

## Resilience of the Financial Performance of the Islamic Banking Industry in Indonesia to the Crisis

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### Article Info

#### Article history:

Received, 22-02-2026

Accepted, 13-04-2026

Published, 16-04-2026

#### Keywords:

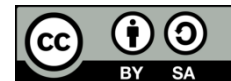
Islamic Banking, Resilience, BUS, UUS, ARDL, Risk Mapping

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### ABSTRACT

This study examines the financial resilience of Islamic banking in Indonesia by comparing Bank Umum Syariah (BUS) and Unit Usaha Syariah (UUS) in responding to macroeconomic shocks during January 2015 until December 2023. A composite resilience index is constructed using a z-score approach that integrates profitability and leverage indicators. The Autoregressive Distributed Lag (ARDL) model is employed to capture short-run and long-run dynamics between resilience and its determinants, including total assets, third-party funds, inflation, the Bank Indonesia policy rate, and the COVID-19 shock. The results confirm long-run cointegration for both BUS and UUS, with notable differences in adjustment patterns. BUS demonstrates stronger structural resilience supported by asset scale, whereas UUS exhibits higher sensitivity to monetary tightening. Risk mapping further reveals latent vulnerabilities within the dual banking system. These findings highlight the need for differentiated supervision and a more selective approach in evaluating the readiness of UUS transformation into full-fledged Islamic banks.

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## 1. Introduction

Sharia banking in Indonesia is evolving as a component of a national financial framework that adheres to Sharia principles, while concurrently being anticipated to enhance intermediation functions and foster more equitable economic progress. The institutional advancement of this sector is evidenced by the increasing number of entities and service networks. According to the Financial Services Authority report dated March 2024, there exist 14 Sharia Public Banks (BUS) and 19 public banks featuring Sharia Business Units (UUS), supported by a network of offices and service infrastructure disseminated across diverse regions of Indonesia. This proliferation signifies a heightened accessibility to Sharia banking services for the populace and paves the way for broader growth prospects.

The attributes of Sharia banking extend beyond the commercial domain; they are also obligated to implement financial principles that eschew usury, underscore equity, and yield broader social advantages (Agustin, 2021). The potential of the domestic market is considerably substantial given that the majority of the Indonesian population adheres to Islam, and the demand for halal transactions is perpetually escalating, thereby serving as a catalyst for growth and bolstering the performance of the Sharia banking sector (Nissa & Dhuhri, 2022; Syafii & Harahap, 2020). Nonetheless, realizing this potential necessitates the industry's capacity to adapt through innovation, technological integration, enhancement of human resource quality, and institutional fortification to effectively compete with conventional banking models (Siregar & Siregar, 2020).

As the industry advances, Sharia banking is increasingly exposed to macroeconomic vulnerabilities that may affect its financial stability. Fluctuations in key macroeconomic indicators, such as inflation and exchange rates, can influence the cost of funds, debtor repayment capacity, and portfolio risk, thereby shaping banking performance across both short-term and long-term horizons. In this context, economic crises function as natural stress tests that reveal the structural resilience of financial institutions. The COVID-19 pandemic, in particular, has intensified pressures on economic activity and financing quality, highlighting the importance of a banking system's ability not only to maintain performance

but also to adapt dynamically under adverse conditions. Despite the growing attention to banking resilience, existing studies often focus on static indicators or do not explicitly distinguish between short-run adjustments and long-run equilibrium dynamics. This limitation constrains the understanding of how resilience evolves over time, especially under persistent macroeconomic shocks.

Furthermore, limited attention has been given to the structural differences within dual banking systems, particularly between Bank Umum Syariah (BUS) and Unit Usaha Syariah (UUS). These institutional differences may lead to heterogeneous responses to shocks, making it essential to analyze resilience in a more disaggregated and dynamic framework. The most significant challenges emerge when the industry encounters systemic shocks, one prominent example being the COVID-19 pandemic, which poses the risk of diminishing profitability, elevating the likelihood of problematic financing, and testing the resilience of capital structures. In the context of the crisis, the principal concern transcends merely whether the performance of Sharia banking is deteriorating or improving; it encompasses the speed of the industry's adaptation, as well as the stability of the fundamental relationship between financial performance and its determinants over the long term. Numerous studies have underscored the resilience of Sharia banking during various crisis episodes; however, research that distinctly delineates short- and long-term dynamics and examines the stability of relationships during the pandemic period remains underdeveloped, particularly within the context of the Islamic banking industry in Indonesia.

