



## **Financial Performance of Islamic Banks in Supporting Financial System Stability in the Era of Financial Globalization**

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### **Abstract**

This study aims to analyze the financial performance of Islamic banks in supporting national financial system stability in the era of financial globalization. This research uses a descriptive quantitative approach by examining secondary data from Islamic bank financial statements during the 2019–2023 period. The analysis focuses on several financial indicators, including ROA, NPF, CAR, BOPO, and FDR. The findings indicate that Islamic banks generally show stable financial performance, supported by adequate capital, controlled financing risk, and their role in strengthening financial intermediation. These results suggest that Islamic banks have an important contribution to maintaining financial system resilience amid global financial challenges.



**Keywords:** Islamic Financial Performance, Financial System Resilience, Financial Ratio Indicators, Economic Globalization, Financial System Integration

### **Introduction**

Financial globalization has made financial markets between countries more closely connected, but it has also brought new challenges such as greater exchange rate fluctuations, inflationary pressures, and uncertain capital flows. Pressure from abroad has forced Islamic banks and local financial institutions to increase their role in maintaining the stability of the financial system in the country. (Reswara, 2024)

Islamic banks run based on Islamic principles, such as prohibiting interest (riba) and implementing a profit-sharing system, so that it is different from ordinary banks. The principle of profit and loss sharing (PLS) is considered to be able to increase the bank's resilience to external pressures, because risk sharing is carried out proportionally between the bank and the customer. Several studies in Indonesia show that internal factors such as NPF (NonPerforming Financing), CAR (Capital Adequacy Ratio), operational efficiency (BOPO), and funding ratio (FDR) greatly affect the performance and stability of Islamic banks. (Compiled et al., n.d.)

Research using the ARDL method found that inflation and the depreciation of the rupiah cause instability, while adequate bank size and capital help maintain Islamic financial stability. In a study using the GMM method conducted by Firdaus, interest rates were found to have a negative effect on profitability, both in the short and long term. The performance of Islamic banks as

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illustrated through Return on Assets (ROA) shows relatively positive results. The performance of Islamic banks as seen from the Return on Assets (ROA) indicator shows different results. On the other hand, interest rates have a negative impact on profits, both in the near and long term. (Rusmali, n.d.)

Given this, this study aims to thoroughly analyze the financial performance of Islamic banks using several indicators, namely ROA, NPF, CAR, BOPO, and FDR. All of these indicators are used as a basis for assessing how much role Islamic banks play in strengthening the resilience of the financial system at the national level. It is hoped that this research can be the basis for improving risk management strategies and the application of sharia principles, which are an important part of maintaining the stability and resilience of Islamic banks in the middle.

Although previous studies have discussed the financial performance of Islamic banks, limited attention has been given to how financial indicators reflect the role of Islamic banks in supporting financial system stability during the era of financial globalization. Therefore, this study focuses on analyzing ROA, NPF, CAR, BOPO, and FDR to provide a clearer understanding of the contribution of Islamic banks to national financial resilience.



## Method

This study uses a descriptive quantitative approach to analyze the financial performance of Islamic banks in Indonesia in supporting financial system stability in the era of financial globalization. The data used in this research are secondary data obtained from Islamic bank financial statements during the 2019–2023 period. The analysis focuses on several financial ratios, including Return on Assets (ROA), Non-Performing Financing (NPF), Capital Adequacy Ratio (CAR), Operating Expenses to Operating Income (BOPO), and Financing to Deposit Ratio (FDR). These indicators are used to assess profitability, financing quality, capital adequacy, operational efficiency, and liquidity. The data were analyzed descriptively by identifying the development trends of each financial ratio and interpreting their relevance to the stability and resilience of the national financial system.

## Results and Discussion

Sharia Banks are financial institutions that operate based on Islamic sharia principles, where the interest system is replaced by a profit-sharing scheme and transactions regulated through sharia contracts in accordance with the provisions of the National Sharia Council-Indonesian Ulema Council (DSN-MUI) and supervised by the Sharia Supervisory Board (DPS). The role of Islamic banks is very important in supporting the social and economic growth of the Islamic community while still prioritizing the values of justice, benefit (*maslahah*), and avoiding the practice of usury, *maysir*, *gharar*, and *bathil* (Najib; Snoopy; Sari Wahyuna).

