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THE IMPACT OF MUDHARABAH, MUSYARAKAH, AND ISTISHNA FINANCING ON THE PROFITABILITY OF BANK MUAMALAT INDONESIA: AN EMPIRICAL ANALYSIS OF QUARTERLY DATA (2016–2023)

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Abstract

Introduction: This study examined the effects of mudharabah**,** musyarakah**,** and istishna financing on the profitability of Bank Muamalat Indonesia during the 2016–2023 period. The study was motivated by fluctuations in the bank's profitability and the need to better understand how different Islamic financing contracts contribute to financial performance. **Research Methods**: A quantitative approach with a causal associative research design was employed. Secondary data were collected from the quarterly financial statements of Bank Muamalat Indonesia, covering 32 observations from 2016 to 2023. The data were analyzed using multiple linear regression with EViews 12 after satisfying the classical assumption tests. Profitability was measured using Return on Assets (ROA), while mudharabah, musyarakah, and istishna financing served as the independent variables. **Results**: The results indicate that mudharabah financing had no significant effect on profitability. In contrast, musyarakah financing exerted a positive and statistically significant effect on profitability, whereas istishna financing had a significant negative effect. Simultaneously, the three

financing contracts significantly influenced profitability, suggesting that the composition of Islamic financing portfolios plays an important role in determining the financial performance of Islamic banks. **Conclusion**: Unlike most previous studies that investigated multiple Islamic banks or focused on a limited number of financing contracts, this study simultaneously examined the effects of mudharabah**,** musyarakah, and istishna financing within a single pioneer Islamic bank in Indonesia over an observation period that captured the pre-pandemic, pandemic, and post-pandemic economic conditions. The findings provide empirical evidence to support more effective financing portfolio management for improving the profitability and sustainability of Islamic banks.

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PENDAHULUAN

Islamic banking is a financial institution that conducts its operations in accordance with Islamic principles, which prohibit *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling), while emphasizing justice, transparency, and partnership in financial transactions. As an alternative to the conventional banking system, Islamic banking seeks not only to achieve financial performance but also to promote ethical values and social welfare through Sharia-compliant financial activities (Antonio, 2001). In Indonesia, the Islamic banking industry has experienced significant growth since the establishment of the first Islamic commercial bank in 1992, reflecting the increasing public demand for financial services that comply with Islamic principles (OJK, 2022).

The growth of Islamic banking has not been limited to Indonesia but has also expanded globally. Over the past two decades, the Islamic financial services industry has demonstrated steady growth, driven by increasing demand for Sharia-compliant financial products and the broader acceptance of Islamic finance within the global financial system. According to the Islamic Financial Services Board, the total assets of the global Islamic financial services industry have exceeded USD 3 trillion, with Islamic banking accounting for the largest share of total assets. This development indicates that Islamic banking has evolved beyond being merely an alternative financial system and has become an integral component of the global financial architecture, contributing to financial stability, economic resilience, and financial inclusion (Islamic Financial Services Board (IFSB), 2025).

One of the pioneers of the Islamic banking industry in Indonesia is PT Bank Muamalat Indonesia Tbk**.** Established in 1991 and commencing operations on 1 May 1992, Bank Muamalat became the first commercial bank in Indonesia to operate entirely under Sharia

principles (Hakim, 2021). Since its establishment, the bank has played a significant role in promoting the development of the national Islamic banking industry and has served as a benchmark for the establishment and expansion of other Islamic banks in Indonesia (Bank Muamalat, 2023).

As a financial intermediary, Bank Muamalat's financial performance reflects its ability to mobilize public funds and allocate them efficiently through financing activities. One of the most widely used indicators of financial performance is Return on Assets (ROA)**,** which measures the bank's ability to generate profits from its total assets (Kasmir, 2019). A higher ROA generally indicates more efficient asset utilization and stronger financial performance. However, Bank Muamalat has experienced considerable fluctuations in profitability over recent years, as reflected by variations in its ROA, suggesting challenges in asset management and financing performance (Bank Muamalat, 2023).

Profitability plays a crucial role in the sustainability of Islamic banking because it reflects managerial efficiency in utilizing productive assets to generate sustainable returns. In Islamic banks, profitability is influenced not only by operational efficiency but also by the effectiveness of financing portfolio management, as financing activities constitute the primary source of income. Previous studies have demonstrated that financing composition, financing quality, financing risk, and the proportion of profit-and-loss-sharing financing significantly influence the profitability of Islamic banks. Consequently, examining different financing contracts is essential for understanding the determinants of profitability in Islamic banking (Sutrisno & Widarjono, 2022).

