

# THE IMPACT OF ISLAMIC FINANCING PRODUCTS ON ISLAMIC BANKS PROFITABILITY: CASE OF AL RAYAN BANK (QATAR)

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**Abstract:** This study aims to determine the effect of Musharaka, Murabaha, Istisna'a and Ijarah financing on the profitability of Al Rayan Islamic Bank. This research uses Quarterly data of Al Rayan Bank for 2011Q1-2023Q1. The data is taken from the financial statements of income and statements of financial position. The variables used in this study are independent variables, Musharaka, Murabaha, Istisna'a and Ijarah financing. While the dependent variable is, the Islamic bank's profitability measured by Return on Equity (ROE). The study used ARDL and Error Correction Models to analyze the short and long-term relationships between variables. Data collected were analyzed by using EViews10 software. ARDL bounds test findings shown that there is a cointegration relationship between bank profitability and Islamic financing Products variables in the long run. The results of the long-run analysis show that Musharaka financing has a positive and significant effect on ROE at the 5% level. Murabaha financing has a negative and significant effect on ROE. Meanwhile, the Istisna'a and Ijarah variables have no significant effect on ROE. The short run dynamics show that there is a negative and significant effect of Murabaha and Ijarah financing on the profitability of the Islamic bank, while lagged value of Murabaha LMUR(-1) has a positive and significant effect on the profitability index of the Islamic bank. Simultaneously, there is no relationship and effect of Musharaka and Istisna'a on the profitability of the Islamic bank in the short term.

**Keywords:** Islamic banks, Murabaha, Ijarah, Musharaka, Istisna'a, Profitability (ROE).

## 1. Introduction

It is known that maximization of profit is the objective of the highest priority for all investment institutions created by private individuals. Consequently, all private sector financing institutions have one fundamental objective: to make as much profit as they can.

The role of the banking system is to provide financing and facilitates the flow of financial resources between surplus units (savers) and deficit units (borrowers). Traditional banks and Islamic Banks are equal in this task, but the latter differ from traditional banks in the legal controls and the socio-religious guidelines that forbid and prohibit all impermissible transactions like charging and paying Riba (usury-interest) and gambling, short selling, speculation and sale of debts.

According to Vegirawati, Susetyo, Meutia, & Fuadah, (2019) Islamic banks are banks that adhere of sharia principles in their business activities, namely prohibiting the interest or usury system and avoid unethical practices in the economy.

There are two types main of product in Islamic banking: the first is based on the principle of profit-loss sharing (PLS) such as Musharaka (participation) and Mudaraba, and the second is based on sale and debt products such as Murabaha, along with ijarah (Leasing) and salam sale.

One of the main objectives of Islamic banks as an economic institution carrying out operational activities is to seek profitability. The greater the volume of financing transactions in Islamic banks, the greater the level of profit margins that they will receive and this will, of course, affect its financial performance.

The Islamic banking industry in Qatar includes four Islamic banks (Qatar Islamic Bank (QIB), Qatar International Islamic Bank (QIIB), Barwa Bank and Al-Rayan Bank). These banks have a crucial part in banking sector and the country's economy.

In this study, Al Rayan Islamic Bank was selected as a case study because it is the only Qatari bank that provides data on the volume of financing for various Islamic banking products in its financial statements during the study period.

The main objective of this research is to check the effect of Islamic banking products (financing formulas) on the Profitability of AL RAYAN Islamic Bank.

## **2. Background**

### **2.1 Al Rayan Bank Overview**

Al Rayan bank is a Qatar-based Islamic bank providing financial, banking, investment and brokerage services throughout Qatar. The Bank was incorporated in 2006. Al Rayan bank is one of the largest Islamic banks in Qatar. Its structure consists of three main divisions: Retail Banking, Private Banking and Wholesale Banking.

