

The Influence of Profitability, Capital, and Liquidity on Discretionary Financing Loss Provisions with Bank Size as a Moderating Variable (A Study on Islamic Banking in Indonesia from 2016 to 2020)

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Abstract

This study analyzes the effect of profitability, capital, and liquidity on Discretionary Financing Loss Provisions (DFLP) with bank size as a moderating variable in Islamic banks in Indonesia from 2016 to 2020. Using a quantitative method and moderating regression analysis with SPSS, the results show that profitability, capital, and liquidity have a positive and significant effect on DFLP. Bank size does not moderate the effect of profitability on DFLP but can moderate the effect of capital and liquidity on DFLP. The F test indicates that all independent variables have a significant simultaneous effect on DFLP, as evidenced by the F_{value} (5.169) being greater than the F_{table} value (2.54) and the significance value of $0.001 < 0.05$. The coefficient of determination test shows that the R^2 value in model 1 is 0.273, and in model 2, it is 0.561. This indicates that the R^2 value in model 1 is smaller than in model 2, proving that adding moderation has a weak influence.

I. INTRODUCTION

Indonesia continues to strengthen its economy through improvements in the financial system, with banking playing a strategic role in monetary policy, payment systems, and financial stability. Therefore, a healthy, transparent, and responsible banking system is needed to function optimally. To support these objectives, the integration of advanced information technology within the financial sector, particularly banking, has become increasingly essential.

The rapid and sophisticated advancements in information technology (Kuswanto et al., 2020), particularly within the business sector, have compelled business owners to adopt and integrate these technologies to effectively manage and expand their operations in order to remain competitive (Utami et al., 2025). These technological developments have introduced significant conveniences and efficiencies across various industries. One notable transformation is the convergence of computer technology and telecommunications, which has revolutionized the field of information systems and enhanced the speed and accuracy of business processes (Arifin & Novita, 2022).

Islamic banks play a crucial role in collecting public funds and aim to achieve optimal profits through financial services (Arthesa & Handiman, 2006). In carrying out its functions, banking in Indonesia is based on the principle of prudence in accordance with Law No. 10 of 1998 on Banking, with a responsibility to improve the welfare of society.

Islamic banks have grown rapidly in Indonesia by adopting profit-sharing and partnership principles, which differ from conventional banks, attracting public interest. This advantage makes Islamic banks a solution for strengthening the national financial system.

The concept of Islamic banking prioritizes partnership, justice, transparency, and universality. Cooperation between capital owners and entrepreneurs aims to achieve profits, which aligns with Islamic teachings in Surah Al-Baqarah verse 198, which states that seeking profit is essential for sustaining life.

لَيْسَ عَلَيْكُمْ جُنَاحٌ أَنْ تَبْتَغُوا فَضْلًا مِّن رَّبِّكُمْ فَإِذَا أَفَضْتُمْ مِّنْ عَرَفَاتٍ فَاذْكُرُوا اللَّهَ عِنْدَ الْمَشْعَرِ الْحَرَامِ وَاذْكُرُوا كَمَا هَدَيْتُمْ وَإِنْ كُنْتُمْ مِنْ قَبْلِهِ لَمِنَ الضَّالِّينَ ١٩٨

Artinya: "It is not a sin for you to seek the bounty of your Lord (during the pilgrimage). And when you depart from Arafat, remember Allah at Mash'ar al-Haram. Remember Him as He has guided you, even though before that, you were among those who were astray." Q.S Al-Baqarah: 198 (Indonesia, 2019).

Indonesia continues to strengthen its economy through the improvement of the financial system, with banking playing a strategic role in monetary policy, payment systems, and financial stability. Islamic banks play an important role in collecting public funds and obtaining optimal profits through financial services. As financial institutions providing services, banks aim to gain public trust, making it crucial for banks to maintain their financial health and stability (Kurniasih, 2016). Banks must maintain financial health and stability to gain the trust of the public, which depends on high liquidity and profitability (Hermina & Suprianto, 2016).

Profitability is an indicator of management performance in managing company wealth, reflected by the profits generated by the company (Guna & Herawaty, 2010). Profitability, as measured by Return on Assets (ROA), reflects a bank's financial performance and influences earnings management (Harun, 2016). Provision for Productive Asset Write-Off (PPAP) or Financing Loss Provision (FLP) is a reserve that reflects the quality of a bank's productive assets (Anwar & Gunawan, 2020). Bank managers tend to engage in earnings management by increasing or decreasing FLP depending on predictions of future performance (Sariati & Marlinah, 2015).

Capital, measured by the Capital Adequacy Ratio (CAR), reflects a bank's ability to cover potential losses and fund its operations (Praja & Hartono, 2018). The higher the capital structure, the higher the debt costs, which can reduce profitability. Liquidity, which measures a bank's ability to meet short-term obligations, also influences FLP (Tobink & Nikolaus-Fanuel, 2003); (V. Rivai, 2011).