One of the key determinants of bank profitability is the composition and quality of its financing portfolio**.** In the case of Bank Muamalat Indonesia, financing activities are predominantly conducted through mudharabah, musyarakah, and istishna contracts, which represent the fundamental characteristics of the Islamic financial system. Mudharabah and musyarakah are classified as profit-and-loss sharing (PLS) contracts that emphasize partnership and risk-sharing between the bank and its customers, whereas istishna is a sale-based contract commonly used to finance manufacturing and construction projects. Although PLS contracts are theoretically regarded as the financing model that best reflects the principles of Islamic economics, their implementation is often constrained by high monitoring costs, moral hazard, and information asymmetry, which may ultimately affect bank profitability (Fahamsyah, Laila, Rakhmat, & Shabbir, 2023; Sutrisno & Widarjono, 2022). Against this background, it is important to examine the extent to which these three financing contracts contribute to the profitability of Bank Muamalat Indonesia during the 2016–2023 period.

Previous empirical studies have reported inconsistent findings regarding the relationship between Islamic financing and bank profitability. For instance (Sari & Sulaeman, 2021) found that mudharabah financing had a significant positive effect on profitability, whereas musyarakah financing did not have a significant effect. In contrast, (Garwautama, Sulaeman, & Noor, 2021) reported that musyarakah financing positively and significantly influenced the profitability of Islamic banks. Meanwhile (Yanti, 2020) concluded **that** istishna

financing had no significant effect on profitability. These inconsistent findings suggest that the relationship between Islamic financing contracts and bank profitability remains inconclusive and may vary depending on institutional characteristics, financing portfolio composition, macroeconomic conditions, and the observation period employed.

The inconsistencies identified in previous studies indicate that the relationship between Islamic financing and profitability cannot be generalized across Islamic banking institutions. Differences in financing composition, financing quality, risk management practices, institutional characteristics, and macroeconomic conditions may explain these conflicting results. Recent studies also suggest that profit-and-loss-sharing financing does not always improve profitability because of relatively high monitoring costs and financing risks. Conversely, partnership-based financing may enhance profitability when supported by effective risk management and high-quality financing portfolios. These findings highlight the need for institution-specific evidence to better understand the relationship between Islamic financing contracts and profitability.

This study contributes to the literature by simultaneously examining the effects of mudharabah**,** musyarakah, and istishna financing on the profitability of Bank Muamalat Indonesia over the 2016–2023 period. Unlike most previous studies that employed industry-level data or investigated multiple Islamic banks, this research focuses on a single pioneer Islamic bank in Indonesia. Furthermore, the observation period encompasses significant economic events, including the COVID-19 pandemic and the subsequent economic recovery, allowing a more comprehensive assessment of financing performance under different economic conditions. Accordingly, this study provides updated empirical evidence on the effectiveness of various Islamic financing contracts in influencing the profitability of Islamic banks while offering practical insights for financing portfolio management in Indonesia.

RESEARCH METHOD

This study employed a quantitative approach with a causal research design to examine the effects of mudharabah**,** musyarakah, and istishna financing on the profitability of Bank Muamalat Indonesia. A quantitative approach was adopted because the study aimed to empirically investigate the relationships among variables using statistical analysis (Creswell, 2014). The study utilized secondary data obtained from the quarterly financial statements of Bank Muamalat Indonesia, which are publicly available on the bank's official website.

The study population comprised all quarterly financial statements of Bank Muamalat Indonesia covering the period from 2016 to 2023. This observation period was selected because it encompasses three distinct economic phases, namely the pre-pandemic period, the COVID-19 pandemic, and the post-pandemic recovery, thereby providing a comprehensive overview of the dynamics of Islamic financing and bank profitability. The sample was selected using a purposive sampling technique based on the availability of information on mudharabah**,** musyarakah, and istishna financing, as well as Return on Assets (ROA)**.** Based on these criteria, a total of 32 quarterly observations were included in the analysis.

