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THE INFLUENCE OF THIRD-PARTY FUNDS AND MSME FINANCING ON THE GROWTH OF ISLAMIC BANK ASSETS IN INDONESIA

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Abstract

Problem Introduction: The growth of Islamic banking assets in Indonesia has shown a positive trend over the last five years; however, its market share remains relatively low compared to conventional banking. This condition raises questions regarding the effectiveness of internal banking factors in driving asset growth. Previous studies mainly focus on profitability and financial stability, while empirical evidence explaining Islamic bank asset growth using comprehensive internal variables remains limited.

Study Objectives/Goals: This study aims to analyze the influence of Third-Party Funds (DPK), MSME Financing, Non-Performing Financing (NPF), Capital Adequacy Ratio (CAR), and Profit-Sharing Ratio (PSR) on the growth of Islamic commercial bank assets in Indonesia, with the Financing to Deposit Ratio (FDR) as a control variable.

Design/Methodology/Approach: This research employs a quantitative explanatory approach using panel data regression. The data consist of secondary data from Islamic Commercial Banks in Indonesia for the period 2020–2024, obtained from Islamic Banking Statistics published by the Financial Services Authority (OJK) and banks' annual reports. Model selection was conducted using the Chow and Hausman tests, resulting in the Fixed Effects Model as the most appropriate estimation method.

Findings: The results indicate that Third-Party Funds (DPK) and Profit-Sharing Ratio (PSR) have a positive and significant effect on Islamic bank asset growth. In contrast, MSME financing has a significant negative effect, suggesting that financing risk and efficiency challenges may suppress asset expansion. Meanwhile, NPF and CAR do not show a significant influence on asset growth. The Financing to Deposit Ratio (FDR) as a control variable negatively and significantly affects asset growth, indicating potential liquidity pressure due to excessive intermediation.

Paper Type: Research Article

Keywords: Islamic banking asset growth; Third-Party Funds; MSME financing; Profit-Sharing Ratio; panel data

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INTRODUCTION

Indonesian Islamic banking has shown solid growth in the last five years, from 2020 to 2025 (Ramadhani & Purwanto, 2025). Despite some fluctuations, there were significant increases in assets, financing, and third-party funds (DPK), driven by the post-pandemic economic recovery, public awareness, and regulatory support, including the Financial Services Authority Law. The market share of Islamic banking continues to increase, reaching 7.72% in December 2024, indicating better public acceptance (Maulana et al., 2021). The Financial Services Authority (OJK) notes that the total assets of Islamic banking continue to grow each year, thereby strengthening the national financial system. However, the market share of Indonesian Islamic banking remains relatively low compared with total national banking assets. It lags behind that of countries with more mature Islamic banking industries, such as Malaysia and Saudi Arabia.

From the perspective of Financial Intermediation Theory, banks act as intermediary institutions that collect funds from depositors and channel them to borrowers in the form of productive financing. This theory emphasizes that a bank's ability to raise third-party funds is the primary driver of increased financing capacity and sustainable asset growth (Fadhilah et al., 2025). In Islamic banks, DPK (Deposits from Giro, Savings, and Deposits based on Islamic contracts) serves as the main source of funding, determining the operational scale and asset expansion. Theoretically, an increase in DPK will strengthen the intermediation function and positively impact the growth of Islamic bank assets (Berly et al., 2022).

Several international and national empirical studies in the last 5 years support this argument. Studies by Beck et al., (2013) and Fakhrunnas & Anto (2024) show that the growth of third-party funds is positively associated with the performance and stability of Islamic banks, although the magnitude of the effect varies across countries and industry structures. In Indonesia, research by Suharnanto & Nusantara, (2024) and Zaini et al., (2023) found that DPK plays a significant role in driving the financing and operational performance of Islamic banks. However, most of these studies still focus on profitability or liquidity indicators, rather than directly on the bank's total asset growth.

