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SHARIAH BANKING DYNAMICS: FINANCIAL PERFORMANCE AND STABILITY AMID MIDDLE EAST CONFLICT

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Abstract

Financial system resilience is crucial in maintaining a country's economic stability, and the role of the banking industry, particularly Islamic banks in the Middle East, is a key element in this context. Healthy bank conditions and efficient intermediation operations are vital indicators in determining the level of stability. This study aims to explore the influence of financial performance on the stability of Islamic banks in times of conflict, particularly in the period 2013-2022 in the region. Using quantitative method, this study adopts panel data regression test through Eviews 12 software, with Z-score as the stability measurement tool. Secondary data taken from state financial reports and several public sources form the basis of the analysis, with sample selection using purposive sampling techniques covering 13 countries in the Middle East. The results show that financial performance variables, such as NPF and NPM, have a negative influence on bank stability. In contrast, CAR and ROA variables show a positive influence on bank stability, while CIR and FDR variables have no significant influence on bank stability. The results of this study can serve as a basis for financial supervisory authorities and Islamic banking regulators in the Middle East to consider improvements in managing financial conflict risk. The research also highlights the importance of policy implementation to improve asset quality, risk management, and operational efficiency to strengthen the resilience of Islamic banks in times of conflict.

Keywords: *Financial Performance, Bank Stability, Conflict, Middle East*
JEL Classification: B26, G20, L25

1. INTRODUCTION

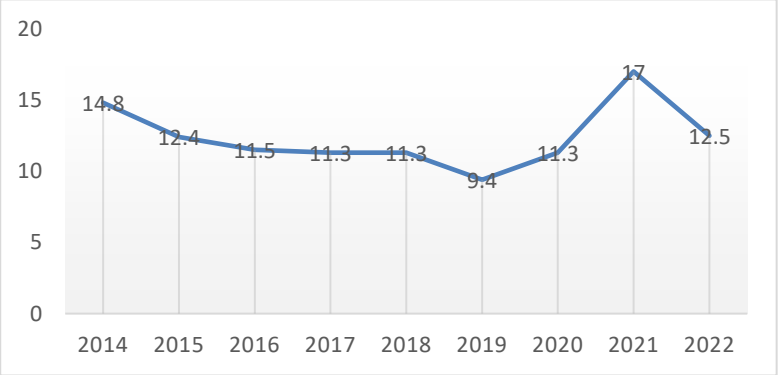
The development and progress of Islamic banking in the Middle East has long been one of the standards in determining the economic growth of the Middle East, given that the Middle East region is predominantly Muslim (Tabash and Anagreh, 2017). The Muslim population in the Middle East region is expected to grow rapidly to 439.5 million by 2030 (Suite, 2020). In addition to market share, financial performance sustainability can be seen from the bank's internal and external environment (Khan *et al.*, 2015). The more optimal and maximum a bank's financial performance, it is believed that it will support banks in maximizing the resilience of bank financial stability (Champa and Parab, 2018; Cuestas *et al.*, 2019; Kusi *et al.*, 2022; Yudaruddin *et al.*, 2023; Devi and Firmansyah, 2020). Therefore, the focus of this study is to look at the sustainability of economic financial performance on the stability of Islamic banks in the Middle East.

The banking industry has a high and essential position to maintain and encourage the progress of economic stability in the country (Aun *et al.*, 2019; Cuestas *et al.*, 2019; Fajriani and Sudarmawan, 2022; Zulfahmi *et al.*, 2021). Historically, the practice of Islamic banking financial performance in the Middle East has not been as smooth as

expected. According to history, there are several periods that make the Middle East economy and Islamic banking world experience shocks. First, World War 1, which lasted from 1914 to 1918, had a very significant impact on the Middle East, the economic deaths that occurred during World War I destroyed the Middle Eastern economy (Zidah, 2020). Second, the War between Iran and Iraq. The war took place from 1980 to 1988 and had a significant impact on the Islamic banking industry in the Middle East. This war resulted in economic instability in a number of countries in the Middle East (Royan *et al.*, 2022). Third, there was a shock to the Middle East economy caused by the Israeli and Palestinian conflicts. Conflicts experienced in the external economy will directly impact bank performance.

Based on this history, research on banking performance is currently interesting because conflicts have an impact on increasing inflation, weakening fiscal and financial positions, causing severe recessions and damaging institutions (Lusiana *et al.*, 2022).

