

THE INFLUENCE OF ASSETS, NON-PERFORMING LOANS (NPL), ALLOWANCE FOR IMPAIRMENT LOSSES (PYD), AND THIRD-PARTY FUNDS (DPK) ON THE NUMBER OF KB BANK OFFICES OVER THE 2021-2025 PERIOD.

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Abstrak - This study aims to examine the influence of financial performance indicators on both the physical branch network and financing distribution at KB Bank Indonesia. Specifically, it investigates the effect of Assets, Non-Performing Loans (NPL), Allowance for Impairment Losses (PYD), and Third-Party Funds (DPK) on the number of bank offices over the 2021–2025 period, as well as the impact of Non-Performing Financing (NPF) and Net Income (NI) on financing disbursement during the 2023–2025 period. This research employs a quantitative associative approach, utilizing secondary data derived from the bank's published financial reports. Data analysis was conducted using SPSS, encompassing validity and reliability tests, classical assumption tests (normality, multicollinearity, linearity, and heteroscedasticity), multiple linear regression, and hypothesis testing (t-test and F-test). The findings reveal that the number of KB Bank offices declined consistently from 352 in 2021 to 150 in 2025; however, this downward trend was not uniformly accompanied by deterioration in financial indicators, as certain years witnessed simultaneous office reductions with asset growth and improved credit ratios. This suggests that branch rationalization decisions are driven more by digital transformation and operational efficiency strategies than by a deterministic financial formula. Furthermore, the regression analysis demonstrates that NPF and NI jointly explain 99.7% (R^2) of the variation in financing distribution. Partially, NPF exerts a positive and significant effect on financing (t-count 6.546 > 2.056; sig. 0.000 < 0.05), whereas NI exhibits a negative and insignificant effect (t-count -0.553 < 2.056; sig. 0.655 > 0.05), indicating that increased profitability does not automatically translate into credit expansion. The F-test confirms the simultaneous significance of both variables (F-count 1605.499 > 3.39; sig. 0.000 < 0.05). In conclusion, the relationship between financial indicators and banking strategies is asymmetric and highly contextual, underscoring the shift from physical expansion toward digital optimization. While KB Bank Syariah demonstrates operational effectiveness in asset management and intermediation, stringent risk management remains imperative. For regulators, these findings highlight the necessity of balancing digital transformation policies with sustained financial inclusion, particularly in underserved regions. Future research is encouraged to incorporate moderating variables such as interest rates, inflation, or technology adoption indices to attain a more comprehensive understanding.

Keywords: Non-Performing Loans (NPL), Allowance for Impairment Losses (PYD), Third-Party Funds (DPK).

INTRODUCTION

The banking sector holds a strategic position as a financial intermediary, bridging surplus and deficit units within the national economy. A crucial indicator of a bank's expansion and service accessibility is the total number of operational offices distributed across various regions. Decisions to expand, retain, or rationalize the branch network are not solely governed by long-term business planning; they are also heavily contingent upon the bank's internal financial performance. In the specific context of KB Bank Indonesia, several core financial variables emerge as primary considerations, namely total Assets (reflecting business scale and capital capacity), the Non-Performing Loan (NPL) ratio (measuring credit risk), the Allowance for Impairment Losses (PYD) (serving as a precaution against potential losses on productive assets), and Third-Party Funds (DPK) (representing liquidity strength and customer confidence).

Tabel 1. list of main research indicators (millions)

Indikator	2021	2022	2023	2024	2025
Assets	89,215,674	89,995,352	84,307,300	83,075,298	89,794,861
Non-Performing Loans (NPL)	4,91%	4,84%	4,87%	4,38%	6,33%
Allowance for Impairment Losses (PYD)	53,850,273	48,956,758	45,835,782	44,535,289	47,094,440
Third-Party Funds (DPK)	56	52	45	47	55
Branch office	42	41	29	29	29
KCP	310	231	143	141	121
Number of Offices	352	272	172	170	150
*Aset dan PYD dalam jutaan Rupiah					

Based on the data presented above, it is evident that over the five-year period, the number of KB Bank offices fluctuated. In 2021, the bank operated 352 offices, which subsequently declined to 272 in the following year. An examination of other indicators reveals that total Assets increased from 2021 to 2022, accompanied by an improvement in the NPL ratio. However, other indicators, such as the Allowance for Impairment Losses (PYD) and Third-Party Funds (DPK), experienced a decline in 2022.