Besides DPK, the distribution of financing, particularly financing to Micro, Small, and Medium Enterprises (MSMEs), is an important characteristic of Islamic banking oriented toward the real sector and the principle of economic justice (Syamsulbahri, 2018). Within the framework of Financial Development Theory, increased access to financing for productive sectors such as MSMEs is believed to be capable of driving economic growth while also strengthening demand for banking services,

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ultimately impacting bank asset growth. Previous research indicates that financing SMEs by Islamic banks has the potential to improve the quality of the financing portfolio and expand the bank's asset base (Huwaida et al., 2023).

However, empirical research still yields diverse findings. Some studies have found that productive financing contributes positively to bank performance. However, other studies show that the high risk of MSME financing, reflected in the increase in Non-Performing Financing (NPF), can actually depress the performance and asset growth of Islamic banks (Kuswahariani et al., 2020).

Besides Third-Party Funds and MSME financing, the growth of Islamic bank assets is also heavily influenced by the bank's internal financial health. Financial ratios such as Non-Performing Financing (NPF), Capital Adequacy Ratio (CAR), and Profit-Sharing Ratio (PSR) reflect the quality of financing, capital resilience, and the unique operational characteristics of profit-sharing Islamic banking (Setiawan, 2021). These three indicators play an important role in maintaining the sustainability of the intermediation function and the stability of Islamic banks' asset growth.

The growth of Islamic banking assets is highly influenced by the bank's ability to raise third-party funds and channel them into productive sectors, particularly MSMEs (Zaini et al., 2023). Although various studies have examined the influence of NPF, CAR, and PSR on the performance of Islamic banks, most still focus their analysis on profitability or financial stability. Research integrating Third Party Funds, MSME financing, and bank financial health variables such as NPF, CAR, and PSR in explain the growth of Islamic bank assets in Indonesia remains relatively limited. Therefore, this study aims to address the gap in the literature by constructing a more comprehensive empirical framework to explain the determinants of Islamic bank asset growth in Indonesia.

THEORITICAL REVIEW

Growth of Islamic Bank Assets (Y)

Asset growth is a key indicator reflecting the development, stability, and competitiveness of Islamic banks within the financial system. Sharia bank assets include financing, sharia securities, cash, and other productive assets that reflect the results of the bank's intermediation function (Kornitasari et al., 2022). From the perspective of Financial Intermediation Theory, asset growth is seen as an outcome of the bank's success in raising funds from the public and efficiently channeling them to the productive sector (Allen & Santomero, 1998). This theory asserts that a bank's balance sheet growth is significantly influenced by its ability to manage third-party funds (DPK) and maintain liquidity stability. Banks that can sustainably increase their assets tend to have high public trust and a stronger financial position. In the context of Islamic banking, asset growth not only reflects business expansion but also the successful implementation of Sharia principles in real sector-based intermediation activities (Jeslin et al., 2025).

Empirical research in Indonesia shows that the growth of Islamic bank assets is still heavily influenced by internal bank factors. Kornitasari et al., (2022) found that fluctuations in Islamic bank assets are closely correlated with DPK and financing dynamics. The Financial Services Authority (OJK) also noted in 2023 that the increase in productive financing, including financing for MSMEs, has been one of the main drivers of the growth in Islamic banking assets in recent years. However, the growth rate of Islamic bank assets still lags behind conventional banking, indicating structural challenges in the intermediation function of Islamic banks.

Third-Party Funds (TPF)

Third-Party Funds are the main source of funding for Islamic banks, originating from the public in the form of current accounts, savings, and deposits based on Islamic contracts (Adinda, 2023). In Financial Intermediation Theory, DPK is the primary input that enables banks to perform their intermediation function and increase their assets by disbursing financing. The larger and more stable the collected DPK, the greater the bank's capacity to expand financing and assets.

From the perspective of the Resource-Based View (RBV), DPK can be seen as a strategic resource that determines a bank's competitive advantage. Grant, (2021) states that organizations capable of effectively managing financial resources will have more sustainable growth potential. In Islamic banks, the quality of DPK, especially the composition of low-cost funds, is a key factor in driving asset expansion without excessively increasing liquidity risk (Purnomo, 2023).

