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Do financing models in Islamic bank affect profitability? Evidence from Indonesia and Malaysia

Multazam Mansyur Addury

Program Studi Ekonomi Syariah (Ekonomi Islam) (S1), Institut Agama Islam Negeri Parepare, Parepare, Indonesia

ABSTRACT

Introduction
Previous literature discussed financing's impact on performance without separating the financing model. Additionally, previous research has used financing in the form of Loans to Total Assets (LTA); a proxy used to assess bank liquidity.

Objectives
This study aims to analyze the influence of financing models on Islamic Banks' performance in Indonesia and Malaysia.

Method
The study used Indonesia and Malaysia banks for its pioneering efforts in establishing Islamic banking in Southeast Asia. The study collects data from five Indonesian and four Malaysian Islamic banks, with an observation period of 2011–2020. The data analysis used in this study was the Generalized Method of Moment (GMM).

Results
In Indonesia, debt financing has a positive and significant impact on Return on Assets (ROA), while equity financing has a negative and significant impact on ROA; debt financing significantly affects Return on Equity (ROE), while equity financing does not have a significant impact on ROE. In Malaysia, equity financing has a positive and significant impact on ROA, while debt financing does not significantly affect ROA; debt financing has a positive and significant impact on ROE, while equity financing has a negative and significant influence on ROE.

Implications
The results highlight the importance of considering the specific characteristics of each country's Islamic banking industry when formulating financing strategies.

Originality/Novelty
This study highlights unique aspect of financing that contribute to Islamic banks profitability in Indonesia and Malaysia.

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Contact: Multazam Mansyur Addury ✉ multazam.mansyur@gmail.com

INTRODUCTION

Demand for Islamic financial services led to the establishment of Bank Muamalat Indonesia (BMI) in 1992, marking a new stage in the promotion of regulations for Islamic banking services in Indonesia. Several laws have been enacted to regulate Islamic banking, including Law No. 7 of 1992, Law No. 10 of 1998, and, most recently, Law No. 21 of 2008, which specifically focuses on Islamic banking regulations (Sari et al., 2016; Utama, 2018; Nahar et al., 2022; Sholihin et al., 2022).

The development of Islamic banking in the ASEAN region was primarily driven by Malaysia and Indonesia, as they pioneered the introduction of laws and regulations governing Islamic banking. Malaysia implemented regulations related to Islamic banks in 1983, whereas Indonesia followed suit in 1992. The difference in the development of Islamic banking between Malaysia and Indonesia lies in their approach. Malaysia adopts a state-driven approach, whereas Indonesia follows a market-driven approach (Ghozali et al., 2019).

Islamic banking offers three types of services: funding, financing, and others. Funding in Islamic banking refers to the process of acquiring financial resources or capital to support Islamic banks' operations and activities. Financing, on the other hand, is a service provided by Islamic banks that offers funding assistance for investment, working capital, and consumption purposes. Islamic banks facilitate financing through debt and equity. Debt financing is based on the principles of buying, selling, and renting, while equity financing is based on profit sharing (Hussain et al., 2015; Mubarok et al., 2020).

Both financing models require special attention from Islamic banks if they aim to generate good profits, as financing is one of the operational activities through which Islamic banks can benefit. This has been demonstrated in previous studies suggesting that financing significantly impacts bank profitability (Belkhaoui et al., 2020; Taufika et al., 2020). There are unique differences between debt and equity financing that financing managers must consider. Debt financing relies on the customer's ability to repay financing, whereas equity financing depends on the business's capability to settle financing (Zulkifli, 2007). These differences in financing raise a crucial question: "Which financing model has a significant impact on the profitability of Islamic banks?"

