

Research Article

Examining the Role of Islamic Financing in Enhancing Bank Efficiency and Stability: A Moderation Analysis of NPF

Muhammad Rafi Zaidan Ariq^{1*}, Igo Febrianto²

¹ Management Department, Universitas Lampung, Indonesia; e-mail : rafizaidan57@gmail.com

² Management Department, Universitas Lampung, Indonesia; e-mail : igofebrianto@gmail.com

* Corresponding Author : rafizaidan57@gmail.com

Abstract: Using Non Performing Financing (NPF) as a moderating variable, this study looks at how profit sharing and profit margin financing affect the effectiveness and stability of Islamic banks in Indonesia. The primary topic discussed is how various Islamic financing arrangements affect the operational effectiveness and financial stability of banks, as well as whether credit risk enhances or diminishes these connections. This study aims to examine the direct impacts of financing modalities as well as the moderating influence of NPF on the performance of Islamic banks. Based on secondary data from eight Islamic banks in Indonesia between 2018-2024, this study employs a quantitative methodology using panel data regression and Moderated Regression Analysis (MRA). The findings indicate that while profit margin financing has no discernible impact on efficiency, profit sharing financing has a favorable and considerable impact. Profit margin financing has a negative and negligible impact on stability, whereas profit sharing financing has a positive but negligible impact. Additionally, by changing the direction of influence, NPF significantly moderates the association between profit sharing financing and both efficiency and stability. However, it does not significantly moderate the effect of profit margin financing on efficiency, but it does on stability. In summary, the effectiveness of Islamic financing is heavily reliant on risk management, especially credit risk control, where NPF is a key factor in evaluating whether financing can improve stability and efficiency in Islamic banks.

Keywords: Bank Efficiency; Bank Stability; Non-Performing Financing; Profit Margin Financing; Profit Sharing Financing.

Received: February 03, 2026

Revised: March 14, 2026

Accepted: April 17, 2026

Published: May 18, 2026

Curr. Ver.: May 18, 2026



Copyright: © 2025 by the authors.

Submitted for possible open access publication under the terms and conditions of the Creative Commons Attribution (CC BY SA) license (<https://creativecommons.org/licenses/by-sa/4.0/>)

1. Introduction

Growing awareness of the need for a fair, transparent, and ethical financial system has propelled the global expansion of Islamic economics in recent decades, turning it from a niche model into an essential component of the global economy (Saputri, 2023). Along with growing acceptance in areas like Europe, this expansion is reflected in the diversification of Islamic financial industries, including Islamic banking, capital markets, takaful, and fintech, as well as innovations like sukuk for financing global infrastructure. According to the State of the Global Islamic Economy Report 2024, Indonesia, along with Malaysia and Saudi Arabia, has become a major center of Islamic economic growth thanks to its sizable Muslim population and robust legal system. Despite these advancements, there are still issues with competitiveness with traditional institutions, efficiency, and the quality of finance. As the predominant industry, Islamic banking is essential to promoting economic growth through financial intermediation. Its performance is increasingly assessed not only by profitability but also by efficiency and stability as markers of sustainable operations (Zaini et al., 2019; Beck et al., 2013).

Efficiency is a crucial factor in assessing Islamic banks' success since it shows how well they can manage resources to produce the most while keeping costs under control and operations running smoothly (Kamarudin & Ismail, 2013). Efficiency is essential in Islamic banking to ensure sustainable performance and boost competitiveness in the financial sector by maintaining a balance between financing expansion, cost control, and risk management. The Profit Expense Ratio (PER), which evaluates a bank's capacity to turn a profit in relation to its expenses, is one often used metric to gauge efficiency; a higher PER denotes more effective management of operating costs to generate profits (Aryani & Ramayanti, 2022). Therefore, PER is a useful instrument for assessing the connection between profitability and cost effectiveness, ultimately supporting Islamic banks' long-term viability and stability.

Islamic banking stability, which is directly related to a bank's total financial performance, is the capacity of a bank to sustainably carry out its intermediation function without major disruptions in liquidity, profitability, or risk exposure (Ketaren & Haryanto, 2020). The Z-score, which combines profitability, capital sufficiency, and performance volatility to assess a bank's resistance to bankruptcy risk, is a commonly used indicator of stability; a higher Z-score denotes a reduced likelihood of failure and, thus, more stability. The quality and administration of financing have a significant impact on stability in Islamic banking since well-managed financing promotes both long-term stability and performance improvement (Addury & Ramadhani, 2024). Prior research has also shown that banking operations, especially financing portfolios, which have consistently increased in recent years and reflect the growing efficacy of Islamic banks in carrying out their intermediation role and promoting economic growth, are linked to efficiency and stability (Lotto, 2019).