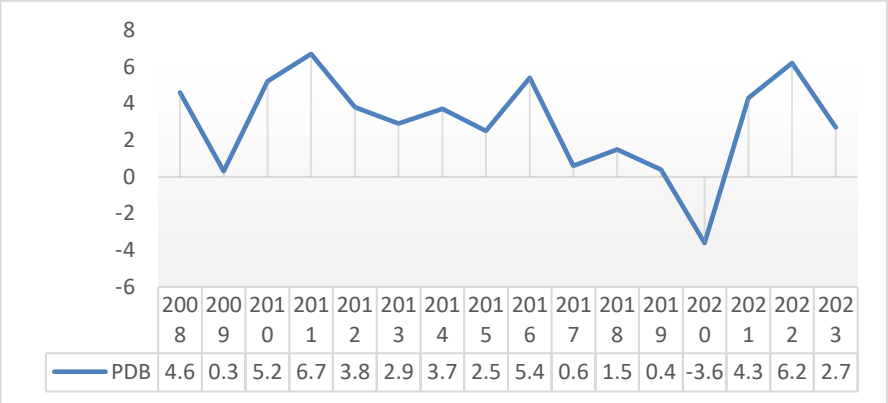
Graph 1. Total Inflation in the Middle East Region



Source: Data processed from IMF, 2024

Inflation rates in the Middle East between 2014 and 2022 showed significant fluctuations. Starting with 14.8% in 2014, it experienced a gradual decline until it reached a low of 9.4% in 2019. However, it spiked in 2021 to reach 17%, likely influenced by global and local factors, before falling back to 12.5% in 2022. This volatility reflects the economic challenges in the region, influenced by volatile oil prices, political instability, and changes in global markets. The economic development and growth of the Middle East region has also suffered from shocks in the form of prolonged conflicts and impacts on market operations (Sab, 2014). The economic growth of the Middle East region is facing deceleration when equated to the previous year (World-Bank, 2023).

Graph 2. Middle East GDP Growth

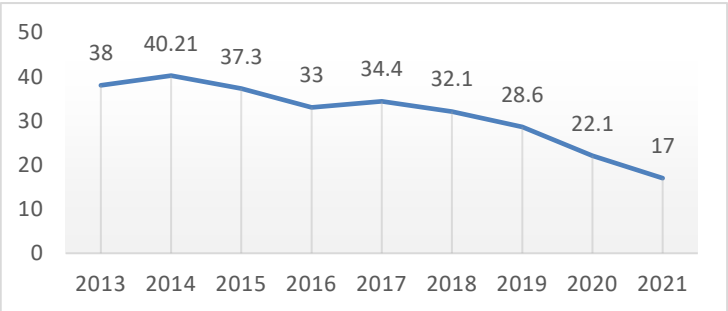


Source: Data processed from IMF (2024)

The Middle East's GDP growth from 2008 to 2023, as shown in chart 2, proves to be subject to fluctuations associated with conflict and the impact of war. Economic growth in the region is low, at around 2.6%, indicating instability. GDP growth projections in 2022 were optimistic, but weak oil prices, global uncertainty, high inflation, and the impact of war triggered a sharp decline to 1.9% in 2023. These fluctuations reflect the political and security instability in the region, impacting the economy and the well-being of its population (World-Bank, 2023).

Economic stability and growth have been linked to the development of Islamic banking in the Middle East (Nguyen and Le, 2022; Lusiana *et al.*, 2022; Biswas, 2023). While Islamic banking asset growth increased 60% to $2.4 trillion in 2021, projections show a rapid increase to $3.8 trillion by 2023 (Intelligence, 2023). Conflicts in countries such as Iraq, Iran, Syria, Palestine and Libya have not only shaken regional security, but have also had an indirect impact on the Islamic banking sector, posing serious challenges for countries such as Jordan, Tunisia and Turkey. The surge in refugees and continued uncertainty put pressure on Islamic banking, especially in addressing immediate needs and rebuilding public trust (Al-Shboul *et al.*, 2020; Salmah and Devi, 2023). To advance Islamic banking amid uncertainty, affected countries should focus on migrant management, increasing investor confidence, and building social cohesion (IMF, 2023).

