

Analysis of Fund Management and Allocation Strategies in Islamic Banking

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Abstract: Banks play a strategic intermediation role that depends on stable fund mobilization and prudent allocation. This study aims to synthesize how banks particularly Islamic banks manage funding sources (core capital and external funds) and allocate these funds to maintain liquidity, performance, and regulatory compliance. Using a literature review approach, this research analyzes secondary sources from books, scientific journals, and relevant articles on banking fund management. The review finds that core funds (paid-in capital, reserves, and retained earnings) function as a risk buffer and a key indicator of bank soundness, while external funds collected through savings, demand deposits, time deposits, and institutional sources expand financing capacity. Effective allocation requires balancing lending, investment, and liquidity reserves to sustain public confidence and support the integrity of banking financial reporting.

Keywords: Bank Funding Sources, Core Funds, External Funds, Fund Allocation, Banking.

Abstrak: Pengelolaan sumber dana merupakan aspek fundamental dalam menjaga stabilitas dan keberlangsungan operasional suatu bank. Penelitian ini bertujuan untuk mengkaji berbagai sumber dana bank yang meliputi dana inti (modal) dan dana eksternal, serta bagaimana proporsi alokasi dana tersebut dikelola guna mendukung fungsi intermediasi. Metode penelitian yang digunakan adalah studi kepustakaan (library research) dengan menganalisis data sekunder dari berbagai literatur ilmiah, buku, dan artikel terkait manajemen perbankan. Hasil penelitian menunjukkan bahwa dana inti yang berasal dari modal disetor, cadangan, dan laba ditahan berfungsi sebagai penyangga risiko dan indikator kesehatan bank. Sementara itu, dana eksternal yang dihimpun dari masyarakat melalui tabungan, giro, dan deposito, serta dana dari lembaga keuangan dan investor, menjadi instrumen utama dalam memperluas kapasitas pembiayaan. Penyaluran dana yang efektif memerlukan strategi alokasi yang seimbang antara kredit, investasi, dan cadangan likuiditas untuk menjaga kepercayaan publik serta

memenuhi ketentuan regulasi. Dengan demikian, integrasi antara kecukupan modal dan manajemen alokasi dana yang tepat menjadi kunci dalam menjaga integritas sistem pelaporan keuangan perbankan.

Kata Kunci: Sumber Dana Bank, Dana Inti, Dana Eksternal, Alokasi Dana, Perbankan.

Introduction

Financial institutions, particularly banks, play a strategic role as intermediaries that channel funds from surplus units to deficit units. This intermediation function depends on the bank's ability to mobilize funds sustainably and to manage its capital structure so that operations remain sound amid competition and changing risk conditions (Meilita, 2011).

A bank's most fundamental internal funding base is core capital (equity). Core capital originates from owners/shareholders' contributions and accumulated earnings, and it functions as a permanent buffer to absorb losses arising from credit risk, asset value declines, and other shocks. Because it is not withdrawn like deposits, core capital is widely used as an indicator of long-term financial resilience and institutional strength (Mustafidah, 2023).

Beyond owner-provided capital, banks rely heavily on external funds mobilized by the public (third-party funds). These funds commonly take the form of savings accounts, demand deposits for transaction purposes, and time deposits with specified maturities (Nasution, 2023). As the main source of financing capacity, the continuity of third-party funds is closely tied to public trust and the bank's credibility.

Banks may also strengthen liquidity and funding flexibility through sources outside retail deposits, including funding from other financial institutions and institutional investors. Instruments such as interbank borrowing and capital market issuance (e.g., bonds and equity) can support liquidity management and business expansion, particularly during periods of stress. Diversifying funding sources therefore helps banks optimize operational capacity while managing funding risk (Riady, 2022).

Mobilizing funds must be followed by prudent allocation. Banks cannot concentrate all funds on a single use; instead, they distribute them across lending/financing, securities investments, liquidity reserves, and operating needs. Sound allocation is essential to balance profitability with the obligation to maintain adequate cash availability for customers and counterparties (Masruroh et al., 2019).

From a regulatory standpoint, adequate capital and disciplined fund management are also central to compliance with prudential standards set by financial authorities. Minimum capital requirements are designed to protect depositors and preserve systemic stability so that the financial system is less vulnerable to macroeconomic shocks (Komarudin, 2026). Accordingly, a clear understanding of funding structure and allocation choices is essential for bank management in making strategic and risk-aware decisions.

This study examines banking fund management through a literature review, with an emphasis on Islamic banking. Specifically, it discusses (1) core capital as an internal funding base, (2) external funding sources especially third-party funds and (3) fund allocation strategies used to support growth while maintaining liquidity and compliance. While prior discussions often address funding and allocation separately, an integrated overview is needed to clarify how

funding composition influences allocation choices and, ultimately, the integrity of banking financial reporting. Therefore, this article synthesizes key concepts and findings to provide a structured reference for understanding the linkage between funding sources and allocation decisions in Islamic banks.