The dependent variable was profitability, proxied by Return on Assets (ROA), while the independent variables consisted of mudharabah financing (X_1), musyarakah financing (X_2), and istishna financing (X_3). The financing variables were measured using the outstanding financing balances reported in the quarterly financial statements of Bank Muamalat Indonesia. ROA was selected as the profitability indicator because it reflects a bank's ability to generate earnings from its total assets and is widely recognized as one of the most reliable measures of banking performance (Sulieman Alshatti, 2016). To reduce scale differences among the financing variables and improve the robustness of the regression estimates, the values of mudharabah, musyarakah, and istishna financing were transformed into their natural logarithmic (Ln) form prior to the analysis.

The data were analyzed using EViews 12. Prior to hypothesis testing, a series of classical assumption tests, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests, were performed to ensure that the regression model satisfied the assumptions of the Best Linear Unbiased Estimator (BLUE) (Wooldridge, 2020). Subsequently, t-tests were conducted to examine the partial effect of each financing contract on profitability, while the F-test was used to assess their simultaneous effect. Finally, the adjusted coefficient of determination (Adjusted R^2) was employed to evaluate the explanatory power of the regression model in explaining variations in the profitability of Bank Muamalat Indonesia.

RESULTS AND DISCUSSION

RESULTS

Classical Assumption Tests

Prior to hypothesis testing, a series of classical assumption tests was conducted to ensure that the regression model satisfied the underlying assumptions and that the estimation results were statistically reliable. The diagnostic tests included normality, multicollinearity, heteroscedasticity, and autocorrelation tests.

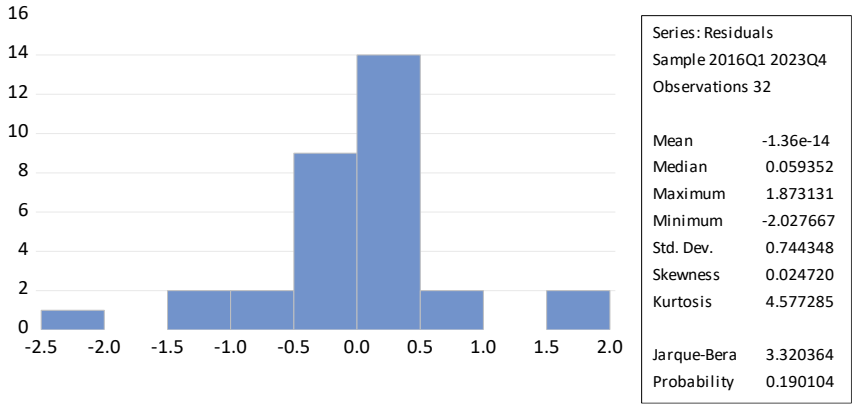

Figure 1. Normality Test Result

Source: Processed EViews output.

The normality test using the Jarque–Bera statistic produced a probability value of 0.190, which exceeded the significance level of 0.05. Therefore, the residuals were normally distributed, indicating that the normality assumption was satisfied (Prayitno, 2022).

Table 1. Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	111.8560	5835.167	NA
LOG(X1)	0.558813	5222.820	1.442408
LOG(X2)	0.564854	8053.959	1.786958
LOG(X3)	0.027880	108.3098	1.298368

Source: Processed EViews output

As presented in Table 1, the Variance Inflation Factor (VIF) values for all independent variables were below the threshold value of 10, with VIF values of 1.442 for mudharabah financing, 1.787 for musyarakah financing, and 1.298 for istishna financing. These results indicate the absence of multicollinearity among the independent variables included in the regression model (Kusumaningtyas dkk., 2022).

Table 2. Heteroscedasticity Test Results

F-statistic	1.799521	Prob. F (9,22)	0.1256
Obs*R-squared	13.56860	Prob. Chi-Square (9)	0.1385
Scaled explained SS	18.58124	Prob. Chi-Square (9)	0.0290

Source: Processed EViews output

The heteroscedasticity test was performed using the White test. The obtained Prob. Chi-Square value was 0.138, which was higher than the significance level of 0.05. Accordingly, the regression model did not exhibit heteroscedasticity, indicating that the variance of the residuals was homoscedastic (Prayitno, 2022).

Table 3. Autocorrelation Test Results

F-statistic	2.701014	Prob. F (2,25)	0.0867
Obs*R-squared	5.508279	Prob. Chi-Square (2)	0.0637

Source: Processed EViews output

Autocorrelation was examined using the Breusch–Godfrey Lagrange Multiplier (LM) test. The Prob. Chi-Square value of 0.063 exceeded the 0.05 significance level, indicating that the regression model was free from autocorrelation and that the residuals were independent across observations (Prayitno, 2014).