IN 2022, Al Rayan bank achieved a total Assets at QAR 167.5 billion, Customer Deposits at QAR 97 billion, and Financing Assets at 117.8 billion. (Masraf Al Rayan, 2022)

In terms of financial performance, Al Rayan bank achieved a net profit of QAR 1,344 million in 2022. Earnings per share for 2022 is QAR 0.14. (Masraf Al Rayan, 2022)

### **2.2 Islamic Banking Products**

There are six main contracts that are largely used in Islamic banking:

#### **1) Musharaka financing**

Musharaka financing is a collaboration of investing funds or goods between two or more partners to run certain businesses by sharia with the distribution of profits between the partners based on an agreed ratio. While, the losses will be divided according to how much capital each party contribute.

## 2) Mudaraba financing

The contract of Mudaraba is a cooperation between two parties in which the first (Rab al maal) provides the capital, while the other is the worker (El mudarib) who is capable to managed a project. (Syahri & Harjito, 2020)

The profit obtained is divided according to the pre-determined agreement, whilst the loss is borne by the capital provider (Rab al maal) as long as the loss is not a result of negligence of the Mudarib's part. If the loss is caused by negligence of the mudarib, the latter must be responsible for the loss. (Tjoteng, Fathoni, & Munira, 2022)

From the explanation above, there is a different in terms of business management, capital distribution, and profit-sharing between Musharaka and Mudaraba financing. In Mudaraba, the Islamic bank contributes all the capital, while the other party (the partner) is the manager who runs the project, and profits are divided according to the pre-determined agreement. On the other hand, in Musharaka financing, Islamic bank and the bank customer will contribute capital and cooperate in managing the business together and the profits and losses are divided according to Profit-Loss Sharing Principle (PLS Principle).

## 3) Murabaha financing

Murabaha is a kind of sales in which the seller discloses the purchase price to the buyer and then adds a Profit margin on the purchase price and sells it to the buyer. The Profit margin can be a lump sum amount or a percentage of the total cost. (Atal, Iranmanesh, Hashim, & Foroughi, 2020)

There are two types of Murabaha sale, if there is no early promise to buy from customer, then it is called an ordinary Murabaha (A simple Murabaha). however, If the customer promises the Islamic bank that he will buy the commodity from him after the bank owns it, then it is called Murabaha to purchase (A banking Murabaha)

According to. (Khan, 2011) Murabaha is the most popular kind of financing compare to other Islamic financial products.

## 4) EL salam financing

EL Salam sale is a forward agreement where spot payment from the buyer in exchange for delivery occurs at a future date from the seller.

It is necessary in EL salam sale that the buyer pays the price in full at the time of initiating the contract, and The price, quantity, date and place of delivery should be precisely specified in the contract. ( Hussain, Shahmoradi, & Turk , 2015)

## 5) Istisna'a financing

In an istisna'a sale, the seller (Producer or Manufacturer) undertakes to manufacture or construct assets, with an obligation from the seller to deliver them to the buyer (customer) upon completion.

There are two main differences between istisna' and EL salam contracts.

- In Istisna'a contract we can sale only manufactured goods. while in el salam sale we can be used in standardized goods;
- Unlike EL salam SALE, Istisna'a allows for spot, deferred or installment payments.

We can apply Istisna'a contract in Infrastructure projects. For example: construction of factories, roads, schools, power plants, hospitals and building.

## 6) Ijara financing

Ijarah financing in Islamic bank is a contract meant to transfer the usufruct of an asset from Islamic bank to the customer for an agreed period, at an agreed consideration called Ujrah (rent).

There are two types of Ijarah in Islamic bank, an operational lease and a financial lease (Ijarah Muntahia Bittamleek).

In the Ijarah Muntahia Bittamleek the ownership of the leased asset can be transferred to the lessee, through a separate unconditional contract in one of the following ways: (Vejsagic, 2014)

- gift (hiba contract) ;
- token consideration or other amount as specified in the lease;
- transfer prior to the end of a lease for a price equivalent to the remaining Ijarah installments;
- a gradual transfer of the legal title .

