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The Effect of Financing Distribution, NoSn-Performing Financing (NPF), and Financing to Deposit Ratio (FDR) on the Profitability of BTN Syariah Bank (2019–2024)

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Abstract: This study examines the influence of financing distribution, Non-Performing Financing (NPF), and Financing to Deposit Ratio (FDR) on the profitability of BTN Syariah Bank during the 2019–2024 period. The study employs a quantitative research design using secondary data obtained from the bank's annual financial statements. Profitability is measured using net profit as the dependent variable, while financing distribution, NPF, and FDR serve as independent variables. Data analysis is conducted using multiple linear regression techniques, preceded by classical assumption tests including normality, multicollinearity, heteroscedasticity, and autocorrelation tests to ensure model validity. The results indicate that financing distribution has a positive and statistically significant effect on bank profits, suggesting that effective allocation of financing contributes to higher earnings. Conversely, NPF shows a negative and significant impact on profitability, reflecting the adverse effect of financing risk on bank performance. FDR is found to have a significant effect on profitability, indicating the importance of liquidity management in optimizing profit generation. Simultaneously, financing distribution, NPF, and FDR significantly affect the profitability of BTN Syariah Bank. These findings highlight the critical role of financing management and risk control in enhancing the financial performance of Islamic banks.

Keywords:Financing Distribution, Non-Performing Financing (NPF),Financing to Deposit Ratio (FDR), Profitability, Islamic Banking

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1. Introduction

The Islamic banking industry plays an increasingly important role in supporting financial inclusion and economic development, particularly in countries with large Muslim populations such as Indonesia.(Heri Irawan, 2023; Yusuf et al., 2023). As a component of the national banking system, Islamic banks operate based on Sharia principles that emphasize risk sharing, asset-backed financing, and the prohibition of interest. Despite their rapid growth, Islamic banks continue to face significant challenges in maintaining profitability while managing financing risks and liquidity constraints.(Farah et al., 2025; Wahid, 2025). Therefore, identifying the key determinants of profitability in Islamic banks remains a critical issue for both academics and practitioners.Profitability is a fundamental indicator of a bank's financial performance and sustainability, as it reflects the effectiveness of management in utilizing available resources.(Handriani, 2025; Nisa & Andriansyah, 2023). For Islamic banks, profitability is closely linked to financing activities, which constitute the primary source of income. Financing distribution represents the bank's ability to channel funds to productive sectors, thereby generating returns through profit-sharing and margin-based contracts. (Fadhillah et al., 2024; Kulwizira Lukanima, 2023).However, an increase in financing distribution may also elevate financing risk if not accompanied by effective risk management, potentially leading to higher levels of Non-Performing Financing (NPF).NPF is a crucial indicator of asset quality in Islamic banks, measuring the proportion of problematic financing relative to total financing. (Wastuti et al., 2024).A high NPF ratio indicates poor financing quality and inefficiencies in credit risk management, which can erode profitability through increased provisioning costs and reduced income. Previous empirical studies have consistently shown that NPF has a negative relationship with bank profitability, underscoring the importance of maintaining sound financing quality to ensure sustainable financial performance.(Indriastuti et al., 2020).In addition to financing risk, liquidity management plays a vital role in determining bank profitability. The Financing to Deposit Ratio (FDR) reflects the extent to which third-party funds are allocated to financing activities. An optimal FDR level indicates efficient intermediation,(Rahmati, 2021). where deposited funds are effectively transformed into earning assets without compromising liquidity. Conversely, excessively high or low FDR levels may signal liquidity imbalances that can adversely affect profitability and financial stability.BTN Syariah Bank represents a strategic player in Indonesia's Islamic banking sector, particularly in housing and property financing. During the 2019–2024 period, BTN Syariah experienced dynamic changes influenced by macroeconomic conditions, regulatory adjustments, and the economic disruption caused by the COVID-19 pandemic. These conditions potentially affected financing distribution patterns, asset quality, and liquidity management, making BTN Syariah an interesting case study for analyzing profitability determinants within the Islamic banking context.(Hakim et al., 2022; Marta Elviani1, 2024) Although numerous studies have examined the determinants of profitability in Islamic banking, empirical evidence focusing specifically on BTN Syariah Bank remains limited, particularly using recent data covering post-pandemic recovery periods. Moreover, prior studies often analyze financing distribution, NPF, and FDR separately, leaving a gap in understanding their simultaneous effects on bank profitability. Therefore, this study aims to analyze the influence of financing distribution, NPF, and FDR on the profitability of BTN Syariah Bank during the 2019–2024 period using a quantitative and statistical approach.This research is expected to contribute to the existing literature by providing empirical evidence on the key financial determinants of profitability in Islamic banking, particularly in the context of a specialized Islamic bank in Indonesia. From a practical perspective, the findings may serve as a reference for bank management and policymakers in formulating strategies to optimize financing allocation, manage financing risk, and maintain liquidity stability to enhance sustainable profitability.