In 2023, the total number of KB Bank offices further decreased to 172 branches. This reduction was consistent with a decline in Assets during the same year, alongside a concurrent increase in the NPL ratio and decreases in other financial indicators, including PYD and Third-Party Funds. Notably, in 2023, all financial indicators registered a downturn, aligning with the contraction in the branch network. This contrasts with the preceding year (2022), where, despite a reduction in the number of branch offices, several other financial indicators still recorded positive growth.

In 2024, the number of KB Bank offices continued its downward trajectory, falling to a total of 170 branches nationwide. This decline was accompanied by decreases in Assets and the Allowance for Impairment Losses (PYD); however, unlike the uniform downturn observed in 2023, both the NPL ratio and Third-Party Funds (DPK) recorded increases during the same period.

In 2025, the branch network further contracted to 150 offices across Indonesia. This reduction was concurrent with a deterioration in the NPL ratio (indicating worsening credit quality), yet the majority of other financial indicators demonstrated positive momentum, as Assets, PYD, and DPK collectively rose.

These divergent trends present a compelling subject for further discussion, as there is no established deterministic formula governing the relationship between branch closures and financial indicators such as Assets, NPL, PYD, and DPK. This very gap – coupled with the absence of a clear-cut linkage – ultimately underpins the rationale for selecting the aforementioned research title.

RESEARCH METHODS

Assets

In financial accounting, assets are broadly understood as controlled economic resources that arise from prior business transactions, with the anticipated capacity to deliver future economic inflows to the enterprise. In the context of Islamic banking, this conceptualization remains consistent, wherein assets comprise the full spectrum of wealth and economic resources held by the institution, poised to generate subsequent financial gains. Collectively, these assets serve as a fundamental barometer of the bank's fiscal resilience, operational stability, and overall proficiency in fulfilling its service obligations to its customer base.

The Effect of Non Performing Financing (NPF) on Financing

The asset base serves as a compelling metric for evaluating bank expansion, rendering it a frequent subject of empirical inquiry. Within the Indonesian Islamic banking landscape, asset growth is predominantly shaped by two critical factors: Net Income (NI) and overall financing volume (5). Empirical studies corroborate that both NI and financing exert a statistically significant influence on asset accumulation. As a corollary, asset optimization strategies should emphasize the dual approach of bolstering deposit mobilization and expanding financing outreach to the wider community (6).

A strong positive linear relationship has been documented between assets and deposits, as well as between assets and financing, suggesting that an increase in deposit collection or credit extension directly corresponds to an appreciation in asset value (7). This finding aligns with the perspective of a banking practitioner in Medan, who contends that asset expansion compels a bank to proportionally increase its financing distribution. Such a measure is essential to preserve the equilibrium between deposits and financing, thereby maximizing the interest spread and ultimately yielding favorable returns for the institution (8).

From a theoretical standpoint, Non-Performing Financing (NPF) exerts a substantial influence on corporate financing decisions. A larger asset base affords firms enhanced flexibility in accessing both debt and equity financing. Nevertheless, enterprises must carefully calibrate their optimal capital structure to reconcile the advantages and costs associated with leverage, while simultaneously ensuring that financial risk exposure remains within manageable thresholds.

Definition of Allowance for Impairment Losses (PYD)

Pursuant to Law No. 10 of 1998 concerning Banking, bank credit is defined as the provision of money or claims deemed equivalent thereto, based on an approved mutual lending and borrowing agreement between a bank and another party, which obliges the borrowing party to repay its debt after a specified period with the payment of interest.

The Effect of Allowance for Impairment Losses (PYD) on Number of KB Bank Offices

The relationship between credit disbursement and the number of bank offices reflects the institution's intermediation strategy and geographical expansion. Fundamentally, credit extended constitutes the primary source of interest income for banks. As credit volume rises, operating income and net profits tend to improve, thereby providing the fiscal capacity for management to undertake physical investments through the establishment of new branch networks. This network expansion, in turn, serves to broaden market share and bring services closer to potential borrowers, thus creating a positive feedback loop between credit distribution and branch growth.

