“A comparative study of Islamic conformity, profitability, and green performance in Southeast Asian Islamic banks”

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A COMPARATIVE STUDY OF ISLAMIC CONFORMITY, PROFITABILITY, AND GREEN PERFORMANCE IN SOUTHEAST ASIAN ISLAMIC BANKS

Abstract

Southeast Asian countries, as members of the Association of Southeast Asian Nations (ASEAN), hold the second-largest Sharia financial assets globally. This study aims to assess the comparative performance of Islamic banks across ASEAN, examine the relationship between Islamic conformity, profitability, and green banking practices, and compare performance indicators between Malaysian and Indonesian Islamic banks. The sample includes Islamic banks from Indonesia, Malaysia, Brunei Darussalam, Thailand, and the Philippines. The findings reveal consistent adherence to Sharia principles across all banks, demonstrating strong Islamic conformity. However, financial performance indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) show significant variability, reflecting differences in operational efficiency and profitability. Green banking practices positively correlate with profitability, particularly ROA and NPM, emphasizing the role of Environmental, Social, and Governance (ESG) initiatives in enhancing operational efficiency and customer loyalty. The comparative analysis highlights that while both Malaysian and Indonesian Islamic banks exhibit consistent Islamic conformity, Malaysian banks outperform their Indonesian counterparts in green banking practices and profitability. This advantage is attributed to Malaysia's advanced regulatory environment, which promotes sustainable finance, whereas Indonesian banks face greater profitability variability, necessitating improved governance and operational strategies. These findings offer valuable insights for policymakers and stakeholders, showcasing how Islamic financial principles can integrate with sustainability practices to achieve profitability and environmental responsibility in Islamic banking.

Keywords Islamic conformity, profitability, green performance, Islamic banking, ASEAN

JEL Classification G21, M41, Q56

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INTRODUCTION

Islamic banking has established itself as a vital component of the global financial system, providing ethical, Sharia-compliant alternatives to conventional banking. Guided by principles such as the prohibition of interest, risk-sharing, and promoting socially productive investments, Islamic finance is well-positioned to address contemporary demands for equitable and sustainable financial systems. The ASEAN region, home to a significant Muslim population and robust economic potential, plays a pivotal role in advancing Islamic banking globally. Malaysia and Indonesia, in particular, have emerged as leaders in the Islamic finance industry, showcasing strong regulatory frameworks and innovative financial instruments that contribute to the sector's growth.

Despite notable advancements, several critical challenges persist that require sustained scholarly attention. Islamic banks across ASEAN exhibit marked heterogeneity in profitability, operational efficiency,

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and environmental sustainability. This variation highlights the imperative to explore the intricate dynamics between Islamic conformity, financial performance, and the adoption of green banking practices. Although adherence to Sharia principles ensures compliance with Islamic ethical standards, such conformity does not inherently translate into financial success. Similarly, while environmental, social, and governance (ESG) principles, particularly green banking, have shown to impact profitability, their implementation differs significantly among institutions.

1. LITERATURE REVIEW

Islamic banking performance within ASEAN countries reflects significant variations due to diverse economic structures, regulatory environments, and levels of market maturity. Comparative studies illustrate the varying success of Islamic banks. Julia and Kassim (2020) concluded that, although Islamic banks exhibit a stronger alignment with the principles of Maqasid Shariah particularly in preserving faith, intellect, and the circulation of wealth, both Islamic and conventional banks fall short of achieving full compliance with green banking policies. Chowdhury and Haron (2021) found that Islamic banks in Southeast Asia demonstrated overall improvements in efficiency and productivity from 2014 to 2019, with significant progress observed in Indonesia, consistent efficiency in Malaysia, and notable advancements in Brunei, while Thailand and the Philippines experienced declines in efficiency by 2019. Athief et al. (2024) found that while the profit-loss sharing principle is a foundational concept in Islamic finance, its practical application remains limited. Amuda and Al-Nasser (2024) identified regulatory, operational, and institutional challenges as key obstacles to the effective operation of Islamic banks in non-Muslim states, emphasizing that addressing these issues through Shari'ah-compliant regulatory frameworks and digital innovation is crucial for enhancing financial inclusion.

The term maqasid (the plural of maqshud) refers to objectives or purposes, reflecting the fundamental goals that underpin human actions and decisions within the framework of Islamic law. In Islamic jurisprudence, every action is driven by a purpose, with the ultimate aim being to realize benefits for humanity (masalih al-ibad), both in spiritual and worldly contexts. Maqasid Shariah encapsulates the underlying meanings, wisdom, objectives, and secrets behind formulating Islamic laws. It promotes good and prevents harm (dar'u al-mafasid wa jalb al-masalih), ensuring justice, equity, and welfare (Paryadi, 2021). In Islamic finance, particularly Islamic banking, the principles of maqasid Shariah play a central role in shaping operations, policies, and performance evaluations Nugroho et al., 2023. Islamic banks are not solely profit-driven entities, they are institutions tasked with upholding ethical and religious values in their financial dealings. Arimiko et al. (2020), found that while most Islamic commercial banks in Southeast Asia (2014–2018) demonstrated low Sharia conformity and high profitability according to the Sharia Conformity and Profitability (SCNP) model, their performance on the Sharia Maqashid Index (SMI) was generally low, with high SMI scores not necessarily aligning with strong SCNP performance.

Dusuki and Abdullah (2007) argue that integrating *Maqasid al-Shari`ah* and *maslahah* into the framework of Corporate Social Responsibility (CSR) provides a holistic and dynamic approach that enables corporations to balance diverse stakeholder expectations. For instance, adherence to maqasid Shariah enhances customer confidence, as stakeholders expect these institutions to prioritize fairness and ethical considerations over profit maximization. Mohammed and Taib (2015) demonstrated that Islamic banks perform better when evaluated using the Performance Measures based on Maqasid al-Shari'ah (PMMS) framework compared to conventional financial metrics, highlighting a potential misalignment between Islamic banking objectives and traditional performance measurement criteria. Güney (2024) critically highlights that while *Maqāsid al-Sharī'a* is increasingly invoked to justify financial products in Islamic finance, its application often falls short of fully aligning with the foundational ethical and legal principles of Islamic law, underscoring the need for a more ethically grounded framework.

Profitability is a key metric for evaluating Islamic banks' financial health and operational efficiency. Commonly used indicators for assessing Profitability in Islamic banking include Return on Assets (ROA),

Return on Equity (ROE), and Net Profit Margin (NPM). Ledhem and Mekidichel (2020) examine the relationship between the financial performance of Islamic finance and economic growth using CAMELS; the findings indicate that Profitability, mainly return on equity (ROE), significantly impacts economic growth. Alharbi (2017) assesses the financial performance of Islamic banks and concludes that the effectiveness of the Islamic Banking Services Industry (IBSI) in the Gulf Cooperation Council region shows strong stability.