Islamic banks in Indonesia rely heavily on Islamic financing products, which can be broadly categorized into profit-sharing schemes (*mudharabah* and *musyarakah*) and margin-based financing (*murabahah*, *ijarah*, *salam*, and *istishna*), each of which has unique risk-return characteristics (Ghoniya & Hartono, 2019; Belkhaoui et al., 2020). Margin-based financing is becoming more and more common because it offers more predictable returns and comparatively lower risk than profit-sharing financing, which includes parties sharing risk and return. However, financing operations also expose banks to risks as measured by Non-Performing Financing (NPF), which represents the percentage of financing that is problematic because customers are unable to fulfill their obligations; higher NPF levels are indicative of lower asset quality and can lower stability, profitability, and efficiency (Aryani & Ramayanti, 2022). Because NPF is both a risk indicator and a moderating variable that can either increase or decrease the impact of financing on the stability and efficiency of Islamic banks, its effective management is therefore crucial to maintaining financial performance and intermediation functions (Addury & Ramadhani, 2024).

Research on Islamic finance and the stability and effectiveness of Islamic banks in Indonesia has yielded mixed results. While some studies show that both profit-sharing financing (PSF) and margin-based financing (PMF) greatly increase efficiency, others find that only PMF has a significant impact because of its lower risk and more predictable returns, or that PSF, when properly managed, plays a stronger role (Aryani & Ramayanti, 2023; Sari, 2022). While PMF exhibits conflicting or detrimental impacts regarding credit risk, PSF is frequently reported to improve financial resilience in terms of stability (Widyastuti & Arinta, 2020; Addury & Ramadhani, 2024). These differences emphasize how crucial Non-Performing Financing (NPF) is as a moderating factor that can affect how financing, efficiency, and stability are related (Pratami et al., 2023).

2. Literature Review

Financial Intermediation Theory

The role of banks as intermediaries that transfer money from surplus to deficit units while lowering market frictions such as transaction costs and information asymmetry is explained by the Financial Intermediation Theory, which was first presented by Gurley and Shaw in 1960. Banks increase productivity and reduce hazards in financial transactions by using techniques like delegated monitoring (Diamond, 1984). Financial intermediation in the Islamic context uses profit-sharing and margin-based financing instruments instead of interest, allocating funds gathered through sharia-compliant contracts to the real economy while sharing risks and gains (Trimulato, 2021). Islamic banks provide social tasks in addition to commercial ones, such as distributing *zakat*, which promotes fair and sustainable economic growth, especially by assisting SMEs and productive industries (Zulfa, 2020).

Islamic Financing

Islamic financing is the providing of capital by Islamic financial institutions to support sharia-compliant investment operations, with repayment due within a predetermined timeframe through agreed-upon returns or profit-sharing (Amani & Khoirunisa, 2024). It functions under contracts like profit-sharing (*mudharabah*, *musyarakah*), sale-based (*murabahah*, *salam*, *istisna*), and leasing (*ijarah*), all of which are subject to the DSN-MUI's regulations and uphold the values of justice, balance, and the prohibition of *riba*, *gharar*, and *maisir*. In addition to performing the intermediary role of Islamic banks, Islamic financing promotes economic development, increases access to capital, boosts productivity, and optimizes resource allocation, among other macro and micro goals. In actuality, it may be broadly divided into margin-based financing and profit-sharing financing, both of which promote financial inclusion and business expansion (Aryani & Ramayanti, 2023).

Bank Efficiency

A crucial measure of financial performance is bank efficiency, which shows how well a bank can use its resources to produce its highest possible output (Nainggolan, 2020). Because inefficient banks can impede the transmission of monetary policy and economic growth, it includes both cost and profit efficiency, which are crucial for guaranteeing efficient credit distribution and promoting macroeconomic stability (Guitian, 1997). The form of financing used in Islamic banking affects efficiency because profit-sharing and margin-based contracts have different risk and return characteristics. The effectiveness of the bank's intermediation function is intimately tied to overall efficiency (Syafitri, 2021).