Methods

This study uses a literature review (library research) design. The review process consisted of identifying, collecting, reading, and critically examining scholarly sources on banking fund management, with a particular focus on Islamic banking. The materials reviewed included books, peer-reviewed journal articles, and other credible publications discussing core capital, external funding (public/third-party funds, financial institutions, and investors), and bank fund allocation.

This study focuses on a theoretical examination of banks' funding sources, which include funds from the public such as savings, checking accounts, and time deposits as well as funds from financial institutions and investors, such as stocks and bonds. In addition, this study examines how banks manage these funds in terms of funding allocation, specifically the distribution of funds among loans, investments, liquidity reserves, and bank operations.

The data used in this study is secondary data, that is, data obtained from various previously published sources. This data includes banking theories, concepts of bank fund management, and the results of previous studies relevant to bank fund management. This data is used to strengthen the theoretical foundation for understanding the banking fund management system.

Results and Discussion

Core Capital

Core capital (*core capital/equity*) is the primary source of capital provided by the bank's owners or shareholders. This capital serves as the foundation for the continuity of operational activities and acts as a buffer to absorb potential losses arising from various financial risks. Unlike third-party funds or borrowed funds, core capital does not entail a repayment obligation and thus has a permanent nature within the bank's funding structure (Sari, 2016).

Conceptually, core capital is understood as permanent capital used to establish, maintain, and develop a banking business. The amount of core capital reflects a bank's capacity to absorb losses; the stronger the capital base, the greater the bank's ability to ensure business continuity during periods of stress, such as a decline in asset quality or operational losses (Agustin, 2025). Therefore, core capital is frequently used as a key indicator in assessing a bank's financial health and resilience.

Core capital components generally include paid-in capital, general reserves, specific reserves, and retained earnings. All of these components derive from owner contributions as well as the accumulation of profits not distributed to shareholders. Thus, core capital is formed not only from owners' initial contributions but also from the bank's ability to generate and retain profits on a sustainable basis (Nugroho et al., 2025).

Core Funding Sources

Core capital (capital) refers to the primary source or components that constitute the main capital held by a bank or financial institution. This capital comes from the bank's owners and the undistributed earnings from the bank's own operations, making it the primary force in maintaining financial stability. Core capital consists of several main components, namely:

- 1) *Modal Disetor (Paid-up Capital)*: Paid-up capital is the amount of funds that shareholders have actually paid to a company or bank as a form of capital contribution. These funds constitute the realized portion of the authorized capital, not merely a commitment or promise of payment. In other words, paid-up capital is capital that has been received and is actually used in the company's operational activities. Paid-up capital is permanent in nature, meaning these funds cannot be withdrawn by shareholders as long as the company remains in operation. Shareholders can only recover their capital if the company is liquidated or sold in accordance with applicable procedures. This makes paid-up capital one of the most stable forms of funds within a bank's financial structure (Suarmanayasa, 2020).
- 2) *General Reserve*: General reserves are a portion of a company's or bank's net income that is set aside and not distributed to shareholders (as dividends), but rather used to strengthen capital. These reserves are built up gradually from operating profits earned over a specific period (Kusuma, et al. 2023). General reserves serve to bolster core capital, which can be used to maintain financial stability. These funds help banks cope with potential future losses without disrupting core operations. With general reserves in place, a bank's financial condition becomes safer and more stable (Nainggolan, 2025).
- 3) *Target Reserve*: A special reserve is a portion of a company's or bank's net income set aside for specific, pre-planned purposes. These funds are not distributed to shareholders as dividends but are specifically allocated for certain future needs in accordance with company policy. Designated reserves are typically used for purposes such as business expansion, opening new branches, developing banking system technology, or other long-term investments. With these reserves, banks can carry out their development plans without having to rely entirely on external funding.
- 4) *Laba Ditahan (Retained Earnings)*: Retained earnings (*retained earnings*) are the portion of a company's or bank's net income that is not distributed to shareholders as dividends but is reinvested to strengthen the company's capital. These earnings represent the accumulation of profits from year to year that remain within the company (Pebi, 2025). Retained earnings are typically used for various strategic purposes, such as business development, service improvements, technology investments, and hedging against future losses. Since they originate from the company's own operations, retained earnings reflect the bank's ability to generate profits consistently.

The Function of Core Capital (Equity)

- 1) As a buffer against risks in the operational activities of financial institutions, particularly banks. In the event of losses resulting from non-performing loans, asset impairments, or

other risks, core capital is used to cover those losses so that the bank can continue to operate stably. With strong capital, the risk of bankruptcy can be minimized.