The grouping of Islamic banks in Indonesia includes Sharia Commercial Banks (BUS), Sharia Business Units (UUS), and Sharia People's Financing Banks (BPRS). These banks allocate funds to the real sector using contracts such as *murabahah*, *musyarakah*, *mudharabah*, *wadiah*, and *ijarah* to ensure that all transactions are in accordance with sharia principles and provide a positive social impact (Izziyana, 2017).

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The performance of Islamic banks is measured using key financial indicators such as Return on Assets (ROA), Return on Equity (ROE), Non-Performing Financing (NPF), Financing to Deposit Ratio (FDR), and Capital Adequacy Ratio (CAR). ROA and ROE function to assess profitability and efficiency in managing banks' assets and capital. NPF provides an overview of the quality of financing, where high values indicate possible credit risks and losses. Meanwhile, FDR describes the ability of banks to divert funds from the community to the productive sector, while CAR shows the strength of bank capital in dealing with existing risks (Ahmad Azmy)

Various important factors that affect the financial performance of Islamic banks include sufficient capital (CAR), financing to deposits ratio (LDR/FDR), operating efficiency (BOPO), financing quality (NPL/NPF), and profit margin (NIM). Empirical research shows that increasing operational efficiency and compliance with sharia principles can significantly increase the profitability of Islamic banks (Farah Margaretha; Iman and Umiyati, 2022).



The analysis indicates that Islamic banks contribute to financial system stability through several important mechanisms. Adequate capital, reflected in CAR, strengthens the ability of banks to absorb financial risk. A controlled NPF ratio shows better financing quality and reduces potential instability in the banking sector. Meanwhile, FDR reflects the intermediation role of Islamic banks in channeling public funds to productive sectors. Profitability indicators such as ROA and ROE also demonstrate the ability of Islamic banks to maintain operational sustainability. These findings suggest that the stability of Islamic banks is not only determined by profitability, but also by financing quality, liquidity management, capital adequacy, and compliance with sharia principles.

Changes in the macroeconomy and advances in fintech technology provide new opportunities as well as challenges. The integration of modern financial technology makes it easier for Islamic banks to improve the efficiency and accessibility of services. However, changing global conditions such as interest rate fluctuations, inflation, and regulatory uncertainty require Islamic banks to implement responsive risk management as well as solid governance (Kadaria et al., 2025; Rezky Aulia, 2024).

The resilience and stability of the Islamic banking sector has been proven, especially when compared to conventional systems, through its resilience to economic crises and real asset-based risk management. However, Islamic banks still face liquidity challenges and pressures from the global market that can affect financial intermediation and real sector development, especially for MSMEs which are the main focus of Islamic financing (Alvien Nur Amalia; Putri and Fitri, 2025; Rohimah et al., 2024).

After the merger of government-owned Islamic banks into PT Bank Syariah Indonesia, there has been an improvement in financial performance, with profitability ratios (ROA, ROE), liquidity (FDR), and solvency (CAR) in the good to very good categories. Financing restructuring strategies, service digitization, and risk management are crucial in maintaining financial performance stability in 2021-2022 (Budget Journal, 2023; Mother Ika Wulandari, 2022).

Overall, Islamic banks in Indonesia are showing positive developments in terms of efficiency, profitability, and financial stability. However, to be able to continue to exist and develop in the era of financial globalization, Islamic banks need to continue to improve product

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innovation, strengthen Islamic supervision, apply digital technology, and manage risks in a more responsive and professional manner.

## Conclusion

This study concludes that Islamic banks have an important role in supporting national financial system stability in the era of financial globalization. The financial performance of Islamic banks can be assessed through ROA, NPF, CAR, BOPO, and FDR, which reflect profitability, financing quality, capital strength, efficiency, and liquidity. Overall, Islamic banks show positive development and resilience, although they still face challenges related to liquidity risk, global market pressure, regulatory complexity, and digital transformation. Therefore, Islamic banks need to strengthen risk management, improve product innovation, enhance sharia compliance, and optimize digital financial services to maintain sustainable performance and financial system stability.

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