

ANALYSIS OF CAPITAL STRUCTURE, PROFIT-SHARING INCOME, AND FINANCIAL PERFORMANCE OF ISLAMIC COMMERCIAL BANKS IN INDONESIA, 2019–2023

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Abstract

This study aims to analyze the capital structure, profit-sharing income, and financial performance of Islamic Commercial Banks (ICBs) in Indonesia during the 2019–2023 period. The background of this research is based on a significant decline in Return on Assets (ROA) and the challenges faced by Islamic banks in maintaining stable financial performance amid global economic fluctuations and uncertainty. This research employs a quantitative approach using secondary data obtained from the annual financial reports of seven Islamic Commercial Banks, accessed through their official websites. The data analysis techniques include descriptive statistics, classical assumption tests, hypothesis testing, and panel data regression analysis. The results indicate that, partially, capital structure measured using Debt to Equity Ratio (DER), Current Ratio (CR), and total liabilities has a negative effect on financial performance. Similarly, profit-sharing income also shows a negative impact on financial performance. Furthermore, the simultaneous test reveals that capital structure and profit-sharing income jointly influence the financial performance of Islamic Commercial Banks in Indonesia during the observed period. In conclusion, both capital structure and profit-sharing income play significant roles in determining the financial performance of Islamic banking institutions, although their effects tend to be negative within the study period.

Keywords: Capital Structure, Profit-Sharing Income, Financial Performance, Islamic Commercial Banks

INTRODUCTION

The main issue in the Islamic banking industry in Indonesia is the decline in profit and profitability, as reflected in the decreasing Return on Assets (ROA). Although asset growth continues, several Islamic banks have experienced a significant decline in net profit. For example, PT Bank Mega Syariah recorded a net profit of IDR 50.06 billion in Q1 2024, decreasing by 35.98% year-on-year compared to IDR 78.2 billion in the same period last year (Burhan, 2024). Similarly, PT Bank BTPN Syariah experienced a sharp decline in net profit of 37.84%, falling to IDR 263.99 billion in Q1 2024 from IDR 424.72 billion in the previous year. The urgency of this study lies in understanding the factors influencing the financial performance of Islamic banks, particularly capital structure and profit-sharing income, to provide strategic recommendations for improving future profitability. Effective capital structure management can enhance a company's credibility and access to credit, thereby attracting investor confidence (Rahmalia et al., 2026). When a company is able to finance its operations using internal funds, its reliance on debt decreases, leading to lower interest expenses and improved financial performance (Sabakodi & Andreas, 2024).

Profit-sharing income is an important component in evaluating the financial performance of Islamic banks, especially when measured by ROA. It allows banks to earn returns based on investment performance, which can improve profitability stability (Agustina et al., 2021). Debt to Equity Ratio (DER), Current Ratio (CR), and Total Liabilities represent capital structure indicators that influence financial risk and performance. High debt levels increase financial risk and interest burden, while strong liquidity reflects better short-term financial capability (Rismanty et al., 2022). Meanwhile, profit-sharing income reflects efficient fund management and contributes to higher profitability in Islamic banking (Whardana & Haerisma, 2025).

This study aims to analyze the effect of capital structure (DER, CR, and Total Liabilities) and profit-sharing income on the financial performance of Islamic Commercial Banks in Indonesia during 2019–2023. Therefore, this research is titled: *“Analysis of Capital Structure, Profit-Sharing Income, and Financial Performance of Islamic Commercial Banks in Indonesia, 2019–2023.”*

REVIEW OF LITERATURE

Previous studies indicate that the financial performance of Islamic banks in Indonesia has experienced a decline, as reflected in decreasing Return on Assets (ROA) and net profit, despite continued asset growth (Burhan, 2024). This condition highlights the importance of identifying key factors that influence bank profitability. One important factor is capital structure. Effective capital structure management improves a company's credibility and access to external funding, which can enhance investor confidence (Rahmalia et al., 2026). A lower reliance on debt reduces interest expenses and contributes to better financial performance (Sabakodi & Andreas, 2024). In this context, indicators such as Debt to Equity Ratio (DER), Current Ratio (CR), and Total Liabilities are commonly used to measure financial risk and liquidity position (Rismanty et al., 2022).

