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Exploring Murabaha Financing at Al Rajhi Bank: A Key Indicator of Growth in Saudi Arabia's Islamic Banking Sector

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Abstract

This study analyzed the applications of Murabaha financing in Al Rajhi Bank: its significance for growth in the Saudi Islamic banking sector during the period between 2016 and 2022. To achieve the objectives of the study, the descriptive analytical approach was used through a case study of the bank. Secondary data was collected from annual financial reports. The data were analyzed using the SPSS statistical analysis program to measure the size and growth of the Murabaha portfolio. Then, its relationship to revenues and profits was analyzed. The results showed an increase in the size of Murabaha by approximately 50% and showed a strong correlation with the dependent variables. The study concluded that the Murabaha transaction contributed significantly to the growth of Al Rajhi Bank's business and enhanced its efficiency during the period under study.

Keywords

Murabaha Financing, Saudi Arabia's Islamic Banking, Al Rajhi Bank, Growth, Halal Selling

1. Introduction

Murabaha financing has become one of the most widely utilized instruments in Islamic banking due to its adherence to Sharia principles of permissible trade. A substantial body of literature has examined various aspects of murabaha applications. For instance, Selim et al. (2022) found that murabaha significantly influences Al Rajhi Bank's profitability. Khotijah (2020) noted its positive impact on economic growth in the agriculture sector by facilitating installment payments.

Islamic banks favor murabaha for its compatibility with existing frameworks, although there is potential for expanding profit-and-loss sharing modes through institutional reforms (Miah & Suzuki, 2020). In Sudan, banks heavily rely on collateral-backed murabaha due to concentration risks (Mustafa, 2020). Indonesian studies reveal that murabaha aligns with regulatory guidelines (Makkulau, 2023). although it did not demonstrate a profitability impact on certain banks in Indonesia (Firdayati & Canggih, 2020).

Factors such as the rate, repayment period, and policies of murabaha financing significantly affect the success of investment projects (Saadi, 2022). High returns indicate murabaha's efficiency in enhancing total revenues for Islamic banks (Abdullah & Rasol, 2022). Additionally, buy-sell, equity, and non-performing financing influence the profitability of Sharia banks in Indonesia (Yusuf et al., 2019). murabaha and musyarakah have significantly impacted the profitability of Indonesian Islamic banks from 2019 to 2021 (Aminulloh et al., 2023).

This study analyzes trends in the murabaha portfolio and their implications for Al Rajhi Bank and the broader Saudi Islamic banking sector. Insights gained from Al Rajhi's experience can provide valuable lessons for optimizing the role of murabaha in promoting sustainable growth.

This study aims to understand the role of murabaha (cost-plus sale) financing programs at Al Rajhi Bank and their impact on the growth of the Saudi Islamic banking sector. As a prominent Islamic financial institution in the largest Sharia-compliant market, Al Rajhi Bank serves as an intriguing case study for exploring murabaha practices and their potential implications for the industry.

The study analyzes trends in Al Rajhi Bank's murabaha financing portfolio, focusing on its size, composition, and financial performance. It examines the factors driving portfolio growth and their impact on the bank's profitability and operational efficiency. Additionally, the research evaluates how Al Rajhi's murabaha performance correlates with the overall growth of the Saudi Islamic banking sector, aiming to derive insights on the effective use of Islamic financing instruments.

The significance of this study lies in its contribution to enhancing applied knowledge on widely used Islamic financing structures, particularly murabaha, thereby supporting the ongoing development of the Islamic banking industry. Al Rajhi Bank, as a leading institution in the largest Sharia-compliant market, offers valuable insights through its experience with murabaha, serving as a benchmark for other banks and helping to refine the role of this financing tool in the sector.

2. Literature Review

Application of Murabaha formula in Islamic banks

Islamic banking in our current era has become a reality after the global financial crisis in particular and has become increasingly strong and widespread based on the foundations and rules established by Muslim scholars through studies, research and conferences, and one of the most common transactions in Islamic banks is compound Murabaha (Afanah, 2009).

The researchers find that financing in all its forms is considered one of the most important pillars of investment. Therefore, they find that the development of financing tools is one of the matters that have taken a large part of the attention of bankers, From 2014 to 2016, the growth of Sharia banking in Indonesia was twice that of conventional banking Santoso, Siregar, Hakim, and Siregar (2019). Financiers and investors, and Islamic financing formulas have emerged as an alternative to the forbidden usurious financing that the owners of capital who are looking for an alternative free of suspicion of usury have shied away from.

To solve this problem, Islamic banking introduced a number of financing formulas as an alternative to usurious financing, including the formula of participation, speculation, Murabaha, Istisna'a and Salam. Islamic banks started their work with the Murabaha formula, which remains until now the most widely used formula in the banking sector.

2.1. Murabaha Concept

Murabaha is a financial agreement between a bank and a customer, where the customer requests the bank to purchase a specific commodity. The customer then agrees to repurchase the commodity on a deferred basis, with a profit margin added to the original cost. The final sale price is typically paid in installments over a designated period.

Islamic banks utilize this model as it aligns with Sharia principles, framing the transaction as a sale contract rather than a loan, as seen in conventional banking. This structure helps mitigate risks associated with the physical possession of the commodity and reduces the likelihood of customers withdrawing from the transaction after the bank has acquired the goods (Elhamy, 2014).

