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Financial performance of islamic commercial banks: Integrating liquidity, profitability, and Maqashid al-Shariah framework

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ABSTRACT

This study examines whether improvements in the financial performance of Islamic Commercial Banks are accompanied by progress in achieving *maqashid al-shariah* objectives. Previous studies have generally assessed Islamic banking performance using either conventional financial indicators or maqashid-based measures separately, with limited evidence on their relationship at the industry level. This study addresses this gap by integrating financial and maqashid performance within a single analytical framework. A descriptive quantitative approach was employed using secondary data from Islamic Banking Statistics published by the Financial Services Authority (OJK) for the period 2021–2025. Financial performance was evaluated using the Financing to Deposit Ratio (FDR) and Return on Assets (ROA), while maqashid performance was measured using the Maqashid Sharia Index (MSI). The findings indicate that FDR increased from 70.12% to 84.62% and ROA improved from 1.55% to 2.03%, reflecting stronger financial intermediation and operational efficiency. However, MSI fluctuated throughout the observation period, suggesting that financial improvement does not necessarily translate into proportional progress in maqashid achievement. Among the maqashid dimensions, *Promoting Welfare* showed the strongest performance, whereas *Educating the Individuals* and *Establishing Justice* remained relatively weaker. These findings highlight that financial and maqashid performance represent complementary but distinct dimensions of Islamic banking evaluation.

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1. INTRODUCTION

Islamic Commercial Banks have developed as financial institutions that operate based on Sharia principles, emphasizing ethical transactions, fairness, and real economic activities. Their existence is not merely as an alternative to conventional banking, but as part of a broader effort to establish a financial system that promotes justice, transparency, and socio-economic welfare (Alam & Miah, 2024). In this framework, Islamic banking is inherently projected to drive equitable economic development.

In Indonesia, the sector has maintained a robust upward trajectory, as evidenced by steady asset accumulation, expanding financing portfolios, and deepening public engagement. Nevertheless, strong growth should also be supported by healthy financial performance in order to maintain long-term sustainability. Financial performance becomes a key indicator of whether Islamic Commercial Banks are able to manage funds effectively, maintain liquidity, and generate sustainable profits while adhering to Sharia principles (Menne et al., 2022). Over time, the banking system has become increasingly dominated by conventional banking, with Islamic banking also experiencing significant growth. Islamic commercial banks operate as alternative financial institutions grounded in Sharia principles, including the prohibition of riba (usury), gharar (excessive uncertainty), and maysir (gambling), while emphasizing profit-sharing mechanisms and the principle of justice in financial transactions (Khan, 2025) (Ariatin et al., 2022).

Financial performance is commonly assessed through financial ratios, including the Financing to Deposit Ratio (FDR) and Return on Assets (ROA). FDR represents the proportion of third-party funds allocated to financing activities, reflecting the bank's liquidity management and intermediation role (Chen & Yu, 2021). ROA reflects how efficiently assets are utilized to generate profits (Taufik & Budiarsyah, 2025). While conventional financial ratios are standard benchmarks in banking assessments due to their quantifiable and comparable nature, evaluating Islamic financial institutions requires a broader lens.

However, In this sector, performance evaluation must transcend purely numerical and commercial metrics. Islamic banking operates within the framework of maqashid al-shariah, which emphasizes the protection of wealth, justice (al-'adl), and public benefit (maslahah) (Kusnan et al., 2022). Therefore, liquidity and profitability must be interpreted in light of whether they contribute to real sector development and social welfare, rather than merely reflecting financial gains (Rodriguez et al., 2024). The most relevant maqashid al-shariah dimensions for evaluating Islamic banking performance include the protection of wealth (hifz al-mal), the realization of justice and fairness (al-'adl), and the achievement of public welfare (maslahah). These broader dimensions reflect how effectively Islamic banks allocate capital, sustain financial resilience, stimulate productive economic sectors, and generate inclusive economic value for the community at large (Zailani et al., 2022). In addition, several contemporary Islamic finance scholars emphasize that Islamic banks should also contribute to financial inclusion, equitable risk-sharing, ethical investment, and sustainable economic empowerment as part of maqashid implementation.