Bank Stability

According to PBI No. 16/11/PBI/2014, bank stability is the state in which the financial system functions efficiently, preserves liquidity and solvency, and is resistant to both internal and external shocks, hence promoting sustainable economic growth. It shows how well a bank can manage risks, carry out its intermediation role, and fulfill its commitments even in the face of economic hardship. The Z-score, a composite statistic that evaluates the probability of bank failure by combining profitability, capital, and volatility, is a frequently used indicator of stability; higher values denote stronger stability (Albaity et al., 2019). Stability in Islamic banking is intimately related to financing arrangements, especially profit-sharing programs like *mudharabah* and *musyarakah*, which improve resilience through risk-sharing mechanisms, particularly when credit risk, which is reflected in Non-Performing Financing (NPF), is efficiently managed (Pratami et al., 2023).

Non-Performing Financing

A major risk in Islamic banking is non-performing finance (NPF), which occurs when clients don't make their agreed-upon principle or profit repayments. This indicates problematic financing and possible losses for the bank (Aryani, 2010). A lower NPF ratio denotes better bank performance and efficient risk management, whereas a higher ratio denotes worse asset quality and more financial risk. NPF is an important indication of financial soundness since it assesses the bank's capacity to manage financing quality, including poor, questionable, and loss categories. In order to guarantee trustworthiness and adherence to sharia requirements, it is crucial to maintain low NPF levels, which can be accomplished using sensible financing analysis techniques.

Hypothesis

By promoting profitable investment and improved oversight, profit-sharing finance (*mudharabah* and *musyarakah*) increases efficiency and enables banks to provide larger returns with lower expenses (Aryani & Ramayanti, 2023). H1: Profit-sharing financing positively affects the efficiency of Islamic banks.

Because margin-based financing offers steady revenue and reduced risk, banks are better able to control expenses and boost operational effectiveness (Azhar, 2016; Susilawati, 2016). H2: Profit-margin financing positively affects the efficiency of Islamic banks.

Profit-sharing financing increases financial stability and resilience by distributing possible losses between banks and clients through risk-sharing arrangements (Ketaren & Haryanto, 2020; Addury & Ramadhani, 2024). H3: Profit-sharing financing positively affects the stability of Islamic banks.

Bank stability is improved via margin-based financing, which promotes steady cash flows and predictable returns that enhance liquidity and solvability (Azhar, 2016; Pratami et al., 2023). H4: Profit-margin financing positively affects the stability of Islamic banks.

Profit-sharing finance's beneficial effects on efficiency are dependent on the quality of the financing; larger NPF reduces efficiency by raising credit risk and operating expenses

(Aryani & Ramayanti, 2023).H5: NPF moderates the effect of profit-sharing financing on bank efficiency.

While margin financing promotes efficiency, growing NPF diminishes its efficacy because of higher loss provisions and unrealized returns (Maidalena, 2014; Firdaus & Prasetyo, 2017). H6: NPF moderates the effect of profit-margin financing on bank efficiency.

Because increasing credit risk can erode financial resilience, profit-sharing financing has a bigger stabilizing effect when NPF is low (Pratami et al., 2023; Jaharuddin, 2024). H7: NPF moderates the effect of profit-sharing financing on bank stability.

High NPF can counteract this benefit by raising credit risk and weakening financial soundness, even though margin financing fosters stability through predictable income (Aryani, 2010; Addury & Ramadhani, 2024). H8: NPF moderates the effect of profit-margin financing on bank stability.

3. Method

Research Design

In order to provide objective statistical analysis of the effects of profit-sharing and margin-based financing on bank efficiency and stability, this study uses a quantitative approach using secondary panel data from the annual financial statements of Islamic banks in Indonesia for the period 2018–2024(Sugiyono, 2019).Documentation from official bank reports and regulatory sources like OJK was used to gather data on variables like financing kinds, Z-score for stability, Profit Expense Ratio (PER) for efficiency, and Non-Performing Financing (NPF) as a moderating variable. 56 observations were deemed representative for analysis after 8 of the 14 Islamic banks in the population were chosen through purposive sampling based on criteria of consistent operation and complete data on both financing kinds over the study period (Sugiyono, 2019).

Data Analysis Method

This study combines time-series and cross-sectional data, using panel data regression to analyze the associations between variables and descriptive statistics to characterize data properties (Widarjono, 2013). The Chow, Hausman, and Lagrange Multiplier tests are used in model selection to identify the best estimating method (CEM, FEM, or REM). To verify the validity of the model, traditional assumption tests such as normality, multicollinearity, autocorrelation, and heteroskedasticity are used. Additionally, the moderating effect of Non-Performing finance (NPF) on the association between Islamic finance and bank stability and efficiency is evaluated using Moderated Regression Analysis (MRA). To assess the model's significance and explanatory capacity, hypothesis testing is carried out using t-tests, F-tests, and the coefficient of determination (R^2) (Ghozali, 2016).