Overall, the results of the classical assumption tests confirmed that the regression model satisfied all required assumptions and was therefore appropriate for hypothesis testing.

Multiple Linear Regression Analysis

Table 4. Multiple Linear Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-43.22777	10.57620	-4.087268	0.0003
LOG(X1)	0.844378	0.747538	1.129545	0.2683
LOG(X2)	2.063072	0.751567	2.745026	0.0104
LOG(X3)	-0.564699	0.166972	-3.381990	0.0021
R-squared	0.418803	Mean *dependen*t var		-2.667020
Adjusted R-squared	0.356532	S.D. *dependen*t var		0.976370
S.E. of regression	0.783210	Akaike info criterion		2.465636
Sum squared resid	17.17569	Schwarz criterion		2.648853
Log likelihood	-35.45018	Hannan-Quinn criter.		2.526367
F-statistic	6.725476	Durbin-Watson stat		1.029840
Prob(F-statistic)	0.001470			

Source: Processed EViews output

Based on the multiple linear regression analysis presented in Table 4**,** the estimated regression equation is expressed as follows:

$$ROA = -43.228 + 0.844Ln\ (Mudharabah) + 2.063Ln\ (Musyarakah) - 0.565Ln\ (Istishna) + \varepsilon$$

The estimated regression equation indicates that mudharabah and musyarakah financing were positively associated with the profitability of Bank Muamalat Indonesia, whereas istishna financing exhibited a negative relationship with profitability. However, the statistical significance of each independent variable was determined through the t-test, which evaluates the partial effect of each explanatory variable on the dependent variable (Singgih, 2004).

The regression results revealed that mudharabah financing had a regression coefficient of 0.844, a t-statistic of 1.129, and a probability value of 0.268. Since the probability value exceeded the 5% significance level, mudharabah financing did not have a statistically significant effect on profitability. In contrast, musyarakah financing recorded a regression coefficient of 2.063**,** a t-statistic of 2.745, and a probability value of 0.010, indicating a positive and statistically significant effect on profitability. Meanwhile, istishna financing produced a regression coefficient of −0.565, a t-statistic of −3.382, and a probability value of 0.002, indicating a significant negative effect on the profitability of Bank Muamalat Indonesia.

The joint significance of the independent variables was subsequently evaluated using the F-test, which examines whether all explanatory variables collectively affect the dependent variable (Ghozali, 2018). As shown in Table 4, the model generated an F-statistic of 6.725 with a Prob(F-statistic) of 0.001, which was lower than the 5% significance level. These findings

indicate that mudharabah, musyarakah, and istishna financing jointly exerted a statistically significant effect on the profitability of Bank Muamalat Indonesia.

The explanatory power of the regression model was assessed using the adjusted coefficient of determination (Adjusted R^2) (Ghozali, 2018). The estimated Adjusted R^2 value of 0.356 indicates that approximately 35.6% of the variation in the profitability of Bank Muamalat Indonesia could be explained by the three financing contracts included in the model. The remaining 64.4% of the variation was attributable to other factors outside the scope of this study, including financing quality, operational efficiency, capital adequacy, liquidity, and broader macroeconomic conditions.

DISCUSSIONS

Effect of Mudharabah Financing on the Profitability of Bank Muamalat Indonesia

The findings indicate that mudharabah financing did not have a significant effect on the profitability of Bank Muamalat Indonesia. This suggests that an increase in mudharabah financing was not necessarily accompanied by a corresponding improvement in Return on Assets (ROA). In other words, expanding the mudharabah financing portfolio alone was insufficient to enhance the bank's ability to generate profits from its assets.

From a theoretical perspective, this finding can be explained by the inherent characteristics of the mudharabah contract as a profit-and-loss sharing (PLS) financing scheme. Under this arrangement, the bank acts as the *shahibul maal* (capital provider), while the customer serves as the *mudharib* (entrepreneur) responsible for managing the business. Profits are distributed according to a predetermined profit-sharing ratio, whereas financial losses are borne by the capital provider unless they result from negligence or misconduct on the part of the entrepreneur. Consequently, mudharabah financing involves a relatively higher degree of uncertainty than sale-based or partnership-based financing because investment returns depend largely on the performance of the financed business.

