

CHAPTER II CONCEPTUAL FRAMEWORK

A. Literature Review

Profitability is the company's ability to generate profits and operational efficiency and utilise its assets efficiently. Companies that are able to generate high profits show good company performance. This is because profitability is often used as a measure of company performance. Profit is the result of management policy. Therefore, company performance can be measured by profit. The company's ability to generate profit is called profitability.²⁴

Profitability is a percentage measure used to assess the extent to which a company is able to generate profits at an acceptable level. According to the theory put forward by Brealey, profitability measures focus on a company's profits. Of course, large companies are expected to generate more profits than small companies, so to facilitate cross-company comparisons, total profits are expressed on a dollar basis.²⁵ While the theory of profitability put forward by Irawati is a ratio used to measure the efficiency of the use of company assets or is the ability of a company to generate profits over a certain period (usually semiannual, quarterly and others) to see the company's ability to operate efficiently.²⁶

In addition to the profitability theory proposed by the figures above, there is also a trade off theory which explains that an increase in the debt ratio in the capital structure will increase the total value of the company by the tax rate multiplied by the amount of debt. The greater the access to sources of funds, the more available potential funds, the greater the possibility of taking profitable investment opportunities so that the profits

²⁴ Ade Gunawan, "Pengaruh Profitabilitas Dan Perputaran Aktiva Terhadap Struktur Modal", *Jurnal Manajemen & Bisnis*, Vol. 11, No. 1 (2017), p. 12–24.

²⁵ Lia Nirawati et al., "Profitabilitas dalam Perusahaan", *Jurnal Manajemen dan Bisnis*, Vol. 5, No. 1 (2022), p. 6–8.

²⁶ *Ibid.*

earned are greater and the company's performance increases. Capital structure policy involves a balance between risk and return. Using more debt means increasing the risk borne by shareholders and also increasing the expected rate of return. The higher risk is expected to increase the price of the stock. Therefore, the optimal capital structure should be a balance between risk and return that maximises the share price.²⁷

1. Sharia Banking

Banking is one of the foundational elements for improving economic progress and national stability aimed at enhancing the quality of life for the wider community. The most important function of banking in Indonesia is as an institution that collects and distributes funds to the public as supporting national development. Banks carry out their functions based on the principle of prudence to protect customer funds. Therefore, banks in Indonesia are expected to always be in a healthy, liquid and solvent condition. A healthy bank is a bank that is able to carry out its intermediary role properly, can help smooth the flow of payments, and can help carry out monetary policy together with the government.²⁸

The development of Islamic financial institutions informally began before the establishment of a formal legal framework for banking operations in Indonesia. Several non-bank financing business entities has been established before 1992 that applied the concept of profit sharing in their operational activities. This demonstrates the need of the community for financial institutions that can provide financial services

²⁷ Ade Gunawan, “Pengaruh Profitabilitas Dan Perputaran Aktiva Terhadap Struktur Modal”, *Jurnal Manajemen & Bisnis*, Vol. 11, No. 1 (2017), p. 12–24.

²⁸ Novia Dwi Astari, Dadang Hermawan, and Rosma Pakpahan, “Analisis Tingkat Kesehatan Bank Dengan Menggunakan Metode RGEC (Studi Kasus Pada PT Bank Mandiri (Persero), Tbk)”, *Indonesian Journal of Economics and Management*, Vol. 1, No. 3 (2021), p. 615.

in accordance with sharia. The needs of the community have been addressed with the realization of a sharia-compliant banking system.²⁹

The development of Islamic banking in Indonesia has been rapid. One of the unique and significant periods in the long series of Islamic banking development in Indonesia is the maturation of concepts and early pioneering that took place in the 90s. At that time there was only one Islamic commercial bank, Bank Muamalat Indonesia. As the first Islamic commercial bank in Indonesia, Bank Muamalat Indonesia became a pilot project and trademark of the revival and massive implementation of Islamic economic legal thinking in Indonesia.³⁰ Banks are entities that raise funds from the public in the form of financing or in another terms carry out the function of financial intermediation.³¹

Islamic banking is a banking system based on Islamic principles, where the emergence of this Islamic banking system is due to the prohibition of charging interest when lending money or capital, commonly referred to as usury.³² As explained in the Qur'an Surah Al-baqarah verse 279 :

فَإِنْ لَّمْ تَفْعَلُوا فَأْذَنُوا بِحَرْبٍ مِّنَ اللَّهِ وَرَسُولِهِ وَإِنْ تُبْتِغُوا فَلَئِنَّكُمْ رُءُوسُ أَمْوَالِكُمْ
لَا تَظْلُمُونَ
وَلَا تُظْلَمُونَ

²⁹ Satriak Guntoro et al., “Pengertian, Ruang Lingkup Perbankan, Latar Belakang, Prinsip dan Sejarah Perbankan Syariah di Indonesia”, *Jurnal Riset Indragiri*, Vol. 1, No. 3 (2023), p. 221.

³⁰ Andrew Shandy Utama, “Sejarah dan Perkembangan Regulasi Mengenai Perbankan Syariah dalam Sistem Hukum Nasional di Indonesia”, *Jurnal Wawasan Yuridika*, Vol. 2, No. 2 (2018), p. 196.

³¹ Delsa Eka Putri et al., “Analisis Kesehatan Perbankan Syariah Menggunakan Metode CAMEL (Studi Kasus pada Bank Victoria Syariah dan Bank Panin Dubai Syariah Tahun 2018-2022)”, *SAINS: Southeast Asia Journal of Business, Accounting, and Entrepreneurship*, Vol. 1, No. 1 (2023), p. 38.