- 2) As the foundation of public trust in banks. Banks with substantial and sound capital are more likely to be trusted by customers to hold their funds. This trust is crucial because the banking sector relies heavily on third-party funds, making strong capital a guarantee of security for the public.
- 3) As a source of business development. Core capital is used to support the bank's expansion, such as opening new branches, improving services, developing digital technology, and expanding its business reach. With sufficient capital, the bank can grow and compete in an increasingly competitive banking industry.
- 4) Compliance with regulatory requirements or government regulations. Financial authorities set minimum capital requirements that banks must meet to operate. This is intended to maintain the overall stability of the financial system and protect the interests of customers.
- 5) As an indicator of a bank's financial health. The larger and more stable the capital is, the better the bank's financial condition. Therefore, core capital is often used to assess whether a bank is in good financial health, adequately capitalized, or at risk (Ananda, 20023).

External Funding (Community/Institutions)

External funds are sources of capital that originate from parties outside a company or institution, such as the public, financial institutions, investors, or the government. These funds are used to increase a company's capital so that its operational activities and business development can run more efficiently (Chaniago, 2024). In the context of banking or financial institutions, external funds are crucial because they serve as one of the primary sources for expanding financing capacity.

Funds from the Public

Public funds are funds collected by financial institutions (primarily banks) from individuals or groups in the form of deposits. These funds serve as one of the primary sources of financing for banks, which they then channel back to those in need in the form of loans or financing. The forms of public funds include:

- 1) **Savings Account:** A savings account is a type of deposit that individuals make with a bank, from which funds can be withdrawn at any time in accordance with applicable regulations. Savings accounts are among the most commonly used sources of third-party funds because they are flexible, secure, and easily accessible to the public (Damayanti, 2024; Dwinatha, et al., 2024).
- 2) **Giro (Demand Deposit):** A checking account, or *demand deposit*, is a type of deposit held by the public at a bank that can be withdrawn at any time using specific payment instruments such as checks or money orders (Kotimah, 2024). Checking accounts are typically used by individuals or businesses with high levels of financial transactions who require flexibility in making payments.

- 3) Time Deposit: A time deposit is a type of savings account held by individuals at a bank, where funds can only be withdrawn after a specified period in accordance with the agreement between the customer and the bank (Syahri, 2023). Time deposits are savings instruments that offer higher returns than savings accounts and checking accounts because the funds cannot be withdrawn at any time.

Funds from Financial Institutions

Funds from financial institutions are external sources of funding obtained from other financial institutions, such as banks, finance companies, credit unions, or non-bank financial institutions. These funds are typically used to strengthen capital, maintain liquidity, and support operational activities and business expansion.

1. Types of Funds from Financial Institutions

- a) Loan (*Loan*), Funds that must be repaid with interest or profit-sharing.
- b) Loan, a financing facility for specific needs such as working capital or investment.
- c) Sharia financing, based on profit-sharing principles (*mudharabah*, *musyarakah*).
- d) Liquidity facilities, emergency funds to maintain the institution's financial stability.

2. Source Funds from Financial Institutions

- a) Other banks (*Interbank Lending*), Interbank loans to maintain liquidity, which are typically short-term.
- b) Financing institutions such as leasing companies, Multifinance companies, or investment credit providers. Used to finance assets or working capital.
- c) Credit Union, Provides loans to members or other institutions. Based on the principle of mutual aid.
- d) Non-Bank Financial Institutions (NBFIs), such as insurance companies or pension funds that channel investment funds.

Funds from Institutions or Investors

Funds from institutions or investors are external funding sources derived from parties that invest capital in a company or organization, whether in the form of equity ownership, bond purchases, or other forms of capital investment (Handayani, et al. 2024). These funds are generally used for business development, business expansion, and increasing operational capacity. The sources of funds from institutions or investors include: Stock (*Equity Financing*)

Stock, or *equity financing*, is a form of financing derived from external funds, whereby a company sells a portion of its ownership to investors. By purchasing stock, investors become partial owners of the company and are entitled to profits (dividends) as well as increases in stock value (*capital gains*). The types of shares are as follows:

Financing structures primarily categorize into equity and debt instruments, each offering distinct rights and obligations for both the issuer and the investor. Equity financing through Common Stock grants shareholders voting rights in the General Meeting of Shareholders, though dividend payouts remain variable and contingent upon corporate profitability. Conversely, Preferred Stock provides investors with priority claims on dividends over common shareholders, though this often comes at the expense of voting privileges.

