified as being owned by regional governments in Indonesia. The sample includes all 21 institutions for which the study compiled 2024 published financial information from OJK, Perbamide (Association of Locally-Owned Rural Banks), and the respective banks. The sample is distributed across seven provinces. Because the analysis covers the identified, data-available population for this ownership category, the study is closer to a census of the target group than to a probabilistic sample. Nevertheless, the findings should not be generalized to privately owned BPRS or Islamic commercial banks.

Table 1. Local-Government-Owned BPRS Included in the 2024 Analysis

No.	Bank	Province
1	PT BPRS Gayo	Aceh
2	PT BPRS Berkah Dana Fadhilah	Riau
3	PT BPRS Kota Juang	Aceh
4	PT BPRS Cilegon Mandiri	Banten
5	PT BPRS Magetan Mandiri	East Java
6	PT BPRS Ngawi	East Java
7	PT BPRS Bakti Arta Sejahtera Sampang	East Java
8	PT BPRS Bakti Makmur Sumekar	East Java
9	PT BPRS Situbondo	East Java
10	PT BPRS Kota Mojokerto	East Java
11	PT BPRS Lampung Timur	Lampung
12	PT BPRS Kotabumi	Lampung
13	PT BPRS Tenggamas	Lampung
14	PT BPRS Rajasa Lampung Tengah	Lampung
15	PT BPRS Way Kanan	Lampung
16	PT BPRS Tani Tulang Bawang Barat	Lampung
17	PT BPRS Lampung Barat	Lampung
18	PT BPRS Bandar Lampung	Lampung
19	PT BPRS Bangka Belitung	Bangka Belitung
20	PT BPRS Bahari Berkesan Kota Ternate	North Maluku
21	PT BPRS Saruma Sejahtera	North Maluku

Source: Processed from OJK (2024) and Perbamide (2024) reports.

The study uses secondary data from published financial statements, OJK statistics, bank disclosures, and Perbamide reports. Financial-statement data are appropriate for ratio analysis because they provide a documented basis for comparing financing, income, assets, zakat, investment, and remuneration (Hery, 2020). All monetary values in the detailed tables are presented in thousands of rupiah, consistent with the source tables.

The operational definitions were aligned with the available disclosure structure. First, the canonical IPI Profit Sharing Ratio is typically calculated as the sum of *mudharabah* and *musyarakah* financing divided by total financing. The source dataset did not consistently disclose this composition. Therefore, this study reports a profit-sharing distribution proxy, calculated as the disclosed profit-sharing amount divided by total financing. It is not interpreted as a direct measure of the share of partnership contracts. Second, the Zakat Performing Ratio is zakat divided by net assets. Third, the equitable-distribution indicator is represented by the disclosed profit-sharing distribution divided by income.

Fourth, the welfare indicator is calculated as the average employee salary divided by the average director salary, multiplied by 100. This is the inverse presentation of the conventional Directors-Employees Welfare Ratio and is used because it provides an intuitive percentage of employee remuneration relative to director remuneration; a higher percentage indicates a narrower salary gap. Fifth, the Islamic Investment Ratio is standardized as Islamic investment divided by total investment, where total investment equals Islamic plus non-Islamic investment. Sixth, the Islamic Income Ratio is Islamic income divided by total income, where total income equals the sum of Islamic and non-Islamic income. These common-denominator formulas replace unstandardized statements such as 750:1 or 8,251:1, which can exaggerate differences and hinder cross-bank comparison.

Unavailable values are treated as missing, not as zero. This distinction particularly affects the profit-sharing proxy, for which seven institutions did not have usable disclosed amounts. Descriptive statistics, therefore, report the number of valid observations for each indicator. No imputation is applied. The analysis proceeded in four stages. First, the financial data were checked for unit consistency and matched by institution. Second, the six ratios were calculated using the operational definitions above. Third, the study computed the valid observation count, mean, median, sample standard deviation, and the minimum and maximum. Fourth, bank-level results were compared with the cross-sectional distribution and interpreted in relation to prior IPI evidence. The analysis is deliberately comparative and descriptive; observed associations are not described as causal effects.