A key issue arises when increases in liquidity and profitability are not critically examined from a Sharia perspective. A high FDR may indicate strong financing distribution, but it does not automatically guarantee that the financing truly supports productive and real economic sectors (Farhan et al., 2023). Similarly, higher profitability may reflect efficiency, yet it must be ensured that profits are generated through sharia compliant and socially beneficial activities (Muchiri et al., 2025). This creates a research gap between conventional financial performance measurement and value-based Islamic evaluation.Based on these considerations, the research problem of this study is whether the development of liquidity and profitability of Islamic Commercial Banks during the period 2021–2025 reflects not only financial improvement but also alignment with *maqashid al-shariah*, real sector intermediation, and the principles of justice and public benefit. The question is whether financial growth corresponds with value-based performance or merely mirrors conventional banking patterns.

To address this issue, this study utilizes secondary data obtained from the Islamic Banking Statistics published by the Financial Services Authority (OJK) of the Republic of Indonesia for the period 2021–2025. The analysis process in this research utilizes the Financing to Deposit Ratio (FDR) as a measure of liquidity and its intermediation function in the real sector. Furthermore, Return on Assets (ROA) is used to measure profitability and asset management efficiency, while the Maqasid Sharia Index (MSI) is applied to evaluate the extent to which sharia objectives have been achieved. Unlike previous studies that examine financial performance and maqashid performance separately, this study integrates these indicators within a unified analytical framework. By doing so, it investigates whether improvements in financial performance are accompanied by stronger realization of maqashid al-shariah principles, particularly justice (al-'adl), public welfare (maslahah), and real-sector development. This integration constitutes the main contribution of the study, providing a more holistic evaluation of Islamic banking performance beyond conventional financial measures.

Previous research has highlighted themes such as sustainable Islamic finance, green Islamic banking, social impact financing, maqasid-based governance, and value-oriented banking performance (Muryanto, 2023) (Vrotslavskyy & Dropa, 2024) (Darmawan & Qodhari, 2025) (Fahmy et al., 2026). However, most previous studies have either emphasized conventional financial indicators or examined maqashid al-shariah performance through the Maqashid Sharia Index (MSI) as separate analytical frameworks. Consequently, limited attention has been given to understanding how financial performance indicators relate to the achievement of Sharia objectives within an integrated evaluation model. Furthermore, studies employing the MSI have predominantly focused on individual Islamic banks and comparative inter-bank performance assessments, while relatively little attention has been devoted to evaluating maqashid achievement at the aggregate industry level. As a result, there remains limited evidence regarding whether the overall growth of the Islamic banking industry is accompanied by improvement. A holistic integration is essential because conventional metrics like liquidity and profitability only reflect the operational and economic viability of Islamic banks. Conversely, maqashid-based indicators assess how well these institutions meet their overarching ethical, social, and developmental mandates. Evaluating these aspects in isolation risks producing a fragmented and incomplete assessment of an Islamic bank's genuine performance

The primary objective of this study is to evaluate the overall performance of BUS through the integration of liquidity analysis (FDR), profitability analysis (ROA), and compliance with sharia values (MSI). The study is theoretically grounded in Islamic banking theory, financial intermediation theory, and maqashid al-shariah, which emphasize justice (al-'adl), public welfare (maslahah), and sustainable socio-economic development. A significant theoretical gap exists in the Islamic banking literature because conventional performance evaluation frameworks primarily assess efficiency, profitability, and financial stability, whereas maqashid-based frameworks focus on ethical, social, and developmental outcomes. The novelty of this study lies in the integration of conventional financial performance measures and maqashid-based performance indicators within a single analytical framework, enabling a more comprehensive evaluation of whether financial improvement is accompanied by the realization of Islamic value-based objectives (Analia et al., 2024).

2. RESEARCH METHOD

This study uses a descriptive design that combines quantitative financial ratio analysis with the maqasid al-shariah framework, drawing slightly from studies (Mohamed & Busari, 2025) (Marwah et al., 2025). This method was chosen to systematically describe and interpret the financial performance of Islamic Commercial Banks without testing cause-and-effect relationships. This study uses secondary data obtained from Islamic Banking Statistics published by the Financial Services Authority (OJK) of the Republic of Indonesia for the period 2021–2025. Data were collected through documentation and analyzed by calculating the Financing to Deposit Ratio (FDR) as a proxy for liquidity and real sector intermediation, and Return on Assets (ROA) as a proxy for profitability. The selection of FDR and ROA as the primary indicators is scientifically justified because both ratios are widely adopted by banking regulators, researchers, and financial institutions in evaluating banking performance. FDR is an important liquidity benchmark used by OJK to assess the effectiveness of Islamic banks in channeling funds while maintaining liquidity stability. On the other hand, ROA is selected because it reflects the bank's capability to generate earnings from its total assets, making it a more comprehensive profitability indicator than ratios focusing solely on equity performance. ROA is also commonly used within banking supervision frameworks and international banking assessment standards due to its ability to measure operational efficiency and asset productivity.