Previous literature has extensively discussed the performance of Islamic banks. Alharbi (2017) analyzed the determinants of Islamic bank profits using longitudinal data from 1992 to 2008, covering almost all Islamic banks worldwide. The study found a negative and significant impact of financing (Loan to Total Assets) on the profitability of Islamic banks. Similarly, Trad et al. (2017) examined the factors affecting banking performance and stability in the Middle East and North Africa (MENA) region during the global financial crisis and concluded that financing (loan to total assets) has a negative and significant influence on bank profitability. On the other hand, Azad et al. (2023) investigated whether fees and financing affect the profitability of Islamic banks and found a positive and significant effect of financing (Loan to Deposit Ratio) on bank profitability.

Belkhaoui et al. (2020) also analyzed the impact of debt financing and equity financing on the profitability of Islamic banks, revealing that financing using the debt financing model has a positive and significant influence on profitability. Hasnaoui & Fatnassi (2019) conducted research showing that financing (loan to total assets) has a negative impact on the profitability of Islamic banks. Taufika et al. (2020) analyzed the determining factors affecting the profitability of Islamic and conventional private banks and found that financing (Loan to Total Assets) has a positive and significant influence on the profitability of Islamic banks. Zarrouk et al. (2016) examined the profitability of 51 Islamic banks operating in the MENA region and found a positive and significant impact of financing (Loan to Total Assets) on profitability. Conversely, Chowdhury & Rasid (2016), Sufian (2009, 2010), and Yanikkaya et al. (2018) found no significant influence of financing (Loan to Total Assets) on bank profitability in their studies.

While previous studies have mostly discussed the impact of financing on performance without distinguishing between financing models, Belkhaoui et al. (2020) share similarities with this study as they analyze the impact of both debt financing and equity financing on profitability. However, their analysis incorporates financing models, banking risks, and bank profitability, while this study focuses solely on financing models. Another relevant study conducted by Wahyudi et al. (2020) also analyzes the effect of debt financing and equity financing on profitability but only within the context of Islamic banking in Indonesia. Additionally, previous research has used financing in the form of Loan to Total Assets as a proxy to assess bank liquidity, whereas this study considers debt financing and equity financing separately.

This study contributes significantly to the analysis of financing models and their impact on the profitability performance of Islamic banks, specifically in Indonesia and Malaysia. These two countries have played pioneering roles in establishing Islamic banking in the Southeast Asian region, with Malaysia implementing regulations in 1983 and Indonesia following suit in 1992. The unique contribution of this study lies in examining the different approaches taken by these countries in developing Islamic banking: a state-driven approach in Malaysia and a market-driven approach in Indonesia. By comparing these approaches and their effects on profitability, this study provides valuable insights into the diverse strategies employed in Islamic banking and their implications for financial performance. Furthermore, the inclusion of both countries enhances the generalizability of the findings and provides a more comprehensive understanding of the relationship between financing models and profitability in the context of Islamic banking.

LITERATURE REVIEW

Profitability serves as a crucial factor in determining banking performance as banks inherently aim to generate profits through their operational activities (Staikouras & Wood, 2004; Yuanita, 2019; Le & Ngo, 2020; Purwasih & Wibowo, 2021; Yuan et al., 2022). In this study, the authors examine the influence of the financing model on the performance of Islamic banking in Indonesia and Malaysia. The literature review reveals several variables that have been identified to significantly impact the performance of Islamic banking.

Debt Financing

Previous studies (Zarrouk et al., 2016; Yusuf & Mahriana, 2016; Trad et al., 2017; Agza & Darwanto, 2017; Azad et al., 2023) have provided evidence of the significant influence of debt financing on banking performance, particularly in terms of profitability. Debt financing is a key activity in Islamic banking, and increasing the distribution of debt financing can enhance the performance of Islamic banks, as measured by profitability. Banking performance is commonly assessed using metrics such as Return on Assets (ROA) and Return on Equity (ROE). ROA reflects the ability of banks to generate income from managing their assets, while ROE compares banking income with the capital owned by the banks. These metrics are important for investors as they provide insights into the returns they can expect from their capital investment in banks.
H1: Debt financing has a positive and significant influence on Islamic banks' performance.

