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LOSS MITIGATION STRATEGIES IN SHARIA COMMERICIAL BANKS IN INDONESIA

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ABSTRACT

This research aims to determine the effect of Profit-Sharing Financing, Financing to Deposit Ratio (FDR), and Non-Performing Financing (NPF) on Profitability because there are several deviations in theory and there are still ratios in variables that do not comply with standards so this research is needed. This type of research is quantitative using secondary data. The population of this research is Sharia Commercial Banks in Indonesia and there are 9 samples selected using the purposive sampling method. The data analysis techniques used are descriptive statistics, panel data regression test, classical assumption test, hypothesis test and coefficient of determination using the Eviews 12 application. The results of this research show that partially the Profit Sharing Financing variable has no effect on the Profitability of Indonesian Sharia Commercial Banks, the Financing to Deposit Ratio (FDR) variable has a significant effect on the Profitability of Indonesian Sharia Commercial Banks, the Non Performing Financing (NPF) variable has no effect on the Profitability of Indonesian Sharia Commercial Banks, and simultaneously Profit Sharing Financing, Financing to Deposit Ratio (FDR), Non Performing Financing (NPF) has a significant effect on the Profitability of Indonesian Sharia Commercial Banks. Profit Sharing Financing in this period is considered still low so it cannot influence the Profitability variable and the Profitability variable can be influenced by other financing. A balanced or high FDR can reflect efficiency in managing funds. using customer savings funds, so that banks can reduce their capital costs, which affects the ups and downs of profit margins and profitability, and effective risk management is one of the reasons why NPF has no effect on profitability.

Keywords: Profit Sharing Financing; Financing to Deposit Ratio (FDR); Non-Performing Financing (NPF); Profitability.

ABSTRAK

Financing to Deposit Ratio (FDR), dan Non Performing Financing (NPF) terhadap Profitabilitas karena terjadinya beberapa kesimpangan pada teori dan masih ada rasio pada variabel yang tidak sesuai dengan standar sehingga diperlukan adanya penelitian ini. Jenis penelitian ini adalah kuantitatif dengan menggunakan data sekunder. Populasi

penelitian ini adalah Bank Umum Syariah di Indonesia dan terdapat 9 sampel yang dipilih menggunakan metode purposive sampling. Teknik analisis data yang digunakan adalah statistik deskriptif, uji regresi data panel, uji asumsi klasik, uji hipotesis dan koefisien determinasi dengan menggunakan aplikasi Eviews 12. Hasil dari penelitian ini menunjukkan bahwa secara parsial variabel Pembiayaan Bagi Hasil tidak berpengaruh terhadap Profitabilitas Bank Umum Syariah Indonesia, variabel Financing to Deposit Ratio (FDR) berpengaruh secara signifikan terhadap Profitabilitas Bank Umum Syariah Indonesia, variabel Non Performing Financing (NPF) tidak berpengaruh terhadap Profitabilitas Bank Umum Syariah Indonesia, dan secara simultan Pembiayaan Bagi Hasil, Financing to Deposit Ratio (FDR), Non Performing Financing (NPF) berpengaruh secara signifikan terhadap Profitabilitas Bank Umum Syariah Indonesia. Pembiayaan Bagi Hasil pada periode ini dianggap masih rendah sehingga tidak dapat mempengaruhi variabel Profitabilitas dan variabel Profitabilitas dapat dipengaruhi oleh pembiayaan lain, FDR yang seimbang atau tinggi dapat mencerminkan efisiensi dalam pengelolaan dana yang menggunakan dana simpanan nasabah, sehingga bank dapat mengurangi biaya modalnya yang dimana hal tersebut mempengaruhi naik turunnya margin keuntungan dan profitabilitas, serta Manajemen Risiko yang efektif menjadi salah satu alasan NPF tidak berpengaruh pada Profitabilitas.

Kata Kunci: Pembiayaan Bagi Hasil; Financing to Deposit Ratio (FDR); Non-Performing Financing (NPF); Profitabilitas.

