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Profitability of Islamic Banks in the Pressure of Productive, Consumptive, and CKPNAK Problematic Financing

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ABSTRACT

Objectives: *The profitability of Islamic banks does not always decrease directly when non-performing financing increases. The impact is different between productive and consumptive financing, and is influenced by the dynamics of CKPNAK costs. Therefore, this assessment is important because previous research used a lot of aggregate NPFs, so it has not sufficiently explained the risk path based on financing segments. The purpose of this study is to analyze the influence of Problematic Productive Financing and Problematic Consumptive Financing on the profitability of Islamic banks in Indonesia, either directly or through Current Productive Financing, Current Consumptive Financing, and CKPNAK Costs.*
Methodology: *The study uses a quantitative approach with monthly data on the Indonesian Islamic banking industry for the period January 2010–July 2023 and analyzed using PLS-SEM.*
Finding: *PPB does not have a direct effect on profitability, but increases CKPNAK Costs. PKB reduces PKL and profitability directly. PKL increase profitability, while PPL does not always strengthen profitability. The novelty of this research is that this study separates the risks of productive and consumptive problematic financing and places CKPNAK as a risk transmission mechanism.*
Conclusion: *The profitability of Islamic banks is more accurately understood through risk management based on the financing segment.*

Keywords: *Non-Performing Financing; Profitability; Islamic Bank; Productive Financing; CKPNAK.*

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INTRODUCTION

Islamic banking in Indonesia has a strategic role as an intermediary institution that not only pursues financial performance, but also carries out socio-economic functions through the principles of justice, prudence, and sharia compliance. In practice, the main source of income for Islamic banks is still highly dependent on financing distribution activities. Therefore, the quality of financing is an important factor that determines the sustainability of profits, asset stability, and stakeholder confidence. In this context, non-performing financing is one of the main issues because it reflects the quality of productive assets as well as the risk of customer default.

An interesting phenomenon in the Indonesian Islamic banking industry is a change in the structure of the financing portfolio where the orientation of Islamic bank financing is increasingly shifting from the productive sector to the consumptive sector (Arifin & Warsidi, 2020; Muhamad & Alwi, 2015; Panggi et al., 2022). In fact, productive financing is conceptually expected to encourage real economic activity, investment, and business sector growth, while consumptive financing tends to be more related to household needs and individual ability based financing.

On the other hand, financing risks do not move uniformly between segments. Non-performing productive financing tends to have a higher level of risk than non-performing consumptive financing. This condition is in line with the characteristics of productive financing that are closer to business risks, cash flow uncertainty, information asymmetry, moral hazard, and greater monitoring costs. Wahid et al. (2023) and Nugroho et al. (2020) in their research showed that productive financing can suppress the profitability of Islamic banks in stable economic conditions due to high credit risks, agency problems, moral hazards, adverse selection, and monitoring costs. Conversely, consumptive financing can be a source of profitability pressure in volatile periods due to high exposure to the risk of default, restructuring, and weakening of household payability.

Another phenomenon that is increasingly important is the dynamics of the Reserve for Losses in the Impairment of Financial Assets, or in this study called the CKPNAK cost. The cost of CKPNAK is not just an accounting post, but a reflection of the bank's prudent attitude in dealing with potential losses on financial assets. The higher the non-performing financing, the greater the need for banks to form loss reserves. The formation of these reserves on the one hand protects the bank from the risk of future losses, but on the other hand it can suppress the running profit. Furthermore, researchers from Zulfikar & Wahyuni (2019) stated that the loan loss provision in Islamic financing can affect the financial performance of Islamic banks because these reserves are directly related to income, expenses, and capital adequacy.

Theoretically, an increase in non-performing financing should reduce the bank's profitability. However, these relationships are not always direct and simple. In some periods, the profitability of Islamic banks can still increase although financing risks remain a major concern. This shows that the impact of non-performing financing on profitability can work through more complex channels, for example through a decrease in current financing, an increase in CKPNAK costs, changes in financing expansion strategies, and adjustments in risk policies by bank management.

The phenomenon gap can also be seen from the difference in character between productive and consumptive financing. Non-performing productive financing can hold back the growth of productive financing smoothly because banks become more cautious in distributing financing to the business sector. Conversely, problematic consumptive financing can affect the growth of

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consumptive financing as banks need to reassess the ability of individual and household customers. Thus, non-performing financing not only has a direct impact on profitability, but can also change the behavior of banks in distributing current financing in the next period.

Previous research has extensively examined the relationship between financing risk and the profitability of Islamic banks, but most still use aggregate measures, such as total NPF, total financing, ROA, FDR, CAR, and BOPO. Mohamad et al. (2019) found that ROA, CAR, and bank size had a negative effect on NPF in BPRS in Indonesia, while FDR and third-party funds had no significant effect. Widarjono & Rudatin (2021) show that high concentration of financing can increase the NPF of Islamic banks, while asset size and operational efficiency can help reduce financing risk. Misman & Bhatti (2020) also prove that financing quality is an important determinant of credit risk in Islamic banks in the ASEAN and GCC regions.

However, research that specifically separates non-performing financing based on productive and consumptive segments, and then associates it with productive current financing, consumptive current financing, CKPNAK costs, and profitability is still relatively limited. Salman (2021) has examined the influence of NPFs and third-party funds on profitability through PS/RS and PLS-based financing, but has not explicitly placed productive and consumptive financing as a mechanism that explains the relationship between non-performing financing and profitability. In the study, Wahid et al. (2023) and Ihwanudin et al. (2020) have indeed distinguished between productive and consumptive financing, but the focus is on the dynamics of stable and unstable regimes, not on problematic financing channels, current financing, and CKPNAK costs simultaneously. Therefore, this study seeks to fill this gap.

