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Research Articles

The Pandemic and Performance Index : Accounting Reflections on Islamicity in Dual Nation Islamic Banking

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Abstract: This longitudinal comparative study investigates the ethical resilience of Islamic banks in Indonesia and Malaysia before and during the COVID-19 pandemic using the Islamicity Performance Index (IPI). Five performance dimensions, Profit Sharing Ratio (PSR), *Zakat* Performance Ratio (ZPR), Equitable Distribution Ratio (EDR), Islamic Investment Ratio (IIR), and Islamic Income Ratio (ISIR), are assessed to reflect the operationalisation of *Maqasid al-Shariah* values within Islamic financial institutions. Employing non-parametric *Mann Whitney* tests on annual report data from 11 Islamic banks over the 2017–2022 period, the study reveals statistically significant differences in PSR, IIR, and ISIR across the two timeframes and between countries, indicating varied institutional responses to ethical finance during crisis conditions. In contrast, ZPR and EDR remain statistically stable, suggesting limited change in social distribution and wealth justice mechanisms. These findings underscore the need to reevaluate the practical integration of Islamic ethical principles into crisis governance models and affirm the relevance of multidimensional Shariah-aligned metrics in evaluating financial integrity beyond profitability.

Keywords: COVID-19, Islamic Bank, Islamicity Performance Index, Maqasid al-Shariah

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1. Introduction

The multidimensional crisis triggered by the COVID-19 pandemic has profoundly disrupted the stability of the global financial system. Its impact has extended beyond macroeconomic indicators, such as GDP growth and unemployment rates, to the core functionality of the financial sector, particularly banking. According to the (World Bank, 2021), numerous countries experienced severe economic contraction, with financial institutions facing escalating risks in liquidity, non-performing loans, and deteriorating social performance. Amidst this turbulence, Islamic financial institutions, especially those operating in Southeast Asia, including Indonesia and Malaysia, have attracted renewed attention due to their foundational ethos rooted in ethics, justice, and social welfare, which are often regarded as inherently resilient during systemic shocks [2].

At the domestic level, Islamic banks in both Indonesia and Malaysia recorded steady growth in assets and market share in the pre-pandemic period [3]. However, the crisis posed significant challenges to the operationalisation of *shariah* principles in real business practices. The Financial Services Authority of Indonesia [4] reported a decline in the profitability ratios of Islamic banks during the pandemic, while AIBIM (2023) underscored the urgent need to strengthen social integrity and governance aligned with *Maqasid al-Shariah*. These dynamics underscore the necessity of reassessing whether the ethical and social dimensions of Islamic banking are genuinely reflected in institutional responses to crises [6].

In this context, the Islamicity Performance Index (IPI) emerges as a critical evaluative framework to assess the extent to which Islamic banks operationalise Islamic values across multiple domains: economic justice, legal integrity, political rights, and philanthropy [7]. Unlike traditional financial performance metrics, the IPI facilitates a holistic appraisal that aligns with the ethical aspirations of the Islamic economic system (Zain et al., 2025). Accordingly, this study seeks to compare the IPI scores of Islamic banks in Indonesia and Malaysia before and during the COVID-19 crisis, thereby providing a nuanced assessment of their ethical and social resilience [9].

A growing body of literature has explored the application of *Maqasid al-Shariah* in Islamic banking, including the development of the *Maqasid* based Performance Evaluation Model (MPEM) by Muhammad et al. (2021) and the emphasis on socio-economic justice by Mohamad (2020) Nonetheless, cross-country comparative studies remain sparse, and only a limited number of empirical investigations have adopted the Islamicity Index as an analytical lens. Even among those, such as Prikshat et al. (2023), the majority adopt cross-sectional designs and rarely engage with longitudinal dynamics, particularly in crisis contexts.

Despite the significant evolution of literature on Islamic banking performance measurement, the majority of studies remain centred on conventional financial indicators or normative interpretations of *Maqasid al-Shariah* [13]. The Islamicity Performance Index (IPI), which offers a multidimensional framework incorporating Islamic economic principles, social justice, governance, and accountability, has yet to be widely utilised in empirical studies within Islamic banking [14]. In particular, its application in cross-country comparisons and temporal analyses, especially as a tool to assess the resilience of *shariah* values amid global disruptions such as the COVID-19 pandemic, remains conspicuously limited [15].