In addition to intrinsic factors the resilience of Islamic banking institutions is significantly shaped by macroeconomic conditions. Inflationary pressures can influence the cost of capital, the quality of financing, and profit margins, whereas fluctuations in exchange rates have the capacity to exert pressure through price instability, costs associated with imports, and real sector vulnerabilities to which banks are exposed as debtors. Consequently, it is imperative to evaluate the extent to which variations in inflation and exchange rates, along with the duration of the COVID-19 crisis, correlate with the resilience of sharia

banking in both short-term fluctuations and long-term associations. Conversely, empirical investigations frequently concentrate on specific performance metrics in isolation, thereby necessitating an enhancement in composite index-based resilience evaluations and the examination of long-term relational stability, particularly when utilizing high-frequency data. Despite the burgeoning literature concerning banking resilience, there remain several pertinent research voids. Firstly, the majority of investigations assess resilience via a singular indicator or static methodology, thus failing to encapsulate the adaptive aspect of resilience comprehensively. Secondly, research that amalgamates composite index-based resilience assessments with the analysis of both short- and long-term dynamics remains scarce. Furthermore, studies that explicitly juxtapose the robustness of Sharia Public Banks (BUS) and Sharia Business Units (UUS) utilizing high-frequency data over extended timeframes are infrequent. This deficiency diminishes the capacity of prior research to elucidate the responsiveness of sharia banking to macroeconomic perturbations of a dynamic character. Hence, an empirical methodology is requisite to bridge these gaps while augmenting the policy relevance of the research outcomes (Sylvia et al., 2024). The demand for a more pragmatic resilience analysis has also intensified in the post-pandemic milieu (Danisman et al., 2021).

In light of this exposition, the present study endeavors to analyze and contrast the resilience of Sharia Public Banks (BUS) and Sharia Business Units (UUS) in Indonesia when confronted with macroeconomic shocks during the period spanning from January 2015 to December 2023. The research employed a resilience index framework predicated on financial performance indicators, in conjunction with the Autoregressive Distributed Lag (ARDL) model, to discern short- and long-term dynamics. Moreover, this investigation categorizes the potential risks associated with sharia banking into safe, moderate, and risky classifications based on empirical findings. It is anticipated that this study will make empirical contributions to the existing literature on the resilience of sharia banking and yield pertinent policy implications aimed at fortifying the stability of the financial system in

Indonesia (Trinh et al., 2023). Resilience-oriented approaches are also anticipated to augment traditional banking stability assessments (Daadmehr, 2024).

## 2. Methods

The research employed a monthly time series dataset encompassing an observation period from January 2015 to December 2023. The selection of this time frame is intended to elucidate resilience dynamics preceding and succeeding the Covid-19 pandemic, which manifested in Indonesia in March 2020. The focus of this investigation is primarily on the resilience of both BUS and UUS in Indonesia as a collective entity. All data were sourced from authoritative institutions, specifically the Financial Services Authority (OJK) and Bank Indonesia (BI), thereby bolstering the analysis of both short-term and long-term dynamics. The research model is articulated with the resilience index serving as the dependent variable, constructed through the z-score method to combine financial indicators characterized by varying scales and degrees of variability. Theoretically, z-scores facilitate the standardization of each ratio, thus enabling a proportional comparison of the relative contributions of each indicator to overall resilience. The index synthesizes The resilience index is constructed using ROA, ROE, and NPM as profitability-based indicators, and DER and DAR as leverage-based indicators. These variables are selected to capture two fundamental dimensions of financial resilience: income-generating capacity and solvency risk. Profitability ratios (ROA, ROE, and NPM) reflect the bank's ability to generate stable returns from its assets, equity, and operations, which is essential for absorbing short-term shocks. Meanwhile, leverage ratios (DER and DAR) represent the extent of financial obligations and exposure to solvency pressures, where higher leverage increases vulnerability to adverse conditions. Alternative indicators such as Gross Profit Margin (GPM) or Operating Profit Margin (OPM) are not employed, as they are less commonly applied in banking sector analysis due to differences in financial structure compared to non-financial firms. Similarly, capital adequacy measures such as Tier ratios are excluded to avoid redundancy with leverage-based indicators and to maintain parsimony in the composite index construction. Therefore, the selected ratios

provide a balanced and theoretically grounded representation of resilience by integrating profitability and financial risk dimensions. Through this formulation, the resilience index encapsulates not only the performance status at a specific point in time but also the relative stability of banking institutions amidst financial volatility.