Graph 3. Asset Growth of Iranian Islamic Banks



Source: Data processed from IFSB (2024)

Sharia Islamic bank asset growth data is shown for countries in the Middle East region, represented by Iran. The graph of asset growth in the country of Iran shows a very large decline in each year from 2013 to 2021. The occurrence of this decline shows that there are several factors that can influence, namely internal factors from the Islamic bank. This can be caused by various factors, including the uncertain condition of the country and several conflicts that have occurred throughout history.

This study has significant relevance in the context of bank stability in the Middle East, especially when the region is facing a period of conflict. The stability of the financial sector, particularly the role of Islamic banks, is a crucial element in maintaining the resilience of a country's economy during periods of conflict that often lead to high uncertainty and risk.

This study aims to explore the influence of financial performance on the stability of Islamic banks in times of conflict, particularly in the period 2013-2022 in the region (Mardiana, 2018). Conflicts in the Middle East have a global impact, affecting countries such as the United States and international organizations such as the United Nations that play a role in conflict resolution. The region is prone to tension and conflict, with complex factors that can affect the economy and financial institutions, including banks. Therefore, this study is crucial to support the banking sector and improve the sustainable link between the financial sector and economic output, so as to maintain the country's economy amidst the pressures of conflict.

2. LITERATURE REVIEW

2.1. Bank Stability

Effective intermediation functions and good mobilization of public deposits in the banking environment indicate the stability of the banking system (Kasri and Azzahra, 2020). Bank stability, both conventional and Islamic, is a vital requirement to effectively manage financial risks, ensure a smooth payment system, and stimulate economic growth (Swamy, 2014). Bank health, as measured by smooth intermediation functions and adequate funding, signals stability and resilience to financial distress (Fajriani and Sudarmawan, 2022). In this context, bank stability not only reflects corporate health, but also supports the effectiveness of monetary policy and the smooth transmission mechanism of economic policy through the banking system (Fajriani and Sudarmawan, 2022).

Several methods of measuring bank stability, such as accounting, profitability, and volatility, have been identified by (Beck *et al.*, 2013). Z-Score, ROA, and ROE are also considered as effective indicators to assess the stability of a bank, as stated by (Sakti and Mohamad, 2017). To determine the stability or instability of a company, a combination of five different types of financial ratios can be used. With these various measurement tools, a holistic assessment of bank stability can be obtained. In this study, the dependent variable is bank stability, which is calculated using Z-score (Sakti and Mohamad, 2017).

2.2. Financial Performance

According to Srimindarti (2008), an organization's financial performance is determined by how well its policies are carried out in respect to its goals, vision, objectives, and objectives. The independent variable under investigation in this study is financial performance, which includes NPF, CIR, CAR, ROA, NPM, and FDR. Several financial performance variables were employed in this investigation, including the

following:

Non-Performing Financing (NPF)
Non-performing financing, or NPF, is defined by Irawati (2006) as funding whose execution falls short of bank expectations. This covers risky profit sharing, financing that fits into the categories of special mention, dubious, and loss, as well as the present category that may result in arrears. The bank's overall health is at risk due to a high NPF value (Hermawan and Fitria, 2019; Anisa and Anwar, 2021; Maritsa and Widarjono, 2021; Taufiqi *et al.*, 2023). Nonetheless, prior research indicates that the effective banking intermediation function lowers the value of non-performing financing (NPF), suggesting that NPF contributes to the stability of the banking system (Zulifiah and Susilowibowo, 2014; Alqahtani and Mayes, 2017; Munir, 2018; Peterson, 2019; Romadhon, 2020; Fatoni, 2022).
H_1: Non-Performing Financing has a negative effect on bank stability

Cost to Income Ratio (CIR)
Kasmir's theory (2011) Cost to Income Ratio (CIR) is a financial ratio that compares the total operating costs of a bank with the income it generates. A large Cost to Income Ratio (CIR) indicates that the operating costs of a company are relatively high compared to the income generated. This may indicate operational inefficiency and pose a risk to (Ketaren and Haryanto, 2020; Anggraini *et al.*, 2023; Yundi and Sudarsono, 2018; Anggreni and Suardhika, 2014; Parenrengi and Hendratni, 2018; Ardheta and Sina, 2020). However, there are previous studies that state that the CIR variable has a positive influence on bank stability (Sudarsono, 2017; Hidayat *et al.*, 2022; Gungor, 2023). When the CIR is low, it means that the bank's operating costs are relatively small compared to the income earned. This can show the bank's operational efficiency in managing resources and maintaining profitability.
H_2: Cost to Income Ratio has a negative effect on bank stability