³² Ahmad Rifai, Reynaldi Junus, and Asmaul Khusnah, “Analisis Tingkat Kesehatan Bank dengan Menggunakan Metode CAMEL Pada BNI Syariah, Bank Syariah Mandiri, dan Bank BRI Syariah Dalam Periode Tahunan Tahun 2020”, *Halal Research Journal*, Vol. 1, No. 2 (2021), p. 64.

“If you do not do so (leaving the remaining usury), then know that Allah and His Messenger will fight you, and if you repent (from taking usury), then to you shall be the substance of your wealth; you have neither wronged nor been wronged.”

According to the law on Islamic banking No. 21 of 2008 which explains that Islamic Banking is everything that concerns Islamic Banks and Islamic Business Units, including institutions, business activities, as well as ways and processes in carrying out their business activities. A Sharia People's Financing Bank is an Islamic Bank that does not provide services in payment traffic.³³

The growth of Islamic Banking is characterised by the emergence of creative products offered to the public. Introducing of new products is one marketing strategy to attract customers amid increasing competition in the banking sector. Therefore, all types of transactions in Islamic banking utilize sharia contracts. To assess whether a product has fulfilled sharia principles or not, one must pay attention to the contracts and various provisions used in the product. Many products in Islamic banking contain several contracts. For example, in Islamic credit card transactions there are *ijarah*, *qardh*, and *kafalah* contracts, Islamic bonds contain at least *mudharabah*, *musawamah*, *murabahah*, *ijarah* and *wakalah* contracts, and sometimes are also accompanied by *kafalah* contracts.³⁴

2. Islamic Commercial Bank (BUS)

Islamic Commercial Bank (BUS), are in general terms bank whose operations are adjusted to the principles of Islamic law. Currently, many terms refer to the Islamic Bank entity in addition to the term Islamic Bank itself, there are also Interest-Free Bank, Bank

³³ OJK, *UNDANG-UNDANG REPUBLIK INDONESIA NOMOR 21 TAHUN 2008 TENTANG PERBANKAN SYARIAH*, Vol. 3, No. 2 (2008), p. 54,

³⁴ Yosi Aryanti, “Multi Akad (Al-Uqud Al-Murakkabah) di Perbankan Syariah Perspektif Fiqh Muamalah”, *JURIS (Jurnal Ilmiah Syariah)*, Vol. 15, No. 2 (2017), p. 177.

Without Usury (Lariba Bank), and Shari'ah Bank (Shari'a Bank). As will be discussed later, in Indonesia technically juridical mention of Islamic Bank uses the official term "Bank Syari'ah", or which is technically called "Bank Based on Shari'ah Principles".³⁵

Islamic Banking encompasses everything related to Islamic Banks and Islamic Business Units, includes institutions, business activities, and the methods and processes in carrying out their business activities.³⁶ The main difference between sharia banks and conventional banks lies in their philosophical foundation adopted. Shariah banks do not implement an interest system, while conventional banks use an interest system. For sharia banks, the determination of prices or to seek profit is based on the principle of profit sharing. Sharia Bank is a bank that carries out its business activities based on Sharia Principles and according to its type consists of Sharia Commercial Banks and Sharia People's Financing Banks. Sharia Principles are the principles of Islamic law in banking activities based on fatwas issued by institutions that have the authority to determine fatwas in the field of sharia.³⁷

Although still relatively new in the banking sector, Islamic banks have advanced and developed amid intense competition. This competition will become tighter between conventional banks and Islamic banks. According to Bank Indonesia statistics until February 2024, the number of Branch Offices (KC) of Islamic Commercial Banks (BUS) has now reached 425 offices, while for Sub-Branch Offices (KCP) it has now reached 1583 offices consisting of 14 Islamic

³⁵ Aminoel Akbar Novi Maimory, "Sejarah Lahirnya Bank Syariah Serta Praktek di Dunia Perbankan", *Jurnal Pahlawan*, Vol. 1, No. 2 (2018), p. 15–16.

³⁶ Angrum Pratiwi, "Pengaruh Kualitas Penerapan Good Corporate Governance (GCG) terhadap Kinerja Keuangan pada Bank Umum Syariah di Indonesia (Periode 2010-2015)", *Al-Tijary* (2016), p. 62.

³⁷ Yenni Annor Vivin and Budi Wahono, "Analisis Perbandingan Kinerja Keuangan Bank Umum Syariah dengan Bank Umum Konvensional di Indonesia", *e-Jurnal Riset Manajemen* (2017), p. 20-21.

Commercial Banks (BUS).³⁸ This indicates that the development of Islamic Commercial Banks (BUS) in Indonesia is rapid and reflects a significant public interest in these institutions.



³⁸ Didin Rasyidin, "Financing to Deposit Ratio (FDR) Sebagai Salah Satu Penilaian Kesehatan Bank Umum Syariah (Study Kasus Pada Bank BJB Syariah Cabang Serang)", *ISLAMICONOMIC: Jurnal Ekonomi Islam*, Vol. 7, No. 1 (2016), p. 21.

Table 2 1. Data total of Islamic Commercial Bank offices in Indonesia

| No. | Kelompok Bank/Group of Banks |
|-----|--------------------------------------|
| 1. | PT. Bank Aceh Syariah |
| 2. | PT. BPD Riau Kepri Syariah |
| 3. | PT. BPD Nusa Tenggara Barat Syariah |
| 4. | PT. Bank Muamalat Indonesia |
| 5. | PT. Bank Victoria Syariah |
| 6. | PT. Bank Jabar Banten Syariah |
| 7. | PT. Bank Syariah Indonesia, Tbk. |
| 8. | PT. Bank Mega Syariah |
| 9. | PT. Bank Panin Dubai Syariah, Tbk. |
| 10. | PT. Bank Syariah Bukopin |
| 11. | PT. BCA Syariah |
| 12. | PT. Bank Tabungan Pensiunan Nasional |
| 13. | PT. Bank Aladin Syariah, Tbk. |
| 14. | PT. Bank Nano Syariah |