## 2.3 Profitability of Banks:

Profitability is considered as an indicator to measure the financial performance of a company. It is also considered as one of the tools used to assess management performance in earning profit from the bank's operation. (Tjoteng, Fathoni, & Munira, 2022)

The Financing of the Bank's operational activity is effective in earning profit by reflecting on the profitability ratio.

High profitability indicate a positive and good financial performance of the bank, while If it is low, this indicates that the Bank's financial performance is not optimal, and this could affect the bank's image in society, which will reduce people's confidence in it. (Tjoteng, Fathoni, & Munira, 2022)

Typically, the profit rate of a bank is determined by the profit, yield, or return on a given sum of money

According to many previous studies, banks profitability is measured by return on equity (ROE) or Return on assets (ROA) or Net Profit Margin (NPM) or and Earning Per Share (EPS). (Masnah & Hendrawati, 2020) (Ismawati, Alfira, & Kamaruddin, 2021)

In this study, the authors used only one indicator to measure the profitability of Islamic banks, namely the return to equity ratio (ROE) as a dependent variable. Some literatures indicate that ROE better describes the bank's profitability.

(Kennedy, 2019) Defines Return on equity (ROE) as "the ratio used to measure the ability of a company's capital to generate profits for all shareholders".

According to (Sukmawati & Garsela, 2016), Return on equity (ROE) is an important financial ratio for equity investors and it is a powerful measure of how well the management of a company creates value for its shareholders.

ROE of banks influenced by the level of financial leverage and ROA of banks (equity/assets). (Sufian, 2007)

We use return on Equity ratio (ROE) to indicate how the efficiency of the bank's management in the use of Equity.

The formula for calculating the ROE as follows:

$$ROE = \frac{\text{nett profit after tax}}{\text{stock holder equity}} \times 100 \quad (1)$$

### 3. Literature Review

Masnah and Hendrawati, (2020) find in their research that Musharaka financing positive and significantly affects Profitability level of Indonesian Islamic Banks, while Murabaha financing have influence negative and significant on profitability. The same as the result of the research of Tjoteng et al (2022) which stated that simultaneously, Musharaka financing has a positive and significant effect on the profitability and Murabaha financing has a negative and significant effect on the profitability. Different from this research, research conducted by Sari and Maharani (2022) and Ismawati, Alfira & Kamaruddin, (2021) shows that Musharaka financing has a negative and significant effect on the profitability and Murabahah financing has a positive and significant effect on the profitability, while Ijarah financing has no significant effect on profitability.

Afrizal, Aliamin, & Shabri, (2023) and Jaurino & Wulandari, (2017 ) and Manaseer & Alslehat, (2016) in their research find that Murabaha financing has a positive and significant effect on the profitability, while Musharakah financing does not affect on the profitability.

According to the research findings of Rumaishaa & Zamzami, (2022) Istisna'a Financing had no effect on the profitability.

Table 1 summarizes the previous study:

Table 1. Summary of the Literature Review

References	Area	Period	Methodology	Findings
(Manaseer & Alslehat, 2016)	Jordanian Islamic banks	2006-2014	Multiple Linear Regression Analysis	Murabaha financing have positive and significant effect on the profitability of the local Islamic banking sector in Jordan
(Ismawati, Alfira , & Kamaruddin, 2021)	Indonesian Islamic Banks	2019-2013	Multiple Linear Regression Analysis	Murabahah financing has a negative and significant effect on Profitability.
( Sari & Maharani, 2022)	Indonesian Islamic Banks	2020-2016	moderated analysis regression (MRA)	Murabahah financing has a positive and significant effect on the profitability, Musharaka financing has a negative and significant effect on the profitability and ijarah financing has no significant effect on profitability.
(Afrizal, Aliamin, & Shabri, 2023)	Indonesian Islamic Banks	2019-2010	panel data regression analysis	Musharaka financing does not affect on the profitability, murabahah financing has a positive