Another important determinant is profit-sharing income, which is a core feature of Islamic banking. It reflects the bank's ability to generate income based on investment performance and contributes to more stable profitability measured by ROA (Agustina et al., 2021). Efficient management of profit-sharing schemes can improve overall financial

outcomes in Islamic financial institutions (Whardana & Haerisma, 2025). Overall, previous literature suggests that both capital structure and profit-sharing income play significant roles in influencing the financial performance of Islamic banks. Therefore, further empirical analysis is needed to examine their impact on Islamic Commercial Banks in Indonesia during the 2019–2023 period.

RESEARCH METHOD

This study uses a library research method with a quantitative approach. The data analysis techniques include descriptive statistics, classical assumption tests, hypothesis testing, and panel data regression. This research uses secondary data from the annual financial reports of seven Islamic Commercial Banks (ICBs), obtained from the official websites of each bank. The analysis is conducted using EViews software to process statistical data and test the hypotheses.

Capital Structure Theory

According to Hanafi (2016), capital structure theory refers to the balance between the use of debt and financial costs. This theory also explains that changes in capital structure affect the overall cost of capital. This study applies two important theories, namely Trade-Off Theory and Pecking Order Theory.

Trade-Off Theory

Trade Off Theory explains the relationship between capital structure and firm value. It states that there is an optimal level of leverage (debt ratio) that can maximize firm value, where the tax benefits of debt are greater than bankruptcy and agency costs. In practice, firms attempt to reach this optimal debt ratio but must be careful not to exceed the level that could reduce firm value.

Pecking Order Theory

Pecking Order Theory explains why highly profitable firms tend to have lower debt levels. This low level of debt is not because firms set a low debt target, but because they do not require external funding. High profitability allows internal funds to be sufficient to meet investment needs.

Financial Performance (Y)

Financial performance describes the financial condition of a bank based on past performance and its future prospects, whether improving or declining. The use of financial ratios is the most common and simplest method, and is widely used in measuring bank performance (Fachrurrazi, 2021). Financial performance is the dependent variable and is proxied by Return on Assets (ROA). According to Hery (2023), Return on Assets is a ratio that shows how much assets contribute to generating net profit. ROA is calculated using the following formula:

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Capital Structure (X1)

According to Alamsyah (2023), capital structure is the combination of funding sources used by a company to finance its operational activities. Capital structure can be measured using long-term debt (Debt to Equity Ratio/DER), short-term debt (Current Ratio/CR), and total debt (Total Liabilities). According to Kasmir (2019), the Debt Ratio is

a leverage ratio used to measure the proportion between total debt and total assets. The formula for calculating the debt ratio is as follows:

$$\text{Debt to asset ratio} = \frac{\text{Total debt}}{\text{Total assets}}$$

According to Kasmir (2019), the Current Ratio is a ratio used to measure a company's ability to pay its short-term obligations or debts that are due immediately when they are collected in full. The formula for calculating the Current Ratio is as follows:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Profit-Sharing Income

According to Arifin (2021), profit sharing is the return (income generated from business activities) derived from investment contracts over time, which is uncertain and not fixed in Islamic banks. The amount of return depends on the actual business results achieved by the bank. The income distributed is based on realized revenue (cash basis), while income that is still recognized on an accrual basis is not permitted to be shared between the *mudharib* (fund manager) and the *shahibul maal* (fund provider).