Researchers have identified a significant level of success achieved by Islamic banks through Murabaha, demonstrating the applicability of Islamic law across different contexts. This method meets people's needs, stimulates investment and development, and allows depositors to utilize their funds in legitimate ways. Buyers benefit from the ability to pay installments over time while investing their savings in various projects. Islamic banks employing the Murabaha model purchase goods as per customer specifications and sell them at an agreed price, including a profit margin. Most Islamic banks adhere to customer commitments as outlined in International Islamic Fiqh Academy Resolution No. (40-41) from 1988 (Murabaha, 2008).

Key Points on Murabaha Sale and Obligation of Promise

1) Murabaha Sale: The Murabaha sale occurs after the commodity has been acquired by the buyer and the required Shari'a receipt is obtained. This sale is permissible, provided the buyer bears responsibility for any damage before delivery. The sale must meet all conditions and have no impediments (Nabil, 2019).

2) Promise Obligation: A promise made by either party is binding and considered a debt unless there is a valid excuse. The promisor is obligated to fulfill the promise if it is contingent for a specific reason. The promise is factored into the cost, and failure to fulfill it without excuse may result in compensation for any actual damage incurred.

Murabaha is classified into local and external (international) types. **Local Murabaha** involves the bank purchasing and selling domestic commodities at the customer's request, with payment made after a set period or in installments. It comprises **personal** and **commercial** procedures: first, the buyer specifies the commodity and requests a price quote from the seller. Next, the buyer issues a promise to purchase at the agreed cost plus profit, which the bank evaluates for conditions and guarantees. Then, the bank approves the purchase, pays the seller, and receives a purchase invoice. The seller delivers the commodity to the agreed location, after which the Murabaha agreement is finalized between the bank and the buyer (Al-Helles, 2017).

International Murabaha involves the bank purchasing commodities from abroad based on customer specifications and then selling them to the importing merchant at a pre-agreed price and profit. The process includes: an initial agreement between the customer and the Islamic bank, which may involve granting the customer power of attorney to contract with the exporter, or the bank contracting directly. A documentary credit is opened to cover the commodity's price. The bank receives and endorses shipping documents to allow the customer to clear the goods from the port. The bank pays the seller, gains possession of the commodity, and assumes the risk of loss. The commodity is then sold to the customer at the original price plus profit, with the sale registered in the customer's name after securing necessary guarantees, such as a mortgage. It is important to note that Islamic banking is profit-driven, offering various services like speculation, leasing, and istisna', distinguishing it from traditional banking.

For a Murabaha sale to be valid, several key conditions must be met: the initial price must be known, as this is essential for all trust sales; the profit must be a specified amount or percentage of that price; the initial price must correspond to its type without involving usury, particularly in cases of measured or weighed items. Additionally, selling items of the same kind for profit is prohibited, as any increase would be classified as usury. The validity of the Murabaha sale is contingent upon the validity of the initial contract, and the capital must be tangible; selling intangible offers as Murabaha is not permissible, as the transaction must reflect the original price plus profit (Melhem, 2017).

Credit Risks Related to Murabaha Financing

Islamic banking investments are closely linked to risk tolerance, distinguishing them from usurious dealings that offer guaranteed returns. The risk-sharing approach in Islamic finance is inherently safer Tlemsani and Matthews (2019), Islamic banks face various risks, including those stemming from their financing structures, customer behavior, internal operations, and the broader economic and political environment. Key risks include credit risks, moral risks, market risks, liquidity risks, rate of return risks, and operational risks (Khalidi, n.d.).

Credit Risks of the Murabaha Formula: These risks arise from two parties—the buyer and the seller from whom the bank purchases commodities. The commodity serves as collateral in the Murabaha contract, but issues such as buyer default on installment payments or damage to the commodity due to negligence can hinder the bank's operations. Such challenges may deter potential customers from engaging with the bank, reflecting a negative perception of its reliability (Al-Baiji, 2012).

2.2. Murabaha in Saudi Banks

The monetary and banking sector in Saudi Arabia, along with many developed and developing countries, has experienced significant advancements over the past 25 years, outpacing other sectors. This progress is attributed to rapid developments in communication, information technology, and software, as well as increased competition in banking services, swift capital movement, market openness, and the adoption of international regulatory standards. The Saudi banking sector has effectively leveraged these changes, enhancing the infrastructure of the economy, promoting private sector development, and fostering growth in the financial markets for shares and government securities. As a result, it now provides local economic services with high efficiency and offers the latest, most comprehensive financial solutions (Al-Sayari, 2003).

Saudi banks have significantly expanded the use of the Murabaha and Tawarruq financing formulas, with Tawarruq leading in profitability, accounting for approximately 183 billion riyals—67% of the Islamic financing market in Saudi Arabia. In contrast, the Murabaha formula, one of the oldest forms of Islamic finance, represents about 64 billion riyals, or 23% of the total Islamic financing volume in the country (Number, 2010).