Bank size, often measured by total assets, also influences FLP (Zuliyanto, 2013). Previous research has shown differing results, such as Sandra Sukma (Embuningtyas, 2018) which found that profitability and leverage did not affect environmental disclosure, while company size and environmental performance had a positive effect. Conversely, the research by (Dewi & Eveline, 2017) found that company size did not affect discretionary financing loss provisions.

The inconsistency in the results of previous studies creates a research gap, which motivates the author to conduct this study entitled "The Influence of Profitability, Capital, and Liquidity on Discretionary Financing Loss Provisions with Bank Size as a Moderating Variable (A Study on Islamic Banking in Indonesia 2016-2020)".

II. LITERATURE

The word "Sharia" originates from Arabic, meaning path, way, or rule. In general, Sharia encompasses all the teachings brought by Prophet Muhammad SAW that regulate human life, both in matters of faith (*aqidah*) and practical behavior (*amaliah*) (Harmain et al., 2019). "Islamic Bank" refers to a bank operating based on Sharia principles, prohibiting elements such as *riba* (usury), *maisir* (gambling), *gharar* (uncertainty), *haram* (forbidden), and *zalim* (injustice), as regulated by the Islamic Banking Law (Wangsawidjaja Z, 2012).

Earnings management is the action of managers altering financial statements for certain interests, without reflecting the actual economic condition of the company. According to Fischer and Rozenzweig, managers may increase or decrease reported earnings without direct correlation to the company's long-term profitability (Fischer & Rosenzweig, 1995). Schipper defines earnings management as an intervention in external financial reporting to gain personal benefits (Schipper, 1989). Healy and Wahlen state that earnings management occurs when managers use judgment and transaction structures to alter financial reports to mislead shareholders or influence the outcomes of agreements related to reported numbers (Healy & Wahlen, 1999).

According to Fischer and Rozenzweig, earnings management is the action of managers to increase or decrease reported earnings without being related to the company's long-term profitability (Fischer & Rosenzweig, 1995). Schipper defines earnings management as an intervention in financial reporting to gain personal benefits (Schipper, 1989). Healy and Wahlen state that managers alter financial reports to mislead shareholders or influence the outcomes of agreements related to figures in the reports (Healy & Wahlen, 1999). Overall, earnings management is the manipulation of financial statements by managers for certain interests without reflecting the actual economic condition of the company.

Financing Loss Provision (FLP) or Provision for Productive Asset Write-Off (PPAP) is a reserve formed based on a certain percentage of the debit balance according to the classification of productive asset quality (Anwar & Gunawan, 2020).

Profitability indicates a company's ability to generate profit effectively and efficiently, reflecting its operational efficiency (Kasmir, 2010; Oktari & Yanti, 2022). In the context of sports organizations, financial profitability can also influence athletic performance. Owners may prioritize financial gains over sporting success—such as by selling star players—to enhance profits. This is evident in North American sports leagues, where mechanisms like revenue-sharing and salary caps shape such decisions (Sanchez et al., 2020).

Capital functions as the primary source of financing, a buffer against potential losses, and a means to maintain public trust in the bank's ability to perform its intermediation function.

Liquidity in financial markets refers to how quickly and easily a specific asset can be bought or sold in the market within a short time frame, without causing a significant reduction in its value (Muela et al., 2017). Liquidity is a ratio used to measure the ability of an entity—whether an individual, company, or financial institution such as a bank—to meet its short-term financial obligations using available liquid assets. This ratio is calculated by comparing total current assets to total current liabilities (including short-term debt). Liquidity reflects the capacity to cover expenses, bills, and other due obligations, including unexpected fund withdrawals (H. V. Rivai et al., 2007; Tobink & Nikholaus-Fanuel, 2003). The development of liquidity ratios is assessed over time to evaluate the financial stability of an entity across multiple periods (Leony & Yanti, 2023).

III. RESEARCH METHOD

This study uses an associative approach with a quantitative method, aiming to analyze the relationship between two or more variables. The quantitative method is chosen because it allows for objective measurement of social phenomena by converting each variable into numerical data that can be analyzed mathematically. The research is conducted on Islamic banking companies in Indonesia listed on the IDX and OJK during the period from 2016 to 2020. The data used is secondary data obtained from the financial statements of the relevant Islamic banks as well as other official sources. The population of this study includes all financial statements of Islamic banks in Indonesia during the specified period, while the sample is selected based on specific criteria that ensure valid data representation.

