

## Determination of Margin and Profit-Sharing Ratio in Maintaining Profitability of Islamic Banks

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**Abstract:** This study aims to analyze the determination of margin and profit-sharing ratio (*nisbah*) in maintaining the profitability of Islamic banks. Margin and *nisbah* represent two primary instruments in Islamic banking operational systems utilized to generate profits without violating Sharia principles. This study employs a qualitative method using a systematic literature review and descriptive analysis approach. Data was obtained from various relevant literature sources, including books, accredited journals, scientific articles, and official reports from financial authorities such as the Financial Services Authority (OJK). The analysis technique was conducted by examining and comparing related theories to obtain a systematic understanding of the relationship between margin determination, *nisbah*, and Islamic bank profitability. The results of *murabahah* indicate that margin determination in *murabahah* financing products must consider operational costs, financing risks, and market conditions, whereas the determination of the profit-sharing ratio must be based on principles of justice, transparency, and mutual agreement between the bank and customers. The balance between margin and *nisbah* is crucial for maintaining competitiveness while enhancing customer trust. Furthermore, this study reveals that financing continues to dominate the revenue structure of Islamic banks in Indonesia, which poses implications for the fundamental spirit of profit and loss sharing in Islamic banking. This study is limited to a literature review approach without empirical quantitative analysis. Future research is recommended to conduct empirical studies examining the direct impact of margin and *nisbah* determination policies on Islamic bank profitability using quantitative methods. The findings provide strategic guidance for Islamic bank management in designing optimal portfolio compositions between margin-based and profit-sharing-based financing to achieve sustainable profitability while remaining compliant with Sharia principles.

**Keywords:** Margin, Profit-Sharing Ratio, *Nisbah*, Profitability, Islamic Bank, *Murabahah* Financing.

**Abstrak:** Penelitian ini bertujuan untuk menganalisis penentuan margin dan *nisbah* bagi hasil dalam menjaga profitabilitas bank syariah. Margin dan *nisbah* bagi hasil merupakan dua instrumen utama dalam sistem operasional perbankan syariah yang digunakan untuk memperoleh keuntungan tanpa melanggar prinsip syariah. Penelitian ini menggunakan metode kualitatif dengan pendekatan studi literatur sistematis dan analisis deskriptif. Data diperoleh dari berbagai sumber literatur yang relevan,

meliputi buku, jurnal terakreditasi, artikel ilmiah, serta laporan resmi otoritas keuangan seperti Otoritas Jasa Keuangan (OJK). Teknik analisis dilakukan dengan mengkaji dan membandingkan teori-teori yang berkaitan sehingga diperoleh pemahaman yang sistematis mengenai hubungan antara penentuan margin, nisbah, dan profitabilitas bank syariah. Hasil penelitian menunjukkan bahwa penentuan margin pada produk pembiayaan murabahah harus mempertimbangkan biaya operasional, risiko pembiayaan, serta kondisi pasar, sedangkan penetapan nisbah bagi hasil harus didasarkan pada prinsip keadilan, transparansi, dan kesepakatan antara bank dan nasabah. Keseimbangan antara margin dan nisbah bagi hasil sangat penting untuk menjaga daya saing sekaligus meningkatkan kepercayaan nasabah. Penelitian ini juga mengungkap bahwa pembiayaan murabahah masih mendominasi struktur pendapatan bank syariah di Indonesia, yang berimplikasi pada semangat *fundamental profit and loss sharing* dalam perbankan syariah. Penelitian ini terbatas pada pendekatan kajian literatur tanpa analisis empiris kuantitatif. Penelitian selanjutnya disarankan untuk melakukan studi empiris yang menguji dampak langsung kebijakan penentuan margin dan nisbah terhadap profitabilitas bank syariah menggunakan metode kuantitatif. Temuan ini memberikan panduan strategis bagi manajemen bank syariah dalam merancang komposisi portofolio yang optimal antara pembiayaan berbasis margin dan pembiayaan berbasis bagi hasil untuk mencapai profitabilitas berkelanjutan dengan tetap mematuhi prinsip syariah.