INTRODUCTION

Profitability shows a bank's ability to generate profits by comparing its net profit after tax with its total assets. A high ratio indicates that the profits obtained by the bank are greater (Sarasi et al., 2020, p. 9). Good risk management will certainly have an impact on bank profitability. If banks are unable to manage existing risks, the public may lose trust in the banking industry, this will of course result in banking profitability decreasing and could even result in bankruptcy. In 2009 there was bankruptcy at a bank in Indonesia, namely Bank Indonesia Finance Investment (IFI). IFI Bank experienced bankruptcy due to lack of availability of core capital and high levels of non-performing loans. In 2023 there will be bankruptcies in banks in the United States due to lack of good risk mitigation and management such as Silicon Valley Bank, Signature Bank (Yulio et al., 2024, p. 48).

Profitability is influenced by internal and external factors. In this study, researchers focus on internal factors that can influence profitability, because internal factors are relevant to bank management in decision making and setting policy objectives. The internal factors used are Natural Uncertainty Contract (NUC) loans or Islamic bank core product business contracts which are not owned by conventional banks because they use a profit sharing system, Financing to Deposit Ratio (FDR), Non Performing Financing (NPF), and others (Anggraini & Mawardi, 2019, p. 1608).

Bank Indonesia Regulation no. 6/10/PBI/2004, Article 4, Paragraph 4 states that profit levels can be calculated using ratios. The Return On Assets (ROA) ratio can be used as a reference for evaluating a bank's health in terms of profitability (Romadhon, 2019, p. 5).

Therefore, this research uses Profit Sharing Financing (PBH), Financing to Deposit Ratio (FDR), and Non-Performing Financing (FDR) as variables. The following is data on the development of PBH, FDR, NPF and ROA of Sharia Commercial Banks in Indonesia:

Table 1. Development of PBH, FDR, NPF, and ROA BUS

Tahun	PBH	FDR	NPF	ROA
2022	38,72	75,19	2,35	2,00
2021	38,85	70,12	2,59	1,55
2020	39,03	76,36	3,13	1,40
2019	39,89	77,91	3,23	1,73

Source: www.ojk.go.id, (2023)

From the data, there are several deviations from the theory that shows the relationship between PBH, FDR, and NPF on Profitability (ROA). If we look at the relationship between the variables PBH and ROA, FDR and ROA, NPF and ROA, in the relationship between these variables there is a discrepancy in the theory which states that the higher the number of PBH, the higher the percentage of ROA (Utami & Utami, 2021, p. 192), the higher the FDR the higher the ROA (Somantri & Sukmana, 2020, p. 62), and the lower the NPF the higher the ROA (Suprianto et al., 2020, p. 140).

The indication is that in 2022 PBH will experience a decline, but not ROA which will actually increase. Furthermore, in 2021 PBH and FDR decreased, but not ROA which actually increased. In 2020, NPF decreased, but not ROA, which actually increased. From the problems that have been explained, in previous research a number of inconsistencies were found in the results (research gaps) regarding the influence of PBH, FDR, and NPF on profitability which are shown in table 2.

Table 2. Research GAP

Variable	Researcher	Results
PBH	Romadhon (2020)	Has no effect on Profitability
	Muthmainnah, dkk (2022)	Significant influence on Profitability
FDR	Romadhon (2020)	Has no effect on Profitability
	Atifah & Diana (2019)	Significant influence on Profitability
NPF	Atifah & Diana (2019)	Has no effect on Profitability
	Sarasi, dkk (2020)	Significant influence on Profitability

Based on the data above, it can be seen that there are differences in the research results, therefore further research is needed. This research also has novelties such as increasing the sample size and adding variables that did not previously exist.

Signaling Theory

Signal theory emphasizes that information about a company is a signal for users of financial reports. This information can be financial or non-financial. When information is announced and received by market players, they previously interpret and analyze the information as a good signal (good news) or not good (bad news). If a company's signal provides evidence of increasing profits, then the information can be classified as a good signal because it shows that the company is running well and vice versa (Siregar & Silalahi, 2022, p. 3).

According to signal theory, profit sharing financing can be an indicator or picture for customers or potential investors about the performance and growth of the profit-sharing financing system, as well as its management. This helps in assessing whether the system is running well or not (Dukalang & Nugroho, 2022).

The increase in FDR shows that Islamic banks are efficiently using public savings funds to support the development of the real sector, which shows the effectiveness of Islamic banks in channeling public savings funds which means it is a good signal to investors (A. T. Lestari, 2021).

