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The Effect of Capital Structure on the Financial Performance of Islamic Banks: Mediation of Liquidity Risk

Nur Meilinda Nuzula*, Arif Afendi, Mardhiyaturrositaningsih

Faculty of Islamic Economics and Business, Universitas Islam Negeri Walisongo Semarang, 50185, Indonesia

*Corresponding author e-mail: lindanuzula20@gmail.com

ABSTRACT

The study uses liquidity risk as a mediating variable to look at the relationship between Indonesian Islamic banks' capital structure and financial performance. A quantitative methodology was applied using secondary panel data from 13 Islamic commercial banks for the years 2021-2024. Regression of panel data and the Sobel test in EViews 12 were used for the analysis. This study measures financial performance using variables related to liquidity risk and structural capital. The findings demonstrate that capital structure significantly and favorably affects liquidity risk as well as financial performance. Furthermore, financial performance is favorably and strongly impacted by liquidity risk. The Sobel test results demonstrate that liquidity risk serves as a mediating component in part. Regarding the relationship between financial performance and capital structure. These results demonstrate that strong management of liquidity and efficient debt management can boost Islamic banks' profitability.

Keywords: Capital Structure; Financial Performance; Islamic Banking; Liquidity Risk

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INTRODUCTION

Banking is a vital industry for a nation's economy, serving as a go-between for those with excess funds and those in need of funds. Financial institutions must monitor their financial performance to generate and maximize revenue, thereby ensuring the company's survival and prosperity. Financial performance serves as a key metric for evaluating resource management's efficacy and the success of a bank's operations. (Khalid, 2025). Financial performance reflects management's ability to optimize assets to generate sustainable profitability (Widnyana & Antari, 2025).

Financial performance reflects the results and achievements attained by management through the effective management of assets over a specific period of time, thereby

illustrating the company's financial condition and operations. Stakeholders can assess a company's financial performance by analyzing financial ratios through financial statements and annual reports(Ayuningtyas & Mawardi, 2022). One of the indicators used is Return on Assets (ROA), which gauges a business's capacity to turn a profit from all of its assets, and is used to assess financial performance (Al-Nimer & Arabiat, 2024)

Based on financial report data from 2021-2024, the financial performance ratio, which includes Return on Assets (ROA), shows that the ROA value appears to be fluctuating, with ROA increasing from 0.016 in 2021 to 0.020 in 2022, then decreasing to 0.019 in 2023, and rising again to 0.021 in 2024. This situation indicates that Islamic banks' financial results is not yet stable, necessitating further analysis of the factors influencing it.

Table 1. Financial Performance

RASIO	2021	2022	2023	2024
ROA	0.016	0.020	0.019	0.021
DTL	0.015	0.021	0.048	0.053
LTD	1.123	1.149	1.224	1.226

Source : data processed (2026)

According to Mardhiyaturrositaningsih (2022) This situation aligns with her research, which shows that the banking industry's performance has undergone significant changes due to economic dynamics, such as during critical periods that impact various banking financial ratios, including profitability. A company may have sufficient capital, whether from equity or other sources, but if this capital is not utilized or allocated toward debt or other operational expenses, the company fails to generate profits, resulting in substandard financial performance. (Asif & Mullick, 2023). One internal factor influencing financial performance is capital structure. An ideal capital structure strikes a balance between long-term debt and equity; an adequate capital structure will yield an optimal rate of return. (Ritonga et al., 2021). It is estimated that, by managing capital expenditures effectively and optimizing funding sources, a company's value and financial performance can be enhanced through an appropriate capital structure.

Based on Table 1, the Debt-to-Liability (DTL) ratio increased significantly from 0.015 in 2021 to 0.053 in 2024. According to Research by Ayuningtyas & Mawardi (2022) Financial performance benefits from the capital structure. The study by Verdina & Lestari (2025) and Tazkiyatun & Slamet Riyadi (2023) that the capital structure possesses a favorable but insignificant effect, while the study conducted by Kurniawati et al., (2022) states that capital structure has a significant negative effect. Research by Sari & Wi (2022) asserts that financial performance is unaffected by capital structure.