Nevertheless, this influence has undergone a significant shift due to digital transformation and the imperative of operational efficiency. Amid the growing adoption of mobile banking and digital platforms, banks are able to extend increasingly larger credit volumes without necessarily expanding their physical footprint. Indeed, contemporary trends indicate a phenomenon of branch rationalization, whereby banks deliberately reduce their brick-and-mortar offices to curb operational costs while reallocating credit distribution channels to digital platforms. This explains why a reduction in the number of offices does not automatically imply a decline in credit disbursement, nor does an increase in credit invariably trigger additional branch openings.

Consequently, the effect of credit on office count is asymmetric and largely contingent upon management strategy, macroeconomic conditions, and the level of technological adoption—rendering it a critical variable that warrants rigorous empirical investigation.

Third-Party Funds (DPK)

Under prevailing Indonesian banking legislation, specifically Law No. 10 of 1998 concerning Banking and Law No. 21 of 2008 concerning Islamic Banking, these funds are officially categorized as "Deposits." In this context, deposits are legally defined as funds entrusted by the public to a bank under a deposit agreement, encompassing demand deposits, time deposits, certificates of deposit, savings accounts, and/or other equivalent forms. Complementing this statutory framework, Bank Indonesia Regulations (PBI) and Financial Services Authority (OJK) Circular Letters provide a more concise operational definition, characterizing Third-Party Funds (DPK) as the bank's liabilities to the public. This liability encompasses both resident and non-resident entities and is denominated in both domestic currency (Rupiah) and foreign currencies.

The Effect of Third-Party Funds (DPK) on Number of KB Bank Offices

The correlation between the number of bank offices and the mobilization of Third-Party Funds (DPK) is essentially positive and mutually reinforcing. The physical presence of a branch network plays a critical role in improving accessibility and fostering public confidence, which ultimately encourages more effective deposit gathering within the respective area. Conversely, the DPK accumulated serves as the bank's primary liquidity reservoir, providing the necessary capital to finance expansion initiatives—whether for leasing premises, covering operational expenditures, or augmenting human resources to support new branch openings.

However, the effectiveness of branch additions in stimulating DPK growth has experienced a substantial transformation amid the rapid digitalization of the banking landscape. Banks are no longer obliged to continuously expand their physical outlets to boost DPK, given that the public has grown increasingly accustomed to conducting financial transactions through mobile and internet banking services. Accordingly, modern banking strategies have gravitated toward hybrid approaches and smart branching paradigms—streamlining physical branch networks to cater to advisory consultations and high-value products, while capitalizing on the digital ecosystem as the primary channel for mobilizing public savings and deposits.

Research Methods

This study is grounded in an associative research framework, which is specifically designed to investigate both the correlational ties and the directional effects between the independent and dependent variables. The analysis seeks to ascertain the precise nature of these associations—whether they are symmetrical (mutually convergent), causal (exhibiting a unidirectional cause-and-effect trajectory), or reciprocal (characterized by interdependent feedback). Ultimately, this framework is intended to derive a functional relationship among the variables, enabling the researcher to explain observed phenomena, forecast future trends, and exercise analytical control over the studied constructs.

With respect to its methodological classification, this research adopts a quantitative paradigm. This approach is fundamentally predicated on the empirical testing of theoretical propositions and hypotheses, which is accomplished through the numerical quantification of research variables and the subsequent application of statistical procedures alongside systematic structural modeling for data interpretation.