RESULTS AND DISCUSSION

Descriptive Analysis

The descriptive statistical analysis process aims to organize the data so that the distribution of the analyzed data becomes normal. Data on the variables of Capital Structure (measured using Debt to Equity Ratio, Current Ratio, and Total Liabilities) (X1), Profit-Sharing Income (X2), and Return on Assets (Y) were obtained from the annual financial statements of the companies used as research objects. The following are the descriptive statistical results for each of these variables:

Table 1.
Descriptive Statistics

Statistik	ROA	DER	CR	Liabilities	Revenue
Mean	2.134571	300.0740	850.1451	124.0905	321834.8
Median	1.300000	219.8300	517.0100	11.38900	219549.0
Maximum	13.58000	1377.650	1959.030	893.8640	998198.0
Minimum	-8.720000	192.2000	71.00000	1.002000	287.1800
Std. Dev.	3.714274	389.1960	501.6984	235.5960	339907.3
Skewness	1.370848	1.735146	1.372500	2.097862	0.653576
Kurtosis	5.342592	4.020900	4.117063	6.021989	2.070300
Jarque-Bera	23.58962	21.42255	12.80839	38.89076	3.752254
Probability	0.000008	0.000022	0.001855	0.000000	0.153182

Statistik	ROA	DER	CR	Liabilities	Revenue
Sum	74.71000	10817.59	22755.08	4343.167	11264217
Sum Sq. Dev.	469.0583	516009.0	8557842.	1887185.	3.93E+12

The Debt to Equity Ratio (DER) variable shows a wide range of values, with a minimum value of 19.22 recorded by PT Bank Victoria Syariah in 2021 and a maximum value of 1377.65 recorded by PT Bank Muamalat Indonesia in 2021. The average (mean) DER is 309.0740 with a standard deviation of 389.1960. Since the mean is lower than the standard deviation, this indicates that the data variation of DER reflects an optimal distribution. The Current Ratio (CR) ranges from a minimum of 213.94, recorded by PT Bank Syariah Indonesia Tbk in 2020, to a maximum of 1959.03, recorded by PT Bank Panin Dubai Syariah Tbk in 2021. With an average value of 650.1451 and a standard deviation of 501.6984, it can be concluded that the data distribution of CR indicates a less optimal variation, as the mean is higher than the standard deviation.

The Total Liabilities variable ranges from a minimum of 6.306, recorded by PT Bank BCA Syariah in 2019, to a maximum of 893,664,209,080, recorded by PT Bank Victoria Syariah in 2023. The average value is 124.0905 with a standard deviation of 235.5960. Since the mean is lower than the standard deviation, the variation of Total Liabilities is considered optimal. Profit-Sharing Income ranges from a minimum of 1.05, recorded by PT Bank BTPN Syariah in 2019, to a maximum of 460,079,818,220, recorded by PT Bank BCA Syariah in 2023. The mean value is 321,834.8 with a standard deviation of 339,907.3, indicating an optimal variation because the mean is lower than the standard deviation.

Return on Assets (ROA) ranges from a minimum of -6.72, recorded by PT Bank Panin Dubai Syariah Tbk in 2021, to a maximum of 13.58, recorded by PT Bank BTPN Syariah in 2019. The mean value is 2.134571 with a standard deviation of 3.714274, indicating an optimal variation as the mean is lower than the standard deviation.

Panel Data Regression Model Estimation Common Effect Model (CEM)

In the Common Effect Model, it is assumed that there are no differences in the intercept and slope values in the regression results, either across individuals or over time. The parameter estimation method used in the Common Effect Model is the Ordinary Least Squares (OLS) method. The results of the panel data regression using the Common Effect Model are presented in the following table.

Table 2.
Common Effect Model (CEM) Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant (C)	23.92442	4.316453	5.542612	0.0000
DER	-0.962231	0.408461	-2.355748	0.0252
CR	-1.763511	0.636899	-2.768909	0.0096
Total Liabilities	-0.006307	0.001989	-3.170379	0.0035
Profit-Sharing Income	-0.473987	0.200660	-2.362141	0.0249

Model Summary	
Indicator	Value
R-squared	0.612889
Adjusted R-squared	0.561274
S.E. of Regression	2.460201
Sum Squared Resid	181.5777
Log Likelihood	-78.47372
F-statistic	11.87428
Prob (F-statistic)	0.000007
Durbin-Watson Stat	1.646610

Fixed Effect Model (FEM)