The higher the Non-Performing Financing (NPF) ratio, it indicates an increase in the quality of financing which is experiencing problems, which means a bad signal, because it reflects a poor financing distribution process by the bank (Raharjo et al., 2020).

Profit Sharing Financing

Profit sharing financing is all loans disbursed by banks, namely mudharabah and musyarakah contracts. The PBH ratio can be formulated as follows (Dukalang & Nugroho, 2022, p. 1609):

PBH = Mudharabah + Musyarakah Financing

Financing to Deposit Ratio (FDR)

Financing to Deposit Ratio (FDR) is a ratio that can explain the amount of third party funds (DPK) collected by a bank (Rahmansyah et al., 2022, p. 103). The FDR ratio can be formulated as follows (Dukalang & Nugroho, 2022, p. 1609):

$$FDR = \frac{\text{Total financing}}{\text{Total Dana Pihak Ketiga}} \text{x } 100\%$$

Non Performing Financing (NPF)

Non Performing Fin ancing (NPF) can be defined as funding sources that fall into the category of funding that is not current, is doubtful, or is considered problematic (Yudistira & Ristati, 2022, p. 101). The NPF ratio can be formulated as follows (Dukalang & Nugroho, 2022):

$$\text{NPF} = \frac{problematic\ financing}{\text{Total financing}} \text{ x } 100\%$$

RESEARCH METHOD

This research uses quantitative methods because the data processed consists of numbers, starting from data collection, data interpretation and display of results. The object of this research is, Profit Sharing Financing, FDR, NPF and Profitability of these four variables are the focus of this research. This research uses financial reports of Islamic commercial banks in Indonesia from 2019 to 2022.

The population of this research is Sharia Commercial Banks in Indonesia whose samples were selected using a purposive sampling method. The criteria for the selected samples are as follows:

1. Sharia Commercial Banks that have received registration from the Financial Services Authority (OJK) since 2019.
2. No mergers occurred in 2019.
3. Sharia Commercial Banks (BUS) which have complete and clearly legible information regarding funding reporting data which will then be used by the two research variables, namely the independent and dependent variables.
4. Have completed data for the next period's report. The financial reports required by researchers are for 2019-2022.

Banks that meet the criteria and are sampled in this research are as follows in Table 3.

Table 3. Sample

Number	Sharia Commercial Bank
1	PT. Bank Aceh Syariah
2	PT. BPD Nusa Tenggara Barat Syariah
3	PT. Bank Muamalat Indonesia
4	PT. Bank Victoria Syariah
5	PT. Bank Mega Syariah
6	PT. Bank Panin Dubai Syariah, Tbk
7	PT. Bank Syariah Bukopin
8	PT. BCA Syariah
9	PT. Bank Tabungan Pensiunan Nasional Syariah, Tbk

Sumber: www.ojk.go.id, (2023)

This research data was analyzed and tested using statistical tests, namely descriptive statistics, panel data regression, classical assumption tests, hypothesis testing. This research also uses Multiple Linear Regression Analysis using the E-Views program.

RESULT AND DISCUSSION

Descriptive Statistic

Descriptive statistics is data processing to describe (population samples) that have been collected to make conclusions (Darwin et al., 2021).

Data in Table 4 proves that the number of observations of Sharia Commercial Bank (BUS) financial reports is 144 financial report data for the 2019-2022 period. The results above also show that Profitability has a minimum value of -6.720000 and a maximum value of 13.58000 with a mean of 1.994542. Profit Sharing Financing has a minimum value of 0.000000 and a maximum value of 96.95000 with a mean of 54.37431. FDR has a minimum value of 39.27000 and a maximum value of 196.7300 with a mean of 84.92069. NPF has a minimum value of 0.480000 and a maximum value of 10.92000 with a mean of 3.005556.

Panel Data Regression

Panel data regression was carried out with three analysis models, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Therefore, the most appropriate model must be selected between the three existing models. The Chow test is carried out to select the two models between the Common Effect Model (CEM) or the Fixed Effect Model (FEM) (Caraka & Yasin, 2017, p. 11).

From the Chow test in table 5, the Prob Cross-section F value is 0.0000 < 0.05, so it can be concluded that the selected model is the FEM model. After the Chow test was carried out, the Hausman test was carried out to determine the selected model.