**Kata Kunci:** Margin, Nisbah Bagi Hasil, Profitabilitas, Bank Syariah, Pembiayaan Murabahah, Klasifikasi JEL.

### **Introduction**

The global Islamic banking industry has experienced remarkable growth over the past two decades, with assets projected to surpass USD 3 trillion by 2024 (Islamic Financial Services Board [IFSB], 2023). Indonesia, as the country with the world's largest Muslim population, represents a significant market for Islamic banking development. According to the Financial Services Authority (Otoritas Jasa Keuangan [OJK], 2023), the market share of Islamic banking in Indonesia reached 7.09% of the total national banking assets, indicating substantial growth potential yet also revealing a considerable gap compared to conventional banking.

In the context of modern business, profitability serves as the primary indicator of a company's success in generating profit from its operations, while pricing policy acts as a strategic instrument to determine the selling value of products or services (Markplus Institute, 2023). Profitability reflects a company's ability to manage costs, sales volume, and profit margins, whereas pricing involves approaches such as cost-based or market-based methods to balance demand, supply, and competition (Jurnal Global Management Research, n.d.).

At a general level, profitability is defined as the ratio of profit to sales or assets, influenced by external factors such as market conditions and internal factors such as operational efficiency (Repository STIE MCE, n.d.). More specifically, in financial analysis, profitability is measured through metrics such as Gross Profit Margin (GPM) or Net Profit Margin (NPM), where an increase in the cost of goods sold can suppress margins if not balanced with appropriate pricing strategies (Jurnal Global Management Research, n.d.). Pricing policy generally aims to optimize revenue through price determination based on full cost, demand elasticity, or market

dynamics, and more specifically is dynamic in nature to maintain profitability amid macroeconomic fluctuations such as price adaptation to demand (Yulianadewi, n.d.).

The essence of the interaction between profitability and pricing policy lies in the ability of pricing to support profit targets, where optimal pricing for instance, through market-based pricing—can increase sales volume while maintaining profit margins. Research confirms that consumer value-based pricing strategies significantly enhance profitability, particularly when adjusted to product life cycles and variable-fixed cost structures (Scribd, 2024).

Within the specific context of Islamic banking, the pricing mechanisms fundamentally differ from conventional banking. Islamic banks employ two primary instruments to generate profits: margin (mark-up) derived from sale-based financing contracts such as *murabahah*, and profit-sharing ratio (*nisbah*) derived from partnership-based contracts such as *mudharabah* and *musyarakah*. Unlike conventional banks that rely on interest-based income, Islamic banks must generate profits through real economic activities, asset-backed transactions, and risk-sharing arrangements (Iqbal & Mirakhor, 2011).

Margin in Islamic banking refers to the difference between the acquisition cost of an asset and the selling price agreed upon between the bank and the customer in a *murabahah* contract. This margin must be determined transparently at the inception of the contract and cannot be altered throughout the financing period (DSN-MUI Fatwa No. 04/DSN-MUI/IV/2000). On the other hand, the profit-sharing ratio (*nisbah*) represents the proportion of profit distribution between the capital provider (*shahibul mal*) and the fund manager (*mudharib*), which must be mutually agreed upon before the contract is executed (Bank Mega Syariah, 2024).

A persistent phenomenon in Islamic banking, particularly in Indonesia, is the dominance of *murabahah* financing over profit-sharing-based financing. Data from OJK (2023) indicates that *murabahah* contracts account for approximately 55-60% of total Islamic bank financing, while *mudharabah* and *musyarakah* contracts combined represent only 15-20%. This dominance creates a tension between the operational practicality of fixed-margin instruments and the normative ideal of profit and loss sharing as the distinguishing feature of Islamic banking (Hasanah & Ridwan, 2021).

Despite the strategic importance of margin and *nisbah* determination for Islamic bank profitability, several research gaps persist in the existing literature. First, previous studies have predominantly examined margin determination and *nisbah* separately, lacking an integrative analysis that juxtaposes both instruments within a unified profitability framework (Pratama & Haryono, 2021; Wulandari et al., 2022). Second, there remains a notable scarcity of comprehensive studies that analyze the implications of *murabahah* dominance on the fundamental spirit of profit and loss sharing in Islamic banking (Hasanah & Ridwan, 2021). Third, existing literature has insufficiently explored the strategic balance between margin-based and profit-sharing-

based financing that Islamic banks must achieve to maintain both short-term stability and long-term profitability (Rahman et al., 2023).

This study seeks to address these gaps by conducting an integrative analysis of margin determination and profit-sharing ratio policies, examining their roles in maintaining Islamic bank profitability, and investigating the implications of *murabahah* financing dominance on the Islamic banking paradigm.

