

ABSTRACT

As a business entity, Islamic banks aim to maximize firm value, among other ways by generating optimal income with efficient costs. As financial intermediaries, Islamic banks generate income by managing financial assets through the distribution of funds received, one of which is in the form of financing provided. Islamic banks offer various financing contracts (akad), which are broadly categorized into three types based on the underlying nature of the contracts: (1) debt-based contracts, which include sales and loan-based transactions; (2) lease-based contracts; and (3) profit-and-loss sharing contracts.

This study aims to analyze the influence of the types of financing contracts on credit risk, financing return rate, financing cost efficiency, and the profitability of Islamic banks in Indonesia. Additionally, it examines the influence of credit risk, financing return rate, and financing cost efficiency on the profitability of Islamic banks in Indonesia. This research adopts a quantitative approach using secondary time-series data from the Islamic commercial banking industry in Indonesia, covering the period from January 2015 to December 2022. The analytical method employed is path analysis using the Partial Least Squares – Structural Equation Modeling (PLS-SEM) approach.

The findings of the study indicate that there is insufficient evidence to support a direct effect of the types of financing contracts on credit risk, financing return rate, financing cost efficiency, or profitability. No significant relationships were found, either directly or indirectly, between the types of financing contracts and profitability through mediating variables such as credit risk, financing return rate, or cost efficiency. The only statistically significant relationship identified is a negative effect of the financing return rate on profitability. This suggests that, rather than the type of financing contract employed, the return rate of financing plays a more critical role in determining the profitability of Islamic banks. Some pathways show indications of potentially strong influence; however, they lack statistical significance due to weak causal relationships. For example, credit risk exhibits a large coefficient in its indirect effect but is not statistically significant.

Keywords: *Financing Contracts, Credit Risk, Financing Return Rate, Efficiency, Islamic Bank Profitability*