Variable Operationalization

Table 1. Variable Operationalization.

Variable	Definition	Formula	Scale
Profit-Sharing Financing (X1)	A form of Islamic finance known as "profit-sharing financing" involves banks and clients entering into a partnership arrangement to carry out company operations and split earnings according to a preset ratio (Lestari et al., 2015).	$PFS = Ln (Total PFS Disbursed$	Nominal
Profit Margin Financing (X2)	Profit margin financing is a popular Islamic financing method in which the bank buys the goods the customer requests and resells them at a price that includes a predetermined profit margin. It is typically carried out through contracts like murabahah, istishna, and	$PMF = Ln (Total PMF Disbursed)$	Nominal

	Variable	Definition	Formula	Scale
		salam (Addury & Ramadhani, 2024).		
	Bank Efficiency (Y1)	The Profit Expense Ratio (PER), which shows how successfully a bank earns profit in relation to its expenses, is frequently used to quantify efficiency, which is defined as the capacity to maximize production while minimizing costs (Susilawati, 2016).	$PER = \frac{Net\ Income}{Operating\ Expenses}$	Ratio
	Bank Stability (Y2)	The Z-score is frequently used as a financial stability indicator to gauge a bank's capacity to continue operating and fulfill its commitments even in the face of economic hardship (Addury & Ramadhani, 2024).	$Z - Score = \frac{ROA + (Equity/Total\ Assets)}{\sigma(ROA)}$	Ratio
	Non-Performing Financing (Z)	A bank's ability to handle problematic financing, which is categorized as substandard, dubious, and loss, is reflected in NPF. Higher NPF denotes increased credit risk and possible decline in financial performance (Aryani, 2010).	$NPF = \frac{Total\ NPF}{Total\ Financing\ Disbursed}$	Ratio

4. Results and Discussions

Results

Model Testing

The panel data model selection findings show that the Fixed Effect Model is the best choice for both Equations 1 and 2. The use of FEM in this work is continuously supported by the findings of the Chow and Hausman tests, where all probability <0.05.

Table 2. Model Testing.

Equation 1				
No	Test	Prob	H	Result
1	Chow Test	0.0008	Ha accepted	FEM
2	LM Test	0.0383	Ha accepted	FEM
Equation 2				
No	Test	Prob	H	Result
1	Chow Test	0.0000	Ha accepted	FEM
2	LM Test	0.0000	Ha accepted	FEM

Classical Assumption

For both Equation 1 and Equation 2, the Jarque–Bera test indicates that the residuals are not normally distributed, as the probability values (0.0143 and 0.0208) are below 0.05. However, this does not invalidate the regression model, since with more than 30 observations, the error term can be assumed to be approximately normal based on the Central Limit Theorem, making the violation of normality less critical.

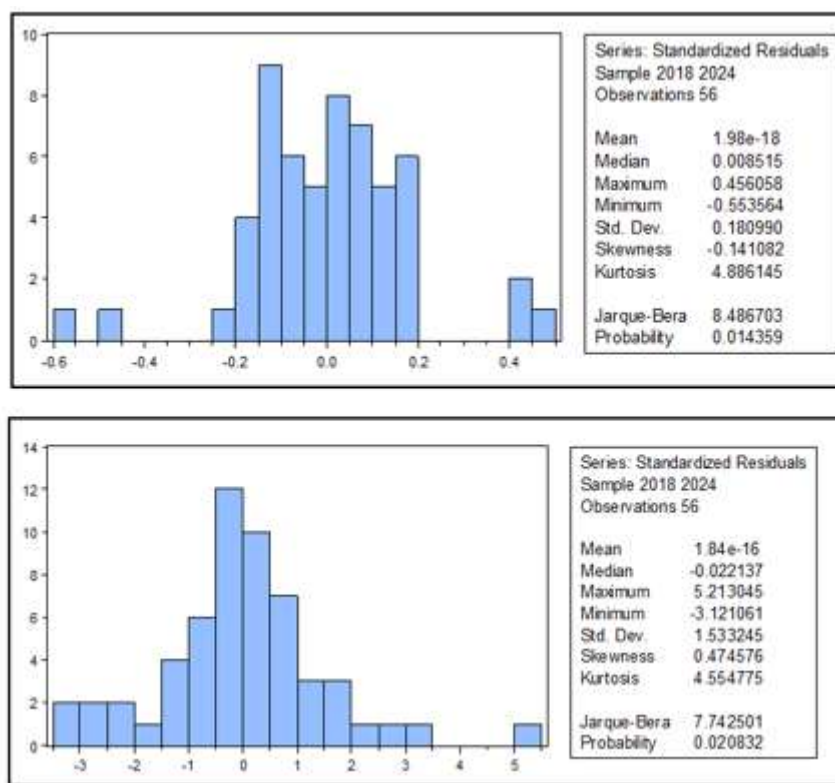


Figure 1. Normality Test.