Source: OJK Islamic Banking Statistics Data

An Islamic Bank is a financial institution that provides credit and other services related to the payment and circulation of money, operating in accordance with sharia principles. Law Number 21 of 2008 Article 1 concerning Islamic Banking states that Islamic banks are those that conduct business activities based on sharia principles and according to their type consist of Islamic Commercial Banks (BUS) Sharia Business Units (UUS) and Islamic People's Financing Banks (BPRS).³⁹

Islamic banks are banks that run business activities based on sharia principles, which are regulated in the fatwa of the Indonesian Ulema Council. These principles include justice and balance ('adl wa tawazun), benefit (maslahah), universalism (alamiyah), and do not contain gharar, maysir, usury, zalim and haram objects. In addition, the Islamic Banking Law mandates that Islamic banks perform social functions by functioning like a baitul mal institution, which receives

³⁹ Arif Rachman Husein and Fatin Fadhilah Hasib, "Tingkat Kesehatan Bank : Analisa Perbandingan Pendekatan CAMELS Dan RGEC (Studi pada Bank Umum Syariah Tahun Periode 2012-2014)", *Jurnal Ekonomi Syariah Teori dan Terapan*, Vol. 3, No. 2 (2017), p. 99.

funds from zakat, infaq, sadaqah, grants, or other social funds and distributes them to waqf managers (nazhir) according to the will of the waqf giver (wakif).⁴⁰

3. Sharia Conformity and Profitability Index (SCnPI)

The measurement of the financial performance of Islamic Commercial Banks using the Sharia Conformity and Profitability method is based on two sets of the variable, the Sharia Conformity side is calculated using the ratio of Islamic investment, Islamic income, and profit sharing ratio. While Sharia Profitability is calculated using the ratio of ROA, ROE, and NPM. Both sides will get the results of the SCnPI graph which shows the financial performance of BUS from 2019-2023.⁴¹ Performance assessment in conventional and Islamic banking in Indonesia today is usually seen from the measurement of financial performance using the RGEC ratio (Risk Profile, Good Corporate Governance, Earning and Capital). If Islamic banking only uses the same measurements as conventional banking to measure its performance, there will be a mismatch in the value of using conventional banking performance indicators with a broader object contained in Islamic banking.⁴²

The basic differences in measuring financial performance using the Sharia Conformity and Profitability (SCnPI) Model are as follows ; First, the measurement of the Sharia Conformity and Profitability (SCnPI) method is more complex because it integrates two assessment orientations that cannot be separated, namely the sharia side of a bank

⁴⁰ Nardi Sunardi, "Kesehatan Bank Umum Syariah yang terdaftar di Otoritas Jasa Keuangan dengan metode Risk Based Bank Rating (RBBR)", *Jurnal SEKURITAS (Saham, Ekonomi, Keuangan dan Investasi)*, Vol. 3, No. 2 (2020), p. 132.

⁴¹ D. Gunawan, N. Nurlaila, et.al. , "Analisis Perbandingan Kinerja Keuangan Syariah antara Sharia Conformity and Profitability (SCNP) dan Syariah Maqashid Index pada Bank Umum Syariah ...", *Jurnal Mutiara Ilmu ...*, Vol. 1, No. 4 (2023), p. 293–294.

⁴² Evan Hamzah Muchtar and Mohammad Rofi, "Pengukuran Kinerja Keuangan Bank Muamalat Indonesia Dengan Metode Sharia Conformity and Profitability (SCnPI)", *Malia (Terakreditasi)*, Vol. 11, No. 2 (2020), p. 170-171.

and the financial side of the bank. Secondly, the incorporation of these two socio-economic orientations in Sharia Conformity and Profitability (SCnP) the results of this measurement are more effective. Therefore, measuring financial performance using the Sharia Conformity and Profitability (SCnP) Model can serve as an alternative approach to measuring the financial performance of Islamic commercial banks.⁴³

The performance measurement model formulated by Kuppusamy, Saleh, and Samudhram measures Islamic banking performance through two approaches (variables), namely sharia conformity variables and profitability variables. Kuppusamy et. al. argue that the measurement of Islamic banking performance should use a measuring tool that shows the sharia side of an Islamic bank, but does not ignore the conventional side, in this case profitability, this is because Islamic banks are also business institutions, with the objectives of generating profit.⁴⁴

Sharia conformity aims to evaluate the amount of activities that have been carried out by banks in their operational activities that align with the sharia system. In this context, the measurement focuses on the level of sharia investment, sharia income, and sharia profit sharing carried out by the Islamic bank.⁴⁵ Sharia conformity can be measured using three variables as follows :

⁴³ Risna Nur Azizah and Arief Widyananto, "Analisis Keuangan BPRS Al-Salaam Amal Salman Dengan Model Sharia Conformity and Profitability (SCnP) dan Teknik Dupont System", *MASLAHAH (Jurnal Hukum Islam dan Perbankan Syariah)*, Vol. 13, No. 1 (2022), p. 60.

⁴⁴ Lia Angraeni Prasetyowati and Luqman Hakim Handoko, "Pengukuran Kinerja Bank Umum Syariah dengan Maqasid Index dan Sharia Conformity And Profitability (SCNP)", *Jurnal Akuntansi dan Keuangan Islam*, Vol. 4, No. 2 (2019), p. 112-113.

⁴⁵ Sri Jayusma and Musfiari Haridhi, "Analisis Kinerja Keuangan PT. Bank Aceh Syariah Dengan Menggunakan Model Sharia COnformity and Profitability (SCnP) dan CAMEL", *Jurnal Ilmiah Mahasiswa Ekonomi Akuntansi*, Vol. 5, No. 3 (2020),p. 440-441.

