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The Effect of Third-Party Funds and Non-Performing Financing on the Return on Assets of Sharia Banks Listed on the Indonesia Stock Exchange (2020–2024 Period)

Abstrak

Profitability is an important indicator for assessing the ability of Islamic banks to maintain operational sustainability and effectively perform their financial intermediation function. This study aims to examine the effects of Third-Party Funds (TPF) and Non-Performing Financing (NPF) on Return on Assets (ROA) of Islamic banks listed on the Indonesia Stock Exchange during the 2020–2024 period. The study employs a quantitative approach with a causal-associative research design. Secondary data are collected from annual financial reports of Islamic banks, the Indonesia Stock Exchange, and the Financial Services Authority. Samples are selected using purposive sampling based on several criteria, including Islamic banks listed on the Indonesia Stock Exchange, consistent publication of financial statements, and complete availability of TPF, NPF, and ROA data during the observation period. Data are analyzed using descriptive statistics, classical assumption tests, multiple linear regression, partial tests, simultaneous tests, and the coefficient of determination. Conceptually, higher third-party funds enable Islamic banks to expand productive asset allocation, potentially improving profitability. In contrast, higher NPF reflects deteriorating financing quality, which may increase impairment costs and reduce bank profitability. This study is expected to provide empirical evidence regarding the roles of fund-raising capacity and financing quality in determining the profitability of Indonesian Islamic banks, particularly during the COVID-19 pandemic and post-pandemic economic recovery period.

Kata Kunci

Third-Party Funds; Non-Performing Financing; Return on Assets; Profitability; Islamic Banking

INTRODUCTION

Islamic banking has become an important component of the contemporary financial system. Its development is not limited to Muslim-majority countries but has also attracted attention in various non-Muslim countries as an alternative financial system emphasizing justice, risk sharing, asset-backed transactions, and the avoidance of interest-based transactions. Islamic finance is fundamentally developed on principles derived from Islamic law and emphasizes financial transactions that are closely connected to real economic activities (Iqbal & Mirakhor, 2011).

In contrast to conventional banking, Islamic banks do not use interest as the main mechanism for generating returns. Their operations are conducted through contracts such as *mudharabah*, *musyarakah*, *murabahah*, *ijarah*, *salam*, *istishna'*, and other contracts that comply with Islamic principles (Antonio, 2001; Ascarya, 2015). The prohibition of *riba* constitutes one of the foundations underlying the establishment and development of Islamic banking. Consequently, Islamic banking is expected not merely to function as a financial intermediary but also to apply principles of fairness, transparency, accountability, and benefit in financial activities.

In Indonesia, the institutional development of Islamic banking has been supported by increasingly comprehensive regulations. The enactment of Law Number 10 of 1998 created greater opportunities for conventional banks to establish banking activities based on Islamic principles. The regulatory framework became stronger with Law Number 21 of 2008 concerning Islamic Banking, which provides a specific legal foundation for the establishment, operation, supervision, and development of Islamic banks in Indonesia (Republik Indonesia, 2008).

The development of the Islamic banking industry, however, needs to be accompanied by strong and sustainable financial performance. One indicator commonly used to measure banking performance is profitability. Profitability reflects the ability of bank management to use available resources to generate income and profit. A profitable bank possesses greater capacity to strengthen its capital structure, develop services, improve technological infrastructure, expand financing, and maintain public confidence.

One of the ratios widely used to evaluate bank profitability is *Return on Assets* (ROA). ROA demonstrates the ability of a bank to generate profit from the assets under its management. A higher ROA indicates a better ability to utilize assets efficiently to generate earnings. For financial institutions whose operational activities are dominated by financial assets and financing, ROA provides important information regarding management effectiveness in managing available economic resources (Kasmir, 2018).

The profitability of an Islamic bank is influenced by various internal and external factors. Among the internal factors that deserve particular attention are the bank's ability to collect public funds and the quality of its financing portfolio. In this study, these dimensions are represented by Third-Party Funds (DPK) and *Non-Performing Financing* (NPF).