Empirical research from the past five years shows that DPK has a significant impact on the performance and growth of Islamic banks. Zaini et al., (2023) found that an increase in DPK positively contributes to the operational performance of Islamic banks in Indonesia. Suharnanto & Nusantara, (2024) also shows that DPK plays an important role in increasing banks' ability to distribute financing. Some research findings on the influence of DPK remain mixed; further testing is needed, with asset growth as the dependent variable.

MSME Financing

MSME financing is a form of productive financing that is a hallmark of Islamic banking and is oriented toward the real sector. In Financial

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Development and Financial Inclusion Theory, financing for MSMEs is seen as an important instrument in driving economic growth, job creation, and improving community welfare (Levine, 2018). For Islamic banks, financing for MSMEs also has the potential to expand the asset base by increasing the portfolio of productive financing (Mulyana & Rahmat, 2025). This confirms that a financial system capable of channeling financing to the productive sector will create sustainable economic growth and strengthen the banking sector. In this context, MSME financing not only impacts the real sector but also increases demand for banking services, which ultimately contributes to the growth of bank assets.

Empirical research in Indonesia shows that financing for MSMEs by Islamic banks still faces challenges, particularly regarding financing risk and distribution efficiency. Analysis of Islamic Bank Financing for MSMEs found that MSME financing contributes positively to economic growth and the bank's portfolio (Pertiwi et al., 2024). However, an increase in the risk of non-performing loans can put pressure on asset growth if not managed optimally. MSME financing can be a key factor in the growth of Islamic bank assets if supported by effective risk management and intermediation functions (Amri et al., 2023).

Therefore, the effectiveness of MSME financing is highly dependent on the bank's ability to select financing, monitor businesses, and implement adequate risk management. In Islamic banking, financing for SMEs is generally disbursed through murabahah, mudharabah, and musyarakah contracts. Each contract has different risk implications for the bank's asset quality and asset growth.

Non-Performing Financing (NPF)

Non-Performing Financing (NPF) is a ratio that measures the level of problematic financing against the total financing disbursed by Islamic banks. NPL reflects the quality of productive assets and the effectiveness of risk management for financing. In the theory of banking risk management, a high NPF indicates an increased risk of default, which can reduce income, increase provisioning expenses, and suppress the growth of bank assets (Mishkin, 2019). In the context of Islamic banking, NPF has more complex implications due to the diverse characteristics of financing contracts. Research Kuswahariani et al., (2020) indicates that increasing productive financing without optimal risk management tends to increase NPF and negatively impact the performance of Islamic banks. Another study by Shabiha et al., (2025) found that NPF significantly impacts the stability and asset growth of Islamic banks in developing countries. Thus, NPF is seen as an important variable that can moderate or control the relationship between financing and asset growth.

Capital Adequacy Ratio (CAR)

The Capital Adequacy Ratio (CAR) is an indicator of a bank's ability in cover losses from operational and financing activities. Within the framework of prudential banking, CAR serves as the primary buffer against systemic risk and economic fluctuations. Banks with adequate CAR have a greater ability to expand financing and increase assets sustainably (Mishkin, 2019).

Empirical research shows that CAR has a positive impact on the stability and growth of Islamic banks. Zaini et al., (2023) found that CAR contributes to the financial resilience of Islamic banks in Indonesia, particularly in sustaining asset growth. However, an excessively high CAR can also indicate suboptimal use of capital in financial expansion. Therefore, the influence of CAR on the growth of Islamic bank assets is non-linear and requires empirical testing.

Profit-Sharing Ratio (PSR)

The Profit-Sharing Ratio (PSR) reflects the proportion of profit-sharing-based financing to total financing by Islamic banks. PSR is an important indicator in assessing the extent to which Islamic banks adhere to the principles of risk-sharing and direct involvement in the real sector. From the perspective of Islamic economic theory, profit-sharing-based financing is believed to be capable of creating a fair and sustainable partnership between banks and customers (Syamsulbahri, 2018).