Apart from capital structure, liquidity risk is a key factor in banking. The term liquidity risk describes a bank's capacity to fulfill its immediate duties without suffering unacceptable losses, as it is closely connected to the capital structure. Liquidity risk and capital structure have a complex reciprocal relationship. Conversely, higher capital levels

can act as a buffer against liquidity shocks, and a bank's choice of capital structure may also be influenced by requirements to maintain liquidity (Al-Nimer & Arabiat, 2024). Researchers use this ratio as a mediating variable. From the perspective of liquidity risk, researchers use the ratio of loans to deposits (LTD). Based on Table 1 above, the Loan-to-Deposit (LTD) ratio increased steadily from 1.123 in 2021 to 1.226 in 2024. This increase indicates that credit distribution exceeds the ability of third-party funds collected.

Based on the above studies, it can be concluded that there are inconsistencies in the results; therefore, the writer is eager to carry out a study focusing on commercial Islamic banks in Indonesia. This study replicates the research that was done by Al-nimer & Arabiat (2024), which looked at the consequences of capital structure and liquidity on financial performance in the Islamic banking industry in Jordan. This research focuses on Islamic banks in Indonesia.

The Trade-Off Theory states that the use of debt improves performance through the benefits of a tax shield (tax savings), but it also has the potential to increase liquidity risk, which ultimately affects financial performance. Liquidity risk can serve as a transmission mechanism that explains the connection between banks' capital structure and financial performance. For example, Research on Islamic banks in Africa demonstrates a significant relationship between profitability and liquidity metrics like the Loan-to-Deposit Ratio, provided that the bank is able to manage liquidity risk effectively. (Awosanya, 2026). However, empirical evidence specifically examining liquidity risk's mediating role as a variable between financial performance and capital structure in Islamic commercial banks in Indonesia remains very limited, even though the characteristics of regulations, funding instruments, and customer preferences in Indonesia differ from those in other countries. This gap forms the basis for the importance of this research, which aims to analyze whether capital structure affects financial performance not only directly but also indirectly through liquidity risk in Islamic banks in Indonesia for the most recent period, 2021-2024.

By developing a model to mediate liquidity risk (Z) in the connection between financial performance (Y) and capital structure (X) and evaluating its application in the context of banks, this study closes the Research gap. Unlike the study by (Al-nimer & Arabiat, 2024) This method also considers the latest data period, from 2021 to 2024, focusing on Indonesian Islamic banks. This study is expected to produce empirical data on how capital structure affects the financial performance of Islamic banks. Additionally, the researchers hope to show that the relationship between capital structure and financial performance is mediated by liquidity risk.

LITERATURE REVIEW

Trade -Off Theory

The Trade-Off Theory states, when determining capital structure, companies balance the benefits of using debt against the costs. Tax savings are the primary advantage of

borrowing debt, but the drawbacks include loss costs and increased financial risk. Therefore, companies strive to achieve an optimal level of debt to maximize financial performance. However, when debt is used excessively, increased financial burdens and liquidity risks can reduce financial performance. (Abubakar, 2025).

Trade-off theory states that the independent variable, capital structure, influences financial performance as the dependent variable through the mechanism of weighing the advantages and disadvantages of debt. The use of debt provides the benefit of a tax shield, which has the potential to improve financial performance; however, it also increases the risk of bankruptcy and liquidity pressure. An increase in debt levels tends to amplify liquidity risk, which in turn can reduce financial performance; thus, liquidity risk acts as a mediating variable in this relationship. Consequently, capital structure's effect on financial performance is determined by a company's ability to manage debt levels optimally so that the benefits gained outweigh the costs incurred. (Voutsinas & Werner, 2025). Because it clarifies capital structure choices regarding financial performance and liquidity management, this theory is pertinent to banks. It offers a structure for comprehending how banks choose their capital structure and how those choices impact financial performance and liquidity risk. (Obadire et al., 2023).