				and significant effect on the profitability
(Jaurino & Wulandari, 2017)	Indonesian Islamic Banks	2015-2013	SEM-PLS	Musharaka financing does not affect the profitability.
(Tjoteng, Fathoni, & Munira, 2022)	Indonesian Islamic Banks	2021-2020	Multiple Linear Regression Analysis	Musharaka financing has a positive and significant effect on the profitability
(Masnah & Hendrawati, 2020)	Indonesian Islamic Banks	2019-2014	multiple regression analysis	Musharaka has influence positive and significant on profitability. Murabahah has influence negative and significant on profitability.
(Syahri & Harjito, 2020)	Indonesian Islamic Banks	2016-2012	Multiple Linear Regression analysis	Musharaka has a significant and negative effect on the profitability , and Musharaka simultaneously has a significant influence to the level of profitability
( Rumaishaa & Zamzami, 2022)	Indonesian Islamic Banks	.2020-2018	panel data regression analysis	Murabahah financing had a positive effect on the profitability while istishna Financing had no effect on the profitability.

Sources: Collected by the authors

## Critical and Research Gap

All the previous literature that we referred to is related to the research question and its objectives. However, the majority of previous studies dealt with Indonesian Islamic banks and did not deal with the experience of Islamic banks in Qatar. This formed a spatial and empirical research gap that we tried to fill.

## 4. Method: Materials and Tools

### 4.1 Design Research

Upon the literature review, we build the following research model (Figure 1)

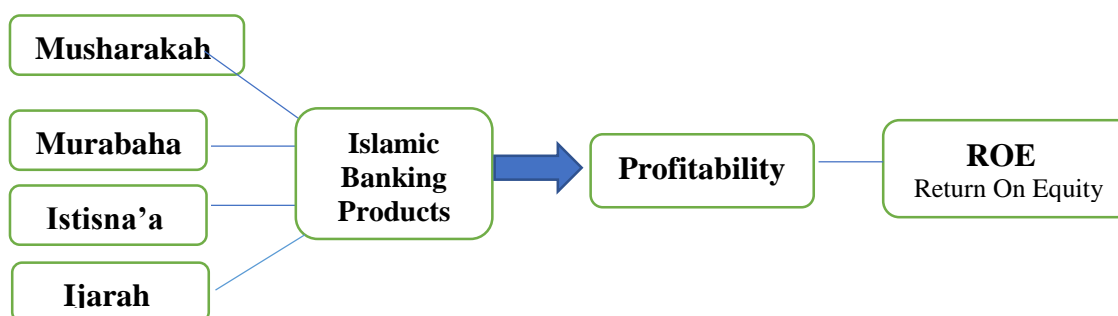


Figure 1. The proposed research model

The independent variables in this study are Musharaka, Murabaha, Istisna'a and Ijarah financing. The dependent variable is Return On Equity; the variables descriptions are Given in Table 2.

Table 2. Description of Dependent and explanatory Variables in the Model

N	Variable symbol	The name of influence factors	Measurement criteria
Dependent variables (Profitability)	ROE	Return On Equity	$ROE = \frac{NET\ INCOME}{SHAREHOLDER\ EQUITY}$
independent variables (Islamic Financing Formulas)	MUSH	Musharaka	Total Musharaka financing amount
	MURA	Murabaha	Total Murabaha financing amount
	ISTI	Istisna'a	Total Istisna'a financing amount
	IJAR	Ijarah	Total Ijarah financing amount

The authors adopt the following hypotheses for the Research model:

- H1: There is a significant impact of Musharaka on Profitability of AL RAYAN Islamic Bank ;
- H2: There is a significant impact of Murabaha on Profitability of AL RAYAN Islamic Bank;
- H3: There is a significant impact of Istisna'a to on Profitability of AL RAYAN Islamic Bank;
- H4: There is a significant impact of Ijarah to on Profitability of AL RAYAN Islamic Bank.

