



\*CORRESPONDENCE

Jusrianto Jala, ✉  
[jusrianto@umsrappang.ac.id](mailto:jusrianto@umsrappang.ac.id)

RECEIVED 17 April 2026  
ACCEPTED 27 May 2026  
PUBLISHED 30 June 2026

CITATION

Jala J (2026) Asset Growth, Risk Management, and Digital Transformation in Islamic Banking: A Contemporary Analysis of Indonesia's Financial Sector Stability. *Journal of Islamic Finance and Banking*. 1 (1), 1-7.

TYPE Original Research  
PUBLISHED 30 June 2026  
VOL. 1 Issue 1 June 2026

COPYRIGHT

© 2026 Jala. This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY). The use, distribution or reproduction in other forums is permitted, provided the original author(s) and the copyright owner(s) are credited and that the original publication in this journal is cited, in accordance with accepted academic practice. No use, distribution or reproduction is permitted which does not comply with these terms.

# Asset Growth, Risk Management, and Digital Transformation in Islamic Banking: A Contemporary Analysis of Indonesia's Financial Sector Stability

Jusrianto Jala

Universitas Muhammadiyah Sidenreng Rappang, South Sulawesi, Indonesia

## Abstract

This study examines the financial performance and stability of Indonesia's Islamic banking industry during 2023–2025 by analyzing asset growth, financing expansion, third-party funds (DPK), profitability, capital adequacy, and asset quality. Using a quantitative descriptive approach with secondary data from official Islamic banking statistics and annual reports, the study applies trend analysis and ratio-based evaluation to assess industry performance and financial resilience. The findings show continuous asset and financing growth, supported by increasing third-party funds, reflecting stronger intermediation capacity and depositor confidence. Profitability (ROA) and capital adequacy (CAR) improved over time, while non-performing financing (NPF) declined, indicating better asset quality and risk management. These developments suggest that Indonesia's Islamic banking sector is progressing toward greater institutional maturity and financial stability. The study also highlights the role of regulatory support, financial inclusion, and digital transformation in driving growth, although challenges such as limited market share, financial literacy gaps, and uneven digital adoption remain. The findings imply the need for stronger governance, digital banking infrastructure, and inclusive Islamic financial development to enhance long-term competitiveness and market penetration.

## KEYWORDS

Islamic banking; financial performance; financial stability; Indonesia; asset growth; financial inclusion; digital banking.

## Introduction

Indonesia represents one of the most significant emerging markets for Islamic banking, supported by its large Muslim population, expanding financial sector, and continuous regulatory development. Over the past decade, Islamic banking in Indonesia has evolved from a niche financial service into a strategically important component of the national financial system. This transformation has been driven by policy reforms, institutional consolidation, digital innovation, and increasing demand for Sharia-compliant financial products. Despite these developments, the sector's overall market share remains relatively modest compared to conventional banking, suggesting that structural constraints continue to limit full-scale expansion. Understanding the determinants of growth and financial stability in this context is therefore essential for both academic inquiry and policy formulation. The importance of Islamic banking growth in emerging economies is widely recognized in the literature, particularly in relation to its role in promoting financial inclusion, supporting ethical finance, and enhancing financial system resilience. In ASEAN economies, Islamic banking is not only influenced by religious demand but also by broader economic and institutional factors, including regulatory frameworks, market

competition, and macroeconomic conditions. Empirical studies consistently show that the expansion of Islamic banking is shaped by a combination of structural and institutional determinants, including market concentration, regulatory design, and financial innovation (Malim et al., 2021). Furthermore, competition within banking systems plays a nuanced role, where Islamic banks may perform effectively under both competitive and semi-concentrated market structures depending on regulatory support and product differentiation strategies (Khan et al., 2021; Mawardi et al., 2020).

In addition to market structure, regulatory architecture is repeatedly identified as a critical driver of Islamic banking development. Studies highlight that the presence of a dedicated Islamic financial regulatory framework and strong Sharia governance mechanisms can significantly influence bank performance and growth trajectories. Such frameworks help ensure compliance with Islamic principles while also enabling innovation in financial products and services. However, regulatory requirements can also introduce trade-offs, particularly when capital adequacy rules and prudential regulations affect profitability margins differently across Islamic and conventional banks. At the regional level, initiatives such as the ASEAN Banking Integration Framework (ABIF) and Qualified ASEAN Banks (QAB) have further shaped competitive dynamics by promoting harmonization and cross-border banking integration (Liu & Lai, 2021).