Most existing studies employing the IPI have adopted cross-sectional approaches, neglecting the role of crisis contexts as moderating variables or critical conditions that may reshape institutional performance [16]. Moreover, there is currently no methodological consensus on how to track changes across the various dimensions of the IPI in a longitudinal fashion, particularly when dealing with Islamic banks operating under distinct regulatory frameworks, varying degrees of industry maturity, and differing national interpretations of *Maqasid al-Shariah* [17]. Yet, the pandemic offers a unique natural experiment to empirically examine the consistency and integrity of Islamic values within financial institutions subjected to market shocks, heightened credit risks, and mounting socio-economic demands [18].

This study seeks to comparatively analyse the Islamicity Performance Index of Islamic banks in Indonesia and Malaysia across two key time periods, before and during the COVID-19 pandemic, in order to evaluate institutional responses through the lens of Islamic ethical values. The originality of this research lies in three principal contributions: (1) the adoption of IPI as a comprehensive, multidimensional performance metric in a longitudinal evaluation context; (2) a cross-national comparative design that incorporates the heterogeneity of *shariah* governance systems and national financial architectures; and (3) a theoretical contribution to the discourse on Shariah-based ethical resilience in times of systemic crisis.

The urgency of this research is both strategic and theoretical. Strategically, the findings are expected to inform financial regulators and policymakers in designing more responsive and socially attuned performance indicators for Islamic financial institutions. Theoretically, this study contributes to expanding the epistemological scope of Islamic finance by proposing a value-based measurement framework that bridges the normative aspirations of *Maqasid al-Shariah* with the institutional realities of crisis management. As such, this inquiry is not only empirically relevant but also critically significant in advancing the integration of Islamic values with the structural resilience of the contemporary financial system.

2. Literature Review

Maqashid al-Shariah Theory

The *Maqashid al-Shariah*, literally meaning the objectives of Islamic law, constitute a foundational theoretical framework in Islamic jurisprudence that seeks to preserve and promote five essential values: religion (*din*), life (*nafs*), intellect (*'aql*), progeny (*nasl*), and wealth (*mal*) [19]. In contemporary Islamic economics and finance, these objectives are often operationalised as a normative compass for aligning institutional practices with ethical and societal welfare goals [20]. As a grounded theory, *Maqasid al-Shariah* does not merely prescribe legal compliance, but aspires to achieve holistic well-being, justice, and human dignity through economic interactions [21]. Within this study, the *Maqasid al-Shariah* framework underpins the Islamicity Performance Index, which integrates ethical dimensions such as social justice, good governance, and philanthropic responsibility, making it a natural extension of Islamic value systems into the domain of banking performance [22]. By assessing the performance of Islamic banks during the COVID-19 pandemic through the lens of IPI, this research aligns with the theoretical spirit of *Maqasid al-Shariah*, interrogating not just financial sustainability but also the resilience of ethical commitments in the face of crisis.

Hypothesis Development

Profit Sharing Ratio (PSR) reflects how effectively Islamic banks implement profit-and-loss sharing via *mudharabah* and *musharakah* financing (Yustiardhi et al., 2020). Solikhin (2024) found significant differences in PSR among Islamic banks in Indonesia, Malaysia, and Brunei, suggesting varied application of risk-sharing. Hence, this study proposes:

H1: Islamic banks in Indonesia and Malaysia show significant differences in PSR performance before and during the COVID-19 pandemic.

Zakat Performance Ratio (ZPR) measures the amount of *zakat* paid by Islamic banks relative to their total assets, reflecting their commitment to Islamic social finance and serving as an alternative to traditional earnings metrics [25]. Larger asset bases generally correspond to higher *zakat* contributions, indicating stronger adherence to shariah principles Bin-Nashwan et al. (2021). Rahayu & Septiarini (2019) found notable differences in ZPR among Islamic banks in Indonesia, Malaysia, Brunei, and Thailand. Accordingly, this study hypothesises:

H2: There is a significant difference in zakat compliance of Islamic banks in Indonesia and Malaysia before and during the COVID-19 pandemic, as measured by the *Zakat* Performance Ratio (ZPR).

Equitable Distribution Ratio (EDR) evaluates how fairly Islamic banks distribute income to stakeholders, including shareholders, employees, and the community, relative to net income after *zakat* and taxes [28]. This metric reflects the *Maqasid al-Shariah* principle of distributive justice. Rahayu & Septiarini (2019) identified significant differences in income distribution practices among Islamic banks across Southeast Asia. Consequently, this study proposes:

H3: A significant difference exists in the equitable income distribution of Islamic banks in Indonesia and Malaysia before and during the COVID-19 pandemic, as measured by the Equitable Distribution Ratio (EDR).