Based on the background and research gap identified, this study aims to: 1. Analyze the components of cost of funds that influence margin determination in Islamic banks., 2. Examine the mechanism for determining selling price and margin in *murabahah* financing according to Sharia principles., 3. Investigate the determination of profit-sharing ratios (*nisbah*) in Islamic banking operations., 4. Evaluate the phenomenon of *murabahah* financing dominance and its implications for Islamic bank profitability., 5. Assess the strategic balance between margin and *nisbah* in maintaining sustainable profitability of Islamic banks.

## Methods

### Research Design

This study employs a qualitative method with a systematic literature review approach and descriptive analysis. The qualitative method was selected because this research aims to comprehensively describe and analyze the determination of margin and *nisbah* in Islamic banking, including the factors affecting pricing policy and the phenomenon of *murabahah* financing dominance. The systematic literature review approach enables the synthesis of findings from multiple studies to generate robust and integrative conclusions (Snyder, 2019).

### Research Approach

The descriptive-analytical approach is employed to provide a detailed description of margin determination mechanisms, *nisbah* policies, and their roles in maintaining Islamic bank profitability, followed by critical analysis based on Sharia principles and economic theories. This approach enables researchers to identify patterns, relationships, and implications emerging from the existing literature.

### Data Collection

Data were collected from various literature sources through systematic search procedures. The literature sources include: 1. Primary sources: Academic journals accredited by SINTA (Science and Technology Index), Scopus-indexed journals, and Web of Science-indexed journals publishing research on Islamic banking, margin determination, and profit-sharing mechanisms., 2. Secondary sources: Books on Islamic economics and banking, DSN-MUI fatwas, Bank Indonesia and OJK regulations, OJK annual reports and Islamic banking statistics, and official publications from international Islamic finance institutions such as IFSB and AAOIFI., 3. Search strategy: Literature searches were conducted using keywords including “margin determination Islamic bank,” “profitabilitas bank syariah,” “profit-

sharing ratio Islamic banking,” and combinations thereof. Databases searched include Google Scholar, Garuda Portal, Scopus, and institutional repositories.

### **Data Analysis Techniques**

The analysis technique was conducted by examining and comparing related theories and research findings through the following stages: 1. Data reduction: Selecting and filtering literature most relevant to the research objectives., 2. Data display: Presenting findings in a structured narrative format organized by themes corresponding to the research objectives., 3. Conclusion drawing: Synthesizing findings to formulate integrative conclusions regarding margin and *nisbah* determination and their role in Islamic bank profitability., 4. Triangulation: Cross-referencing findings from multiple sources to ensure validity and reliability of conclusions.

## **Results and Discussion**

### **Components of Cost of Fund**

The analysis reveals that the cost of fund components constitutes essential elements in determining the magnitude of costs borne by Islamic financial institutions in acquiring funds. Each component plays a distinct role in influencing fund management efficiency and the level of profit that can be generated. The following section presents an expanded discussion of each component based on the literature reviewed.

Sources of funds serve as the primary foundation for cost of fund calculations because each type of fund possesses different cost characteristics. Funds can originate from internal sources such as equity capital and retained earnings, as well as from external sources such as public deposits (*wadiah* savings, current accounts, *mudharabah* time deposits) and interbank borrowings. Cost-bearing funds such as *mudharabah* time deposits typically require relatively high profit-sharing payments to depositors, whereas non-cost-bearing funds such as *wadiah* current accounts have lower or even zero direct costs. The composition of fund sources significantly determines the average cost of fund; consequently, Islamic banks must optimally manage their funding structure to remain competitive while offering attractive returns to depositors (Pegadaian, 2024).

Loanable funds represent funds available for channeling in the form of financing or other productive investments. The larger the proportion of loanable funds, the greater the potential income that Islamic banks can generate through margin income from *murabahah* financing or profit-sharing from *mudharabah* and *musyarakah* financing. However, the channeling of these funds must also observe prudential banking principles, as non-performing financing risk can substantially affect profitability. Therefore, Islamic banks must balance the amount of funds channeled with the level of risk they can bear, implementing robust credit assessment

and monitoring mechanisms.