The panel data regression estimation in the Fixed Effect Model uses the Ordinary Least Squares (OLS) method. The results of the panel data regression using the Fixed Effect Model are presented in the following table:

Table 3.
Fixed Effect Model (FEM) Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant (C)	1.465622	7.039403	0.208203	0.8368
DER	0.137002	0.595539	0.230046	0.8200
CR	0.400969	0.752721	0.532692	0.5991
Total Liabilities	-0.003185	0.001792	-1.777210	0.0882
Profit-Sharing Income	-0.189833	0.181131	-1.048041	0.3051

Model Summary	
Indicator	Value
R-squared	0.836064
Adjusted R-squared	0.767757
S.E. of Regression	1.789968
Sum Squared Resid	76.89569
Log Likelihood	-63.43713
F-statistic	12.23983
Prob (F-statistic)	0.000000
Durbin-Watson Stat	2.621488

Random Effect Model (REM)

The Random Effect Model accounts for individual differences through the error term. The estimation method used in panel data regression for the Random Effect Model is the Generalized Least Squares (GLS) method. The following presents the output of the panel data regression using the Random Effect Model.

Table 4.
Random Effect Model (REM) Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant (C)	11.51614	5.677742	2.028295	0.0515
DER	-0.370796	0.491924	-0.753766	0.4569
CR	-0.552838	0.644704	-0.857506	0.3980
Total Liabilities	-0.004196	0.001709	-2.455057	0.0201
Profit-Sharing Income	-0.322383	0.169710	-1.899617	0.0671
Effects Specification				
Component		S.D.	Rho	
Cross-section random		2.119925	0.5838	
Idiosyncratic random		1.789968	0.4162	
Weighted Statistics				
Indicator		Value		
R-squared		0.251395		
Adjusted R-squared		0.151581		
S.E. of Regression		1.867280		
F-statistic		2.518629		
Prob (F-statistic)		0.062003		
Durbin-Watson Stat		2.158088		
Unweighted Statistics				
Indicator		Value		
R-squared		0.472050		
Sum Squared Resid		247.6395		
Durbin-Watson Stat		0.911568		

Panel Data Model Selection Test Chow Test

Table 5.
Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	5.445403	(6, 24)	0.0011
Cross-section Chi-square	30.073185	6	0.0000

Based on the test results, the Cross-section Chi-square probability value is 0.0000, which is less than 0.05. Therefore, it can be concluded that the Fixed Effect Model is more appropriate than the Common Effect Model.

Hausman Test

Table 7
Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	6.647454	4	0.1557

In the calculation that has been carried out, it can be seen that the Probability value of the Cross-section random is $0.1557 > 0.05$; therefore, it can be concluded that the Random Effect Model is more appropriate than the Fixed Effect Model.

Lagrange Multiplier Test

Table 8
Lagrange Multiplier Test

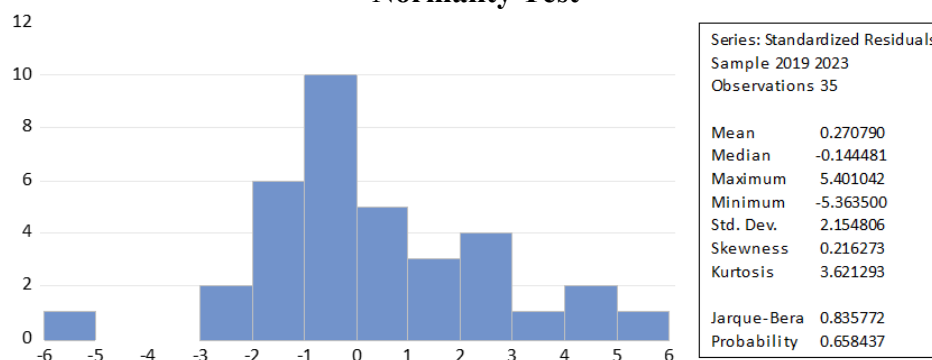
Test	Cross-section	Time	Both
Breusch-Pagan	2.840338 (0.0919)	1.117570 (0.2904)	3.957908 (0.0467)
Honda	1.685330 (0.0460)	-1.057152 (0.8548)	0.444189 (0.3285)
King-Wu	1.685330 (0.0460)	-1.057152 (0.8548)	0.247030 (0.4024)
Standardized Honda	2.899337 (0.0019)	-0.877903 (0.8100)	-1.967104 (0.9754)
Standardized King-Wu	2.899337 (0.0019)	-0.877903 (0.8100)	-2.158832 (0.9846)
Gourieroux, et al.	--	--	2.840338 (0.1064)