Islamic Investment Ratio (IIR) measures the share of *shariah*-compliant investments relative to the bank's total investment portfolio, reflecting its commitment to ethical finance and avoidance of prohibited activities [29]. Randeree (2020) found significant variations in halal investment adherence across different countries. Accordingly, this study hypothesises:

H4: Islamic banks in Indonesia and Malaysia demonstrate significant differences in shariah-compliant investment practices before and during the COVID-19 pandemic, as indicated by the Islamic vs Non-Islamic Investment Ratio (IIR).

Islamic Income Ratio (ISIR) measures the proportion of income derived from *halal*-compliant activities, indicating the bank's commitment to avoiding impermissible sources such as interest or non-*shariah* instruments [31]. It serves as a critical measure of ethical financial integrity and adherence to Islamic jurisprudence. Noordin & Kassim (2019) revealed significant variations in *halal* income composition among Southeast Asian Islamic banks. Consequently, this study posits:

H5: There is a significant difference in the *halal* income share of Islamic banks in Indonesia and Malaysia before and during the COVID-19 pandemic, as reflected by the Islamic vs Non-Islamic Income Ratio (ISIR).

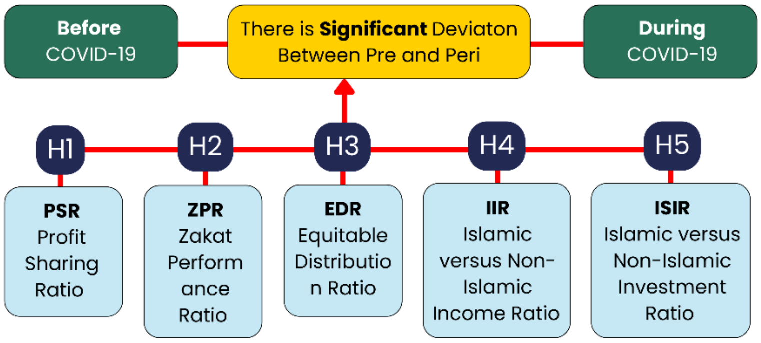

Figure 1. Theoritical Framework
Source: Research Data (2025)

The diagram (see Figure 1) presents a hypothesis-driven framework assessing significant deviations in five Islamic financial performance ratios—PSR, ZPR, EDR, IIR, and ISIR, across the pre- and during-COVID-19 periods. Central to the framework is the proposition that the pandemic induced a statistically significant shift in these *shariah*-compliant indicators, reflecting structural disruptions in ethical financial practices. Each hypothesis (H1–H5) investigates how specific dimensions, ranging from profit-sharing mechanisms and *zakat* efficiency to equitable distribution, income sources, and investment compliance, were affected during this exogenous shock. This approach integrates temporal comparison with normative Islamic finance principles, highlighting the pandemic's implications not only for financial stability but also for the socio-ethical performance of Islamic financial institutions.

3. Proposed Method

This study adopts a quantitative approach to ensure adherence to core principles of scientific research, objectivity, quantifiability, logical consistency, and methodological strictness, as emphasized by Agung & Yuesti (2019). The analysis is based on secondary data sourced from the annual reports of Islamic Banks in Indonesia and Malaysia, providing the empirical basis for this investigation. Building on this robust methodological foundation, the study focuses on five key variables within the Islamicity Performance Index that collectively capture the ethical and social dimensions underpinning the performance of Islamic banks.

Grounded in the principles of *Maqasid al-Shariah*, these indicators offer a nuanced lens through which the operationalisation of Islamic values, ranging from profit-sharing practices to equitable income distribution and adherence to halal investment criteria, can be systematically evaluated. Profit Sharing Ratio assesses the extent to which banks prioritise profit-and-loss sharing mechanisms over debt-based financing, embodying the ideals of justice and partnership [34]. *Zakat* Performance Ratio reflects the institution's dedication to fulfilling social obligations through proportionate *zakat* disbursement relative to earnings [35]. Equitable Distribution Ratio evaluates the fairness of income allocation among shareholders, employees, and the wider community [27]. Meanwhile, Islamic versus Non-Islamic Investment Ratio represents the alignment of the bank's investment portfolio with *halal* principles, and Islamic versus Non-Islamic Income Ratio indicates the share of revenue derived from *shariah*-compliant activities [36]. Collectively, these variables provide a comprehensive portrayal of the practical integration of Islamic values within the operational framework of Islamic banking institutions.

A purposive sampling technique was utilised to delineate the study population (registered in authoritative institutions and always publicated annual report each December 31th), culminating in a final sample of 11 Islamic Banks tracked over an six-year period spanning 2017 to 2022. The analytical technique employed in this study is a comparative approach, contrasting Islamic banking performance data from pre-pandemic and pandemic periods. This methodology is utilising mean values of data across both periods or ordinal data to underpin the analysis. Data processing and examination are conducted through specialised statistical software, ensuring precision and reliability in the findings.