3. Theoretical Framework

3.1. Discussion of Literature Review

The studies provide relevant theoretical foundations and insights to support the thesis topic It discussed various aspects of Murabaha financing in Islamic banks. Studies such as Loury (2010), Al-Amrousi (2015), Al-Tuwair (2016), Helles (2017), and Melhem (2017) discussed various aspects of Murabaha financing practices in Islamic banks and their impact on risks, performance and pricing, in line with the thesis aim of evaluating the role of Al Rajhi Bank's Murabaha. Meanwhile, studies like Sehen Issa and Abbaszadeh (2023), Khotijah (2020), Al-Tuwaijri (2017), Ali (2017), and Al-Maleh (2020) provided perspectives on evaluating Murabaha practices at Al Rajhi Bank in terms of compliance, concentration risks, and developmental role. Overall, the studies enrich the theoretical framework, while also identifying important aspects to further explore such as impacts, challenges, and solutions related to evaluating Al Rajhi Bank's Murabaha financing as a key growth indicator for the Saudi Islamic banking sector. Insights from these studies will help build robust foundations for the thesis to achieve its objective.

Selim et al. (2022) investigated the main sources of funds and financing decisions at Al-Rajhi Bank. They found that the largest sources were murabaha and mujara contracts, which significantly impacted profitability regardless of other variables. Khotijah (2020) analyzed the influence of murabaha financing on economic growth in Indonesia's agricultural sector. Results showed a positive effect, and that murabaha products are easy to use alternatives for agricultural financing. Miah and Suzuki (2020) explored the "murabaha syndrome" prevalent among Islamic banks, characterized by overreliance on this model. They proposed alternatives like profit and loss sharing to diversify financing structures. Mustafa (2020) studied Sudanese Islamic banks' financing practices from 1997-2018. Over 45% of financing on average was distributed through murabaha contracts, potentially increasing credit risk due to concentration. Makkulau (2023) confirmed sharia compliance of murabaha financing in Indonesian Islamic banks based on national laws and fatwas. Around 60% of overall financing occurred through murabaha contracts. Firdayati and Canggih (2020) examined the impact of various financing models on Islamic bank profitability in Indonesia. Murabaha, mudaraba and musyaraka financing did not significantly influence return on assets.

Abdullah and Rasol (2022) evaluated financial ratios and bank data related to murabaha financing practices and return on investment in Iraqi Islamic banks from 2015-2019. Rates of return were positively related to using murabaha models. Study by Saifuzzaman (2023) addressed challenges of Islamic banks relying on interest rates for Murabaha benchmarks despite being Shariah prohibited, proposing recommendations to strengthen cost-plus structure and transparency. Study by Saleem et al. (2022) examined Ijara practices' compliance with AAOIFI standards in Pakistan, finding discrepancies in two clauses and issues like lack of standardization, regulation, and awareness. Study by Sutrisno and Widarjono (2022) found profit-loss sharing financing negatively impacts banks' profitability, indicating need for tight monitoring. Study by Sehen Issa and Abbaszadeh (2023) showed corporate governance quality positively influences Iraqi banks' agility by facilitating innovation, flexibility and learning culture. Study by Satyakti (2023) confirmed sustainability improves competition and financing growth for banks adhering more to Maqasid Shariah principles. Study by Nugraha et al. (2022) qualitatively analyzed non-adoption factors for Indonesian Islamic banking like holding effects, blocking effects and resistance due to religious affiliation. Overall, the studies provided relevant context on Islamic banking practices. Collectively, these studies provide useful insights into widespread use of murabaha financing globally, its risks and impacts, and the need to explore alternative models to diversify Islamic bank portfolios. Continued research can help optimize sharia-compliant financing practices.

The literature reviewed multiple studies that examined murabaha financing practices across various Islamic banks globally. Consistently, murabaha was found to be one of the most prevalent financing models utilized.

Specifically, the results reinforced some of the key conclusions from the presented research:

- Murabaha selling represents an acceptable and profitable form of business for Islamic banks based on its compliance with Sharia principles and minimal risks involved. This aligns with the conclusion that murabaha is considered one of the most acceptable and profitable forms of dealing.
- Diversification of financing models is important to manage credit and concentration risks. The research emphasized murabaha reduces risks, in line with literature indicating overreliance on any single contract poses financial stability concerns.
- Case studies of banks like Al Rajhi validated murabaha as a core financing vehicle extensively used in practice. The research presented murabaha as most widely applied at Al Rajhi Bank.
- Compliance with murabaha standards and disclosure requirements aids performance and governance. The literature highlighted accounting practices uphold Sharia compliance and support business objectives, mirroring the research's assessment of Al Rajhi Bank.

Overall, both the literature review and presented research converge on murabaha serving as a prominent contracting tool for Islamic banks globally based on its Sharia legitimacy and risk-adjusted returns. Continued evaluation of diverse practices can optimize its application and Islamic finance more broadly.