In addition, mudharabah financing is particularly vulnerable to information asymmetry and moral hazard. Since the bank is not directly involved in the day-to-day management of the financed business, its ability to monitor the entrepreneur's activities is inherently limited. This situation increases monitoring costs and may create discrepancies between the actual business performance and the profits reported by the entrepreneur. As a result, income generated from mudharabah financing tends to be less stable and may not contribute optimally to bank profitability. Similarly argued that the high monitoring risk associated with mudharabah financing reduces its contribution to the profitability of Islamic banks (Suryadi, Burhan, & Yusnelly, 2024).

The present findings should also be interpreted in light of the economic conditions experienced by Bank Muamalat Indonesia during the 2016–2023 period. As discussed in the Introduction, the bank's profitability fluctuated considerably throughout the observation period, particularly during the COVID-19 pandemic and the subsequent economic recovery. Under such conditions, profit-and-loss sharing contracts such as mudharabah are generally exposed to greater business risk because the return on financing depends directly on the

performance of the real sector. Consequently, although mudharabah financing remains one of the core financing instruments in Islamic banking, its contribution to profitability may not be immediately observable, especially during periods of economic uncertainty. The findings of this study are consistent with those reported by (Cahyani, 2023) and (Hidayat & Maika, 2023) both of whom found that mudharabah financing did not significantly influence the profitability of Islamic banks. This consistency suggests that the effectiveness of mudharabah financing depends not only on the amount of financing disbursed but also on the bank's ability to manage financing risks, monitor financed projects, and ensure the quality of its financing portfolio.

From a managerial perspective, these findings imply that merely increasing the volume of mudharabah financing is unlikely to improve the profitability of Bank Muamalat Indonesia. Instead, the bank should strengthen customer selection procedures, enhance monitoring mechanisms for financed businesses, and implement more effective risk mitigation strategies to improve the performance of mudharabah financing. By doing so, mudharabah can continue to serve as a Sharia-compliant partnership-based financing instrument while contributing more effectively to the bank's financial performance.

Effect of Musyarakah Financing on the Profitability of Bank Muamalat Indonesia

The findings indicate that musyarakah financing had a positive and statistically significant effect on the profitability of Bank Muamalat Indonesia. This suggests that musyarakah financing contributed more effectively to improving Return on Assets (ROA) than the other financing contracts examined in this study. Accordingly, a greater proportion of productive musyarakah financing is likely to enhance the bank's profitability.

From a conceptual perspective, musyarakah is an equity-based financing contract in which both the bank and the customer act as business partners by contributing capital and sharing both risks and profits according to a predetermined profit-sharing ratio. Unlike mudharabah, where the bank solely provides capital, musyarakah allows both parties to participate in the business venture, enabling the bank to exercise closer supervision over business operations. Such active involvement helps mitigate information asymmetry and moral hazard, thereby improving the likelihood of generating higher returns from financing activities (Putri & Mulyasari, 2022).

The positive relationship between musyarakah financing and profitability also reflects the effectiveness of the risk-sharing mechanism embedded in this financing contract. Since both parties bear the investment risk, customers have stronger incentives to manage their businesses efficiently and maximize business performance. This shared responsibility reduces the likelihood of financing problems and ultimately contributes to higher financing income and more efficient utilization of the bank's productive assets.

These findings are consistent with the financing strategy adopted by Bank Muamalat Indonesia during the 2016–2023 observation period, in which partnership-based financing continued to play an important role in strengthening the bank's intermediation function. Despite the economic fluctuations experienced during the COVID-19 pandemic and the

subsequent recovery period, musyarakah financing remained capable of supporting the bank's profitability. This suggests that partnership-based financing demonstrates relatively strong resilience when supported by prudent customer selection, comprehensive business feasibility assessment, and effective risk management practices. The present findings are also consistent with those reported by (Garwautama dkk., 2021) who found that musyarakah financing had a positive and significant effect on the profitability of Islamic banks.

From a managerial perspective, these findings suggest that Bank Muamalat Indonesia should continue to strengthen musyarakah financing as one of its core financing portfolios for improving financial performance. Nevertheless, expanding musyarakah financing should be accompanied by the consistent implementation of prudential banking principles, rigorous feasibility assessments, and continuous monitoring of financed businesses to maintain financing quality. By adopting these measures, musyarakah financing can not only enhance the bank's profitability but also support the long-term sustainability of Islamic financial intermediation in accordance with the principles of justice, partnership, and risk sharing.