The reserve requirement (Giro Wajib Minimum) constitutes a certain amount of funds that must be maintained by banks at Bank Indonesia. These funds cannot be utilized for productive activities and thus do not generate direct income. The larger the reserve requirement percentage, the smaller the funds available for channeling, thereby indirectly increasing the cost of funds. This monetary policy instrument is typically employed by monetary authorities to control liquidity and maintain financial system stability, requiring Islamic banks to continuously adjust their fund management strategies. During periods of tight monetary policy, higher reserve requirements may pressure Islamic bank margins if not compensated by efficient fund allocation.

Unloadable funds are funds that cannot be channeled in the form of financing or productive investments. These funds are typically utilized for operational needs such as fixed asset acquisition, infrastructure maintenance, and liquidity maintenance. Although they do not generate direct income, this component remains essential for maintaining bank operational continuity and service quality. However, a larger proportion of unloadable funds reduces productive funds that can generate income, potentially increase the average cost of funds and reduce overall profitability.

The analysis concludes that effective cost of fund management depends on the Islamic bank's ability to balance fund sources, fund channeling, and risk and liquidity control optimally. An optimal funding structure minimizes the average cost of funds while maximizing loanable funds, thereby creating conditions conducive to sustainable profitability.

### **Determination of Selling Price and Margin**

#### *Sharia Principles in Margin Determination*

The determination of selling price and margin in Islamic economics is fundamentally based on the principles of transparency and mutual agreement between the seller and buyer. According to DSN-MUI Fatwa No. 04/DSN-MUI/IV/2000, margin is the difference between the cost price of goods and the selling price that has been mutually agreed upon transparently and fairly (Cermati.com, 2024). This principle serves as the legal foundation for the *murabahah* contract, wherein the Islamic bank as the seller must disclose the acquisition cost of goods from the supplier to the customer as the buyer.

Margin determination must satisfy two primary principles in Islamic economics: justice (*al'adl*) and non-exploitation, meaning that margin must not be burdensome to one party (Sari, 2023). Margin cannot be determined unilaterally by the seller; rather, it must pass through a process of consultation and mutual agreement (*an-taradhin*) between both parties before the contract is signed. This provision prevents the elements of *gharar* (uncertainty) and exploitative practices in Sharia-compliant sale transactions (Azhari, 2020).

In practice, selling price determination employs the target return pricing or mark-up pricing method, namely the determination of product selling prices aimed at achieving a certain level of profit based on the amount of capital invested or desired by the seller (Sari, 2023). The basic formula is:  $\text{Selling Price} = \text{Cost Price} + \text{Margin}$  (Azhari, 2020).

#### *Factors Influencing Margin Determination*

Margin can be determined in the form of nominal lumpsum amounts or as certain percentages of the purchase price, with average margin rates ranging from 1.5% to 2% per month or approximately 18% per annum in Islamic financial institutions. Factors considered in margin determination include: (a) the cost of goods or services purchased, (b) operational expenses, (c) a reasonable and competitive profit level, (d) the financing period, and (e) the customer's risk profile (Cermati.com, 2024).

The cost component includes not only the invoice price from the supplier but also associated procurement costs such as transportation, insurance, and administrative expenses. Operational expenses encompass overhead costs, employee salaries, and other operational expenditures that must be covered by the margin. The financing period significantly influences margin determination because longer tenors typically involve higher cumulative margins to compensate for the time value of funds locked in the transaction. The customer risk profile affects margin through credit rating mechanisms where higher-risk customers may be charged higher margins to compensate for increased probability of default.

#### *Transparency and Contractual Requirements*

Islamic banks are obligated to convey the details of cost price and margin transparently to the customer at the inception of the contract, enabling the customer to estimate the appropriate price for the goods to be purchased (Siswi, 2020). The selling price agreement must be clearly stated in the sale contract and cannot be altered during the contract period (Jelajah Kepri, 2024).

A fundamental distinction between Islamic margin and conventional bank interest is the fixed nature of margin from the contract's inception. According to Bank Indonesia Regulation (PBI) No. 7/46/PBI/2005, the margin must be determined once at the beginning of the contract and remains unchanged throughout the contract period. This provides certainty for both parties and eliminates the element of uncertainty (*gharar*) that could invalidate the contract from a Sharia perspective.