The independent variables incorporated in the model comprise total assets, total third-party funds, inflation rates, the benchmark interest rate set by Bank Indonesia, as well as dummy variables pertinent to the COVID-19 pandemic, which serve as proxies for external shocks. Total third-party assets and funds are indicative of internal structural robustness, while inflation and interest rates reflect macroeconomic pressures that could potentially influence resilience. The estimation procedure was conducted utilizing the Autoregressive Distributed Lag (ARDL) approach, given its capacity to accommodate variables with mixed integration orders and its efficacy with limited sample sizes. The estimation model in this study is :

$$RES_t = \alpha + \sum_{j=0}^{n_4} \beta_1 \Delta \log AST_{t-j} + \sum_{j=0}^{n_4} \beta_2 \Delta \log DPK_{t-j} + \sum_{j=0}^{n_4} \beta_3 \Delta INF_{t-j} + \sum_{j=0}^{n_4} \beta_4 \Delta BRT_{t-j} + \sum_{j=0}^{n_4} \beta_5 \Delta COV_{t-j} + \delta_1 \log AST_{t-1} + \delta_2 \log DPK_{t-1} + \delta_3 INF_{t-1} + \delta_4 BRT_{t-1} + \delta_4 COV_{t-1} + \varepsilon_t \dots \dots \dots (1)$$

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**Table 1.** Variable Definition

Variable	Definition	Unit
$RES_t$	Resilience Index of Islamic Banks (BUS) and Islamic Business Units (UUS) in period t	Index
$AST_t$	Total Assets of Islamic Banks (BUS) and Islamic Business Units (UUS) in period t	Rp Trillion
$DPK_t$	Total Third Party Funds of Islamic Banks (BUS) and Islamic Business Units (UUS) in period t	Rp Trillion

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$INF_t$	Indonesia's Monthly Inflation in period t	(%)
$BRT_t$	BI Benchmark Interest Rate in period t	(%)
$COV_t$	Covid-19 Dummy Variable: 0: March 2020 – December 2022 1: Other than March 2020	

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This research employed a quantitative methodology utilizing the Autoregressive Distributed Lag (ARDL) estimation technique to investigate the resilience dynamics of Islamic banking in Indonesia. The selection of the ARDL method was predicated on its capability to accommodate variables exhibiting varied levels of integration, specifically I (0) and I (1), without necessitating that all stationary variables adhere to a uniform order (Pesaran et al., 2001). Furthermore, the ARDL framework is proficiently applied in scenarios involving relatively restricted sample sizes, while simultaneously permitting the estimation of both short- and long-term relationships within a singular analytical context, thereby rendering it extensively utilized in examinations of financial sector stability and resilience Omar et al. (2022). Methodologically, the estimation process commences with the identification of the optimal lag length as determined by information criteria, alongside cointegration testing employing a bounds testing approach. Estimations were performed independently for Sharia Public Banks (BUS) and Sharia Business Units (UUS) to elucidate disparities in institutional characteristics within dual banking systems (Bektas et al., 2022), with the resultant findings employed to chart the potential and risks of resilience into classifications of safe, moderate, and risk categories predicated on the direction and significance of both short- and long-term effects.

The classification of potential and resilience risks is executed to transform the outcomes of econometric estimation into a more applicable interpretative framework. The safe classification is allocated to variables that exhibit a significant influence in a manner that fortifies resilience across both time horizons, thereby encapsulating the role of sustained stabilization. The moderate classification is designated for variables that demonstrate a significant influence confined to a single temporal horizon or exhibit a relatively attenuated

direction of influence, suggesting a potential risk that has yet to manifest as systemic. Conversely, risk classifications are conferred upon variables that reveal significant influences that undermine resilience, particularly in the long term, thereby signifying structural vulnerabilities that could escalate in response to macroeconomic shocks. This methodology aligns with resilience-oriented risk mapping practices that underscore the integration of dynamic analysis with structural risk assessment (Labini & Nyenno, 2023).