To evaluate the level of success of Sharia objectives, this study adopts the Maqasid Sharia Index (MSI) instrument. Developed by Mohammed & Taib, (2015), the MSI is used to assess Islamic banking performance based on Ibn Ashur's thinking regarding the two essentials of Sharia: bringing good (jalb al-masalih) and repelling evil (dar'al-mafasid). This thinking was then developed by Abu

Zaharah into three focus areas: individual education (tahdhib al-fard), social justice (iqamah al-'adl), and public welfare (jalb al-maslahah).

Tahdhib al-fard (individual education), by purifying humans so they become a source of goodness for society. When linked to Islamic banking, this means Islamic banks are capable and able to design moral education and training programs to improve the skills and expertise of their employees. Iqamah al-adl (the realization of justice), upholding justice in Islamic society both internally and externally. When linked to Islamic banking, Islamic banks must ensure honesty and fairness in all transactions and all activities and businesses, including all interest-free products. Jalb al-maslahah (community welfare), realizing the welfare in all aspects of applicable law. When linked to Islamic banking, Islamic banks must be able to develop investment projects and social services to improve community welfare (Suprayitno & Haq, 2022).

Table 1. Maqasid index performance indicator

Objective	Dimension	Element	Ratio
O1. Educating the Individuals	D1. Advancement Of Knowledge	E1. Education grant	R1. Education grant or Scholarship/Total expenses
	D2. Instilling new skills and improvements	E2. Research	R2. Research expenses/Total expenses
	D3. Creating awareness of Islamic banking	E3. Training	R3. Training expenses/Total expenses
		E4. Publicity	R4. Publicity expenses/Total expenses
O2. Establishing justice	D4. Fair dealings	E5. Fair returns	R5. Profit Equalization Reserves (PER)/ Net or Investment income
	D5. Affordable products and services	E6. Affordable price	R6. Mudarabah and musharakah modes/Total investment modes
	D6. Elimination of injustices	E7. Interest free	R7. Interest free income/Total product income
O3. Promoting welfare	D7. Profitability	E8. Profit ratios	R8. Net income/Total assets
	D8. Redistribution of income & wealth	E9. Personal income	R9. Zakah paid/Net asset
	D9. Investment in vital real sector	E10. Investment ratios in real sector	R10. Investment in real economic sector/Total investment

Source: (Mohammed & Taib, 2015)

From the Maqasid Syariah perspective, the Maqasid Index is used as a benchmark to assess the level of sharia compliance implemented in core operations and the performance of a sharia bank.

Table 2. Average weights maqasid index indicators

Objective	Average Weight (Out of 100%)	Element	Average Weight (Out of 100%)
O1. Educating the Individuals	30	E1. Education grant	24
		E2. Research	27
		E3. Training	26
		E4. Publicity	23
O2. Establishing justice	41	E5. Fair returns	30
		E6. Affordable price	32
		E7. Interest free	38
O3. Promoting welfare	29	E8. Profit ratios	33
		E9. Personal income	30
		E10. Investment ratios in real sector	37

Source: (Mohammed & Taib, 2015)

3. RESULTS AND DISCUSSIONS

The Financing to Deposit Ratio (FDR) demonstrates the efficiency of intermediation functions, whereas Return on Assets (ROA) measures the bank's capability to generate earnings from its assets. Analyzing these two indicators together offers a broader perspective on whether financial expansion is followed by sustainable improvements in performance. The calculated FDR and ROA values for

Islamic Commercial Banks during 2021–2025 are displayed in Table 3 to describe the trends in liquidity and profitability throughout the observation period.