## 5. Data Collection and Processing

### 5.1 Instruments for Data Collection

This study uses series of quarterly observations from AL RAYAN Islamic bank' income statements and balance sheets beginning from the 1th quarter of 2011 until the 1th quarter of 2023.

### 5.2 Survey Population and Rationale

The study population consists Islamic banks operating in Qatar country. The study sample includes one bank is AL RAYAN bank (Masraf Al Rayan).

Al Rayan Bank was incorporated as a Qatari Shareholding Company on 4th January 2006. with a fully paid-up capital of USD 2.6 bn. Al Rayan Bank is engaged in banking and financing activities through its 17 branches in conformity with the principles of Islamic Sharia Laws. (Masraf Al Rayan, 2023)

## 6. Result and Discussion

### 6.1 Stationarity tests

The unit root test was performed at level and first difference. The results of unit root tests in Table 3 show that According to the ADF test, all variables series have unit root problems at level, while after making the first differences the series became stationarity (integrated of order one I(1), either with a Constant or With Constant & Trend or Without Constant & Trend)

Table 3. Augmented Dickey-Fuller unit-root test Results.

	At Level					At First Difference				
	LIST	LIJA	LMURA	LMUSH	LROE	LIST	LIJA	LMURA	LMUSH	LROE
<b>With Constant</b>	-11.9130	-2.7868	-1.0575	-1.4294	-2.3495	-17.1802	-5.7529	-5.6754	-9.2579	-5.0873
	0.0000	0.0685	0.7238	0.5589	0.1618	0.0000	0.0000	0.0000	0.0000	0.0001
<b>With Constant &amp; Trend</b>	-10.8942	-1.0899	-2.3527	-2.2777	-2.8138	-17.1402	-6.4749	-5.7868	-9.2165	-4.8300
	0.0000	0.9190	0.3980	0.4365	0.2004	0.0000	0.0000	0.0001	0.0000	0.0018
<b>Without Constant &amp; Trend</b>	0.5597	3.6424	2.6906	0.8274	0.5777	-17.6067	-4.5997	-5.6836	-9.1571	-4.0680
	0.8332	0.9999	0.9978	0.8864	0.8373	0.0000	0.0000	0.0000	0.0000	0.0001
<b>THE RESULT</b>	<b>Non-stationarity</b>					<b>Stationary</b>				

## 6.2 ARDL Approach to Cointegration

In order to test the long run relationship between the variables under study, we adopted the ARDL (The Auto-Regressive Distributed Lag) approach to cointegration analysis, which was developed by (Pesaran 1997).

Where the ARDL test is distinguished from other cointegration tests (such as Engle and Granger (1987), Johansen (1988)) in that it can be applied whether that time series be integrated of order one I(1) and/or I(0), while Johansen cointegration test require that all time series be of equal order of integration. as well the ARDL procedure is more valid and reliable for small samples. ( Menegaki, 2019; Bhatta, Adhikari, & Byanjankar, 2020)

Before the estimation ARDL model, The Determination of best number of lags for all variable is necessary.