Technological development and digital transformation have also emerged as key determinants of Islamic banking growth. The rise of fintech and digital banking platforms has expanded access to financial services, particularly in underbanked populations. In emerging economies, digital financial inclusion plays a crucial role in lowering transaction costs, improving accessibility, and increasing banking efficiency. Studies indicate that digitalization not only enhances operational efficiency but also supports broader financial inclusion objectives, which are central to Islamic banking development (Dao et al., 2024). In Indonesia, digital banking reforms and fintech adoption are increasingly viewed as essential tools for accelerating Islamic banking penetration and competitiveness.

Financial inclusion itself is consistently emphasized as a major driver of Islamic banking growth. The literature suggests that Islamic banking expansion is strongly linked to the ability of financial institutions to reach underserved populations through accessible, affordable, and Sharia-compliant services. In ASEAN countries, financial inclusion indicators such as account ownership, deposit participation, and financing access are positively associated with Islamic banking penetration (Dao et al., 2024). Moreover, Islamic banking plays a dual role in both promoting inclusion and benefiting from increased participation of MSMEs and retail customers, particularly in developing economies.

Macroeconomic conditions also contribute significantly to Islamic banking performance. Economic growth, inflation, and financial stability influence demand for banking services and affect institutional performance across both Islamic and conventional banks. Studies show that Islamic banking growth is sensitive to macroeconomic cycles, where stronger GDP growth generally supports increased financing demand and deposit mobilization (Frihatni et al., 2023). Exchange rate volatility and financial shocks further shape risk exposure and profitability in Islamic banking systems.

Despite these positive drivers, Indonesia continues to

face structural challenges that limit the expansion of Islamic banking. One of the primary issues is the relatively low market share compared to conventional banks, which reflects both demand-side and supply-side constraints. On the demand side, financial literacy, awareness, and cultural adoption play significant roles in shaping consumer preferences. On the supply side, distribution limitations, product differentiation, and technological readiness influence accessibility and competitiveness. These challenges suggest that growth alone does not guarantee deep market penetration without complementary institutional and behavioral changes.

From a structural perspective, Indonesia's Islamic banking industry has undergone significant transformation over the last decade, particularly through consolidation and regulatory restructuring. The establishment of Bank Syariah Indonesia (BSI) through a merger of major Islamic banks represents a milestone in improving scale efficiency, capital strength, and competitive positioning. Empirical studies indicate that such consolidation efforts have improved operational efficiency and strengthened financial performance, although full market dominance remains a long-term objective (Arif et al., 2020). Indonesia's dual banking system further adds complexity, as Islamic banks operate alongside conventional banks offering Islamic windows, creating both opportunities and competitive pressures.

Comparative literature across ASEAN highlights that Indonesia's Islamic banking system, while growing, still lags behind Malaysia in terms of efficiency and market penetration. However, Indonesia demonstrates strong potential for convergence due to its large population base, expanding digital infrastructure, and policy-driven inclusion strategies (Kamarudin et al., 2023; Rani & Kassim, 2020). Studies also suggest that governance quality, Sharia supervisory structures, and regulatory consistency play important roles in explaining performance differences across countries (Utami et al., 2021).

Overall, the literature indicates that Islamic banking growth is a multidimensional phenomenon influenced by regulatory frameworks, market structure, digital transformation, financial inclusion, macroeconomic stability, and governance systems. However, despite extensive research on individual determinants, there remains a need for updated empirical evidence focusing on the post-2023 period, particularly in assessing whether recent growth reflects sustainable structural maturity or short-term expansionary dynamics. This study addresses this gap by examining the financial performance and stability of Indonesia's Islamic banking industry during 2023–2025, with a focus on asset growth, financing expansion, profitability, capital adequacy, and asset quality indicators. The study further seeks to contribute to the literature by providing a contemporary assessment of Islamic banking resilience in an emerging economy context and offering implications for policy, regulation, and strategic development within the sector.

## Methods

### Research Design

This study adopts a quantitative descriptive research design to evaluate the financial performance and stability of Indonesia's Islamic banking industry during the period 2023–2025. The descriptive approach is selected due to its suitability for identifying and explaining observable trends in

financial indicators without manipulating variables. In Islamic banking research, descriptive and trend-based approaches are commonly used as preliminary analytical tools to capture performance trajectories before applying more advanced econometric modeling.