To analyze the data, the study employs multiple regression analysis using SPSS version 23.0 software. Classical assumption tests are performed to ensure the regression model meets the appropriate criteria, including normality, multicollinearity, autocorrelation, and heteroscedasticity tests. Additionally, this study uses Moderated Regression Analysis (MRA) to examine the impact of moderating variables, as well as the Sobel test to analyze mediation effects. Hypothesis testing is conducted using t-tests (partial), F-tests (simultaneous), and the coefficient of determination (R^2) to measure the strength of relationships between variables. With this approach, the study can produce conclusions that can be generalized according to the established parameters.

IV. RESULTS

Descriptive analysis test provides an overview or description of the data used as the research sample, based on the minimum value, maximum value, average value, and standard deviation of the variables, as shown in the table below:

Table 1. Results Descriptive Analysis
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Profitabilitas	60	0,065	0,876	0,45435	0,219734
Modal	60	22,271	41,233	30,70712	5,451870
Likuiditas	60	22,271	175,970	59,62755	36,928859
Bank Size	60	14,412	29,514	23,22702	5,655990
Discretionary Financing Loss Provisions	60	0,000	0,740	0,20180	0,237329
Valid N (listwise)	60				

Based on the table above, it can be seen that the Profitability (X1) variable has a minimum value of 0.065 and a maximum value of 0.876, with an average value of 0.454 and a standard deviation of 0.219. The Capital (X2) variable has a minimum value of 22.271 and a maximum value of 41.233, with an average value of 30.707 and a standard deviation of 5.451. The Liquidity (X3) variable has a minimum value of 22.271 and a maximum value of 175.970, with an average value of 59.627 and a standard deviation of 36.928. The Bank Size (Z) variable has a minimum value of 14.412 and a maximum value of 29.514, with an average value of 23.227 and a standard deviation of 5.655. The Discretionary Financing Loss Provisions (Y) variable has a minimum value of 0.000 and a maximum value of 0.740, with an average value of 0.201 and a standard deviation of 0.237.

The normality test in the regression model is used to examine whether the residual values generated from the regression are normally distributed or not. A good regression model is one that has residual values that are normally distributed. The method for testing normality is by observing the data distribution on the Normal P-P Plot of Regression Standardized Residual.

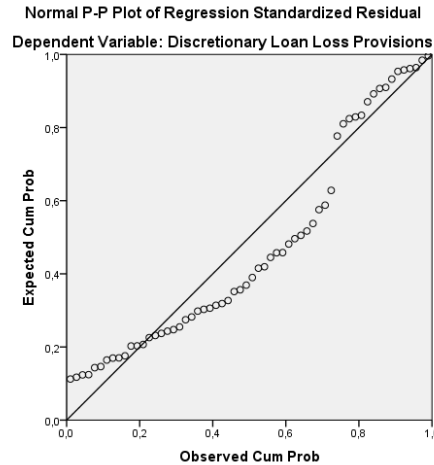


Figure 1. Results Normality Test P-Plot

Based on the image above, it shows that the points or patterns are scattered around the diagonal and follow the diagonal, indicating that the research data is normally distributed and the regression model meets the required conditions. Below are the results of the normality test using Kolmogorov-Smirnov and the p-value.

By observing the VIF (Variance Inflation Factors) value, if the VIF value is < 10.00 , it indicates that multicollinearity does not occur. If the VIF value is > 10.00 , multicollinearity is present. By looking at the tolerance value, if the tolerance value is > 0.10 , it means that multicollinearity does not occur. If the tolerance value is < 0.10 , it indicates that multicollinearity is present.

Table 2. Results Multicollinearity Test
 Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	0,455	0,180		2,521	0,015		
1 Profitabilitas	-0,345	-0,164	-0,183	3,485	0,043	0,861	1,162
Modal	0,302	0,006	0,037	4,291	0,002	0,934	1,070
Likuiditas	0,102	0,001	0,281	2,883	0,012	0,823	1,215

a. Dependent Variable: Discretionary Financing Loss Provisions

Based on the table above, the data processing results using SPSS show that:

- The Profitability (X1) variable has a tolerance value of 0.861, which is greater than 0.10, and VIF value of 1.162, which is less than 10. Therefore, it can be concluded that the Profitability (X1) variable is free from multicollinearity issues.
- The Capital (X2) variable has a tolerance value of 0.934, which is greater than 0.10, and a VIF value of 1.070, which is less than 10. Therefore, it can be concluded that the Capital (X2) variable is free from multicollinearity issues.
- The Liquidity (X3) variable has a tolerance value of 0.823, which is greater than 0.10, and a VIF value of 1.215, which is less than 10. Therefore, it can be concluded that the Liquidity (X3) variable is free from multicollinearity issues.

There are many ways to detect the presence or absence of correlation in research. One of them is by testing correlation using the Durbin Watson test. Below are the results of the autocorrelation test processed using SPSS.