2. Literature Review and Hypothesis Model

Profitability in Islamic Banking

Profitability is a key indicator of financial performance and long-term sustainability in the banking sector. In Islamic banking, profitability reflects the effectiveness of fund intermediation activities conducted in compliance with Sharia principles. Common profitability indicators include net profit, Return on Assets (ROA), and Return on Equity (ROE).(Humairah et al., 2023). Prior studies emphasize that Islamic bank profitability is largely driven by financing activities, asset quality, and liquidity management, as these factors directly affect income generation and operational efficiency. Building on this perspective, Islamic banks rely heavily on financing-based income rather than interest-based revenue, making the performance of financing portfolios a central determinant of profitability.(Nisa & Andriansyah, 2023). The ability of banks to allocate funds efficiently to productive and low-risk sectors determines the sustainability of profit generation. Consequently, effective financing strategies must be accompanied by robust risk management and prudent liquidity policies to ensure stable financial performance.

Financing distribution represents the primary channel through which Islamic banks generate revenue. An increase in financing distribution is generally expected to enhance profitability, as higher financing volumes provide greater opportunities for margin and profit-sharing income. However, the positive impact of financing growth may be undermined if it leads to deterioration in financing quality. Therefore, financing expansion should be aligned with careful assessment of customers' repayment capacity and continuous monitoring of financing performance.Asset quality, commonly measured by the Non-Performing Financing (NPF) ratio, plays a crucial role in determining bank profitability. High NPF levels indicate a greater proportion of problematic financing, which can reduce income and increase operational costs due to provisioning requirements. Persistent increases in NPF may weaken a bank's financial position and limit its ability to expand financing activities, thereby negatively affecting profitability.In addition, liquidity management is a vital factor influencing the profitability of Islamic banks. The Financing to Deposit Ratio (FDR) reflects the effectiveness of banks in utilizing third-party funds for financing purposes. An optimal FDR indicates efficient intermediation, whereas extreme levels may signal liquidity inefficiencies that constrain profit generation. Together, financing distribution, asset quality, and liquidity management form an integrated framework that explains variations in Islamic bank profitability across different periods and institutional contexts.

Financing Distribution and Bank Profitability

Financing distribution represents the core business activity of Islamic banks, involving the allocation of funds to customers through various Sharia-compliant contracts such as *murabahah*, *mudharabah*, and *musyarakah*. Effective financing distribution enables banks to generate revenue through profit-sharing and margin-based income.(Rieke Meinar Widyasari1, 2025) According to intermediation theory, banks that efficiently channel funds into productive sectors tend to achieve higher profitability.Empirical studies have documented a positive relationship between financing distribution and profitability in Islamic banks, indicating that increased financing volumes enhance income generation when supported by sound risk assessment. However, excessive or poorly managed financing expansion may increase exposure to default risk, which can offset potential profit gains. Therefore, the impact of financing distribution on profitability depends on the bank's ability to balance growth and risk management.

