Scholars Journal of Economics, Business and Management OPEN ACCESS
Abbreviated Key Title: Sch J Econ Bus Manag
ISSN 2348-8875 (Print) | ISSN 2348-5302 (Online)
Journal homepage: https://saspublishers.com

The Effect of Buy and Sell Financing (*Murabahah*), Profit Share Financing (*Mudarabah*), Equity Capital Financing (*Musyarakah*), and Non-Performing Financing Ratio towards Firm Performance: The Role of Profitability as mediating and Firm size as Moderating Variables in Sharia Commercial Banks in Indonesia

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DOI: 10.36347/sjebm.2022.v09i04.004 | **Received:** 26.02.2022 | **Accepted:** 31.03.2022 | **Published:** 22.04.2022

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Abstract **Original Research Article**

This study aims to determine whether there is an influence between *Murabahah*, *Mudarabah*, *Musyarakah* and Non-Performing Financing on firm value. In addition, this study also aims to determine whether there is mediation of profitability as a function of the independent variable operating in any situation, and helps to conceptualize and explain the effect of the independent variable on the dependent variable; and whether the size of the company as a moderator can strengthen or weaken the relationship between the independent variable and the dependent variable. This research is conducted on Islamic banking in Indonesia. Quota Sampling in which this sampling technique takes as many samples as the number that has been determined by the researcher so that the appropriate sample for this research is 14 Islamic banks in Indonesia. The analysis of the data uses Path Analysis and Moderated Regression Analysis (MRA) using SPSS application. The results of this study are *Murabahah* has no significant effect on profitability and *Mudarabah*, *Musyarakah* have a positive effect and Non-Performing Financing, NPF has a significant negative effect on profitability. In addition, *Murabahah*, Firm Size, and *Musyarakah* have no significant effect on ROS, *Mudarabah* and Non-Performing Financing; and Profitability have a positive and significant effect on ROS. Other than that, profitability is able to mediate the relationship between *Mudarabah*, *Musyarakah*, Non-Performing Financing on ROS. Thus, the researcher suggests that Islamic banking in Indonesia should pay more attention to *Mudarabah.*

Keywords: *Murabahah*, *Mudarabah*, *Musyarakah*, Non-Performing Financing, Firm Size, Firm Value, Profitability.

INTRODUCTION

The development of Islamic banking is an interesting phenomenon to study because it is a new industry in Indonesia (Asnawi *et al*., 2019). It can be seen from the role of the community in using Islamic banking products, one of which is financing distribution products. The concept of sharia in the sharia banking system is detailed in the financing system, because it is vulnerable to the practice of usury so that the forms of Islamic bank financing that are familiar to the public are *Musyarakah*, *Murabahah* and *mudharabah* financing (Zulkhibri, 2016). *Musyarakah* is a collaboration between two or more people in a particular business in which each party contributes funds jointly, the profits and losses are determined according to the agreed agreement (Rahman *et al*., 2020).

Murabahah is a sale and purchase contract for certain goods at the original price with additional profits that have been agreed upon by the bank and the customer so that the seller (bank) must notify the cost of goods and how much the additional profit will be (Wulandari *et al*., 2016). Meanwhile, *Mudharabah* is an agreement between two or more parties to carry out business cooperation(Ishak and Rahman, 2021). In this *mudharabah* contract, the bank (*shahibul maal*) places 100% of the capital, while the customer (*mudharib*) acts as the business manager. Profit sharing from the joint venture is calculated according to a mutually agreed ratio.

This banking establishment has a general goal, namely, to achieve high profits, improve investor

welfare, and to increase company value (Suhadak *et al*., 2018). The size of company is the variable used in determining the value of the company. It is because various decisions often take into account the size of the company. Company size reflects the total assets owned by a company. The bigger the size of the company, the more investors will look at the company; thus, it will increase the value of the company in the eyes of investors. An increased company value can be indicated by an increase in the company's total assets (Kasasbeh, 2021). However, non-performing financing which can affect the assessment of investor confidence in the bank are also identified; if there is a lot of problematic financing, it makes the company easy to go bankrupt.