Previous research indicates that PSR has a complex relationship with the performance of Islamic banks. Jeslin et al. (2025) stated that increasing the PSR can improve asset quality and the long-term sustainability of bank growth. However, other studies have found that a high proportion of profit-sharing financing also increases income uncertainty and monitoring costs. Hence, its impact on asset growth remains contingent on the bank's management capacity (Amri et al., 2023).

Financing to Deposit Ratio (FDR)

The Financing to Deposit Ratio (FDR) measures the extent to which Islamic banks channel the third-party funds they collect into financing. The FDR is calculated as the ratio of total financing to total third-party funds (Khairunnisa & Nofrianto, 2023). In the context of Financial Intermediation Theory, the FDR reflects the effectiveness of a bank's intermediation function. An optimal FDR level indicates that the bank can allocate funds productively without sacrificing liquidity stability. Conversely, an excessively low FDR suggests weak intermediation, in which the bank tends to hold funds in liquid assets and underutilize them in productive sectors. On the other hand, an excessively high FDR can reflect aggressive lending practices that potentially increase liquidity risk and non-performing loans (Shabiha et al., 2025).

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In Islamic banking, the FDR plays an important role as an indicator of the balance between fund mobilization and disbursement. Mishkin, (2019) asserts that intermediation ratios, such as the FDR, are crucial to the sustainability of bank balance sheet growth. Banks that maintain a healthy FDR tend to have more stable asset growth than those with overly volatile FDRs.

Some empirical studies in Indonesia show that the FDR of Islamic banks fluctuates according to financing dynamics and macroeconomic conditions. OJK reported in 2023 that the change in FDR reflects Islamic banks' response to liquidity pressures and financing risks. Research by Koyyimah et al., (2023) found that FDR significantly affects bank performance, but its impact on asset growth is often indirect, mediated by financing and asset quality.

In this study, FDR is treated as a control variable to isolate the influence of Third Party Funds and MSME financing on asset growth. By controlling for FDR, this study aims to ensure that the influence of DPK and MSME financing on asset growth is not solely due to differences in the level of intermediation between banks.

HYPHOTESIS

H1. The Influence of Third-Party Funds (DPK) on the Growth of Islamic Bank Assets

Within the framework of Financial Intermediation Theory, Third Party Funds (DPK) are the main source of bank funding for carrying out their intermediation function. Empirical research shows that DPK has a positive effect on the performance and expansion of Islamic banks. Zaini et al., (2023) and Suharnanto & Nusantara, (2024) found that increasing DPK significantly strengthens Islamic banks' ability to disburse financing. However, most previous studies still focus on the influence of DPK on profitability and liquidity, rather than directly on the growth of Islamic banks' assets.

H2. The Influence of MSME Financing on the Growth of Islamic Bank Assets

Based on Financial Development and Financial Inclusion Theory, financing for MSMEs plays an important role in boosting real sector activity, increasing demand for banking services, and expanding bank assets (Levine, 2018). Research by Amri et al., (2023) and Pertiwi et al., (2024) indicates that financing for micro, small, and medium enterprises (MSMEs) contributes positively to the financing portfolio and growth of Islamic banks. However, another study found inconsistent results due to the increasing risk of SME financing, reflected in the rise of NPF (Setiawan, 2021).

H3. The Influence of Non-Performing Financing (NPF) on the Growth of Islamic Bank Assets

Non-Performing Financing (NPF) reflects the quality of productive assets and the risk level in Islamic bank financing. In banking risk management theory, a high NPF will increase provisioning costs, reduce income, and hinder asset expansion (Mishkin, 2019). Research by Kuswahariani et al., (2020) and Shabiha et al., (2025) found that NPF negatively affects the performance and stability of Islamic banks. However, most research still focuses on its impact on profitability rather than on asset growth.

H4. The Influence of Capital Adequacy Ratio (CAR) on the Asset Growth of Islamic Banks

The Capital Adequacy Ratio (CAR) indicates a bank's ability to absorb risk and support lending expansion. Within the framework of prudential banking, banks with adequate CAR have more room to increase assets sustainably (Mishkin, 2019). A study Zaini et al., (2023) found that CAR plays a role in maintaining the stability and sustainability of Islamic bank growth. However, results from other studies indicate that excessively high CAR can reflect the underutilization of capital.