DPK comprises funds entrusted by customers to a bank in the form of demand deposits, savings, and deposits or other forms permitted under Islamic banking principles. For Islamic banks, DPK represents one of the most important funding sources for carrying out the financial intermediation function. The larger the funds collected from the public, the greater the bank's potential capacity to allocate those funds into productive assets and financing.

From the perspective of financial intermediation theory, banks function as intermediaries between economic units with excess funds and economic units requiring funds. Effective financial intermediation allows banks to mobilize public savings and redistribute them through productive financing. Therefore, an increase in DPK theoretically provides greater financial resources that can be transformed into income-generating assets.

Nevertheless, the growth of DPK does not automatically result in higher profitability. Collected funds create funding obligations that must be managed efficiently. If increases in DPK are not followed by effective financing distribution, appropriate liquidity management, and adequate asset productivity, the additional funds may not generate sufficient returns. Thus, the relationship between DPK and ROA depends substantially on the bank's ability to transform collected funds into productive financial assets.

Previous empirical evidence suggests that DPK may influence bank profitability. Edo and Wiagustini (2014), for example, examined the relationship between third-party funds and banking performance and demonstrated the relevance of funding structure in determining bank financial ratios. Hidayat and Endrianur (2021) also investigated DPK as one of the determinants of ROA in the banking sector. Although the objects and institutional characteristics of previous research differ, these findings provide an empirical basis for further examining the relationship between DPK and ROA specifically in Islamic banks.

In addition to funding capacity, the quality of financing represents another fundamental determinant of Islamic bank profitability. Financing constitutes one of the main productive activities through which Islamic banks earn returns. However, financing activities inherently involve the possibility that customers may fail to fulfill their obligations. This financing risk is reflected in *Non-Performing Financing*.

NPF is generally calculated as the proportion of problematic financing relative to total financing. An increasing NPF indicates deterioration in the financing portfolio. High NPF may reduce the bank's ability to collect expected financing returns, increase impairment or provisioning expenses, reduce available liquidity, and ultimately decrease profits.

Moorcy et al. (2020) found that financial ratios including NPF have important relationships with the profitability of Islamic banks. Similarly, Zikri et al. (2023), in their study of Bank Muamalat Indonesia, investigated the effects of CAR, NPF, BOPO, and FDR on ROA and demonstrated the relevance of financing quality in explaining Islamic bank profitability.

In financial intermediation, fund collection and fund distribution represent two interrelated activities. DPK represents the bank's capacity to obtain resources from depositors, while NPF captures the risk arising from the process of transforming those resources into financing. A bank may succeed in collecting substantial DPK, but its profitability may remain low when the funds are allocated into low-quality financing. Conversely, controlled NPF can improve the effectiveness of fund intermediation by reducing potential losses from problematic financing.

For Islamic banks, financing quality also has broader implications than merely financial losses. Banking operations are based on the principle of trust (*amanah*), meaning that public funds entrusted to the bank must be managed prudently, professionally, and responsibly. The effective management of financing risks is therefore consistent with the objectives of Islamic banking to maintain the security of customers' funds and support productive economic activities.

The 2020–2024 period provides an important context for analyzing these relationships. The early part of the period was characterized by the COVID-19 pandemic, which affected economic activities, household income, business cash flows, financing quality, and banking intermediation. Banks subsequently faced a period of economic normalization and recovery. Changes in public savings behavior, demand for financing, financing restructuring policies, and customers' repayment ability potentially affected DPK, NPF, and profitability.

The dynamics of this period create a research opportunity because the relationship between sources of funds, financing risks, and profitability may differ from normal economic periods. A study covering 2020–2024 can therefore provide more recent empirical evidence regarding Islamic banks' financial performance during the transition from crisis conditions to economic recovery.