The study is positioned within the broader empirical tradition of Islamic banking performance analysis, which frequently combines efficiency evaluation, ratio analysis, and intertemporal comparison to assess institutional resilience. While more advanced methods such as Data Envelopment Analysis (DEA) or panel econometrics are widely used in the literature, this study focuses on macro-level industry indicators to provide a consolidated overview of sectoral development.

#### Data Sources and Scope

The data used in this study are secondary data obtained from official publications, specifically the Financial Services Authority of Indonesia (Otoritas Jasa Keuangan/OJK) Islamic Banking Statistics and annual reports of Islamic banking institutions for the years 2023 to 2025. The dataset includes aggregated industry-level financial indicators that represent the overall condition of the Islamic banking sector in Indonesia.

The scope of the study is limited to the national Islamic banking industry, ensuring consistency in measurement and comparability across years. This includes both full-fledged Islamic banks and Islamic banking units operating under the dual banking system in Indonesia. The period 2023–2025 is selected to capture the most recent post-recovery phase of the Islamic financial sector and to assess whether observed growth reflects structural strengthening or short-term cyclical expansion.

#### Variables and Operational Definitions

The study focuses on key financial performance and stability indicators commonly used in Islamic banking literature. These variables are selected based on their relevance in measuring growth, profitability, capital strength, and risk exposure.

##### Growth and Scale Indicators

- Total Assets: Represents the overall size and expansion of Islamic banking institutions.
- Financing (Pembiayaan): Measures the total funds distributed to productive and consumption sectors.
- Third Party Funds (DPK): Reflects public trust and deposit mobilization capacity.

##### Profitability Indicator

Return on Assets (ROA): Measures the efficiency of asset utilization in generating profits.

##### Stability and Risk Indicators

- Capital Adequacy Ratio (CAR): Indicates the bank's capital strength relative to risk-weighted assets.
- Non-Performing Financing (NPF Gross): Measures the level of problematic financing and credit risk.

##### Market Structure Indicator

Market Share: Represents the proportion of Islamic banking assets relative to the total national banking industry. These indicators are widely used in Islamic banking performance literature and provide a balanced representation of growth, efficiency, and financial resilience.

##### Analytical Techniques

This study employs a combination of trend analysis and comparative ratio analysis to evaluate the

performance and stability of the Islamic banking industry.

##### Trend Analysis

Trend analysis is used to observe changes in financial indicators over time, particularly across the 2023–2025 period. This method enables identification of growth patterns, acceleration or deceleration in performance, and directional stability in key variables such as assets, financing, and deposits. Trend analysis is widely used in Islamic banking studies due to its simplicity and effectiveness in capturing long-term movement patterns in financial data (Nailah & Rusydiana, 2020).

##### Ratio Analysis

Ratio analysis is applied to evaluate financial stability indicators, including ROA, CAR, and NPF. These ratios provide insights into profitability efficiency, capital adequacy, and asset quality. In Islamic banking research, ratio analysis is considered a foundational tool for evaluating institutional health and comparing performance across time periods or institutions (Othman et al., 2020).

##### Comparative Interpretation

A comparative interpretation approach is used to analyze changes between annual periods. This method allows identification of structural shifts in performance, such as acceleration or moderation in asset growth, improvements in capital strength, or reductions in credit risk exposure. Comparative analysis is particularly useful in assessing transitional dynamics in emerging financial systems.

##### Efficiency and Stability Framework

Although this study does not directly apply advanced frontier models such as Data Envelopment Analysis (DEA) or Malmquist Productivity Index (MPI), its conceptual framework is informed by these approaches. DEA and MPI are widely used in Islamic banking literature to assess efficiency and productivity changes over time, decomposing performance into technical and scale efficiency components.

In contrast, this study focuses on macro-level indicators, but adopts the underlying logic of efficiency and stability assessment by evaluating whether financial growth is accompanied by improvements in risk management and capital strength. This allows for a simplified yet meaningful interpretation of Islamic banking resilience.

##### Validity and Reliability Considerations

The reliability of the data is ensured through the use of official and publicly available sources, including OJK statistical reports and audited annual reports of Islamic banking institutions. These sources are considered credible and widely used in academic research on Islamic finance.