Athari and Bahreini (2023) emphasized that operational efficiency in Islamic banks is closely linked to regulatory environments and market adaptability, underscoring the need for robust governance to maintain Profitability. The findings suggest that stronger governance frameworks and supportive regulatory settings enhance operational efficiency and Profitability. Mansour et al. (2022) examine the impact of regulatory policies on the performance of Islamic banks during the COVID-19 pandemic. This study highlights the necessity for Islamic banks to adapt to changing regulatory landscapes to sustain Profitability and operational efficiency amidst global economic challenges. Regulatory landscapes influence profitability metrics for Islamic banks, emphasizing adaptability as a crucial factor in supporting growth. The Sharia conformity and profitability framework has become a prominent tool for measuring performance by balancing Sharia compliance and financial Profitability. Yakob and Hasan (2021) revealed that Islamic banks showed greater financial resilience during the pandemic, attributed to adherence to risk-sharing principles inherent in Shariah compliance. These findings align with Ningsih et al. (2020), who emphasized balancing financial goals with ethical practices to maintain stakeholder trust and confidence.

Green banking is a sustainable financing model that integrates economic, environmental, and social dimensions into financial operations. Unlike traditional profit-oriented approaches, green banking emphasizes environmental conservation through innovative practices such as paperless transactions and technological advancements (Meena, 2017). This paradigm shift has positioned green banking as a strategic tool for aligning financial institutions with sustainability goals and fostering operational efficiency. Key practices associated with green banking include online banking, mobile banking, green loans, and energy-saving measures (Anggraini et al., 2019). The increasing environmental awareness among consumers has led to the rapid adoption of these practices in recent years. Zhang and Wei (2024) examine the effect of green finance policies on the ESG performance of enterprises, utilizing the establishment of Green Financial Reform and Innovation Pilot Zones as a natural experiment. The findings indicate that such policies significantly enhance ESG performance by improving external financing capabilities and fostering green technological innovation. Similarly, Saydaliev and Chin (2023) green financing initiatives can align with regulatory compliance and market demands, supporting economic sustainability in competitive ASEAN economies. These findings underscore the alignment of green banking with both market expectations and broader economic sustainability goals.

Researchers have thoroughly explored how green banking influences customer loyalty. Pawar and Munuswamy (2022) revealed that while green banking practices positively influence a bank's green image and customer trust, they do not directly enhance customer loyalty. Instead, the green image serves as a mediator, suggesting that customer perceptions play a crucial role in fostering trust and commitment to green banking initiatives. In addition to previous studies, Gulzar et al. (2024) observed that green banking practices significantly reduce environmental risks and improve institutional resilience in volatile markets. Furthermore, Alam et al. (2022) emphasized that integrating ESG metrics into banking operations directly correlates with higher financial stability, particularly for Islamic banks aiming to align Profitability with ethical standards. This discovery underscores the significance of establishing a solid green reputation as part of an effective customer engagement strategy. The adoption and reporting of sustainability practices in ASEAN countries reveal regional differences. Utami et al. (2024) compared sustainability reporting in Indonesia and Malaysia, finding that Indonesian firms emphasize environmental aspects while Malaysian firms prioritize social dimensions. Both countries benefit from high governance standards, positively impacting corporate value by signaling effective management practices to investors. Good governance significantly affects the stability of Islamic banks in ASEAN, requiring sustainable collabora-

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tion among governments, central banks, and society to boost market share. Saleem et al. (2024) found that non-risk-sharing (non-PLS) financing in Islamic banks significantly boosts industrial production due to reduced information asymmetry and higher transparency, risk-sharing (PLS) financing remains less effective, with asset quality playing a crucial role in strengthening the relationship between Islamic finance and sustainable economic output. Hassan et al. (2024) highlighted six major risks in Islamic banking and proposed micro- and macro-level frameworks, emphasizing regulation, sustainability, and external factors as priorities for future research and policy. Nathania and Ekawati (2024) observed a strong correlation between ESG metrics and financial performance, particularly among state-owned banks in ASEAN. This correlation highlights the critical role of governance in achieving sustainability. It demonstrates that institutions prioritizing ESG integration are better equipped to enhance their financial performance while contributing to long-term environmental and social goals.

The objectives of this study are to assess the comparative performance of Islamic banks across ASEAN countries, investigate the correlations between Islamic conformity, profitability, and green banking performance, and conduct a comparative analysis of performance indicators between Islamic banks in Malaysia and Indonesia.

2. METHODS

This study employs a descriptive correlation analysis method combined with financial ratio analysis using the Islamic Conformity and Profitability approach and evaluating Green Banking practices. The following sections detail the research framework and key methodologies.