A methodological limitation is that the analysis relies on one year of public disclosure. It cannot distinguish temporary fluctuations from persistent performance patterns. In addition, two indicators are disclosure-based proxies rather than complete canonical IPI measures. These limitations are incorporated into the interpretation and recommendations.

RESULTS AND DISCUSSION

Results

Sample Distribution and Regional Concentration

The sample comprises 21 BPRS in seven of Indonesia's 38 provinces. Lampung accounts for 8 institutions and East Java for 6, so these two provinces together account

for 14 of the 21 observed banks (66.7%). Aceh and North Maluku each have two institutions, while Riau, Banten, and Bangka Belitung each have one. This distribution indicates that local-government ownership of BPRS is geographically concentrated rather than nationally dispersed. The pattern should be interpreted as an institutional-development gap, not as evidence that provinces without such banks lack demand for Islamic finance.

Table 2. Descriptive Statistics of the IPI-Based Indicators

Indicator	n	Mean	Median	SD	Min.	Max.
Profit-sharing distribution proxy (%)	14	9.214	5.350	9.408	0.000	30.400
Zakat Performing Ratio (%)	21	0.099	0.097	0.074	0.001	0.259
Equitable-distribution proxy (%)	21	28.101	28.810	10.918	5.580	46.100
Employee-to-director welfare ratio (%)	21	26.337	25.950	3.412	20.270	33.930
Islamic Investment Ratio (%)	21	99.823	99.832	0.119	99.564	99.971
Islamic Income Ratio (%)	21	99.976	99.986	0.023	99.933	100.000

Note: The table provides empirical cross-sectional benchmarks. IPI indicators do not have a single universally accepted regulatory cutoff. The profit-sharing and equitable-distribution measures are disclosure-based proxies as defined in the Methods section.

Profit-sharing Distribution Proxy

To assess the extent to which local government-owned BPRS distribute financing returns through profit-sharing mechanisms, the disclosed profit-sharing amount is compared with total financing as a proxy. The results for each BPRS are presented in Table 3.

Table 3. Profit-Sharing Distribution Proxy of Local-Government-Owned BPRS

No.	Bank	Total financing	Profit-sharing Amount	Ratio (%)
1	PT BPRS Gayo	34,177,119	ND	ND
2	PT BPRS Berkah Dana Fadhilah	42,513,003	893,400	2.1
3	PT BPRS Kota Juang	1,448,922	ND	ND
4	PT BPRS Cilegon Mandiri	71,097,072	11,429,436	16.1
5	PT BPRS Magetan Mandiri	48,170,029	8,243,821	17.1
6	PT BPRS Ngawi	81,484,041	ND	ND
7	PT BPRS Bakti Arta Sejahtera Sampang	103,730,040	14,225,739	13.7
8	PT BPRS Bakti Makmur Sumekar	701,773,417	26,255,920	3.7
9	PT BPRS Situbondo	15,919,597	1,114,000	7.0
10	PT BPRS Kota Mojokerto	97,252,976	18,915,511	19.4
11	PT BPRS Lampung Timur	75,711,654	815,000	1.1
12	PT BPRS Kotabumi	62,302,298	0	0.0
13	PT BPRS Tenggamus	38,787,129	ND	ND
14	PT BPRS Rajasa Lampung Tengah	49,292,787	ND	ND
15	PT BPRS Way Kanan	62,302,298	0	0.0
16	PT BPRS Tani Tulang Bawang Barat	32,535,224	694,444	2.1
17	PT BPRS Lampung Barat	52,861,463	ND	ND

No.	Bank	Total financing	Profit-sharing Amount	Ratio (%)
18	PT BPRS Bandar Lampung	82,762,926	ND	ND
19	PT BPRS Bangka Belitung	227,241,343	34,036,461	15.0
20	PT BPRS Bahari Berkesan Kota Ternate	71,199,113	900,000	1.3
21	PT BPRS Saruma Sejahtera	35,078,264	10,661,150	30.4

Source: Processed from OJK (2024) and Perbamide (2024) reports.

Note: Monetary values are in Rp thousand. ND = not disclosed/usable. The ratio is a proxy calculated as disclosed profit-sharing amount divided by total financing; it is not the canonical contract-composition PSR.