Table 3. Development of FDR and ROA of islamic commercial banks, 2021–2025

Year	FDR (%)	Predicate	ROA (%)	Predicate
2021	70.12	Quite Healthy	1.55	Healthy
2022	75.19	Quite Healthy	2.00	Healthy
2023	79.06	Quite Healthy	1.88	Healthy
2024	80.81	Very Healthy	2.07	Very Healthy
2025	84,62	Very Healthy	2,03	Very Healthy

Source: (Financial Services Authority, 2025)

As shown in Table 3, both liquidity and profitability indicators demonstrate fluctuating yet generally improving trends throughout the study period. FDR and ROA assessment criteria are sourced from Financial Services Authority Regulations (POJK). These patterns provide an empirical basis for evaluating whether the observed financial performance reflects value-based Islamic banking principles or merely mirrors conventional banking performance dynamics. The observed changes in FDR and ROA suggest that improvements in financial indicators should not be interpreted solely as operational efficiency gains but must also be examined in relation to Islamic banking objectives, particularly maqashid al-shariah and real sector intermediation.

The results indicate that the liquidity performance of Islamic Commercial Banks in Indonesia improved consistently during the 2021–2025 period. The Financing to Deposit Ratio (FDR) increased from 70.12% in 2021 to 84.62% in 2025. Based on OJK criteria, the banking industry remained in the "Quite Healthy" category between 2021 and 2023 before improving to the "Very Healthy" category in 2024 and 2025. This trend demonstrates the increasing effectiveness of Islamic banks in channeling third-party funds into financing activities. From the perspective of financial intermediation theory, a higher FDR reflects a stronger capacity to transform deposits into productive financing, indicating a more active role in supporting economic activities. The sustained increase in FDR suggests that Islamic Commercial Banks have strengthened their contribution to real-sector development, which constitutes one of the fundamental objectives of Islamic finance.

Profitability performance, measured by Return on Assets (ROA), also showed an overall positive trend. ROA increased from 1.55% in 2021 to 2.03% in 2025, despite experiencing a slight decline in 2023. The improvement in ROA indicates enhanced efficiency in asset utilization and earnings generation. The temporary decline in 2023, followed by recovery in 2024 and 2025, may reflect adjustments associated with financing expansion, operational costs, or macroeconomic conditions during the post-pandemic period. Nevertheless, the consistently healthy profitability level suggests that Islamic Commercial Banks were able to maintain financial sustainability while expanding their financing activities. This finding implies that increased intermediation was not achieved at the expense of profitability, but rather accompanied by improvements in operational efficiency.

From a theoretical perspective, the temporary decline in ROA despite increasing FDR suggests that liquidity expansion and profitability do not always move simultaneously in the short term. This finding reinforces the theoretical argument that Islamic banking performance should not be evaluated solely through profit maximization but also through the sustainability and quality of financing distribution. It also supports the maqashid al-shariah perspective that financial performance must balance profitability with prudential stability, justice, and socio-economic benefit. Similarly, the upward trend in ROA indicates improved operational efficiency and asset productivity. The coexistence of increasing FDR and ROA, particularly in 2024, suggests that financing expansion did not undermine profitability, which may indicate relatively effective risk management. From a conventional banking perspective, this outcome represents optimal financial performance. However, the critical question is whether profitability growth reflects value-based performance or merely efficiency improvements comparable to conventional banking models. Islamic banking performance should ideally demonstrate not only financial gains but also ethical value creation and socio-economic contribution.

Table 4. Assessment of the Maqashid Sharia Index (IMS) of islamic commercial banks in Indonesia 2021-2025

Objectives (Concept)	Ratio (%)				
	2021	2022	2023	2024	2025
Educating the Individuals	15,66	12,57	11,25	14,18	9,47
Establishing justice	19,66	16,85	15,78	15,36	16,48
Promoting welfare	22,68	21,73	19,69	37,41	31,71
MSI	19,34	16,98	15,55	21,40	18,79

Source: Data processing

The Maqashid Sharia Index (MSI) presents a more nuanced picture of Islamic banking performance. The MSI declined from 19.34 in 2021 to 15.55 in 2023 before increasing significantly to 21.40 in 2024 and slightly decreasing to 18.79 in 2025. These fluctuations indicate that improvements in financial performance do not always correspond directly to improvements in maqashid-based performance. While liquidity and profitability generally exhibited an upward trend, the achievement of Sharia objectives remained relatively unstable. This finding supports the argument that financial indicators alone are insufficient to capture the broader socio-economic and ethical objectives of Islamic banking.