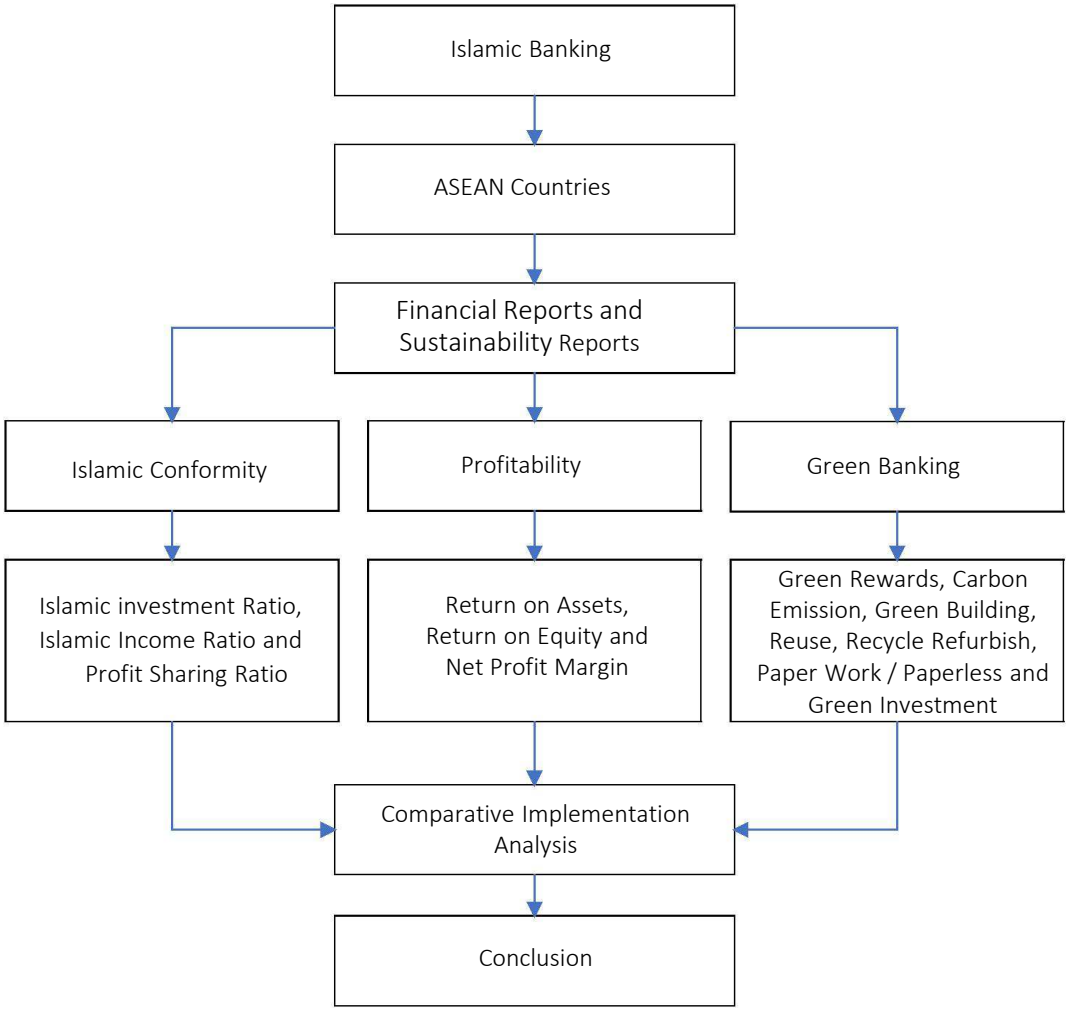

Figure 1. Research analysis flowchart

Measurement of Islamic conformity is as follows:

1. Islamic Investment vs Non-Islamic Investment;

This ratio is used to compare the performance of halal investments and non-halal investments conducted by Islamic banks.

$$Islamic\ Investment\ Ratio = \frac{Total\ Islamic\ Investments}{Total\ Investments} \cdot 100. \quad (1)$$

2. Islamic Income vs Non-Islamic Income;

This ratio aims to measure income derived from halal sources. Islamic banks must ensure that their income comes exclusively from halal sources.

$$Islamic\ Income\ Ratio = \frac{Total\ Income\ from\ Halal}{Total\ Income\ Halal + Non\ Halal} \cdot 100. \quad (2)$$

3. Profit Sharing Ratio;

This ratio is also utilized to identify profit-sharing outcomes, providing insights into how well the Islamic bank has achieved its objectives. The extent of success can be assessed through the profit-sharing measured by this ratio.

$$Profit\ Sharing\ Ratio = \frac{Total\ Profit\ Shared\ with\ Depositors}{Total\ Income} \cdot 100 \quad (3)$$

Profitability is assessed through:

1. Return on Assets (ROA)

ROA measures how efficiently a company uses its assets to generate profit. It is expressed as a percentage and indicates the return earned on each unit of asset invested in the business.

$$ROA = \frac{Net\ Income}{Total\ Assets} \cdot 100. \quad (4)$$

2. Return on Equity (ROE)

ROE evaluates a company's Profitability to the equity shareholders invest. It shows how effectively the company uses shareholders' capital to generate profits.

$$ROE = \frac{Net\ Income}{Shareholders'\ Equity} \cdot 100. \quad (5)$$

3. Net Profit Margin (NPM)

NPM measures the percentage of revenue that remains as profit after all expenses, taxes, and costs have been deducted. It reflects the efficiency of a company in converting revenue into actual profit.

$$NPM = \frac{Net\ Profit}{Total\ Revenue\ Income} X\,100 \quad (6)$$

The framework, based on the models proposed by Jihadi et al. (2021) and Vilantika and Handayani (2023), integrates two dimensions: Islamic conformity and profitability. This approach is designed to assess the operational and financial performance of Islamic banks by evaluating their adherence to Sharia compliance standards

Green Banking refers to environmentally responsible financial practices prioritizing economic, environmental, and social sustainability. This approach encourages banks to extend green financing and adopt eco-friendly operations to enhance long-term performance (Anggraini et al., 2019). Green Banking Performance Indicators:

1. Green Rewards:

Banks are evaluated on whether they have implemented green reward programs and received certifications.

2. Carbon Emission:

This measures the bank's efforts in reducing carbon emissions, including the development of biofuel and efficient electricity usage.

3. Green Building:

Banks are assessed on their energy conservation, water efficiency, waste management practices, and building renovations aimed at sustainability.

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4. Reuse, Recycle, and Refurbish:

This includes waste management programs and other initiatives to minimize the environmental impact.

5. Paperless Operations:

Mobile apps, ATM/debit/credit card systems, and computerized programs are used to reduce paper usage in banking operations.

6. Green Investment:

Banks are evaluated on their commitment to green projects, including water and air projects, low-carbon technologies, and alternative energy sources.

The performance of Green Banking is measured based on the disclosure information in the sustainability report, with the number of items disclosed by the bank divided by the total green banking indicators.

A quadrant graph analysis plots the performance dimensions to classify banks into four quadrants based on their relative performance. The average ratio of all banks serves as the benchmark, offering insights into how individual banks perform in Profitability, Islamic compliance, and green banking. Figure 2 illustrates the quadrants analysis based on the profitability ratio (vertical) and Islamic compliance (horizontal).

The population of this study includes all Islamic commercial banks listed on stock exchanges in ASEAN countries. The sample selection is based on banks with complete data available in annual financial and sustainability reports for the period 2018–2023. The sample of Islamic banks for each country is presented in Table 1.

Table 1. Population and sample

No.	Country	Population Islamic Bank	Sample
1	Indonesia	10	9
2	Malaysia	12	9
3	Thailand	1	1
4	Philippines	1	1
5	Brunei Darussalam	1	1

This study employs a combination of quantitative and comparative analysis techniques:

1. Quadrant Graph Performance Analysis used to classify and compare Islamic banks based on Islamic conformity, profitability and green performance.