Capital Adequacy Ratio (CAR)
Capital Adequacy Ratio (CAR) is a ratio that measures the extent to which a bank or financial institution has sufficient capital to cover the risks it may face, especially related to loans and investments. CAR is calculated as a ratio between core capital and the specific risks faced. If the CAR value is high, this indicates that the institution has a level of capital that is strong enough to cope with risks, giving confidence to supervisors and investors by (Imbierowicz and Rauch, 2014; Ghenimi *et al.*, 2017; Saputra and Shaferi, 2020; Jameel and Siddiqui, 2023; Rosalina and Wahyuningsih, 2023). However, there are studies that state that the CAR variable has a negative influence on bank stability (Adyani and Sampurno, 2011; Kusumastuti and Alam, 2019; Peterson, 2019; Budi *et al.*, 2020; Jayanti and Sartika, 2021). This happens when CAR increases significantly in a short period of time, banks may be forced to take drastic measures, such as reducing loans to customers or shrinking their investment portfolio.
H_3: Capital Adequacy Ratio has a positive effect on bank stability

Return on Asset (ROA)
Return on Asset is used to measure the extent to which an entity can optimally utilize its capital, thereby creating a satisfactory profit for shareholders and other stakeholders. A high ROA indicates that the entity is able to generate significant profits by utilizing its

assets well (Hatta and Suwitho, 2018; Krisnando, 2019; Lestari *et al.*, 2023; Tantra *et al.*, 2022). Furthermore, there are previous studies that produce research in the form of negative direction on bank stability (Halim and Latief, 2022; Risqi and Suyanto, 2022; Yahya and Fietroh, 2019). The negative effect of ROA on bank stability can be caused by an unfavorable macroeconomic situation or pressure on the banking sector as a whole. If ROA is affected by external factors such as a decline in economic growth or a financial crisis, then the bank may have difficulty maintaining its stability despite a high ROA.
H_4: Return on Asset has a positive effect on bank stability

Net Profit Margin (NPM)
The bank's ability to generate stable income from its operations is indicated by a high NPM value. The higher the NPM of a bank, this indicates that the bank is more profitable. This can be caused by various factors such as increased revenue, decreased costs, or more efficient bank operations (Murti, 2014; Setiawan and Kodratillah, 2017; Fitriyani, 2019; Nadila and Hapsari, 2022; Rosalina and Wahyuningsih, 2023). However, there is previous research conducted by Muhammad *et al.*, (2022) which suggests that Net Profit Margin (NPM) has a negative influence on banking stability. This shows that if the Net Profit Margin decreases, it can put negative pressure on ROA, especially if the efficiency of asset use does not increase or even decrease.
H_5: Net Profit Margin has a positive effect on bank stability

Financing to Deposit Ratio (FDR)
According to Goodhart (2008), a high level of bank liquidity indicates that the institution has adequate access to liquid assets, such as cash and easily convertible assets. When there is a lot of liquidity, banks can easily and without major problems process customer withdrawal requests (Setiawan and Widiastuti, 2019; Krisvian and Rokhim, 2021; Jameel and Siddiqui, 2023; Ekadjaja *et al.*, 2021). However, previous research conducted by Ghenimi *et al.*, (2017) explains that liquidity risk has a negative influence on banking stability. This is if high liquidity risk means that financial institutions or banks have too much cash or liquid assets that are actually not used efficiently.
H**6**: Financing to Deposit Ratio has a positive effect on bank stability

An explanation of the correlation between research variables is contained in the conceptual framework. According to Kurniawan and Zahra Puspitaningtyas (2016), a research framework is a conceptual model that describes how theory connects various variables that have shown significant problems. The following is the conceptual framework used in this study:

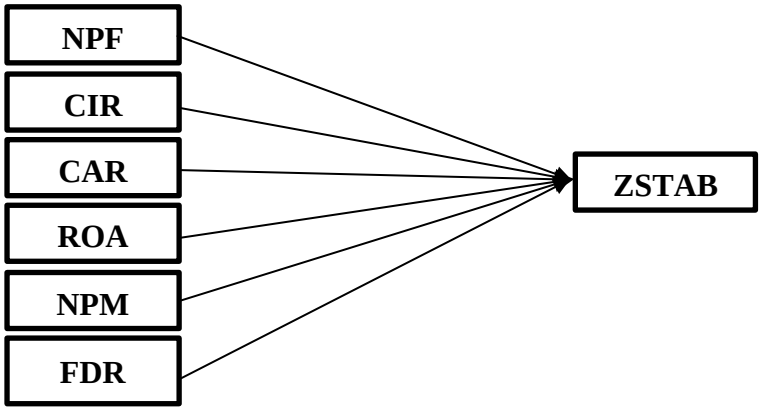


Figure 1. Theoretical Framework

3. METHODOLOGY

This research is a quantitative study that uses secondary data in the period 2013-2022 by sourcing financial reports and can be accessed through the Islamic Financial Services Board (IFSB), International Monetary Fund (IMF), and CEIC Data Global Database. This study uses a population of countries that are included in the Middle East region and have experienced conflict. Then the sample selected in this study is a country in the Middle East region that has Islamic Banking that has experienced conflict and has financial statement data. Panel data regression analysis, conducted with Eviews 12 and Microsoft Excel 2013, is the analysis method used in this study. Based on the criteria that have been determined, there are 13 countries in the Middle East region that are the sample of this study:

Table 1. List of Countries

NO	Country Conflict	Source
1	Egypt (Mesir)	(Bassil, 2019)
2	Bahrain	(Wikipedia, 2023)
3	Kuwait	(Wikipedia, 2023)
4	Pakistan	(Wikipedia, 2023)
5	Turki	(Wikipedia, 2023)
6	Uni Emirate Arab	(Wikipedia, 2023)
7	Palestine	(IMF, 2023)
8	Sudan	(World-Bank, 2023)
9	Iraq	(Alnasrawi, 1986)
10	Lebanon	(IMF, 2006)
11	Libya	(World-Bank, 2023)
12	Iran	(Alnasrawi, 1986)
13	Oman	(Paul *et al.*, 2010)

4. RESULT AND DISCUSSION

4.1. Descriptive Analysis

Descriptive statistics is the examination of data that has been gathered in the form of average, standard deviation, maximum, and minimum values. The table below displays the descriptive statistics for the study:

Table 2. Descriptive Analysis

Variable	Minimum	Maximum	Mean	Stand Dev	N
STAB (Y)	1,776000	320,7680	51,82152	47,03747	125
NPF (X1)	-2,813411	3,295837	1,511514	0,996894	125
CIR (X2)	18,00000	2287,000	69,22472	200,6224	125
CAR (X3)	1,504077	4,394449	2,806532	0,467124	125
ROA (X4)	-4,200000	17,00000	1,519360	1,862263	125
NPM (X5)	1,648659	7,118421	3,432963	0,652582	125
FDR (X6)	6,400000	99,10000	39,35552	25,66031	125

Bank Stability (STAB) is the dependent variable in this study, with a mean of 50.009 and a range of values between 1.776 to 320.768, reflecting the variation in stability of Islamic banks in the Middle East over the period 2013-2022. Independent variables, such as Non-Performing Financing (NPF), Cost to Income Ratio (CIR), Capital Adequacy Ratio (CAR), Return on Asset (ROA), Net Profit Margin (NPM), and Financing to

Deposit Ratio (FDR), show diverse values and dynamics in the financial management of banks in the region. For example, NPF has an average of 1.511 with a range of 1.511 +- 0.996. These results provide a comprehensive picture of the value orientation of the various relevant variables, providing insight into the complexity of factors affecting bank stability in the Middle East.

4.2. Panel Data Regression Model Selection Estimation

The fixed effect, common effect, and random effect models can all be tested using the three methods below to find the optimal panel data regression model (Nengsih and Martaliah, 2022):

Table 3. Regression Model

Test	Result	Criteria	Model
Chow	0,0000	Prob < 0,05	Fixed Effect Model
Hausman	0,5115	Prob > 0,05	Random Effect Model
LM	0,0000	Prob < 0,05	Random Effect Model

The Chow test determines which of the FEM and CEM models is the suitable model. Because the probability value of the Chow test results is less than 0.05, or 0.0000, the null hypothesis is rejected, and the FEM model is selected. The optimal model between REM and FEM was then identified using the Hausman test. The REM model is superior, according to the Hausman test results, which indicate a probability value of 0.5115 larger than 0.05, supporting the acceptance of the null hypothesis. Then proceed with the Lagrange multiplier test to determine the best model between CEM and REM. The LM test results show a probability value of 0.0000 so that the null hypothesis is rejected and the model chosen is REM. It can be concluded that the selection of the panel data regression model in this study is the Random Effect Model.