H5. The Influence of Profit-Sharing Ratio (PSR) on the Asset Growth of Islamic Banks

The Profit-Sharing Ratio (PSR) reflects the proportion of financing based on profit-sharing contracts and the level of risk-sharing principles applied in Islamic banking. Theoretically, an increase in PSR can enhance the bank's connection with the real sector and the quality of asset growth (Syamsulbahri, 2018). Research Jeslin et al., (2025) indicates that PSR has the potential to enhance the sustainability of Islamic bank growth. However, other studies have found that high profit-sharing financing also increases income uncertainty risk (Amri et al., 2023).

H6. The Role of the Financing to Deposit Ratio (FDR) as a Control Variable

The Financing to Deposit Ratio (FDR) reflects the effectiveness of the Islamic bank's intermediation function. Optimal FDR strikes a balance between liquidity and financing expansion, ultimately supporting asset growth (Mishkin, 2019). Research by Koyyimah et al. (2023) indicates that FDR affects bank performance, although its impact on asset growth is often indirect.

METHODOLOGY

This study employs an explanatory quantitative approach aimed at empirically examining the causal relationship between Third Party Funds (DPK), MSME Financing, Non-Performing Financing (NPF),

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Capital Adequacy Ratio (CAR), and Profit-Sharing Ratio (PSR) on the asset growth of Islamic Commercial Banks in Indonesia, with Financing to Deposit Ratio (FDR) as a control variable. The quantitative approach was chosen because it enables objective measurement of relationships between variables through statistical analysis, providing generalizable empirical evidence.

This study uses panel data, which combines time-series and cross-sectional data, because it captures the dynamics of changes in variables over time as well as differences in characteristics among Islamic banks. The data used is secondary data obtained from the official publication of Islamic Banking Statistics (SPS) by the Financial Services Authority (OJK), and the annual reports of each Islamic bank. The research's unit of analysis is Islamic Commercial Banks (ICBs) in Indonesia that are registered and supervised by the Financial Services Authority (OJK), with an annual observation period from 2020 to 2024.

The dependent variable in this study is the growth of Islamic bank assets, measured using the percentage change in annual total assets. The independent variables consist of Third-Party Funds (DPK) as an indicator of fundraising ability, MSME Financing as a proxy for the distribution of productive financing to the real sector, Non-Performing Financing (NPF) as an indicator of financing risk, Capital Adequacy Ratio (CAR) as a measure of capital resilience, and Profit-Sharing Ratio (PSR) as a distinctive characteristic of Islamic banking based on profit-sharing. Meanwhile, the Financing to Deposit Ratio (FDR) is used as a control variable to reflect the effectiveness of the bank's intermediation function and its liquidity condition. Model estimation was performed using EViews software, considering three main approaches: the Common Effect Model, the Fixed Effect Model, and the Random Effect Model. The best model was selected through a series of tests, including the Chow, Hausman, and Lagrange Multiplier tests, in order to obtain the most consistent and efficient estimates.

Next, descriptive statistics were used to characterize the research data. At the same time, hypothesis testing was conducted through partial tests (t-tests) and simultaneous tests (F-tests) at a significance level of 5 percent. The coefficient of determination is used to assess the model's ability to explain the variation in the growth of Islamic bank assets. The research is expected to provide a comprehensive empirical overview of the internal factors of Islamic banking that influence asset growth, while also strengthening the validity of the findings within the framework of Financial Intermediation Theory.

RESULTS AND DISCUSSION

Table 1. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.207	(4.89)	0.016
Cross-section Chi-square	13.464	4	0.009

Sources: Researcher (2026)

Based on the results of the Chow Test, the Cross-section F value was 3.207012 with a probability of 0.0165, and the Cross-section Chi-square value was 13.464923 with a probability of 0.0092. Both of these probability values are smaller than the 5% significance level (0.05). Thus, H0 is rejected, and H1 is accepted, indicating significant differences in characteristics between the cross-sectional units (Islamic banks). Therefore, the Fixed Effect Model (FEM) is more appropriate to use than the Common Effect Model (CEM).