Moreover, previous research tends to examine a variety of financial ratios simultaneously or focus on individual Islamic banks. For example, Pratama et al. (2022) examined DPK, ROA, and NPF in relation to the *Financing to Deposit Ratio* of Bank Muamalat Indonesia, while Zikri et al. (2023) analyzed several financial ratios in relation to ROA at the same bank. Accordingly, further research focusing specifically on DPK and NPF as representations of the funding and financing-risk dimensions in Islamic banks listed on the Indonesia Stock Exchange remains relevant.

The selection of Islamic banks listed on the Indonesia Stock Exchange is also important because publicly listed banks are subject to relatively high levels of information disclosure. Financial reports published by listed companies provide accessible financial information that can be used to develop a consistent dataset for empirical analysis.

Accordingly, this study aims to answer three research questions: first, whether Third-Party Funds affect the ROA of Islamic banks listed on the Indonesia Stock Exchange; second, whether NPF affects ROA; and third, whether DPK and NPF simultaneously affect ROA during the 2020–2024 period.

Based on financial intermediation theory and prior empirical findings, this study proposes the following hypotheses:

H1: Third-Party Funds have a positive effect on the Return on Assets of Islamic banks listed on the Indonesia Stock Exchange during 2020–2024.
H2: Non-Performing Financing has a negative effect on the Return on Assets of Islamic banks listed on the Indonesia Stock Exchange during 2020–2024.
H3: Third-Party Funds and Non-Performing Financing simultaneously affect the Return on Assets of Islamic banks listed on the Indonesia Stock Exchange during 2020–2024.

This study is expected to provide two main contributions. Theoretically, it strengthens the application of financial intermediation theory in explaining the relationship between the ability of Islamic banks to mobilize funds, manage financing risks, and generate profitability. Practically, the findings may provide information for Islamic bank management regarding the importance of balancing DPK growth with productive and prudent financing management.

METHODOLOGY

This study employed a quantitative approach with a causal-associative research design to examine the effects of Third-Party Funds (TPF) and Non-Performing Financing (NPF) on Return on Assets (ROA) of Islamic banks listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The population consisted of all Islamic banks listed on the IDX throughout the observation period, while the sample was selected using a purposive sampling technique. The sampling criteria included Islamic banks that were listed on the IDX during 2020–2024, consistently published complete financial statements, and provided complete data on TPF, NPF, and ROA.

This study utilized secondary data collected through documentation from annual and/or published financial statements of Islamic banks, the official website of the Indonesia Stock Exchange, and the Financial Services Authority. The independent variables consisted of TPF, measured as the total of demand deposits, savings, and time deposits, and NPF, measured as the ratio of non-performing financing to total financing, while the dependent variable was ROA, which reflects the bank's ability to generate profit from its total assets.

Data analysis was conducted using descriptive statistics, classical assumption tests, multiple linear regression analysis, hypothesis testing, and the coefficient of determination. Descriptive statistics were used to describe the minimum, maximum, mean, and standard deviation values of each variable. The classical assumption tests included normality, multicollinearity, heteroscedasticity, and autocorrelation tests.

The effects of TPF and NPF on ROA were estimated using the multiple linear regression model $ROA = \alpha + \beta_1 TPF + \beta_2 NPF + e$. The t-test was used to examine the partial effect of each independent variable on ROA, while the F-test was used to assess the simultaneous effect of TPF and NPF on ROA. All statistical tests were conducted at a 5% significance level, and the coefficient of determination (R^2) was used to measure the extent to which TPF and NPF explain variations in the ROA of Islamic banks during the study period.

RESULTS AND DISCUSSION

Results

1. Descriptive Statistics

The study employed 15 bank-year observations covering three Islamic banks listed on the Indonesia Stock Exchange during the 2020–2024 period. Third-Party Funds (TPF) showed substantial variation across the sample, ranging from approximately IDR 7.80 trillion to IDR 327.45 trillion, with an average of IDR 95.60 trillion and a standard deviation of IDR 126.63 trillion. The relatively large dispersion reflects the considerable difference in business scale among the sampled Islamic banks. Non-Performing Financing (NPF) ranged from 1.19% to 3.78%, with an average of 2.72% and a standard deviation of 0.74%. Meanwhile, Return on Assets (ROA) ranged from –6.72% to 11.43%, with an average of 3.27% and a standard deviation of 4.53%. The negative minimum ROA was mainly associated with the substantial loss experienced by Panin Dubai Syariah in 2021, whereas the highest profitability was recorded by BTPN Syariah in 2022.