4. Results and Discussion

Descriptive Statistics

Descriptive statistics within the framework of the Islamicity Performance Index serve to provide a concise summary of Islamic banks' performance based on key indicators such as the PSR, ZPR, EDR, IIR, and ISIR. Utilizing measures like mean, median, and standard deviation, this statistical approach facilitates the depiction of patterns, variability, and data characteristics prior to conducting more advanced analyses.

Table 1. Descriptive Statistics of the Islamicity Performance Index Approach

Indicators	Nations	Min	Max	Mean	Std. Deviation	Condition
PSR	Indonesia	0	1	0.45	0.522	Pre COVID-19
	Malaysia	0	50	12.36	13.916	
ZPR	Indonesia	0	0	0.00	0.000	
	Malaysia	0	8	0.73	2.412	
EDR	Indonesia	0	1	0.27	0.467	
	Malaysia	39	285	83.36	69.578	
IIR	Indonesia	1	1	1.00	0.000	
	Malaysia	9	76	41.64	20.877	
ISIR	Indonesia	1	1	1.00	0.000	
	Malaysia	51	100	70.27	17.053	
PSR	Indonesia	0	1	0.64	0.505	Peri COVID-19
	Malaysia	0	60	10.73	17.048	
ZPR	Indonesia	0	0	0.00	0.000	
	Malaysia	0	2	0.18	0.603	
EDR	Indonesia	0	3	0.64	0.924	
	Malaysia	-7	164	70.91	46.768	
IIR	Indonesia	1	1	1.00	0.000	
	Malaysia	1	100	39.45	33.104	
ISIR	Indonesia	1	1	1.00	0.000	
	Malaysia	44	99	64.45	17.328	

Source: Data Research (2025)

Table 1 above presents the descriptive statistics of the Islamicity Performance Index across Indonesia and Malaysia, segmented into pre- and peri-COVID-19 periods. In the pre-COVID-19 period, Malaysia consistently exhibited higher means and greater variability across most indicators, such as PSR, ZPR, EDR, and ISIR, indicating broader performance dispersion compared to Indonesia. Notably, Indonesia maintained perfect scores in IIR and ISIR with no variation, suggesting consistent adherence to Islamic investment and social responsibility standards. During the peri-COVID-19 period, Malaysia's scores generally declined slightly, while Indonesia showed marginal improvements in PSR and EDR. This suggests that Indonesia's Islamic banking sector demonstrated resilience during the pandemic, maintaining consistent performance, whereas Malaysia experienced slight disruptions, especially visible in the increased standard deviations.

Normality Test

Normality test is a statistical procedure used to determine whether a dataset follows a normal distribution, also known as a Gaussian distribution. This is essential because many statistical methods, particularly parametric tests (like t-tests, ANOVA, or regression), assume that the data are normally distributed. Based on Table 2, the significance (p-value) for all ratios under the Islamicity Performance Index framework falls below the 0.05 threshold, indicating that none of the variables exhibit a normal distribution. Consequently, subsequent statistical testing is conducted using non-parametric methods to ensure analytical rigour and validity.

Table 2. Normality Test Results

Indicators and Nations		*Shapiro-Wilk*			Results
		Statistic	**df**	**Sig.**	
PSR Pre COVID-19	Indonesia	0.649	11	0.000	Abnormal
	Malaysia	0.755	11	0.002	
PSR Peri COVID-19	Indonesia	0.625	11	0.000	Abnormal
	Malaysia	0.599	11	0.000	
ZPR Pre COVID-19	Indonesia	0.000	11	0.000	Abnormal
	Malaysia	0.345	11	0.000	
ZPR Peri COVID-19	Indonesia	0.000	11	0.000	Abnormal
	Malaysia	0.345	11	0.000	
EDR Pre COVID-19	Indonesia	0.572	11	0.000	Abnormal
	Malaysia	0.599	11	0.000	
EDR Peri COVID-19	Indonesia	0.703	11	0.001	Abnormal
	Malaysia	0.942	11	0.550	
IIR Pre COVID-19	Indonesia	0.000	11	0.000	Abnormal
	Malaysia	0.956	11	0.721	
IIR Peri COVID-19	Indonesia	0.000	11	0.000	Abnormal
	Malaysia	0.928	11	0.391	
ISIR Pre COVID-19	Indonesia	0.311	11	0.000	Abnormal
	Malaysia	0.911	11	0.252	
ISIR Peri COVID-19	Indonesia	0.462	11	0.000	Abnormal
	Malaysia	0.818	11	0.016	

Source: Data Research (2025)

Table 2 displays the *Shapiro-Wilk* normality test results for Islamicity Performance Index indicators in Indonesia and Malaysia across pre- and peri-COVID-19 periods. The significance (Sig.) values for all indicators in both countries are below 0.05, except for Malaysia's IIR Pre COVID-19 and ISIR Pre COVID-19, indicating that most data distributions deviate significantly from normality. Therefore, the majority of the results are categorized as "Abnormal," suggesting that non-parametric statistical methods may be more appropriate for analyzing these datasets due to the lack of normal distribution across the variables tested.