1) **Sharia Investment**

An indicator that shows the percentage of investment made by banks in halal products. Islamic investment can be calculated using the following formula :

$$\text{Sharia Investment} : \frac{\text{Sharia Investment}}{\text{Total Investment}}$$

2) **Sharia Income**

An indicator that shows the percentage of halal income obtained compared to the total income earned by the bank. Shariah income can be calculated using the following formula :

$$\frac{\text{Halal Income}}{\text{Halal Income} + \text{Non Halal Income}}$$

3) **Profit Sharing Ratio**

An indicator that shows the extent to which the Islamic bank can share its profits with investors. The profit sharing ratio can be calculated using the following formula :

$$\frac{\text{Mudharabah and Musyarakah Financing}}{\text{Total Financing}}$$

Profitability indicators can be measured by 3 variables, namely Return on Asset (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) with the following details⁴⁶ :

1) **Return on Assets (ROA)**

A common indicator used to measure performance showing the ratio between average total assets, and income before and after tax, calculated using the following formula :

⁴⁶ Prasetyowati and Handoko, "Pengukuran Kinerja Bank Umum Syariah Dengan Maqasid Index Dan Sharia Conformity And Profitability (SCNP)".

$$\text{ROA} : \frac{\text{Profit After Tax}}{\text{Total Asset}}$$

2) Return on Equity (ROE)

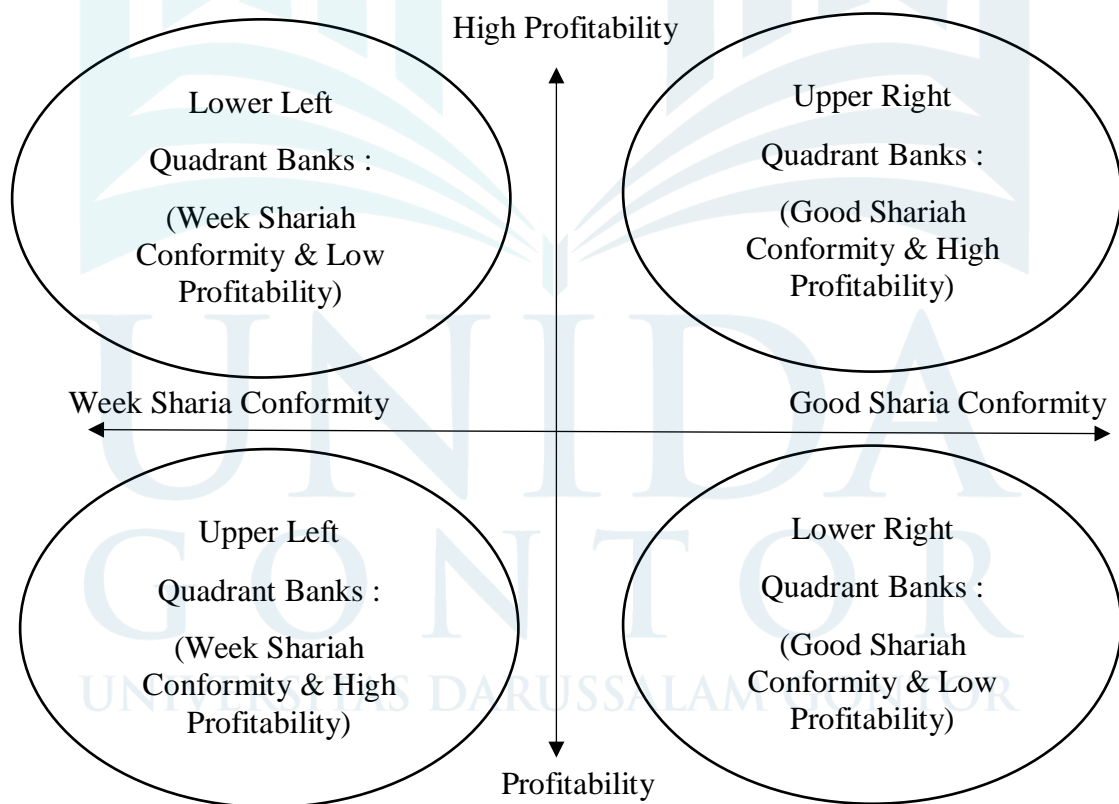
An indicator that divides net income by existing shareholder capital, calculated using the following formula :

$$\text{ROE} : \frac{\text{Profit After Tax}}{\text{Equity Capital}}$$

3) Net Profit Margin (NPM)

An indicator calculated by dividing profit by total operating income shown as a percentage of total operations, it can be calculated using the following formula :

$$\text{NPM} : \frac{\text{Profit After Tax}}{\text{Sale}}$$



Sumber : Kuppusamy et.al (2010)

Figure 2. 1 Sharia Conformity and Profitability Model

The SCnP graph is divided into four quadrants, namely, Upper Right Quadrant, Lower Right Quadrant, Upper Left Quadrant and Lower Left Quadrant. The right corner of the Upper Right Quadrant shows Islamic banks that have a high level of sharia compliance and profitability. While the lower right corner of the Lower Right Quadrant shows Islamic banks that have a high level of sharia compliance but have a low level of profitability. The upper left quadrant-Upper Left Quadrant shows Islamic banks that have a relatively low level of sharia compliance but have a high level of profitability. Meanwhile, the Lower Left Quadrant shows Islamic banks that have a lower level of sharia compliance and profitability⁴⁷.