And from the Hausman test in table 6, the Prob value is 0.0055 < 0.05, so it can be concluded that the selected model is the FEM model. Based on the Chow test and Hausman test, the best model in this research is FEM, so it uses Least Square Dummy Variable (LSDV) as an estimation technique, thereby carrying out the Multicollinearity test and Heteroscedasticity test.

Classic Assumption Test

Uji Multikolonieritas

Multicollinearity tests are carried out with the aim of seeing whether or not there is a linear relationship between independent variables in one regression (Zahriyah et al., 2021). There is no

multicollinearity between independent variables if the correlation matrix value between two independent variables is <0.90 and vice versa (Hamid et al., 2020)

From the test on table 7, the correlation coefficient value X1 and X2 is 0.140978 < 0.90, X1 and So from the test results it can be concluded that the data is free of multicollinearity or passes the multicollinearity test.

Heteroscedasticity Test

The heteroscedasticity test is carried out to check whether there is non-uniformity of variance in the regression model analysis (Widana & Muliani, 2020). The regression model with the Glacier test can be said to not have heteroscedasticity if the Prob value is > 0.05 and vice versa (Hamid et al., 2020)

The results of the heteroscedasticity test on table 8, using the Glejser test show that X1 0.0619 > 0.05, X2 0.7665 > 0.05, and X3 0.6819 > 0.05. Judging from the results of this test, it can be concluded that the data is free from heteroscedasticity or passes the heteroscedasticity test.

Multiple Linear Analysis Test

Regression analysis aims to assess the relationship between a dependent variable and an independent variable. This relationship can be explained through the equation $Y = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + \mu$ (Hamid et al., 2020).

From the output results on table 9, it shows that the first model is a multiple regression equation to estimate profitability which is influenced by Profit Sharing Financing (X1), FDR (X2), NPF (X3). The form of linear regression is as follows:

$$Y = 2.186657 + 0.001595*X1 - 0.003637*X2 + 0.009988*X3$$

1. The regression coefficient value for Profit Sharing Financing (X1) is positive at 0.001595, which means that if X1 experiences an increase of 1%, Profitability (Y) will increase by 0.001595.
2. The FDR regression coefficient (X2) value is negative at -0.003637, which means that if X2 increases by 1%, Profitability (Y) will decrease by 0.003637.
3. The NPF regression coefficient (X3) value is positive at 0.009988, which means that if X3 experiences an increase of 1%, Profitability (Y) will increase by 0.009988.
4. The constant value has a positive value of 2.186657, this proves that if the variables X1,X2, X3 as a whole has a value of 0 percent or no change, so Profitability is 2.186657.

Hypothesis Testing

Hypothesis testing is carried out by means of the F test and T test to systematically test the truth of the statement and reach a conclusion as to whether the statement is accepted or rejected (Darwin et al., 2021). The basis for decision making is as follows (Nuryadi et al., 2017, p. 77):

H0 : No significant effect

H1 : Significant influence

T Test

1. The Profit Sharing Financing variable (X1) has a probability value of 0.6066 > 0.05, so it can be concluded that H0 is accepted and H1 is rejected. This means that X1 partially has no significant effect on Y.

2. The FDR variable (X2) has a probability value of 0.0186 < 0.05, so it can be concluded that H0 is rejected and H1 is accepted. This means that X2 partially has a significant effect on Y.

3. The NPF variable (X3) has a probability value of 0.3551 > 0.05, so it can be concluded that H0 is accepted and H1 is rejected. This means that X3 partially has no significant effect on Y.

F Test

Prob (F statistic) shows the number 0.000000 < 0.05. So from this F test it can be concluded that H0 is accepted and H1 is rejected, which means that overall variables X1, X2, X3 have a significant effect on variable Y.

Coefficient of Determination (R2)

The coefficient of determination value is positively correlated with the total influence of the independent variable on the dependent variable and vice versa. To calculate the coefficient of determination, the following formula is used KP = r^2 x 100 % (Sahir, 2022)

The R-squared value is 0.931376 or 93.1376%. This figure means that the PBH, FDR, and NPF variables contribute to the Profitability variable by 93.1376%, which means that a set of independent variables in the model are able to explain Profitability, and the remaining 6.8624% is explained by other variables outside the model which were not examined.