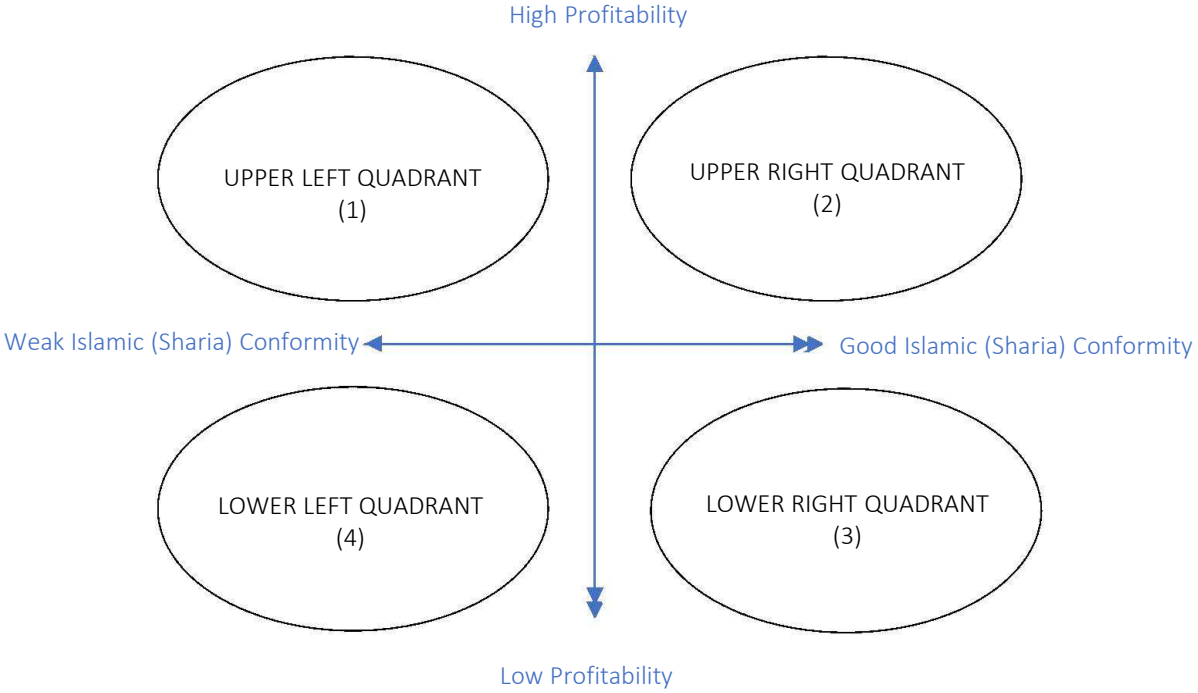

Figure 2. Quadrant graph performance analysis

2. Correlation between Islamic conformity, Profitability, and green banking performance, examining the interdependencies among variables

3. The independent sample t-test was used to compare the financial performance of Islamic banks across Indonesia and Malaysia

Data analysis will be performed using the Statistical Package for the Social Sciences (SPSS) to ensure precise statistical testing and reliable model validation.

3. RESULTS

The descriptive analysis helps to provide an understanding of the data distribution across the observed variables, including Islamic Conformity, Green Banking, and financial indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM).

Based on Table 2 Islamic banks demonstrate strong adherence to Shariah principles, with a high average compliance score (82.54) and moderate variability (SD = 7.09), reflecting consistent efforts to meet religious standards. However, the Green Banking Index score (0.72) indicates moderate adoption of sustainable practices, with some banks lagging behind. Financial performance metrics reveal inefficiencies, as seen in the modest ROA (1.04%) and ROE (1.28%), coupled with significant variability (SD = 3.62 and 35.46). Similarly, the low NPM (4.87%) and extreme variability (SD = 75.50) suggest operational challenges and revenue shortfalls in certain banks. These findings highlight the need for targeted improvements in sustainability practices and operational efficiency to ensure stronger overall performance

The average performance of Islamic banks from 2018 to 2023 in terms of Islamic conformity, Profitability, and green banking is presented in Table 3. The performance shown in the Table 3 reflects considerable variation among Islamic banks.

The Quadrant Graph Performance (referenced in Table 3) applies the Importance-Performance Analysis (IPA) model. In the context of this study, the quadrant graph is utilized to analyze the re-

Table 2. Descriptive statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Islamic	124	64.5	94.84	82.5426	7.08531
GreenBanking	124	0.47	0.93	0.7244	0.13813
ROA	124	–12.29	13.58	1.039	3.62386
ROE	124	–250.15	31.2	1.2777	35.45831
NPM	124	–406.63	52.52	4.8665	75.50157

Table 3. Average bank performance for the period 2018–2023

No.	Bank	Islamic Conformity			Profitability			Green Banking
		Islamic investment Ratio	Islamic Income Ratio	Profit Sharing Ratio	Return on Assets	Return on Equity	Net Profit Margin	Average Value Indicator
1	Bank Muamalat Indonesia	100.00	99.96	56.17	0.05	0.49	1.58	0.80
2	Bank Mega Syariah	100.00	99.86	64.71	2.00	11.35	23.65	0.73
3	BCA Syariah	100.00	99.86	67.95	1.23	4.10	18.82	0.76
4	Bank Bukopin Syariah	100.00	99.85	74.23	–2.30	–12.76	–75.97	0.73
5	Panin Dubai Syariah Bank	100.00	98.37	70.41	–0.46	–1.21	–18.54	0.59
6	Bank Victoria Syariah	100.00	100.00	39.91	0.40	1.36	–3.09	0.57
7	Bank Jabar Banten Syariah	100.00	99.67	71.42	0.71	3.48	5.98	0.63
8	BTPN Syariah	100.00	99.90	28.64	10.27	23.20	29.99	0.74
9	Bank Aceh Syariah	100.00	99.56	18.34	2.06	17.91	21.63	0.61
10	Bank Islam Malaysia Berhad	100.00	99.60	35.02	0.77	9.36	28.81	0.82
11	Bank Muamalat Malaysia	100.00	99.82	39.52	1.14	9.01	24.20	0.73
12	Maybank Islamic Berhad	99.99	99.84	44.28	1.45	10.43	42.55	0.80

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Table 3 (cont.). Average bank performance for the period 2018–2023

No.	Bank	Islamic Conformity			Profitability			Green Banking
		Islamic investment Ratio	Islamic Income Ratio	Profit Sharing Ratio	Return on Assets	Return on Equity	Net Profit Margin	Average Value Indicator
13	HSBC Amanah Malaysia	100.00	99.92	38.75	2.38	21.85	33.83	0.82
14	AmBank Islamic Berhad	100.00	99.48	68.50	4.44	3.39	35.46	0.82
15	Standard Chartered Saadiq	100.00	99.98	72.43	1.78	19.85	14.88	0.80
16	Public Islamic Bank Berhad	100.00	99.85	57.10	1.68	12.97	42.97	0.72
17	Hong Leong Islamic Bank	100.00	99.41	53.97	0.86	12.17	48.90	0.73
18	Affin Islamic Bank Berhad	100.00	100.00	35.45	0.70	5.74	31.68	0.70
19	Bank Islam Brunei Darussalam	100.00	100.00	21.15	1.80	12.28	47.86	0.77
20	Islamic Bank of Thailand	100.00	100.00	11.40	–0.39	–35.51	–14.92	0.78
21	Al-Amanah Islamic Investment	100.00	100.00	32.96	–11.01	–130.74	–290.59	0.54

lationship between Islamic Conformity and Profitability as well as the level of Green Banking implementation and its impact on Profitability.