4. Islamic Banking Performance

Performance can be interpreted as a measure of the success or failure of the company in carrying out its activities. The main purpose of performance appraisal is to evaluate how well employees are performing their tasks work compared to a certain standard, this information is then communicated back to the employees to motivate them to make improve and help the company achieve the vision and mission that has been set. So, bank performance is a description of the company's work performance or the company's work ability supported by management in operational activities carried out.⁴⁸

To determine the level of bank health performance, one can analyze its financial statements, by calculating financial ratios. Financial reports serve as a means of communication between existing financial data in a company and the activities of a company with interested

⁴⁷ A. Kuppusamy, M., Saleh, A. S., & Samudhram, "Measurement of Islamic Banks Performance Using a Shariah Conformity and Profitability Model.", *Review of Islamic Economics*, Vol. 13, No. 2 (2010), p. 20.

⁴⁸ Hamdani et al., "Faktor-faktor yang Mempengaruhi Kinerja Bank Umum Syariah yang Terdaftar di Bursa Efek Indonesia", *Jurnal Ekonomi dan Manajemen Teknologi*, Vol. 2, No.2 (2018), p. 55–109.

parties. The financial statements reveal the performance that the bank has achieved over a certain period. From these statements, the real condition of the bank will be read, including the weaknesses and strengths of the bank.⁴⁹

According to Bank Indonesia Circular Letter Number: 13/24/DPNP of 2011, the assessment of the health level of a bank is a qualitative assessment of various aspects that affect the condition or performance of a bank through an assessment of the level of health, Risk profile, Good Corporate Governance, Earnings, Capital.⁵⁰ The overall performance of the bank is a description of the achievements of the bank in its operations, both regarding aspects of marketing, finance, collection, and distribution of funds, as well as technology and human resources. The bank's financial performance is a description of the bank's financial condition over a specific period, both regarding aspects of raising funds and channeling funds, which are usually measured by indicators of capital adequacy, liquidity, and bank profitability.⁵¹

Realising the important role of banks, the health of banks must be maintained because banks manage public funds entrusted to banks. Public trust can be fostered by maintaining a level of bank health, to assess a bank's health it can be seen whether the bank is in a very healthy, healthy, quite healthy, less healthy, or unhealthy condition. According to the Financial Services Authority Regulation No. 4/POJK.03/2016 concerning Bank Health Level Assessment that 'bank health must be maintained or improved so that public confidence in banks can be

⁴⁹ A. Khairuddin and Achmad Achmad, "Analisis Kinerja Keuangan Bank Umum Syariah dengan Menggunakan Metode Rgec", *LISAN AL-HAL: Jurnal Pengembangan Pemikiran dan Kebudayaan*, Vol. 11, No. 2 (2017), p. 384-385.

⁵⁰ Rolia Wahasumiah and Khoiriyah Rahma Watie, "Metode Rgec : Penilaian Tingkat Kesehatan Bank pada Perusahaan Perbankan Syariah", *I-Finance: a Research Journal on Islamic Finance*, Vol. 4, No. 2 (2019), p. 172.

⁵¹ Umiyati Umiyati and Queenindya Permata Faly, "Pengukuran Kinerja Bank Syariah dengan Metode RGEC", *Jurnal Akuntansi dan Keuangan Islam*, Vol. 3, No. 2 (2019), p. 189.

maintained.⁵²Banks are required to uphold or enhance the level of bank health by applying the principles of prudence and risk management in carrying out business activities. Banking health must be maintained or improved so that public trust in banks is maintained. In addition, the level of bank health is used as one of the benchmarks in the health condition of the bank's financial performance and the problems faced by the bank it self.⁵³

The composite rating is the final evaluation of the bank's. This rating is determined based on a comprehensive and structured analysis of the rating of each factor that has been mentioned by taking into account the materiality and significance of each factor.⁵⁴ The composite rating is categorised into five sections as follows :

- a. Composite Rating 1 (PK-1) reflects that the Bank is classified as very good and is able to overcome the negative effects of economic conditions and the financial industry.
- b. Composite Rating 2 (PK-2), reflects that the Bank is classified as good and can manage the negative effects of economic and financial industry conditions, though it has minor weaknesses that can be immediately addressed by routine actions.
- c. Composite Rating 3 (PK-3), reflects that the Bank is classified as fairly good but there are some weaknesses may lead to deterioration of its rating if the Bank does not immediately take corrective action.
- d. Composite Rating 4 (PK-4), indicates that the Bank is classified as unsatisfactory and sensitive to the negative effects of economic

⁵² Pingkan Aprilia Maramis, "Analisis Tingkat Kesehatan Bank Dengan Metode Rgec (Risk Profile, Good Corporate Governance, Earning, Capital) pada Pt. Bank Mandiri (Persero) Periode 2015 - 2018", *Jurnal Pembangunan Ekonomi Dan Keuangan Daerah*, Vol. 20, No. 3 (2020), p. 1.

⁵³ Ririn Marliano and Yun Fitriano, "Analisis Tingkat Kesehatan Bank dengan Penerapan Metode RGEC (Risk Profile, Good Corporate Governance, Earnings and Capital) pada PT.Bank Bengkulu", *Management Insight*, Vol. 13, No. 2 (2019), p. 74.

⁵⁴ Arbelaez-cruce Shell, *Peraturan Bank Indonesia Nomor: 6/10/Pbi/2004 Tentang Sistem Penilaian Tingkat Kesehatan Bank Umum Gubernur* (2016), p. 1-23.

conditions and the financial industry or the Bank has serious financial weaknesses or a combination of unsatisfactory factors, which, without effective corrective action, could potentially experience difficulties that jeopardise its business continuity.

- e. Composite Rating 5 (PK-5), reflects that the Bank is classified as unfavourable and highly sensitive to the negative effects of economic and financial industry conditions and is experiencing difficulties that jeopardise its business continuity.