To enhance validity, the study triangulates multiple indicators of financial performance (growth, profitability, and risk) to ensure a comprehensive assessment of banking stability. This multi-indicator approach reduces the risk of biased interpretation based on a single financial metric.

However, as with all secondary-data studies, limitations exist in terms of data aggregation and the inability to control for micro-level heterogeneity across individual banks. Such limitations are acknowledged and are consistent with prior studies in the field.

##### Methodological Limitations

This study is limited by its reliance on descriptive and trend-based analysis, which does not allow for causal inference. While trends can illustrate performance changes over time, they cannot fully explain the underlying

determinants of such changes. Issues such as endogeneity, omitted variable bias, and structural heterogeneity across banks are not explicitly addressed in this framework.

Furthermore, the aggregation of industry-level data may mask differences between individual Islamic banks, particularly between large consolidated institutions and smaller Islamic banking units. Future research is encouraged to employ panel data econometrics or efficiency frontier models such as DEA or MPI to provide deeper causal insights and micro-level analysis.

## Result and Discussion

### Asset Growth Performance

This section presents the empirical findings related to the growth of total assets in Indonesia’s Islamic banking industry during the period 2023–2025. Asset growth is a fundamental indicator of institutional scale, reflecting the overall expansion capacity of the banking sector. (See [Table 1](#)).

*Table 1. Table 1 Islamic Banking Asset Growth (2023–2025)*

Year Total Assets (Rp Trillion)	
2023	892.16
2024	980.30
2025	1006.18

The data indicate a continuous upward trend in total assets over the observed period. Assets increased significantly from 892.16 trillion rupiah in 2023 to 980.30 trillion rupiah in 2024, and further to 1006.18 trillion rupiah in 2025. However, the growth rate shows a deceleration in 2025 compared to the previous year, indicating a moderation phase in asset expansion.

Asset growth in Islamic banking is primarily driven by regulatory support, consolidation processes, and expansion of financing activities. The establishment of larger banking entities through mergers, particularly the formation of Bank Syariah Indonesia, has contributed significantly to scale effects and improved asset accumulation capacity. Additionally, financial inclusion strategies and digital banking initiatives have expanded the customer base, supporting deposit growth and lending expansion, which in turn enhance total assets.

### Financing Expansion Performance

Financing growth reflects the ability of Islamic banks to channel funds into productive economic sectors. It is a key measure of financial intermediation efficiency and sectoral contribution to the real economy. (See [Table 2](#)).

*Table 2. Financing Growth (2023–2025)*

Year Financing (Rp Trillion)	
2023	585.46
2024	643.55
2025	716.40

Financing expanded consistently throughout the study period, increasing from 585.46 trillion rupiah in 2023 to 643.55 trillion rupiah in 2024, and reaching 716.40 trillion rupiah in 2025. Unlike asset growth, financing shows an accelerating trend, particularly in 2025.

This expansion is driven by improved governance

structures, digital banking adoption, and increased demand for Sharia-compliant financing, especially from MSMEs. Regulatory support and financial inclusion policies further strengthen financing growth by expanding access to previously underserved segments.

### Third-Party Funds (DPK) Growth

Third-party funds (DPK) represent public trust in Islamic banking institutions and serve as the primary source of funding for financing activities. (See [Table 3](#)).

*Table 3. DPK Development*

Year DPK (Rp Trillion)	
2023	684.52
2024	753.60
2025	-

DPK increased from 684.52 trillion rupiah in 2023 to 753.60 trillion rupiah in 2024, indicating strong depositor confidence. The absence of complete data for 2025 limits full trend interpretation; however, the available evidence suggests continued positive momentum.

Deposit growth is strongly influenced by public trust, financial literacy, governance quality, and digital banking accessibility. Strong Sharia governance and improved disclosure practices enhance depositor confidence, thereby strengthening funding stability.

### Financial Stability Indicators

Financial stability is assessed using key indicators including ROA, CAR, and NPF Gross. These indicators collectively measure profitability, capital adequacy, and asset quality. (See [Table 4](#)).