Research Results

In this study, the author used secondary data obtained from the KB Bank Syariah website. Data collected from 2021 to 2025 included non-performing loans, assets, non-performing loans (NPLs), loanable funds (PYD), third party funds (DPK), and

financing. These data were then processed using SPSS 16.0. The following is KB Bank Syariah's quarterly financial report for December:

Financial statements of PT Bank KB (million rupiah)

Indikator	2021	2022	2023	2024	2025
Assets	89,215,674	89,995,352	84,307,300	83,075,298	89,794,861
Non-Performing Loans (NPL)	4,91%	4,84%	4,87%	4,38%	6,33%
Allowance for Impairment Losses (PYD)	53,850,273	48,956,758	45,835,782	44,535,289	47,094,440
Third-Party Funds (DPK)	56	52	45	47	55
Branch office	42	41	29	29	29
KCP	310	231	143	141	121
Number of Offices	352	272	172	170	150
*Aset dan PYD dalam jutaan Rupiah					

Source: KB Bank financial report 2021 - 2025

Descriptive Statistics

Descriptive analysis aims to provide a description of the data, such as mean, sum, standard deviation, variance, range, minimum and maximum values, and so on.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Aset	19	48650565.00	60090524.00	54248126.89	3821882.415
DPK	19	38597650.00	47160434.00	43649063.05	2609895.728
Pembiayaan	19	17721262.00	41906958.00	28746887.84	6521621.137
Valid N (listwise)	19				

Normality Test

To establish the validity of the instrument, the computed correlation coefficient (r-calculated) was compared against the critical value obtained from the r-table. An item is deemed valid if its r-calculated value exceeds the corresponding r-table value (r-calculated > r-table) (13). In parallel, the reliability test was administered to evaluate the degree of trustworthiness and consistency of the measurement outcomes. This test ensures that when the same object is measured repeatedly, the resulting scores remain relatively consistent, thereby indicating robust measurement reliability. The internal consistency of the instrument is confirmed if the Cronbach's Alpha coefficient surpasses the commonly accepted threshold of 0.70.

Test of Normality

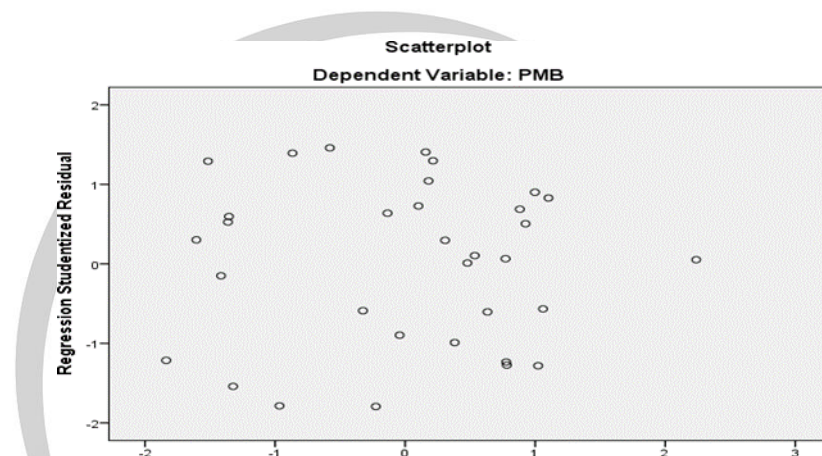
	Kolmogorov-Smirnov		Shapiro-Wilk	
	Statistic	Sig.	Statistic	Sig.
Ast	,122	,200	,990	,033
NPL	,123	,201	,960	,034
PYD	,143	,124	,890	,045
DPK	,134	,066	,890	,045
JK	,088	,200	,900	,006

*. This is a lower bound of the true significance
a. Lilliefors Significance Correction

Based on the results of the Normality test, it is known that the significance value is > 0.05 , it can be concluded that the residual value is normally distributed.

Homoscedasticity Test

Homoscedasticity refers to the condition in which the variance of the error terms remains uniformly distributed across the entire spectrum of the independent variable's values. Stated differently, the spread or dispersion of the dependent variable's scores should be approximately equal at every level of the predictor variable.



Turning to the diagnostic plot presented above, the residual distribution exhibits no discernible or systematic pattern; rather, the data points are randomly scattered both above and below the zero line on the vertical axis. This random dispersion confirms that the regression model does not suffer from heteroscedasticity violations.