Hypothesis Testing – *Mann Whitney* Test

The *Mann Whitney* test, a non-parametric statistical technique, is employed to assess differences between independent groups based on ordinal data [37]. This test is particularly suitable when the assumption of normal distribution is not met. The significance level for this analysis is set at 0.10 to capture potential differences with a moderate degree of statistical sensitivity.

Table 3. Mann Whitney Test Results Based on the Islamicity Performance Index Approach

Indicators	Probability		Result
	Pre COVID-19	Peri COVID-19	
PSR	0.007	0.002	A significant deviation was identified
ZPR	1.000	1.000	A significant deviation was not identified
EDR	0.010	0.193	A significant deviation was not identified
IIR	0.000	0.000	A significant deviation was identified
ISIR	0.010	0.001	A significant deviation was identified
N	22		
α	10%		

Source: Data Research (2025)

Table 3 presents the *Mann-Whitney* test results based on the Islamicity Performance Index approach, comparing Islamic banking performance before and during the COVID-19 pandemic. The results show that three indicators, Profit Sharing Ratio (PSR), Islamic Investment Return (IIR), and Islamic Social Investment Ratio (ISIR), exhibited statistically significant deviations ($p < 0.10$), indicating notable changes during the pandemic period. Conversely, the *Zakat* Performance Ratio (ZPR) maintained a p-value of 1.000 in both periods, and the Equitable Distribution Ratio (EDR) showed no significant deviation during COVID-19 ($p = 0.193$), suggesting stability in these two dimensions. This implies that while certain ethical and social performance components remained resilient, others were sensitive to the economic shocks brought by the pandemic.

Profit Sharing Ratio (PSR)

A defining characteristic of Islamic banking, distinguished from conventional finance is its reliance on profit-and-loss sharing (PLS) contracts. In this study, the PSR quantifies the proportion of financing extended through *Mudharabah* and *Musharakah* arrangements relative to total financing, thereby gauging the authenticity of syariah-compliant profit distribution. As shown in Table 4.8, the PSR exhibits a statistically significant variation; accordingly, hypothesis H1, which predicts discernible differences in pre- and intra-COVID-19 PSR performance between Islamic banks in Indonesia and Malaysia, is supported.

Specifically, the average PSR in Indonesian Islamic banks rose from 0.45% before the pandemic to 0.50% during it, an increment of 0.05%, suggestive of strengthened profit-sharing activity as a crisis response. By contrast, Malaysian counterparts experienced a PSR decline from 0.13% to 0.11%, reflecting a 0.02% contraction in profit-sharing financing amid COVID-19 pressures.

This divergence can be interpreted through the lens of maqashid al-shariah, particularly the objectives of wealth (*mal*), life (*nafs*), and faith (*din*). The *Mudharabah* and *Musharakah* contracts, endorsed in Islamic finance, promote equitable income distribution and communal welfare, whilst reinforcing depositor trust and organisational resilience. In Indonesia, where these PLS instruments predominate alongside ijarah, istishna, and qardh, COVID-19 appears to have catalysed their utilisation. Conversely, Malaysian Islamic banks, which offer a broader product suite including *Bai' Bithaman ajil, Bai' al-Inah,* and *Ar-Rahn*, appear to favour less risk-exposed, mark-up based financing (*Murabahah*) during the pandemic, resulting in reduced PSR.

***Zakat* Performance Ratio (ZPR)**

Zakat, as the third pillar of Islam, is an essential component of Islamic financial accountability and represents a core objective within the framework of *Sharia* accounting. In Islamic banking, financial performance must extend beyond profit-maximising metrics to include ethical and spiritual dimensions. Accordingly, the *Zakat* Performance Ratio (ZPR) has been posited as a *Sharia*-compliant counterpart to the conventional earnings per share (EPS) ratio, serving as an index of socio-religious responsibility. Based on the findings in Table 3, no statistically significant differences in ZPR were observed between the pre and peri COVID-19 periods across Islamic banks in Indonesia and Malaysia. Consequently, the ninth hypothesis (H2), which posited a significant differential in ZPR between the two periods, is not supported by the empirical evidence.