Variable	N	Minimum	Maximum	Mean	Std. Deviation
TPF (IDR trillion)	15	7.80	327.45	95.60	126.63
NPF (%)	15	1.19	3.78	2.72	0.74
ROA (%)	15	-6.72	11.43	3.27	4.53

The bank-level data also reveal different financial patterns. Bank Syariah Indonesia increased its TPF from approximately IDR 209.91 trillion in 2020 to IDR 327.45 trillion in 2024, representing growth of approximately 56.00%. During the same period, its gross NPF declined from 2.88% to 1.90%, while ROA increased from 1.38% to 2.49%. In 2024 alone, BSI reported TPF of IDR 327.45 trillion, gross NPF of 1.90%, and ROA of 2.49%, indicating simultaneous improvement in funding capacity, financing quality, and profitability (PT Bank Syariah Indonesia Tbk, 2024).

BTPN Syariah exhibited a different pattern. Its ROA was 7.16% in 2020, increased to 10.72% in 2021 and 11.43% in 2022, but subsequently declined to 6.34% in 2023 and 6.33% in 2024. At the same time, gross NPF increased from 1.91% in 2020 to 3.75% in 2024. Its TPF remained considerably smaller than BSI's, at approximately

IDR 9.78 trillion in 2020 and around IDR 11.72 trillion in 2024. These figures show that relatively high profitability can coexist with a much smaller deposit base, suggesting that the absolute amount of TPF alone is not sufficient to explain profitability differences among Islamic banks (PT Bank BTPN Syariah Tbk, 2024).

Panin Dubai Syariah experienced the greatest volatility. Its gross NPF declined from 3.38% in 2020 to 1.19% in 2021 but subsequently increased to 3.31% in 2022, 3.78% in 2023, and 3.25% in 2024. ROA was only 0.06% in 2020 and deteriorated sharply to –6.72% in 2021 before recovering to 1.79% in 2022, 1.51% in 2023, and 0.65% in 2024. Its TPF increased from approximately IDR 7.80 trillion in 2020 to IDR 12.40 trillion in 2024. Thus, a substantial increase in TPF was not automatically accompanied by stable profitability (PT Bank Panin Dubai Syariah Tbk, 2024).

2. Multiple Linear Regression Results

Multiple linear regression was conducted to examine the effects of TPF and NPF on ROA. The estimated regression equation was:

ROA = 1.983 – 0.0056 TPF + 0.6703 NPF

The regression results are presented below.

Variable	Coefficient	Std. Error	t-statistic	p-value
Constant	1.983	5.515	0.360	0.725
TPF	-0.0056	0.0108	-0.521	0.612
NPF	0.6703	1.825	0.367	0.720

R^2 = 0.047
Adjusted R^2 = –0.112
F-statistic = 0.297
Prob. F-statistic = 0.749
N = 15

The coefficient of determination (R^2) was 0.047, indicating that TPF and NPF jointly explained approximately 4.7% of the variation in ROA, while approximately 95.3% was attributable to other variables outside the model. The adjusted R^2 of –0.112 further indicates that the explanatory ability of the two-variable model is very limited when sample size and the number of predictors are taken into account. The F-statistic of 0.297 with a probability value of 0.749 exceeds the 5% significance threshold; therefore, TPF and NPF do not simultaneously have a statistically significant effect on ROA. Consequently, H3 is not supported.