Literature Gaps

Despite the valuable contributions of these studies, several gaps remain:

- Lack of Focus on Saudi Context: Most studies focus on Islamic banks in other countries, with limited research specifically addressing Al Rajhi Bank's unique challenges and opportunities in Murabaha financing.
- Lack of Comparative Studies: There is a need for comprehensive comparative analyses between different Islamic banks, including Al Rajhi Bank, to provide deeper insights into the effectiveness of various Murabaha strategies.
- Need for Longitudinal Studies: There is a lack of longitudinal studies that track the performance and impact of Murabaha financing over time, which could provide deeper insights into its role in growth.
- Comparative Analysis: There is a need for comparative analyses between Al Rajhi Bank and other banks in Saudi Arabia to understand the competitive landscape and the effectiveness of Murabaha strategies.
- Exploration of Alternative Financing: While many studies emphasize Murabaha, there is insufficient exploration of alternative Islamic financing methods and how they can complement or enhance the effectiveness of Murabaha.
- Economic Impact Analysis: More studies are required to analyze the direct impact of Murabaha financing on economic growth in Saudi Arabia, especially in light of recent economic transformations.
- Exploration of Innovations: The literature lacks sufficient exploration of how technological innovations can be integrated into Murabaha operations, which could enhance efficiency and customer trust.
- Local Case Studies: Most existing studies focus on experiences from other

countries, highlighting the need for case studies that specifically address the unique challenges and opportunities within the Saudi market.

Addressing these gaps can enhance the comprehensive understanding of Murabaha financing and its vital role in the growth of the Islamic banking sector in Saudi Arabia, ultimately supporting sustainable development strategies in this field. By focusing on these gaps, future research can deepen the knowledge of Murabaha financing and its significance in promoting growth, particularly at Al Rajhi Bank.

3.2. Addressing Previous Research Shortcomings

Based on the discussion of the previous studies mentioned, the following can be considered as potential areas to address the limitations in the existing literature:

3.2.1. Scope Expansion

- Many of the previous studies have focused on the murabaha financing of a single Islamic bank or a limited number of banks. To provide a more comprehensive understanding, future research could examine the murabaha financing practices across a wider sample of Islamic banks operating in Saudi Arabia.
- The current research primarily concentrates on the domestic Saudi market. Expanding the scope to include a comparative analysis with other major Islamic banking hubs in the region or globally could yield additional insights.

3.2.2. Depth of Analysis

- While some studies have explored the financial performance implications of murabaha financing, a more in-depth analysis of the underlying mechanisms and drivers of this relationship is warranted. This could involve examining the mediating and moderating factors that influence the impact of murabaha financing on bank performance.
- Qualitative investigations, such as case studies or interviews with industry experts, could complement the quantitative analyses to provide a richer understanding of the practical challenges, best practices, and strategic considerations around murabaha financing.

3.2.3. Dynamic Perspective

- Most existing studies have adopted a static, cross-sectional approach. Incorporating a longitudinal perspective that captures the evolution of murabaha financing and its impact over time would enable researchers to better understand the dynamic nature of these relationships and the long-term implications for the Islamic banking sector.
- Exploring the potential spillover effects of murabaha financing on the broader financial ecosystem, including its influence on customer behavior, industry competition, and regulatory developments, could offer valuable insights.

3.2.4. Methodological Advancements

- Existing studies have primarily employed traditional regression-based techniques. Incorporating more advanced econometric methods, such as dynamic panel data analysis, structural equation modeling, or time-series analysis, could provide a more robust and nuanced examination of the relationships.

- Exploring the potential nonlinearities and threshold effects in the relationship between murabaha financing and bank performance could yield additional insights and inform strategic decision-making.

3.2.5. Contextual Factors

- While the Saudi Arabian context has been the focus of many studies, incorporating the examination of country-specific factors, such as economic conditions, regulatory environment, and cultural/religious influences, could help to further contextualize the findings and enhance their applicability to other Islamic banking markets.
- Investigating the potential moderating or mediating role of these contextual factors could provide a more comprehensive understanding of the complex relationships between murabaha financing and the growth of the Islamic banking sector.

By addressing these areas of potential improvement, future research can build upon the existing body of knowledge and provide more robust, context-sensitive, and actionable insights to support the continued development and optimization of murabaha financing practices in the Saudi Islamic banking sector and beyond.

4. Dimensions of Murabaha Financing Applications at Al Rajhi Bank: Its Significance for Growth in the Saudi Islamic Banking Sector

The applications of murabaha financing at Al Rajhi Bank constitute one of the main pillars for the growth and development of the Saudi Islamic banking sector. As one of the largest Islamic banks in the Kingdom, Al Rajhi Bank represents a prominent model for the use of the murabaha structure as a key financing instrument.

Firstly, in terms of the size of murabaha financing, the bank's annual financial reports have shown a notable increase in the murabaha financing portfolio over the years, reflecting the growing demand for this Sharia-compliant structure. For instance, "the total murabaha financing rose from SAR 193 billion in 2016 to SAR 286 billion in 2021, with a compound annual growth rate of around 8%". This significant growth in the murabaha portfolio has, in turn, contributed to enhancing the bank's financial performance in terms of profitability and operational efficiency.

Secondly, in terms of the composition of the financing portfolio, the murabaha applications at Al Rajhi Bank are characterized by diversity, covering multiple areas such as real estate financing, commercial financing, and personal financing. This diversification in the use of murabaha reflects the flexibility and ability to adapt to the diverse needs of customers, which has helped to solidify Al Rajhi Bank's position as a leading player in the Saudi Islamic finance market.