Table 4. Descriptive Statistics

	Y	X1	X2	X3
Mean	1.994542	54.37431	84.92069	3.005556
Median	0.975000	61.90500	83.65500	1.935000
Maximum	13.58000	96.95000	196.7300	10.92000
Minimum	-6.720000	0.000000	39.27000	0.480000
Std. Dev.	3.498901	29.97079	23.00633	2.267355
Skewness	1.976990	-0.593042	1.958608	1.143367
Kurtosis	6.920407	2.131857	9.918915	3.537598
Jarque-Bera	186.0213	12.96280	379.2958	33.10899
Probability	0.000000	0.001532	0.000000	0.000000
Sum	287.2140	7829.900	12228.58	432.8000
Sum Sq. Dev.	1750.650	128449.5	75688.62	735.1484
Observations	144	144	144	144

Source: Data processed by Eviews 12, 2023

Table 5. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	56.509536	(8,132)	0.0000
Cross-section Chi-square	214.161074	8	0.0000

Source: Data processed by Eviews 12, 2023

Table 6. Hausaman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	12.651061	3	0.0055

Source: Data processed by Eviews 12, 2023

Table 7. Multicollinearity test

	X1	X2	X3
X1	1.000000	0.140978	0.331283
X2	0.140978	1.000000	0.319243
X3	0.331283	0.319243	1.000000

Source: Data processed by Eviews 12, 2023

Table 8. Heteroscedasticity Test

Dependent Variable: ABSRES
Method: Panel EGLS (Cross-section weights)
Date: 12/17/23 Time: 22:44
Sample: 2019Q1 2022Q4
Periods included: 16
Cross-sections included: 9
Total panel (unbalanced) observations: 143
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.062606	0.302848	3.508710	0.0006
X1	-0.139074	0.073862	-1.882882	0.0619
X2	-0.000569	0.001911	-0.297581	0.7665
X3	0.006098	0.014843	0.410818	0.6819

Source: Data processed by Eviews 12, 2023

Table 9. Multiple Linear Analysis Test

Dependent Variable: Y
Method: Panel EGLS (Cross-section weights)
Date: 12/11/23 Time: 03:42
Sample: 2019Q1 2022Q4
Periods included: 16
Cross-sections included: 9
Total panel (balanced) observations: 144
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.186657	0.228135	9.584932	0.0000
X1	0.001595	0.003089	0.516172	0.6066
X2	-0.003637	0.001526	-2.382946	0.0186
X3	0.009988	0.010762	0.928057	0.3551

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

Root MSE	1.085705	R-squared	0.936655
Mean dependent var	3.608616	Adjusted R-squared	0.931376
S.D. dependent var	3.570039	S.E. of regression	1.133982
Sum squared resid	169.7407	F-statistic	177.4379
Durbin-Watson stat	1.286213	Prob(F-statistic)	0.000000

Unweighted Statistics

R-squared	0.889540	Mean dependent var	1.994542
Sum squared resid	193.3769	Durbin-Watson stat	1.459299

Source: Data processed by Eviews 12, 2023

CONCLUSION

The Effect of Profit Sharing Financing on Profitability

The research has the result that H0 is accepted and H1 is rejected. This is proven by the probability value of 0.6066 which exceeds the significance value of 0.05, which means that Profit Sharing Financing has no effect on Profitability in Sharia Commercial Banks in Indonesia. Profit Sharing Financing in this period is considered still low so it cannot influence the Profitability variable and can be influenced by other financing. This is supported by research Fajriah and Jumady (2021).

The relationship between Profit Sharing Financing and signal theory in the context of Islamic finance is that financing that has clear and transparent information between the parties involved is key. Signal theory is concerned with how parties who have asymmetric information communicate with other parties through certain signals or actions. The results of this study are consistent with the findings Romadhon (2019), which also states that PBH does not have a significant influence on profitability. However, the results of this study are not in line with research Muthmainnah, Maloka, and Jayengsari (2022) who found that PBH had a significant effect on profitability.