Valid values are available for 14 banks. The ratio has a mean of 9.21%, a median of 5.35%, and a standard deviation of 9.41 percentage points. The wide distance between the median and maximum (30.40%) indicates substantial cross-bank heterogeneity. BPRS Saruma Sejahtera records the highest value, followed by BPRS Kota Mojokerto and BPRS Magetan Mandiri. Two banks report a zero value, while seven have no usable disclosed amount. The missing observations are not interpreted as an absence of profit-sharing activity.

The result should be read as a distribution outcome, not as evidence that banks with higher ratios use a larger share of *mudharabah* and *musyarakah* financing. The proxy reflects a disclosed payment relative to financing and may be influenced by portfolio composition, realized returns, accounting timing, and disclosure practice. This measurement distinction explains why a high value cannot automatically be classified as superior IPI performance.

Zakat Performing Ratio

To examine the extent of zakat commitment among local-government-owned BPRS, the Zakat Performing Ratio (ZPR) is calculated by comparing zakat payments with net assets. This ratio provides a proportional measure of zakat performance across the observed BPRS, with the results presented in Table 4.

Table 4. Zakat Performing Ratio of Local-Government-Owned BPRS

No.	Bank	Zakat	Net assets	ZPR (%)
1	PT BPRS Gayo	111,474	43,087,827	0.259
2	PT BPRS Berkah Dana Fadhilah	37,836	65,596,631	0.058
3	PT BPRS Kota Juang	18,344	18,094,888	0.101
4	PT BPRS Cilegon Mandiri	163,867	148,744,693	0.110
5	PT BPRS Magetan Mandiri	3,417	63,889,608	0.005
6	PT BPRS Ngawi	1,112	129,349,042	0.001
7	PT BPRS Bakti Arta Sejahtera Sampang	131,169	145,091,323	0.090
8	PT BPRS Bakti Makmur Sumekar	347,966	1,162,401,615	0.030
9	PT BPRS Situbondo	6,400	157,519,138	0.004
10	PT BPRS Kota Mojokerto	130,243	116,723,031	0.112
11	PT BPRS Lampung Timur	116,037	98,343,258	0.118
12	PT BPRS Kotabumi	61,950	98,876,190	0.063
13	PT BPRS Tenggamus	61,950	63,939,871	0.097
14	PT BPRS Rajasa Lampung Tengah	150,169	66,788,323	0.225

No.	Bank	Zakat	Net assets	ZPR (%)
15	PT BPRS Way Kanan	61,950	98,876,190	0.063
16	PT BPRS Tani Tulang Bawang Barat	59,950	40,644,818	0.147
17	PT BPRS Lampung Barat	138,671	66,799,685	0.208
18	PT BPRS Bandar Lampung	112,765	132,234,668	0.085
19	PT BPRS Bangka Belitung	722,411	391,539,791	0.185
20	PT BPRS Bahari Berkesan Kota Ternate	165,219	143,292,802	0.115
21	PT BPRS Saruma Sejahtera	1,100	61,474,740	0.002

Source: Processed from OJK (2024) and Perbamida (2024) reports.

Note: Monetary values are in Rp thousand. ZPR = zakat / net assets x 100.

The ZPR ranges from 0.001% to 0.259%, with a mean of 0.099% and a median of 0.097%. BPRS Gayo records the highest proportional value, while BPRS Ngawi records the lowest. In nominal terms, BPRS Bangka Belitung and BPRS Bakti Makmur Sumekar report the largest zakat amounts, but nominal size and proportional performance are not identical because the denominator differs.

The relatively small numerical values are inherent in using net assets as the denominator and should not be compared directly with the 2.5% zakat rate applied to specific zakatable bases. More importantly, the range indicates that zakat policy is not uniform across the observed banks. Because no universal IPI cutoff is established for ZPR, the median of 0.097% serves as the internal benchmark: institutions below this value warrant review of zakat calculation, payment policy, and disclosure, rather than an automatic conclusion of non-compliance.