In quantitative terms, Indonesian Islamic banks demonstrated a slight increase in average ZPR from 0.0001% before the pandemic to 0.00015% during the pandemic, an incremental rise of 0.00005%. Conversely, Malaysian Islamic banks exhibited a decline from 0.0077% to 0.0027% over the same period, reflecting a negative differential of 0.005%. Notwithstanding the statistical insignificance, it is notable that Malaysian Islamic banks continued to display relatively higher average ZPR values throughout. This discrepancy can be attributed to contextual differences in *zakat* distribution practices. In Malaysia, *zakat* disbursement by Islamic financial institutions typically occurs when three fundamental *Shariah*-based conditions are fulfilled: Muslim ownership of the institution, *Shariah*-compliant transactions, and attainment of the *zakat nisab* threshold.

By contrast, in Indonesia, the regulatory framework governing *zakat* is embedded within national legislation. Islamic banks, including their *Sharia* business units, are formally mandated to carry out social intermediation functions, encompassing the collection and distribution of *zakat, infaq, sadaqah*, and other religious endowments through official amil institutions. This legal stipulation broadens the operationalisation of *zakat* in Indonesian banking, positioning it as an institutionalised social finance mechanism, thereby aligning more explicitly with the *Maqasid al-Shariah* principles of *ihsan* (benevolence), *maslahah* (public interest), and distributive justice (*adl*).

From a theological perspective, *zakat* serves not merely as a fiscal obligation but as a moral imperative and act of obedience, signifying gratitude for financial excess and solidarity with the less fortunate. The COVID-19 pandemic, marked by widespread job losses and economic insecurity, amplified the relevance of *zakat* as a tool of economic redistribution and spiritual resilience. This is underscored by Qur'anic exhortations, notably *Surah Adz-Dzariyat* (51:19), which proclaims: *"And in their wealth was a right for the beggar and the deprived."* In this context, *zakat* represents a practical manifestation of the Islamic economic ethos, fulfilling both vertical (God-human) and horizontal (human-human) obligations, especially during times of systemic distress.

Equitable Distribution Ratio (EDR)

In addition to promoting profit-and-loss sharing (PLS) contracts, Islamic accounting places a pronounced emphasis on equitable distribution among all stakeholders. Within this framework, the Equitable Distribution Ratio (EDR) is a critical metric intended to assess how effectively income generated by Islamic banks is allocated to various stakeholders in alignment with the principles of distributive justice (adl) and public interest (*maslahah*). Based on the results presented in Table 3, the analysis reveals no statistically significant difference in EDR values before and during the COVID-19 pandemic across Islamic banks in Indonesia and Malaysia. Consequently, the tenth hypothesis (H3), which proposed a significant disparity in EDR across the two periods, must be rejected.

Specifically, Indonesian Islamic banks exhibited a modest increase in average EDR from 0.45% pre-pandemic to 0.55% during the pandemic, reflecting a 0.10% rise. This increment suggests that the COVID-19 crisis may have prompted enhanced income distribution to stakeholders. In contrast, Malaysian Islamic banks registered a slight decline in EDR from 0.80% to 0.75%, a marginal decrease of 0.05%. However, the reduction does not appear to reflect a systemic withdrawal of distributive commitment but rather a temporary contraction in certain expenditure allocations, possibly due to the economic volatility induced by the pandemic.

The notion of equitable distribution in Islamic finance is further embodied in the *qardh* ratio, which evaluates the extent to which banks redistribute wealth to society through benevolent loans (*qardhul hasan*). The study indicates no significant variation between the two countries, implying a relatively subdued institutional prioritisation of *qardh* financing. This may stem from operational and disclosure limitations. For instance, several Malaysian Islamic banks do not provide explicit reporting on *qardh*-based disbursements, whereas Indonesian Islamic banks are more transparent, often reporting these allocations within their annual financial disclosures in accordance with local regulatory mandates.

Similarly, the Employee Expenses Ratio, a proxy for internal income distribution to staff, also shows no significant differences between Indonesian and Malaysian Islamic banks. This could be attributed to the ownership structure of many Islamic financial institutions, particularly in Malaysia, where several are controlled by non-Muslim shareholders and therefore not obligated to allocate *zakat*. This ownership dynamic indirectly affects the distributable income base and the resulting ratio values.