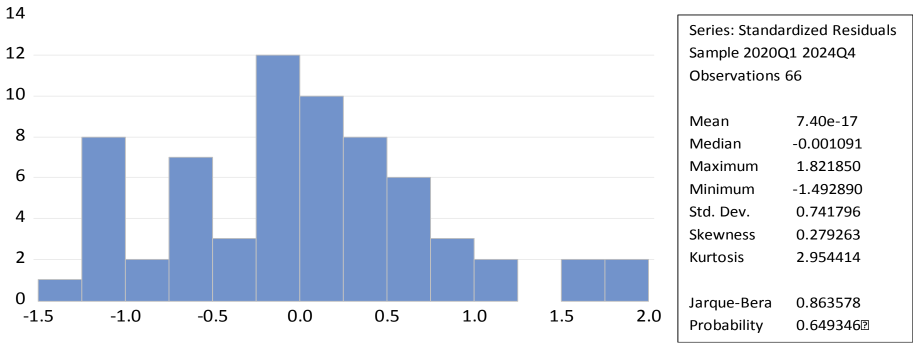
Table 2. Hausmann Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	11.218	4	0.024

Sources: Researcher (2026)

Based on the results of the Hausman test in EViews output, the Chi-Square Statistic value is 11.218354 with degrees of freedom (df) = 4 and a probability value (p-value) of 0.0242. This probability value is smaller than the 5% significance level (0.05). Thus, H0 is rejected, and H1 is accepted, so it can be concluded that the Random Effect Model is not appropriate for use.

Table 3. Normality Test



Sources: Researcher (2026)

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In this study, normality testing was conducted using the Jarque–Bera (JB) test combined with an analysis of the standardized residual histogram. The Jarque-Bera probability value is 0.649346, which exceeds the 5% significance level (0.05). Thus, H0 is accepted, which means the residuals are normally distributed.

Table 4. Panel Data Regression

Variable	Non-Variable Control		Variable Control	
	Coefficient	Prob	Coefficient	Prob
C	10.746	0.135	8.172	0.237
TPF	0.799	0.011	0.810	0.007
MSME Financing	-1.387	0.002	-0.943	0.043
NPR	0.026	0.881	0.089	0.607
CAR	-0.005	0.863	-0.026	0.383
PSR	0.033	0.012	0.035	0.005
FDR			-0.050	0.013
R-squared	0.373		0.439	
Adj R-squared	0.272		0.337	
F-statistic	3.701		0.000	

Sources: Researcher (2026)

Based on the results of the panel data regression in Table 4, two empirical models were estimated: one without control variables and one with the Financing to Deposit Ratio (FDR) as a control variable. Overall, both models show an F-statistic value of 3.701 with a probability of 0.000, indicating that all independent variables simultaneously have a significant impact on the growth of Islamic bank assets. The adjusted R-squared value increased from 0.272 to 0.337 after the control variables were included, indicating that the addition of FDR improved the model's ability to explain the variation in Islamic bank asset growth.

The Influence of Third-Party Funds (DPK) on the Growth of Islamic Bank Assets

The estimation results indicate that Third Party Funds (DPK) have a positive and significant effect on the growth of Islamic bank assets. In the model without control variables, the DPK coefficient is 0.799 with a p-value of 0.011. In contrast, in the model with the FDR control variable, the DPK coefficient increases to 0.810 with a p-value of 0.007. A probability value less than 0.05 indicates that hypothesis H1 is accepted. Economically, this coefficient indicates that every 1 percent increase in

DPK will increase the growth of Islamic bank assets by approximately 0.81 percent, assuming other variables remain constant. In the context of Financial Intermediation Theory, the finding that Third Party Funds (DPK) have a positive and significant influence on asset growth reaffirms the fundamental role of Islamic banks as intermediary institutions that are highly dependent on their ability to mobilize public funds.