B. Previous Research

First, This research was conducted by Ahmad Fathoni, Najmuddin, and Kurnia Dwi Sari in his journal entitled '**Measuring the financial performance of Islamic people's financing banks in Indonesia through the Sharia Conformity and Profitability (SCnP) model approach in the 2018-2020 period**'. The results showed that there were only 11 Islamic People's Financing Banks that were included in quadrant 1, which means that the bank is performing well with a high level of sharia compliance and high profitability. There are 5 Sharia Islamic Rural Banks that are included in quadrant 2, namely banks that perform quite well with a high level of sharia compliance and low profitability.⁵⁵

Second, this research was conducted by Raja Ria Yusnita in her journal entitled "**Analysis of the performance of Islamic Commercial Banks (BUS) using the islamicity performance index approach for the period 2012-2016**". The results found that the overall Profit Sharing Ratio value of the average portion of profit-sharing financing has increased every year, the overall Zakat Performance Ratio value has decreased, the overall Equitable Distribution Ratio value is said to be not good enough, the overall Directors Employee Welfare Ratio value fluctuates every year, the overall

⁵⁵ Ahmad Fathoni, Najmudin Najmudin, and Kurnia Dwi Sari Utami, "Pengukuran Kinerja Keuangan Bank Pembiayaan Rakyat Syariah di Indonesia Melalui Pendekatan Shariah Conformity and Profitability (SCnP) Model Pada Periode 2018-2020", *Syi'ar Iqtishadi : Journal of Islamic Economics, Finance and Banking*, Vol. 5, No. 1 (2021), p. 93.

Islamic Investment versus Non-Islamic Investment value has increased in the last five years, the overall Islamic Income versus Non-Islamic Income value has increased in the last five years and overall 11 Islamic commercial banks in this study have implemented the Islamicity Performance Index.⁵⁶

Third, this research was conducted by Cicik Vestanika Mestara, Ustadus Solihin, and Zulfia Rahmawati in her journal entitled **“Analysis of bank health using the RGEC method at PT Bank Negara Indonesia Persero Tbk”**. The results of this study indicate that the Risk Profile as measured using NPL obtained results in 2017, 2018, and 2019 rank 1, which is very healthy, in 2020 and 2021 it is ranked 2, which is healthy. In Good Corporate Governance, it is stable for 5 years at rank 2, which is good. In earnings as measured using Return On Asset, the results obtained in 2017, 2018, and 2019 are ranked 1, which is very healthy, in 2020 it is ranked 3, which is quite healthy, and in 2021 it is ranked 2, which is healthy. In capital, which is measured using the Capital Adequacy Ratio, the results obtained in 2017, 2018, 2019, 2020, and 2021 are ranked 1, which is very healthy.⁵⁷

Fourth, this research was conducted by Aulia Octaviana and Fitra Indriawati in their journal entitled **“Risk, Governance, Earnings, Capital (RGEC) Method and Maqashid Sharia Index (MSI): The Soundness Level Of Islamic Banks In Indonesia”**. This study proves that the health of banks as measured by the RGEC method shows a different rank order from the Maqashid Sharia Index method. The ranking order of bank health based on RGEC is BCAS, BMS, BNIS, BRIS, BSM and BMI while based on Maqashid Sharia Index (MSI) the ranking order from first to last is BCAS, BMI, BRIS, BNIS, BSM and BMS. Both methods can be used

⁵⁶ Raja Ria Yusnita, “Analisis Kinerja Bank Umum Syariah dengan Menggunakan Pendekatan Islamicity Performance Index Periode Tahun 2012-2016”, *Jurnal Tabarru’: Islamic Banking and Finance*, Vol. 2, No. 1 (2019), p. 12–25.

⁵⁷ Cicik Vistanika, Ustadus Sholihin, and Zulfia Rahmawati, “Analisis Kesehatan Bank dengan Menggunakan Metode RGEC Pada Pt. Bank Negara Indonesia Persero Tbk”, *Jurnal Ilmiah Mahasiswa*, Vol. 1, No. 5 (2023), p. 96.

simultaneously to assess the health level of Islamic banking because both methods can complement each other to get a more comprehensive assessment.⁵⁸

Fifth, this research was conducted by Nisa Noor Wahid, Irman Firmansyah, and Adil Ridlo Fadillah in their journal entitled “**Analysis of Maqashid Sharia Index (MSI) Islamic bank performance and profitability**”. The results of this study indicate that the bank that has the best maqashid sharia performance is Bank Panin Syariah while the bank that has the best financial performance is Bank Mega Syariah. The banks that have good maqashid sharia performance and good financial performance are Bank Muamalat, BRI Syariah, Panin Syariah, Bank Syariah Bukopin and BCA Syariah.⁵⁹

Sixth, this research was conducted by Finna Dewi Pratiwi, Ali Farhan, and Resha Dwi Ayu Pangesti Mulyono in their research journal entitled “**Assessing Sharia Banking Commitment through the Shariah Maqashid Index**”. The results of the research in this article show that the performance of Islamic banking samples has not fulfilled the sharia function/sharia objectives of the existence of Islamic banks themselves, this shows that Islamic banks do not have a strong commitment to enforce sharia in muammalah (business). This shows that Islamic banks do not have a strong commitment to upholding sharia in muammalah (business).⁶⁰

Seventh, this research was conducted by Ali Farhan, and Resha Dwi Ayu Pangesti Mulyono in his journal entitled “**Assessing the Performance of Islamic Banks Using the Sharia Conformity and Profitability (SCNP)**”

⁵⁸ Aulia D and Fitri Indriawati, *Risk, Governance, Earnings, Capital (Rgec) Method And Maqashid Sharia Index (Msi) : The Soundness Level Of Islamic Banks In Indonesia*, No. 2 (2020).

⁵⁹ Nisa Noor Wahid, Irman Firmansyah, and Adil Ridlo Fadillah, “Analisis Kinerja Bank Syariah dengan Maqashid Syariah Index (Msi) dan Profitabilitas”, *Jurnal Akuntansi*, Vol. 13, No. 1 (2019), p. 1–9.