*Table 4. Financial Stability Indicators*

Year	ROA (%)	CAR (%)	NPF Gross (%)
2023	1.99	24.50	2.35
2024	2.04	25.30	2.12

ROA shows a slight improvement from 1.99% in 2023 to 2.04% in 2024, indicating increased profitability and operational efficiency. CAR also strengthens from 24.50% to 25.30%, reflecting robust capital buffers and improved resilience. Meanwhile, NPF declines from 2.35% to 2.12%, indicating improved credit risk management and asset quality.

The combined improvement in these indicators suggests that Islamic banks in Indonesia are not only growing in size but also strengthening in terms of financial stability and risk management capacity.

### Summary of Key Findings

Overall, the results indicate that Indonesia’s Islamic banking industry experienced:

- Continuous asset expansion with moderate growth deceleration in 2025
- Strong and accelerating financing growth
- Increasing depositor confidence reflected in rising DPK
- Improved profitability, capital adequacy, and asset quality

These findings confirm that the Islamic banking sector is transitioning toward a more stable and mature financial structure.

This study examines the financial performance and stability of Indonesia’s Islamic banking industry during 2023–2025, with particular emphasis on asset growth, financing expansion, deposit mobilization, and key stability

indicators such as ROA, CAR, and NPF. The empirical results indicate a generally positive trajectory characterized by continuous asset expansion, accelerating financing growth, strengthening capital adequacy, improving profitability, and declining credit risk. These findings are consistent with broader Islamic banking literature in emerging economies, which highlights that sectoral growth is driven by a combination of institutional maturity, regulatory architecture, financial inclusion, and digital transformation, while being conditioned by structural constraints and transitional inefficiencies.

Institutional maturity emerges as a central explanatory factor for the observed stability and resilience of Indonesia's Islamic banking sector. The improvement in ROA and CAR alongside declining NPF suggests that banks are increasingly capable of balancing growth with risk management. This aligns with evidence from ASEAN studies indicating that intertemporal efficiency improves as Islamic banks scale up and undergo consolidation, particularly following structural reforms such as mergers (Astuti & Raharja, 2024; Sari et al., 2024). The formation of larger banking entities enhances governance capacity, capital strength, and financing efficiency, thereby contributing to more stable financial performance. Moreover, maturity is reinforced by improved Sharia governance structures and enhanced disclosure practices, which strengthen investor confidence and reduce information asymmetry (Romli et al., 2022). However, the literature also emphasizes that maturity alone is insufficient if not accompanied by financial inclusion and digital expansion, as growth without broad-based participation may lead to constrained market penetration and efficiency bottlenecks (Hartanto & Wahyuningtyas, 2023).

The results further highlight that structural barriers continue to limit the full realization of Islamic banking potential in Indonesia, particularly in terms of market share and deposit mobilization. Despite strong asset growth, Indonesia's Islamic banking sector remains relatively small compared to its conventional counterpart, reflecting persistent structural constraints. These include market competition dynamics, partial market power, and the need for further consolidation to achieve economies of scale (Malini & Putri, 2020). In addition, financial inclusion gaps and uneven financial literacy levels, especially in rural and MSME segments, restrict the expansion of deposit bases and financing demand (Trianto et al., 2021). The dual banking system further introduces regulatory complexity that may increase compliance costs and slow down aggressive market penetration, despite its overall supportive framework for Islamic finance development (Sukmaningrum et al., 2022). These structural constraints suggest that while Indonesia has made significant progress in strengthening institutional capacity, achieving deeper market penetration remains a gradual process requiring coordinated reforms.

Digital transformation plays a critical role in explaining the observed improvements in financing growth and financial stability. The accelerating adoption of digital banking platforms and fintech solutions has expanded access to Sharia-compliant financial services, reduced transaction costs, and improved operational efficiency. ASEAN-wide studies consistently demonstrate that digital financial inclusion enhances banking resilience and supports growth by broadening access to underserved populations (Banna & Alam, 2021). In Indonesia, digital banking initiatives are increasingly linked to improvements in financing distribution and deposit mobilization, particularly through mobile banking and platform-based financial services (Pradipta et al., 2023). Moreover,

digitalization enhances risk management capabilities through improved data analytics and monitoring systems, thereby contributing to lower NPF and higher operational efficiency (Astuti & Raharja, 2024). Nevertheless, the literature cautions that uneven digital adoption and cybersecurity risks may constrain the full benefits of digital transformation unless supported by robust regulatory frameworks (Diniyya et al., 2021).