Since all of the independent variable correlation values for both equations are less than 0.85 and only the interaction terms exhibit the anticipated correlation patterns, there is no multicollinearity issue.

Table 3. Multicollinearity Test.

Equation 1					
	PSF	PMF	NPF	PSF*NPF	PMF*NPF
PSF	1	0.8245	-0.1185	0.0208	0.0184
PMF	0.8245	1	-0.1705	-0.0553	0.0079
NPF	-0.1185	-0.1705	1	0.9879	0.9803
PSF*NPF	0.0208	-0.0553	0.9879	1	0.9922
PMF*NPF	0.0184	0.0079	0.9803	0.9922	1
Equation 2					
	PSF	PMF	NPF	PSF*NPF	PMF*NPF
PSF	1	0.8245	-0.1185	0.0208	0.0184
PMF	0.8245	1	-0.1705	-0.0553	0.0079
NPF	-0.1185	-0.1705	1	0.9879	0.9803
PSF*NPF	0.0208	-0.0553	0.9879	1	0.9922
PMF*NPF	0.0184	0.0079	0.9803	0.9922	1

The Durbin-Watson test values (2.0712 and 2.0255) for Equations 1 and 2 lie within the range $dl < d < 4 - du$, suggesting that the regression models do not exhibit autocorrelation.

Table 4. Autocorrelation Test.

Equation 1			
n	K	Durbin-Watson Stat	Result
56	3	2.0712	No Autocorellation
Equation 2			
n	K	Durbin-Watson Stat	Result
56	3	2.0255	No Autocorellation

The residual plots for Equations 1 and 2 both display a random distribution around zero with no discernible pattern, proving that the homoskedasticity condition is met and that there is no heteroskedasticity.

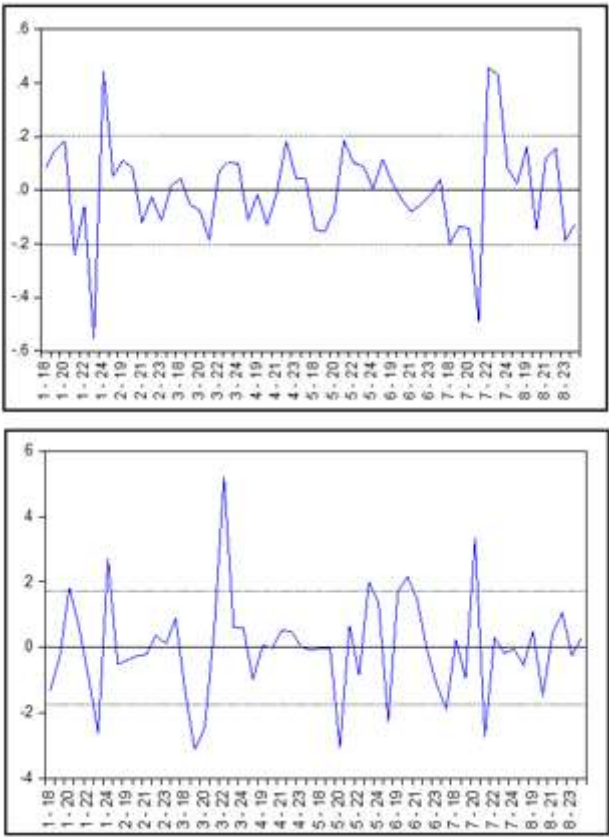


Figure 2. Heteroskedasticity Testing.

Data Panel Regression**Table 5.** Model Testing (Equation 1).