Financial Performance

Financial performance serves as the primary reference for both internal and external parties to evaluate how well a company is performing and to assess the effectiveness of its financial management over a given period. (Verdina & Lestari, 2025). According to Research by Tazkiyatun Nisa & Slamet Riyadi (2023) Financial performance is the financial condition over a given period, determined through financial analysis. To deal with the corporate environment, it is very important to ensure that resources are used as efficiently as possible. According to Research by Kurniawati et al., (2022) The success of a business in improving its financial performance is reflected in its monetary results. Return on Assets (ROA) is a metric utilized to assess financial performance. This method is employed to ascertain a business's overall Profitability and total assets. Financial performance is the study's dependent variable, which is from the study by Fitriyah et al, (2024) which uses financial performance as a moderating element in the effects of capital structure. The following is the equation used to determine return on assets:

$$ROA = \frac{\text{Net Income}}{\text{Total asset}}$$

Capital Structure

Capital structure, which is the amount of equity and loan capital, has a major influence on a banking organization's financial performance. (Halimahtussakdiah et al., 2023). According to Yohanes (2025) How a company funds its activities and investments use both debt and equity is called its capital structure. In modern Research, capital structure is seen as reflecting resource allocation efficiency, risk-adaptation strategies, and

financial rationality. According to Research by Kurniawati et al., (2022) One crucial aspect of financing is the creation of the capital structure of a business, used to meet business capital needs through the issuance of shares or debt. The following are the ratio formulas used to calculate capital structure:

$$DTL = \frac{\text{Debt}}{\text{loan}}$$

Liquidity Risk

The capacity of a business to settle its debts on schedule or in whole is known as liquidity risk, as indicated by its liquidity. The capacity of a company to pay back its immediate debts, usually within one year, is known as liquidity. (Widnyana & Antari, 2025). According to Kurniawati et al., (2022) Liquidity is indicated by a high current ratio, which shows how many current assets a business has relative to its current liabilities. According to Research by Dianti & Bawono (2024) The capacity of a bank to fulfill its immediate commitments is known as liquidity, and it is very important for maintaining the bank's ability to continue operating. Liquidity is a balancing factor; it can either improve or worsen the correlation between Profitability and leverage in capital structure. The formula for determining the liquidity ratio is as follows:

$$LTD = \frac{\text{total loans}}{\text{total deposits}}$$

Hypotheses Development

The Effect of Islamic Bank Capital Structure On Financial Performance

Capital structure is a description of financial propositions, specifically between capital owned using long-term liabilities (shareholders' equity), which functions as a financing investment in the company (Halimahtussakdiah et al., 2023). Theoretically, the best possible capital structure can reduce capital costs and enhance financial results. The trade-off hypothesis is supported by this, which discusses how companies try to weigh the benefits of using debt, like tax savings, against its drawbacks, like losses, to attain an ideal capital structure. This description has the same result as the Research findings of Ayuningtyas & Mawardi (2022) who discovered that the capital structure has a beneficial impact on the financial results.

H1: Capital structure has a positive effect on financial performance.

The Effect Of Capital Structure On Liquidity Risk

According to the Trade-Off Theory, companies strive to achieve an optimal capital structure by weighing the advantages and disadvantages of using debt, which may indirectly affect liquidity risk. This is in line with the Research. Al-nimer & Arabiat (2024) which claims that liquidity risk is significantly impacted by capital structure.

H2: Capital structure has a significant effect on liquidity risk

The Effect Of Liquidity Risk On Financial Performance

A bank's ability to meet its short-term obligations without incurring significant losses is reflected in its liquidity risk. High liquidity risk can worsen financial performance by increasing funding costs and reducing operational effectiveness. This description yields the same result as Aregbesola et al. (2024), which finds that liquidity risk hurts financial performance, but differs from Al-Nimer & Arabiat (2024), which finds no liquidity risk's substantial impact on financial results for the banking industry in Jordan. Therefore, the connection between financial success and liquidity risk warrants further examination.

H3: The risk of liquidity impairing financial performance.

Liquidity risk mediating function in capital structure and financial performance

This study indicates that a key moderator in the relationship between liquidity risk exists between financial performance and capital structure. Although earlier Research has demonstrated a clear correlation among financial performance, capital structure and liquidity risk, little is known about how liquidity risk mediates these relationships. (Abubakar, 2025). This differs from the study by Ryan & Wisnu, (2021) which used liquidity as a moderating variable rather than a mediating variable and stated that liquidity moderates the connection between financial performance and capital structure.