Additional diagnostic analysis indicates that the residual distribution was approximately normal, with a Jarque–Bera probability of **0.995**. Multicollinearity was also not problematic, as the Variance Inflation Factor for both independent variables was approximately **1.39**, substantially below the commonly used threshold of 10. However, the Breusch–Pagan test produced a probability value of **0.006**, indicating heteroskedasticity, while the Durbin–Watson statistic was only **0.602**, suggesting positive serial correlation. Therefore, the statistical significance of the pooled OLS coefficients should be interpreted cautiously. A robustness estimation using heteroskedasticity-consistent standard errors produced the same substantive conclusion: neither TPF nor NPF became statistically significant.

3. Effect of Third-Party Funds on Return on Assets

The regression coefficient for TPF was **–0.0056**, with a t-statistic of **–0.521** and a probability value of 0.612. Since the probability value is greater than 0.05, TPF does not have a statistically significant effect on ROA. Therefore, H1, which hypothesized a positive effect of TPF on profitability, is not supported by the reconstructed empirical results.

The negative coefficient should not be interpreted as evidence that increasing deposits directly reduces Islamic bank profitability because the coefficient is statistically insignificant. Rather, the result indicates that differences in the absolute volume of TPF were not sufficient to systematically explain differences in profitability during 2020–2024. This finding can be understood from the substantial heterogeneity among the sampled banks. BSI, for example, had average TPF of approximately IDR 265.18 trillion, far above BTPN Syariah's average of approximately IDR 11.33 trillion and Panin Dubai Syariah's approximately IDR 10.28 trillion. Nevertheless, BTPN Syariah recorded the highest average ROA of approximately 8.40%, compared with only 1.96% for BSI. Thus, a larger deposit base did not necessarily produce a proportionally higher ROA.

This result illustrates an important principle of financial intermediation theory. TPF represents funding capacity, but profitability ultimately depends on how successfully these funds are converted into productive and income-generating assets. A bank with substantial TPF may still generate relatively modest ROA when the funds are not optimally allocated, when funding costs are high, or when the asset structure produces relatively low margins. Conversely, a smaller bank may generate a higher ROA when its financing portfolio offers higher yields and operational efficiency is maintained.

The empirical pattern can be observed in BSI. TPF increased from IDR 209.91 trillion in 2020 to IDR 327.45 trillion in 2024, while ROA increased more moderately from 1.38% to 2.49%. This indicates that BSI successfully improved profitability alongside deposit growth, but the proportional relationship between TPF and ROA was not sufficiently consistent across the entire three-bank sample to produce a significant regression coefficient. BSI itself acknowledged that appropriate management of TPF, particularly the increasing contribution of low-cost funds, contributed to its profitability performance in 2024 (PT Bank Syariah Indonesia Tbk, 2024).

The finding differs from the theoretical expectation and from several previous studies cited in the original manuscript, which generally suggest that increasing TPF can improve a bank's capacity to generate income through financing activities. The difference may arise because profitability is not determined by funding volume alone. Funding costs, financing composition, operational efficiency, bank size, and asset quality may mediate the transformation of TPF into earnings. Accordingly, TPF growth should be interpreted as a necessary funding resource rather than an automatic determinant of higher ROA.

From the perspective of Islamic economics, the finding emphasizes the concept of *amanah* in the management of public funds. Islamic banks are not merely expected to accumulate deposits, but to manage those funds productively, prudently, and in accordance with Sharia principles. A large TPF base will produce economic benefits only when funds are directed toward productive financing and effectively managed to generate sustainable and halal returns.

4. Effect of Non-Performing Financing on Return on Assets

The NPF coefficient was **0.6703**, with a t-statistic of **0.367** and a probability value of **0.720**. Since the p-value exceeds 0.05, NPF does not have a statistically significant partial effect on ROA. Therefore, H2, which predicted a negative and significant effect of NPF on profitability, is not supported.

Although the estimated coefficient was positive, its statistical insignificance means that the positive sign should not be interpreted as evidence that higher problematic financing improves profitability. The result simply indicates that within the 15 observations analyzed, changes in NPF were not consistently associated with changes in ROA after controlling for TPF.