Variable	Coef	Std. Error	t-Stat	Prob.
C	-1.7744	1.4086	-1.2596	0.2146
PSF	0.2384	0.1113	2.1425	0.0379(**)
PMF	-0.1108	0.1225	-0.9049	0.3706
NPF	55.5334	21.9881	2.5256	0.0153(**)
PSF*NPF	-7.0101	2.8552	-2.4551	0.0182(**)
PMF*NPF	3.3062	2.4689	1.3391	0.1876
R ²	0.5834			
Adj. R ²	0.4672			
F-Stat	5.0194			
Prob (F-Stat)	0.0000 (**)			

$$EFIS = -1.7744 + 0.2384PSF - 0.1108PMF + 55.5334NPF - 7.0101(PSF \times NPF) + 3.3062(PMF \times NPF)**$$

The results show that PSF has a positive and significant effect on efficiency ($p = 0.0379$), while PMF has a negative but insignificant effect ($p = 0.3706$). NPF has a positive and significant effect on efficiency ($p = 0.0153$). For the moderating effects, PSF×NPF is negative and significant ($p = 0.0182$), whereas PMF×NPF is positive but not significant ($p = 0.1876$). The model is statistically significant overall (F-statistic = 4.6403; $p = 0.00015$) and explains 46.72% of the variation in efficiency (Adjusted R² = 0.4672).

Table 6. Model Testing (Equation 2).

Variable	Coef	Std. Error	t-Stat	Prob.
C	8.2676	11.9336	0.6928	0.4922
PSF	1.0751	0.9428	1.1402	0.2605
PMF	-1.0672	1.038	-1.0281	0.3096
NPF	0.9961	186.271	0.0053	0.9958
PSF*NPF	-53.9254	24.1883	-2.2293	0.0311(**)
PMF*NPF	54.8513	20.9156	2.6225	0.0120(**)
R ²	0.9156			
Adj. R ²	0.8921			
F-Stat	38.9217			
Prob (F-Stat)	0.0000 (**)			

$$STAB = 8.2676 + 1.0751PSF - 1.0672PMF + 0.9961NPF - 53.9254(PSF \times NPF) + 54.8513(PMF \times NPF)$$

The results show that PSF has a positive but insignificant effect on stability ($p = 0.2605$), while PMF has a negative and insignificant effect ($p = 0.3096$). NPF is positive but not significant ($p = 0.9958$). For the moderating effects, PSF×NPF is negative and significant ($p = 0.0311$), indicating a change from a positive to a negative relationship, while PMF×NPF is positive and significant ($p = 0.0120$), reversing the relationship from negative to positive. The model is highly significant overall (F-statistic = 41.5163; $p = 0.0000$) and explains 88.04% of the variation in stability (Adjusted R² = 0.8804).

Discussions

Effect of Profit Sharing Financing on Islamic Bank Efficiency

Profit sharing financing has a positive and statistically significant effect on efficiency ($\beta = 0.2384$; $p = 0.0379$), according to panel regression using Indonesian Islamic bank data from 2018 to 2024. This means that a 1% increase in profit sharing financing improves efficiency as determined by the Profit Expense Ratio. In line with Financial Intermediation Theory and earlier empirical findings, this supports Islamic banking principles of risk-sharing, wherein musyarakah and mudharabah contracts improve resource allocation to productive sectors and promote intermediation efficiency (Aryani & Ramayanti, 2023). The outcome also shows better real-sector finance monitoring and screening, which boosts operational effectiveness. Consequently, H1 is accepted because the empirical data supports it.

Effect of Profit Margin Financing on Islamic Bank Efficiency

Profit margin financing has a negative but statistically negligible influence on efficiency, according to the estimation results ($\beta = -0.1108$; $p = 0.3706$). This suggests that while murabahah, salam, and istishna financing may impair efficiency, the effect is not substantial enough to be generalized. According to Financial Intermediation Theory and Addury & Ramadhani (2024), a greater reliance on fixed-margin lending may result in higher operating expenses because of monitoring and administrative responsibilities. However, market conditions and bank management techniques probably reduce inefficiencies. Because of the negative and insignificant association, H2 is rejected.

Effect of Profit Sharing Financing on Bank Stability

Profit-sharing financing has a positive but statistically negligible effect on stability ($\beta = 1.0751$; $p = 0.2605$), indicating that while risk-sharing financing theoretically strengthens bank resilience through loss-sharing mechanisms, its empirical impact is weak. This validates findings by Addury & Ramadhani (2024) and is consistent with Financial Intermediation Theory, which emphasizes stability through distributed risk. However, its efficacy in enhancing stability is diminished by real-world constraints including poor financial reporting and inadequate transparency among SMEs. Consequently, H3 is rejected.