Equitable-Distribution Proxy

The distribution of economic returns among local-government-owned BPRS is assessed using an Equitable-Distribution Ratio (EDR) proxy, calculated by comparing disclosed profit-sharing distribution with total income. This measure provides an initial indication of how income is distributed through the reported profit-sharing channel, as presented in Table 5.

Table 5. Equitable-Distribution Proxy of Local-Government-Owned BPRS

No.	Bank	Income	Profit-sharing Distribution	Ratio (%)
1	PT BPRS Gayo	8,487,853	2,826,392	33.30
2	PT BPRS Berkah Dana Fadhillah	8,886,376	912,271	10.27
3	PT BPRS Kota Juang	2,409,612	134,383	5.58
4	PT BPRS Cilegon Mandiri	11,418,807	4,742,145	41.53
5	PT BPRS Magetan Mandiri	6,705,207	835,239	12.46
6	PT BPRS Ngawi	14,237,999	2,181,836	15.32
7	PT BPRS Bakti Arta Sejahtera Sampang	18,325,506	6,422,623	35.05
8	PT BPRS Bakti Makmur Sumekar	111,017,477	41,707,291	37.57
9	PT BPRS Situbondo	3,466,308	747,716	21.57
10	PT BPRS Kota Mojokerto	18,325,506	6,422,623	35.05
11	PT BPRS Lampung Timur	14,628,982	4,805,029	32.85
12	PT BPRS Kotabumi	9,747,073	2,643,075	27.12

No.	Bank	Income	Profit-sharing Distribution	Ratio (%)
13	PT BPRS Tenggamus	9,747,073	2,643,075	27.12
14	PT BPRS Rajasa Lampung Tengah	13,479,891	3,522,814	26.13
15	PT BPRS Way Kanan	9,747,073	2,643,075	27.12
16	PT BPRS Tani Tulang Bawang Barat	6,273,804	2,023,662	32.26
17	PT BPRS Lampung Barat	8,634,093	3,980,683	46.10
18	PT BPRS Bandar Lampung	22,434,302	6,529,138	29.10
19	PT BPRS Bangka Belitung	29,318,717	13,217,572	45.08
20	PT BPRS Bahari Berkesan Kota Ternate	13,383,548	2,776,357	20.74
21	PT BPRS Saruma Sejahtera	3,015,073	868,731	28.81

Source: Processed from OJK (2024) and Perbamida (2024) reports.

Note: Monetary values are in Rp thousand. This ratio represents one EDR component: disclosed profit-sharing distribution / income x 100. It does not include all stakeholder distributions in the canonical EDR.

The proxy averages 28.10%, with a median of 28.81% and a standard deviation of 10.92 percentage points. The lowest value is 5.58% at BPRS Kota Juang, while the highest is 46.10% at BPRS Lampung Barat. The broad range shows that the distribution of income through the reported profit-sharing channel differs materially across institutions.

This indicator is more dispersed than the standardized investment and income ratios. The contrast suggests that maintaining halal sources is relatively uniform, whereas the distribution of economic returns is institution-specific. However, the proxy does not capture employee expenditure, qardh, dividends, community programs, or retained earnings. A complete EDR would require standardized disclosure of all stakeholder categories. The result, therefore, supports disclosure reform rather than a definitive ranking of distributive justice. The inference is also consistent with evidence that the quality of Islamic governance is associated with banks' social performance.

Employee-to-Director Welfare Ratio

The relative welfare of employees and directors is assessed using the Employee-to-Director Welfare Ratio, which compares the average employee salary to the average director salary. This indicator provides an overview of the proportional remuneration gap within each local-government-owned BPRS, with the results presented in Table 6.

Table 6. Employee-to-Director Welfare Ratio of Local-Government-Owned BPRS

No.	Bank	Avg. employee salary	Avg. director salary	Ratio (%)
1	PT BPRS Gayo	4,010	12,400	32.34
2	PT BPRS Berkah Dana Fadhilah	4,000	13,500	29.63
3	PT BPRS Kota Juang	3,800	11,200	33.93
4	PT BPRS Cilegon Mandiri	3,900	15,000	26.00
5	PT BPRS Magetan Mandiri	3,300	13,200	25.00
6	PT BPRS Ngawi	3,500	14,500	24.14
7	PT BPRS Bakti Arta Sejahtera Sampang	3,400	15,200	22.37
8	PT BPRS Bakti Makmur Sumekar	6,500	20,200	32.18
9	PT BPRS Situbondo	3,050	15,050	20.27