This study extends the instrumental dimension of Stakeholder Theory by specifying a prudential accounting pathway through which financing risk affects Islamic bank profitability. Stakeholder Theory argues that organizational decisions should be evaluated by their consequences for parties who affect or are affected by the organization (Donaldson & Preston, 1995; Freeman et al., 2010). In Islamic banking, these parties include shareholders, depositors, investment account holders, financing customers, regulators, the Sharia Supervisory Board, employees, and communities served by the bank. Profitability is therefore not an isolated objective; it is one component of institutional continuity, public confidence, and the bank's capacity to maintain responsible intermediation.

The mechanism proposed in this study begins with a deterioration in financing quality. An increase in non-performing productive financing (PPB) or non-performing consumptive financing (PKB) raises expected credit losses and requires the bank to recognize a larger CKPNAK expense. CKPNAK is thus not merely a statistical correlate of financing risk. It is the accounting-recognition channel through which expected losses are translated into a current-period charge. Because the charge reduces reported income, a higher CKPNAK expense is expected to reduce return on assets, ceteris paribus. The causal sequence is therefore financing risk → expected-loss recognition through CKPNAK → profitability.

This mechanism also resolves an apparent tension in stakeholder interests. From the shareholder's short-run perspective, a larger CKPNAK expense reduces reported profit. From the perspective of depositors, investment account holders, and regulators, timely provisioning strengthens loss-absorption capacity, reporting credibility, and confidence in the bank's continuity. CKPNAK therefore represents an intertemporal trade-off: a reduction in current profitability may protect future solvency and the sustainability of intermediation. The theoretical contribution is not a new grand theory, but a contextual extension of Stakeholder Theory that identifies prudential accounting recognition as the mechanism connecting segmented financing risk with Islamic bank performance.

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The distinction between productive and consumptive financing further advances the mechanism. Productive financing is linked to business cash flows, monitoring intensity, and sectoral volatility, whereas consumptive financing is generally more standardized and associated with household repayment capacity. These differences imply that PPB and PKB may not produce equal CKPNAK responses or identical direct effects on profitability. Testing the two segments separately therefore reveals heterogeneity that is concealed by an aggregate NPF measure.

Based on the phenomenon and gap of the research, the formulation of the problem in this study is as follows:
1. Does Non-Performing Productive Financing (PPB) affect Current Productive Financing (PPL)?
2. Does Problematic Productive Financing (PPB) affect the cost of CKPNAK (BC)?
3. Does Problematic Consumptive Financing (PKB) affect CKPNAK (BC) Fees?
4. Does Problematic Consumptive Financing (PKB) affect the growth of Current Consumptive Financing (PKL)?
5. Does Current Productive Financing (PPL) affect Profitability?
6. Does CKPNAK (BC) Fees affect Profitability?
7. Does Current Consumptive Financing (PKL) Affect Profitability?
8. Does Non-Performing Productive Financing (PPB) affect Profitability?
9. Does Problematic Consumptive Financing (PKB) have an impact on Profitability?

Therefore, this study aims to empirically analyze the influence of non-performing productive financing and non-performing consumptive financing on the profitability of Islamic banks in Indonesia, both directly and through the dynamics of current productive financing, current consumptive financing, and CKPNAK costs. In particular, this study examines whether non-performing financing in the productive and consumptive segments can affect current financing in each segment, increase the cost of CKPNAK, and ultimately have an impact on the profitability of Islamic banks.

This study contributes to Islamic banking literature in three ways. First, it disaggregates financing risk into productive and consumptive segments, showing that the economic pathway of risk depends on the underlying financing purpose rather than on aggregate NPF alone. Second, it identifies and directly tests CKPNAK as a prudential accounting transmission mechanism instead of treating provisioning only as a control variable or a contemporaneous expense. Third, it extends the instrumental dimension of Stakeholder Theory by explaining why the recognition of expected losses can reduce short-run profitability while protecting depositor confidence, regulatory compliance, and the continuity of sharia-compliant intermediation. This moves the literature from a simple risk–profitability association toward a mechanism-based and stakeholder-sensitive explanation.

The novelty of this research lies in the separation of non-performing financing into two segments, namely Non-Performing Productive Financing (PPB) and Non-Performing Consumptive Financing (PKB). This separation is important because the two segments have different risk characters, sources of income, and managerial consequences. Previous research tends to use NPF in aggregate, so it has not been able to explain whether productive and consumptive financing risks have different paths of influence on profitability. The next update is the inclusion of Current Productive Financing (PPL), Current Consumptive Financing (PKL), and CKPNAK Fees (BC) as an explanatory mechanism. With this approach, the study not only assesses whether non-performing financing decreases profitability, but also explains how the risk works: whether through a decrease in current financing, an increase in CKPNAK costs, or

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a direct impact on profits. This model provides a closer perspective on the risk management practices of Islamic banks.

The conceptual framework of this research places PPB and PKB as sources of financing risk. PPB is assumed to affect PPL and BC, while PKB is assumed to affect PKL and BC. Furthermore, PPL, PKL, and BC are assumed to affect profitability. In addition, PPB and PKB were also tested for their direct influence on profitability. Furthermore, the research framework shows that non-performing financing is not only seen as a risk indicator, but also as a factor that can change the current financing strategy and increase the burden of reserves. In the perspective of Stakeholder Theory, this model explains how Islamic banks need to balance the interests of profitability, financing quality, sustainability of intermediation and protection of stakeholders.