Effect of Istishna Financing on the Profitability of Bank Muamalat Indonesia

The findings indicate that istishna financing had a negative and statistically significant effect on the profitability of Bank Muamalat Indonesia. This suggests that an increase in istishna financing did not necessarily contribute positively to Return on Assets (ROA) and may even reduce the bank's profitability. These findings highlight that different Islamic financing contracts exhibit distinct risk-return characteristics, implying that each financing contract requires a specific management strategy to optimize financial performance.

From a conceptual perspective, istishna is a sale-based financing contract (*manufacturing contract*) commonly used to finance manufacturing, construction, and procurement projects that require goods to be produced according to predetermined specifications. Unlike musyarakah, which is based on partnership and risk sharing, istishna financing is generally characterized by a relatively longer financing period, more complex production processes, and a greater dependence on the contractor's ability to complete the project according to the agreed specifications, budget, and timeline. These characteristics expose istishna financing to relatively higher operational risks than other Islamic financing contracts (Wijayanti, Waluyo, & Fatah, 2021).

The negative relationship identified in this study suggests that expanding istishna financing may increase the bank's risk exposure when project management is not adequately implemented. Project delays, escalating production costs, fluctuations in raw material prices, and contractors' failure to meet contractual specifications may reduce the profit margin earned by the bank. Furthermore, the relatively long financing period slows capital turnover, thereby reducing the efficiency of productive asset utilization. Consequently, an increase in istishna financing may not immediately translate into higher profitability, particularly in the short term.

These findings should also be interpreted in the context of the economic conditions experienced by Bank Muamalat Indonesia during the 2016–2023 observation period, which

included the COVID-19 pandemic and the subsequent economic recovery. During this period, many business sectors, particularly construction and manufacturing, experienced economic slowdowns, supply chain disruptions, and rising production costs. These challenges may have affected the completion of projects financed through istishna contracts, thereby increasing financing risk and ultimately reducing bank profitability. Accordingly, the findings suggest that the performance of istishna financing is determined not only by the contractual characteristics of the financing scheme but also by the broader economic environment in which financed projects are implemented.

The results of this study are consistent with those reported by (Rosalinda & Nurhayati, 2021) and (Yanti, 2020) who found that istishna financing had a negative effect on the profitability of Islamic banks. These studies argue that the relatively high operational risk and the complexity of project implementation limit the contribution of istishna financing to bank profitability. Nevertheless, several other studies have reported different findings, suggesting that the effectiveness of istishna financing largely depends on project management quality, risk mitigation capabilities, and the financing portfolio characteristics of individual Islamic banks. These inconsistent findings indicate that the relationship between istishna financing and profitability remains context-dependent and warrants further empirical investigation.

From a managerial perspective, the findings imply that Bank Muamalat Indonesia should strengthen its risk management practices for istishna financing, particularly by improving project selection procedures, conducting comprehensive contractor feasibility assessments, closely monitoring project implementation, and adopting more effective risk mitigation strategies. In addition, diversifying the bank's financing portfolio is essential to reduce its exposure to financing contracts with relatively high operational risk. Through more effective project governance and risk management**, istishna financing** can continue to support the real sector while maintaining the financial performance and long-term sustainability of Bank Muamalat Indonesia.

Joint Effect of Mudharabah, Musyarakah, and Istishna Financing on the Profitability of Bank Muamalat Indonesia

The findings indicate that mudharabah, musyarakah, and istishna financing jointly exerted a statistically significant effect on the profitability of Bank Muamalat Indonesia. This suggests that the composition of the bank's financing portfolio is a key determinant of its financial performance. In other words, the profitability of an Islamic bank is not driven by a single financing contract but rather by the combined performance of various Sharia-compliant financing instruments within its financing portfolio.

These findings are consistent with asset management theory, which suggests that an institution's ability to manage productive assets effectively is a key determinant of profitability. In Islamic banking, financing constitutes the primary productive asset and serves as the main source of operating income. Therefore, the effectiveness of financing portfolio management plays a crucial role in determining the bank's capacity to generate sustainable profits (Astuti, Sembiring, Supitriyani, Azwar, & Susanti, 2020).