4.3. Classical Assumption Test

A classical assumption test is performed for each chosen model to evaluate fit. A model is deemed appropriate if it satisfies the requirements of the BLUE (Best Linear Unbiased Estimator). The outcomes of the traditional assumption tests are displayed as follows:

Table 4. Classical Assumption Test

Test	Result	Criteria	Caption
Normality	0,498626	Prob>0,05	Passed
Multicollinearity	X1=0.114578 X2=0,075797 X3=-0,500479 X4=0.312479 X5=0,015568 X6=0,241015	CM<0,85	Passed
Heteroscedasticity	X1=0,7722 X2=0,0888 X3=0,6635 X4=0,4154 X5=0,7844 X6=0,0711	Prob>0,05	Passed

This study has passed all of the tests for heteroscedasticity, multicollinearity, and normality that are part of the classical assumption test, as indicated by the results in Table 4.

4.4. Model Feasibility Test

The model fit test was used to assess the chosen regression model. This test includes the hypothesis test and the coefficient of determination (R2) test:

Table 5. Partial Test (T Test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-69,85252	26,77121	-2,609241	0,0102
NPF	-18,64134	3,148602	-5,920513	0,0000
CIR	-0,001249	0,006462	-0,193249	0,8471
CAR	66,43904	5,727534	11,59994	0,0000
ROA	2,588728	0,927138	2,792171	0,0061
NPM	-13,55385	3,624969	-3,739024	0,0003
FDR	0,141360	0,174759	0,808882	0,4202

In summary, the t-test results show that the NPF and NPM variables have a significant negative impact on bank stability (Y) in the Middle East, with NPF having a coefficient of -18.641 and NPM having a coefficient of -13.553. This indicates that an increase in NPF and NPM can potentially decrease bank stability. Conversely, CAR and ROA variables have a significant positive impact on bank stability, with CAR having a coefficient of 66.439 and ROA having a coefficient of 2.588. This indicates that an increase in CAR and ROA can increase bank stability. Meanwhile, CIR and FDR variables do not have a significant influence on bank stability, with probability values of 0.8471 and 0.4202 respectively. In conclusion, effective management of NPF, NPM, CAR, and ROA can be key in maintaining and improving bank stability in the Middle East.

Table 6. Simultaneous Test (F Test)

F-Statistic	63,31588
Prob (F-Statistic)	0,000000

Table 6 shows that the F-statistic, which is less than 0.05, has a value of 0.000000. It follows that every independent element has a large impact on the dependent variable. According to Ghozali, (2018), the coefficient of determination test evaluates how well the statistical model uses independent factors to explain changes in the dependent variable. The coefficient of determination, also referred to as R-squared (R2), shows how much the independent variables in a model explain the variation of the dependent variable. The following outcomes were obtained from the Coefficient of Determination test examination:

Table 7. Test Coefficient of Determination (R2)

R-squared	0,763002

Adjusted R-squared	0,750952

The Adjusted R-squared value of 0.750952 is displayed in the table. It may be inferred that financial performance measured by NPF, CIR, CAR, ROA, NPM, and FDR accounts for 75% of the variation in financial stability, with variables not covered in this study accounting for the remaining 25%.

Regression Model Equations (Random Effect Model)

Z-Stab = -69.852 - 18.641 NPF - 0.0012 CIR + 66.439 CAR + 2.588 ROA - 13.553 NPM + 0.141 FDR + e

The Impact of Non-Performing Financing (NPF) on Middle Eastern Bank Stability During Conflict

The part of a bank's financing portfolio that cannot be repaid in accordance with a prearranged timetable is known as non-performing finance, or NPF. This word is comparable to non-performing loan (NPL) in conventional banking when used in the context of Islamic banking. Financing or loans that are past due or that the borrower is unable to repay are included in NPF.