Effect of Profit Margin Financing on Bank Stability

The findings demonstrate that profit margin financing has a negative and negligible impact on stability ($\beta = -1.0672$; $p = 0.3096$), suggesting that depending too much on fixed-margin financing, like murabahah, may not improve bank stability as anticipated. According to Financial Intermediation Theory, it theoretically produces predictable cash flows, but empirical data indicates that stability is weakened by greater exposure to credit risk and non-performing finance (Addury & Ramadhani, 2024). This illustrates Indonesian Islamic banks' structural reliance on margin-based funding, which could make them more susceptible to shocks to the economy. H4 is therefore rejected.

Moderating Effect of NPF on Profit Sharing Financing and Efficiency

According to the MRA results, profit sharing financing significantly increases efficiency in the baseline model ($\beta = 0.2384$; $p = 0.0379$). However, when NPF interaction is introduced, the effect becomes negative and significant ($\beta = -7.0101$; $p = 0.0182$), suggesting that NPF weakens and reverses the positive impact of profit sharing financing on efficiency. According to Financial Intermediation Theory, which explains how credit risk diminishes intermediation efficiency, this indicates that rising NPF raises provisioning costs and decreases operational efficiency. This result is consistent with that of Aryani & Ramayanti (2023), who demonstrated that financing performance declines as credit risk rises. H5 is so approved since NPF considerably moderates and reverses the relationship.

Moderating Effect of NPF on Profit Margin Financing and Efficiency

Profit margin financing has a negative but negligible impact on efficiency prior to moderation ($\beta = -0.1108$; $p = 0.3706$). NPF does not significantly attenuate this association, as the coefficient becomes positive ($\beta = 3.3062$) but is insignificant ($p = 0.1876$) after adding NPF interaction. This happens because efficiency is less susceptible to changes in NPF when fixed-margin financing produces comparatively steady income, particularly during macroeconomic shocks like COVID-19. From the standpoint of intermediation, this implies that under margin-based financing arrangements, there is little transfer of credit risk to operational effectiveness. This outcome is in line with Aryani & Ramayanti's (2023) finding that NPF did not have a substantial moderating impact. H6 is therefore rejected.

Moderating Effect of NPF on Profit Sharing Financing and Stability

At first, profit-sharing financing has a slight but favorable impact on stability ($\beta = 1.0751$; $p = 0.2605$). Nevertheless, the connection becomes negative and significant ($\beta = -53.9254$; $p = 0.0311$) when NPF interaction is introduced, suggesting that NPF considerably reduces and reverses the stabilizing effect of profit sharing financing. This suggests that while rising NPF raises provisioning costs and lowers asset quality, risk-sharing mechanisms only improve stability while credit risk stays low. This result is in line with Pratami et al. (2023), who emphasize the significance of credit risk in determining bank stability, and supports Financial Intermediation Theory. Consequently, H7 is approved.

Moderating Effect of NPF on Profit Margin Financing and Stability

At first, profit margin financing has a negative and negligible impact on stability ($\beta = -1.0672$; $p = 0.3096$). The link between margin financing and stability is dramatically altered by NPF, as seen by the interaction term being positive and significant after moderation ($\beta = 54.8513$; $p = 0.0120$). This implies that banks often employ more conservative financing practices under higher NPF conditions, enhancing asset quality and stabilizing cash flows. Theoretically, the stability effect of fixed-margin lending depends on risk conditions, even if it offers predictable profits. This is in line with the findings of Addury & Ramadhani (2024), who discovered that credit risk can change how financing systems affect stability. Consequently, H8 is approved.

5. Conclusions

The study finds that while profit margin financing has no discernible impact on efficiency, profit sharing financing greatly increases Islamic bank efficiency. Profit margin financing has a negative and negligible impact on stability, while profit sharing financing has a positive but negligible impact. While Non Performing Financing (NPF) does not significantly moderate the effect of profit margin financing on efficiency, it does moderate the effect of profit sharing financing on stability by reversing and weakening the relationship between the two.

The study's primary limitations are the comparatively small sample of Indonesian Islamic banks and the use of secondary data, which might not adequately capture qualitative elements like risk governance, management quality, and macroeconomic shocks outside of the 2018–2024 timeframe. In order to provide a more thorough understanding of Islamic banking performance, future research is advised to increase the sample size to include Islamic banks from other nations, prolong the observation period, and include additional variables like macroeconomic indicators, governance quality, and liquidity risk.