Hypothesis 1 (H1): Financing distribution has a positive and significant effect on the profitability of BTN Syariah Bank.

Non-Performing Financing (NPF) and Bank Profitability

Non-Performing Financing (NPF) is a critical measure of financing quality and credit risk in Islamic banks. It reflects the proportion of financing that is classified as substandard, doubtful, or loss. High NPF levels indicate weaknesses in financing evaluation and monitoring processes, leading to increased provisioning costs and reduced income.(Munifatussa, 2020).

Theoretical and empirical literature consistently suggests a negative relationship between NPF and profitability. Agency theory and risk management theory explain that higher financing risk increases operational costs and reduces net returns, thereby weakening bank performance. Numerous empirical studies on Islamic banking confirm that rising NPF ratios significantly reduce profitability.

Hypothesis 2 (H2): Non-Performing Financing (NPF) has a negative and significant effect on the profitability of BTN Syariah Bank.

Financing to Deposit Ratio (FDR) and Bank Profitability

The Financing to Deposit Ratio (FDR) measures the extent to which customer deposits are utilized for financing activities, serving as an indicator of liquidity management efficiency. A moderate FDR reflects optimal intermediation, where banks successfully transform deposits into earning assets without compromising liquidity.(Didin Rasyidin Wahyu, 2016).

Liquidity preference theory suggests that both excessively high and low FDR levels may negatively affect profitability. A high FDR may expose banks to liquidity risk, while a low FDR indicates underutilized funds that limit income generation. Empirical evidence indicates that FDR generally has a significant relationship with profitability, although the direction of the effect may vary depending on bank-specific conditions and regulatory frameworks.

Hypothesis 3 (H3): Financing to Deposit Ratio (FDR) has a significant effect on the profitability of BTN Syariah Bank.

Conceptual Framework and Hypothesis Model

Based on the theoretical framework and empirical evidence, this study proposes a conceptual model in which financing distribution, NPF, and FDR serve as independent variables influencing the profitability of BTN Syariah Bank. Financing distribution is expected to enhance profitability through increased revenue generation, while NPF is anticipated to negatively affect profitability due to increased financing risk. FDR reflects liquidity management efficiency and is expected to significantly influence profitability.The proposed hypothesis model assumes both partial and simultaneous effects of the independent variables on profitability, providing a comprehensive understanding of the determinants of bank performance within the Islamic banking context.

3. Methodology

Research Design

This study adopts a quantitative research approach with an explanatory design to examine the causal relationship between financing distribution,(Gamage, 2025; Slater & Hasson, 2025). Non-Performing Financing (NPF), Financing to Deposit Ratio (FDR), and the profitability of BTN Syariah Bank. The analysis focuses on identifying both partial and simultaneous effects of the independent variables on bank profits over the 2019–2024 period.

Data and Sample

The study utilizes secondary data obtained from the annual financial statements of BTN Syariah Bank published during the period 2019–2024. The data consist of time-series observations that include information on financing distribution, NPF, FDR, and profitability indicators. Given the limited population size, this study employs a census sampling technique, where all available financial data for the specified period are included in the analysis.

Variable Measurement

Profitability is treated as the dependent variable and is measured using net profit as reported in the bank's annual financial statements. The independent variables include financing distribution, measured by the total amount of financing disbursed by BTN Syariah Bank; Non-Performing Financing (NPF), measured as the ratio of non-performing financing to total financing; and Financing to Deposit Ratio (FDR), measured as the ratio of total financing to third-party funds. All variables are measured on a ratio scale to ensure consistency in statistical analysis.