The Shareholders Ratio, reflecting dividend distributions to shareholders, was also affected during the pandemic. In Indonesia, many Islamic banks suspended dividend payouts due to diminished profitability and capital preservation concerns. The disruption in dividend flows underscores the fragility of earnings during crisis periods and reflects a conservative approach by bank management in prioritising long-term stability over short-term shareholder returns.

In terms of retained profitability, the Net Profit Ratio, calculated by dividing net income by gross income minus *zakat* and taxes, also showed no significant inter-country divergence. This stagnation stems largely from the pandemic's adverse economic impact, which curtailed the profitability of Islamic banks across the region. Indeed, several institutions, including Bank Syariah Bukopin and Panin Dubai Syariah Bank, recorded substantial losses during the pandemic, further eroding the distributable profit pool.

From the lens of *Maqasid al-Shariah*, the equitable distribution of wealth is a manifestation of fulfilling the trust (*amanah*) entrusted to banks by their stakeholders. It implies that the benefits of banking activities should be shared not only with shareholders but also with employees, clients, and the wider *ummah*. This perspective is encapsulated in the hadith of the Prophet Muhammad Saw (PBUH): *"Indeed, in every wealth there is a right for others besides zakat"* (HR. Tirmidzi). The interpretation of these ratios, therefore, provides a nuanced lens through which to evaluate Islamic banks' ethical commitment to stakeholders, transparency, and social justice.

Islamic Investment vs Non-Islamic Investment Ratio (IIR)

The Islamic Investment vs Non-Islamic Investment Ratio (IIR) serves as a vital indicator for assessing the extent to which Islamic banks uphold *Shariah* principles in their investment portfolios. It measures the proportion of investments deemed *halal*, that is, compliant with Islamic jurisprudence, relative to total investments. As demonstrated in Table 3, the findings reveal a statistically significant difference in IIR values before and during the COVID-19 pandemic across Islamic financial institutions in Indonesia and Malaysia. Thus, the eleventh hypothesis (H4), positing a significant variance in financial performance as measured by IIR between the two periods, is accepted.

In the case of Indonesia, the average IIR remained stable at approximately 1% both prior to and throughout the pandemic, indicating that COVID-19 exerted no discernible influence on the share of Shariah-compliant investments. Conversely, in Malaysia, the average IIR declined from 0.45% pre-pandemic to 0.35% during the pandemic, signifying a downward shift of 0.10%. This contraction suggests that pandemic-induced economic turbulence may have affected the ability or willingness of Malaysian Islamic banks to maintain their pre-existing levels of *Shariah*-compliant investment.

From the perspective of *Maqasid al-Shariah* , which aims to protect and preserve wealth (*hifz al-mal*) within ethical and lawful boundaries, the distinction between *halal* and non-*halal* wealth is paramount. Islamic finance, therefore, strictly prohibits investments that generate income through impermissible elements such as *riba'* (interest), *gharar* (excessive uncertainty), or *maysir* (gambling). In this context, the IIR becomes a critical measure of ethical integrity, reflecting the bank's commitment to aligning its capital deployment with divine law.

The ratio itself represents the proportion of *Shariah*-compliant investments in relation to total investment activity. Indonesian Islamic banks, based on the findings, allocated an estimated 1% of their investment portfolios to halal avenues. However, it is important to note that Indonesian institutions typically do not provide detailed disclosures regarding the nature of their investments in public financial statements. By contrast, Malaysian Islamic banks tend to offer more nuanced and transparent disclosures, often specifying the types of *Shariah*-based contracts employed, such as *Mudharabah, Murabahah,* or *Ijarah*, in the notes to their financial statements. This transparency not only enhances stakeholder confidence but also facilitates regulatory oversight and alignment with ethical governance principles.

Islamic Income vs Non-Islamic Income Ratio (ISIR)

Beyond the domain of *Shariah*-compliant investments, Islamic accounting also places significant emphasis on the legitimacy of income sources. The Islamic Income vs Non-Islamic Income Ratio (ISIR) is a critical indicator that reflects the extent to which Islamic financial institutions derive their earnings from *halal* income streams, in full compliance with *Shariah* tenets. As reported in Table 3, the statistical analysis reveals a significant difference in ISIR values before and during the COVID-19 pandemic across Islamic banks in Indonesia and Malaysia. Hence, the twelfth hypothesis (H5), which posits the existence of a significant change in ISIR during the pandemic period, is accepted.

In Indonesia, the average ISIR remained constant at approximately 1% both before and during the pandemic, indicating that the crisis had negligible impact on the share of *Shariah*-compliant income generated by Islamic banks. This stability suggests the resilience of *halal* revenue channels within the Indonesian Islamic banking sector, even amidst macroeconomic disruptions. In contrast, Malaysia experienced a modest decline in ISIR, falling from 0.7% pre-pandemic to 0.6% during the pandemic, signifying a 0.1% reduction. While seemingly marginal, this decline reflects a potential vulnerability in maintaining halal revenue streams under stressed economic conditions.