Based on the results of the Lagrange Multiplier Test, comparing the Common Effect Model and the Random Effect Model above, the cross-section Breusch-Pagan value is greater than 0.05 ($0.0919 > 0.05$). Therefore, the appropriate model to be used is the Common Effect Model (CEM).

Classical Assumption Test

Normality Test

Table 9
Normality Test



The EViews output in the table shows that the probability value is 0.65. This indicates that the data are normally distributed, since the probability value is above 0.05 ($0.65 > 0.05$). Therefore, it can be concluded that the data in this study are normally distributed.

Multicollinearity Test

Table 10
Multicollinearity Test

Variance Inflation Factors
Date: 11/09/24 Time: 23:34
Sample: 1 35
Included observations: 35

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	1.104021	4.177786	NA
DER	2.851541	2.618599	1.587801
CR	1.641160	4.143574	1.518505
LIABILITAS	5.981928	1.569121	1.220553
PENDAPATAN	3.706853	3.027283	1.574368

The EViews output in the table shows that the VIF value for the Debt to Equity Ratio (DER) variable is 1.587. This indicates that there is no multicollinearity issue, as the VIF value is less than 10. The VIF value for the Current Ratio (CR) variable is 1.518, indicating no multicollinearity since the VIF is below 10. The VIF value for the Total Liabilities variable is 1.220, which also indicates no multicollinearity because the VIF is less than 10. Furthermore, the VIF value for the Profit-Sharing Income variable is 1.574, indicating no multicollinearity as the VIF is below 10.

Heteroskedasticity Test

Table 11
Heteroskedasticity Test

Dependent Variable: ABS_RES
Method: Panel Least Squares
Date: 11/09/24 Time: 23:24
Sample: 2019 2023
Periods included: 5
Cross-sections included: 7
Total panel (balanced) observations: 35

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.899727	0.705757	2.691757	0.0115
DER	-0.000164	0.001134	-0.144557	0.8860
CR	0.000562	0.000860	0.653131	0.5186
LIABILITI	0.000238	0.001643	0.144681	0.8859
PENDAPATAN	-2.30E-06	1.29E-06	-1.777395	0.0856

Based on the table, the probability value for the Debt to Equity Ratio (DER) variable is 0.88 ($0.88 > 0.05$). Therefore, it can be concluded that there is no heteroskedasticity issue. Meanwhile, the probability value for the Current Ratio (CR) variable is 0.51 ($0.51 > 0.05$), indicating no heteroskedasticity. The probability value for the Total Liabilities variable is 0.88 ($0.88 > 0.05$), which also indicates no heteroskedasticity. Furthermore, the probability value for the Profit-Sharing Income variable is 0.08 ($0.08 > 0.05$), indicating that there is no heteroskedasticity issue.

The results obtained from the heteroskedasticity test using the Glejser test show that the variables Debt to Equity Ratio (DER), Current Ratio (CR), Total Liabilities, and Profit-Sharing Income do not exhibit heteroskedasticity. This is evidenced by the probability values of all variables being greater than 0.05 (> 0.05).

Autocorrelation Test

Table 12
Autocorrelation Test

Autocorrelation Test	Value
Durbin-Watson Statistic	1.646610

Based on the table above, it can be seen that the Durbin–Watson value is 1.6466. This value is compared with the table values using a 5% significance level and 2 independent variables ($K = 2$). The obtained values are $dL = 1.3433$, $dU = 1.5838$, and $4 - dL = 2.6567$ (calculated as $4 - 1.3433 = 2.6567$), with a total sample size of 35 (n). Therefore, it can be concluded that $dU < DW < 4 - dL$ ($1.5838 < 1.6466 < 2.6567$), indicating that there is no autocorrelation problem.