#### **Determination of Profit-Sharing Ratio (*Nisbah*)**

##### *Fundamental Principles of Nisbah*

The profit-sharing ratio (*nisbah*) constitutes a fundamental principle in the Islamic economic system as a substitute for prohibited interest (*riba*). *Nisbah* is defined as the ratio or percentage of profit distribution between the capital provider (*shahibul mal*) and the fund manager (*mudharib*) that has been mutually agreed upon at the inception

of the contract (Bank Mega Syariah, 2024). This principle serves as the primary differentiator between Islamic and conventional banking, as profits are obtained from actual business outcomes rather than from the mere utilization of money.

The determination of *nisbah* portions must be clearly specified in the contract to avoid uncertainty (*gharar*) that could invalidate the contract itself. The *nisbah* percentage is expressed in percentage form between the two parties, not in a certain nominal rupiah amount, because the nominal value can only be known after the funds have been genuinely utilized and have generated profits (Repository Universitas Muhammadiyah Surabaya, 2021). For example, a *nisbah* of 60:40 means 60% of profits accrue to the fund manager and 40% to the capital provider.

#### *Types and Variations of Nisbah*

Islamic jurisprudence recognizes two types of *nisbah*. Proportional *nisbah* is based on the proportion of working capital contributed by parties in a partnership (*syirkah*) as the basis for profit and loss distribution. Negotiated *nisbah* is based on mutual agreement without being tied to the proportion of working capital, offering greater flexibility and commonly used in *mudharabah* contracts.

The Sharia principle establishes that the profit *nisbah* is determined by mutual agreement, not solely by the proportion of capital contribution (Nasrulloh, 2012). This reflects the principle of justice where the fund manager possessing business expertise is also entitled to a proportional share despite not contributing capital. Mutual willingness (*an-taradhin*) from both parties constitutes an absolute requirement in *nisbah* determination (Remittance Journal, 2022).

In practice, *nisbah* portions vary depending on the product and policies of each Islamic bank. As an illustration, Bank Mega Syariah offers a *nisbah* of 85% for the bank and 15% for the customer on certain *mudharabah* savings products (Bank Mega Syariah, 2024). CIMB Niaga Syariah also offers *nisbah* variations such as 65:35 with 65% for the customer and 35% for the bank on Sharia savings products (CIMB Niaga, 2023).

#### *Profit and Loss Distribution Mechanisms*

Profit distribution employs two primary calculation mechanisms: profit sharing and revenue sharing. Profit sharing calculates distribution based on net profit after deducting taxes, fixed costs, and variable costs, using the formula: Profit = Revenue - (Tax + Fixed Cost + Variable Cost) (Jurnal Asy Syar'iyah, 2023). Revenue sharing calculates profit distribution from gross revenue before deducting costs, which is more advantageous for capital providers under high-cost conditions (Repository IAIN Pare, 2022).

When a business generates profit, distribution follows the agreed *nisbah*. However, when a business incurs losses, distribution is based on the proportion of capital invested, not on the profit *nisbah* (Repository IAIN Tulungagung, 2019). The principle underlying this rule is that the fund manager (*mudharib*) does not bear

financial losses except those caused by their negligence, which remain the full responsibility of the capital provider.

*Nisbah* is applied in Islamic banking to both fund collection products such as *mudharabah* savings and *mudharabah* time deposits, as well as fund channeling for financing. The determination of *nisbah* at the inception of the contract provides certainty for both parties although the absolute profit amounts cannot be known at the time of contract conclusion. The nominal value of actual profit sharing received can only be determined after the results of fund utilization have genuinely materialized.

### **Dominance of *Murabahah* Financing**

#### *Empirical Evidence of Murabahah Dominance*

The research findings confirm that *murabahah*-based financing continues to dominate the revenue structure of Islamic banks in Indonesia. This dominance is reflected in the significant portion of *murabahah* financing compared to other contracts such as *mudharabah* and *musyarakah*. According to OJK (2023), the composition of Islamic bank financing in Indonesia remains dominated by *murabahah* with a significant percentage compared to other contracts. This condition indicates that *murabahah* serves as the backbone of income generation for Islamic banks.

Pratama and Haryono (2021) demonstrated that *murabahah* financing has the largest contribution to Islamic bank operational income because its sale-based system with a fixed margin facilitates profit projection for banks. This finding aligns with Wulandari et al. (2022), who stated that *murabahah* dominance occurs because Islamic banks tend to avoid the high risks inherent in profit-sharing contracts (*mudharabah* and *musyarakah*), preferring financing with more certain returns. Customer preference also influences this dominance, with customers tending to choose financing with simple and transparent schemes.