Based on the explanation above, the researcher is interested in conducting research entitled "The Effect of Buy and Sell Financing (*Murabahah*), Profit Share Financing (*Mudarabah*), Equity Capital Financing (*Musyarakah*) and Non-Performing Financing Ratio on Firm Value: The Role of Profitability as Mediating and Firm size as Moderating Variable of Sharia Commercial Banks in Indonesia". This study aims to determine whether the effect between *Murabahah*, *Mudarabah*, *Musyarakah* and Non-Performing Financing on Firm Value can be identified. In addition, this study also aims to determine whether the mediation of profitability can strengthen or weaken the influence between variables.

THEORETICAL REVIEW

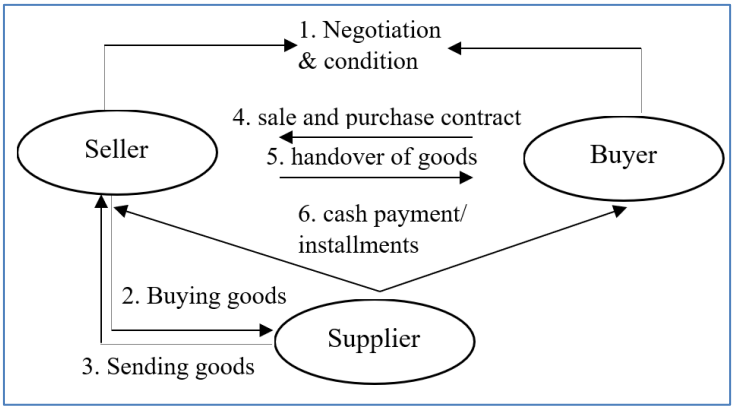
Company performance

Performance measurement is needed to find out the high and low performance of a person or organization. Performance measurement is an important thing to do because the results of measuring a performance affect management decisions and policies related to achieving the vision and mission of the organization or company (Gregory *et al*., 2016). Performance measurement results also provide information on the company's achievements in carrying out the company's strategy (Talbot and Boiral, 2018). Company performance, in this study, is proxied by Return on Sales (ROS). ROS is a financial ratio that aims to measure how efficiently the company generates profits from the sales it earns (Sikveland and Zhang, 2020). In other words, ROS is defined as a measure of company performance by analyzing the percentage of the company's total revenue that can be converted into company profits.

$$ROS = \frac{Profit/loss\ before\ tax}{selling}$$

Murabahah

Murabahah is a sale and purchase contract of an item where the seller mentions the selling price which consists of the cost of goods and a certain level of profit on the goods where the selling price is agreed upon by the buyer (Ibrahim and Salam, 2021). In a *murabahah* contract, the seller (in this case the bank) must notify the price of the product purchased and determine the level of profit in addition. Currently, this product is the most widely used by Islamic banks because it is the easiest to implement compared to other financing products. The following scheme describes the activities of *murabahah*.



Murabaha Schematic Drawing

Murabahah is described in the Qur'an, although it does not make a direct reference to *Murabahah*, but there are several references in it to selling, profit, loss, and trading. Likewise, there is also no hadith that has a direct reference to murabaha. Although murabaha is included in the sale and purchase contract and in the Qur'an and several verses regarding buying and selling, for example in the letter Al-Baqarah verse 275 which means:

"Those who eat (take) usury cannot stand but like the standing of a person who is possessed by Satan because of (pressure) madness. Their condition is alike, is because they say (opinion), Verily buying and selling is the same as usury, even though Allah has justified buying and selling and forbidden usury. those who have come to take usury), then for him what he had taken first (before the prohibition came); and its affairs (up to) to Allah. people who return (take usury), then that person is the inhabitants of hell; they abide in it." (Surat al-Baqarah (2): 275).