Table 3. Results Autocorrelation Test

Model	Durbin-Watson
1	1,974

From the table above, the Durbin Watson value for Model 1 is 1.974. The region free from autocorrelation for a sample size (n) of 60 and three independent variables is given by the value of DU, which is 1.688.

Therefore, if $DW > DU$ and $(4 - DW) > DU$, or $1.974 > 1.688$ and $(4 - 1.688 = 2.312) > 1.688$, it can be concluded that this model does not experience autocorrelation.

A moderating variable is an independent variable that strengthens or weakens the relationship between the independent and dependent variables. The method for testing regression analysis with a moderating variable is through the interaction test, often referred to as Moderated Regression Analysis (MRA). The equation is:

Model 1:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \quad (1)$$

Table 4. Results Moderated Regression Analysis Test (Model 1)
 Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
(Constant)	0,455	0,180	
1 Profitabilitas	-0,345	-0,164	-0,183
Modal	0,302	0,006	0,037
Likuiditas	0,102	0,001	0,281

a. Dependent Variable: Discretionary Financing Loss Provisions

From the coefficient values above, the multiple regression equation can be formulated as follows:

$$Y = 0,455 + -0,345X_1 + 0,302X_2 + 0,102X_3 + e \quad (2)$$

From this equation, it can be concluded that:

- The constant value (a) = 0.455 means that if the scores of the Profitability, Capital, and Liquidity variables are all zero, the Discretionary Financing Loss Provisions (Y) will increase by 0.455.
- The regression coefficient for Profitability (X1) is -0.345. This means that an increase of one point in Profitability (X1) will decrease the Discretionary Financing Loss Provisions (Y) by 0.345 times.
- The regression coefficient for Capital (X2) is 0.302. This means that an increase of one point in Capital (X2) will increase the Discretionary Financing Loss Provisions (Y) by 0.302 times.
- The regression coefficient for Liquidity (X3) is 0.102. This means that an increase of one point in Liquidity (X3) will increase the Discretionary Financing Loss Provisions (Y) by 0.102 times.

Based on the results of the regression equation, it can be concluded that the relationship between Profitability and Discretionary Financing Loss Provisions is negative. On the other hand, the relationships between Capital and Liquidity with Discretionary Financing Loss Provisions are positive, meaning that when Capital and Liquidity are increased, it will have an impact on Discretionary Financing Loss Provisions.

Model 2 :

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 Z_i + \beta_5 X_1 * Z_i + \beta_6 X_2 * Z_i + \beta_7 X_3 * Z_i + e \quad (3)$$

Table 5. Results Moderated Regression Analysis Test (Model 2)
 Coefficients^a

Model	Unstandardized Coefficients	Standardized Coefficients
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	B	Std. Error	Beta
(Constant)	2,743	0,692	
Profitabilitas	1,017	0,532	0,942
Modal	0,039	0,022	0,893
Likuiditas	0,009	0,004	1,378
Bank Size	0,095	0,029	2,265
Profitabilitas * Bank Size	0,035	0,022	0,875
Modal * Bank Size	0,002	0,001	1,146
Likuiditas * Bank Size	0,060	0,000	1,140

a. Dependent Variable: Discretionary Financing Loss Provisions

From the coefficient values above, the multiple regression equation can be formulated as follows:

$$Y = 2,743 + 1,017X_1 + 0,039X_2 + 0,009X_3 + 0,095Z + 0,035X_1*Z + 0,002X_2*Z + 0,060X_3*Z + e \quad (4)$$

From this equation, it can be concluded that:

- The constant value (a) = 2.743, meaning that when the scores of the Profitability, Capital, Liquidity, and Bank Size variables are all zero, Discretionary Financing Loss Provisions (Y) will increase by 2.743.
- The regression coefficient for Profitability (X1) is 1.017. This means that an increase of one point in Profitability (X1) will increase Discretionary Financing Loss Provisions (Y) by 1.017 times.
- The regression coefficient for Capital (X2) is 0.039. This means that an increase of one point in Capital (X2) will increase Discretionary Financing Loss Provisions (Y) by 0.039 times.
- The regression coefficient for Liquidity (X3) is 0.009. This means that an increase of one point in Liquidity (X3) will increase Discretionary Financing Loss Provisions (Y) by 0.009 times.
- The regression coefficient for Bank Size (Z) is 0.095. This means that an increase of one point in Bank Size (Z) will increase Discretionary Financing Loss Provisions (Y) by 0.095 times.
- The regression coefficient for Profitability (X1) multiplied by Bank Size (Z) is 0.035. This means that an increase of one point in the interaction of Profitability (X1) and Bank Size (Z) will increase Discretionary Financing Loss Provisions (Y) by 0.035.
- The regression coefficient for Capital (X2) multiplied by Bank Size (Z) is 0.002. This means that an increase of one point in the interaction of Capital (X2) and Bank Size (Z) will increase Discretionary Financing Loss Provisions (Y) by 0.002.
- The regression coefficient for Liquidity (X3) multiplied by Bank Size (Z) is 0.060. This means that an increase of one point in the interaction of Liquidity (X3) and Bank Size (Z) will increase Discretionary Financing Loss Provisions (Y) by 0.060.