#### *Factors Contributing to Murabahah Dominance*

Several factors contribute to the persistent dominance of *murabahah* financing in Islamic banks. First, from a risk management perspective, *murabahah* offers fixed and predetermined returns, enabling more accurate profit projections and reducing exposure to business risk inherent in profit-sharing contracts. Second, from an operational perspective, *murabahah* transactions are relatively simpler to structure, document, and monitor compared to *mudharabah* or *musyarakah* contracts that require ongoing business performance monitoring. Third, from a customer perspective, *murabahah* provides certainty of payment amounts throughout the financing period, facilitating customer financial planning. Fourth, regulatory frameworks and market infrastructure in many jurisdictions, including Indonesia, have historically been more accommodative to sale-based instruments than partnership-based instruments.

#### *Implications of Murabahah Dominance*

Despite its operational advantages, *murabahah* dominance creates several implications that warrant critical examination. Hasanah and Ridwan (2021) argued that high dependency on *murabahah* financing may diminish the core of Islamic banking based on profit and loss sharing. The spirit of Islamic banking fundamentally emphasizes partnership, risk sharing, and equitable distribution of economic outcomes. Excessive reliance on fixed-income instruments may distance Islamic banking from its ideal paradigm.

Furthermore, a revenue structure overly reliant on fixed margins potentially hinders the optimization of long-term profits that could be obtained from partnership-based financing (Rahman et al., 2023). Profit-sharing contracts, while carrying higher risks, offer potentially higher returns during favorable economic conditions. An imbalanced portfolio may thus constrain Islamic banks' profitability potential in the long term.

However, it must be acknowledged that *murabahah* remains the primary choice because it provides income stability and minimizes non-performing financing risk. Therefore, Islamic banks must manage their financing composition in a balanced manner between *murabahah* and profit-sharing contracts to not only maintain income stability but also enhance long-term profitability potential.

#### **Balance between Margin and *Nisbah***

##### *Strategic Importance of Balance*

The balance between margin and profit-sharing ratio (*nisbah*) constitutes a key factor in maintaining and enhancing Islamic bank profitability. Margin provides short-term income certainty, while *nisbah* offers greater profit potential in the long term. Therefore, a balanced combination between the two represents a critical strategy in Islamic bank financing management (Rahman et al., 2023).

Islamic banks capable of proportionally combining margin-based and profit-sharing-based financing tend to exhibit more stable profitability levels compared to banks relying solely on one type of financing (Rahman & Yusuf, 2021). This occurs because diversification of income sources can reduce profit fluctuation risk. During periods of economic downturn, fixed margins from *murabahah* provide stability, while during economic upswings, profit-sharing from *mudharabah* and *musyarakah* offers higher returns.

##### *Impact on Competitiveness and Customer Trust*

The balance between margin and *nisbah* also affects Islamic bank competitiveness in the market (Fitriani & Prasetyo, 2022). Competitive margins attract financing customers seeking certainty of payment amounts, while fair and transparent *nisbah* enhances the trust and loyalty of depositors and investment account holders. Thus, this balance not only impacts profitability but also influences the sustainability of the relationship between the bank and its customers.

Competitive margins enable Islamic banks to offer financing products that are attractive compared to both conventional bank interest rates and other Islamic banks' offerings. Meanwhile, fair *nisbah* demonstrates the bank's commitment to the principle of justice in profit distribution, which is a core value of Islamic banking. The combination of these two elements creates a unique value proposition that can enhance Islamic bank market positioning.

#### *Optimal Portfolio Strategy*

An optimal financing management strategy must consider the proportion between sale-based contracts and profit-sharing-based contracts. Excessive dependency on margins may limit long-term profit potential, while dominance of profit-sharing-based financing without proper risk management may increase income uncertainty (Hidayat & Abduh, 2021).

OJK (2023) reports indicate that Islamic banks with more diversified financing compositions tend to demonstrate better financial performance. This confirms that the balance between margin and *nisbah* represents an effective strategy for navigating the dynamics of the competitive banking industry. The optimal portfolio composition should consider factors such as the bank's risk appetite, market conditions, regulatory environment, and the bank's capacity for monitoring and managing profit-sharing contracts.

#### **Integrative Framework**

The findings of this study can be synthesized into an integrative framework that connects the three primary elements: cost of fund, margin and *nisbah* determination, and Islamic bank profitability.