However, the verse does not explain how buying and selling or how *Murabahah* is included or not, so there is no basis from the Qur'an that directly underlies *Murabahah*. In addition to being based on the Qur'an in the practice of Murabaha, the provisions for *Murabahah* contracts are also regulated in the Fatwa of the National Sharia Council (DSN) no. 4/DSN-MUI/IV/2000.

Mudharabah

Al-mudharabah is a business cooperation contract between two parties where the first party (shahibul maal) provides all (100%) capital, while the other party becomes the manager(Menne and Idris, 2018). *Mudharabah* business profits are divided according to the agreement stated in the contract, whereas if the loss is borne by the owner of the capital as long as the loss is not due to the negligence of the manager.(Sweep, 2016). If the loss is caused by fraud or negligence by the manager, then the manager must be responsible for the loss. *Mudharabah* is legal by taking the basis of the Qur'an in the letter Al Muzammil verse 20 which means:
"And others, they travel on earth seeking the bounty of Allah SWT." (Surat al-Muzammil (20).

In this verse there is the word yadribun which has the same origin as *mudharabah*, namely dharaba which means looking for work or running a business. In addition to being based on the Qur'an in the practice of *Mudarabah*, the most popular is the National Sharia Council Fatwa No: 07/DSN-MUI/IV/2000 which discusses *mudharabah* financing (Qiradh), as well as the National Sharia Council Fatwa (DSN) no. 115/DSN-MUI/IX/2017 which discusses the *mudharabah* contract.

Musyarakah

Musyarakah is a collaboration between two or more people in a particular business in which each party contributes funds jointly, the profits and losses are determined according to the agreed agreement (Warninda *et al*., 2019). Broadly speaking, musharaka is categorized into two types, namely ownership *musharakah* (*syirkah al amlak*), and contract *musharakah* (*syirkah al aqad*). *Musyarakah* ownership is created due to inheritance, will or other conditions resulting in the ownership of one asset by two or more people(Purwanto *et al*., 2020).

In this *musharakah*, the ownership of two or more people shares in a real asset, and also shares in the profits generated by that asset. *Musyarakah* contracts are created by means of an agreement, in which two or more parties agree that each of them contributes to the musharaka capital, and agrees to share the profits and losses.

Musharaka is a permissible contract based on the Qur'an, Sunnah and Ijma'. In the Qur'an explained in the letter An-Nisa (4) verse 12, which means:
"...But if there are more than one mother, then they are together in the third part."(Surat an-Nisa (12): 79).

In Surah An-Nisa (4) verse 12, the meaning of syirkah is partnering in owning assets obtained from inheritance. ,the most popular is the National Sharia Council Fatwa NO: 08/DSN-MUI/IV/2000 which discusses the financing of musharaka.

Non-Performing Financing (NPF)

Non-performing Financing (NPF) can be interpreted as problematic financing experienced by banks because the financing provided does not run smoothly(Das and Deb, 2017). According to the basic banking law Number 10 of 1998, financing is the provision of money or equivalent claims based on an agreement or loan agreement between the bank and another party that requires the party being financed to return the money or claim after a certain period of time. with a reward or profit sharing (Chendrawan, 2016).

For this reason, before providing financing to the customer, the bank must assess the feasibility of a financing. This can be done by analyzing the prospective debtor, known as the 5C (5C's of credit) and 7 P2: 1) Character principles; 2) Analysis of Capabilities; 3) Capital Analysis; 4) Assurance Analysis; and 5) Conditional of Economy (Analysis of Conditions). In addition to this, the assessment of a financing can be done with the 7P Analysis, namely: 1) Personality; 2) Party; 3) Purposes; 4) Prospects; 5) Payments; 6) Profitability; and 7) Protection.

Banks with low NPF levels are more trusted by the public than banks with high NPFs. Because this shows that the bank is experiencing a smaller risk of non-performing financing. The amount of NPF can be calculated by the formula:

$$NPF = \frac{Total\ of\ Troubled\ Financing}{Total\ of\ Financing}$$

The quality of financing is determined to be 5 (five) categories, namely Current, Special mention, Substandard, Doubtful and Loss. What is categorized as non-performing financing is the quality of financing that falls into the substandard to non-performing category, also known as Non-Performing Financing.