Non-performing productive financing has the potential to reduce current productive financing because banks will be more selective in disbursing financing to the business sector when the quality of the productive portfolio deteriorates. Productive financing has higher business risks, mainly due to uncertainty of customer income, information asymmetry, and the need for more intensive monitoring. Wahid et al. (2023) show that productive financing can suppress profitability in stable conditions due to credit risk and high monitoring costs. Thus, PPB is estimated to have a negative effect on PPL.

Problematic productive financing is also expected to increase the cost of CKPNAK. When productive financing shows a deterioration in quality, banks need to establish larger loss reserves to anticipate potential losses. This is in line with the view that the quality of financing is the main determinant of credit risk in Islamic banks (Misman & Bhatti, 2020). Zulfikar & Wahyuni (2019) also explained that loan loss provision in sharia financing affects financial performance because it is related to the recognition of expenses and potential losses of financial assets.

Problematic consumptive financing can also increase the cost of CKPNAK because late payments or defaults of consumptive customers demand banks to form loss reserves. Although consumptive financing is often considered more standardized and based on collateral or fixed income, the increase in PKB still has the potential to erode asset quality and increase the burden of reserves. Wahid et al. (2023) show that consumptive financing becomes more vulnerable during periods of volatility, especially when there is pressure on consumers' ability to pay.
Furthermore, problematic consumptive financing is expected to suppress the growth of smooth consumptive financing. When the risk of default in the consumptive segment increases, banks tend to tighten eligibility assessments, reduce expansion, or make financing policy adjustments. Thus, PKB is estimated to have a negative effect on PKL.

Current productive financing is expected to have a positive effect on profitability. Healthy productive financing can generate sustainable margin income or profit sharing and support the intermediation function of Islamic banks in the real sector. Mukhibad & Setiawan (2023) emphasized that equity-based financing in Indonesian Islamic banks has a different character from debt-based financing, so business feasibility analysis is important so that productive financing can provide healthy results and not turn into problematic financing.

CKPNAK costs are expected to have a negative effect on profitability because reserve costs will reduce profits for the current period. The larger the reserves formed, the greater the burden the bank must bear. Previous research from Kasanah et al. (2022) shows that loan loss provision has a negative relationship with bank profitability. These findings are in line with the accounting logic that increased reserve costs can depress ROA and net profit.

Current consumptive financing is also expected to have a positive effect on profitability because healthy consumptive financing can provide relatively stable income flows for banks.

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However, this contribution can only be maintained if the quality of financing is maintained. Wahid et al. (2023) show that a high proportion of consumptive financing can be a source of pressure when economic conditions are unstable, so that current consumptive financing needs to be seen as a source of profit as well as a portfolio that must be managed carefully.

Problematic productive financing is estimated to have a negative effect on profitability. When the PPB increases, banks face a decrease in revenue, an increase in monitoring costs, a potential restructuring, and an increase in CKPNAK costs. This can reduce profitability, both directly and through a decrease in current productive financing. Meanwhile, non-performing consumptive financing is also expected to have a negative impact on profitability because defaults in the consumptive segment can reduce bank revenues and increase reserve expenses. Therefore, the hypotheses in this study are as follows*:*

1. H1: Non-Performing Productive Financing (PPB) has a negative effect on Current Productive Financing (PPL).
2. H2: Non-Performing Productive Financing (PPB) has a positive effect on CKPNAK Costs (BC).
3. H3: Problematic Consumptive Financing (PKB) has a positive effect on CKPNAK (BC) Costs.
4. H4: Problematic Consumptive Financing (PKB) has a negative effect on Current Consumptive Financing (PKL).
5. H5: Current Productive Financing (PPL) has a positive effect on Profitability.
6. H6: CKPNAK (BC) costs have a negative effect on profitability.
7. H7: Current Consumptive Financing (PKL) has a positive effect on Profitability.
8. H8: Problematic Productive Financing (PPB) has a negative effect on Profitability.
9. H9: Problematic Consumptive Financing (PKB) has a negative effect on Profitability.

METHOD

Types and Approaches to Research

This study uses a quantitative approach because all variables analyzed are expressed in the form of numbers, either in the form of ratios, percentages, and financial nominal values. The research design is directed to examine the causal relationship between variables in the structural model, namely how Non-Performing Productive Financing (PPB) and Non-Performing Consumptive Financing (PKB) affect the Profitability of Islamic banks, either directly or through Current Productive Financing (PPL), Current Consumptive Financing (PKL), and CKPNAK Cost (BC). The research design is quantitative based on time series data with the Structural Equation Model–Partial Least Square (SEM-PLS) approach.

The quantitative approach was chosen because the topic of this study is related to the pattern of relationships between financial indicators of Islamic banks which can be measured objectively through monthly statistical data. The use of time-lapse data also allows the research to capture the dynamics of problematic financing, current financing, the formation of CKPNAK, and profitability in a fairly long period. A similar approach is widely used in Islamic banking studies that analyze financing risk, asset quality, and profitability based on secondary data of the banking industry, such as in the research of Widarjono & Rudatin (2021), Misman & Bhatti (2020), Salman, (2021), Mukhibad & Setiawan (2023), and Wahid et al. (2023).

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Population, Sample, and Research Object

The object of this research is the Islamic banking industry in Indonesia, especially the consolidated data of Sharia Commercial Banks (BUS) and Sharia Business Units (UUS) published by the Financial Services Authority (OJK) and Bank Indonesia. The study population included all Islamic banking industry data available in Islamic Banking Statistics and Indonesian Economic and Financial Statistics during the observation period.

The research sample used monthly data from January 2010 to July 2023, resulting in 163 monthly observations. This period was chosen because the data needed has been consistently available and long enough to capture changes in trends in productive financing, consumptive financing, non-performing financing, CKPNAK costs, and profitability. Furthermore, in January 2010 there were 11 BUSES and 23 UUS, while in July 2023 there were 12 BUSES and 21 UUS, with the data used being industrial data that has been consolidated by the OJK and Bank Indonesia (Fauzi, 2025).