Nevertheless, the findings also demonstrate that the contribution of each financing contract to profitability is not uniform. Musyarakah financing contributed positively and significantly to profitability, whereas mudharabah financing showed no statistically significant effect, and istishna financing exerted a significant negative effect. These results suggest that improving bank profitability depends not merely on increasing the volume of financing but, more importantly, on establishing an optimal financing portfolio that balances returns with the risks associated with different financing contracts.

Furthermore, the Adjusted R^2 value of 35.6% indicates that the three financing contracts explained more than one-third of the variation in the profitability of Bank Muamalat Indonesia. Although this finding confirms that financing activities are an important determinant of profitability, it also suggests that a substantial proportion of profitability is influenced by other factors beyond the scope of this study. Variables such as financing quality, operational efficiency, capital adequacy, liquidity management, and macroeconomic conditions may also contribute to variations in the financial performance of Islamic banks. Therefore, improving profitability requires a more comprehensive strategy than merely expanding financing activities.

The present findings reinforce previous studies suggesting that the relationship between Islamic financing and profitability cannot be adequately explained by examining individual financing contracts in isolation. Rather, the effectiveness of Islamic financing depends on the quality of financing, the bank's ability to manage financing risks, and the prevailing economic environment. Consequently, enhancing the profitability of Islamic banks requires not only expanding financing disbursement but also developing a well-balanced financing portfolio that optimizes the trade-off between risk and return while maintaining sound financing quality.

From a managerial perspective, these findings imply that Bank Muamalat Indonesia should adopt a more selective and strategic approach to financing portfolio management. Musyarakah financing, which demonstrated a positive contribution to profitability, should continue to be strengthened as one of the bank's primary financing instruments. Meanwhile, mudharabah financing requires enhanced monitoring and business evaluation mechanisms to mitigate moral hazard, whereas istishna financing demands more rigorous project risk management through careful contractor selection, continuous project monitoring, and comprehensive project feasibility assessments. By implementing these strategies, Bank Muamalat Indonesia can improve its profitability while preserving the quality of its productive assets in accordance with prudential banking principles and the core principles of Islamic finance.

CONCLUSION

This study examined the effects of mudharabah, musyarakah, and istishna financing on the profitability of Bank Muamalat Indonesia over the 2016–2023 period. The findings demonstrate that each financing contract exhibits a distinct relationship with profitability. Mudharabah financing did not have a statistically significant effect on Return on Assets (ROA), suggesting that expanding profit-and-loss sharing financing alone is insufficient to improve bank profitability. In contrast, musyarakah financing exerted a positive and statistically significant effect on profitability, indicating that partnership-based financing contributes more effectively to the financial performance of Bank Muamalat Indonesia. Meanwhile, istishna financing showed a significant negative effect on profitability, implying that project-based financing requires more effective risk management to prevent adverse impacts on the bank's financial performance.

The findings further reveal that mudharabah, musyarakah, and istishna financing jointly exerted a significant influence on profitability, confirming that the composition of the financing portfolio is an important determinant of the financial performance of Islamic banks. Nevertheless, the coefficient of determination indicates that profitability is also influenced by other factors beyond the financing contracts examined in this study. Therefore, improving the financial performance of Islamic banks requires not only an appropriate financing strategy but also effective risk management, high financing quality, operational efficiency, and the ability to respond to changing economic conditions.

From a practical perspective, the findings suggest that Bank Muamalat Indonesia should optimize its financing portfolio by strengthening musyarakah financing, which has proven to contribute positively to profitability, while enhancing monitoring mechanisms for mudharabah financing and reinforcing project risk management for istishna financing. From an academic perspective, this study contributes to the existing literature by providing empirical evidence on the relationship between different Islamic financing contracts and bank profitability through an in-depth analysis of a pioneering Islamic bank in Indonesia over a period encompassing the pre-pandemic, pandemic, and post-pandemic economic environments.

This study is subject to several limitations. It focuses exclusively on three Islamic financing contracts and a single Islamic bank, limiting the generalizability of the findings to the broader Islamic banking industry in Indonesia. Future research is therefore encouraged to incorporate additional determinants of profitability, such as financing quality, operational efficiency, capital adequacy, liquidity, and macroeconomic variables, while extending the analysis to multiple Islamic banks to provide more comprehensive and generalizable evidence.

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