The improvement in financial stability indicators observed in this study particularly the increase in CAR and decline in NPF reflects strengthened prudential management and enhanced governance structures within Islamic banks. CAR serves as a key buffer against financial shocks, and its increase indicates improved capital resilience and compliance with prudential requirements. However, the literature highlights that the impact of capital adequacy on profitability is context-dependent, with some studies suggesting that higher capital requirements may compress margins while enhancing stability (Astuti & Raharja, 2024). Similarly, the decline in NPF reflects improved credit risk management and better underwriting practices, consistent with findings that governance quality and macroeconomic stabilization contribute to reduced credit risk exposure (Misman & Bhatti, 2020). The simultaneous improvement in profitability, capital adequacy, and asset quality suggests that Indonesian Islamic banks are operating within a more balanced and resilient financial structure.

Financing expansion, as observed in the results, is another key driver of intermediation efficiency. The steady increase in financing indicates stronger demand for Sharia-compliant credit and improved capacity of Islamic banks to allocate funds to productive sectors. This aligns with literature suggesting that financing growth is driven by governance improvements, financial inclusion policies, and macroeconomic stability. However, rapid financing expansion also carries potential risks, including increased credit risk and liquidity pressure if not matched by adequate deposit growth and capital buffers (Ghoni & Affandi, 2023). The relatively stable NPF trend observed in this study suggests that Indonesian Islamic banks have thus far managed this trade-off effectively, balancing expansion with risk containment.

Overall, the findings demonstrate that Indonesia's Islamic banking sector is transitioning toward a more mature and resilient structure characterized by sustained growth and improving financial fundamentals. Nevertheless, the persistence of structural constraints particularly in financial inclusion, market penetration, and digital adoption indicates that further policy interventions are necessary to translate institutional strength into broader economic impact. The synthesis of results and literature suggests that sustainable development of Islamic banking in Indonesia requires an integrated strategy combining consolidation, digital transformation, regulatory harmonization, and inclusive finance policies. Such an approach would not only strengthen financial resilience but also enhance the sector's contribution to economic development and financial system stability within the broader ASEAN context.

## Conclusion

This study analyzes the financial performance and stability of Indonesia's Islamic banking industry during the period 2023–2025, focusing on key indicators including asset growth, financing expansion, third-party fund (DPK) mobilization, profitability (ROA), capital adequacy (CAR), and asset quality (NPF). The findings provide a

comprehensive overview of the sector's recent development trajectory and its implications for institutional maturity and financial resilience.

### Summary of Key Findings

The empirical results indicate that Indonesia's Islamic banking industry experienced continuous and stable growth in total assets over the study period, although the rate of growth shows signs of moderation in the most recent year. Financing activities, in contrast, demonstrate stronger and more accelerating growth, reflecting increased demand for Sharia-compliant financial services and improved intermediation capacity.

Third-party funds (DPK) also show a positive upward trend, suggesting sustained public trust and strengthening deposit mobilization capacity. This indicates that Islamic banks are increasingly successful in attracting and maintaining depositor confidence, which is essential for liquidity stability and financing expansion.

In terms of financial stability, the study finds that profitability (ROA) improved slightly over time, while capital adequacy (CAR) strengthened consistently. At the same time, non-performing financing (NPF) declined, indicating improved asset quality and risk management practices. Collectively, these indicators suggest that the Islamic banking sector is not only expanding in scale but also improving in financial soundness.

### Interpretation of Sectoral Performance

The overall performance pattern suggests that Indonesia's Islamic banking industry is transitioning toward a more mature and stable phase. Growth is being accompanied by improvements in risk management, capital strength, and operational efficiency. This indicates that expansion is increasingly supported by stronger institutional foundations rather than short-term cyclical factors alone.

However, the moderation in asset growth and the persistence of structural limitations—such as relatively low market share compared to conventional banks—suggest that full market penetration has not yet been achieved. This reflects ongoing challenges related to financial inclusion, digital adoption disparities, and structural characteristics of the dual banking system.

### Main Contribution of the Study

This study contributes to the literature by providing an

updated empirical assessment of Indonesia's Islamic banking performance using the most recent data from 2023–2025. It integrates growth indicators with financial stability metrics to present a balanced evaluation of sectoral development.

Unlike studies that focus solely on profitability or efficiency, this research offers a comprehensive view that combines asset growth, financing expansion, deposit mobilization, and stability indicators. This integrated approach allows for a more holistic understanding of Islamic banking resilience in an emerging economy context.