A closer examination of the MSI dimensions reveals important insights. The "Educating the Individuals" dimension showed a declining trend from 15.66 in 2021 to 9.47 in 2025. This suggests that expenditures and initiatives related to education, training, research, and human capital development have not expanded proportionately with the growth of Islamic banking assets and profitability. From a maqashid perspective, this finding indicates that the intellectual and educational mission of Islamic banking remains relatively underdeveloped. Since human development is considered a fundamental element of maqashid al-shariah, the declining score raises concerns regarding the long-term contribution of Islamic banks to knowledge enhancement and capacity building.

Similarly, the "Establishing Justice" dimension experienced a gradual decline from 19.66 in 2021 to 15.36 in 2024 before recovering slightly to 16.48 in 2025. This result suggests that improvements in financial performance were not fully accompanied by stronger achievements in distributive justice and equitable economic participation. Although Islamic banks have expanded financing activities, the benefits of such expansion may not have been distributed evenly among stakeholders. From the perspective of al-'adl, this finding highlights the continuing challenge of ensuring that financial growth translates into fair and inclusive economic outcomes.

In contrast, the "Promoting Welfare" dimension demonstrated the strongest performance among all maqashid components. The score increased substantially from 22.68 in 2021 to 37.41 in 2024 before moderating to 31.71 in 2025. This indicates that Islamic Commercial Banks have made significant progress in generating broader socio-economic benefits, particularly through financing expansion, profitability enhancement, and contributions to economic development. The strong performance of this dimension suggests that the banking sector has become increasingly capable of supporting public welfare and economic growth, which are central objectives of maqashid al-shariah.

When the financial indicators and MSI are examined together, an interesting pattern emerges. The continuous increase in FDR and ROA demonstrates improving financial performance, while the fluctuating MSI indicates that the realization of maqashid al-shariah objectives remains uneven across different dimensions. In particular, welfare promotion has improved considerably, whereas educational development and justice-related objectives have not progressed at the same pace. This finding implies that Islamic Commercial Banks are relatively successful in achieving economic and financial objectives but face ongoing challenges in fully translating financial success into comprehensive maqashid outcomes. Consequently, the results support the view that evaluating Islamic banking performance requires an integrated framework that combines conventional financial indicators with maqashid-based measures, as financial soundness alone cannot adequately reflect the achievement of Islamic socio-economic objectives.

Financial Intermediation and Real Sector Linkage in Islamic Banking

The results demonstrate a consistent improvement in the intermediation function of Islamic Commercial Banks during the 2021–2025 period, as reflected by the increase in FDR from 70.12% to 84.62%. This upward trend indicates that a larger proportion of third-party funds was transformed into financing activities, suggesting a stronger role of Islamic banks in channeling financial resources to economic actors. According to financial intermediation theory, banks contribute to economic development by mobilizing savings and allocating them to productive investments. In the context of Islamic banking, this function extends beyond financial efficiency to encompass the promotion of real economic activities through Sharia-compliant financing mechanisms. A rising FDR suggests that a larger proportion of third party funds has been transformed into financing activities rather than remaining in liquid reserves (Vuong et al., 2023). From a banking perspective, this trend reflects improved financial intermediation capacity, demonstrating that Islamic banks are increasingly active in channeling funds from surplus units to deficit units (Wijayanti & Suprayitno, 2025). Such development is generally interpreted as a positive signal of banking efficiency and operational confidence, as higher financing distribution implies greater utilization of available financial resources.

Within the framework of Islamic banking, however, financial intermediation carries broader implications than those found in conventional banking systems. Islamic finance emphasizes the integration of financial transactions with real economic activities, where financing should ideally support productive sectors such as trade, manufacturing, agriculture, and small and medium enterprises (Alshater et al., 2022). Consequently, the upward movement of FDR may indicate stronger engagement with the real sector, aligning with the foundational objective of Islamic finance to promote economic circulation grounded in asset backed and value generating activities, in accordance with previous research conducted by (Mahyudin & Rosman, 2022) (Menne et al., 2022). In this sense, increased financing distribution can be interpreted as supporting economic productivity and fostering inclusive growth.

From the perspective of *maqashid al-shariah*, enhanced intermediation potentially contributes to the preservation and development of wealth (*hifz al-mal*) through productive economic participation. Financing that stimulates entrepreneurship and real sector expansion may generate employment opportunities, income distribution, and broader socio economic welfare (Heriyati et al., 2024). Therefore, the rising FDR trend can be viewed as an initial indication that Islamic Commercial Banks are moving toward fulfilling their socio-economic mandate, where financial intermediation serves not merely as profit generation but as a mechanism for societal benefit.

