**Examining the Determinants of Islamic Banks’ Non-Performing Financing in Small-Medium Enterprises (SMEs) Sector**

**Abstract**

The performance of Islamic bank in financing activities is determined by many factors, including macroeconomic variables and internal factors such as financial performance of the bank. The study attempts to investigate the determinant of non-performing financing (NPF) of Islamic bank in Indonesia particularly in Small-Medium Enterprises (SMEs) sector. Adopting the panel data analysis, the data comprise 33 provinces in Indonesia starting from 2016m1 to 2021m07 which equal to 2211 observation period. The study reveals that the size of bank’s asset and financing to deposit ratio (FDR) of Islamic bank has significant relationship to NPF value in SMEs sector and the impact remains unchanged in the period of before and during the COVID-19 pandemic. From the regional viewpoint, the size of bank’s asset also has significant influence on NPF in the provinces located in Java but not in the outside Java. As a policy implication, the study suggest that size of bank’s asset must be enhanced with put together a prudent risk management in financing activities in SMEs sector. Surely, the policy can be implemented in top-down approach through government and financial authority then it also can be applied bottom-up approach through bank’s business activities.

Key words: Islamic bank, SMEs, Panel Data Analysis, NPF