No.	Bank	Avg. employee salary	Avg. director salary	Ratio (%)
10	PT BPRS Kota Mojokerto	3,900	14,000	27.86
11	PT BPRS Lampung Timur	3,800	13,400	28.36
12	PT BPRS Kotabumi	3,300	12,500	26.40
13	PT BPRS Tenggamus	3,400	13,000	26.15
14	PT BPRS Rajasa Lampung Tengah	3,700	15,000	24.67
15	PT BPRS Way Kanan	3,400	13,100	25.95
16	PT BPRS Tani Tulang Bawang Barat	3,200	12,100	26.45
17	PT BPRS Lampung Barat	3,500	14,100	24.82
18	PT BPRS Bandar Lampung	3,600	14,500	24.83
19	PT BPRS Bangka Belitung	4,100	18,100	22.65
20	PT BPRS Bahari Berkesan Kota Ternate	3,400	13,500	25.19
21	PT BPRS Saruma Sejahtera	3,200	13,400	23.88

Source: Processed from OJK (2024) and Perbamida (2024) reports.

Note: Monetary values are in Rp thousand. Ratio = (average employee salary/average director salary) × 100. This is an inverse presentation of the conventional DEWR; higher values indicate a narrower remuneration gap.

The ratio ranges from 20.27% to 33.93%, with a mean of 26.34% and relatively low dispersion (SD = 3.41 percentage points). In inverse terms, average director salary is approximately 2.95 to 4.93 times average employee salary across the sample. BPRS Kota Juang has the narrowest proportional gap, while BPRS Situbondo has the widest.

Compared with the other social indicators, internal remuneration is comparatively clustered. This does not establish that every salary structure is fair, because the ratio does not control for responsibilities, tenure, bank size, or local labor markets. It does, however, provide a transparent starting point for boards and local-government shareholders to monitor whether remuneration gaps change over time. International evidence likewise indicates that governance mechanisms shape whether formal Islamic objectives are translated into measurable social outcomes.

Islamic Investment Ratio

The sharia alignment of investment activities is assessed using the Islamic Investment Ratio (IIR), defined as the proportion of Islamic investments to total investments. Standardizing the denominator enables a consistent comparison of investment compliance across local-government-owned BPRS, as presented in Table 7.

Table 7. Standardized Islamic Investment Ratio of Local-Government-Owned BPRS

No.	Bank	Islamic investment	Non-Islamic investment	IIR (%)
1	PT BPRS Gayo	8,487,853	12,000	99.859
2	PT BPRS Berkah Dana Fadhilah	8,886,376	9,000	99.899
3	PT BPRS Kota Juang	2,409,612	1,300	99.946
4	PT BPRS Cilegon Mandiri	11,418,807	4,791	99.958
5	PT BPRS Magetan Mandiri	6,705,207	8,182	99.878
6	PT BPRS Ngawi	14,237,999	21,813	99.847
7	PT BPRS Bakti Arta Sejahtera Sampang	18,325,506	5,422	99.970

No.	Bank	Islamic investment	Non-Islamic investment	IIR (%)
8	PT BPRS Bakti Makmur Sumekar	111,017,477	31,707	99.971
9	PT BPRS Situbondo	3,466,308	6,400	99.816
10	PT BPRS Kota Mojokerto	18,325,506	64,231	99.651
11	PT BPRS Lampung Timur	14,628,982	48,052	99.673
12	PT BPRS Kotabumi	9,747,073	16,430	99.832
13	PT BPRS Tenggamas	9,747,073	25,430	99.740
14	PT BPRS Rajasa Lampung Tengah	13,479,891	34,228	99.747
15	PT BPRS Way Kanan	9,747,073	25,436	99.740
16	PT BPRS Tani Tulang Bawang Barat	6,273,804	2,023	99.968
17	PT BPRS Lampung Barat	8,634,093	37,806	99.564
18	PT BPRS Bandar Lampung	22,434,302	56,291	99.750
19	PT BPRS Bangka Belitung	29,318,717	12,175	99.958
20	PT BPRS Bahari Berkesan Kota Ternate	13,383,548	26,765	99.800
21	PT BPRS Saruma Sejahtera	3,015,073	8,612	99.715

Source: Processed from OJK (2024) and Perbamide (2024) reports.