### 3. Results

**Table 2.** Stationary

Variable	BUS		UUS	
	I <sub>0</sub>	I <sub>1</sub>	I <sub>0</sub>	I <sub>1</sub>
logAST	0.009	0.000	0.009	0.000
logDPK	0.000	0.000	0.112	0.000
INF	0.188	0.000	0.188	0.000
BRT	0.001	0.000	0.001	0.000

Source: Author

According to the findings presented in Table 2, the outcomes of the stationarity assessment indicate that the variables incorporated within the model exhibit diverse levels of integration in both the Sharia Public Bank (BUS) and the Sharia Business Unit (UUS). The LogaST and INF variables demonstrate stationarity at the level, thereby classified as integrated of order I (0), whereas LogDPK and BRT do not exhibit stationarity at the level but attain stationarity subsequent to the first differentiation, indicating integration of order I (1). The absence of variables integrated at order I (2) substantiates that the model adheres to the necessary conditions for employing the Autoregressive Distributed Lag (ARDL) methodology for the analysis of both short-term and long-term relationships.

**Table 3.** Bound F-Test Model

Value	BUS		UUS	
	F-stat	t-stat	F-stat	t-stat

10% (I0 - I1)	2.242 - 3.484	-2.481 - -3.758	2.242 - 3.484	-2.481 - -3.758
5% (I0 - I1)	2.638 - 3.999	-2.806 - -4.130	2.638 - 3.999	-2.806 - -4.130
1% (I0 - I1)	3.518 - 5.121	-3.442 - -4.844	3.518 - 5.121	-3.442 - -4.844
P-Value	0.002 - 0.025	0.000 - 0.008	0.000 - 0.000	0.000 - 0.003

Source: Author

Based on the evidence presented in Table 3, the results of the bounds test reveal that the F-statistic and t-statistic values within the BUS and UUS models exceed the upper limit (I1) at both the 5% and 1% significance thresholds, accompanied by statistically significant p-values. These outcomes provide compelling evidence supporting the existence of long-term cointegration relationships among the variables in both analytical frameworks. Consequently, it may be inferred that a long-term equilibrium relationship exists between macroeconomic variables and the resilience of sharia banking, thereby justifying the continuation of the analysis using the Autoregressive Distributed Lag (ARDL) methodology for both short-term and long-term perspectives.

**Table 4.** Validity Test

Test	BUS		UUS	
	Value	Prob.	Value	Prob.
Autocorrelation (Breusch-Godfrey)	0.002	0.966	0.052	0.8201
Normality (Jarque-Bera)	0.455	0.455	1.114	0.212
Linearity (Ramsey-RESET)	1.241	0.2982	0.212	0.8987
Heteroscedasticity (Breusch-Pagan)	0.054	0.9951	0.180	0.6754
Model Stability (Sbcusum)	0.9479	0.8987	0.947	0.8893

Source: Author

According to Table 4, the findings from the classical assumption assessment reveal that the ARDL models for BUS and UUS exhibit no issues related to autocorrelation or heteroscedasticity, and possess a residual distribution that conforms to normality, as indicated by the probability values of the comprehensive tests exceeding the 5% significance threshold. Furthermore, the Ramsey-reset test corroborates that the model maintains linearity and is devoid of specification errors. Additionally, the outcomes from the model stability

assessment demonstrate that the estimated parameters remain consistent throughout the observation period, thereby affirming the model's applicability for analyzing both short- and long-term relationships.

**Table 5.** ARDL Estimation

Variable	BUS				UUS			
	SR		LR		SR		LR	
	Coeff	Lag	Coeff	Lag	Coeff	Lag	Coeff	Lag
<i>logAST</i>	12.776*	L1	9.6829*	L1	15.365*	L1	-32.1490*	L1
<i>logDPK</i>	-4.9539*	L1	-7.1083*	L1	1.6573	L1	-0.9991	L1
<i>INF</i>	0.4189*	L1	0.25044	L1	0.4114	L1	0.8243*	L1
<i>BRT</i>	-1.1716*	L2	0.3245	L1	-2.1650*	L1	-0.0888	L1
<i>COV</i>	1.5901*	L1	0.6420	L1	1.7162*	L1	0.5771	L1
<i>ECT</i>			-0.8956462*				-0.9707614*	
<i>ADJ(- I/ECT)</i>			111.65%				103.01%	