Multiple Regression Test

Table 13
Multiple Regression Test

Variabel	Coefficient	Std. Error	t-Statistic	Prob.
C	23.92442	4.316453	5.542612	0.0000
DER	-0.962231	0.408461	-2.355748	0.0252
CR	-1.763511	0.636897	-2.768909	0.0096
LIABILITI	-0.006307	0.001989	-3.170379	0.0035
PENDAPATAN	-0.473987	0.200660	-2.362141	0.0249

Based on Table 4.12 above, the regression test results are as follows:

$$Y = 23.924 - 0.962 - 1.763 - 0.006 - 0.473 + e$$

From the equation above, it can be concluded that the constant value of 23.924 indicates that if the variables Debt to Equity Ratio (DER), Current Ratio (CR), Total Liabilities, and Profit-Sharing Income are all equal to 0, then the value of Return on Assets (ROA) is 23.924. The Debt to Equity Ratio (DER) variable has a coefficient of -0.962 , meaning that if DER increases by 1%, it will decrease the Return on Assets (ROA) by 0.962. The Current Ratio (CR) variable has a coefficient of -1.763 , meaning that if CR increases by 1%, it will decrease ROA by 1.763. The Total Liabilities variable has a coefficient of -0.006 , meaning that if Total Liabilities increase by 1%, it will decrease ROA by 0.006. The Profit-Sharing Income variable has a coefficient of -0.473 , meaning that if Profit-Sharing Income increases by 1%, it will decrease ROA by 0.473.

Hypothesis Testing

t-Statistic Test (Partial)

Based on the table above, the results of the first test (H1) show that the probability value for the effect of Debt to Equity Ratio (DER) is 0.025, with a t-statistic of -2.355. Thus, the probability value of 0.025 is smaller than 0.05 ($0.025 < 0.05$), and the t-statistic is greater than the t-table value ($-2.355 > -1.692$). Therefore, it can be concluded that H_a is accepted and H_o is rejected. This means that there is a significant negative effect of Debt to Equity Ratio (DER) on Return on Assets (ROA) in Islamic Commercial Banks in Indonesia during 2019–2023.

The results of the second test (H2) show that the probability value for the effect of Current Ratio (CR) is 0.009, with a t-statistic of -2.768. Thus, the probability value of 0.009 is smaller than 0.05 ($0.009 < 0.05$), and the t-statistic is greater than the t-table value ($-2.768 > -1.692$).

Therefore, H_a is accepted and H_o is rejected, meaning that there is a significant negative effect of Current Ratio (CR) on Return on Assets (ROA) in Islamic Commercial Banks in Indonesia during 2019–2023. The results of the third test (H_3) show that the probability value for the effect of Total Liabilities is 0.003, with a t-statistic of -3.170. Thus, the probability value of 0.003 is smaller than 0.05 ($0.003 < 0.05$), and the t-statistic is greater than the t-table value ($-3.170 > -1.692$). Therefore, H_a is accepted and H_o is rejected, indicating a significant negative effect of Total Liabilities on Return on Assets (ROA) in Islamic Commercial Banks in Indonesia during 2019–2023.

The results of the fourth test (H_4) show that the probability value for the effect of Profit-Sharing Income is 0.024, with a t-statistic of -2.362. Thus, the probability value of 0.024 is smaller than 0.05 ($0.024 < 0.05$), and the t-statistic is greater than the t-table value ($-2.362 > -1.692$). Therefore, H_a is accepted and H_o is rejected, meaning that there is a significant negative effect of Profit-Sharing Income on Return on Assets (ROA) in Islamic Commercial Banks in Indonesia during 2019–2023.