According to capital structure and trade-off theory, liquidity risk is one way that capital structure influences financial performance both directly and indirectly. A debt-dominated capital structure can increase liquidity risk, which can result in a drop in financial performance. According to Research (Al-Nimer & Arabiat, 2024) Liquidity serves as a transmission mechanism that explains the connection between a business's financial performance and financing decisions.

H4: Liquidity functions as a transmission mechanism linking financing choices to corporate financial performance.

Hypotheses of the Research

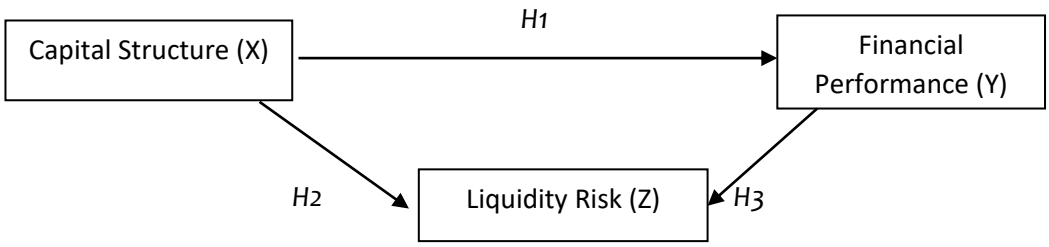


Figure 1. Proposed Conceptual Framework
Source: Authors (2026)

METHODOLOGY

This study uses a quantitative methodology to look at the connection between capital structure and financial performance, focusing on the mediating role of liquidity risk, using data from Islamic banks in Indonesia. The data used is secondary, obtained from the annual financial reports of Islamic banks for the period 2021-2024. The data analysis technique uses panel data regression and the Sobel test through EViews version 12. EViews was chosen for its advantages in data processing, particularly in panel data regression analysis, classical assumption testing, choosing a model (random, fixed, or common effect and mediation effect testing using the causal mediation approach (causal step methodology) proposed by Baron and Kenny. Using the EViews software, three phases of regression using panel data was utilized to conduct the analysis: (1) capital structure's effect on financial performance, (2) how capital structure affects the risk of liquidity and (3) the effects of both capital structure and liquidity risk on financial performance at the same time.

Furthermore, to assess the indirect capital structure's effect on financial performance via liquidity risk, the Sobel Test was used. The Sobel test assesses whether the liquidity risk variable statistically mediates the connection between financial performance and capital structure by computing the product of path coefficients a and b, along with their standard errors. The Sobel test calculation was performed by entering the regression coefficient values and standard errors from the EViews estimation into the Sobel calculator. If the test value was 1.96, the mediating effect was declared significant.

All Commercial Islamic banks that were registered with the OJK during the research period made up the study's population. Purposive sampling is a technique for choosing participants according to predetermined standards aligned with the study's goals. It was used to select the Research sample. The following are the requirements: 1. Islamic financial institutions that are consistently registered with the OJK. 2. Islamic financial institutions that release complete annual financial reports. 3. Banks that have data relevant to the Research variables. The population consists of 14 banks operating during the 2021-2024 period. However, based on data availability and completeness, only 13 banks were selected as samples.

Table 2. Variable Measurement

Description and Variables	Symbol	Variable Measurement
Financial Performance	FP (Y)	ROA = Net Income/Total Assets
Capital Structure	CS (X)	DTL = Debt/Loan
Liquidity Risk	LR (Z)	LTD = Total Loans/Total Deposits

Source: Authors (2026)

In order to investigate correlation between variables, this research uses regression analysis of panel data with the following models

Model 1

- FP = a1 + b1 CS + €

Model 2

- FP = a2 + b2 LR + €

Model 3

- FP = a3 + b1 CS + B2 LR + €

RESULTS

Panel data regression is the approach of data analysis employed in this investigation, which examines the impact of financial performance on capital structure, with liquidity risk as a mediating variable, in Indonesian Islamic banks for the period 2021-2024. This study involved 13 banks during the 2021-2024 period and will be processed in Microsoft Excel before being analyzed in EViews version 12.

Descriptive Statistics

Descriptive statistics were utilized to provide a summary of the data gathered, including the standard deviation, mean, minimum, and maximum.