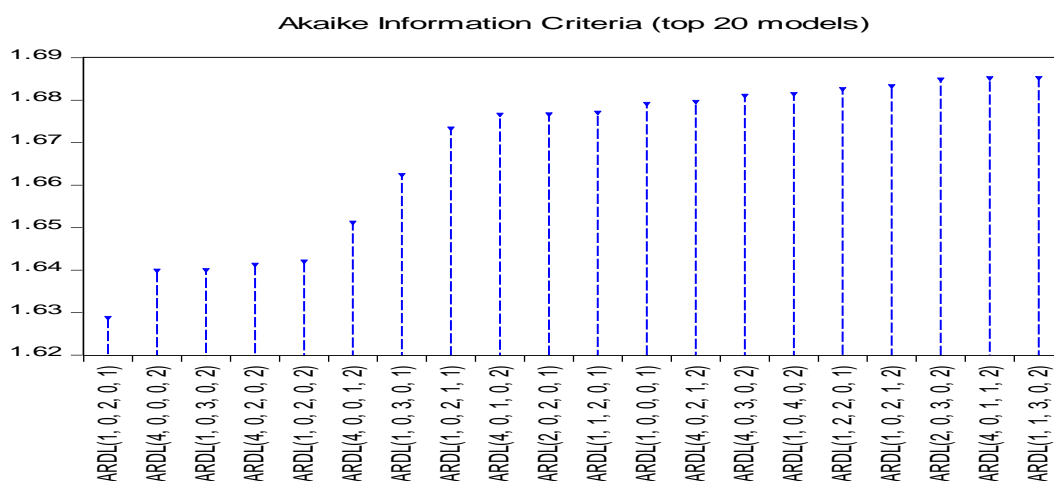


Figure 2. Results of the Akaike Information criterion (AIC)

As shown in figure 2, the results of the Akaike Information criterion (AIC) indicate that the best model is ARDL(1.0.2.0.1) and it can be written as follow:

$$\Delta LROE = C + \beta_1 LROE_{t-1} + \beta_2 LMUSH_t + \beta_3 LMURAt + \beta_4 LMURAt - 1 + \beta_5 LMURAt - 2 + \beta_6 LIST_t + \beta_7 LIJAt + \beta_8 LIJAt - 1 + \pi_1 LROE_{t-1} + \pi_2 LMUSH_{t-1} + \pi_3 LMURAt - 1 + \pi_4 LIST_{t-1} + \pi_5 LIJAt - 1 + \epsilon_t$$

Where:

- $\Delta$ : is the first difference operator;
- $\epsilon$ : is the white noise residuals;
- $(\pi_1, \pi_2 \dots \pi_5)$ : represents the long-run parameters;
- $(\beta_1, \beta_2 \dots \beta_9)$ : represents the short-run dynamic of the model.

### 6.3 The ARDL Bound Test

Table 4 presents the results from the ARDL Bound Test used to check the presence of long-run relationship between Islamic banking products and profitability (IROE). The computed F-statistics value (F-statistic=9.470961) is greater than the appropriate upper bound of the critical value at all level of significance (1%, 2.5%, 5%, 10%) and thus the null hypothesis of no cointegration is rejected. Meaning that there is cointegration. Which indicates the presence of a long-run equilibrium relationship between the dependent variable (IROE) and the independent variables (Islamic financing formulas).

Table 4. ARDL Bound Test Results

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
<b>F-statistic</b>	9.470961	10%	2.2	3.09
k	4	5%	2.56	3.49
		2.5%	2.88	3.87
		1%	3.29	4.37

## 6.4 ARDL Error Correction Model

The error correction model (ECM) results are more reliable as a test of cointegration relationship. (Bhatta, Adhikari, & Byanjankar, 2020)

As presented in Table 5, The results from the error correction model show that The coefficient of the error correction term (ECT) ( $CointEq(-1) = -1.539987$ ) is negative and statistically significant at 1% level, thus supporting the presence of cointegration. This indicates a rapid speed of the adjustment back to the long run equilibrium after a short run shock.

Table 5. ARDL Error Correction Model Results

Variable	Coefficient	Std. Error	t-Statistic	Prob
<b>CointEq(-1)*</b>	-1.539987	0.190375	-8.089236	0.0000
R-squared				0.746416
Adjusted R-squared				0.726396
Durbin-Watson stat				2.092739

## 7. Model estimation

After confirming that the research variables are cointegrated, we can now estimate the model.

### 7.1 Long-run model

We estimated the long-run relationship between the variables and the results were as shown in the Table below.