This finding aligns with Financial Intermediation Theory, which asserts that a bank's ability to raise public funds is a primary determinant of asset expansion. This result is consistent with the research by Zaini et al., (2023) and Suharnanto & Nusantara, (2024) although previous studies placed more emphasis on profitability. The research gap this study fills is the empirical evidence that DPK directly affects asset growth, not just profit performance.

The Influence of MSME Financing on the Growth of Islamic Bank Assets

SME financing shows a negative and significant result on the growth of Islamic bank assets. In the model without control variables, the coefficient for MSME financing is -1.387 with a probability of 0.002, while after including the control variable FDR, the coefficient remains negative at -0.943 with a probability of 0.043. Thus, hypothesis H2, which states the positive influence of MSME financing on asset growth, is not empirically supported. The values of these coefficients indicate that a 1 percent increase in MSME financing decreases the growth of Islamic bank assets by 0.94–1.39 percent. This finding indicates that MSME financing still faces challenges related in financing risk and efficiency. This result supports the findings of Kuswahariani et al., (2020) and Setiawan, (2021) who stated that MSME financing tends to have high risks that can depress bank performance if not managed optimally. The research gap addressed by this study is the emphasis on the negative implications of MSME financing for asset growth, rather than solely on social and financial inclusion.

The Influence of Non-Performing Financing (NPF) on Asset Growth

The regression results indicate that Non-Performing Financing (NPF) does not have a significant impact on the growth of Islamic bank assets. In the model without control variables, the NPF coefficient is 0.026 with a probability of 0.881, while in the model with control variables, the coefficient increases to 0.089 with a probability of 0.607. Probability values far above 0.05 lead to the rejection of hypothesis H3. Theoretically, a high NPF should suppress asset growth by increasing provisioning costs. However, these results indicate that during the study period, fluctuations in NPF were not significant enough to affect asset growth directly. This finding expands the literature by showing that NPF's impact on asset growth is indirect, contrasting with prior research that focused more on profitability.

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This research differs from the findings of Shabiha et al., (2025), who found that NPF affects the stability and performance of Islamic banks. However, these findings align with several studies indicating that the impact of NPF is more pronounced on profitability than on asset growth. NPF is not always a direct determinant of asset growth, especially when the NPF level remains within safe, manageable limits for the bank. This research expands the empirical literature by showing that NPF's influence on asset growth is indirect and serves more as an indicator of stability than as a driver of bank balance sheet expansion.

The Influence of Capital Adequacy Ratio (CAR) on Asset Growth

The Capital Adequacy Ratio (CAR) also does not show a significant influence on asset growth. In the model without control variables, the CAR coefficient is -0.005 with a probability of 0.863, whereas in the model with FDR control, it is -0.026 with a probability of 0.383. Thus, hypothesis H4 is not supported by empirical data. These findings indicate that the capital adequacy of Islamic banks serves more as a buffer for stability than as a driver of asset expansion. This result aligns with the view that excessively high CAR can reflect the sub-optimal utilization of capital in financing expansion.

The research findings of Zaini et al., (2023) indicate that CAR serves more as an instrument for stability than as a driver of expansion. These results are also consistent with the view that excessively high CAR can reflect less than optimal utilization of capital in financing asset expansion. The empirical implication is that strong capital does not automatically drive asset growth unless followed by an effective financing expansion strategy. Thus, this study enriches the empirical literature by confirming that the relationship between CAR and asset growth is weak or indirect, contrary to the common assumption in conventional banking literature.

The Influence of Profit-Sharing Ratio (PSR) on Asset Growth

The Profit-Sharing Ratio (PSR) has been shown to have a positive and significant effect on the growth of Islamic bank assets. In the model without control variables, the PSR coefficient is 0.033 with a probability of 0.012, while in the model with control variables, the coefficient increases to 0.035 with a probability of 0.005. Thus, hypothesis H5 is accepted. Economically, a 1 percent increase in PSR will increase the growth of Islamic bank assets by 0.03–0.04 percent. This finding strengthens the theory of Islamic economics, which emphasizes profit-sharing-based financing as a driver of sustainable growth. This research fills a research gap by showing that PSR not only reflects sharia compliance but also has real implications for asset growth.