The unit of analysis in this study is not individual banks, but monthly aggregate data of the Indonesian Islamic banking industry. Therefore, this research is more appropriately positioned as a macro-industrial empirical study, rather than an interbank comparative study. This aggregate approach is in line with previous research that used Islamic banking industry data to analyze financing, NPF, and profitability, such as Widarjono & Rudatin (2021), Salman (2021), Mukhibad & Setiawan (2023), and Wahid et al. (2023).

Data Collection Instruments and Techniques

The research instrument used is a secondary data documentation sheet, which is a tabulation format that is compiled to record monthly data for each research variable. Because this study does not use questionnaires or interviews, the main instrument is in the form of data collection guidelines based on official statistical documents.

Data was collected through a documentation study technique on official publications of OJK and Bank Indonesia. The main source of data is OJK Sharia Banking Statistics, especially tables that contain financing data based on type of use, financing quality, combined profit and loss statements of BUS and UUS, financial performance ratios, business activities of Islamic banks, and average return rates of financing and third-party funds. For certain variables, such as placement prices in other banks, data is obtained from Bank Indonesia's Indonesian Economic and Financial Statistics, especially Sharia Interbank Money Market reward data.

The study variables consisted of one dependent variable, two main independent variables, three intervening variables, and five control variables. The dependent variable is Profitability, which is proxied by Return on Assets (ROA). The main independent variables are Non-Performing Productive Financing (PPB) and Non-Performing Consumptive Financing (PKB). The intervening variables consist of Current Productive Financing (PPL), Current Consumptive Financing (PKL), and CKPNAK Costs (BC). The control variables include Financing Price (HP), Placement Price in Other Banks (HPB), Third Party Fund Price (HDP), Third Party Fund (DPK), and Operational Costs other than CKPNAK Fees (BO).

All data is then compiled in the form of monthly tables, checked for completeness, and processed according to the needs of the model. The use of official secondary data is considered appropriate because the variables studied are financial indicators that have been standardized by regulators. A similar model is also used in research on financing risk and profitability of Islamic banks that rely on financial statements or official statistics, such as Mohamad et al. (2019), Widarjono & Rudatin (2021), Misman & Bhatti (2020), and Wahid et al. (2023).

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Data Analysis Techniques

The data analysis technique used is Partial Least Square–Structural Equation Modeling (PLS-SEM). This method was chosen because the research model involves several interrelated structural relationships, including direct and indirect relationships between variables. In the context of this study, PPB and PKB were not only tested for their influence on profitability, but also tested for their influence on PPL, PKL, and BC as a transmission route for financing risk to profitability.

Therefore, PLS-SEM is used to explain the relationship between several variables simultaneously through an inner model or structural model. Because all the variables used are measurable variables or observed variables, this study does not emphasize outer model testing as research based on latent constructs, but focuses on structural models between financial variables. The PLS-SEM approach has also been used in Islamic banking studies that examine the relationship between NPFs, financing, third-party funds, and profitability, as in Salman (2021). The model of the structural equation of the research can be formulated as follows:

1. Model 1: Seamless Productive Financing
   $PPL = \alpha_0 + \alpha_1 PPB + \varepsilon_1$
2. Model 2: CKPNAK Fee
   $BC = \beta_0 + \beta_1 PPB + \beta_2 PKB + \varepsilon_2$
3. Model 3: Seamless Consumptive Financing
   $PKL = \delta_0 + \delta_1 PKB + \varepsilon_3$
4. Model 4: Profitability
   $Profit = \varphi_0 + \varphi_1 PPL + \varphi_2 BC + \varphi_3 PKL + \varphi_4 PPB + \varphi_5 PKB + \varphi_6 HP + \varphi_7 HPB + \varphi_8 HDP + \varphi_9 DPK + \varphi_{10} BO + \varepsilon_4$

The analysis stage is carried out through several steps. First, the data was tested descriptively to find out the minimum, maximum, average, and standard deviation values of each variable. Second, multicollinearity testing was carried out through the Variance Inflation Factor (VIF) value, with the criterion that a lower VIF value indicates the absence of serious multicollinearity problems. Third, the model is evaluated through the value of the determination coefficient (R^2) to identify how much the ability of independent and intervening variables to explain the variation of dependent variables. Fourth, hypothesis testing was carried out through t-statistical and p-value values, with a significance level of 5%. The relationship between variables is declared significant if the p-value is less than 0.05.

With this analysis technique, this study can answer whether problematic productive financing and problematic consumptive financing have a direct impact on profitability, as well as explain whether these influences work through a decrease in current financing and an increase in CKPNAK costs. This approach provides a more detailed picture than the model that only uses aggregate NPF, because financing risks are separated based on productive and consumptive financing characteristics.

RESULTS AND DISCUSSION

Results

Overview of Research Data

This study uses monthly data on the Islamic banking industry in Indonesia during the period January 2010 to July 2023, so that 163 observations were obtained. The variables analyzed include Profitability, Current Productive Financing (PPL), Non-Performing Productive Financing (PPB), Current Consumptive Financing (PKL), Non-Performing

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Consumptive Financing (PKB), and CKPNAK Costs (BC). Data were processed using the SEM-PLS approach to determine the direct influence between variables in the structural model.