Table 6. The Long-Run Results

<b>Dependent variable (LROE )</b>			
<b>Independent variables</b>	<b>Coefficient</b>	<b>t-Statistic</b>	<b>Prob.</b>
LMUSH	0.317005	3.512685	0.0013
LMURA	-3.691185	-4.183884	0.0002
LIST	0.346686	1.165985	0.2520
LIJA	0.201897	1.026167	0.3123
C	30.20511	4.140826	0.0002

Table 6 shows the results of long run relationship between Islamic financing formulas and Profitability which is measured by the Return on Equity Ratio (ROE).

The long run coefficient of Musharaka financing (Mush) amounted to 0.317005, and  $prob. 0.0013 < 0.05$ , meaning that there is a positive and significant effect at (1%) of (Mush) on Islamic bank profitability and if there is an increase in musharaka financing by 1% will lead to increase of (ROE) by 0.31%. This finding is similar with previous studies (Tjoteng, Fathoni, & Munira, 2022; Masnah & Hendrawati, 2020) which proved the positive impact of Musharaka financing on the profitability of Indonesian Islamic banks.

The Murabaha financing coefficient shows a value of -3.691185 and prob.0.0002 < 0.005. So, it can be concluded that the Murabaha (Mura) has a negative and significant effect on (ROE). This means that if there is an increase in murabaha financing by 1% will lead to a decrease in the Islamic bank profitability by 3.69% in the long term. This finding is similar with previous studies (Ismawati, Alfira , & Kamaruddin, 2021; Tjoteng, Fathoni, & Munira, 2022; Masnah & Hendrawati, 2020) which proved the negative impact of Murabaha financing on the profitability of Indonesian Islamic banks.

The Istisna'a financing variable shows a coefficient value of 0.346686 and prob. 0.2520 > 0.005. So, it can be concluded that the Istisna'a does not have a statistically significant effect on Islamic bank profitability. This Result reflects previous studies carried by ( Rumaishaa & Zamzami, 2022) . This may be due to the public's lack of knowledge of Istisna'a financing method.

The Ijarah financing variable shows a coefficient value of 0.201897 and prob. 0.3123 > 0.005. So, it can be concluded that the Ijarah financing does not have a statistically significant effect on ROE. This Result reflects previous studies carried by ( Sari & Maharani, 2022).

## 7.2 Short-run model

We estimated the Error Correction Model to know the short-run relationship between variables and the results are in the following Table.

Table 7. Short-run results

ECM Regression				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LMUR)	-6.431754	0.840957	-7.648134	0.0000
D(LMUR(-1))	3.292999	1.415155	2.326953	0.0263
D(LIJA)	-1.703175	0.782578	-2.176364	0.0368
CointEq(-1)*	-1.539987	0.190375	-8.089236	0.0000

The results of the Short-run relationship indicate that there is a negative and significant effect of the Murabaha financing (LMUR) on the profitability of the Islamic bank. The coefficient of (LMUR) indicate that increase in murabaha financing by 1% will lead to a decrease in the Islamic bank profitability by 6.43%. This finding is similar with previous studies (Ismawati, Alfira , & Kamaruddin, 2021; Tjoteng, Fathoni, & Munira, 2022; Masnah & Hendrawati, 2020)

The coefficients of the first lag of Murabaha financing (LMUR(-1)) indicate that there is a positive and significant effect of the Murabaha financing on the profitability of the Islamic bank, and the increase in murabaha financing by 1% will lead to a increase in the Islamic bank profitability by 3.29% . This finding is similar with previous studies (Manaseer & Alslehat, 2016; Sari & Maharani, 2022; Afrizal, Aliamin, & Shabri, 2023; Rumaishaa & Zamzami, 2022)

## 7.3 Diagnostic test results

To find out if the estimated model above is reliable, we applied some diagnostic tests and the results are shown in the Table below.