Table 3. Descriptive Statistics Results

	DTL_X	LTD_Z	ROA_Y
Mean	0.500000	0.787500	0.014000
Median	0.528000	0.785000	0.005000
Maximum	0.580000	0.840000	0.046000
Minimum	0.364000	0.740000	0.000000
Std. Dev.	0.100270	0.045735	0.021463

Source: data processed (2026)

Based on Table 3, the minimum DTL (X) is 0.3640000, and the highest is 0.580000. The average is 0.500000, with a standard deviation of 0.100270. The lowest amount of LTD (Z) is 0.740000, with a maximum amount of 0.840000. The standard deviation is 0.045735. ROA (Y) has a 0.000000 minimum value and a 0.046000 maximum value. 0.014000 is the mean, and 0.021463 is the standard deviation.

Regression Model Selection

Chow Test

To ascertain which is superior, The Fixed Effect Model and the Common Effect model both make use of the Chow test.

Table 4. Chow Test for Regression 1

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.969219	(6,20)	0.4708
Cross-section Chi-square	7.146597	6	0.3075

Source: data processed (2026)

Considering the Table 4, the chi-square test statistic for the cross-sectional test was 0.3075, which is well above the significance level of 0.05. This indicates that the selected model is the Common Effect Model (CEM).

Table 5. Chow Test for Regression II

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.375032	(6,19)	0.8858
Cross-section Chi-square	3.133952	6	0.7919

Source: data processed (2026)

According to the Table 5, the cross-section's chi-square test statistic was 0.7919, which is significantly more than the 0.05 significance level. This implies that the Common Effect Model (CEM) was the choice.

Lagrange Multiplier Test

Utilizing the test of Lagrange Multiplier, estimate the regression model for either the Random Effects Model (REM) or the Common Effects Model (CEM). The CEM model is used if the chi-square probability of the cross-section value is higher than 0.05 nonetheless, the REM model is selected if the chi-squared cross-section test's the p-value is below 0.05.

Table 6. Lagrange Multiplier Test for Regression I

	Test Hypothesis		
	Cross-section	**Time**	**Both**
Breusch-Pagan	0.045892	1.292442	1.338334
	(0.8304)	(0.2556)	(0.2473)

Source: data processed (2026)

Considering the test findings displayed in the Table 6, a probability value of 0,8304 was obtained, which above the 0.05 significance level. This indicates that the Common Effect Model (CEM) was chosen.

Table 7. Lagrange Multiplier Test for Regression 2

	Test Hypothesis		
	Cross-section	**Time**	**Both**
Breusch-Pagan	1.768778 (0.1835)	0.044757 (0.8235)	1.813535 (0.1781)

Source: data processed (2026)

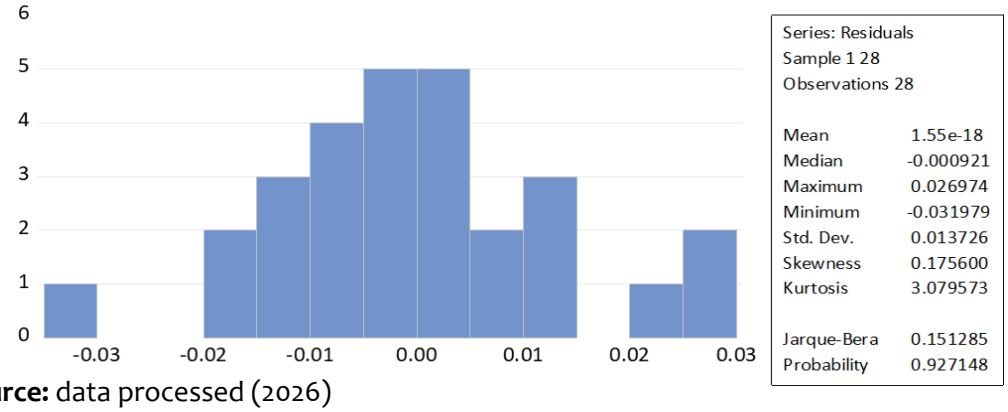
Based on the test results shown in the Table 7, the obtained probable value of 0.1835 surpasses the significance level of 0.05. this implies that the Common Effect Model (CEM) was selected.