F-Statistic Test (Simultaneous)

Table 4.15
F-Statistic Test (Simultaneous)

Simultaneous Test (F-test)	Value
F-Statistic	11.87428
Prob(F-Statistic)	0.000007

Based on the simultaneous test (F-test) table, the calculated F-value is 11.874 with a probability value of 0.00. These results indicate that the F-value of 11.874 is greater than the F-table value of 2.89 ($11.874 > 2.89$), and the probability value of 0.00 is less than 0.05 ($0.00 < 0.05$). This means that H_a is accepted and H_o is rejected. Therefore, it can be concluded that there is a significant simultaneous effect of the variables Debt to Equity Ratio (DER), Current Ratio (CR), Total Liabilities, and Profit-Sharing Income on Return on Assets (ROA) in Islamic Commercial Banks in Indonesia during 2019–2023.

Coefficient of Determination (R^2)

Table 4.16
Coefficient of Determination (R^2)

Coefficient of Determination	Value
R-squared (R^2)	0.612889
Adjusted R-squared	0.561274

The coefficient of determination (R^2) is used to determine how much the independent variables collectively explain the dependent variable. The value of the coefficient of determination (R^2) ranges from 0 to 1. Based on the table above, the R-squared value is 0.561274, which can be converted into a percentage to indicate the contribution of the independent variables to the dependent variable. Thus, the independent variables in this study are able to explain 56.13% of the variation in the Return on Assets (ROA) variable. Meanwhile, the remaining 43.87% is influenced by other factors not included in this regression analysis.

The Effect of Capital Structure Measured by Debt to Equity Ratio (DER) on Financial Performance

Based on the research results, the probability value for the effect of Debt to Equity Ratio (DER) is 0.025, with a t-statistic of -2.355. Thus, the probability value of 0.025 is smaller than 0.05 ($0.025 < 0.05$), and the t-statistic is greater than the t-table value ($-2.355 < -1.692$). Therefore, it can be concluded that H_a is accepted and H_o is rejected. This means that there is a significant negative effect of Debt to Equity Ratio (DER) on Return on Assets (ROA) in Islamic Commercial Banks in Indonesia during 2019–2023. Thus, the higher the Debt to Equity Ratio (DER), the lower the Return on Assets (ROA). This implies that higher debt leads to greater interest expenses that must be paid by the company. This can reduce net income, ultimately lowering ROA. A high DER can also increase financial risk, making the company more vulnerable to financial distress during unstable economic conditions. This may adversely affect operational performance and profitability, including ROA.

These findings are consistent with the Trade-off Theory, which states that there is a balance between the use of debt and equity. The use of debt provides tax benefits (since interest is tax-deductible), but the risk of bankruptcy increases if excessive debt is used. Therefore, Islamic banks need to balance the use of debt and equity to maximize ROA. This study is in line with previous research conducted by (Rismanty et al., 2022); (Ardhefani et al., 2021); (Darminto & Fuadati, 2020), which found that DER has a significant negative effect on ROA. This means that the higher the DER, the lower the ROA.

The Effect of Capital Structure Measured by Current Ratio (CR) on Financial Performance

Based on the research results, the probability value for the effect of Current Ratio (CR) is 0.009, with a t-statistic of -2.768. Thus, the probability value of 0.009 is smaller than 0.05 ($0.009 < 0.05$), and the t-statistic is greater than the t-table value ($-2.768 < -1.692$). Therefore, H_a is accepted and H_o is rejected. This indicates a significant negative effect of Current Ratio (CR) on ROA in Islamic Commercial Banks in Indonesia during 2019–2023. This finding indicates that CR has a significant negative effect on ROA. If the Current Ratio is too high, it means the company holds excessive current assets that are not used productively. This suggests that management does not efficiently utilize these assets to generate profits, resulting in lower efficiency in asset usage.

This finding supports previous studies by (Rismanty et al., 2022); (Andika & Pasaribu, 2022); (Firmansyah & Lesmana, 2021), which also found that CR has a significant negative effect on ROA. This implies that holding too many current assets may indicate risk aversion by management. However, maintaining high liquidity can also negatively affect profitability, as cash and other current assets are not used efficiently to generate higher returns.