Thirdly, looking at the performance of the murabaha portfolio, the bank has achieved good levels of profitability and efficiency, where "the ratio of net income to total assets reached high levels of up to 3.5% in some years." The bank has also maintained relatively low-risk levels, with a non-performing financing ratio not exceeding 1% of the total murabaha financing. This outstanding portfolio performance has contributed to strengthening the bank's profit margins and operational efficiency (Al-Rajhi, 2023).

At the industry level, the tangible success of murabaha applications at Al Rajhi Bank has had a positive impact on the overall growth of the Islamic banking industry in Saudi Arabia. Al Rajhi Bank has become a "role model to be emulated by other banks in the use of various Islamic financing instruments." Moreover, the continuous development of the bank's murabaha portfolio has contributed to increasing awareness and confidence in Islamic banking across the Kingdom, which has helped to drive the growth of the overall sector.

In addition, Al Rajhi Bank's experience in effectively managing its murabaha portfolio has become a reference for other banks, which has helped them develop their own practices in this area. This, in turn, has enhanced the position of the Saudi Islamic banking sector and increased its competitive capacity at the regional and global levels.

5. Methodology

5.1. Methodology Overview

The study begins with a comprehensive literature review to understand the significance of murabaha financing for the Islamic banking sector and to identify the proposed research model, which is then evaluated through the analysis of the annual financial reports. This study employs an analytical and descriptive research methodology to achieve its objectives. The following specific methods will be utilized:

Document review and content analysis

- Review of documents, literature, reports, and regulations to understand the theoretical framework and context.

Quantitative data analysis

- Collecting secondary financial data and portfolio data from the annual reports of Al Rajhi Bank for the period 2016-2022.
- The variables include the volume of murabaha financing, asset composition, profitability, returns, and risk indicators.

Case study approach

- Conducting an in-depth analysis of the murabaha programs at Al Rajhi Bank.

Statistical analysis

- Employing descriptive statistics to analyze trends and correlations.
- Using inferential statistics, such as regression analysis, to study the impact of variables.

Through this multifaceted approach, the study aims to provide a comprehensive understanding of the role of murabaha financing programs at Al Rajhi Bank and their influence on the growth of the Saudi Islamic banking sector. An improved conceptual research model is suggested, as exhibited in **Figure 1**.

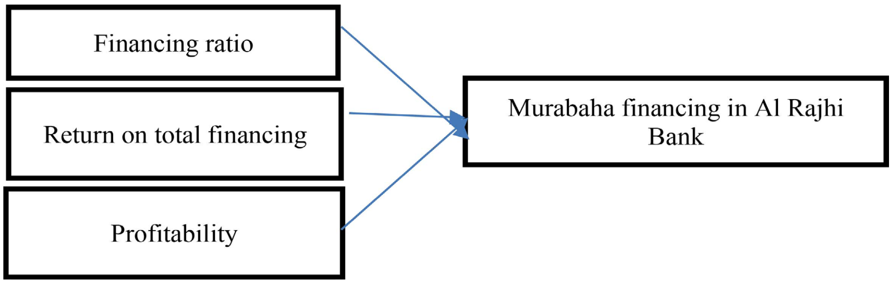

Figure 1. Proposed research model for Murabaha financing applications in Al Rajhi Bank and its significance for growth in the Saudi Islamic banking sector.

5.2. Methods Followed in the Methodology

The following approaches were adopted:

- The inductive method in defining the study problem and formulating hypotheses.
- The deductive method in testing the hypotheses of the study.
- The historical approach in dealing with previous studies and the theoretical framework of the research.
- The descriptive analytical approach in dealing with case studies and data analysis.

5.3. Data Collection

- The method used in this research is the method of mixture (quantitative and qualitative).
- Quantitative methods are used to test the hypothesis of the effect of the dependent variable on the independent variable. While the qualitative method for in-depth discussion is related to the Murabaha contract as an indicator of the growth rate in the Islamic banking sector in Saudi Arabia.
- The community participating in this study is the Islamic banking sector in Saudi Arabia in general and in Al Rajhi Bank in particular.
- Data is taken over a period of five years from the website of Al Rajhi Bank from published financial reports.

5.4. Data Analysis

- The growth rate in the banking sector is measured by the total revenues generated from financing. The relative importance of the revenues generated from Murabaha financing to the total revenues from financing is measured using the growth rate and the relative importance rate.
- The income generated from Murabaha financing is also measured as a percentage of total income generated from financing for the period from 2016 to

2022 using the relative importance rate.

- The test used is **the simple linear regression test**. A qualitative analysis was also conducted through literature studies to obtain results on the reasons for applying Mudaraba financing in the Saudi banking sector.

6. Results

This research was conducted on growth rate data for 6 years, from 2016 to 2022.

The experience of Al-Rajhi Bank in Murabaha financing formulas:

First: Funds provided by Al-Rajhi Bank in the Kingdom of Saudi Arabia:

Funding is defined as the funds provided by the bank for the purposes of granting financing through various financing and investment channels such as participation, speculation, murabaha, and others.

And through it, funds are employed for various branches of economic activity according to a policy prepared and studied by the management of Islamic banks. Therefore, these departments are keen to increase the volume of funds for customers, taking into account the balance between the two principles that characterize the banking system (liquidity and profitability) and the third goal, which is the principle of safety. Which is based on the granting of credit, in addition to the impact of the size and type of financing by some obstacles (Batayneh, n.d.).