Nevertheless, a critical interpretation is necessary, as a higher FDR does not automatically confirm meaningful real sector empowerment. The ratio captures the volume of financing relative to deposits but does not reveal the composition, quality, or economic impact of financing activities. Financing growth dominated by consumptive or low-productivity sectors may increase banking activity without substantially contributing to productive economic transformation (Ahmadi et al., 2024). As such, reliance solely on aggregate ratios risks overstating the developmental role of Islamic banking and may obscure whether financing genuinely reflects the spirit of risk-sharing and productive investment emphasized in Islamic economic principles.

This limitation highlights that the relationship between FDR and maqashid al-shariah should be understood as conditional rather than absolute (Ahsanul Amal et al., 2024). While increasing financing ratios suggest progress toward active intermediation, substantive maqashid alignment depends on how financing is allocated, the extent to which it supports real economic value creation, and its contribution to social welfare outcomes. Without sectoral financing data or impact-based indicators, conclusions regarding maqashid fulfillment remain interpretative rather than definitive. Accordingly, the findings indicate that Islamic Commercial Banks demonstrate a growing intermediation function consistent with the theoretical aspirations of Islamic finance, yet the evidence remains insufficient to fully validate real sector transformation. The observed trend reflects a transitional condition in which quantitative financial expansion signals potential maqashid alignment, but deeper qualitative evaluation is required to confirm whether Islamic banking operations genuinely advance value-based economic development rather than reproducing conventional financial intermediation patterns under a Sharia-compliant framework.

Liquidity–Profitability Balance through the Lens of al-'Adl and Maslahah

The simultaneous increase in FDR and ROA indicates that Islamic Commercial Banks were able to expand financing activities while maintaining profitability. FDR increased from 70.12% in 2021 to 84.62% in 2025, while ROA improved from 1.55% to 2.03% over the same period. These findings suggest that Islamic banks achieved a relatively balanced relationship between liquidity management and earnings generation. In banking theory, excessive liquidity may reduce profitability because idle funds are not utilized productively, whereas excessive financing may increase liquidity risk. Therefore, maintaining an optimal balance between liquidity and profitability is essential for sustainable banking performance. Increasing financing distribution alongside improving asset returns suggests that liquidity resources were utilized efficiently, minimizing idle funds while maintaining institutional financial stability (Yu & Lin, 2026).

The observed pattern also indicates a positive association between FDR and ROA during the study period. As financing activities expanded, profitability generally improved, suggesting that Islamic banks were able to convert additional financing into income-generating assets. This finding is consistent with financial intermediation theory, which argues that effective allocation of funds into productive financing enhances asset productivity and contributes to profitability (Mia et al., 2023). Nevertheless, the slight decline in ROA in 2023 despite continued growth in FDR suggests that increased financing does not automatically generate higher profits in the short term, as profitability may also be influenced by operational efficiency, financing quality, and risk management considerations.

From a maqashid al-shariah perspective, the relationship between maqashid performance and profitability appears more complex. While ROA generally improved over the study period, the Maqashid Sharia Index (MSI) exhibited fluctuations, declining from 19.34 in 2021 to 15.55 in 2023 before increasing to 21.40 in 2024 and moderating to 18.79 in 2025. This pattern suggests that higher profitability does not necessarily correspond to stronger achievement of maqashid objectives. In particular, the dimensions of *Educating the Individuals* and *Establishing Justice* showed weaker performance despite improvements in financial indicators. These findings imply that profitability and maqashid attainment represent complementary rather than interchangeable dimensions of Islamic banking performance.

The principle of *al-'adl* (justice) requires financial institutions to maintain fairness among stakeholders, including depositors, investors, and financing recipients. Adequate liquidity ensures the protection of depositor rights and withdrawal security, while sustainable profitability guarantees institutional continuity and the fulfillment of contractual obligations (Wu et al., 2023). From the perspective of al-'adl (justice), this balance reflects the ability of Islamic banks to fulfill the interests of multiple stakeholders simultaneously. Depositors expect the security and availability of their funds, shareholders seek sustainable returns, and financing recipients require access to capital for productive activities. The observed improvement in both liquidity and profitability suggests that Islamic Commercial Banks were able to manage these competing interests without significantly sacrificing one stakeholder group for another (Muryanto, 2023). Such balance is consistent with the Islamic principle of justice, which emphasizes fairness in the distribution of benefits and risks among economic participants (Yudaruddin, 2023).