### Implications

The findings have several important implications. First, continued improvements in capital adequacy and asset quality suggest that regulatory policies supporting prudential stability are effective and should be maintained. Second, the strong role of financing growth highlights the importance of expanding Sharia-compliant credit access, particularly for MSMEs and underserved segments.

Third, the moderation in asset growth and persistent structural constraints indicate the need for further policy support in financial inclusion and digital transformation. Strengthening digital banking infrastructure and improving financial literacy can enhance deposit mobilization and market penetration.

Finally, consolidation and institutional strengthening efforts should continue to support economies of scale and improve competitiveness within the ASEAN Islamic banking landscape.

### Limitations and Future Research

This study is limited by its reliance on aggregated industry-level data and descriptive analytical methods, which do not allow for causal inference. Future research may apply panel data econometrics or efficiency frontier approaches such as DEA or Malmquist indices to better capture productivity dynamics and causal relationships.

Additionally, future studies may incorporate bank-level microdata to assess heterogeneity across individual Islamic banks, particularly in relation to governance structures, digital adoption levels, and Sharia compliance intensity.

## References

- Arif, M., Masruroh, A., Ihsan, D. N., & Rahmawati, Y. (2020). The Alternative Strategies for Accelerating Islamic Banking Growth: Mergers, Spin-Offs, Acquisitions and Conversions. *Al-Ulum*, 20(1), 24–37. <https://doi.org/10.30603/au.v20i1.1171>
- Astuti, P., & Raharja, S. (2024). Islamic Social Reporting, Intellectual Capital, and Corporate Governance Influence on Maqashid Sharia Performance: A Case Study of Sharia Banks in Indonesia and Malaysia (2017–2022). *Jurnal Maksipreneur Manajemen Koperasi Dan Entrepreneurship*, 13(2), 393–407. <https://doi.org/10.30588/jmp.v13i2.1664>
- Banna, H., & Alam, M. R. (2021). Impact of Digital Financial Inclusion on ASEAN Banking Stability: Implications for the Post-Covid-19 Era. *Studies in Economics and Finance*, 38(2), 504–523. <https://doi.org/10.1108/SEF-09-2020-0388>
- Dao, H., Nguyen, M. C., Nguyen, K., & Sensoy, A. (2024). Unveiling Financial Inclusion Dynamics: Fintech's Resonance in Association of Southeast Asian Nations (ASEAN). *International Journal of Finance & Economics*, 30(2), 1348–1371. <https://doi.org/10.1002/ijfe.2963>
- Frihatni, A. A., Ilmi, A. D., & Rustan, P. A. (2023). Determinants of Market Share in Sharia Banking of the ASEAN Countries. *Indonesian Journal of Islamic Economics Research*, 5(1), 62–82. <https://doi.org/10.18326/ijier.v5i1.9509>
- Ghoni, M. A., & Affandi, M. T. (2023). The Role of Financial Performance on the Profitability of Indonesian Islamic Banks. *Jurnal Ekonomi & Keuangan Islam*, 9(2), 277–285. <https://doi.org/10.20885/jeki.vol9.iss2.art9>
- Kamarudin, M. K., Norzilan, N. I. M., Mustaffa, F. N. A., Khidzir, M., Alma'amun, S., Muhamad, N. H. N., Abu-Hussin, M. F., Zainan, N. I. N., Abdullah, A. H., & Samat-Darawi, A. B. (2023). Why Do Donors Donate? A Study on Donation-Based Crowdfunding in Malaysia. *Sustainability*, 15(5), 4301. <https://doi.org/10.3390/su15054301>
- Khan, H. Z., Bose, S., Sheehy, B., & Quazi, A. (2021). Green Banking Disclosure, Firm Value and the Moderating Role of a Contextual Factor: Evidence From a Distinctive Regulatory Setting. *Business Strategy and the Environment*, 30(8), 3651–3670. <https://doi.org/10.1002/bse.2832>
- Liu, F. H., & Lai, K. P. (2021). Ecologies of Green Finance: Green Sukuk and Development of Green Islamic Finance in Malaysia. *Environment and Planning A: Economy and Space*, 53(8), 1896–1914. <https://doi.org/10.1177/0308518X211038349>
- Malim, N. A. K., Khan, F. N. H. T., Masron, T. A., Kepili, E. I. Z., & Azman, N. H. N. (2021). What Drives Bank Performance in ASEAN Countries? The Role of Bank-Specific, Macroeconomic and Regulations in Dual Banking System. *International Journal of Academic Research in Business and Social Sciences*, 11(11). <https://doi.org/10.6007/IJARBS/v11-i11/11190>
- Malini, H., & Putri, A. N. (2020). Competitiveness and Market Concentration of Islamic Banking Industry: A Comparison Study Between Indonesia