Multicollinearity Test

Multicollinearity refers to a condition characterized by an excessively high—or, under certain specifications, an unusually low—degree of intercorrelation among the independent variables. The detection of multicollinearity is commonly performed by examining the Variance Inflation Factor (VIF). As a general rule of thumb, if the computed VIF statistic falls below the threshold of 10, the severity of collinearity is deemed to be within acceptable and tolerable limits. The outcomes derived from this multicollinearity diagnostic assessment are presented as follows :

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	80235.544	34824224.145		,234	,834		
Ast	,995	0.034	,873	23.345	,000	,456	2.345
NPL	1224434.543	14235435.344	,043	1.233	,228	,929	1.342
PYD	1324434.543	11235435.344	,044	2.233	,228	,929	2.342
DPK	22342345.23	4364645.675	,370	,000	,980	,932	1.232

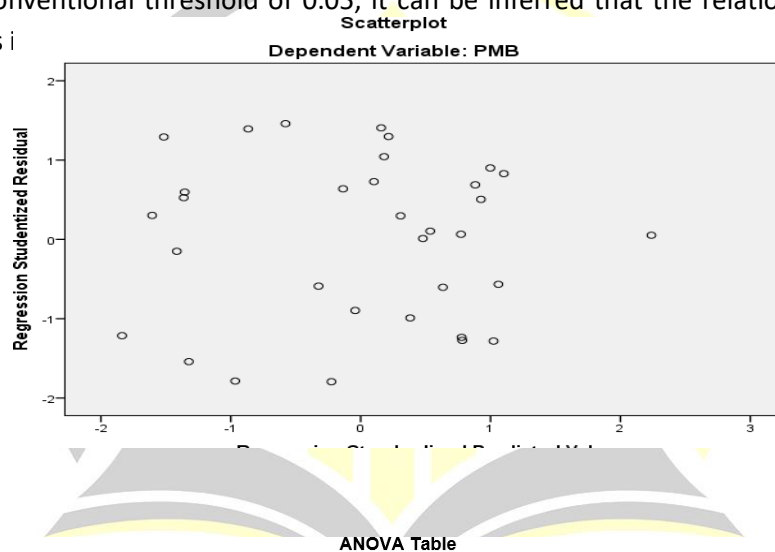
a. Dependent Variable : JK

The computed tolerance statistics for the independent variables yielded values exceeding the commonly accepted threshold, with Non-Performing Financing (NPF) registering 0.28 and Net Income (NI) registering 0.028. These figures indicate the

absence of substantial intercorrelation among the predictor variables. Similarly, the Variance Inflation Factor (VIF) coefficients—both recorded at 3.781 for NPF and NI—fell well below the critical benchmark of 10. This finding collectively demonstrates that the regression model is free from multicollinearity concerns, as no significant linear association exists between the independent variables under examination.

Linearity Test

The linearity test is conducted to ascertain whether the relationship between the variables conforms to a straight-line pattern. The evaluation of this assumption is performed by examining the significance value (Sig.) associated with the Deviation from Linearity. Based on the established decision criteria, if the computed Sig. value for Deviation from Linearity exceeds the conventional threshold of 0.05, it can be inferred that the relationship between the variables is i



		Sum of Squares	df	Mean Square	F	Sig.
Pembiayaan * Aset	Between Groups (Combined)	765421962153742.000	17	45024821303161.290	308.816	.145
	Linearity	95720430324587.110	1	95720430324587.110	656.526	.225
	Deviation from Linearity	669701531829154.900	16	41856345739322.180	287.084	.346
Within Groups		145798380004.500	1	145798380004.500		
Total		765567760533746.500	18			

Based on the SPSS output, the significance value recorded for Deviation from Linearity—specifically pertaining to the interaction between Non-Performing Financing (NPF) and Financing (PMB)—was 0.346. Given that this computed value comfortably exceeds the predetermined threshold of 0.05, it can be concluded that the relationship between the variables is linear in nature.

		Sum Of Squares	df	Mean Square	F	Sig.
Jumlah Kantor*Total Ase	Between Groups (Combined)	7.27E+13	32	2.35E+12	5.342	.321
	Linearity	6.23E+13	1	6.13E+13	123.102	.065
	Deviation From Linier	1.23E+13	31	3.45E+11	.872	.764
Within Groups		4.23E+11	1	4.12E+11		
Total		7.32E+13	33			

The linearity assessment, based on the SPSS output, yielded a Deviation from Linearity significance value of 0.320 for the interaction between Net Income (NI) and Financing

(PMB). Since this value comfortably exceeds the 0.05 alpha threshold, the linearity assumption is confirmed.