*First*, cost of fund management creates the foundation for profitable pricing. Islamic banks that effectively manage their funding sources—optimizing the mix between cost-bearing and non-cost-bearing funds, maximizing loanable funds, and minimizing unproductive fund allocations establish lower average costs of fund that enable competitive margin and *nisbah* determination. The cost of fund thus serves as the floor price upon which margins and profit-sharing ratios are constructed.

*Second*, margin determination in *murabahah* financing provides the certainty and stability component of Islamic bank income. By adhering to Sharia principles of transparency, justice, and mutual consent, and by considering cost components, risk factors, and market conditions, Islamic banks can determine margins that are both competitive and profitable. The fixed nature of margins throughout the contract period provides predictable income streams that support short-term profitability stability.

*Third*, *nisbah* determination in profit-sharing contracts provides the growth and partnership component of Islamic bank income. By establishing fair and transparent *nisbah* through mutual agreement, Islamic banks can attract depositors and financing customers who seek alignment with the profit and loss sharing paradigm. While

*nisbah*-based income is more variable, it offers potentially higher returns and strengthens the Islamic banking identity.

*Fourth*, the phenomenon of *murabahah* dominance, while operationally rational, creates a tension between the practical necessity of stable income and the normative ideal of profit and loss sharing. This tension can be managed through a strategic balance between margin-based and *nisbah*-based financing in the bank's portfolio. The optimal balance point depends on bank-specific factors and market conditions, but the principle of diversification suggests that neither extreme complete reliance on *murabahah* nor complete reliance on profit-sharing is optimal.

*Fifth*, sustainable profitability emerges from the dynamic equilibrium among these elements. Islamic banks that manage their cost of funds efficiently, determine margins competitively, offer fair *nisbah*, and maintain a balanced financing portfolio are positioned to achieve stable and growing profitability while remaining faithful to Sharia principles and contributing to the development of the real economy.

### **Conclusion**

Based on the research findings and discussion, this study concludes the following: First, the components of cost of fund significantly determine the efficiency and profitability level of Islamic banks in managing funds. Sources of funds serve as the primary factor affecting the magnitude of costs borne, while loanable funds play a role in generating income through financing or investment channeling. Conversely, reserve requirements and unloadable funds reduce productive funds, potentially increasing the average cost. A large amount of funds indeed provides expansion opportunities; however, if not managed optimally, it may generate idle costs. Effective cost of fund management depends on the bank's ability to balance fund sources, fund channeling, and risk and liquidity control optimally.

*Second*, the determination of selling price and margin in Islamic economics is founded on the principles of transparency, justice, and mutual agreement between the seller and buyer. In *murabahah* contracts, the seller is obligated to disclose the cost price and margin clearly at the inception of the contract, thereby eliminating elements of uncertainty (*gharar*) and practices detrimental to either party. Margin determination employs the target return pricing or mark-up pricing method, with the basic formula of  $\text{Selling Price} = \text{Cost Price} + \text{Margin}$ , and considers factors such as cost price, operational expenses, reasonable profit levels, financing period, and customer risk profile.

*Third*, the profit-sharing ratio (*nisbah*) represents a fundamental substitution for prohibited interest (*riba*) in the Islamic economic system. *Nisbah* determination must be based on the principles of justice, transparency, and mutual agreement (*antaradhin*). *Nisbah* is expressed in percentage form, not nominal amounts, and its actual value can only be known after genuine profits materialize. Two primary calculation

mechanisms profit sharing and revenue sharing are employed, with loss distribution based on capital proportion rather than profit *nisbah*.

*Fourth*, *murabahah* financing continues to dominate the revenue structure of Islamic banks in Indonesia due to its income certainty, lower risk profile, operational simplicity, and customer preference for transparent and simple schemes. However, this dominance creates implications for the fundamental spirit of profit and loss sharing in Islamic banking, potentially constraining long-term profit optimization and distancing Islamic banks from their ideal paradigm.

*Fifth*, the balance between margin and *nisbah* constitutes a strategic necessity for maintaining and enhancing Islamic bank profitability. Diversified portfolios combining margin-based and profit-sharing-based financing tend to exhibit more stable and resilient financial performance. Competitive margins attract financing customers, while fair *nisbah* enhances depositor trust, collectively strengthening the competitiveness and sustainability of Islamic banks.

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