In the context of Islamic Economic Theory, the finding that the Profit-Sharing Ratio (PSR) has a positive and significant effect on asset growth strengthens the argument that profit-sharing financing is not only a normative instrument of Sharia compliance but also has real economic implications.

The positive and significant influence of PSR on the growth of Islamic bank assets supports the findings of Jeslin et al., (2025), who stated that profit-sharing financing contributes to bank growth in the long run. This result also expands on the findings of Amri et al., (2023), who emphasized the trade-off between risk and income sustainability in profit-sharing financing. PSR not only reflects Sharia compliance but also has a tangible impact on the expansion of Islamic banks' assets. This research fills an empirical gap by showing that typical Islamic banking instruments can be drivers of growth, not merely normative identities.

The Role of the Financing to Deposit Ratio (FDR) as a Control Variable

The estimation results show that the Financing to Deposit Ratio (FDR) has a negative and significant effect on asset growth, with a coefficient of -0.050 and a probability of 0.013. This finding indicates that a 1 percent increase in FDR will reduce the growth of Islamic bank assets by 0.05 percent, suggesting liquidity pressure due to overly aggressive disbursement of financing. By including FDR as a control variable, this study ensured that the influence of DPK, MSME financing, and PSR on asset growth was not solely driven by the level of intermediation, thereby strengthening the empirical inference.

The finding that FDR has a negative and significant impact on asset growth is consistent with Koyyimah et al. (2023), which shows that excessive intermediation can depress bank performance. The empirical implication is that the growth of Islamic bank assets is determined not only by the amount of financing but also by the balance between financing expansion and liquidity stability. By including FDR as a control variable, this study strengthens the empirical validity of previous research findings. It shows that the influence of DPK, MSME financing, and PSR on fixed asset growth remains consistent after controlling for the level of intermediation.

CONCLUSION

This study aims to analyze the internal factors influencing the growth of Islamic commercial bank assets in Indonesia during the period 2020–2024 using a panel data regression approach. The variables tested include Third Party Funds (DPK), MSME Financing, Non-Performing Financing (NPF), Capital Adequacy Ratio (CAR), and Profit-Sharing Ratio

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(PSR), with Financing to Deposit Ratio (FDR) as the control variable. The estimation results indicate that the empirical model is statistically sound, as evidenced by the significant F-statistic and the increase in Adjusted R-squared after including control variables.

The research results indicate that Third Party Funds (DPK) have a positive and significant impact on the growth of Islamic bank assets. This finding confirms that Islamic banks' ability to mobilize public funds is a key driver in asset expansion. Conversely, MSME financing has been shown to have a significant negative impact on the growth of Islamic banks' assets. These findings indicate that although MSME financing plays a strategic role in supporting the real sector and financial inclusion, the high risk of financing and challenges in managing loan quality can put pressure on bank asset growth. Therefore, MSME financing has not yet fully become an asset growth driver without effective risk management.

Meanwhile, Non-Performing Financing (NPF) and Capital Adequacy Ratio (CAR) did not show a significant influence on the growth of Islamic bank assets. These results indicate that during the study period, fluctuations in financing risk and capital adequacy levels have not been direct determinants in asset expansion. NPF and CAR have played more of a role as indicators of bank financial stability and resilience rather than as direct drivers of asset growth. On the other hand, the Profit-Sharing Ratio (PSR) has a positive and significant effect on the growth of Islamic bank assets. This finding confirms that increased profit-sharing financing can drive more sustainable asset growth.

Additionally, the Financing to Deposit Ratio (FDR), as a control variable, was shown to have a significant negative effect on the growth of Islamic bank assets. This indicates that excessive levels of intermediation can create liquidity pressure and potentially hinder asset growth. Therefore, Islamic banks need to maintain an optimal FDR level to balance financing expansion and liquidity stability.

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