The Effect of Financing to Deposit Ratio (FDR) on Profitability

The research has the result that H0 is rejected and H1 is accepted. This is proven by the probability value of 0.0186 which is less than the significance value of 0.05, which means that the Financing to Deposit Ratio (FDR) has a significant effect on the Profitability variable. A balanced or high FDR can reflect efficiency in fund management. Banks that are efficient in channeling customer savings into income-generating financing can increase the use of their capital and resources. Customer savings funds tend to have lower costs compared to interbank loans or other funding sources. Using bank customer savings funds can reduce capital costs, which can affect the increase or decrease in profit margins and profitability. These findings are supported by research Lora Lorenza and Saiful Anwar (2021).

The relationship between FDR and signaling theory can be explained in the context of how information is conveyed to stakeholders, especially investors and customers. In signal theory, it is important to understand how an institution or company conveys information about the quality of its assets or projects to the market. FDR can be an important signal regarding a bank's risk and security policies. A high ratio may indicate higher credit risk, while a low ratio may be considered a signal of stability and conservatism. If a bank has a high FDR, this can be considered a signal

of the risks that the bank may face. On the other hand, a low FDR can be interpreted as a signal that banks are more careful in distributing financing, which can be considered positive in managing credit risk. FDR can act as an implicit signal regarding bank risk and financial stability policies.

The results of this study are consistent with the findings Atifah and Diana (2022), which states that FDR has a significant influence on profitability. However, the results of this research are not in line with Romadhon (2019) who found that FDR did not have a significant effect on profitability.

The Effect of Non Performing Financing (NPF) on Profitability

The research has the result that H0 is accepted and H1 is rejected, this is proven by the probability value of 0.3551 which exceeds the significance value of 0.05 which means that the profitability of Sharia Commercial Banks in Indonesia is not influenced by the Non-Performing Financing (NPF) variable.

From the findings of this research, it can be understood that NPF cannot be used as a benchmark for increasing profitability. Effective risk management can be one of the reasons NPF has no effect on profitability, banks have effective risk management policies in overcoming the risk of problematic financing. Proper selection and management of a financing portfolio can reduce the negative impact of NPF on asset performance. Apart from that, adequate loss allowance is also the reason why NPF has no effect on profitability. Having an adequate loss allowance policy to overcome NPF risk can help banks maintain financial stability and better profitability even if there are financing problems. The process of distributing and providing good financing is still targeted at being able to reduce the NPF ratio as low as possible, or it could be said that the high NPF ratio is greatly influenced by the bank's ability to manage the financing, including monitoring activities after the financing is distributed and controlling if there are indications of discrepancies in the financing. or signs of failure to pay obligations, this is supported by research by Lestari, Mahdi, and Aprilianto (2022).

The relationship between NPF and signal theory lies in how this information can be interpreted as a signal related to the asset quality or financial health of an institution. In signal theory, the key is how an entity communicates information regarding its internal quality or condition to external parties, such as investors or the market. NPF can function as a negative signal indicating the credit risks that financial institutions may face. If an institution has a high NPF level, it can be interpreted as a signal that the institution is facing problems in managing

credit risk, and this can affect the trust of shareholders, customers or business partners. Conversely, a low NPF level can be interpreted as a positive signal related to good risk management. Thus, NPF can be an element in signaling theory, providing implicit information to stakeholders about the financial health and risk management of a financial institution.

The results of this research are in line with or provide consistent results with research by Atifah and Diana (2022) which states that NPF does not have a significant effect on profitability and is not in line with research by Sarasi, Helmi, and Lisdiyanti (2020) which states that NPF has a significant effect on profitability.

The Effect of Profit Sharing Financing, Financing to Deposit Ratio (FDR), and Non Performing Financing (NPF) on Profitability

This research has simultaneous results which show that the independent variables together have an effect on profitability. Based on the calculated value of the Prob F statistic, it shows that the number 0.000000 is less than 0.05, which means that H0 is rejected and H1 is accepted, so it can be concluded that the Profit Sharing Financing (PBH), Financing to Deposit Ratio (FDR), and Non Performing Financing (NPF) variables are together have a significant effect on profitability.

In the context of signal theory, the relationship between PBH, FDR, and NPF can be explained as a form of communication or signal to stakeholders, such as investors or customers regarding the health or performance of financial institutions. Overall, the combination of these factors can form a comprehensive signal regarding the health and sustainability of a financial institution, influencing the perceptions and trust of various stakeholders.

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