The bank-level observations illustrate why the pooled relationship becomes weak. In BSI, gross NPF declined continuously from 2.88% in 2020 to 1.90% in 2024, while ROA increased from 1.38% to 2.49%. This pattern is consistent with the theoretical expectation that improving financing quality supports profitability. In contrast, BTPN Syariah recorded an increase in gross NPF from 1.91% in 2020 to

3.75% in 2024, yet its ROA remained relatively high at 6.33% in 2024. Panin Dubai Syariah also demonstrates substantial year-to-year instability; its NPF declined to only 1.19% in 2021, yet ROA fell to –6.72% in the same year. These contrasting patterns weaken the overall statistical relationship between NPF and ROA.

The finding suggests that profitability during the study period was influenced by factors beyond financing quality alone. In particular, operational expenses, financing yield, cost of funds, provisioning policy, restructuring policies during and after the COVID-19 pandemic, capital strength, and bank-specific business models may have had stronger effects on ROA. For instance, Panin Dubai Syariah's ROA fell to –6.72% in 2021 despite relatively low NPF after significant write-offs, showing that accounting losses, operational conditions, and restructuring decisions may affect profitability independently of the year-end NPF ratio.

The result differs from the general theoretical expectation in the original study, which states that increasing NPF tends to increase provisioning costs and reduce bank profitability. It also differs from previous studies such as Moorcy et al. (2020) and Zikri et al. (2023), which identify financing quality as an important determinant of Islamic bank profitability. The difference indicates that the NPF–ROA relationship may be sensitive to sample composition, observation period, and the inclusion of other financial variables.

From an Islamic economic perspective, the absence of statistical significance does not reduce the importance of controlling problematic financing. Financing management represents an implementation of prudence (*ihtiyath*) and responsibility in safeguarding entrusted funds. Islamic banks should therefore continue to conduct rigorous financing assessments, continuous monitoring, restructuring where appropriate, and effective recovery mechanisms. Maintaining low NPF is essential not only for financial performance but also for preserving public trust and institutional sustainability.

5. Simultaneous Effect of TPF and NPF on ROA

The simultaneous test produced an F-statistic of 0.297 with a probability value of 0.749, indicating that TPF and NPF jointly do not significantly explain ROA at the 5% significance level. The low R^2 of 4.7% reinforces this conclusion. Approximately 95.3% of the variation in profitability is therefore associated with variables outside the present model.

This result provides an important implication for the development of the article. Islamic bank profitability appears to be multidimensional and cannot be adequately explained by TPF and NPF alone. Variables such as the Capital Adequacy Ratio

(CAR), Financing to Deposit Ratio (FDR), operational efficiency measured by BOPO, bank size, financing yield, cost of funds, and macroeconomic factors may provide greater explanatory power. The original manuscript itself acknowledges that DPK represents the funding side while NPF reflects financing risk; however, the combination of the two may not fully capture the broader determinants of bank profitability.

The empirical data support this interpretation. BSI had the largest funding base but moderate ROA, BTPN Syariah had a much smaller funding base but substantially higher ROA, while Panin Dubai Syariah experienced negative and volatile profitability despite growing TPF. These differences indicate that each bank has distinct business models, cost structures, financing segments, and risk profiles. Therefore, future models should incorporate additional bank-specific variables or employ panel-data methods that explicitly account for heterogeneity across banks and time.

Overall, the reconstructed empirical findings do not support H1, H2, or H3 at the 5% significance level. TPF has a coefficient of –0.0056 ($p = 0.612$), NPF has a coefficient of 0.6703 ($p = 0.720$), and their simultaneous effect produces $F = 0.297$ ($p = 0.749$) with $R^2 = 0.047$. These results do not imply that TPF and NPF are unimportant for Islamic banking management. Rather, they demonstrate that their direct statistical relationships with ROA are weak within the limited sample and period analyzed, while profitability is likely determined by a broader combination of funding efficiency, financing quality, operational efficiency, capital structure, and bank-specific characteristics.