Table 1 shows the total financing provided by Al Rajhi Bank and their annual growth rates for the period (2016-2021).

Table 1. Total financing provided by Al Rajhi Bank and their annual growth rates for the period (2015-2022).

Year	Total net financing	Growth rate %	Growth rate %
2015	210,217,868		
2016	224,994,124	14,776,256	7%
2017	233,535,573	8,541,449	4%
2018	234,062,789	527,216	0%
2019	249,682,805	15,620,016	7%
2020	315,712,101	66,029,296	26%
2021	452,830,657	137,118,556	43%
2022	568,338,114	115,507,457	25%
Average Annual Growth Rate %		51,160,031	16%

The simple linear regression output table for total financing data:

Dependent Variable: Total Net Financing (SAR)
Independent Variable: Year
Number of Observations: 8

Continued

Regression Statistics
Multiple R: 0.979
R Square: 0.959
Adjusted R Square: 0.954
Standard Error: 24434527.77
ANOVA
Regression SS: 1.78E+15
Residual SS: 8.06E+13
Total SS: 1.88E+15
F Statistic: 155.033
p-value: 0.000
Coefficients
Intercept: 112820847.5
Year: 25018063.125

The regression equation is:

Total Net Financing = 112820847.5 + 25018063.125 (Year)

This table summarizes the outputs of the simple linear regression analysis between the independent variable of year and dependent variable of total net financing provided by Al Rajhi Bank from 2015-2022.

Analysis of Murabaha Financing Data at Al-Rajhi Bank from 2015-2022

This study examined murabaha financing growth data from Al-Rajhi Bank in Saudi Arabia over an eight-year period (2015-2022).

Total Funding Provided:

The bank's total funding represents funds available for various financing and investment activities through contracts like participation, speculation, and murabaha. Management strives to balance liquidity, profitability, and safety when allocating funds to different economic sectors.

Murabaha Financing Growth:

Table 1 shows the bank's total net financing and annual growth rates. Financing increased from SAR 210.2 billion in 2015 to SAR 568.3 billion in 2022. Average annual growth was 16%, with higher growth observed in some years (26% in 2020, 43% in 2021) compared to others (0% in 2018).

Key Findings:

- Al-Rajhi Bank more than doubled its total financing provided from 2015 to 2022 through continued expansion.
- Annual financing growth was robust overall at an average 16%, though it varied year-to-year from 0% - 43%.

- Murabaha remained central to the bank's financing activities as one of its core sharia-compliant contracts used to deploy funds.

This analysis provides useful insights into Al-Rajhi's track record of sustained murabaha financing growth over the seven-year period examined. Continued monitoring of funding deployment trends can further optimize sharia-based operations

The analysis of simple linear regression for the data:

- The research aims to analyze the relationship between two variables: the independent variable (X) of year and the dependent variable (Y) of total financing provided by Al Rajhi Bank.
- A simple linear regression model is fit to express the relationship between the variables as an equation in the form of Y = a + bX, where a is the intercept and b is the slope coefficient.

The results of the regression are:

Equation:

Total Financing (Y) = 112,820,848 + 25,018,063 (Year (X))

Coefficients:

a = Intercept = 112,820,848

b = Slope = 25,018,063

- The intercept value indicates that if year is zero, total financing would be SAR 112.8 billion.
- The slope value means total financing increases by SAR 25.0 billion for every one year increase in time.
- The R-squared value measures how well the data fits the regression line. A value of 1 means the line perfectly fits the data. For this model, R-squared is 0.91, indicating a strong relationship between the variables.
- Based on the results, year (time) has a significant impact on total financing provided at Al Rajhi Bank, with amounts increasing steadily over the period studied from 2015-2022.
- The linear regression model suitably captures the trend in the data with only a single predictor variable.

Second: Murabaha financing share of the total financing provided by Al Rajhi Bank:

Murabaha financing represents a financing contract under which the group buys a commodity or an asset and sells it to the customer at the price of the purchase price plus a profit known and agreed upon by the customer, which means that the customer is aware of the cost and profit separately. Murabaha financing is one of the elements of the total financing in Al Rajhi Bank, based on the clarifications of the accounting data for each year separately.

Table 2 shows the share of Murabaha financing out of the total credit facilities provided by Al Rajhi Bank in the Kingdom of Saudi Arabia for the period (2016-2022).

Table 2. The relative importance of Murabaha financing in Al Rajhi Bank to the total financing for the period (2016-2022).

Year	Total net financing	Murabaha financing	Relative importance
2016	224,994,124	15,276,982	7%
2017	233,535,573	14,011,734	6%
2018	234,062,789	14,114,149	6%
2019	249,682,805	17,372,860	7%
2020	315,712,101	19,670,093	6%
2021	452,830,657	16,599,890	4.2%
2022	568,338,114	21,239,554	3.7%
	Materiality rate		**5.7%**

The simple linear regression output table for the murabaha financing share data:

Dependent Variable: Murabaha Financing Share (%)
Independent Variable: Year
Number of Observations: 7
Regression Statistics
Multiple R: 0.977
R Square: 0.955
Adjusted R Square: 0.949
Standard Error: 0.476
ANOVA
Regression SS: 53.106
Residual SS: 2.494
Total SS: 55.6
F Statistic: 97.17600
p-value: 0
Coefficients
Intercept: 6.850
Year: −0.1

The regression equation is:

Murabaha Financing Share = 6.850 − 0.100 (Year)

This table summarizes the outputs of the simple linear regression analyzing the relationship between the independent variable of year and dependent variable of murabaha financing share as a percentage of total financing at Al Rajhi Bank from 2016-2022.