⁶⁰ Finna Dewi Pratiwi, Ali Farhan, and Resha Dwi Ayu Pangesti Mulyono, “Assessing Sharia Banking Commitment through the Shariah Maqashid Index”, *International Journal of Current Science Research and Review*, Vol. 06, No. 04 (2023), p. 2257–64.

Model and the Sharia Maqashid Index (SMI) in Islamic Commercial Banks in Indonesia for the 2012-2020 Period”. The results showed that, using the Sharia Maqashid Index, the Islamic banks sampled showed unsatisfactory performance, because of the three work indicators, only the mashlahah performance indicator was optimally fulfilled. Meanwhile, using the Sharia Conformity Index method, five out of six Islamic banks are in quadrant 3 (Upper Right Quadrant).⁶¹

Eighth, this research was conducted by Zenubia Maulida Fitria and Sulhani in their journal entitled **“Sharia conformity and profitability: Does ethical identity affect Islamic banks?”**. The results showed that the ethical identity index affects shariah conformity and profitability, but company size has no effect on shariah conformity and profitability performance. The implication of this research is that Islamic banking is expected to increase Islamic ethical identity through disclosure in the financial statements.⁶²

Ninth, this research was conducted by Aam Slamet Rusyidana, and Mohammad Mahbubi Ali in his journal entitled **“The Application of Maqasid Shariah on Banking Industry”**. The results showed that the number of publications regarding the development of the role of maqashid sharia research in the banking industry has increased significantly. The results also show that the most common type of document is a journal article. International Journal of Analytic Hierarchy Process, Intellectual Discourse and 2nd International Symposium on Technology Management and Emerging Technologies, ISTMET 2015 - Proceedings are the journals that occupy the top position. The most famous author is Amin H, and the

⁶¹ Ali Farhan, “Assessing the Performance of Islamic Banks Using the Sharia Conformity and Profitability (SCNP) Model and the Sharia Maqashid Index (SMI) in Islamic Commercial Banks in Indonesia for the 2012-2020 Period”, *International Journal of Current Science Research and Review*, Vol. 05, No. 12 (2022), p. 4752–9.

⁶² Zenubia Maulida Fitria and Sulhani Sulhani, “Shariah Conformity dan Profitability: Apakah Ethical Identity Berpengaruh di Bank Syariah?”, *Jurnal Akuntansi Dan Keuangan Islam*, Vol. 9, No. 2 (2021), p. 113–29.

most popular keyword topic is Islamic banking. Then, the research cluster is based on the topic of maqashid in banking, including Islamic banking, Islamic banking performance evaluation, CSR in Islamic Banking and Finance, and Maqashid Syariah in Islamic banking.⁶³

Tenth, this research was conducted by Tri Puji Astuti, and Ubaidillah in his journal entitled “**Financial Performance Measurement Analysis of Shariah Commercial Banks in Indonesia Using Risk Based Bank Rating (RBBR) and Shariah Conformity and Profitability (SCnP) Methods**”. The results showed that using the Risk-Based Bank Rating (RBBR) method, Islamic Commercial Banks are in a ‘Healthy’ or ‘Good’ condition. While the analysis using the Shariah Conformity and Profitability (SCnP) method, shows that Islamic Commercial Banks are spread across three quadrants, namely URQ, LRQ, and ULQ.⁶⁴

Eleventh, this research was conducted by Ditha Khiswaradewi, and Agus Eko Sujianto in his journal entitled “**Assesment of Bank Health Level Using RGEC Method and its Impact on Islamic Financial Distress**”. The results of this study indicate that the health level of Islamic commercial banks in 2013-2020 in terms of NPF is very healthy, and FDR is quite healthy. Meanwhile, GCG is in the good (healthy) category. Regarding ROA has decreased, so that Islamic banks ability to generate profits has decreased. Meanwhile, the CAR level has increased to a very healthy category. very healthy category. Partially NPF, GCG, and ROA have a significant negative effect on Financial Distress.⁶⁵

⁶³ Aam Slamet Rusydiana and Mohammad Mahbubi Ali, “The Application of Maqasid Shariah on Banking Industry”, *Maqasid al-Shariah Review*, Vol. 1, No. 1 (2022).

⁶⁴ Ubaidillah and Tri Puji Astuti, “Analisis Kinerja Keuangan Bank Syariah Menggunakan Sharia Conformity and Profitability (SCnP)”, *AT-TIJARAH: Jurnal Penelitian Keuangan dan Perbankan Syariah*, Vol. 2, No. 2 (2020), p. 134–58.

⁶⁵ Ditha Khiswaradewi et al., “Assessment of Bank Health Level Using RGEC Method and Its Impact on Islamic Financial Distress”, *International Journal of Social Health*, Vol. 2, No. 6 (2023), p.76.

Twelfth, this research was conducted by Asma Amar in her journal entitled **“Performance assessment of Islamic banks in the light of maqashid al-shariah: a global evidence”**. The results of this 5-year study show that Meezan Bank in Pakistan scored the highest, while Dubai Islamic Bank scored the lowest. Furthermore, when comparing the performance of the sampled Islamic banks across the five objectives, we found that they scored lowest in the intellectual objective due to their failure to disclose the required information in their annual reports.⁶⁶

Thirteenth, this research was conducted by Delsa Eka Putri, and Inun Sari in her journal entitled **“Analysis of Islamic Banking Health Using the CAMEL Method (Case Study at Bank Victoria Syariah and Bank Panin Dubai Syariah 2018-2022)”**. The results of this study BVIS showed fairly stable fluctuations but at a relatively low level in factors such as NPM and CAR, with drastic spikes especially in CAR in 2022. Meanwhile, PNBS experienced more extreme fluctuations, but showed significant improvements especially in the factors of BOPO, NPF, and ROA in 2022.⁶⁷

Fourteenth, this research was conducted by Rilanda Adzhani and Rini in their journal entitled **“Comparison of Islamic banking performance in Asia with maqashid syariah approach”**. The results of this study indicate that the value of MI, the second sharia objective called upholding justice, and the third sharia objective called public interest in Islamic banking in Indonesia does not show significant differences with Islamic banking in Malaysia, Iran, Saudi Arabia, United Arab Emirates, Kuwait, and Qatar.⁶⁸

⁶⁶ Asma Ammar, “Performance Assessment of Islamic Banks in the Light of Maqasid Al-Shariah: a Global Evidence”, *International Journal of Islamic Banking and Finance Research*, Vol. 11, No. 2 (2023), p. 20–31.