Turning to the normality evaluation, the One-Sample Kolmogorov-Smirnov test was employed. The computed p-values for Non-Performing Financing (NPF) and Net Income (NI) were 0.346 and 0.320, respectively—both surpassing the designated significance level of 0.05. This finding corroborates that the data conforms to a normal distribution.

Lastly, it should be noted that the autocorrelation test is conventionally not required for studies employing cross-sectional data, as its diagnostic utility is primarily relevant to time-series analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.896 ^a	.891	.890	1.01497E6	1.845

a. Predictors: (Constant), Non Performing Loan (NPL), Third-Party Funds (DPK)

b. Dependent Variable: Financing

Based on the data above, the D-W is 1.845. This figure lies between -2 and +2 which means there is no autocorrelation in the regression model.

Multiple linear regression analysis

Multiple linear analysis is an analysis that is used to see the effect of several independent variables on the dependent variable. In this study, we want to know the effect of Non Performing Financing (NPF), Net Income (NI) on financing at KB Islamic Bank.

Model	Unstandardised Coefficients		Standardised Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	215746.508	399737.626		.540	.594		
Non Performing Financing (NPF)	.716	.135	1.076	6.046	.000	.110	89.716
Net Income (NI)	-.088	.151	-.081	-.453	.655	.110	89.716

Based on the derived multiple linear regression equation, the following interpretations can be drawn:

- a. The constant term, recorded at 215,746.508, indicates that when both Non-Performing Financing (NPF) and Net Income (NI) assume a value of zero, the predicted volume of financing distribution (Y) remains positive, amounting to 215,746.508 units.
- b. The regression coefficient for NPF stands at 0.816, implying that for every one-unit increase in NPF (in Rupiah), financing distribution is expected to rise by 0.816 units.
- c. Conversely, the coefficient for NI is -0.68, suggesting that a one-unit increase in NI (in Rupiah) is associated with a corresponding decrease of 0.68 units in financing distribution.

Coefficient of Determination

The coefficient of determination (R^2) serves as a metric for assessing the extent to which the independent variables collectively explain the variability observed in the dependent variable. This statistic ranges between 0 and 1, where a lower R^2 value signifies that the predictive capacity of the independent variables is relatively constrained.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.997 ^a	.991	.990	1.01497E6	1.745

Based on the regression output presented above, the coefficient of determination (R^2) was computed at 0.997. This figure indicates that the proposed regression model, which incorporates Non-Performing Financing (NPF) and Net Income (NI) as predictor variables, is capable of accounting for 99.7% of the variance observed in financing distribution at KB Bank Syariah. The remaining 0.3% is attributable to other explanatory factors not included in the current model.

Partial Hypothesis Test (t-Test)

The partial t-test is designed to evaluate the individual contribution of each independent variable in elucidating the variation of the dependent variable. In the present model, the independent variables under examination are Non-Performing Financing (NPF) and Net Income (NI), while financing distribution serves as the dependent variable. This test specifically aims to determine whether NPF and NI, either individually or collectively, exert a statistically significant influence on financing

allocation

Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	215746.508	399737.626		.540	.594		
Total Assets	.816	.135	1.076	6.546	.000	.110	89.716
Third Party Funds	-.068	.151	-.081	-.553	.655	.110	89.716

From the calculation results, it can be seen that the partial test is as follows:

Partial Hypothesis Test (t-Test)

For the NPF variable (β_1), the computed t-statistic was 6.546 with a corresponding significance level of 0.000. Since this p-value is substantially below the 0.05 threshold ($0.000 < 0.05$), and the calculated t-value (6.546) exceeds the critical t-table value of 2.056 (with degrees of freedom = 26), it can be concluded that Non-Performing Financing (NPF) exerts a statistically significant influence on financing distribution at KB Bank Syariah during the 2018–2022 period.