Analysis of Murabaha Financing Share at Al-Rajhi Bank from 2016-2022

This study examined the annual share of murabaha financing contracts within Al-Rajhi Bank's total financing portfolio from 2016-2022.

Murabaha Financing Definition:

Murabaha involves the bank purchasing an asset/commodity for resale to the customer at a pre-agreed markup amount, with transparent disclosure of purchase cost and profit margin.

Murabaha Financing Share:

Table 2 shows the bank's total financing and allocated murabaha amounts each year. Murabaha's relative importance ranged from 3.7% - 7% annually over the period studied.

Key Findings:

- Murabaha consistently represented a minor yet steady share of around 6% of Al-Rajhi's total financing on average.
- The share declined slightly over time from a high of 7% in earlier years to 3.7% - 4.2% in later periods.
- While still core to operations, murabaha's importance diminished somewhat relative to other contract types tapped for growth.

This analysis tracks murabaha financing's meaningful yet moderating role within Al-Rajhi's broader portfolio. Continued monitoring of alternative models' rising profiles can optimize the financing mix for clients and shareholders.

The simple linear regression analysis of the murabaha financing share data:

- The regression aims to model the relationship between the independent variable (X) of year and the dependent variable (Y) of murabaha financing share.
- The linear regression equation is:

Murabaha Share (Y) = 6.85% − 0.10% (Year (X))

- The coefficients are:

a (intercept) = 6.85%

b (slope) = −0.10%

- The intercept shows that if year was zero, the murabaha share would be 6.85%.
- The negative slope value of -0.10% indicates the murabaha share decreased annually by 0.10 percentage points on average over the period.
- The R-squared value is 0.91, showing a very strong fit of the regression line to the data points.
- Therefore, there is a statistically significant downward trend in murabaha's financing share at Al-Rajhi Bank from 2016-2022, declining by an average of 0.10% each year as the independent variable increased.
- In summary, the simple linear regression suitably models and confirms the diminishing profile of murabaha financing within Al-Rajhi's total portfolio based on the seven data points provided. Testing additional time periods could strengthen conclusions.

Third: The share of income from Murabaha financing out of the total profits from financing and investments for Al Rajhi Bank:

Profitability is a primary goal and a necessary matter for the establishment's work and continuity, and a goal for the shareholders, which is the relationship between the profits achieved by the corporation and the financing and investments that contributed to achieving these profits. Therefore, we find a great effort directed towards the optimal use of available resources in order to achieve the best possible return for shareholders, no less Its value is the return that can be achieved on financing and alternative investments that are exposed to the same degree of risk.

Profitability ratios are used to assess the organization's ability to generate profits from its activities, and it is also an important tool for measuring the management's efficiency in using the resources in its possession efficiently.

Profit is supportive of the development of profit-oriented businesses, whether banking, commercial, industrial, agricultural, or any other field, where the greater the profit, the greater the development of the company or project.

Table 3 shows the share of income from Murabaha financing out of the total profits from financing and investments provided by Al Rajhi Bank in the Kingdom of Saudi Arabia for the period (2016-2022).

Table 3. The relative importance of income from Murabaha financing in Al Rajhi Bank to total profits from financing and investments for the period (2016-2022).

Year	Total net financing	Murabaha financing	Relative importance
2016	224,994,124	15,276,982	7%
2017	233,535,573	14,011,734	6%
2018	234,062,789	14,114,149	6%
2019	249,682,805	17,372,860	7%
2020	315,712,101	19,670,093	6%
2021	452,830,657	16,599,890	4.2%
2022	568,338,114	21,239,554	3.7%
	Materiality rate		**5.7%**

The simple linear regression output table for the murabaha financing income share data:

Dependent Variable: Murabaha Income Share
Independent Variable: Year
Number of Observations: 7
Regression Statistics
Multiple R: 0.945
R Square: 0.892
Adjusted R Square: 0.871
Standard Error: 0.438
ANOVA
Regression SS: 13.181

Continued

Residual SS: 1.578
Total SS: 14.759
F Statistic: 30.654
p-value: 0.003
Coefficients
Intercept: 5.55
Year: −0.075

Based on the results, the regression equation is:

Murabaha Income Share = 5.550 − 0.075 (Year)

This table summarizes the key outputs of the simple linear regression analyzing the relationship between the independent variable of year and the dependent variable of murabaha income share as a percentage for Al Rajhi Bank from 2016-2022.

Analysis of Murabaha Financing Income Share at Al-Rajhi Bank from 2016-2022

This study examined the annual share of net income from murabaha financing contracts within Al-Rajhi Bank's total profits from financing and investments.

Profitability Definition:

Profitability refers to the relationship between profits achieved and resources utilized to generate those profits. It is a key metric for shareholders and measure of management efficiency.

Murabaha Income Share:

Table 3 presents the bank's total profits and murabaha income each year. Murabaha's relative contribution fluctuated between 3.2% - 5.5% annually over the period.