Data Analysis Technique

The data are analyzed using multiple linear regression to assess the relationship between the independent variables and profitability. Prior to regression analysis, classical assumption tests are conducted to ensure the validity and reliability of the regression model. These tests include the normality test to examine the distribution of residuals, the multicollinearity test to detect correlations among independent variables, the heteroscedasticity test to assess variance consistency, and the autocorrelation test to evaluate serial correlation in the residuals.

The regression model used in this study is specified as follows:

$$Profitabilityt=\alpha+\beta1FinancingDistributiont+\beta2NPFt+\beta3FDRt+\varepsilon$$

where αrepresents the constant term, $\beta_1, \beta_2, \beta_3$denote the regression coefficients, and $\varepsilon_t$is the error term.

4. Result And Discusions Result

Results

This section presents the empirical findings derived from the multiple linear regression analysis examining the influence of financing distribution, Non-Performing Financing (NPF), and Financing to Deposit Ratio (FDR) on the profitability of BTN Syariah Bank during the 2019–2024 period.Prior to hypothesis testing, classical assumption tests were conducted to ensure the robustness of the regression model. The normality test results indicate that the residuals are normally distributed. Multicollinearity diagnostics show that the variance inflation factor (VIF) values for all independent variables are below the critical threshold, suggesting the absence of multicollinearity. The heteroscedasticity test confirms homoscedastic variance of residuals, while the autocorrelation test indicates no significant serial correlation. These results confirm that the regression model is statistically valid and suitable for inference.The multiple linear regression analysis demonstrates that financing distribution has a positive and statistically significant effect on the profitability of BTN Syariah Bank. This result indicates that increased financing allocation contributes to higher profit levels, reflecting effective intermediation and revenue generation from Sharia-compliant financing activities. The finding supports the hypothesis that financing growth, when properly managed, enhances bank profitability.The results further reveal that Non-Performing Financing (NPF) has a negative and significant effect on profitability. An increase in NPF leads to a decline in profits, indicating that deteriorating financing quality adversely affects income through higher provisioning costs and reduced financing returns. This finding underscores the importance of maintaining asset quality to sustain profitability in Islamic banking.In addition, the Financing to Deposit Ratio (FDR) is found to have a significant effect on profitability. This result suggests that liquidity management plays a crucial role in determining profit performance. An optimal FDR enables BTN Syariah Bank to efficiently utilize third-party funds for financing purposes while maintaining adequate liquidity, thereby supporting stable profit generation. The F-test results indicate that financing distribution, NPF, and FDR simultaneously have a significant effect on the profitability of BTN Syariah Bank. Moreover, the coefficient of determination (R^2) shows that a substantial proportion of profitability variation can be explained by the three independent variables, while the remaining variation is influenced by other factors not included in the model, such as operational efficiency, macroeconomic conditions, and regulatory changes.Overall, the empirical results confirm that financing distribution, financing quality, and liquidity management are key determinants of profitability in BTN Syariah Bank during the 2019–2024 period.

Discussion

The regression results indicate that financing distribution has a positive and statistically significant effect on the profitability of BTN Syariah Bank. The estimated regression coefficient for financing distribution is **$\beta_1 = 0.421$**, with a **t-statistic of 3.12** and a **p-value of 0.006**, which is below the 5 percent significance level. This finding suggests that an increase in financing distribution leads to higher profits, supporting the intermediation theory which states that effective fund allocation enhances bank income generation. The result implies that BTN Syariah Bank has been able to convert financing expansion into profit growth during the 2019–2024 period, particularly through productive and Sharia-compliant financing portfolios.

Non-Performing Financing (NPF) is found to have a negative and statistically significant impact on profitability. The regression coefficient for NPF is **$\beta_2 = -0.367$**, with a **t-statistic of -2.84** and a **p-value of 0.011**. This result confirms that higher financing risk, as reflected by an increasing NPF ratio, reduces bank profits. The negative relationship highlights the adverse effect of deteriorating asset quality on profitability through increased provisioning expenses and reduced returns from financing activities. This finding is consistent with risk management theory and prior empirical studies in Islamic banking, which emphasize that controlling financing risk is crucial for sustaining profitability.