For the Net Income (NI) variable (β_2), the t-statistic was recorded at -0.553 with a significance value of 0.655. Given that this p-value exceeds the 0.05 significance level ($0.655 > 0.05$), and the absolute t-count value (-0.553) is less than the critical t-table value of 2.056, the results indicate that Net Income (NI) does not have a significant effect on financing at KB Bank Syariah during the 2023–2025 period.

Simultaneous Hypothesis Test (F-Test)

The F-test was conducted to evaluate the joint significance of the independent variables—namely Non-Performing Financing (NPF) and Net Income (NI)—in explaining the dependent variable, financing distribution. The outcomes of this simultaneous test are presented in the table below.

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	2.894E15	2	1.447E15	1.605E3	.000 ^a
Residuals	2.575E13	25	1.030E12		
Total	2.920E15	27			

The simultaneous hypothesis testing (F-test) produced an F-statistic of 1605.499 with an associated p-value of 0.000. When compared against the critical F-table value of 3.39, the computed F-statistic substantially exceeds the tabulated threshold ($1605.499 > 3.39$). Furthermore, the obtained significance level is well below the conventional alpha of 0.05 ($0.000 < 0.05$). Accordingly, it can be concluded that Non-Performing Financing (NPF) and Net Income (NI), when considered jointly, exert a significant influence on financing distribution at KB Bank Syariah over the 2023–2025 period

Research Discussion

Non Performing Financing (NPF) to financing at KB Bank

- a. Total assets held by a bank—comprising cash, receivables, investments, and fixed assets such as property and equipment—serve as a key indicator of the institution's capacity to execute its operational functions, particularly in extending financing or credit to customers. The relationship between assets and financing disbursement can be elucidated through several interrelated dimensions:
- b. Resource Base: Banks possessing substantial asset portfolios command greater financial resources to underwrite credit expansion. This enhanced resource base enables institutions to allocate funds across diverse financing avenues, encompassing consumer lending, corporate finance, and other sectoral investments.
- c. Liquidity Position: A bank's asset base is intrinsically linked to its liquidity profile. Larger asset holdings generally correspond to increased available funds for disbursement or lending activities. Robust liquidity conditions empower banks to sustain their lending operations even amidst economic fluctuations or periods of urgent funding requirements.
- d. Financing Capacity: In practical terms, banks with expansive asset bases wield stronger market leverage. They are positioned to offer a broader and more varied spectrum of financing products, including large-scale project funding and extended-term loan arrangements.
- e. Asset-to-Financing Ratio: There exists a direct correlation between the asset base and the volume of financing that can be extended. Banks with considerable assets are better equipped to maintain a favorable loan-to-asset ratio, which in turn bolsters the institution's financial performance and operational resilience.

Based on the author's examination of PT KB Bank Syariah's financial statements spanning the 2023–2025 period, the findings indicate that Non-Performing Financing (NPF) exerts a statistically significant influence on the bank's financing distribution. This implies that an increase in NPF is associated with a corresponding rise in the volume of financing extended, and conversely, a decline in NPF corresponds to reduced financing activity. These empirical results corroborate earlier research conducted by Lindi Yuni Andresi (2010), which established that assets and profit-sharing arrangements exert a meaningful and significant impact on financing outcomes.

The observed relationship between NPF and financing suggests that KB Bank Syariah has demonstrated proficiency in its operational functions—both in mobilizing funds and in managing these resources effectively to generate productive assets. The positive implications of this operational effectiveness are manifold, encompassing institutional growth and development, alongside a strengthened commitment to continuously

enhance service quality, foster product innovation, and sustain public confidence in the bank's overall performance.

Net Income (NI) (NI) on financing at Bank Syariah Indonesia.

The relationship between Non-Performing Loans (NPLs), or the level of bad loans, and the number of a bank's branches shows an inverse (negative) correlation, focusing on efficiency and risk management considerations. When a bank's NPL rate rises, its revenue absorption capacity is eroded due to the requirement to establish a larger Allowance for Impairment Losses (CKPN). This directly depresses profitability and erodes the capital adequacy ratio (CAR). Consequently, banks' capacity to expand their physical networks becomes severely limited, forcing management to delay or even cancel plans to open new branches to save on capital expenditure (CapEx).