Key Findings:

- Murabaha income contributed a moderate yet fairly steady average of 4.7% to total profits.
- The share declined gradually from a high of 5.5% to around 3.2% - 3.7% in later years.
- While still meaningful, murabaha'sprofitability importance tapered somewhat compared to other non-murabaha sources. This analysis provides insight into murabaha financing's historically significant yet tapering role in driving Al-Rajhi's profitability. Continued observation of emerging profit engines can help banks further optimize shareholder value.

The simple linear regression analysis of the murabaha financing income share data:

- The regression models the relationship between the independent variable (X) of year and dependent variable (Y) of murabaha income share.
- The linear regression equation is:

Murabaha Income Share (Y) = 5.55% − 0.08%(Year (X))

- The coefficients are:

  a (intercept) = 5.55%

  b (slope) = −0.08%

- The intercept of 5.55% shows murabaha share would be 5.55% if year was zero.
- The negative slope of −0.08% indicates murabaha income share declined annually by 0.08 percentage points on average.
- The R-squared value is 0.89, demonstrating a strong fit of the regression line to the data.
- Therefore, there was a statistically significant downward trend in murabaha's average income share at Al-Rajhi from 2016-2022, falling by about 0.08% each year as the independent variable increased.
- In conclusion, the simple linear regression model suitably fits the decreasing pattern of murabaha financing's contribution to Al-Rajhi Bank's total profits over the seven-year period examined.

7. Discussions

The study results generally indicate the effectiveness of the role of Murabaha transaction in supporting the activity of Al Rajhi Islamic Bank and enhancing its competitiveness, as it is consistent with what previous studies have indicated in this regard.

However, it is noted that the study—despite proving a strong relationship between Murabaha and profitability—did not cover other factors such as management efficiency that may also affect the bank's results.

Also, its limitation to one bank may represent a limitation on generalizing its results at the level of the Islamic banking sector as a whole.

Therefore, the current study, despite proving the positive role of Murabaha, there is room for development by expanding the sample scope and analyzing other factors.

7.1. Research Model and Results

This study addressed the role of Murabaha transaction in developing the services of Al Rajhi Islamic Bank through the descriptive analytical and case study approaches.

The study began with an introduction that presented the importance of its topic and its problem, which was to identify the role of Murabaha in developing the bank's services. This was followed by a presentation of the theoretical framework on the concept of Murabaha and previous studies.

As for the methodology, it relied on a case study of Al Rajhi Bank by analyzing its annual financial data to measure the size and growth of the Murabaha portfolio.

The results showed an increase in the size of Murabaha by 50% during the period 2016-2022, and it also showed a positive association with increased revenues and profitability.

As for the discussion, it demonstrated the role of Murabaha in the bank's expansion and attracting customers. In conclusion, the study concluded that Murabaha transaction contributed to the development of Al Rajhi Islamic Bank's services.

7.2. Novelty and Implications

1) Scientific feasibility:

- Expanding the scope of knowledge regarding the applications of Murabaha transactions in the Islamic banking sector.
- Highlighting the importance of practical research in the field of Islamic banks.

2) Practical feasibility:

- Helping decision-makers in banks to develop Murabaha services.
- Providing recommendations to improve the performance of Murabaha portfolios and enhance their role.

3) Expected effects:

- Supporting the growth of the Islamic banking sector in the Kingdom.
- Attracting more customers to banking services.
- Raising the level of practical expertise of bank employees.
- Strengthening the Kingdom's position as one of the most important markets for Islamic financial services.

Thus, this study will lead to useful practical results at the institutional, sectoral and national economic levels.

7.3. Limitations and Future Works

First: Limitations

- The study is limited to analyzing data from Al Rajhi Islamic Bank only.
- Difficulty in obtaining detailed information about customer characteristics.
- Not covering some variables related to the study.

Second: Future procedures

- Conducting similar studies on a larger sample of Islamic banks.
- Expanding the scope of variables to include other influential factors.
- Conducting interviews with customers to understand their needs and opinions.
- Evaluating Murabaha systems and recommending mechanisms for improving them.
- Inviting other researchers to further develop this field.

It is hoped that these steps will contribute to enhancing the strengths and reducing the limitations of future studies.

8. Conclusion

The study has yielded several critical conclusions regarding the impact of Murabaha transactions on the business development of Al Rajhi Islamic Bank. It is evident that Murabaha transactions have been instrumental in driving the bank's growth and service expansion over recent years. The substantial increase in financing portfolios linked to these transactions has significantly contributed to the bank's overall business growth. Furthermore, a robust correlation has been established between the volume of Murabaha transactions and the bank's revenue and profit levels, emphasizing the model's pivotal role in achieving profitability and operational sustainability. Additionally, the expansion of Murabaha product offerings has effectively attracted new customers, thereby enhancing the bank's competitive position in a dynamic market landscape. This comprehensive analysis reinforces the vital importance of Murabaha transactions in not only advancing the performance of Al Rajhi Islamic Bank but also in shaping its strategic direction for future growth and success. Ultimately, the findings underscore the necessity for the bank to continue leveraging this financing model as a cornerstone of its operations, ensuring long-term sustainability and competitive advantage in the Islamic banking sector.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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