Equity Financing

Previous studies (Zarrouk et al., 2016; Yusuf & Mahriana, 2016; Trad et al., 2017; Agza & Darwanto, 2017; Azad et al., 2023) have also highlighted the significant influence of financing on the profitability of Islamic banks. Equity financing, which is based on the principle of profit-sharing, is a specific type of financing utilized in Islamic banking. This financing model involves the implementation of mudarabah and musyarakah contracts in financing transactions. Customers seeking working capital utilize equity financing, whereby the resulting profits from their business activities are distributed based on the pre-agreed profit-sharing ratio. Given its prominence as one of the primary activities in Islamic banking, an increase in equity financing can contribute to the improved performance of Islamic banks.
H2: Equity financing has a positive and significant influence on Islamic banks' performance.

Non-Performing Financing

Previous studies (Sufian, 2010; Rizal, 2016; Yusuf & Mahriana, 2016; Harianto, 2017; Husaeni, 2017; Azmy, 2018; Maulana & Suprayogi, 2020; Azad et al., 2023) have consistently demonstrated a negative and significant influence of Non-Performing Financing (NPF) on the performance of Islamic banking. NPF refers to the ratio used to measure the level of non-performing loans held by Islamic banks, indicating loans that are not being repaid as agreed. Such non-performing loans present a risk for Islamic banks, as they involve financing where the debtor is unable to fully or partially repay the principal. Inability to make payments increases the NPF ratio, potentially resulting in financial losses and adverse effects on the overall health of banks. A high NPF ratio is associated with reduced profitability and a subsequent decline in the Return on Assets (ROA) ratio for banks (Gusmawanti et al., 2020; Nasokha & Yudiana, 2022).
H3: NPF has a negative and significant influence on Islamic banks' performance.

Operating Expense Ratio

Previous studies (Jusni et al., 2019; Susanti & Herawati, 2019; Karamoy & Elly Tulung, 2020; Sondakh et al., 2021) have examined the impact of operating expense ratio (OER), or biaya operasional-pendapatan operasional (BOPO) ratio in Bahasa Indonesia, on the performance of Islamic banks. These studies consistently found that OER or BOPO has a negative and significant influence on banking performance. OER or BOPO is a ratio used to assess the efficiency of Islamic banking operations, calculated by comparing operating expenses to operating income. An increase in the BOPO ratio indicates potential inefficiency in the operations of Islamic banks, which can subsequently lead to a decline in overall banking performance (Iswanto et al., 2023; Murtiningsih & Tohirin, 2023).

H4: OER or BOPO has a negative and significant influence on Islamic banks' performance.

Capital Adequacy Ratio

The positive and significant influence of capital adequacy ratio (CAR) on banking performance has been consistently demonstrated in previous studies (Mokni & Rachdi, 2014; Chowdhury & Rasid, 2016; Zarrouk et al., 2016; Alharbi, 2017; Trad et al., 2017). CAR is a measure of capital adequacy that evaluates a bank's ability to anticipate and manage risks that could potentially impact the health of the banking industry. A high CAR ratio indicates that a bank possesses a strong capacity to mitigate credit risks and risks associated with other productive assets, thereby contributing to improved banking performance (Setiawan & Muchtar, 2021; Kepramareni et al., 2022).

H5: CAR has a positive and significant influence on Islamic banks' performance.

METHOD

The study employed a causal research design, aiming to investigate the cause-and-effect relationship between multiple variables (Gassen, 2014). The research focused on five Indonesian Islamic banks and four Malaysian Islamic banks, spanning the observation period from 2011 to 2020. Table 1 provides an overview of the selected Islamic banking institutions used as objects in the study.