Furthermore, a high NPL ratio often triggers radical efficiency measures through network rationalization and branch closure strategies. Branch offices deemed unproductive, high in operational costs, or the largest contributors to bad loans are closed or merged with the nearest main branch to reduce operational expenditure (Opex). On the other hand, the Financial Services Authority (OJK) also applies strict prudential banking oversight to banks with net NPLs above the safe limit (5%). Under such conditions, the regulator can restrict or withhold bank expansion permits, including permits for the opening of new branch offices, until the bank can restore asset quality and stabilize its non-performing loan ratio.

Third Party Funds on Number of KB Bank Offices.

Third Party Funds (TPF) play a crucial role as the liquidity foundation that drives the banking business expansion chain, including in determining the number of branch offices. Theoretically and empirically, abundant TPF provides banks with greater capital capacity and profit margins to finance capital expenditures (Capex) and operational expenditures (Opex) required to open and manage new physical branch networks. Banking expert Kasmir explains that TPF is the lifeblood of bank operations, accounting for 80% to 90% of total managed funds; the success of TPF accumulation directly determines a bank's ability to grow, expand its operational reach, and strengthen its market penetration. As TPF accumulation increases, banks have more secure liquidity space to undertake physical expansion to bring services closer to potential customers in new areas. Various previous studies have confirmed the positive relationship between the scale of TPF and the growth of a bank's physical infrastructure. Research by Ade Onny Siagian confirms that TPF is continuously the strongest internal variable driving the capacity of banks (especially state-owned banks) to expand their operational networks to optimize financial intermediation. This finding aligns with Rose & Hudgins' framework in commercial bank management theory, which states that the growth of public deposits (TPF) underlies strategic branching decisions because the branch network acts as a dual channel: a place to collect funds and channel credit back to the public. Although the current rapid trend of digital banking has begun to restrain the aggressive pace of branch additions, modern banking research from academics still positions TPF as a key capacity indicator—

where banks with large TPF volumes will maintain a sufficient branch network in strategic areas to maintain brand presence, public trust, and facilitate high-value transactions (high-value/corporate banking) that still require face-to-face interaction.

Conclusion

1. Based on the analysis of KB Bank Indonesia data for the 2021–2025 period, the number of offices experienced a consistent decline from 352 to 150 branches. However, this phenomenon was not accompanied by a uniform pattern across all financial indicators (Assets, NPL, PYD, and DPK). In certain years, the reduction in office count occurred simultaneously with an increase in assets and improvements in credit ratios, suggesting that branch rationalization decisions were driven more by operational efficiency strategies and digital transformation than by a deterministic financial formula. Meanwhile, based on regression analysis of the 2023–2025 data, Non-Performing Financing (NPF) and Net Income (NI) jointly exert a significant influence on financing distribution, with a coefficient of determination (R^2) of 99.7%. Partially, NPF demonstrates a positive and significant effect (t-count $6.546 > 2.056$; sig. $0.000 < 0.05$), whereas NI exhibits a negative and insignificant effect (t-count $-0.553 < 2.056$; sig. $0.655 > 0.05$). This implies that an increase in net income does not automatically drive credit expansion, as banks may allocate profits toward other purposes, such as capital reserves or investments in financial instruments.
2. The conclusions above affirm that the relationship between financial indicators and physical expansion—as well as credit distribution—is asymmetric and highly contextual, wherein the digitalization era has shifted banking strategies from expanding physical branch networks toward optimizing digital channels and achieving cost efficiency (branch rationalization). In practical terms, KB Bank Syariah is considered successful in fulfilling its intermediation function and asset management; however, this success must be complemented by stringent risk management practices, given the significant influence of NPF on financing volume. For future researchers, it is advisable to incorporate intervening variables such as interest rates, inflation, or technology adoption indices to obtain a more comprehensive understanding. Meanwhile, for regulators (OJK and Bank Indonesia), the findings of this study suggest that banking digital transformation policies should continue to prioritize financial inclusion aspects, particularly in the 3T regions (frontier, outermost, and lagging areas) that remain heavily dependent on the availability of physical banking services.

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