Based on the results of the regression equation, it can be concluded that the relationship between Profitability, Capital, Liquidity, as well as the moderations of Profitability multiplied by Bank Size, Capital multiplied by Bank Size, and Liquidity multiplied by Bank Size with Discretionary Financing Loss Provisions is positive. This means that when Profitability, Capital, Liquidity, and the interactions of Profitability multiplied by Bank Size, Capital multiplied by Bank Size, and Liquidity multiplied by Bank Size are increased, it will have an impact on Discretionary Financing Loss Provisions.

The t test is used to test each independent variable (X) to determine whether the independent variable has a positive and significant effect on the dependent variable. The criteria for accepting or rejecting the hypothesis at a significance level (α) of 0.05 are as follows:

- 1) If $t_{value} > t_{table}$, it means H_0 is rejected and H_a is accepted.

2) If $t_{\text{value}} < t_{\text{table}}$, it means H_0 is accepted and H_a is rejected.

The t test can also be observed based on its significance level, which is:

- 1) If the significance level < 0.05 , it means H_0 is rejected and H_a is accepted.
- 2) If the significance level > 0.05 , it means H_0 is accepted and H_a is rejected.

The critical value (t_{table}) for testing at a significance level of $\alpha = 0.05$ is obtained from the t_{table} at $0.05 / 2 = 0.025$ (two-tailed test) with degrees of freedom (df) of $n-k-1$ or $60-3-1 = 56$ (where n is the number of data points and k is the number of independent variables). With a two-tailed test (significance = 0.025), the obtained value for t_{table} is 2.003.

**Table 6. Results t Test (Partial Test)
Coefficients^a**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	0,455	0,180		2,521	0,015		
1 Profitabilitas	0,212	0,142	0,196	3,485	0,043	0,861	1,162
Modal	0,302	0,006	0,037	4,291	0,002	0,934	1,070
Likuiditas	0,102	0,001	0,281	2,883	0,012	0,823	1,215

a. Dependent Variable: Discretionary Financing Loss Provisions

For the Profitability variable, it can be seen that the t_{value} is 3.485 with a significance level of 5%. Since the t_{value} for variable X1 (3.485) is greater than the t_{table} value (2.003) with a significance value of $0.043 < 0.05$, it can be concluded that Profitability has a positive and significant partial effect on Discretionary Financing Loss Provisions, thus proving that H_{a1} is accepted and H_{o1} is rejected.

For the Capital variable, it can be seen that the t_{value} is 4.291 with a significance level of 5%. Since the t_{value} for variable X2 (4.291) is greater than the t_{table} value (2.003) with a significance value of $0.002 < 0.05$, it can be concluded that Capital has a positive and significant partial effect on Discretionary Financing Loss Provisions, thus proving that H_{a2} is accepted and H_{o2} is rejected.

For the Liquidity variable, it can be seen that the t_{value} is 2.883 with a significance level of 5%. Since the t_{value} for variable X3 (2.883) is greater than the t_{table} value (2.003) with a significance value of $0.012 < 0.05$, it can be concluded that Liquidity has a positive and significant partial effect on Discretionary Financing Loss Provisions, thus proving that H_{a3} is accepted and H_{o3} is rejected.

**Table 7. Results t Test (Partial Test with Added Moderation)
Coefficients^a**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2,743	0,692		3,964	0,000
1 Profitabilitas	1,017	0,532	0,942	3,912	0,041
Modal	0,039	0,022	0,893	2,760	0,024
Likuiditas	0,009	0,004	1,378	2,461	0,017
Bank Size	0,095	0,029	2,265	3,295	0,002
Profitabilitas * Bank Size	0,035	0,022	0,875	1,593	0,317
Modal * Bank Size	0,002	0,001	1,146	3,638	0,008
Likuiditas * Bank Size	0,000	0,000	1,140	2,912	0,039

a. Dependent Variable: Discretionary Financing Loss Provisions

Meanwhile, by adding the moderating variable in this study, it can be seen from the results of the Moderated Regression Analysis (MRA) that, based on the SPSS calculations, the interaction between the Profitability variable and the moderating variable Bank Size has a t_{value} of 1.593, which is less than the t_{table} value of 2.003, with a significance value of 0.317, which is greater than 0.05. Therefore, it can be concluded that Bank Size is unable to moderate the effect of Profitability on Discretionary Financing Loss Provisions, thus proving that Ha4 is rejected and Ho4 is accepted.