Profitability

Profitability is a fairly important consideration for investors in the decisions of clients or investors (Block *et al*., 2019). High profitability indicates good company prospects so that investors will respond positively to the signal and the value of the company will increase (Kamaluddin *et al*., 2019). Profitability is the company's ability to generate profits with all the capital that works in it (Block *et al*., 2019). Profitability

is one of the factors that theoretically determine the value of a company (Chandra *et al*., 2020). Companies that are able to generate large and stable profits will attract investors because it will automatically benefit investors. The ability of large companies to generate profits also shows good company management, thereby fostering trust in investors. The company's profitability is measured using the Return On Asset (ROA) ratio which is measured as follows.

$$\text{ROA} = \frac{Net\ Profit}{Asset\ Total}$$

Company Size

Company size is a scale where the size of the company can be classified according to various ways, including: total assets, stock market value, number of employees, and others (Andersson *et al*., 2018). Firm size tends to reflect shareholder assessments of all aspects of past financial performance and future forecasts (Song *et al*., 2018). The larger the company's assets, it will make the company have stability in its financial condition so that it will be easier to obtain capital compared to companies that have lower assets.

Classification of company size according to Law no. 20 of 2008 is divided into 4 (four) categories, which are micro, small, medium, and large enterprises. Firm size can be used to represent the company's financial characteristics. Firm size can be interpreted as the size of the company can be seen from the value of equity, company value or the result of the asset value of a company *(Drempetic et al*., 2020).

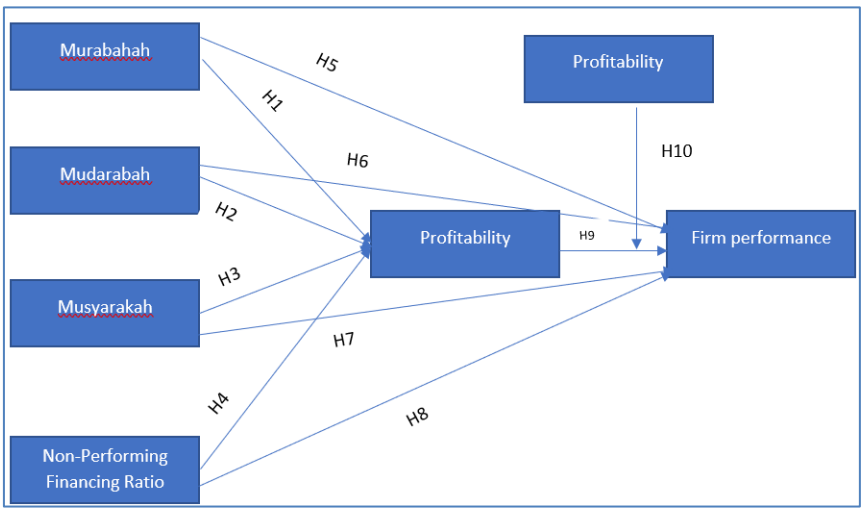
Company Size Criteria

Firm Size	Criteria	
	Assets (including land and business building)	Annual Selling
Micro Business	Max 50 millions	Max. 300 millions
Small Business	> 50 – 500 millions	> 300 millions – 2.5 billions
Medium Business	> 500 billions – 10 millions	2.5 billions – 50 billions
Large Business	> 10 billions	> 50 billions

Therefore, it can be concluded that company size is an indicator that can show a condition or characteristic of an organization or company where there are several parameters that can be used to determine the size (big or small) of a company, such as the number of employees used in the company to carry out operational activities. company, the number of assets owned by the company, the total sales achieved by the company in a period, as well as the number of shares outstanding. The formula to find out which criteria the company belongs to then use the formula:

$$Firm\ size = \ln total\ aset$$

Hypothesis Framework



RESEARCH METHOD

This research is considered as quantitative research. Sources of data in this study are primary data, data sources that directly provide data to researchers from financial reports from banking; and secondary data is data or information obtained other than the object of research, in this case a literature review as a supporter of the theory in this study.