The Effect of Capital Structure Measured by Total Liabilities on Financial Performance

Based on the research results, the probability value for the effect of Total Liabilities is 0.003, with a t-statistic of -3.170. Thus, the probability value of 0.003 is smaller than 0.05 ($0.003 < 0.05$), and the t-statistic is greater than the t-table value ($-3.170 < -1.692$). Therefore, H_a is accepted and H_o is rejected, indicating a significant negative effect of Total Liabilities on ROA in Islamic Commercial Banks in Indonesia during 2019–2023. This finding shows that Total Liabilities have a significant negative effect on ROA. An increase in debt leads to

higher interest expenses, which in turn affects the profits earned by Islamic banks. The higher the Total Liabilities relative to assets, the greater the risk faced by the bank. High liabilities may force banks to improve operational efficiency, but if not managed properly, they can reduce financial performance. Banks with high liabilities may also face increased capital costs, negatively impacting profit margins.

Companies generally use internal funds, debt, and equity as financing sources, which aligns with the Pecking Order Theory. This theory suggests that companies prefer internal funding before resorting to debt and equity. Thus, the use of internal funds can help reduce the risk of excessive interest burdens that may suppress profitability. This finding is consistent with previous research by (Langkaming et al., 2023), which also found that Total Liabilities have a significant negative effect on ROA, indicating that an increase in Total Liabilities is associated with a decrease in ROA.

The Effect of Profit-Sharing Income on Financial Performance

Based on the research results, the probability value for the effect of Profit-Sharing Income is 0.024, with a t-statistic of -2.362. Thus, the probability value of 0.024 is smaller than 0.05 ($0.024 < 0.05$), and the t-statistic is greater than the t-table value ($-2.362 > -1.692$). Therefore, H_a is accepted and H_o is rejected, indicating a significant negative effect of Profit-Sharing Income on ROA in Islamic Commercial Banks in Indonesia during 2019–2023. This finding indicates a significant negative effect of profit-sharing income on ROA. This may suggest that although Islamic banks earn income from profit-sharing schemes, the associated costs or risks related to these assets may be higher, thereby reducing net income per unit of assets. Islamic banks that focus more on profit-sharing may take on higher risks that do not always yield proportional returns, potentially reducing asset utilization efficiency.

Agency Theory is relevant in explaining the relationship between fund owners (customers) and managers (banks). Islamic banks are responsible for managing customer funds in accordance with Sharia principles. However, information asymmetry between customers and banks may affect the financial performance of both parties.

The Effect of Capital Structure (Measured by DER, CR, Total Liabilities) and Profit-Sharing Income on Financial Performance

Based on the research results, the probability values indicate that DER, CR, Total Liabilities, and Profit-Sharing Income have an effect. The simultaneous test (F-test) shows an F-statistic value of 11.874 with a probability of 0.00. These results indicate that 11.874 is greater than the F-table value of 2.89 ($11.874 > 2.89$), and the probability value of 0.00 is less than 0.05 ($0.00 < 0.05$). This means that H_a is accepted and H_o is rejected. Therefore, it can be concluded that there is a significant simultaneous effect of DER, CR, Total Liabilities, and Profit-Sharing Income on ROA in Islamic Commercial Banks in Indonesia during 2019–2023. These results indicate that financial factors such as DER, CR, and Total Liabilities play an important role in influencing ROA in Islamic Commercial Banks in Indonesia during the 2019–2023 period. The findings highlight the importance of asset and liability management strategies to improve operational effectiveness and bank profitability.

CONCLUSION

Based on the results of the study, it can be concluded that capital structure, as measured by the Debt to Equity Ratio (DER), Current Ratio (CR), and Total Liabilities, has a significant negative effect on financial performance. In addition, profit-sharing income also

shows a significant negative effect on financial performance. Furthermore, when considered simultaneously, capital structure variables (DER, CR, and Total Liabilities) together with profit-sharing income have a significant effect on financial performance.

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