⁶⁷ Putri et al., “Analisis Kesehatan Perbankan Syariah Menggunakan Metode CAMEL (Studi Kasus Pada Bank Victoria Syariah dan Bank Panin Dubai Syariah Tahun 2018-2022)”.

⁶⁸ Rilanda Adzhani and Rini Rini, “Komparasi Kinerja Perbankan Syariah Di ASIA Dengan Pendekatan Maqasid Syariah”, *Jurnal Akuntansi Dan Keuangan Islam*, Vol. 5, No. 1 (2019), p. 5–30.

Fifteenth, this research was conducted by Ali Rama in his research journal entitled “**Descriptive analysis of Islamic banking development in Southeast Asia**”. The results of the study found that there are differences in the regulatory framework in each Southeast Asian country related to the regulation of Islamic financial institutions. This regulatory gap is certainly a challenge in creating an Islamic financial integration system as part of the ASEAN economic integration programme.⁶⁹

The basic difference between previous research and this research is in the methods used, in previous studies there were still those that combined the Sharia Conformity and Profitability Index (SCnP) method with other conventional methods such as Risk, Governance, Earnings, and Capital (RGEC) or the CAMEL method. However, in this study the method used only focuses on one method that combines sharia methods and conventional methods, namely the SCnP method. This study also assesses the level of bank health through two points, namely profitability and capital. The indicator of profitability that is the source of data is Return on Asset (ROA). The value of ROA is obtained by knowing the profit before tax first and then divided by the average total assets. While the capital indicator is the capital adequacy ratio provided to anticipate risk or known as CAR.

The indicators that become benchmarks in the SCnPI model are Islamic investment, Islamic income, profit sharing, ROA, ROE, and Profit Margin. However, to make the results of this study more different than other studies, the authors added one ratio to the profitability aspect of CAR. So that there are seven ratios that become benchmarks in analysing the financial performance of Islamic Commercial Banks (BUS). Then the difference is also in the banking data taken, in this study researchers have used the latest data released by the financial services authority (OJK), namely by using a population of 14 Islamic banks in Indonesia.

⁶⁹ Nurfina Rofi'ah, “Analisis Deskriptif Perkembangan Perbankan Syariah di Asia Tenggara (2004-2016)”, *the Journal of Tauhidinomics*, Vol. 1, No. 2 (2017), p. 105–23.

C. Research Framework

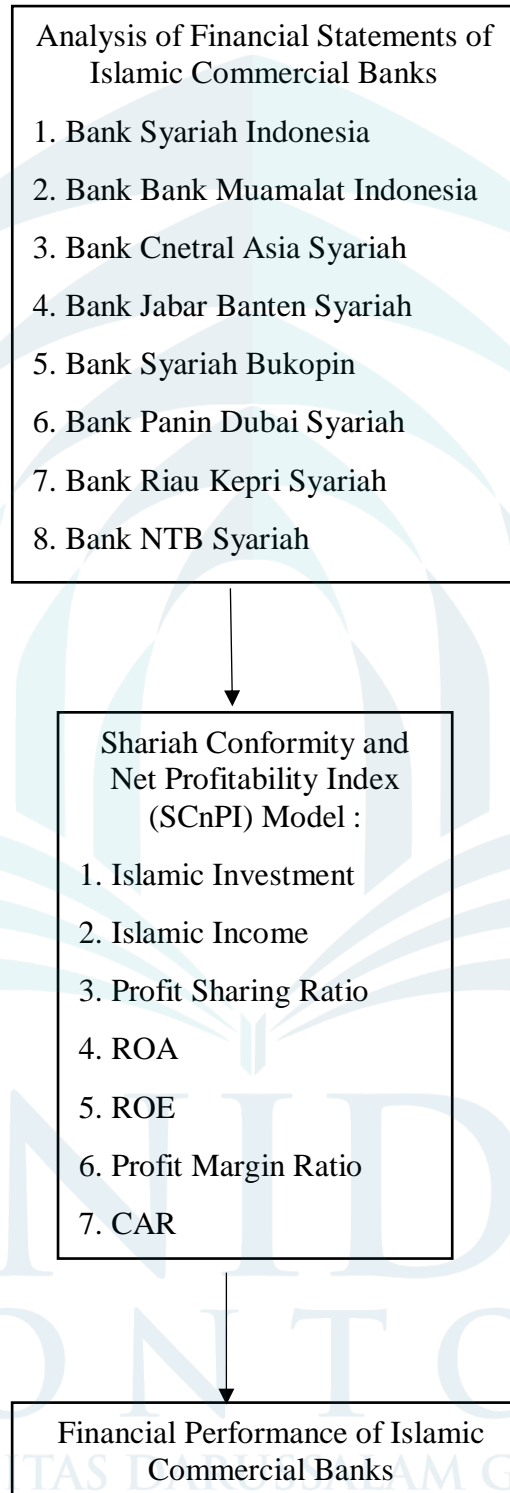


Figure 2. 2 Flow of The Research Framework