The interaction between the Capital variable and the moderating variable Bank Size has a t_{value} of 3.638, which is greater than the t_{table} value of 2.003, with a significance value of 0.008, which is less than 0.05. Therefore, it can be concluded that Bank Size is able to moderate the effect of Capital on Discretionary Financing Loss Provisions, thus proving that Ha5 is accepted and Ho5 is rejected.

The interaction between the Liquidity variable and the moderating variable Bank Size has a t_{value} of 2.912, which is greater than the t_{table} value of 2.003, with a significance value of 0.039, which is less than 0.05. Therefore, it can be concluded that Bank Size is able to moderate the effect of Liquidity on Discretionary Financing Loss Provisions, thus proving that Ha6 is accepted and Ho6 is rejected.

The F statistic test or simultaneous test is a model feasibility/statistical test to determine whether, collectively, the regression coefficients of the independent variables have an effect on the dependent variable. The F-test is performed to assess whether all the independent variables included in the model simultaneously have an effect on the dependent variable. The test is conducted at a significance level of 5% or 0.05.

The value of the F_{table} is tested at a significance level of $\alpha = 0.05$. To determine the F_{table} value, $df (n1) = k-1$ or $5-1 = 4$, and $df (n2) = n-k$ or $60-5 = 55$. Thus, the F-table value is 2.54.

Table 8. Results F Test (Simultaneous Test)

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	0,908	4	0,227	5,169	0,001 ^b
Residual	2,415	55	0,044		
Total	3,323	59			

a. Dependent Variable: Discretionary Financing Loss Provisions

b. Predictors: (Constant), Bank Size, Profitabilitas, Modal, Likuiditas

Based on the calculations, it can be seen that the significance value is 0.001 and the F_{value} is 5.169. The decision rule is that if the significance value is less than 0.05 ($\text{Sig} < 0.05$), the conclusion is that the relationship is significant. As shown in the table above, the significance value (0.001) is smaller than 0.05. Therefore, the decision is significant. This means Ha7 is accepted and Ho7 is rejected, indicating that, simultaneously, all independent variables have a significant effect on the dependent variable.

The calculated F_{value} in this equation is 5.169, while the critical F_{value} (F_{tabel}) is 2.54. Since F_{value} (5.169) is greater than F_{tabel} (2.54), the decision is to accept Ha7 and reject Ho7. This means that all independent variables, consisting of Profitability, Capital, Liquidity, and Bank Size, have a positive and significant simultaneous effect on the dependent variable, which is Discretionary Financing Loss Provisions..

The multiple coefficient of determination (R^2) is used to assess how much the variation in the dependent variable is influenced by the variation in the independent variables. A small R^2 value indicates that the independent variables have a limited ability to explain the variation in the dependent variable.

Table 9. Results Coefficient of Determination Test (R²)

Model Summary ^b						
Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
1	0,401 ^a	0,561		0,416	0,223154	1,974

a. Predictors: (Constant), Likuiditas, Modal, Profitabilitas

b. Dependent Variable: Discretionary Financing Loss Provisions

The table above shows that the R Square value is 0.561. This indicates that the independent variables, namely Profitability, Capital, and Liquidity, explain 56.1% of the variation in the dependent variable, Discretionary Financing Loss Provisions. The remaining 43.9% is explained by other variables outside the regression model.

The results of the equation are tested as follows:

Table 10. Results Equation Test (Model 1)

Model Summary					
Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	0,401 ^a	0,561		0,416	0,223154

a. Predictors: (Constant), Bank Size, Profitabilitas, Modal, Likuiditas

Table 11. Results Equation Test (Model 2)

Model Summary ^b					
Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	0,670 ^a	0,450		0,375	0,187559

a. Predictors: (Constant), Likuiditas, Modal, Profitabilitas

b. Dependent Variable: Discretionary Financing Loss Provisions

The R² value shown in table 10 above is 0.561, while in table 11, the R² value is 0.450. It can be observed that the R² value in model 1 is smaller than the R² value in model 2. This indicates that the regression model has a weak influence.

The Effect of Profitability on Discretionary Financing Loss Provisions.

Based on the results of the t test, the t_{value} is 3.485 with a significance level of 5%. For a sample size of 60 (n) and 3 independent variables (k), the t_{value} is 2.003. Since the t_{value} for variable X1 (3.485) is greater than the t_{table} value (2.003), H_{a1} is accepted and H_{o1} is rejected. Therefore, Profitability (X1) has a positive and significant effect on Discretionary Financing Loss Provisions (Y).