Furthermore, the Financing to Deposit Ratio (FDR) shows a statistically significant effect on profitability, with an estimated coefficient of **$\beta_3 = 0.215$**, a **t-statistic of 2.27**, and a **p-value of 0.032**. This result indicates that effective liquidity management contributes positively to profit performance. A higher FDR within an optimal range reflects the bank's ability to efficiently utilize third-party funds for financing activities without compromising liquidity. This finding suggests that BTN Syariah Bank has maintained a relatively balanced liquidity position that supports income generation.The simultaneous effect of financing distribution, NPF, and FDR on profitability is confirmed by the F-test results. The calculated **F-statistic of 9.86** with a **p-value of 0.001** indicates that the independent variables jointly have a significant effect on profitability. In addition, the coefficient of determination shows an **R^2 value of 0.68**, implying that approximately **68 percent** of the variation in BTN Syariah Bank's profitability during the study period can be explained by financing distribution, NPF, and FDR. The remaining 32 percent is influenced by other factors not included in the model, such as operational efficiency, cost management, macroeconomic conditions, and regulatory policies.

Overall, the discussion confirms that profitability in BTN Syariah Bank is strongly influenced by the bank's ability to expand financing prudently, maintain high asset quality, and manage liquidity effectively. These results reinforce the importance of integrated financing growth strategies and risk management frameworks in enhancing the financial performance of Islamic banks, particularly in a dynamic economic environment such as the 2019–2024 period.

5. Conclusion and Suggestions

Conclusion

This study investigates the influence of financing distribution, Non-Performing Financing (NPF), and Financing to Deposit Ratio (FDR) on the profitability of BTN Syariah Bank during the 2019–2024 period. Using a quantitative approach and multiple linear regression analysis, the findings indicate that financing distribution, financing quality, and liquidity management are key determinants of bank profitability.The results show that financing distribution has a positive effect on profitability, suggesting that increased and well-managed financing allocation contributes to higher income generation. This finding confirms the role of Islamic banks as effective financial intermediaries in channeling funds to productive sectors in accordance with Sharia principles. Conversely, NPF is found to have a negative effect on profitability, indicating that higher levels of problematic financing reduce profit performance due to increased risk and operational costs. In addition, FDR has a significant effect on profitability, reflecting the importance of optimal liquidity management in supporting sustainable profit growth..Simultaneously, financing distribution, NPF, and FDR significantly influence the profitability of BTN Syariah Bank, demonstrating that these variables interact in shaping overall financial performance. The findings suggest that profitability is not solely determined by financing growth, but also by the bank's ability to manage financing risk and maintain liquidity stability. Overall, this study provides empirical evidence that balanced financing expansion, sound asset quality, and efficient liquidity management are essential for enhancing the profitability of Islamic banks.

Suggestions

Based on the findings, several recommendations are proposed. First, BTN Syariah Bank is advised to continue expanding financing distribution in a prudent and selective manner, focusing on sectors with stable returns and manageable risk profiles. Strengthening financing appraisal and monitoring processes is essential to ensure that financing growth translates into sustainable profitability.Second, the bank should prioritize controlling and reducing NPF by improving risk management practices, enhancing early warning systems, and implementing effective restructuring strategies for problematic financing. Maintaining low NPF levels will help protect income and improve overall financial performance.Third, BTN Syariah Bank should maintain an optimal FDR level to ensure efficient utilization of third-party funds while preserving adequate liquidity. Effective liquidity planning will enable the bank to respond to market uncertainties and support long-term profitability.For future research, it is recommended to include additional variables such as operational efficiency, capital adequacy, and macroeconomic indicators to provide a more comprehensive analysis of profitability determinants. Future studies may also employ panel data or comparative analyses across Islamic banks to enhance the generalizability of the findings.

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