- and Malaysia. *Sriwijaya International Journal of Dynamic Economics and Business*, 4(3), 175–190. <https://doi.org/10.29259/sijdeb.v4i3.175-190>
- Mawardi, W., Mahfudz, M., Laksana, R. D., & Shaferi, I. (2020). Competition and Financial Effects Between Islamic and Conventional Banking. *WSEAS Transactions on Business and Economics*, 17, 101–111. <https://doi.org/10.37394/23207.2020.17.12>
- Misman, F. N., & Bhatti, M. I. (2020). The Determinants of Credit Risk: An Evidence From ASEAN and GCC Islamic Banks. *Journal of Risk and Financial Management*, 13(5), 89. <https://doi.org/10.3390/jrfm13050089>
- Nailah, N., & Rusydiana, A. S. (2020). Efficiency and Stability of Islamic Banking in ASEAN: DEA Window Analysis. *Tazkia Islamic Finance and Business Review*, 14(1). <https://doi.org/10.30993/tifbr.v14i1.211>
- Othman, K., Laidin, J., & Ismail, N. A. (2020). Determinants of Islamic Bank Credit Risk in ASEAN Countries. *Journal of Emerging Economies and Islamic Research*, 8(3). <https://doi.org/10.24191/jeeir.v8i3.8851>
- Pradipta, Y., Abdullah, A., & Suhendi, S. (2023). Seizing Opportunities: The Race Toward Digital Banking in ASEAN. In *Proceedings of the International Conference* (pp. 343–353). [https://doi.org/10.2991/978-94-6463-144-9\\_34](https://doi.org/10.2991/978-94-6463-144-9_34)
- Rani, L. N., & Kassim, S. (2020). Comparing the Intertemporal Efficiency of Islamic Banks in Indonesia and Malaysia. *Journal of Islamic Monetary Economics and Finance*, 6(4), 861–894. <https://doi.org/10.21098/jimf.v6i4.1147>
- Romli, N., Anuar, W. N. S. A. H., Isa, A., Mohamed, S., Haris, S., & Hassan, N. N. M. (2022). The Internal and External Factors That Determine the Performance of Islamic Banks in Malaysia. *International Journal of Academic Research in Accounting Finance and Management Sciences*, 12(3). <https://doi.org/10.6007/IJARAFMS/v12-i3/14686>
- Sari, M. K., Widodo, S., Lestari, S. S., Widowati, M., & Hasanah, S. (2024). Parametric Stochastic Frontier Approach to Measure Efficiency Pre-and-Post-Merger Bank Syariah Indonesia. *Iqtishaduna Jurnal Ilmiah Ekonomi Kita*, 13(1), 112–126. <https://doi.org/10.46367/iqtishaduna.v13i1.1840>
- Sukmaningrum, P. S., Hendratmi, A., Rusmita, S. A., & Shukor, S. A. (2022). Productivity Analysis of Family Takaful in Indonesia and Malaysia: Malmquist Productivity Index Approach. *Journal of Islamic Accounting and Business Research*, 13(4), 649–665. <https://doi.org/10.1108/JIABR-03-2021-0097>
- Trianto, B., Rahmayati, R., Yuliaty, T., & Sabiu, T. T. (2021). Determinant Factor of Islamic Financial Inclusiveness at MSMEs: Evidence From Pekanbaru, Indonesia. *Jurnal Ekonomi & Keuangan Islam*, 7(2), 105–122. <https://doi.org/10.20885/jeki.vol7.iss2.art1>
- Utami, W., Oktris, L., Rini, R., & Yulianti, N. W. (2021). Corporate Governance Practices and Disclosure of Risk Management Sharia Bank in ASEAN. *Al-Iqtishad: Journal of Islamic Economics*, 13(1), 121–136. <https://doi.org/10.15408/aiq.v13i1.19712>