The graph shown in Figure 3 is a chart that divides the data into four quadrants based on two variables, Profitability and Islamic, with the numbers in Table 3 indicating the bank initials.

1. Quadrant 1 (ULQ – Upper Left Quadrant) shows bank with positive Profitability but lower Islamic scores. Banks in this quadrant have high profitability performance but may not fully meet optimal Sharia aspects. The banks included in Quadrant 1 (ULQ) are BTPN Syariah (8), Bank Aceh Syariah (9), Bank Islam Malaysia Berhad (10) (Bank Muamalat Malaysia (11), 12 Maybank Islamic Berhad (12), HSBC Amanah Malaysia (13), Affin Islamic Bank Berhad (18), and 19 Bank Islam Brunei Darussalam (19).

2. Quadrant 2 (URQ – Upper Right Quadrant) shows Banks with high Islamic scores and positive Profitability. Banks in this quadrant have optimal performance in Profitability and Sharia compliance, considered ideal. The banks included in Quadrant 2 (URQ) are Bank Mega Syariah (2), BCA Syariah (3), Bank Jabar Banten Syariah (7), AmBank Islamic Berhad (14), Standard Chartered Saadiq (15), Public Islamic Bank Berhad (16), and Hong

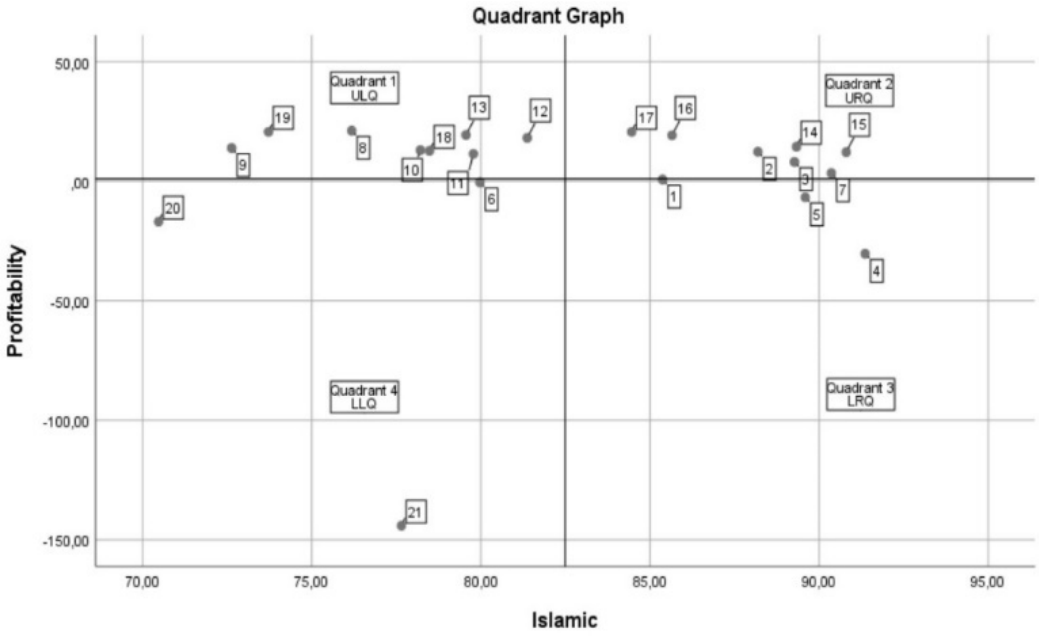

Figure 3. Islamic conformity vs profitability

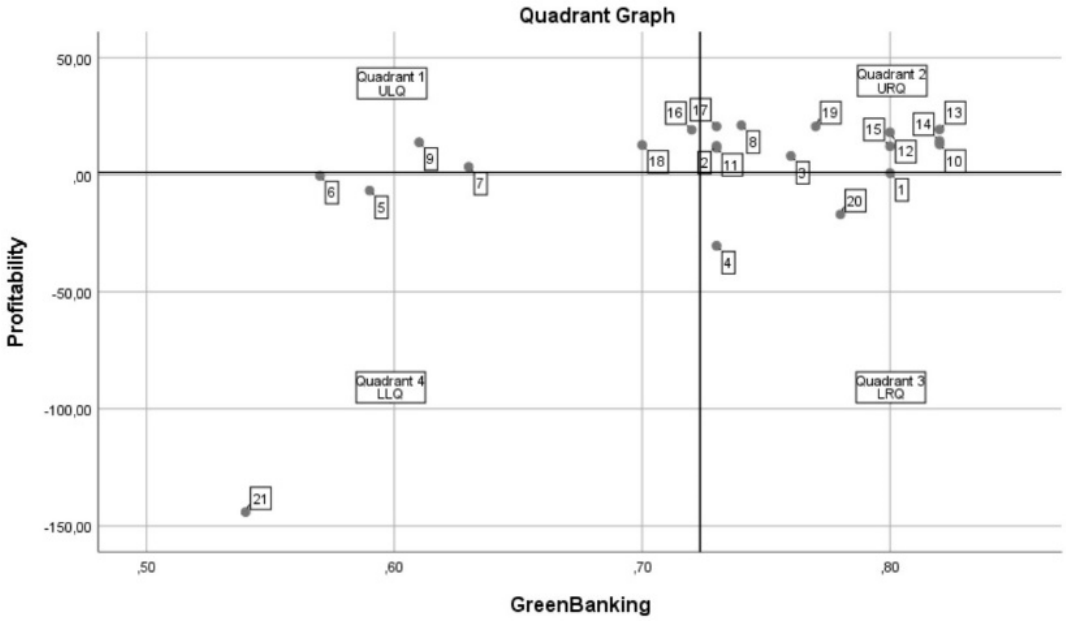

Figure 4. Green banking vs profitability

Leong Islamic Bank (17). The banks located on the horizontal line of Quadrant 2 are Bank Muamalat Indonesia (1) and Bank Jabar Banten Syariah (7).

3. Quadrant 3 (LRQ – Lower Right Quadrant) shows Bank with high Islamic scores but negative Profitability. Banks in this quadrant have high Sharia compliance but experience losses in Profitability. The banks included in Quadrant 3 (LRQ) are Bank Bukopin Syariah (4) and Panin Dubai Syariah Bank (5).