Table 1. Descriptive Statistics of Research Variables

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	163	0,0800	2,517	1,464	0,5829
PPL	163	31.870,680	252.718,900	133.488,067	58.431,874
PPB	163	2,5574	6,450	4,305	1,012
PKL	163	13.215,813	268.122,552	112.278,555	66.825,903
PKB	163	0,9011	3,314	1,844	0,552
BC	163	385,569	16.472,920	5.047,372	3.424,633

In general, the average profitability of Islamic banks during the observation period is 1.464%, with a minimum value of 0.0800% and a maximum value of 2.517%. The average PPB of 4.305% is higher than the average of PKB of 1.844%, which shows that productive financing has a relatively greater risk of problems than consumptive financing. However, the average value of current productive financing is still higher than that of current consumptive financing, so the productive segment remains an important part of the financing structure of Islamic banks.

Coefficient of Model Determination

Determination coefficient testing was carried out to find out how much the ability of independent variables to explain the dependent variables in each structural model.

Table 2. Coefficient of Determination

Structural Model	R Square	R Square Adjusted
PPL	0,021	0,014
BC	0,079	0,067
PKL	0,032	0,026
Profitability	0,744	0,727

The Adjusted R Square value for the Profitability model of 0.727 indicates that the variation in profitability can be explained by the variables in the model of 72.7%. Thus, the final model that explains profitability has a strong explanatory ability. Meanwhile, the R Square Adjusted value for PPL, BC, and PKL is relatively small because the model on these lines is indeed focused on determining the main influence of the non-performing financing variable, not all financing determinants or reserve costs.

Main Hypothesis Testing Results

Hypothesis testing was carried out by paying attention to the coefficient, t-statistic, and p-value values. The hypothesis is stated to be supported if the direction of the coefficient is in accordance with the hypothesis assumption and the p-value is below 0.05.

Table 3. Main Hypothesis Testing Results

Hipotesis	Variable Relationships	Variable Relationship Results	Coefficient	t-statistic	p-value	Hypothetical Results
H1	PPB → PPL	Negative	0,143	2,370	0,009	Accepted
H2	PPB → BC	Positive	0,347	3,479	0,000	Accepted
H3	PKB → BC	Positive	-0,116	1,234	0,109	Rejected
H4	PKB → PKL	Negative	-0,179	-2,742	0,003	Accepted
H5	PPL → Profitabilitas	Positive	-1,139	3,475	0,000	Accepted

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Hipotesis	Variable Relationships	Variable Relationship Results	Coefficient	t-statistic	p-value	Hypothetical Results
H6	BC → Profitabilitas	Negative	-0,296	3,996	0,000	Accepted
H7	PKL → Profitabilitas	Positive	1,849	3,460	0,000	Accepted
H8	PPB → Profitabilitas	Negative	-0,019	0,237	0,407	Rejected
H9	PKB → Profitabilitas	Negative	-0,143	1,961	0,025	Accepted

In accordance with Table 3 above, it can be seen that the hypothesis results of the study are as follows:

H1: Effect of PPB on PPL

The test results showed that PPB had a significant effect on PPL, but the direction was positive, not negative. The coefficient value of 0.143 with a p-value of 0.009 shows that the increase in problematic productive financing actually moves in the direction of current productive financing. Therefore, the first hypothesis is not supported.

These findings show that increasing risks in productive financing do not necessarily make productive financing smoothly decrease. In the context of the industry, Islamic banks seem to maintain productive financing expansion despite the pressure from non-performing financing. This can happen because productive financing is still seen as the main source of intermediation and income of Islamic banks.

H2: Effect of PPB on BC

The test results show that PPB has a positive effect on CKPNAK Costs. The coefficient value of 0.347, t-statistic 3.479, and p-value of 0.000 indicate that the influence is significant. Thus, the second hypothesis is supported.

These findings show that the higher the non-performing productive financing, the greater the CKPNAK cost that must be established by Islamic banks. In practical terms, this is understandable because deteriorating productive financing adds to the risk of loss exposure, so banks need to establish larger reserves to maintain asset quality and anticipate potential losses.

H3: The Influence of PKB on BC

The test results show that PKB has not been proven to have a positive effect on CKPNAK Fees. The coefficient obtained was -0.116 with a p-value of 0.109, so it was insignificant and not in accordance with the hypothetical direction. Therefore, the third hypothesis is not supported.

These findings indicate that problematic consumptive financing is not the main driver of the increase in CKPNAK costs in the research model. In other words, the cost dynamics of CKPNAK are more explained by productive financing risks than consumptive financing risks. This also shows that there is a difference in risk character between the productive and consumptive segments.

H4: The Influence of PKB on PKL

The test results showed that PKB had a negative effect on PKL. A coefficient value of -0.179 with a p-value of 0.003 indicates that the relationship is significant. Thus, the fourth hypothesis is supported.

This means that the higher the problematic consumptive financing, the lower the current consumptive financing. These findings show that when risks in the consumptive segment increase, Islamic banks tend to be more cautious in maintaining or adding smooth consumptive

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financing. This relationship reflects the prudent response of banks to the quality of consumptive portfolios.

H5: The Effect of PPL on Profitability

The test results show that PPL has a significant effect on profitability, but the direction is negative, not positive. A coefficient value of -1.139 with a p-value of 0.000 indicates that the fifth hypothesis is not supported.

This finding is quite interesting because in general, smooth productive financing is expected to boost profitability. However, the results of the study show that the increase in productive financing is actually related to the decrease in profitability. This condition can reflect that productive financing requires greater monitoring costs, analysis costs, and risk management, so that it does not always directly result in an increase in profits in the current period.

H6: BC's Influence on Profitability

The test results show that CKPNAK Fees have a negative effect on Profitability. A coefficient value of -0.296 with a p-value of 0.000 indicates that the influence is significant. Thus, the sixth hypothesis is supported.