Non-Performing Financing (NPF) has a considerable negative impact on the stability of Islamic banks in the Middle East, according to partial test results, with a probability value of 0.0000 < 0.05. The t-count value is -5.920513, and the coefficient is -18.64134. This demonstrates that an increase in the NPF value of Islamic banks may result in a decline in the stability of the bank. NPF may have an impact on the stability of Islamic banks in the Middle East, according to the study's findings, which are consistent with the hypothesis and other research (Hermawan and Fitria, 2019; Anisa and Anwar, 2021; Maritsa and Widarjono, 2021; Taufiqi *et al.*, 2023).

The detrimental effects of non-performing financing on bank stability can be much more pronounced during Middle East conflicts. Disagreements frequently result in volatility in the economy and business, which lowers purchasing power, causes losses in the business sector, and makes it harder for borrowers to fulfill their repayment commitments (IFSB, 2019; MarketsIslamic, 2021; Ona, 2023). NPFs may therefore rise when repayments are postponed or perhaps cease to occur.

The Impact of Cost to Income Ratio (CIR) on Middle Eastern Bank Stability During Conflict

The Cost to Income Ratio (CIR) is a ratio used to assess how much a bank spends on operations relative to the revenue it makes from those operations. The Cost to Income Ratio (CIR) has no bearing on the stability of Islamic banks in the Middle East, according to partial test findings, which display a probability value of 0.8471 > 0.05. The t-count number is -0.193249, while the coefficient is -0.001249.

This is due to the fact that the Islamic banking industry in the Middle East demonstrated during the conflict that they could maintain a reasonable cost-to-income ratio (Young and Ernst, 2019; Agustin and Filianti, 2021; Everington, 2023). Furthermore, observations of certain nations imply that particular elements in each nation's banking system and regulations have an impact on this variability. The hypothesis and other research suggest that NPF may have an impact on the stability of Islamic banks in the Middle East (Ketaren and Haryanto, 2020; Anggraini *et al.*, 2023; Yundi and Sudarsono, 2018). However, the results of this study are consistent with other research

(Idawati and Syafputri, 2022; Fatoni and Sidiq, 2019; Az Zahra and Miranti, 2023) which indicates that CIR has no effect on the stability of Islamic banks in the Middle East.

The relationship between CIR and stability may be impacted by the business practices of Islamic banks that prioritize sustainability and justice. CIR is not the primary element influencing stability because Islamic banks place a higher priority on striking a balance between social duty and corporate growth (Ali, 2012). Furthermore, the distinct regulatory and economic circumstances prevalent in the Middle East can create an environment in which the CIR variable has no discernible effect on the stability of Islamic banks (Stubing, 2021; Everington, 2022; Sanders, 2023).

The Impact of Capital Adequacy Ratio (CAR) on Middle Eastern Bank Stability During Conflict

A financial statistic called the Capital Adequacy statistic (CAR) gauges how much of a bank's capital is enough to cover its risks, particularly credit risk. The findings indicate that the CAR variable has a beneficial impact on bank stability based on test results and data analysis. With a profitability value of 0.0000 <0.05 and a positive coefficient of X3, 66.43904, it can be concluded that CAR has a beneficial impact on bank stability. The study's findings support the theory and earlier research, indicating that CAR may have an impact on the stability of Islamic banks in the Middle East (Imbierowicz and Rauch, 2014; Ghenimi *et al.*, 2017; Saputra and Shaferi, 2020; Jameel and Siddiqui, 2023; Rosalina and Wahyuningsih, 2023).

CAR can have a major positive influence on Middle East Bank Stability in Times of Conflict. In the industry and economy, conflicts frequently lead to high levels of risk and uncertainty. In this case, maintaining a sufficient CAR level becomes essential to the long-term viability of bank operations. High CAR banks are typically better equipped to withstand prospective losses from conflict-related risks, such as elevated credit risk from potential borrower defaults (Pham *et al.*, 2021).

The Effect of Return On Asset (ROA) on the Stability of Middle Eastern Banks in Conflict Times

ROA affects an entity's capacity to withstand market volatility and economic upheaval in the context of entity stability. Both operational sustainability and financial resiliency can be seen in a steady ROA. The findings indicate that the ROA variable has a beneficial impact on bank stability based on test results and data analysis. Since variable X4's profitability value is 0.0061 <0.05 and its coefficient is positive (2.588728), bank stability is positively impacted by ROA. The study's findings support the theory and earlier research, indicating that ROA may have an impact on the Middle East's Islamic banks' ability to remain stable (Hatta and Suwitho, 2018) (Krisnando, 2019; Lestari *et al.*, 2023; Tantra *et al.*, 2022).