Note: Monetary values are in Rp thousand. IIR = Islamic investment / (Islamic investment + non-Islamic investment) x 100.

After standardization to a common denominator, Islamic investments account for 99.564% to 99.971% of total investments. The mean is 99.823%, the median is 99.832%, and the standard deviation is only 0.119 percentage points. These figures provide a more interpretable and less exaggerated comparison than expressing Islamic and non-Islamic amounts as a 750:1 ratio.

The narrow range indicates consistently high sharia alignment in investment placement across the sample. BPRS Bakti Makmur Sumekar has the highest nominal Islamic investment, but a proportional comparison shows that bank size is not proportional to compliance intensity. For governance purposes, the standardized percentage should be reported alongside the nominal non-Islamic amount, along with an explanation of how that amount was derived and treated. Governance research similarly emphasizes that formal sharia structures must be supported by actual organizational practice.

Islamic Income Ratio

The extent of sharia compliance in income generation is assessed using the Islamic Income Ratio, which measures the proportion of Islamic income relative to total income. The standardized ratio provides a consistent basis for comparing income composition across local-government-owned BPRS, with the results presented in Table 8.

Table 8. Standardized Islamic Income Ratio of Local-Government-Owned BPRS

No.	Bank	Islamic income	Non-Islamic income	Ratio (%)
1	PT BPRS Gayo	34,177,119	1,300	99.996
2	PT BPRS Berkah Dana Fadhillah	42,513,003	8,200	99.981
3	PT BPRS Kota Juang	1,448,922	900	99.938
4	PT BPRS Cilegon Mandiri	71,097,072	6,720	99.991

No.	Bank	Islamic income	Non-Islamic income	Ratio (%)
5	PT BPRS Magetan Mandiri	48,170,029	3,181	99.993
6	PT BPRS Ngawi	81,484,041	11,768	99.986
7	PT BPRS Bakti Arta Sejahtera Sampang	103,730,040	4,000	99.996
8	PT BPRS Bakti Makmur Sumekar	701,773,417	2,300	100.000
9	PT BPRS Situbondo	15,919,597	7,890	99.950
10	PT BPRS Kota Mojokerto	97,252,976	4,230	99.996
11	PT BPRS Lampung Timur	75,711,654	38,976	99.949
12	PT BPRS Kotabumi	62,302,298	20,000	99.968
13	PT BPRS Tenggamus	38,787,129	18,790	99.952
14	PT BPRS Rajasa Lampung Tengah	49,292,787	3,212	99.993
15	PT BPRS Way Kanan	62,302,298	15,467	99.975
16	PT BPRS Tani Tulang Bawang Barat	32,535,224	1,230	99.996
17	PT BPRS Lampung Barat	52,861,463	35,467	99.933
18	PT BPRS Bandar Lampung	82,762,926	42,310	99.949
19	PT BPRS Bangka Belitung	227,241,343	1,254	99.999
20	PT BPRS Bahari Berkesan Kota Ternate	71,199,113	2,021	99.997
21	PT BPRS Saruma Sejahtera	35,078,264	11,675	99.967

Source: Processed from OJK (2024) and Perbamide (2024) reports.

Note: Monetary values are in Rp thousand. Islamic Income Ratio = Islamic income / (Islamic income + non-Islamic income) x 100.

Islamic income represents between 99.933% and approximately 100.000% of total income. The cross-bank mean is 99.976%, the median is 99.986%, and dispersion is very low. This is the most uniform indicator in the analysis. The result supports the conclusion that income sources are overwhelmingly sharia-compliant and also shows why an unstandardized 8,251:1 comparison is unnecessary.

A near-100% ratio should not eliminate attention to disclosure. Small non-Islamic amounts should remain separately identified, explained, and treated in accordance with applicable sharia governance procedures. The key governance issue is not only the material size of non-Islamic income but also the transparency of its source and disposition. Recent Indonesian evidence also identifies halal income relative to non-halal income as a positive correlate of Islamic bank asset growth.