This research is conducted on Islamic banking in Indonesia. The sample in this study is taken using the quota sampling technique, in which this sampling technique took as many samples as the number

determined by the researcher. This resulted in 14 Islamic banks in Indonesia which issued financial reports from 2017 to 2019. The data analysis technique in this study uses Path aAalysis and Moderated Regression Analysis (MRA) using SPSS application.

RESULTS AND DISCUSSION

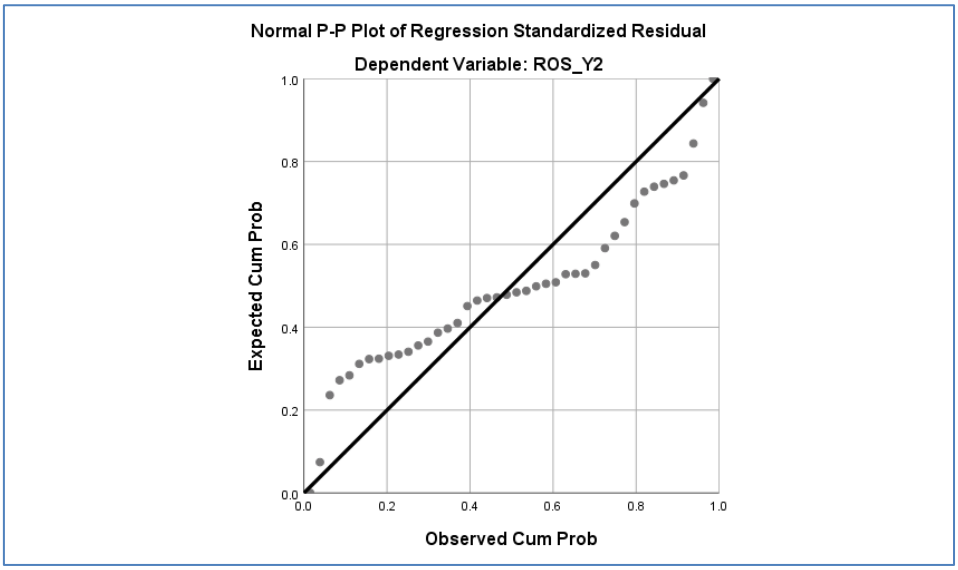
Classic Assumption Test

Normality Test

This normality test aims to determine whether the resulting error has a normal distribution in a regression model (Santoso, 2012:230). The Kolmogorov-Smirnov test is used to check for normality. If the significance value of the Kolmogorov-Smirnov test is > 0.05, the assumption of normality is met.

Model	Test Statistics	asymp. Sig. (2-tailed)	Information
Unstandardized Residual	.844	.994c	Normal

According to the table above, it shows that the data has a statistical test value of 0.884 and a significance value above 0.05, which is worth 0.994. Thus, it can be stated that the data has been distributed normally, illustrated in the graph below.



Multicollinearity Test

The purpose of this multicollinearity test is to check whether there is a correlation between the independent variables in the (free) regression model. In a good regression model, there should be no correlation between the explanatory variables. If there is a correlation, it is called a multicollinearity (multico) problem.

To find out whether there is multicollinearity, it can be done by looking at the tolerance value and the VIF (variance inflation rate) value contained in each variable. Based on the VIF and Tolerance rules, it is said that multicollinearity symptoms occur, on the contrary if the VIF is less than 10 or the tolerance is greater than 0.10 it is said that there are no multicollinearity symptoms. The results of the multicollinearity test are shown in the table below.