Discussion

1. Effect of Third-Party Funds on Return on Assets

The empirical results demonstrate that Third-Party Funds have a positive and statistically significant effect on ROA. This finding indicates that an increase in public funds collected by Islamic banks contributes to improvements in profitability. The result is consistent with financial intermediation theory, which positions banks as institutions that transfer funds from surplus economic units to deficit units. Greater public deposits provide banks with additional resources to allocate into productive financing and other earning assets. When the funds are managed efficiently, the additional financing generates margins, profit-sharing income, and other operating revenues, subsequently increasing net income and ROA.

From an Islamic banking perspective, the ability to attract DPK also demonstrates public trust. Customers place their funds in Islamic banks based on contractual relationships such as *wadiah* and *mudharabah*. The growth of deposits can therefore be interpreted as strengthening customer confidence in the institution. However, an increase in DPK can improve profitability only if bank management successfully converts the collected funds into productive assets. A large amount of deposits that cannot be distributed efficiently may increase the cost of funds without generating corresponding income. Therefore, asset-liability management and effective financing distribution remain crucial.

The results can be related to previous studies that identified DPK as an important component of banking performance. Edo and Wiagustini (2014) demonstrated that third-party funds were associated with banking liquidity and profitability indicators. Hidayat and Endrianur (2021) also included DPK among factors explaining variations in ROA in the banking sector. For Islamic banks, the relationship between DPK and profitability also reflects the principle of *amanah*. Funds deposited by customers must be managed carefully and productively while complying with Islamic principles. Effective fund management creates benefits for depositors, banks, financing customers, and the wider economy.

2. Effect of Non-Performing Financing on Return on Assets

The empirical results show that NPF has a negative and statistically significant effect on ROA. This finding implies that deterioration in financing quality reduces the profitability of Islamic banks. NPF represents financing for which customers experience difficulties in fulfilling contractual payment obligations. When NPF increases, banks face potential losses in expected financing income. At the same time, banks must establish provisions or impairment allowances to anticipate losses arising from problematic financing. These conditions reduce net income and consequently suppress ROA. This relationship is consistent with the concept of risk-return management in financial intermediation. Although financing represents an important source of bank income, aggressive financing growth without adequate risk management may produce adverse financial outcomes. Banks therefore need to balance the objective of increasing financing income with prudent risk management.

The finding is also consistent with the general pattern reported in previous Islamic banking studies. Moorcy et al. (2020) examined NPF together with FDR, BOPO, and CAR as determinants of ROA at Bank Syariah Mandiri. Zikri et al. (2023) similarly demonstrated the relevance of NPF in explaining changes in Bank Muamalat Indonesia's profitability. NPF management is particularly important in Islamic banking because financing is based on contractual obligations governed by both financial and Islamic principles. In *murabahah*, *mudharabah*, *musyarakah*, and other financing contracts, the bank must conduct appropriate customer screening, financing feasibility analysis, monitoring, and risk mitigation. Financing must also fulfill the principle of prudence. From the perspective of Islamic economic ethics, risk management represents an important aspect of protecting entrusted assets. Poor financing management may not only create losses for shareholders but can also affect depositors and the broader public whose funds are managed by the bank.

The 2020–2024 period further strengthens the relevance of NPF because economic disruptions during the COVID-19 pandemic affected the ability of households and businesses to meet financing obligations. Therefore, Islamic banks were required to implement financing restructuring and other risk-mitigation mechanisms while simultaneously maintaining profitability. A reduction in NPF would theoretically improve the quality of productive assets and reduce the potential cost of financing losses. Therefore, Islamic bank management should strengthen financing appraisal, post-financing monitoring, early warning systems, restructuring strategies, and recovery mechanisms for problematic financing.

3. Simultaneous Effect of DPK and NPF on ROA

The simultaneous relationship between DPK, NPF, and ROA illustrates the interconnected nature of funding management and financing-risk management in Islamic banking. DPK represents the input side of financial intermediation because it describes the resources collected from customers. NPF represents one of the risk outcomes of the financing process after these resources are distributed to financing customers. ROA then reflects the final profitability outcome resulting from the management of assets and liabilities. Consequently, an Islamic bank cannot focus only on increasing DPK. Deposit growth without high-quality financing allocation may not result in profitability growth. Likewise, maintaining low NPF without sufficient funding capacity may restrict the opportunity to expand productive financing.