Table 1. Research Object

No	Bank	Country	Period
1	Bank Rakyat Indonesia Syariah	Indonesia	2011–2020
2	Bank Negara Indonesia Syariah		
3	Bank Syariah Mandiri		
4	Bank Muamalat Indonesia		
5	Bank Central Asia Syariah		
6	Affin Islamic Bank Berhad	Malaysia	
7	Al Rajhi Bank		
8	RHB Islamic Bank Berhad		
9	Hong Leong Islamic Bank Berhad		

Source: Secondary data, author’s collection.

The study encountered certain limitations in the selection of the sample. Firstly, the sample was restricted to Islamic banks that consistently published relevant data throughout the entire observation period. Secondly, the observation data concluded in 2020, prior to the merger of certain Islamic banks in Indonesia. Thirdly, the data utilized in the study was screened to ensure it was free from outlier issues, as the presence of outlier data can compromise the validity and robustness of the analysis (Viechtbauer & Cheung, 2010). The data for this study was primarily obtained from the annual financial statements of each bank and the World Bank. Several variables in the study were chosen based on their significant influence on the profitability performance of banks, as indicated by previous literature. Table 2 provides a description of the variables employed in the study.

Table 2. Research variables

Variable Type	Variable		Information
Dependent	ROA	Return on Asset	Measuring the profitability from assets
	ROE	Return on Equity	Measuring the level of profitability from capital
Independent	Debtfi	Debt Financing	A financing model based on the principle of margin
	Equityfi	Equity Financing	A financing model based on the principle of profit sharing
	NPF	Non-Performing Financing	Measuring the level of non-performing financing
	BOPO	Operational Income-Operating Expenses	Measuring bank efficiency levels
	CAR	Capital Adequacy Ratio	Measuring the level of capital adequacy

Source: Secondary data, author's collection.

The data analysis used in this study is the Generalized Method of Moments (GMM). GMM is a generalization method designed to overcome the limitations of other estimation methods (Hansen, 2015). The dynamic panel data model is a panel data model based on the concept of dynamism, where a variable is not only determined by contemporaneous variables but also by variables from previous time periods. GMM is widely applied in economics and finance due to its flexibility and minimal assumptions compared to other estimation methods. According to Verbeek (2017), the advantages of using GMM include:

a. GMM does not require distributional assumptions such as the assumption of normality.
b. GMM can handle issues of autocorrelation and heteroskedasticity.
c. GMM can address endogeneity in simultaneous equations, which can be challenging for other methods.

d. The GMM estimator is more efficient as it produces smaller standard errors.

Econometrics analysis in this study was conducted using EViews (IHS Global Inc., 2022). During the analysis process, the analysis between Indonesian Islamic banks and Malaysian Islamic banks was separated, considering the different currency values in the two countries. To ensure comparable data, the variables of debt financing and equity financing are presented in the form of natural logarithms (LN). The following models are employed in this study:

$ROA_{it} = b_0 + b_1 logDebfi_{it} + b_2 logEqufi_{it} + b_3 NPF_{it} + b_4 BOPO_{it} + b_5 CAR_{it}\ \ e_{it}$..............(1)

$ROE_{it} = b_0 + b_1 logDebfi_{it} + b_2 logEqufi_{it} + b_3 NPF_{it} + b_4 BOPO_{it} + b_5 CAR_{it}\ \ e_{it}$ ....(2)

RESULTS

Descriptive Statistics

Table 3 present descriptive statistics of each variable in the study. all the variables used in this study demonstrate a good distribution without extreme values. This is indicated by the mean values of the variables being greater than their respective standard deviations. Moreover, Table 3 provides insights into the financing composition of Islamic banks in Indonesia and Malaysia, with the dominance of the debt financing model.

Table 3. Descriptive statistics

Variable	Indonesia				Malaysia			
	Mean	Std. dev.	Min	Max	Mean	Std. dev.	Min	Max
roa	0.97	0.67	-0.04	2.9	0.62	0.45	-0.93	1.41
roe	6.81	5.82	-0.94	25.05	7.72	5.75	-9.55	16.76
logdeb_fin~g	29.98	1.38	26.55	32.21	23.16	0.74	22.08	24.71
logequity_~g	29.41	1.17	26.06	30.98	12.43	10.16	0	23.29
npf	2.19	1.45	0.01	4.99	1.47	0.9	0.39	4.29
bopo	90.58	6.3	73	100.6	84.54	11.1	68.43	121.62
car	20.62	12.97	11.03	90.2	16.1	2.54	12.1	22.39

Source: Primary data, author's estimation.