Discussion

The findings from 21 local-government-owned BPRS indicate that Islamicity Performance Index (IPI)-based performance is not uniform across dimensions. The concentration of BPRS in Lampung and East Java suggests that institutional capacity, regional policy support, and local resource configurations influence the establishment and sustainability of publicly owned Islamic rural banks. This finding is consistent with institutional theory, which argues that organizational presence is shaped not only by market demand but also by legitimacy, political priorities, and institutional support. Alam et al. (2024) and Moudud-UI-Huq et al. (2026) similarly demonstrate that ownership structures and political conditions can influence Islamic-bank governance and strategic behavior. The contribution of this study is to extend the assessment of local-government-

owned BPRS beyond conventional financial performance by examining multidimensional sharia-oriented outcomes. Theoretically, the findings strengthen the relevance of institutional theory and the IPI framework, while practically highlighting the importance of sustained regional institutional support.

The profit-sharing distribution proxy averaged 9.21%, with values ranging from 0.00% to 30.40%, indicating substantial differences in the implementation of risk-sharing principles across BPRS. This finding supports the Islamicity Performance Index framework, which considers profit sharing an important dimension of Islamic banking performance because it reflects partnership and risk-sharing principles (Hameed et al., 2004). However, the result also highlights a measurement limitation because the proxy does not directly represent the proportion of *mudharabah* and *musyarakah* financing. Therefore, the finding is consistent with Mergaliyev et al. (2021), who argue that Islamic-bank performance should be assessed according to substantive Sharia objectives rather than formal compliance alone. The considerable variation across institutions further suggests that Islamic identity does not automatically produce similar risk-sharing practices. Theoretically, this study contributes by demonstrating that government ownership does not ensure uniform partnership orientation. Practically, BPRS should separately disclose *mudharabah* and *musyarakah* financing to enable more accurate assessment of profit-sharing performance.

The equitable-distribution proxy recorded an average of 28.10%, a median of 28.81%, and a range of 5.58%–46.10%, indicating considerable differences in the distribution of economic benefits among BPRS. This finding is consistent with the Islamicity Performance Index, which emphasizes that Islamic banking performance should involve not only halal income generation but also fair distribution of economic benefits among stakeholders (Hameed et al., 2004). However, the proxy used in this study does not capture all components of the canonical Equitable Distribution Ratio, including employee expenditure, qardh, dividends, community programs, and retained earnings. Consequently, the findings should not be interpreted as a definitive measure of distributive justice. This limitation is consistent with Mergaliyev et al. (2021), who emphasize the multidimensional nature of Islamic banking performance. Platonova et al. (2018) further demonstrate the importance of multidimensional social responsibility disclosure in Islamic banking. Theoretically, the findings reinforce the need to evaluate Islamic performance through multiple stakeholder dimensions. Practically, standardized disclosure should cover all components of equitable distribution.

The Zakat Performing Ratio averaged 0.099%, with values ranging from 0.001% to 0.259%, demonstrating differences in zakat performance among the observed BPRS. Although the percentages appear relatively small, the ratio uses net assets as its denominator and therefore should not be directly compared with the 2.5% zakat rate applied to zakatable assets. Within the IPI framework, zakat represents the external social responsibility of Islamic banks and their contribution to community welfare (Hameed et al., 2004). The variation found in this study may reflect differences in zakat calculation bases, payment policies, profitability, and disclosure practices. This result supports Mergaliyev et al. (2021), who argue that Islamic banking performance should incorporate social welfare and distributive justice rather than focus exclusively on financial or formal Sharia compliance. Fatmawati et al. (2022) similarly emphasize that Sharia governance depends on the interaction between formal structures, practitioner roles, and organizational practices. Theoretically, the study confirms the relevance of social

dimensions within IPI, while practically encouraging clearer zakat policies, disclosure, and monitoring.