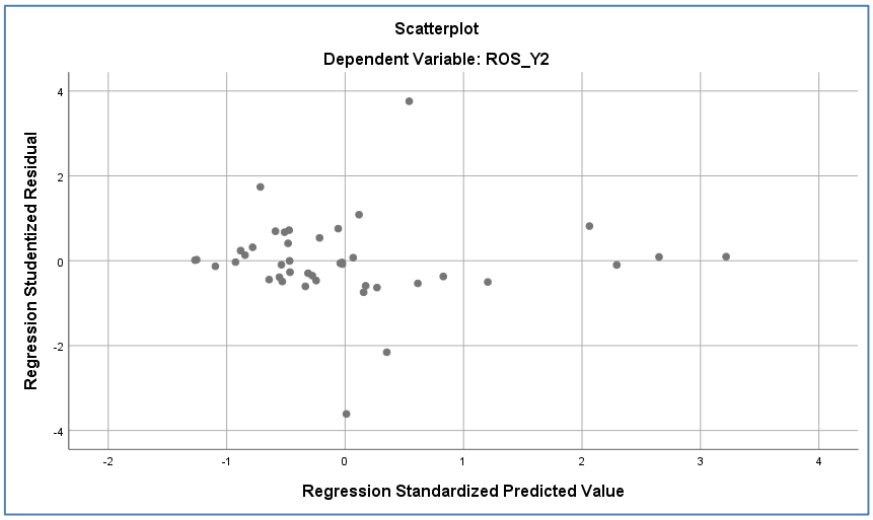
Model	Tolerance	VIF	Information
Murabaha_X1	.394	2,536	There is no multicollinearity
*Mudarabah*_X2	.386	2,594	There is no multicollinearity
*Musharakah*_X3	.443	2.255	There is no multicollinearity
Non_Performing_Financing_X4	.721	1.387	There is no multicollinearity
Profitability_Y1	.577	1,732	There is no multicollinearity
Firm_size_M	.405	2.469	There is no multicollinearity

From the table above, it is known that for all variables, there is no data that multicollinearity occurs. This is because the VIF value is smaller than 10, and the tolerance value is above 0.10.

Heterosidadity Test

Heteroscedasticity test was conducted to see the value of variance between Y values, the same or different. A regression model is said to be good if there

is no heteroscedasticity. To determine heteroscedasticity, you can look at the value of Sig. (Two-sided) less than 0.05 (5%). The results of the heteroscedasticity test using a scatterplot are shown in the graph below:



From the graph above, it shows that the variable being tested contains heteroscedasticity, which means that there is a correlation between the size of the data and the graph above, so that if the data is enlarged it will cause the residual (error) to be even greater.

Autocorrelation Test

This test aims to determine whether in a linear regression model there is a correlation between the confounding error in period t and the error in period t-1 (previous). The autocorrelation test used the Durbin-Watson Test (DW).

Model	Durbin-Watson	Information
1	1,933	There is no autocorrelation

With a value of Du 1.7202 and DL 1.3064, it can be seen that the Durbin-Watson value obtained is 1.933 where this value is DU 1.7202 and smaller than 4-DU 2.2798. As for the basis of decision making in the Durbin-Waston test above, it can be concluded that model 2 has no problems or symptoms of autocorrelation. Thus, multiple linear regression analysis to test the research hypothesis above can be carried out or continued.

DISCUSSION

Effect of *Murabaha* on Profitability

The results of testing the hypothesis that there is an effect between *Murabahah* and Profitability show that the p-value is 0.826, which is greater than 0.05, and the t-statistic value is 0.222, which is greater than 2.018, and the beta score is 0.039. Thus, from the explanation above, it shows that *murabahah* has no significant effect on profitability. This is in line with research conducted by (Belkhaoui *et al*., 2020; Borhan and Ahmad, 2018; Yanikkaya *et al*., 2018) who state that there is an influence between *murabahah* on profitability.

Effect of *Mudarabah* on Profitability

The results of testing the hypothesis that there is an influence between *Mudarabah* on Profitability show that the p-value is 0.002, which is smaller than 0.05. And the t-statistics value is 3.393, which is greater than 2.018, and the beta score is 0.593. Thus, from the explanation above, it will show that *Mudarabah* has a positive and significant effect on Profitability. This is in line with research (A. Abbas and Arizah, 2019; Belkhaoui *et al*., 2020) which states that there is an influence between *Mudarabah* and Profitability.