Based on these findings, it can be said that banks with high ROA have sufficient capital to hedge against market, credit, and operational risks. It is clear that banks in the Middle East generate a sizable amount of income and profit via ROA. This is because these banks have large amounts of leverage (Zia *et al.*, 2014; Ashira, 2020; Intelligence, 2024). High leverage in this sense refers to the percentage of loans that banks utilize to boost their prospective profits.

The Effect of Net Profit Margin (NPM) on the Stability of Middle Eastern Banks in Conflict Times

A financial ratio called net profit margin (NPM) expresses a company's net profit as a proportion of its net income. The findings indicate that the NPM variable has a detrimental impact on bank stability based on test results and data analysis. Given that variable X5's profitability value is 0.0003 <0.05 and its positive coefficient, -13.55385, can be regarded as a negative impact of NPM on bank stability. The study's findings support the theory and earlier research, indicating that NPM may have an impact on the stability of Islamic banks operating in the Middle East (Muhammad *et al.*, 2022).

A low or negative NPM may have a detrimental impact on bank stability in the context of Middle East Bank Stability in Times of Conflict. Economic and business stress brought on by conflicts can lower people's purchasing power, raise credit risk, and lead to a general downturn in economic activity. Because of their low profitability, banks are finding it challenging to reach a high NPM in this scenario (Gulf, 2023; IMF, 2021; Karim, 2019).

The Impact of the Financing to Deposit Ratio (FDR) on Middle Eastern Bank Stability During Conflict

The ratio known as the Financing to Deposit Ratio (FDR) expresses how much funding a bank provides for loans or financing in relation to the total quantity of deposits it receives from clients. With a probability value of 0.4202>0.05, partial test findings demonstrate that the Financing to Deposit Ratio (FDR) has no bearing on the soundness of Islamic banks in the Middle East. The t-count value is 0.808882, and the coefficient is 0.141360. The theory is not supported by the study's findings, and prior research on banking stability has been shown to positively affect it (Setiawan and Widiastuti, 2019; Krisvian and Rokhim, 2021; Jameel and Siddiqui, 2023; Ekadjaja *et al.*, 2021).

FDR has little bearing on the stability of Middle Eastern banks during hostilities. This is due to the fact that FDR is not a direct measure of a bank's stability and resilience in times of conflict, but rather a description of the funding structure of a bank. Banks may encounter difficulties in keeping a balance between financing and deposits since conflicts frequently result in economic unrest and major shifts in market conditions (Zia *et al.*, 2014; Ashira, 2020; Intelligence, 2024).

Other factors, such as high credit risk, liquidity, and capital resilience, are more dominant in affecting bank stability during times of conflict. Under conflict conditions, the availability of funds for financing may become more difficult, but FDR alone does not provide a complete picture of a bank's ability to overcome such challenges (Intelligence, 2024).

5. CONCLUSION AND RECOMMENDATION

The purpose of this study is to determine the impact of financial performance on bank stability using a sample of Islamic banks in the Middle East that have been affected by violence. Panel data regression analysis reveals that Y, represented by bank stability, is negatively impacted by X1 and X5, the NPF and NPM variables. The CAR and ROA factors for X3 and X4 have a favorable impact on bank stability. Therefore, bank stability is unaffected by X2 and X6, which are represented by the CIR and FDR variables.

This study is interesting in that it reveals the relationship between financial success and the stability of Islamic banks operating in the Middle East. The Middle East has a complex history of conflict and has a substantial impact on several industries, including the financial industry, which makes it an intriguing choice for the research topic. Due to the protracted political and security crises that several of the Middle Eastern countries are

facing, the region has a distinct geopolitical environment. In addition, the selection of variables in this study is tailored to the circumstances of the Middle East, especially the NPF variable, because NPF can be a critical variable in describing the impact of conflict-prone socio-political conditions on the financial performance of financial institutions in the Middle East. The study's conclusion is that improved financial performance has an impact on bank stability, and banks should consider this when evaluating potential candidates. Then, given that the unstable state of the economy may influence the level of risk that banking institutions are willing to take, the government is encouraged to preserve the quality of institutional value and grow it proportionately. Finally, the samples used in this study are only those from the Middle East. As a result, it is anticipated that future studies will increase the research sample.

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