This finding confirms that the formation of CKPNAK is one of the factors that suppresses the profitability of Islamic banks. The greater the reserve cost that must be formed, the greater the pressure on profits. Thus, the quality of financing and the need for reserves are important aspects in maintaining the profitability of Islamic banks.

H7: The Effect of PKL on Profitability

The test results show that PKL have a positive effect on profitability. A coefficient of 1.849 with a p-value of 0.000 indicates that the relationship is significant. Therefore, the seventh hypothesis is supported.

These findings show that consumptive financing is now an important contributor to the profitability of Islamic banks. Consumptive financing that remains smooth is able to provide more stable income for banks. Thus, the consumptive segment can be a source of profitability as long as the quality of financing is maintained.

H8: The Effect of PPB on Profitability

The test results showed that PPB had a negative coefficient of -0.019, but a p-value of 0.407 indicated that the effect was not significant. Thus, the eighth hypothesis is not supported. These findings suggest that problematic productive financing does not directly reduce profitability. However, previous findings show that PPB has a positive effect on CKPNAK costs, and CKPNAK costs have been proven to reduce profitability. Therefore, the impact of PPB on profitability is more visible through indirect channels, especially through increased reserve costs.

H9: The Effect of PKB on Profitability

The test results showed that PKB had a negative effect on profitability. A coefficient value of -0.143 with a p-value of 0.025 indicates that the relationship is significant. Thus, the ninth hypothesis is supported.

These findings show that problematic consumptive financing has a direct impact on declining profitability. In contrast to PPB which is not directly significant, PKB directly suppresses profitability. This shows that risks in the consumptive segment need serious attention because they can be immediately reflected in the bank's profit performance.

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Discussion

The Effect of Problematic Productive Financing on Smooth Productive Financing

The results of the study show that the alleged negative influence of Problematic Productive Financing on Current Productive Financing is not proven. This means that the increase in problematic productive financing does not automatically make Islamic banks reduce productive financing smoothly. This finding is interesting because in prudential logic, the deterioration in the quality of productive financing usually encourages banks to be more selective in financing expansion. However, in the context of the Indonesian Islamic bank industry, productive financing is maintained because this segment has a strategic function in supporting the real sector.

Practically, this condition can be understood because Islamic banks still need a productive financing portfolio as the main source of intermediation. If every increase in problematic financing is immediately responded to by the cessation of productive financing, then the function of Islamic banks in financing business activities can be disrupted. This is where banks strike a balancing act: risk remains under control, but sound productive financing is not necessarily stopped. Widarjono & Rudatin (2021) and Matoenji et al. (2021) show that high concentration of financing can increase NPF risk, so banks need to optimize the diversification of financing portfolios. In other words, the problem does not lie in productive financing itself, but in the quality of financing's selection, monitoring, and diversification.

In the perspective of Stakeholder Theory, these findings show that Islamic banks seek to maintain a balance between the interests of depositors who demand the safety of funds, productive sector customers who need financing, and regulators who want financial system stability. Banks cannot simply take a defensive position by withholding all productive financing, as such a decision could reduce the contribution of Islamic banks to real economic growth. However, banks should also not be too aggressive without paying attention to the quality of financing.

The implication is that Islamic banks need to implement a risk-adjusted productive financing strategy. Productive financing can still be developed, but it must be accompanied by a sharper assessment of business feasibility, monitoring of customer cash flows, renewal of collateral or risk mitigation, and setting sectoral limits. Thus, current productive financing can continue to grow without increasing the accumulation of problematic risks.

The Effect of Problematic Productive Financing on CKPNAK Costs

The results of the study prove that Problematic Productive Financing has a positive effect on CKPNAK Costs. This finding is very logical because deteriorating productive financing will increase the potential loss of financial assets. When the quality of financing declines, banks must form larger loss reserves as a form of prudence.

These findings are in line with research by Misman & Bhatti (2020) which shows that financing quality is an important determinant of credit risk in Islamic banks. Risks in productive financing also tend to be more complex because productive financing is related to business feasibility, fluctuations in business income, customer managerial ability, economic sector conditions, and moral hazard risks. Mukhibad & Setiawan (2023) and Nugroho et al. (2024) also emphasized that equity-based financing in Islamic banks does not provide a fixed income like debt-based financing, so business feasibility analysis is very important. Research on loan loss provision also shows that increased financing risk will encourage an increase in loss reserves (Aristei & Gallo, 2019; Isa et al., 2018; Pramono et al., 2019).

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From the perspective of Stakeholder Theory, the establishment of CKPNAK is a protection mechanism for stakeholders. For depositors and owners of investment funds, CKPNAK signals that banks anticipate losses prudently. For regulators, CKPNAK shows the bank's compliance with the prudential principle. For shareholders, CKPNAK can indeed reduce short-term profits, but in the long term it can maintain the bank's business continuity.

The implication is that Islamic banks need to build a reserve system that is more sensitive to the risk character of productive financing. The assessment of CKPNAK should not only be based on collectibility status, but also pay attention to the economic sector, customer track record, cash flow volatility, collateral quality, and business prospects. With this approach, CKPNAK becomes not only an accounting burden, but also a risk management tool that protects the bank's sustainability.

The Effect of Problematic Consumptive Financing on CKPNAK Costs

The results of the study show that Problematic Consumptive Financing has not been proven to increase CKPNAK Costs directly. These findings show that the main source of the formation of CKPNAK in the research model comes more from problematic productive financing than problematic consumptive financing.

Practically, this can happen because consumptive financing often has a more standardized character, relatively smaller financing value per customer, more regular payment patterns, and risk mitigation is easier to do through collateral, payroll, or individual payability assessments. In addition, the risk of consumptive financing can be spread to a larger number of customers, so the pressure on CKPNAK is not always as great as productive financing. Wahid et al. (2023) show that consumptive financing can indeed be a source of pressure in volatile periods, but its impact on profitability is more visible through the risk of consumer default and restructuring, rather than always through the dominant reserve route.