Source: Author

Building on the estimation results, the short-run dynamics indicate that, for BUS, LogAST, LogDPK, inflation, interest rates (BRT), and the COVID-19 dummy variable have statistically significant effects on the resilience index. LogAST and inflation exhibit positive effects, while LogDPK and interest rates show negative effects. In the case of UUS, LogAST, BRT, and the COVID-19 dummy variable are statistically significant in the short run, whereas LogDPK and inflation are not significant. While the short-run results capture immediate adjustment dynamics, the long-run estimates reveal more pronounced differences between BUS and UUS. In BUS, LogAST shows a positive and significant effect, whereas LogDPK exhibits a negative and significant effect. In contrast, in UUS, LogAST has a negative and significant effect on long-run resilience. To ensure the reliability of these findings, a series of diagnostic tests were conducted. The results indicate no evidence of autocorrelation or heteroscedasticity, and the residuals are normally distributed. Furthermore, the model satisfies linearity and stability conditions, suggesting that the estimated coefficients are robust and suitable for inference.

The Error Correction Term (ECT) coefficients for BUS (-0.8956) and UUS (-0.9708) are negative and statistically significant, confirming the existence of a long-run equilibrium relationship. The magnitude of the coefficients implies a rapid adjustment process, where approximately 89.6% (BUS) and 97.1% (UUS) of short-term deviations are corrected within one period. The adjustment speed exceeding unity suggests a potential overshooting phenomenon, indicating that the system may temporarily surpass its equilibrium level before stabilizing. Several limitations should be noted. The analysis is based on aggregated data for BUS and UUS, which may not fully capture bank-level heterogeneity. In addition, the ARDL framework assumes linear relationships, and therefore potential nonlinear or asymmetric dynamics are not explicitly addressed. Despite these limitations, the consistency of the results and the stability of the model support the robustness of the findings.

#### **4. Discussion**

These findings indicate that the resilience of Islamic banking, particularly between BUS and UUS, is dynamic and varies across different temporal horizons. This supports the view that banking resilience should not be interpreted as a static condition, but rather as an adaptive process that evolves over time. As noted by Sylvia et al. (2024), resilience reflects the ability of financial institutions to absorb shocks while maintaining long-term structural stability. In the short run, the results suggest that BUS demonstrates relatively stronger responsiveness to macroeconomic shocks compared to UUS. This is reflected in the broader set of significant variables affecting resilience in BUS, including assets, inflation, interest rates, and the COVID-19 shock. Such findings may indicate that BUS possesses greater operational flexibility and capacity to adjust in the face of short-term disturbances. This interpretation is consistent with Bastan et al. (2024), who argue that larger and more operationally developed banking institutions tend to have greater adaptive capacity under short-term stress conditions. In contrast, the more limited set of significant variables in UUS suggests a relatively constrained short-term adjustment mechanism.

While short-run dynamics capture immediate responses, the long-run results reveal a more structural divergence between BUS and UUS. In BUS, the positive effect of assets suggests that scale contributes to long-term resilience. However, the negative effect of third-party funds (DPK) indicates potential structural pressure associated with funding expansion. In contrast, the negative long-run effect of assets in UUS may indicate that asset growth is not fully supported by institutional capacity or risk management effectiveness. This finding aligns with Bektas et al. (2022), who highlight that Sharia business units operating within dual banking systems often face limitations in strategic autonomy and long-term decision-making. Furthermore, macroeconomic shocks such as the COVID-19 pandemic can be interpreted as stress-testing mechanisms for banking resilience. The results show that the COVID-19 variable has a significant effect in the short term but does not persist in the long run, particularly in BUS. This suggests that while the pandemic imposed immediate pressure, it did not fundamentally disrupt long-term resilience. This pattern is consistent with Danisman et al. (2021), who find that the impact of crises on banking stability depends on institutional adaptability and market structure. Similarly, Trinh et al. (2023) emphasize that resilience is characterized not by the absence of shocks, but by the capacity to recover and stabilize over time.

**Table 6.** Potential Risk Mapping

<b>Variable</b>	<b>BUS</b>	<b>UUS</b>
Total Assets	Safe	Moderate
Total Third Party Funds	Risk	Moderate
Inflation	Moderate	Moderate
BI Benchmark Interest Rate	Moderate	Risk
Covid-19 Shock	Moderate	Moderate

Source: Author Building on the risk classification results, the mapping indicates that BUS generally exhibits.