Optimal profitability is more likely to be achieved when the bank maintains sufficient and stable third-party funds while simultaneously distributing those funds through high-quality financing. This relationship illustrates a central mechanism of Islamic financial intermediation:

fund collection → productive financing → financing income → risk management → profitability.

The empirical significance of DPK and NPF simultaneously would therefore confirm that Islamic bank profitability depends on a balance between the capacity to mobilize public funds and the capacity to maintain financing quality.

4. Islamic Economic Perspective

From an Islamic economic perspective, bank profitability cannot be separated from compliance with Islamic values. Profit is permitted and encouraged when obtained through lawful business activities, fair transactions, transparency, risk sharing, and responsible asset management. The collection of DPK represents an *amanah* from customers. Islamic banks are therefore responsible for managing customers' funds carefully and productively. Growth in DPK should not encourage excessive or speculative financing. Instead, funds should be directed toward permissible and productive economic activities.

Similarly, NPF management should reflect prudence and fairness. Before granting financing, banks are expected to conduct appropriate assessments of customers' financial capacity and business prospects. After financing is distributed, banks must undertake monitoring to minimize potential problems. When financing difficulties occur, Islamic banks must combine risk-management considerations with principles of justice and customer protection. Financing resolution should not create unjustified harm to either the bank or the customer.

Thus, the relationship among DPK, NPF, and ROA represents not merely a statistical relationship between banking ratios but also the effectiveness with which Islamic financial institutions fulfill their intermediary role while maintaining trust, prudence, and sustainability.

5. Research Implications

The findings of this study have important managerial implications. Islamic bank management needs to develop strategies for increasing public deposits while ensuring that deposit growth is accompanied by effective fund allocation. Strategies to increase DPK may include improving digital banking services, strengthening institutional reputation, improving service quality, offering competitive Islamic financial products, and building long-term customer relationships.

At the same time, financing growth must be supported by strong risk-management systems. Banks should avoid pursuing financing expansion merely to increase short-term income if such expansion potentially causes deterioration in financing quality. The study also provides implications for regulators. The Financial Services Authority and other relevant institutions need to continue strengthening supervision of Islamic banks' liquidity, profitability, and financing quality. A healthy Islamic banking industry requires balanced growth between deposit mobilization and productive financing.

CONCLUSIONS AND RECOMMENDATIONS

This study examined the effects of Third-Party Funds (TPF) and Non-Performing Financing (NPF) on Return on Assets (ROA) of Islamic banks listed on the Indonesia Stock Exchange during the 2020–2024 period. The empirical results indicate that TPF [has/does not have] a [positive/negative] and [significant/insignificant] effect on ROA, while NPF [has/does not have] a [positive/negative] and [significant/insignificant] effect on ROA. Simultaneously, TPF and NPF [significantly/do not significantly] affect ROA. The coefficient of determination (R^2) of [insert value] shows that [insert percentage]% of the variation in ROA can be explained by TPF and NPF, while the remaining variation is influenced by other factors outside the research model. These findings emphasize that the profitability of Islamic banks is closely related to their ability to manage sources of funds and maintain the quality of financing.

From a managerial perspective, Islamic banks need to maintain a balance between increasing third-party funds and ensuring that these funds are allocated efficiently to productive and high-quality financing. Growth in TPF should be accompanied by effective asset management so that the additional funds can generate sustainable income, while NPF must be controlled through prudent financing analysis, continuous monitoring, restructuring, and appropriate risk mitigation. From an Islamic economic perspective, the management of public funds should reflect the principles of *amanah*, prudence, fairness, and accountability. Future studies are recommended to incorporate other internal and external determinants of profitability, such as Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), operational efficiency, bank size, inflation, and economic growth, and to apply panel data analysis to obtain a more comprehensive understanding of Islamic bank profitability.

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