The employee-to-director welfare ratio averaged 26.34%, ranging from 20.27% to 33.93%, with a relatively low standard deviation of 3.41 percentage points. The comparatively narrow variation indicates that remuneration structures among the sampled BPRS are more consistent than profit-sharing, zakat, or equitable-distribution outcomes. This finding supports the IPI perspective that employee and director welfare can serve as an indicator of internal distributive justice within Islamic financial institutions (Hameed et al., 2004). Nevertheless, the ratio alone cannot establish whether remuneration is objectively fair because it does not account for differences in managerial responsibility, employee tenure, organizational size, job position, or regional labor-market conditions. Thus, the finding extends previous IPI research by demonstrating that numerical consistency should not automatically be interpreted as substantive fairness. Fatmawati et al. (2022) emphasize that effective Sharia governance depends on organizational practices rather than formal structures alone. Theoretically, the result reinforces the stakeholder-oriented interpretation of IPI. Practically, boards and local-government shareholders should monitor remuneration gaps alongside organizational and labor-market characteristics.

In contrast to the relatively heterogeneous social and distributive indicators, the Islamic Investment Ratio averaged 99.823%, while the Islamic Income Ratio averaged 99.976%, with very limited variation across the 21 BPRS. These findings indicate a highly standardized level of compliance in investment placement and income generation. The results are consistent with Hameed et al. (2004), who identify Islamic investment and Islamic income as core dimensions of the Islamicity Performance Index. However, the findings also reveal an important difference from the more variable profit-sharing, zakat, equitable-distribution, and welfare indicators. Qoyum et al. (2022) caution that a strong sharia-compliant identity does not necessarily guarantee superior social and environmental performance. Similarly, Mergaliyev et al. (2021) argue that Islamic banking should be evaluated according to broader objectives of Sharia, including justice and stakeholder welfare. Fatmawati et al. (2022) further emphasize the importance of effective governance in translating formal Sharia structures into organizational practice. Theoretically, this study demonstrates that transaction-level compliance represents only one dimension of Islamic performance. Practically, BPRS should disclose and explain even minor non-Islamic investment and income items.

Overall, the findings demonstrate an asymmetric pattern of sharia-oriented performance: Islamic investment and income indicators are highly standardized, whereas profit sharing, zakat, equitable distribution, and welfare indicators show substantially greater variation. This pattern is broadly consistent with previous IPI studies, which report that Islamic banks may achieve strong halal-income performance while producing mixed social and distributive outcomes (Prasetyo et al., 2020). The study therefore contributes by demonstrating this asymmetry specifically within local-government-owned BPRS and by showing that public ownership does not automatically ensure balanced sharia-oriented performance. Theoretically, the findings strengthen the multidimensional interpretation of IPI and support institutional theory by showing that ownership and institutional context interact with managerial practices in shaping outcomes. Practically, OJK, Perbamide, and local-government shareholders should develop standardized reporting covering profit sharing, zakat, stakeholder distribution, remuneration, Islamic

investment, and Islamic income. Such reporting would improve comparability, accountability, and monitoring. Future research should employ panel data, canonical IPI measures, and ownership comparisons to identify determinants of these performance differences (Prasetyo et al., 2020; Wahyuni et al., 2023).

CONCLUSION

This study demonstrates that sharia-oriented performance among local government-owned BPRS in Indonesia is characterized by a clear distinction between highly standardized transaction-level compliance and more heterogeneous social and distributional outcomes. The most important insight is that near-perfect Islamic investment and income ratios, averaging 99.823% and 99.976%, respectively, should not be interpreted as evidence of uniformly strong overall Islamic performance, given the greater variation in profit sharing, zakat, equitable distribution, and employee welfare. The principal strength of this study lies in providing a transparent, disclosure-based assessment of 21 local-government-owned BPRS using multiple dimensions of the Islamicity Performance Index, thereby highlighting aspects that conventional financial measures may overlook. Nevertheless, the findings are constrained by the single-year cross-sectional design, dependence on publicly disclosed information, and the use of proxies for profit sharing and equitable distribution. Future research should employ longitudinal data spanning at least 3 to 5 years, apply canonical IPI measures, compare government-owned and privately owned BPRS, and use panel or inferential methods to identify the institutional, governance, and financial factors that explain differences in sharia-oriented performance.

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