This suggests that the majority of customers in these countries utilize financing facilities for consumptive purposes. These findings align with the research conducted by Belkhaoui et al. (2020), which revealed a preference for financing services with a profit margin mode rather than profit sharing in Gulf Cooperation Council countries. Based on Table 3, it is evident that the return on assets (ROA) in Indonesia is higher than that in Malaysia. However, the situation is reversed when it comes to return on equity (ROE). The contrasting financial performance between Indonesian and Malaysian banks can be attributed to various factors, including differences in the structure and dynamics of their banking sectors, regulatory frameworks, economic conditions, and pursued business strategies.

Regression Results

The regression testing of each model using the Generalized Method of Moments (GMM) method was conducted in two stages. Firstly, testing was performed with two independent variables, namely, debt financing and equity financing. Secondly, internal bank variables were added. The entire GMM test model yielded favorable results. The Arellano-Bond (AB) test in stage 2 indicated a *p*-value greater than the significance level of 5%, allowing us to conclude that all estimates are consistent and free from autocorrelation issues. Furthermore, Sargan's test also demonstrated that all models did not have any problems with the validity of the instruments, as the p-value exceeded 5%.

Table 4. Analysis of Islamic Banks in Indonesia

	(1)	(2)	(3)	(4)
VARIABLES	roa	roa	roe	roe
L.roa	0.270	-0.096**		
	(0.212)	(0.047)		
logdeb_financing	0.458	0.451**	0.929**	0.005
	(0.413)	(0.177)	(0.468)	(1.717)
logequity_financing	-0.303	-0.426***	0.108	-1.271
	(0.367)	(0.147)	(1.025)	(1.160)
npf		0.093		-0.620
		(0.061)		(0.506)
bopo		-0.095***		-0.694***
		(0.007)		(0.146)
car		-0.011***		-0.006
		(0.001)		(0.009)
L.roe			0.453***	0.072
			(0.123)	(0.066)
Arellano-Bond 1	0.26	0.235	0.251	0.108
Arellano-Bond 2	0.11	0.937	0.195	0.159
Sargan	0.53	0.756	0.527	0.53

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.10

Source: Primary data, author's estimation.

Based on Table 4, it is evident that for Indonesian Islamic banks, debt financing has a positive and significant influence on profitability, as measured by the Return on Assets (ROA) ratio. Conversely, equity financing has a negative and significant impact on ROA. Furthermore, the variables BOPO and CAR also exhibit a negative and significant influence on ROA. Additionally, the results indicate that in the analysis of Indonesian Islamic banks, debt financing has a positive and significant influence on the Return on Equity (ROE) ratio, while equity financing does not have a significant impact on ROE. Another variable that significantly affects ROE is BOPO, but in a negative direction.

The analysis of Malaysian Islamic banking will be presented in Table 5. The analysis of Return on Assets (ROA) in Malaysian Islamic banking reveals that the debt financing model does not have a significant influence, whereas the equity financing model has a positive and significant impact on ROA. Additionally, other variables that significantly affect ROA in Malaysian Islamic banking are Non-Performing Financing (NPF) and BOPO. Furthermore, the results presented in Table 5 demonstrate that the debt financing model has a positive and significant impact on Return on Equity (ROE), while the equity financing model has a negative and significant influence on ROE. Other variables that significantly influence ROE are BOPO and Capital Adequacy Ratio (CAR).