Table 10. Diagnostic test results

Test	Statistical	Value	Probability
<b>Breusch-Godfrey Serial Correlation LM</b>	F-statistic	1.043644	0.3642
	Chi-Square	2.649540	0.2659
<b>Normality</b>	Jarque-Bera	3.961774	0.137947
<b>Heteroskedasticity Test: ARCH</b>	F-statistic	0.014465	0.9049
	Chi-Square	0.015201	0.9019

The Table shows the results of the diagnostic tests of the model.

We note that all probabilities exceed 0.05, thus we accept the null hypotheses (H0) in all tests at a 5% level of significance and we conclude that:

- LM test confirmed that there is no correlation in the model;
- Jarque-Berra test shows that the residuals are normally distributed;
- ARCH test shows that the model is not heteroscedastic.

To test the stability of the long-run coefficients, the Cumulative sum (Cusum) test was employed. the results are shown in the following figure.

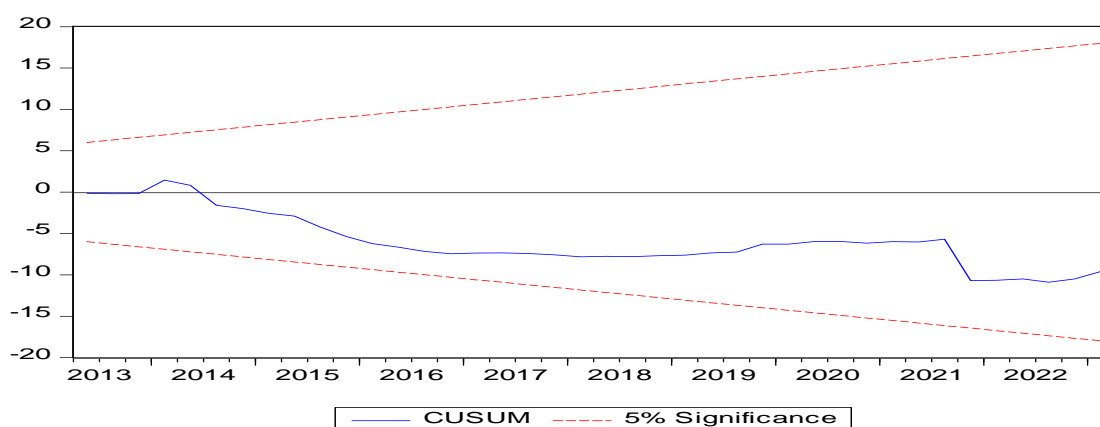


Figure 3. CUSUM test

Since the curve is located inside the critical bounds of 5% significance, therefore, it can be realized that the ARDL model is stable.

## 8. Conclusion

This study investigated the effect of Islamic banking products (financing formulas) on the Profitability of AL RAYAN Islamic Bank. It describes the relationship between (Musharaka, Murabaha, Istisna'a and Ijarah financing) and Profitability measured by (ROE). The results of the long-run analysis show that Musharaka financing has a positive and significant effect on ROE at the 5% level. Murabaha financing has a negative and significant effect on ROE. Meanwhile, the Istisna'a and Ijarah variables have no significant effect on ROE. The short run dynamics show that there is a negative and significant effect of Murabaha and Ijarah financing on the profitability of the Islamic bank, while lagged value of Murabaha LMUR(-1) has a positive and significant effect on the profitability index of the Islamic bank.

Simultaneously, there is no relationship and effect of Musharaka and Istisna'a on the profitability of the Islamic bank in the short term.

### **Implications of research**

From a practical standpoint, this study contributes in reconfirming the findings of theoretical and empirical literature on the effect of Islamic banking products (financing formulas) on the Profitability of Islamic Bank, the results of this study can serve as a guidance for Al Rayan Bank's managers about the profitability of Islamic financing products.

### **Suggestions**

Based on the above conclusions, a suggestion can be made to Al Rayan Islamic Bank in particular, and Islamic banks in general, that it is necessary to rely more on the Musharaka financing as well as Ijarah and Istisna'a in financing to enhance their profitability and financial performance.

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