From the perspective of maslahah (public welfare), the increase in profitability should not be viewed solely as a financial achievement. Sustainable profitability strengthens the capacity of Islamic banks to expand financing, improve services, and support broader economic activities. The recovery and growth of ROA after the temporary decline in 2023 indicate that Islamic banks maintained operational resilience while continuing to perform their intermediation role. Consequently, profitability becomes valuable not merely because it increases financial returns but because it enhances the ability of Islamic banks to generate broader socio-economic benefits. This interpretation reinforces the argument that financial performance in Islamic banking should be evaluated based on its contribution to public welfare rather than on profit maximization alone (Masrizal et al., 2023).

Maslahah and Value Based Banking Performance

The MSI results provide important insights into the extent to which financial performance is accompanied by the realization of maqashid al-shariah objectives. Although financial indicators generally improved throughout the study period, the MSI exhibited fluctuations, declining from 19.34 in 2021 to 15.55 in 2023 before increasing to 21.40 in 2024 and moderating to 18.79 in 2025. This pattern suggests that improvements in liquidity and profitability do not automatically ensure improvements in value-based banking performance. From the perspective of Islamic economics, financial performance is not solely evaluated based on profitability achievements but also on the extent to which banking activities generate broader social and economic benefits (*maslahah*) (Mi'raj & Ulev, 2024). The upward trend in Return on Assets (ROA) observed during the 2021–2025 period indicates improved efficiency in asset utilization and stronger institutional performance among Islamic Commercial Banks. Higher profitability suggests that banks have managed resources more effectively, which theoretically enhances their capacity to support economic activities and expand financing distribution (Sousa & Almeida, 2025).

A more detailed analysis reveals disparities among the dimensions of maqashid performance. The "Promoting Welfare" dimension consistently recorded the highest scores and experienced substantial growth, reaching 37.41 in 2024. This finding suggests that Islamic Commercial Banks have made meaningful contributions to economic welfare through financing expansion and financial sustainability. The strong welfare performance indicates that Islamic banking has increasingly fulfilled its role in supporting economic development and improving societal well-being.

In contrast, the dimensions of "Educating the Individuals" and "Establishing Justice" showed weaker and more volatile performance. The declining trend in educational performance suggests that investments in knowledge development, research, training, and human capital have not expanded proportionately with financial growth. Similarly, the relatively stagnant justice dimension indicates that improvements in financial performance have not been fully translated into broader distributive and social justice outcomes. These findings highlight a gap between financial success and the comprehensive realization of maqashid al-shariah.

Overall, the results support the concept of value-based banking performance, which argues that Islamic banking should be evaluated not only through financial indicators but also through its contribution to social welfare, justice, and human development. The study demonstrates that financial soundness, as reflected in FDR and ROA, represents a necessary but insufficient condition for achieving maqashid al-shariah. Therefore, a comprehensive assessment of Islamic banking performance requires the integration of conventional financial measures and maqashid-based indicators. Such an approach provides a more holistic understanding of whether Islamic banks are genuinely advancing Islamic socio-economic objectives or merely replicating the performance patterns of conventional banking institutions.

In Islamic banking, profitability is expected to function as a means rather than an ultimate objective. Sustainable profits enable banks to maintain operational continuity, strengthen capital resilience, and expand financing access to productive sectors of the economy. Therefore, the improvement in ROA may be interpreted as a positive signal that Islamic banks possess greater financial capability to contribute to economic welfare. Within the framework of *maslahah*, financially sound institutions are better positioned to promote inclusive growth, reduce financial exclusion, and support real-sector development aligned with societal needs (Hassan et al., 2023).

However, interpreting profitability growth as evidence of public benefit requires careful consideration. Financial ratios such as ROA primarily capture internal efficiency and income generation rather than direct social outcomes. An increase in profitability does not automatically imply enhanced welfare distribution, equitable financing access, or meaningful socio economic impact

(Islam & Hasan, 2024). Without empirical indicators measuring social performance, such as financing allocation across productive sectors, support for small and medium enterprises, or financial inclusion outcomes, claims regarding the realization of *maslahah* remain interpretative rather than conclusive (Alshater et al., 2022). This limitation highlights a broader methodological challenge in evaluating Islamic banking performance. Conventional financial indicators remain dominant due to data availability and measurability, yet they only partially reflect the multidimensional objectives embedded in Islamic financial principles. As a result, Islamic Commercial Banks may appear financially successful while the extent of their societal contribution remains insufficiently observable through ratio based analysis alone.