Effect of *Musharakah* on Profitability

The results of testing the hypothesis that there is an influence between *Musyarakah* on Profitability show that the p-value is 0.017, which is smaller than 0.05. As well as the t-statistic value of 2.408 which is greater than 2.018 and a beta score of 0.204. Thus, from the explanation above, it will show that *Musyarakah* has a positive and significant effect on Profitability. This is in line with research (F. Abbas *et al*., 2019; Al-Harbi, 2019; Alarussi and Alhaderi, 2018; Paltrinieri *et al*., 2020) which states that there is a relationship between *Musyarakah* and Profitability.

Effect of Non-Performing Financing on Profitability

The results of hypothesis testing have an effect between Non-Performing Financing on Profitability show that the p-value is 0.006, which is smaller than 0.05, the t-statistic value is 2,970 which is greater than 2.018, and the beta score is -0.269. Thus, from the explanation above, it shows that non-performing

financing has a negative and significant effect on profitability. This is in line with research(Akter and Roy, 2017; "Factors Affecting the Financing of Profitability Using Non Performing Financing as Moderating Variable in Sharia Business Unit of Bank Sumut (Bank of North Sumatra) in North Sumatra," 2018; Khan *et al.*, 2020) who state that non-performing financing has an effect on profitability.

Effect of *Murabaha* on ROS

The results of testing the hypothesis that there is an effect of *Murabahah* on ROS show that the p-value value is 0.456, which is greater than 0.05, the t-statistic value is 0.754, which is greater than 2.018, and the beta score is 0.167. Thus, from the explanation above, it shows that *Murabahah* has no significant effect on ROS. This is the opposite of research conducted by (Deans *et al*., 2018; Jain *et al.*, 2020; Rokhmawati *et al.*, 2017) who state that *Murabaha* has a significant effect on ROS.

Effect of *Mudarabah* on ROS

The results of testing the hypothesis that there is an influence between *Mudarabah* on ROS show that the p-value is 0.002, which is smaller than 0.05, the t-statistic value is 3.327, which is greater than 2.018, and the beta score is 0.334. From the explanation above, it shows that *Mudarabah* has a positive and significant effect on ROS. This is in line with research by (Fianto *et al.*, 2018; Lopez *et al*., 2020; Madanchian *et al*., 2019; Wilcox and Yasuda, 2019) who state that *Mudarabah* has a positive and significant effect on ROS.

Effect of *Musharakah* on ROS

The results of testing the hypothesis that there is an effect of *Musyarakah* on ROS show that the p-value is 0.799, which is greater than 0.05, the t-statistic value is 0.257, which is greater than 2.018 and the beta score is 0.048. From the explanation above, it will show that *Musyarakah* has no significant effect on ROS. This is against the research by (Fianto *et al*., 2018; Lopez *et al*., 2018, 2020; Wilcox and Yasuda, 2019) who state that *Musyarakah* has a significant effect on ROS.

Effect of Non-Performing Financing onROS

The results of testing the hypothesis that there is an effect between non performing financing on ROS, it is shown that the p-value is 0.022, which is smaller than 0.05, the t-statistic value is -2.527 which is greater than 2.018, and the beta score is -0.241. Thus, from the above explanation it shows that non-performing financing has a negative and significant effect on ROS. This is in line with research by (Muhammad *et al*., 2020; Priyadi *et al*., 2021; Thornton and Di Tommaso, 2021) who state that Non-Performing Financing has a negative and significant effect on ROS.

Effect of Profitability on ROS

The results of testing the hypothesis that there is an effect of profitability on ROS, it is shown that the p-value is 0.008, which is smaller than 0.05. As well as the t-statistic value of 3.276 which is greater than 2.018 and a beta score of 0.357. Thus, from the explanation above, it will show that Profitability has a positive and significant effect on ROS. This is in line with research by (VC Nguyen *et al*., 2019; Paoletti *et al*., 2021; Zhang *et al*., 2018) who states that profitability has a positive and significant effect on ROS.