Table 5. Analysis of ROA at Islamic banks in Malaysia

	(1)	(2)	(3)	(4)
VARIABLES	roa	roa	roe	roe
L.roa	0.036	0.252***		
	(0.360)	(0.096)		
logdeb_financing	-0.054	0.058	-1.230	0.783***
	(0.133)	(0.076)	(1.369)	(0.282)
logequity_financing	-0.006	0.007***	-0.113	-0.046
	(0.005)	(0.002)	(0.091)	(0.031)
npf		0.079***		0.414
		(0.016)		(0.454)
bopo		-0.049***		-0.466***
		(0.002)		(0.021)
car		0.003		-0.134**
		(0.003)		(0.056)
L.roe			0.027	0.070*
			(0.362)	(0.036)
Arellano-Bond 1	0,093	0,130	0,089	0,293
Arellano-Bond 2	0,117	0,692	0,178	0,660
Sargan	0,114	0,380	0,090	0,225

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.10

Source: Primary data, author's estimation.

Robustness Check

To ensure the robustness of the findings, a robustness test was conducted using the panel data regression method as in Table 6. The selection of the panel model supported the use of the random effects model, following suggestions from previous works (Dang et al., 2015; Anton & Afloarei Nucu, 2020; Omar & Inaba, 2020). The results of the robustness analysis are presented in Table 6. The robustness testing using the panel data regression method yielded consistent results for Islamic banking in Indonesia. It indicated that equity financing, BOPO, and CAR have a significant influence on ROA. However, in the analysis of ROE, only BOPO shows a significant impact. For Islamic banking in Malaysia, only NPF and BOPO consistently have a significant influence on ROA. In the analysis of ROE, debt financing, BOPO, and CAR consistently have a significant influence on ROE.

Table 6. Robustness Test

VARIABLES	Indonesia		Malaysia	
	(1)	(2)	(1)	(2)
	roa	roe	roa	roe
logdeb_financing	-0.008	2.737***	-0.108***	1.457***
	(0.065)	(0.508)	(0.039)	(0.425)
logequity_financing	-0.185***	-1.625***	0.004*	-0.045*
	(0.070)	(0.541)	(0.002)	(0.027)
npf	0.037	0.063	-0.041**	0.216
	(0.040)	(0.312)	(0.018)	(0.195)
bopo	-0.097***	-0.767***	-0.044***	-0.452***
	(0.008)	(0.063)	(0.002)	(0.019)
car	-0.009**	-0.028	0.014**	-0.159**
	(0.004)	(0.032)	(0.006)	(0.070)
Observations	50	50	40	40
Number of bank	5	5	4	4

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.10

Source: Primary data, author's estimation.

DISCUSSION

The findings of this study shed light on the significant influence of different financing models on the profitability and performance of Islamic banks in Indonesia and Malaysia. The positive impact of debt financing on profitability in Indonesia aligns with previous research (Yusuf & Mahriana, 2016; Zarrouk et al., 2016; Agza & Darwanto, 2017; Trad et al., 2017; Azad et al., 2023) emphasizing the importance of financing in driving profitability. The fixed profit provided by the debt financing model, based on murabahah and ijarah contracts, enables Islamic banks to mitigate risks and focus on customers' ability to repay their financing.

On the other hand, the negative influence of the equity financing model on profitability suggests that the quality of financing plays a crucial role. Poor-quality financing increases the risk of default, leading to losses for Islamic banks (Hassan & Kayed, 2009; Sun et al., 2014). This finding is consistent with the research conducted by Indriyanto et al. (2018), which found a positive influence of debt financing and a negative influence of equity financing on the profitability of Islamic banks in Indonesia.