The findings therefore suggest that the improvement in profitability represents a necessary foundation for value-based banking but not definitive proof of its achievement. Islamic banks during the study period demonstrate increasing financial capacity that potentially supports public benefit, indicating movement toward *maslahah*-oriented performance. Nevertheless, the absence of direct socio-economic impact measurements implies that the realization of value-based banking should be understood as an ongoing transition rather than a fully attained condition. In this context, Islamic Commercial Banks can be viewed as operating within a developmental trajectory in which financial strengthening precedes deeper social value integration. Future performance evaluation frameworks should therefore combine financial indicators with impact-oriented metrics to more comprehensively assess whether Islamic banking fulfills its broader ethical and developmental objectives.

Overall, the findings of this study suggest that the financial performance development of Islamic Commercial Banks during the 2021–2024 period reflects a gradual convergence between financial strengthening and value-based banking aspirations. The increase in FDR indicates expanding intermediation capacity with potential linkage to real-sector activities, while the improvement in ROA demonstrates enhanced operational efficiency and institutional sustainability. However, when interpreted through the lenses of *maqashid al-shariah*, *al-'adl*, and *maslahah*, the results reveal that financial progress alone does not automatically signify the full realization of Islamic banking objectives. The observed liquidity–profitability balance illustrates prudent financial management consistent with justice-oriented principles, yet empirical confirmation of equitable distribution and societal impact remains limited due to reliance on aggregate financial indicators. Consequently, Islamic Commercial Banks appear to operate within a transitional performance phase, where conventional financial efficiency and Islamic ethical aspirations coexist rather than fully integrate. This synthesis underscores that Islamic banking performance should be understood as an evolving process in which financial stability serves as a foundational prerequisite for achieving broader socio-economic and moral objectives envisioned within Islamic economic philosophy.

4. CONCLUSION

The findings indicate that Islamic Commercial Banks in Indonesia experienced continuous improvement in liquidity and profitability during the 2021–2025 period, as reflected in the increase of FDR from 70.12% to 84.62% and ROA from 1.55% to 2.03%. These trends suggest stronger financial intermediation and improved operational efficiency. However, the Maqashid Sharia Index (MSI) exhibited fluctuating performance, declining between 2021 and 2023 before increasing in 2024 and moderating in 2025. Among the maqashid dimensions, *Promoting Welfare* recorded the strongest achievement, while *Educating the Individuals* and *Establishing Justice* showed relatively weaker performance. These findings indicate that improvements in financial performance are not always accompanied by proportional progress in achieving broader maqashid al-shariah objectives. The main theoretical contribution of this study is the integration of financial performance indicators (FDR and ROA) with the Maqashid Sharia Index (MSI) within a single analytical framework, enabling a more comprehensive assessment of Islamic banking performance. This study extends the literature by demonstrating that financial soundness and maqashid achievement represent related but distinct dimensions of performance. The findings challenge the assumption that stronger liquidity and profitability automatically imply greater realization of Islamic objectives, highlighting the need to distinguish between financial success and value-based performance in Islamic banking evaluation. The findings suggest that profitability is a necessary but not sufficient condition for maqashid attainment, as financial success alone cannot guarantee the realization of justice, education, and broader social objectives. The results imply that regulators, policymakers, and Islamic banking institutions should complement conventional financial performance assessments with maqashid-based indicators. While liquidity and profitability remain important measures of financial sustainability, greater attention should be directed toward educational development, distributive justice, and broader social welfare outcomes. Such an approach may strengthen the authenticity of Islamic banking and ensure that financial growth is aligned with the objectives of Sharia and sustainable socio-economic development. This study is limited by its reliance on aggregate industry-level data obtained from Islamic Banking Statistics, which does not allow detailed evaluation of individual bank performance or financing quality. In addition, the MSI calculation depends on publicly available indicators, which may not fully capture all dimensions of maqashid al-shariah implementation in Islamic banking institutions. Future studies are encouraged to conduct comparative analyses across individual Islamic banks and incorporate additional maqashid-based performance measures, such as the Performance Maqashid Index (PMI) or DEA-based maqashid efficiency models. Further research may also employ panel data and mixed-method approaches to investigate how specific financing practices, governance mechanisms, and social responsibility initiatives contribute to the realization of maqashid al-shariah and value-based banking performance.

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