Effect of *Murabaha* on ROS through Profitability

The indirect test results regarding the effect of *Murabahah* on ros through profitability, it is shown that the p-value is 0.829, which is greater than 0.05, a beta score of 0.041. Thus, from the explanation above, it will show that profitability is not able to mediate between *Murabahah* and ROS. This is in line with research by (Clapp, 2019; Maraseni *et al*., 2018; Rose-Redwood *et al*., 2019, 2021) that profitability is able to mediate Murabaha to ROS.

Effect of *Mudarabah* on ROS through Profitability

The indirect test results regarding the effect of *Mudarabah* on RO through profitability shows that the p-value is 0.000, which is smaller than 0.05, a beta score of 0.613. Thus, from the explanation above, it shows that Profitability is able to mediate between *Mudarabah* and ROS. This is in line with research by (Dang, 2020; Madanchian *et al*., 2019; TNL Nguyen and Nguyen, 2020) who state that profitability is able to mediate between *Mudarabah* and ROS.

Effect of *Musyarakah* on ROS through Profitability

The indirect test results regarding the effect of *Musyarakah* on RO through profitability shows that the p-value is 0.002, which is smaller than 0.05. And a beta score of 0.215. So from the explanation above, it shows that profitability is able to mediate between *Musyarakah* and ROS. This is in line with research (Lopez *et al*., 2018, 2020; Rys-Jurek, 2021; Sikveland and Zhang, 2020) who state that profitability is able to mediate between *Musyarakah* and ROS.

Effect of Non-Performing Financing on ROS through Profitability

The indirect test results regarding the effect of non-performing financing on ROS through profitability, it is shown that the p-value is 0.000, which is smaller than 0.05, a beta score of -0.311. Thus, from the explanation above, it shows that profitability is able to mediate between Non-Performing Financing on ROS. This is in line with research by (Das and Deb, 2017; Dhananjaya, 2020; Kumar *et al*., 2017; Kumar Mittal and Suneja, 2017) who state that profitability is able to mediate between non-performing financing on ROS.

Effect of Profitability on ROS

The results of hypothesis testing have an effect of profitability on ROS shows that the p-value is 0.008, which is smaller than 0.05, the t-statistic value is 2.707, which is greater than 2.018, and the beta score is 0.488.

From the above explanation it shows that profitability significant effect on ROS.

Effect of Firm Size on ROS

The results of hypothesis testing have an effect of firm size against ROS shows that the p-value is 0.207, which is greater than 0.05, the t-statistic value is 1.285, which is greater than 2.018 and the beta score is 0.207. Thus, from the above explanation it shows that firm size has significant effect on ROS.

Effect of Profitability on ROS

The results of hypothesis testing have an effect profitability on ROS, it is shown that the p-value is 0.000, which is smaller than 0.05, the t-statistic value is 3,440 which is greater than 2.018 and the beta score is 0.700. From the above explanation it shows that profitability significantly effect on ROS.

CONCLUSION

From the results of the research and discussion above, it can be concluded that *Murabahah* has no significant effect on Profitability, *Mudarabah* has a positive and significant effect on Profitability, *Musyarakah* has a positive and significant effect on Profitability, Non-Performing Financing has a negative and significant effect on Profitability, *Murabah*a has no significant effect on Profitability. ROS, *Mudarabah* has a positive and significant effect on ROS, *Musyarakah* has no significant effect on ROS, Non Performing Financing has a negative and significant effect on ROS, Profitability has a positive and significant effect on ROS.

In addition, Profitability is able to mediate between *Mudarabah* to ROS, Profitability is able to mediate between *Musyarakah* to ROS, Profitability is able to mediate between Non-Performing Financing to ROS, Profitability has a significant effect on ROS, Firm Size M has no significant effect on ROS, and Profitability M has a significant effect on ROS.

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