4. Quadrant 4 (LLQ – Lower Left Quadrant) shows Bank with lower Islamic scores and negative Profitability. Banks in this quadrant are considered to have poor performance in Sharia and Profitability. The banks included in Quadrant 4 (LLQ) are Bank Victoria Syariah (6), Islamic Bank of Thailand (20), and Al-Amanah Islamic Investment (21).

The graph shown in Figure 4 is a chart that divides the data into four quadrants based on two variables, Profitability and Green Banking, with the numbers in Table 3 indicating the bank initials.

1. Quadrant 1 (ULQ – Upper Left Quadrant) represents Bank with high Profitability but low Green Banking. Banks in this quadrant show good profitability performance but lack green banking aspects. The banks included in Quadrant 1 (ULQ) are Bank Jabar Banten Syariah (7), Bank Aceh Syariah (9), Public Islamic Bank Berhad (16), and Affin Islamic Bank Berhad (18).

2. Quadrant 2 (URQ – Upper Right Quadrant) represents Banks with high Profitability and Green Banking. This is the ideal quadrant, indicating Banks' good Profitability and adoption of environmentally friendly banking practices. The banks included in Quadrant 2 (URQ) are Bank Mega Syariah (2), BCA Syariah (3), BTPN Syariah (8), Bank Islam Malaysia Berhad (10), Bank Muamalat Malaysia (11), Maybank Islamic Berhad (12), HSBC Amanah Malaysia (13), AmBank Islamic Berhad (14), Standard Chartered Saadiq (15), Hong Leong Islamic Bank (17), and Bank Islam Brunei Darussalam (19). The banks located on the horizontal line of Quadrant 2 is Bank Muamalat Indonesia (1)

3. Quadrant 3 (LRQ – Lower Right Quadrant) represents Bank with low Profitability but high Green Banking. This quadrant shows Banks that may have adopted green banking practices but face profitability challenges. The banks included in Quadrant 3 (LRQ) are

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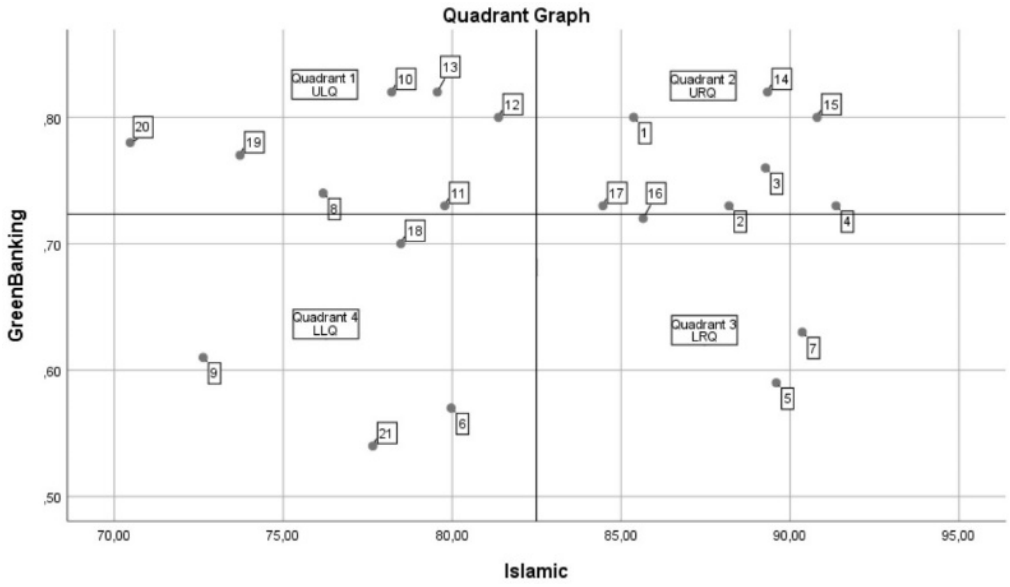

Figure 5. Islamic conformity vs green banking

Bank Bukopin Syariah (4) and Islamic Bank of Thailand (20).

4. Quadrant 4 (LLQ – Lower Left Quadrant) represents Bank with low Profitability and low Green Banking. This quadrant indicates Banks with poor performance in Profitability and Green Banking. The banks included in Quadrant 4 (LLQ) are Panin Dubai Syariah Bank (5), Bank Victoria Syariah (6), and Al-Amanah Islamic Investment (21).

The graph shown in Figure 5 is a chart that divides the data into four quadrants based on two variables, Islamic and Green Banking, with the numbers in Table 3 indicating the bank initials.

1. Quadrant 1 (ULQ – Upper Left Quadrant) represents Banks with high Islamic scores but low Green Banking. Bank in this quadrant may show good compliance with Islamic principles but are lacking in green banking adoption. The banks included in Quadrant 1 (ULQ) are BTPN Syariah (8), Bank Islam Malaysia Berhad (10), Bank Muamalat Malaysia (11), Maybank Islamic Berhad (12), HSBC Amanah Malaysia (13), Bank Islam Brunei Darussalam (19), and Islamic Bank of Thailand (20).

2. Quadrant 2 (URQ – Upper Right Quadrant) represents Bank with high Islamic and Green Banking scores. This is the ideal position, showing Banks performing well in Islamic compliance and environmentally friendly practices. The banks included in Quadrant 2 (URQ) are Bank Muamalat Indonesia (1), Bank Mega Syariah (2), BCA Syariah (3), Bank Bukopin Syariah (4), AmBank Islamic Berhad (14), and Standard Chartered Saadiq (15).

3. Quadrant 3 (LRQ – Lower Right Quadrant) represents Banks with low Islamic but high Green Banking scores. This quadrant shows Banks focusing more on environmentally friendly aspects but less aligned with Islamic principles. The banks included in Quadrant 3 (LRQ) are Panin Dubai Syariah Bank (5), Bank Jabar Banten Syariah (7), and Public Islamic Bank Berhad (16).

4. Quadrant 4 (LLQ – Lower Left Quadrant) represents Banks with low Islamic and Green Banking scores. This is the least ideal quadrant, showing poor performance in both dimensions. The banks included in Quadrant 4 (LLQ) are Bank Victoria Syariah (6), Bank Aceh Syariah (9), Affin Islamic Bank Berhad (18), and Al-Amanah Islamic Investment (21).