In the perspective of Stakeholder Theory, this finding sends the message that Islamic banks need to differentiate the sources of risk based on financing segments. For depositors and regulators, the separation of productive and consumptive risk helps to improve transparency of asset quality. For management, this separation is important so that the loss reserves are not structured too aggregatively. For consumptive customers, an overly conservative approach without risk segregation can make access to financing too tight.

The implication is that Islamic banks need to implement segment-based provisioning. Problematic consumptive financing must still be monitored, but the formation of CKPNAK needs to consider historical loss levels, recovery patterns, collateral profiles, and customer payment behavior. Thus, the reserve policy becomes more proportionate and does not suppress profitability excessively.

The Effect of Problematic Consumptive Financing on Current Consumptive Financing

The results of the study prove that Problematic Consumptive Financing has a negative effect on Current Consumptive Financing. This means that when the risk in consumptive financing increases, smooth consumptive financing tends to be depressed. These findings show that the consumptive segment is more sensitive to changes in the quality of customer payments. Operationally, consumptive financing is highly dependent on household income stability, payment discipline, and the ability of banks to assess customer affordability. When non-performing consumptive financing increases, banks tend to tighten financing approvals, review customer scoring, or hold back the expansion of consumptive financing. This is in line with the findings of Wahid et al. (2023) who stated that consumptive financing can suppress profitability

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in unstable periods because many customers request reconditioning or restructuring. Studies on individual housing and credit financing portfolios also show that the quality of the portfolio and retail financing strategies are related to the performance of the bank (Nyang'iye et al., 2022).

In the perspective of Stakeholder Theory, banks' response in holding back consumptive financing when risks increase is a form of protection for depositors, shareholders, and bank stability. However, banks also need to pay attention to customers who are still eligible for financing. This means that the prudential policy must not turn into excessive restrictions on access to financing.

The implication is that Islamic banks need to strengthen the consumer credit scoring system, the use of payment behavior data, debt service ratio evaluation, and early warning mechanisms. Banks also need to build a restructuring approach that is fair to customers who are under temporary pressure, but remain disciplined towards customers who do not have good faith.

The Effect of Current Productive Financing on Profitability

The results of the study show that the alleged positive influence of Current Productive Financing on Profitability is not proven. This finding seems paradoxical, as productive financing is theoretically expected to be a source of income for banks. However, in practice, productive financing can bring greater costs and risks than consumptive financing.

Productive financing requires deeper business analysis, continuous business monitoring, higher monitoring costs, and the risk of information asymmetry between banks and customers. Wahid et al. (2023) found that productive financing can suppress the profitability of Islamic banks in stable periods due to credit risk, principal-agent problems, moral hazards, adverse selection, and monitoring costs. Mukhibad & Setiawan (2023) also show that equity-based financing does not generate fixed income, so banks need to be careful in assessing the feasibility of business customers.

In the perspective of Stakeholder Theory, these findings remind that supporting the productive sector is an important responsibility of Islamic banks, but this support must still be managed in a sustainable manner. Banks cannot only pursue socio-economic functions by distributing as much productive financing as possible, because failure to maintain profitability will also harm depositors, shareholders, employees, and other customers who need the bank's services.

The implication is that Islamic banks need to improve their productive financing design to generate more value. Strategies that can be applied include risk-based pricing adjustments, data-driven business monitoring, productive customer assistance, evaluation of priority economic sectors, and exposure restrictions on highly volatile sectors. Productive financing remains important, but it should be positioned as a portfolio that requires stronger risk management discipline.

The Effect of CKPNAK Costs on Profitability

The results of the study prove that CKPNAK Fees have a negative effect on profitability. These findings are in line with the logic of accounting and risk management where the greater the cost of backup, the greater the burden that reduces the running profit.

These findings are in line with the research of Nelson (2020), Nguyen (2022), and Mohamad et al. (2019) which showed that the provision of financing losses or credit risk can suppress bank profitability. Pramono et al. (2019) also emphasized that loan loss provisions in Islamic banks are related to reserve behavior and financial performance. In the context of this

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study, CKPNAK costs are an important pathway that explains how problematic productive financing ultimately suppresses profitability.

In the perspective of Stakeholder Theory, CKPNAK is a form of compromise between short-term profits and long-term protection. Shareholders may see CKPNAK as a profit suppressor, but depositors and regulators see it as a protective instrument. Customers also benefit indirectly because a healthy bank can continue to provide financing on a sustainable basis.

The implication is that it is not enough for Islamic banks to just manage CKPNAK after financing deteriorates. Banks need to prevent excessive CKPNAK formation from the beginning through improving underwriting quality, collectibility monitoring, early detection of deterioration in financing quality, and effective recovery strategies. Thus, profitability is not sacrificed by reserves that can actually be prevented through better risk management.

The Effect of Current Consumptive Financing on Profitability

The results of the study prove that Current Consumptive Financing has a positive effect on Profitability. These findings show that well-managed consumptive financing can be a stable source of income for Islamic banks.

Consumptive financing generally has a more regular payment pattern, a more standardized analysis process, and relatively attractive margin potential. Research by Nugroho et al. (2022) and Nugroho & Mahroji (2024) shows that several types of loans, including individual loans and mortgages, can have a positive impact on bank performance. Abdulrehman & Nyamute (2018) also found that mortgage financing has a positive effect on the financial performance of commercial banks. In the context of Indonesian Islamic banks, these findings explain why the consumptive portfolio is becoming larger and larger as long as the quality remains smooth, this segment can support profitability.