The results of this study support the previous research by Pusponingrum & Diana (2021), which showed that Profitability (Return on Assets) has an effect on Impairment Loss Provisions. This study also supports the theory of Guna & Herawaty (2010), which states that profitability is an indicator of management performance in managing the company's wealth. The profits generated by the company can serve as an indicator of earnings management, with Earnings Before Tax and Provisions (EBTP) reflecting the bank's ability to generate profit from its operational activities.

When a bank performs well with high profits and predicts poor performance in the future, managers tend to retain or reduce the current period's profits to be used in the future by increasing the FLP. On the other hand, if the bank performs poorly and predicts better performance in the future, the bank will increase the current period's profits by decreasing the FLP.

The Effect of Capital on Discretionary Financing Loss Provisions

Based on the test results, the t_{value} is 4.291 with a significance level of 5%. For a sample of 60 (n) and 3 independent variables (k), the t_{table} value is 2.003. Since the t_{value} for variable X2 (4.291) is

greater than the t_{table} value (2.003), H_{a2} is accepted and H_{o2} is rejected. Therefore, Capital (X2) has a positive and significant effect on Discretionary Financing Loss Provisions (Y).

The results of this study support the research by Haqni (2022), which showed that the Capital Adequacy Ratio (CAR) or Capital significantly affects Impairment Loss Provisions (CKPN). Capital reflects the bank's ability to cover risk losses and finance its operations. Bank capital consists of core capital and supplementary capital, and the Financial Services Authority regulation sets a minimum capital requirement of 8%. The higher the capital structure, the higher the debt, which can reduce the bank's ability to generate profit, potentially encouraging earnings management.

There is a relationship between discretionary financing loss provisions and capital, as financial institutions use capital to cover potential losses from their lending activities, helping to maintain a strong financial position and meet regulatory requirements for stability and solvency.

The Effect of Liquidity on Discretionary Financing Loss Provisions

Based on the t test results, the t_{value} is 2.883 with a significance level of 5%. For a sample of 60 (n) and 3 independent variables (k), the t_{table} value is 2.003. Since the t_{value} for variable X3 (2.883) is greater than the t_{table} value (2.003), H_{a3} is accepted and H_{o3} is rejected. This indicates that the Liquidity (X3) variable has a positive and significant effect on Discretionary Financing Loss Provisions (DFLP).

Liquidity refers to a company's or bank's ability to meet its financial obligations with liquid assets. In banking, this includes the bank's ability to provide sufficient funds to meet its obligations, including unforeseen withdrawals. The results of this study support the research by (Embuningtyas, 2018), which shows that Liquidity (LDR) significantly affects Discretionary Financing Loss Provisions (DFLP).

In signaling theory by (Ross & Kripke, 1979), a company provides financial statement information to external parties as a signal, which will be processed by the interested parties (Rokhlinasari, 2014). In Islamic marketing, the entire process must comply with the principles of muamalat and avoid unjust actions, including in the creation, offering, and value changes in marketing.

Poor liquidity can lead to discretionary financing loss provisions, while good liquidity helps avoid such losses and maintain the company's financial position.

The Effect of Profitability on Discretionary Financing Loss Provisions with Bank Size as a Moderating Variable

The results of the Moderated Regression Analysis (MRA) show that the interaction between the Profitability variable and the moderating variable Bank Size has a t_{value} of 1.593, which is smaller than the t_{table} value of 2.003, with a significance value of 0.317, which is greater than 0.05. This indicates that Bank Size does not moderate the effect of Profitability on Discretionary Financing Loss Provisions, meaning that H_{a4} is rejected and H_{o4} is accepted. Furthermore, the R^2 value in model 1 is 0.561 and in model 2 is 0.450, indicating that the regression model has a weak influence.

These results are consistent with the research by Embuningtyas (2018), which showed that profitability and leverage do not have an effect on environmental disclosure, while company size and environmental performance have a positive effect.

Profitability reflects a company's ability to generate profit, while Discretionary Financing Loss Provisions are reserves set aside to cover potential losses from financing. Bank size affects the bank's ability to absorb losses, with larger banks generally having lower Discretionary Financing

Loss Provisions, even if their profitability is lower. Conversely, smaller banks may have higher Discretionary Financing Loss Provisions, even if their profitability is higher.

The Effect of Capital on Discretionary Financing Loss Provisions with Bank Size as a Moderating Variable.

The results of the Moderated Regression Analysis (MRA) show that the interaction between the Capital variable and Bank Size results in a t_{value} of 3.638, which is greater than the t_{table} value of 2.003, with a significance value of 0.008, which is less than 0.05. This indicates that Bank Size can moderate the effect of Capital on Discretionary Financing Loss Provisions, meaning that H_{a5} is accepted and H_{o5} is rejected. The R^2 value in model 1 is 0.561, and in model 2, it is 0.450, indicating a weak regression effect.