Based on the quadrant analysis data, it can be concluded that several Islamic banks consistently occupy a position in Quadrant 2 (URQ –

Table 4. Consistency of banks in Quadrant 2 (URQ)

Bank	Frequency in Quadrant 2	Key Dimensions Mastered	Comments
AmBank Islamic Berhad (14)-Malaysia	3	High Profitability, high Islamic conformity, high Green Banking	Positioned in the top right corner (No. 14)
Standard Chartered Saadiq (15)-Malaysia	3	High Profitability, high Islamic conformity, high Green Banking	Positioned in the top right corner (No. 15)
Bank Mega Syariah (2)-Indonesia	3	Moderate Profitability, moderate Green Banking, moderate Islamic conformity	Positioned in the bottom right corner (No. 2)
BCA Syariah (3)-Indonesia	3	Moderate Profitability, moderate Green Banking, moderate Islamic conformity	Positioned in the bottom right corner (No. 3)

Upper Right Quadrant), Table 4 reflecting ideal performance across Profitability, Islamic compliance, and Green Banking dimensions.

From the analysis of banks' consistency in Quadrant 2 (URQ), it is evident that four banks – AmBank Islamic Berhad (14), Standard Chartered Saadiq (15), Bank Mega Syariah (2), and BCA Syariah (3) – have maintained their positions across different performance dimensions. These banks are notable for their ability to align their operations with Sharia compliance, Profitability, and sustainable practices, making them ideal candidates for further analysis in sustainable Islamic banking.

This section presents the results of the Pearson correlation analysis between Islamic Conformity, Green Banking, and key financial indicators, including Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). Table 5 summarizes the correlations among these variables.

Table 5. Pearson correlation

Item	Islamic	Green Banking	ROA	ROE	NPM
Islamic	1	.103	.004	.131	.053
GreenBanking	.103	1	.220*	.174	.239**
ROA	.004	–	1	.734**	.796**
ROE	.131	–	–	1	.832**
NPM	.053	–	–	–	1

Note: * significant at 0.05; ** significant at 0.01.

1. Islamic Conformity:

These results indicate that Islamic Conformity does not correlate with the profitability indicators (ROA, ROE, and NPM). It suggests that Islamic compliance alone may not be sufficient to drive Profitability. Other factors, such as operational efficiency or market conditions, may play a more prominent role in influencing financial performance.

2. Green Banking:

The correlation between green banking and Profitability is substantial and significant (sig $p < 0.05$). These findings suggest that sustainable practices positively influence operational efficiency, mainly reflected in higher ROA and NPM.

3. Relationships between Financial Indicators:

ROA, ROE, and NPM have a robust correlation that indicates strong interdependence between these profitability measures. The result confirms that profitability metrics such as ROA, ROE, and NPM are highly interrelated, underscoring efficient asset management's importance in enhancing financial performance.

A Comparative Analysis of the performance of Islamic Banks in Indonesia and Malaysia from 2018 to 2023. Comparative test performance using an Independent Sample Test across several key financial and operational metrics. The findings reveal important insights into how these banks perform in various aspects, summarized in Table 6.

The comparative analysis highlights key differences in Islamic banking performance between Indonesia and Malaysia. Islamic conformity shows no significant difference ($p = 0.170$), reflecting consistent adherence to Shariah principles in both countries. However, green banking practices differ significantly ($p = 0.001$), with Malaysian banks (mean: 0.773) outperforming Indonesian banks (mean: 0.6846). This indicates Malaysia's

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Table 6. Comparative – Independent sample t-test

Bank Performance	Country	N	Mean Performance	Sig. (2-tailed)
Islamic Conformity	Indonesia	54	84.7696	0.17
	Malaysia	54	83.0742	–
Green Banking	Indonesia	54	0.6846	0.001
	Malaysia	54	0.773	–
ROA	Indonesia	54	1.5522	0.815
	Malaysia	54	1.6791	–
ROE	Indonesia	54	5.3233	0.002
	Malaysia	54	11.6936	–
NPM	Indonesia	54	6.8324	0
	Malaysia	54	30.0508	–

proactive approach to sustainability, supported by advanced regulations and infrastructure, positioning its banks as leaders in attracting environmentally conscious investors. In contrast, Indonesian banks need to strengthen green banking initiatives by investing in sustainable products and engaging with regulators to foster supportive policies.

ROA (p = 0.815) reveals no significant differences, suggesting similar asset utilization efficiencies, but also shared limitations in innovation and strategic deployment. In terms of ROE (p = 0.002), Malaysian banks demonstrate higher equity management efficiency, reflecting stronger governance and profitability strategies, making them more appealing to investors. Indonesian banks, with lower ROE, must focus on improving equity utilization and cost management to boost returns.

Net Profit Margin (NPM) shows the most significant gap (p = 0.000), with Malaysian banks far outperforming their Indonesian counterparts. This indicates superior cost efficiency and revenue generation in Malaysia, likely driven by economies of scale and advanced technology adoption. For Indonesian banks, addressing operational inefficiencies and diversifying income streams is crucial to enhancing profitability. Overall, these findings underscore the need for targeted improvements in Indonesia to bridge performance gaps and strengthen regional Islamic banking standards.

4. DISCUSSION

The descriptive analysis reveals that Islamic Conformity and Green Banking values remain stable across the sampled banks, suggesting consistent adherence to Sharia principles and sustainability frameworks. However, substantial variability in financial indicators, particularly ROA, ROE, and NPM, indicates significant operational efficiency and Profitability differences among these banks. This variability aligns with findings by Nalliboyina and Chalam (2023) who identified that disparities in profitability among Islamic banks are often attributable to differences in cost structures, market conditions, and managerial effectiveness. Similarly, Qabajeh et al. (2023) who identify operational efficiency and asset management as critical factors influencing the profitability metrics of Islamic banks. This divergence could reflect disparities in how banks manage costs, generate income, and optimize asset utilization.

A detailed examination of the banks positioned in Quadrant 2 (URQ) highlights four institutions – AmBank Islamic Berhad, Standard Chartered Saadiq, Bank Mega Syariah, and BCA Syariah – as consistent performers across the dimensions of Sharia compliance, Profitability, and sustainable practices. These banks exemplify a successful alignment of Sharia principles with financial goals and ESG initiatives, indicating that Islamic banks can achieve competitive advantages through sustainable finance without compromising religious compliance. Standard Chartered Saadiq has pioneered sustainable finance in the Islamic banking sector, introducing products like green sukuk, which align with global ESG portfolio trends. This approach enables the bank to cater to environmentally conscious investors while meeting Islamic compliance requirements. Djalilov and Piesse (2016) argue that ESG initiatives not only broaden market reach but also strengthen investor trust by showcasing the compatibility of sustainability principles with Islamic finance. This

approach highlights how innovation in financial products, particularly those targeting sustainability, enhances competitiveness by appealing to both conventional and Sharia-compliant investors.