From the perspective of *Maqasid al-Shariah*, particularly in relation to the preservation of wealth (*hifz al-mal*), it is imperative that income is sourced from lawful (*halal*) activities. The legitimacy of earnings is not only a matter of financial integrity but also a moral and religious obligation. Accordingly, Islamic banks are expected to avoid any revenue derived from impermissible elements such as *riba', gharar,* and *maysir*. In this light, the ISIR becomes a central measure of *Shariah* governance and ethical compliance within the bank's operational framework.

Empirical findings highlight stark differences in disclosure practices between Indonesia and Malaysia. Islamic banks in Indonesia tend to offer more granular reporting on *halal* and non-*halal* income, often presented explicitly in the annual financial statements, particularly within the policy funds disclosures. This transparency facilitates stakeholder understanding and enhances accountability to *Shariah* supervisory boards. Conversely, Malaysian Islamic banks typically consolidate all sources of income without distinct classification between permissible and non-permissible earnings in their financial disclosures. This lack of detailed reporting poses challenges in verifying compliance levels and assessing the true performance of Islamic income sources

5. Comparison

This study presents a comparative analysis of the ethical performance of Islamic banks in Indonesia and Malaysia before and during the COVID-19 pandemic using the Islamicity Performance Index (IPI), which comprises five key indicators: Profit Sharing Ratio (PSR), *Zakat* Performance Ratio (ZPR), Equitable Distribution Ratio (EDR), Islamic Investment Ratio (IIR), and Islamic Income Ratio (ISIR). The findings reveal that Indonesian Islamic banks exhibited greater ethical resilience throughout the crisis, with PSR, IIR, and ISIR remaining stable or improving, while their Malaysian counterparts showed notable declines. Specifically, Indonesia's average PSR increased from 0.45 to 0.50, whereas Malaysia experienced a decrease. Similarly, Indonesia maintained perfect scores in both IIR and ISIR, in contrast to Malaysia, which saw a reduction during the pandemic. On the other hand, no significant differences were observed in ZPR and EDR across both countries and periods, indicating institutional consistency in social redistribution and income justice mechanisms. These results highlight the varying degrees to which Islamic financial institutions in different regulatory contexts have internalized and operationalized the principles of Maqasid al-Shariah as a foundation for ethical crisis response.

6. Conclusions

The findings of this study provide compelling evidence that Islamic banks in Indonesia and Malaysia demonstrate differential resilience in actualising *Shariah*-compliant principles across distinct dimensions of ethical finance during systemic crises. Indonesia's Islamic banks showed improved engagement with profit-and-loss sharing contracts and sustained *halal* investment and income channels throughout the COVID-19 pandemic, affirming a strong adherence to distributive justice and ethical financing. Meanwhile, Malaysia's Islamic banks exhibited modest declines in the IIR and ISIR, reflecting constrained flexibility in maintaining *Shariah* compliance under economic stress. The statistically significant shifts in PSR, IIR, and ISIR underscore the sensitivity of ethical performance to external shocks and internal institutional frameworks. Conversely, the consistent patterns in ZPR and EDR across both jurisdictions suggest that social finance functions and distributive mechanisms were structurally underdeveloped or stagnant during the crisis. Overall, this study highlights the strategic importance of adopting multidimensional, *Shariah*-based evaluation tools such as the IPI to complement conventional financial performance metrics, thereby enabling a more holistic understanding of Islamic banks' accountability, resilience, and ethical alignment in times of global disruption.

Despite its novel longitudinal and cross-country approach, this study is limited by the small sample size and reliance on secondary financial data that may lack consistency in disclosure standards between Indonesian and Malaysian Islamic banks. Moreover, the lack of granular classification of *Shariah*-compliant and non-compliant income and investments in Malaysian financial statements constrained deeper analysis. The use of the IPI, while multidimensional, may not fully capture internal *Shariah* audit effectiveness or stakeholder perceptions of ethical performance. Future research should consider incorporating qualitative assessments from *Shariah* supervisory boards and external stakeholders to triangulate findings and enrich insights. Additionally, expanding the dataset to include more countries within ASEAN and extending the post-pandemic observation window would allow for stronger generalisability and policy relevance. Policymakers and regulators are encouraged to develop harmonised disclosure standards for *Shariah*-based indicators and incentivise banks to institutionalise ethical performance reporting as an integral element of governance and risk management.

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