References

- Addury, M., & Ramadhani, A. (2024). The influence of financing model on financial stability in Java Island. *Monetary Finance*.
- Albaity, M., Mallek, H., & Noman, A. (2019). Competition and bank stability in the MENA region. *Emerging Markets*, 38, 310–325. <https://doi.org/10.1016/j.ememar.2019.01.003>
- Amani, & Khoirunisa. (2024). Analisis perbandingan pembiayaan bank konvensional dan bank syariah. *Karimah Taubid*, 3(2), 2253–2269. <https://doi.org/10.30997/karimahtaubid.v3i2.12070>
- Aryani, & Ramayanti. (2022). Peran NPF dalam memediasi antara equity-debt financing terhadap PER Bank Syariah Mandiri. *Ilmu Ekonomi*, 2(2), 107–116.
- Azhar, & Nasim. (2016). Pengaruh pembiayaan jual beli, bagi hasil, dan NPF terhadap profitabilitas. *ASET*, 8(1), 61–76.
- Beck, T., Demirgüç-Kunt, A., & Merrouche, O. (2013). Islamic vs. conventional banking. *Banking & Finance*.
- Belkhaoui, A., Alsagr, A., & van Hemmen, R. (2020). Financing modes and profitability in Islamic banks. *Cogent Economics*, 8(1), 1750258. <https://doi.org/10.1080/23322039.2020.1750258>
- Diamond, D. (1984). Financial intermediation and delegated monitoring. *Economic Studies*, 51(3), 393–414.
- Firdaus, & Prasetyo. (2017). Pengaruh debt-equity financing terhadap PER. *Eko Syariah Terapan*, 4(6), 315–145.

- Ghoniya, & Hartono. (2019). The role of Islamic corporate governance in preventing fraud. *AICIF 7th Conference*.
- Ghozali, I. (2016). *Multivariate dengan SPSS 23*. Semarang: UNDIP.
- Guitian, M. (1997). Banking soundness. *Banking Soundness IMF*, 41–62.
- Jaharuddin, J. (2024). Pengaruh pembiayaan modal kerja dan investasi terhadap NPF. *EKOM4*, 3(6), 2522–2529.
- Kamarudin, & Ismail. (2013). Profit sharing and loss bearing in financial intermediation theory. *Financial Innovation*, 10(2), 184–192.
- Ketaren, & Haryanto. (2020). Pengaruh kinerja keuangan terhadap stabilitas perbankan. *Diponegoro Management*, 9(2).
- Lestari, N. (2015). Prinsip bagi hasil pada perbankan syariah. *Sehasen*, 1(1).
- Lotto, J. (2019). Evaluation of factors influencing bank operating efficiency. *Cogent Economics*, 7(1), 1664192. <https://doi.org/10.1080/23322039.2019.1664192>
- Maidalena. (2014). Analisis faktor NPF perbankan syariah.
- Nainggolan. (2020). Efisiensi teknis bank di Indonesia. *Muara Ilmu Ekonomi*, 4(2), 274–284.
- Pratami, S., & Feriyanto. (2023). The role of financing models on Islamic bank stability. *Cuadernos*, 46(131), 43–53.
- Saputri, O. (2023). Pengaruh indikator makroekonomi terhadap kinerja keuangan bank umum syariah saat Covid-19. *Tabarru'*, 4(1), 139–151.
- Sari, T. (2023). Pengaruh pembiayaan syariah dan profitabilitas. *JIEF*, 3(2), 108–118.
- Sugiyono. (2019). *Metode penelitian kuantitatif, kualitatif dan R&D*. Bandung: Alfabeta.
- Susilawati, I. (2016). Pengaruh tingkat debt-equity financing terhadap PER bank syariah (model sequential explanatory research). *Islamica*, 13(2), 259–282.
- Syathiri, H., & Efva. (2021). The influence of financial performance on the stability Islamic rural bank. *SEABC 5th Conference*, 12–15.
- Trimulato, T. (2021). Eksistensi perbankan syariah melalui dominasi pembiayaan profit-loss sharing. *JPS*, 2(1), 29–41.
- Widarjono, A. (2013). *Ekonometrika*. Yogyakarta: UPP STIM YKPN.
- Widyastuti, & Arinta. (2020). Pengembangan ekonomi syariah di Indonesia. *Eko Islam*, 11(1), 45–58.
- Zaini, S. D., & Ahmad, D. (2019). The prospect of sharia banking in Indonesia. *Eco Review*, 2(4), 1–14.
- Zulfa. (2020). Strategi pemasaran dalam peningkatan penyaluran produk pembiayaan mikro 200 iB melalui media sosial BRI Syariah KCP Ngawi. Doctoral dissertation, IAIN Diponegoro.