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Credit Risk and Financing Structure of Malaysian Islamic Banks

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This study examines the impact of financing structure on Islamic banks' credit risk exposure via four measures: 1) real estate financing; 2) financing specialization; 3) short-term financing structure stability; and 4) medium-term financing structure stability. While controlling the bank-specific variables, our findings indicate that real estate financing and financing structure stability to some extent influence credit risk exposure. However, the significant effects disappear when we incorporated the macroeconomic variables in the framework. This implies that the impact of financing structure on credit risk exposure may be misleading when one ignores the role of macroeconomic fundamentals. Hence, it is hoped that our findings will help the policy makers as well as practitioners do make accurate judgements in the decision making process.

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