These results support the research by Haqni (2022), which showed that the Capital Adequacy Ratio (CAR) or Capital significantly affects Impairment Loss Provisions (CKPN). Bank size also influences discretionary financing loss provisions, where larger banks tend to have more resources to manage losses. Bank size functions as a moderating variable, with the impact of capital possibly being stronger in smaller banks compared to larger ones.

Overall, capital and bank size are important factors in managing potential credit losses, although other factors such as credit quality, interest rates, and market conditions also influence discretionary financing loss provisions.

The Effect of Liquidity on Discretionary Financing Loss Provisions with Bank Size as a Moderating Variable

The results of the Moderated Regression Analysis (MRA) show that the interaction between the Liquidity variable and Bank Size results in a t_{value} of 2.912, which is greater than the t_{table} value of 2.003, with a significance value of 0.039, which is less than 0.05. This indicates that Bank Size can moderate the effect of Liquidity on Discretionary Financing Loss Provisions, meaning that H_{a6} is accepted and H_{o6} is rejected. The R^2 value in model 1 is 0.561, and in model 2, it is 0.450, indicating a weak regression effect.

These results support the research by Embuningtyas (2018), which showed that Liquidity (LDR) has a positive and significant effect on Discretionary Financing Loss Provisions (DFLP). Bank size, measured by indicators such as total assets, employees, or branches, affects liquidity. Larger banks tend to have better liquidity, but they also require larger discretionary financing loss provisions to manage potential losses from loans to customers.

Overall, the relationship between liquidity and discretionary financing loss provisions is influenced by bank size as a moderating variable. Larger banks tend to have better liquidity but also require larger provisions for potential losses.

The Effect of Profitability, Capital, Liquidity, and Bank Size on Discretionary Financing Loss Provisions.

Based on the results of the F test, Profitability, Capital, Liquidity, and Bank Size simultaneously have a positive and significant effect on Discretionary Financing Loss Provisions (DFLP). With a significance value of 0.001 and an F-value of 5.169, which is greater than the F_{table} value of 2.54, H_{a7} is accepted and H_{o7} is rejected. This means that all the variables significantly affect DFLP.

Bank size, measured by indicators such as total assets, number of employees, or branches, influences DFLP. Larger banks tend to have a larger loan portfolio and require higher DFLP to manage potential losses. In general, banks with good profitability, capital, liquidity, and bank size tend to require higher DFLP.

These results support the research by Embuningtyas (2018), which showed that profitability, leverage, company size, and environmental performance have a significant impact on

environmental disclosure. The theory also suggests that profitability, capital, liquidity, and bank size affect DFLP in different ways. However, in general, larger and more liquid banks tend to reduce DFLP, although a larger size can also increase credit risk and DFLP.

V. CONCLUSION

Based on the results of the research, it can be concluded that Profitability, Capital, Liquidity, and Bank Size have a significant impact on Discretionary Financing Loss Provisions (DFLP). Profitability has a positive and significant effect on DFLP, indicating that banks with higher profitability tend to be more capable of handling credit losses. This is evidenced by the t-value for Profitability being greater than the t-table value and the significance value of $0.043 < 0.05$. Capital also has a positive and significant effect on DFLP, suggesting that banks with higher capital can absorb larger losses without increasing systemic risk. Liquidity has a positive and significant effect on DFLP, showing that banks with better liquidity are more likely to handle discretionary financing loss provisions more effectively and with greater stability.

However, Bank Size does not moderate the effect of Profitability on DFLP, meaning that the size of the bank does not alter the impact of profitability on DFLP. On the other hand, Bank Size can moderate the effect of Capital and Liquidity on DFLP, although this effect is weaker. Larger banks tend to have more resources to manage losses, but they can also increase credit risk, leading to a higher need for loss provisions.

Simultaneously, Profitability, Capital, Liquidity, and Bank Size have a positive and significant effect on DFLP. This indicates that all these variables collectively influence the bank's decision in determining discretionary financing loss provisions.

However, this study has some limitations, such as the sample being limited to Islamic banks listed in Indonesia from 2016 to 2020, which may not be generalizable to other banking sectors or longer time periods. Additionally, this study only uses secondary data from financial statements, which may have limitations in terms of accuracy and completeness of the information.

For future research, it is recommended to expand the sample to include conventional banks or banks from other countries, as well as to explore additional factors that may influence DFLP, such as macroeconomic factors, regulations, or internal bank policies. The use of primary data collection methods can also enhance the accuracy and completeness of the information in the study.

For banks, it is important to pay attention to profitability, capital, and liquidity in managing discretionary financing loss provisions, as well as consider the impact of bank size in loss provisioning policies. For regulators, it is essential to consider the role of Bank Size in regulations related to credit risk management to ensure the overall stability of the banking sector.

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