Bank Mega Syariah and BCA Syariah showcase stable, moderate growth due to effective asset management and improvements in governance, as noted by Shah Khan et al. (2014) emphasize that sound governance frameworks are critical for ensuring consistent compliance with Sharia principles, thereby fostering profitability and stakeholder confidence. Setyawati et al. (2017) highlight that operational efficiency and prudent asset management play vital roles in sustaining long-term performance. These findings underline the importance of robust governance and efficient operations as key drivers for sustainable growth in Islamic banks.

A comprehensive correlation analysis reveals that Islamic Conformity does not significantly impact profitability indicators (ROA, ROE, and NPM). This finding supports Alharbi (2017) conclusion that Islamic compliance alone does not ensure Profitability unless combined with efficient asset management and risk mitigation practices. This observation suggests that Islamic Conformity ensures religious compliance but does not necessarily yield higher financial returns. Instead, Islamic banks must adopt complementary strategies in asset management, risk control, and cost-efficiency to enhance financial performance. Conversely, Green Banking practices show a significant positive correlation with Profitability, especially with ROA and NPM, affirming the growing financial advantages of sustainable finance. Islamic banks incorporating ESG principles demonstrate improved operational efficiency, leading to higher Profitability. According to Rahma and Wedari (2024), integrating environmental and social governance into banking operations not only drives cost efficiencies but also strengthens customer trust, particularly among environmentally conscious stakeholders. This positive correlation between green banking practices and profitability underscores the necessity of embedding sustainability into core business strategies. By aligning financial objectives with sustainability goals, banks can achieve a dual advantage: improved financial performance and stronger positioning in competitive markets.

The comparative analysis between Indonesian and Malaysian Islamic banks further reveals no significant difference in Islamic Conformity, indicating that both banking systems display a similar level of Islamic compliance. This finding is consistent with studies by Sufian and Kamarudin (2015), which highlight the structural and regulatory similarities in the implementation of Sharia-compliant practices across Southeast Asian countries. Meutia et al. (2019), emphasize that the standardization of Sharia governance frameworks, particularly in aspects such as profit-sharing mechanisms and product innovation, has contributed to this uniformity. These insights affirm that despite differences in market size and economic context, both banking systems prioritize Islamic conformity as a cornerstone of their operations. This consistency underscores the effectiveness of regulatory frameworks in both countries in maintaining high standards of Islamic compliance.

There is a notable disparity in Green Banking practices, with Malaysian banks demonstrating superior performance compared to their Indonesian counterparts. This disparity can be attributed to Malaysia's more advanced regulatory framework, which has been strategically designed to integrate sustainability into the financial sector (Gulzar et al., 2024; Ismail et al., 2022). As noted by Gulzar et al. (2024), Malaysia's financial authorities have implemented comprehensive policies that incentivize green finance, such as tax benefits for green sukuk issuance and frameworks mandating ESG disclosures. Similarly, Ismail et al. (2022) emphasize that the consistent enforcement of these regulations has compelled Malaysian banks to adopt sustainable practices more rigorously, enabling them to gain a competitive advantage. In contrast, Indonesian banks face challenges such as limited regulatory enforcement and lower market incentives, which hinder the widespread adoption of Green Banking initiatives.

In terms of profitability, Malaysian banks consistently outperform their Indonesian counterparts in key indicators such as Return on Equity (ROE) and Net Profit Margin (NPM). This superior performance reflects Malaysia's mature financial market and diversified portfolios, contributing to greater operational stability and en-

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hanced profitability (Azzahra et al, 2023; Azizah & Nengzih, 2021). Azzahra et al. (2023) highlight that enhanced risk management practices, including robust credit assessment systems and comprehensive regulatory oversight, play a critical role in maintaining operational stability and profitability in Malaysian banks. By contrast, Indonesian banks face challenges such as limited portfolio diversification and weaker investor engagement, which contributes to comparatively lower profitability metrics. These disparities underscore the importance of advanced financial market infrastructure and governance mechanisms in optimizing profitability and ensuring long-term competitiveness in the banking sector. Nomran and Haron (2021) argue that Malaysia's proactive regulatory environment and focus on financial innovation have enabled Islamic banks to maintain steady returns even during market volatility. This starkly contrasts Indonesian banks that face more significant variability in financial performance, reflecting a need for improved governance and operational structures to strengthen profitability stability. Maghfuriyah et al. (2019) further highlight that the performance of Islamic banks in Indonesia is significantly influenced by market structure, where factors such as concentration ratios and market share play a crucial role in shaping profitability. Their findings underscore the need for Indonesian banks to address structural inefficiencies and foster a more competitive banking environment to achieve greater stability in financial outcomes.

CONCLUSION

This study aims to assess the comparative performance of Islamic banks across ASEAN, examine the relationship between Islamic conformity, profitability, and green banking practices, and compare financial indicators between Malaysian and Indonesian Islamic banks. The findings indicate that Islamic Conformity remains consistent across all sampled banks, reflecting robust adherence to Sharia principles. However, financial indicators such as ROA, ROE, and NPM exhibit substantial variability, suggesting differing operational efficiency and profitability levels. Banks positioned in Quadrant 2 – AmBank Islamic Berhad, Standard Chartered Saadiq, Bank Mega Syariah, and BCA Syariah – exemplify the successful integration of Sharia principles, sustainable practices, and financial performance. These institutions demonstrate that Islamic banks can align religious compliance with competitive advantages through innovation and ESG initiatives. Green Banking practices significantly positively correlate with Profitability, particularly with ROA and NPM. These results validate the growing importance of ESG principles in achieving operational efficiency and customer loyalty within Islamic finance. The comparative analysis further underscores notable differences between Malaysian and Indonesian Islamic banks. Both countries exhibit consistent levels of Islamic Conformity, driven by effective regulatory frameworks. However, Malaysian banks outperform their Indonesian counterparts in Green Banking practices and Profitability (ROE and NPM), supported by a more advanced regulatory environment incentivizing sustainable finance. In contrast, Indonesian banks face more significant variability in Profitability, reflecting the need for enhanced governance and more robust operational strategies.

From a practical perspective, these findings suggest that Islamic banks aiming for sustained growth must go beyond compliance and focus on integrating sustainability into their core strategies. Policymakers should consider promoting regulatory reforms that facilitate ESG adoption, as demonstrated in Malaysia, to bolster competitiveness in Islamic banking. This study contributes to understanding how Islamic finance can reconcile Sharia compliance with global sustainability objectives, offering actionable insights for industry stakeholders. Future research should examine the long-term effects of Green Banking on financial performance and explore technological innovations, such as fintech and blockchain, to support sustainable and Sharia-compliant banking.

AUTHOR CONTRIBUTIONS

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Investigation: Muhammad Alkindi.
Methodology: Wiwik Utami.
Project administration: Muhammad Alkindi, Wiwik Utami.
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