From the perspective of Stakeholder Theory, consumptive financing smoothly creates benefits for several parties. Banks earn income, customers gain access to financing for legitimate needs, depositors gain confidence that funds are managed on yielding portfolios, and regulators see the stability of asset quality. However, these benefits can only be maintained if consumptive financing is not directed at excessive consumption behavior or is not in accordance with affordability.

The implication is that Islamic banks can continue to develop consumptive financing, but need to maintain the principles of affordability and responsible financing. Consumptive products must be designed so as not to encourage over-indebtedness. Banks need to strengthen customer education, evaluation of their ability to pay, and post-disbursement monitoring so that consumptive financing remains a source of healthy profitability.

The Effect of Problematic Productive Financing on Profitability

The results of the study show that Problematic Productive Financing has not been proven to have a direct negative effect on Profitability. These findings show that the impact of PPB on bank profits does not work simply. Productive financing risks seem to be channeled more through current productive financing and CKPNAK costs, rather than directly to profitability.

Practically, Islamic banks can have mechanisms that mitigate the direct impact of PPB, for example through restructuring, portfolio diversification, income from other segments, fee-based income, and reserves that are arranged in stages. Research from Mohamad et al. (2019), shows that internal factors such as ROA, CAR, and bank size are related to NPF, so the impact of non-performing financing on performance is greatly influenced by the bank's internal capacity to absorb risk. Widarjono & Rudatin (2021) also emphasized the importance of financing diversification to reduce NPF risk.

In the perspective of Stakeholder Theory, these findings are important because Islamic banks should not necessarily abandon productive financing just because this segment has problematic risks. Productive financing still has strategic value for business customers, society, and economic development. However, banks must also safeguard the interests of depositors and shareholders by ensuring productive risks do not turn into large losses.

The implication is that Islamic banks need to treat PPB as an initial indicator that triggers corrective action, not just as a risk number. These actions can be in the form of an early warning system, selective restructuring, business customer assistance, re-evaluation of customer business models, and strengthening recovery units. With this approach, PPB's impact on profitability can be reduced through more active risk management channels.

The Effect of Problematic Consumptive Financing on Profitability

The results of the study prove that Problematic Consumptive Financing has a negative impact on Profitability. These findings show that the risk in consumptive financing can be directly felt in bank profits. In contrast to PPB which has more impact through CKPNAK costs and smooth productive financing, PKB has a more direct path to profitability.

In practical terms, problematic consumptive financing can reduce profitability through late payments, loss of margin income, increased collection costs, restructuring costs, and reputational risks. Wahid et al. (2023) show that consumptive financing can suppress profitability in volatile periods due to the increased risk of default and the need for restructuring. Boussaada et al. (2023) also showed that non-performing loans are negatively related to bank performance. Thus, consumptive financing can indeed be a good source of profit when it is current, but it becomes a source of profit pressure when its quality deteriorates.

In the perspective of Stakeholder Theory, these findings show that consumptive risk not only harms banks as institutions, but also impacts many stakeholders. Customers face financial pressures, depositors face the risk of declining bank assets, shareholders face declining profits, and regulators face the potential for increased systemic risks if problematic consumptive financing expands.

The implication is that Islamic banks need to strengthen the governance of consumptive financing based on the principles of prudence and social responsibility. Banks must ensure that consumptive financing is provided to customers who actually have the capacity to pay. In addition, banks need to develop ethical collection mechanisms, proportionate restructuring, and financial education so that customers do not fall into excessive financing patterns.

CONCLUSION

This study concludes that the influence of non-performing financing on the profitability of Islamic banks in Indonesia does not occur alone, but differs between productive and consumptive segments. Problematic Productive Financing (PPB) has not been proven to reduce profitability directly, but plays an important role in increasing CKPNAK Costs. This means that risks in productive financing first appear as reserve pressure before finally affecting the bank's ability to generate profits. These findings confirm that CKPNAK is an important pathway in explaining the relationship between productive financing risk and the profitability of Islamic banks.

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On the other hand, Problematic Consumptive Financing (PKB) has been proven to have a negative impact on Current Consumptive Financing (PKL) and also directly suppresses profitability. This shows that the consumptive segment has a risk character that is faster reflected in profit performance. However, if consumptive financing remains in the current category, this segment can actually become a strong source of profitability for Islamic banks. Thus, consumptive financing has two sides: it supports profits when it is healthy, but quickly suppresses profits when its quality deteriorates.

PPL study further proves that Current Productive Financing (PPL) does not invariably become a driver for profitability. What it means is that productive financing comes with higher costs of supervision, feasibility studies and risk management. In essence, the originality of this research is in segmenting non-performing financing into two segments such as unproductive and productive and position CKPNAK Fees as critical mechanism to explaining impact of financing quality on Islamic banks profitability. This approach attracts a closer representation of the Islamic banks' risk management practices and reflects the bank's input-output mechanism than what the model founded on NPF at aggregate Estimate.

Islamic banks should not focus solely on the growth of financing, but also on improving the quality of the portfolio following the nature of each channel. In productive financing, banks must improve business feasibility and cash flow system monitoring to prevent the expansion of risk sectors as well as strengthen early warning systems so that productive financing does not become a demoralising burden on CKPNAK. For consumptive financing, banks need to call upon the assessment of solvency and how potential credit scoring they should improve if they want to have more responsible financing principles where each growth of consumptive does not become a default that directly disrupts profit.

Furthermore, for regulators, the results of this study can be the basis for encouraging financing risk reporting that is more segmented between productive and consumptive. In addition, for further research, the study can be developed using individual bank data, distinguishing the types of financing contracts, and testing CKPNAK based on financing segments so that the results are more detailed and applicable to managerial decision-making.

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