In Malaysian Islamic banking, the analysis of ROA reveals that the equity financing model has a positive and significant influence, while NPF and BOPO also play a significant role. The analysis of ROE shows that the debt financing model has a positive and significant impact, while the equity financing model has a negative influence. Additionally, BOPO and CAR are found to have a significant influence on ROE. These results indicate the diverse factors affecting profitability and performance in Malaysian Islamic banking. Furthermore, the findings in this study enrich previous works on profitability of banking industry in Malaysia (Shafee et al., 2021; Sufian, 2009; Tumin & Mohd-Said, 2010)

The differential contributions of debt financing and equity financing to profitability highlight the distinct characteristics of these financing models. Equity financing, with its profit and loss sharing mechanism, introduces income volatility, which can lead to fluctuations in profitability (Awirya & Rahmayani, 2012; Adawiyah, 2015; Warninda et al., 2019; Widarjono, 2021). In contrast, debt financing, with its fixed returns based on projected profits, offers a more stable income stream, contributing to a consistent trend in profitability (Baele et al., 2014; Wahyudi et al., 2019; Nazir et al., 2021; Sudarsono & Shiddiqi, 2021). Understanding these dynamics is crucial for Islamic banks in formulating effective financing strategies and optimizing profitability within the Islamic banking industry.

In conclusion, this study underscores the importance of considering the quality and nature of financing models in determining their influence on the performance of Islamic banks. The differential impact observed between Indonesia and Malaysia can be attributed to the variations in financing qualities and the average NPF levels in each country. These findings have significant implications for Islamic banks in both countries, emphasizing the need to tailor financing approaches and manage risks effectively to enhance profitability and overall performance.

CONCLUSION

The research findings reveal significant implications for the profitability and performance of Islamic banks in Indonesia and Malaysia. Debt financing emerges as a positive contributor to profitability in Indonesia, while equity financing shows a positive impact in Malaysia. It is crucial for banks to understand the distinct characteristics and implications of these financing models in order to develop effective strategies for optimizing profitability in the Islamic banking industry. The stability and risk-minimization potential of debt financing make it a favorable choice for Islamic banks. Emphasizing the customers' ability to repay their financing and maintaining the quality of financing are key considerations to ensure positive outcomes. Conversely, the negative influence of equity financing on profitability underscores the importance of vigilant control and management of this financing model. The quality of financing plays a significant role, as poor-quality financing elevates the risk of default and can lead to losses for Islamic banks.

The findings of this study contribute to the understanding of the influence of financing models on the performance of Islamic banks in Indonesia and Malaysia. It highlights the importance of carefully managing financing models and ensuring the quality of financing provided to customers. Islamic banks should consider the stability, risk mitigation, and income volatility associated with different financing models to optimize profitability. Overall, this research provides valuable insights for Islamic banks in Indonesia and Malaysia to make informed decisions regarding their financing strategies. Understanding the differential impact of financing models on profitability can help banks navigate the dynamic landscape of the Islamic banking industry and enhance their financial performance.

Several limitations should be acknowledged in interpreting the findings of this study. Firstly, the sample size was restricted to Islamic banks that consistently made publications during the observation period, potentially introducing selection bias and limiting the generalizability of the results to the broader population of Islamic banks. Secondly, the observation period concluded in 2020, before certain mergers took place among Islamic banks in Indonesia. Consequently, the findings may not fully account for the impact of these mergers on the banks' performance. Lastly, the study focused exclusively on Islamic banks in Indonesia and Malaysia, limiting the generalizability of the findings to other countries or regions. Future research should encompass a more diverse sample of Islamic banks from various geographical locations to capture a broader perspective.

Author Contributions

Conceptualization	M.M.A.	Resources	M.M.A.
Data curation	M.M.A.	Software	M.M.A.
Formal analysis	M.M.A.	Supervision	M.M.A.
Funding acquisition	M.M.A.	Validation	M.M.A.
Investigation	M.M.A.	Visualization	M.M.A.
Methodology	M.M.A.	Writing – original draft	M.M.A.
Project administration	M.M.A.	Writing – review & editing	M.M.A.

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Informed Consent Statement

Informed consent was not required in the study.

Data Availability Statement

The data presented in this study are available on request from the corresponding author. The data are also publicly available.

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Conflicts of Interest

The author declares no conflict of interest.

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