Building on the risk classification results, the mapping indicates that BUS generally exhibits stronger structural resilience compared to UUS, particularly in relation to total assets. Based on the predefined decision rules, total assets in BUS are classified as safe, as

they show a positive and significant effect in both the short run and long run. This suggests that asset scale functions as a consistent stabilizing factor for resilience. In contrast, total assets in UUS are categorized as moderate, reflecting significance in only one time horizon and indicating a less consistent contribution to resilience. This difference implies that the role of asset expansion varies across institutional structures. In BUS, asset growth appears to function as a stabilizing factor, whereas in UUS, the effect is less robust and may depend on institutional and structural factors. This finding is consistent with Yulyanti & Endang Hatma Juniwati (2022), who emphasize that institutional readiness is crucial in translating growth into sustainable performance.

The risk mapping also highlights distinct sources of vulnerability between BUS and UUS. Third-party funds (DPK) in BUS are classified as risk, as they exhibit a negative and significant effect in the long run, indicating potential structural pressure associated with funding expansion. Meanwhile, in UUS, the benchmark interest rate is categorized as risk, reflecting its negative and significant long-run effect and suggesting greater sensitivity to monetary policy changes. This pattern aligns with (Dja'akum et al., 2024), who note that sharia business units tend to face limitations in managing long-term financial risks due to structural dependence on parent institutions. In contrast, macroeconomic variables such as inflation and the COVID-19 shock are classified as moderate for both BUS and UUS, indicating that their effects are either short-term or not consistently significant across time horizons. This suggests that external shocks affect both banking groups in a broadly similar manner, although their long-term impact remains limited.

From a policy perspective, these findings highlight the need for a differentiated and risk-based supervisory approach. The heterogeneity observed between BUS and UUS implies that uniform policy frameworks may overlook institution-specific vulnerabilities. As highlighted by Hudaya & Firmansyah (2023), effective financial stability policies require sensitivity to institutional characteristics. Furthermore, the classification results suggest that the transformation of UUS into BUS should be evaluated based on structural readiness rather

than solely on expansion targets. In particular, the presence of risk classifications in key variables such as funding structure and interest rate sensitivity indicates that premature transformation may introduce additional vulnerabilities. This argument is consistent with Iqbal et al. (2026), who emphasize the importance of managerial capacity and institutional strength in maintaining banking stability under macroeconomic pressure. Overall, the risk mapping framework reveals that aggregate stability in the Islamic banking sector may mask underlying heterogeneity across institutional types. The presence of moderate and risk classifications across several variables indicates latent vulnerabilities that could intensify under adverse conditions. Therefore, strengthening financial resilience requires a more granular and institution-specific approach, as also suggested by Trinh et al. (2023), particularly in the context of systemic shocks.

## 5. Conclusion

This research identifies distinct structural variations in financial resilience between Bank Umum Syariah (BUS) and Unit Usaha Syariah (UUS) within the Indonesian context. BUS exhibits a comparatively enhanced resilience, predominantly underpinned by a larger asset base and a more consistent capacity for long-term adjustment. Conversely, UUS shows an elevated sensitivity to fluctuations in the Bank Indonesia policy rate as well as to broader macroeconomic influences. These findings affirm that the resilience of Islamic banking is characterized by heterogeneity and is specific to individual institutions, rather than being uniform throughout the dual banking system. As a result, analyzing industry stability at an aggregate level may obscure underlying vulnerabilities at the institutional level. The results underscore the necessity of integrating institutional characteristics into the assessment of resilience to achieve a more precise understanding of systemic robustness.

Future investigations are advocated to broaden the analytical scope by employing bank-level panel data in order to more effectively delineate the heterogeneity present among distinct Islamic banking institutions. The integration of nonlinear or asymmetric modeling

techniques (for instance, NARDL or quantile methodologies) may yield more profound insights into the manner in which resilience reacts under varying stress conditions. Moreover, an extension of the observational timeframe to encompass more contemporary post-pandemic developments would enhance temporal robustness. Subsequent inquiries might also incorporate variables related to governance quality, digitalization, or liquidity structure to augment the resilience framework. Such advancements would contribute to a more nuanced comprehension of structural preparedness, particularly in assessing the circumstances under which the transformation of UUS into BUS can fortify—rather than inadvertently undermine—the Islamic banking system.

## 6. Acknowledgement

The authors gratefully acknowledge that this research has been conducted in accordance with established academic and methodological standards to ensure the validity and reliability of the findings. The authors also extend sincere appreciation to colleagues, reviewers, and institutional supporters whose constructive feedback and insights contributed to the improvement of this study. This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors. All research activities were independently conducted by the authors.

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