In contrast, Obligasi (Debt Financing) functions as an external funding mechanism where an entity issues debt securities to investors, creating a formal obligation to repay the principal alongside periodic interest, known as coupons (Lutfiana, 2025). As outlined by Putri (2024), bonds are characterized by their nature as a liability with a fixed maturity period, typically ranging from one to over ten years. Unlike equity holders, bondholders do not possess ownership stakes or voting rights, yet they benefit from a consistent income stream through coupons and the flexibility of trading these instruments within the capital market.

Proportion of Bank Fund Allocation

Fund allocation is the process of organizing and distributing a bank's funds across various uses in a balanced manner. These funds come from various sources, such as public deposits (savings, checking accounts, time deposits), interbank loans, and the bank's own capital. This allocation of funds is essential for the bank to effectively fulfill its role as a financial intermediary.

In its day-to-day operations, a bank must not allocate all of its funds to a single use. Therefore, a bank must allocate its funds across various categories, such as lending, investments, liquidity reserves, and operating expenses. This allocation is done to maintain financial stability and avoid the risk of excessive losses (Hidayat, 2022).

Most of a bank's funds are typically allocated to providing loans to the public or businesses. Loans are a bank's primary source of revenue because they generate interest or profits. However, lending also carries risks, such as loan defaults, so banks must conduct a careful analysis before granting loans.

In addition to loans, banks also allocate funds for investments in financial instruments such as bonds, securities, or the money market. These investments aim to generate additional income while managing excess funds that have not yet been disbursed as loans (Putri, 2024). Through these investments, banks can optimize their profitability.

In addition, banks must set aside funds as liquidity reserves. These reserves are used to meet customers' withdrawal needs at any time, particularly for savings and checking accounts, which are highly liquid. By maintaining these reserves, banks can preserve public confidence and avoid the risk of a cash shortage.

In addition, a portion of the funds is also used to support the bank's operational activities, such as facility construction, technology development, and administrative costs. Although this portion is not as large as that allocated to loans or investments, the use of funds for operational purposes remains important to ensure that the bank's services to customers run smoothly.

Fund Management and Fund Allocation Strategies in Islamic Banking

Funding sources for Islamic banks refer to the banks' efforts to raise funds from the public. The acquisition of these funds depends on the Islamic bank itself—whether they come from public deposits or other institutions. Managing funding sources begins with planning your funding needs, followed by identifying available sources to determine which ones are accessible.

The objective of fund management is that the more funds a sharia bank mobilizes, the greater its revenue will be; conversely, the fewer funds that come in, the less financing the sharia bank can provide, resulting in lower bank revenue (Pandia, 2012). Thus, Islamic bank fund management refers to the activities undertaken by an Islamic bank in planning, executing, and

controlling its funds when mobilizing funds from the public.

Fund allocation strategies at Islamic banks involve managing and channeling funds collected from the public to generate halal profits while maintaining liquidity and security. These funds generally come from third-party deposits (DPK) and are allocated to financing arrangements such as murabahah, mudharabah, and musyarakah.

In practice, Islamic banks use approaches such as the *Pool of Funds* (pooling of funds) and *Asset Allocation* (allocation based on fund characteristics) to ensure greater efficiency and precision. Additionally, funds are divided into productive assets (to generate profits) and liquidity reserves (to maintain the bank's stability) (Mulyani, 2022).

This strategy also involves diversifying financing to mitigate risk and is supported by sound risk management to ensure compliance with Sharia principles. In addition, Islamic banks also allocate a portion of their funds for social purposes such as zakat and community welfare programs, (Ernawati, 2022). D Thus, the fund allocation strategy of Islamic banks aims to achieve a balance between profit, risk, Sharia compliance, and social responsibility.

Conclusion

Bank funds consist of core capital and external funds, which serve as the primary sources for conducting operational activities. Core capital comes from the owners or the bank's business operations, such as paid-in capital, reserves, and retained earnings, which are permanent in nature and serve as a risk buffer and an indicator of the bank's financial health. Meanwhile, external funds come from the public (savings, checking accounts, and time deposits), financial institutions, and investors through stocks and bonds, which are used to expand the bank's financing capacity and business development.

In managing its operations, a bank must allocate funds in a balanced manner across various sectors, such as lending, investments, liquidity reserves, and operating expenses. Lending is the primary source of revenue, but it also carries risks and therefore requires careful analysis. Additionally, investments are made to increase profits, while liquidity reserves are essential for maintaining customer confidence so that the bank can meet withdrawal requests at any time.

In Islamic banks, the management and allocation of funds are conducted in accordance with Sharia principles, with the aim of generating halal profits while maintaining stability. The funds collected are channeled into various financing arrangements such as murabahah, mudharabah, and musyarakah, utilizing strategies like a pool of funds and diversification to mitigate risk. Additionally, Islamic banks also address social aspects through the distribution of zakat and welfare programs, thereby achieving a balance between profit, risk, Sharia compliance, and social responsibility..

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