Classical Assumption Test

Normality Test

In this investigation, the Jarque-Bera (J-B) test was used to determine whether the residuals were normal. The normality test evaluates the data's normal distribution, utilizing the chosen regression model for panel data. The data are regularly distributed in the event that the p-value exceeds 0.05. on the other hand, the data are not distributed normally if the p-value is less than 0.05.

Figure 2. Normality Test



Source: data processed (2026)

Based on the normality test results from the standardized residuals histogram and the Jarque-Bera statistic, the regression residuals of the model have a distribution that is normal. This is the value of probability of Jarque-Bera, which indicates 0.927148, which is above the 0.05 level of significance. These findings demonstrate that the normalcy assumption is met.

Multicollinearity Test

The objective of the purpose of the multicollinearity test was ascertain if the study's independent and mediating variables were highly correlated. If there were a high correlation, the relationship between the variables would be disrupted. The VIF

(Variance Inflation Factor) results show the multicollinearity test; a VIF < 10 indicates no multicollinearity.

Table 8. Multicollinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
DTL	0.000279	19.56159	1.189027
LTD	0.002784	616.7086	1.189027
C	0.001584	550.0910	NA

Source: data processed (2026)

Based on the Variance Inflation Factor (VIF) multicollinearity test, the regression model does not demonstrate multicollinearity. This is indicated by the VIF value of Deposit to Liability (DTL) of 1.89027. The VIF value of the Loan to Deposit Ratio (LTD) is 1.189027. All VIF values are still within reasonable limits, even below 5, indicating no multicollinearity.

Heteroscedasticity Test

The Glejser test is applied in this study to test for heteroscedasticity, in which the absolute residual for the independent variable is regressed if the value of the likehood of the chi-square is less than 0.05, indicating heteroscedasticity. On the other hand, heteroscedasticity does not exist if the chi-square value probability exceeds 0.05.

Table 9. Heteroscedasticity Test

F-statistic	0.745928	Prob. F(2,25)	0.4846
Obs*R-squared	1.576785	Prob. Chi-square(2)	0.4546
Scaled explained SS	1.237800	Prob. Chi-square(2)	0.5385

Source: data processed (2026)

According to the test for heteroscedasiticity using the Glejser method, a chi-square statistic of 0.4546 was obtained, which exceeds the 0.05 significance level. This is considered free from heteroscedasticity.

Autocorrelation Test

The assumption of independent residuals (no autocorrelation). The test of Durbin-Watson test can be used to test it. The range of the statistic for the Durbin-Watson test is 0-4. Autocorrelation is indicated by a statistical result less than 1 or greater than 3.

Table 10. Autocorrelation Test

R-squared	0.733794	Mean dependent var	0.019679
Adjusted R-squared	0.712497	S.D. dependent var	0.016749
S.E. of regression	0.008981	Akaike info criterion	-6.486546
Sum squared resid	0.002016	Schwarz criterion	-6.343810
Log likelihood	93.81164	Hannan-Quinn criter.	-6.442910
F-statistic	34.45609	Durbin-Watson stat	1.826591
Prob(F-statistic)	0.000000		

Source: data processed (2026)

Based on the Durbin-Watson value for the autocorrelation test is 1.826591, which falls between 1 and 3, indicating that the assumption of no autocorrelation is met. Stated differently, the residuals do not exhibit strong autocorrelation.

Coefficient of Determination Test (R*Test)

The R-squared stipulates that if the R-squared value is closer to one, variable X can explain nearly all of the data required to estimate the variance of variable Y. Conversely, if the R-squared value is closer to zero, variable X is very limited in explaining the information on the variance of variable Y.

Table 11. Coefficient of Determination Test (R'Test)

R-squared	0.733794	Mean dependent var	0.019679
Adjusted R-squared	0.712497	S.D. dependent var	0.016749
S.E. of regression	0.008981	Akaike info criterion	-6.486546
Sum squared resid	0.002016	Schwarz criterion	-6.343810
Log likelihood	93.81164	Hannan-Quinn criter.	-6.442910
F-statistic	34.45609	Durbin-Watson stat	1.826591
Prob(F-statistic)	0.000000		

Source: data processed (2026)

Considering the panel data regression output, the (R-squared) of 0.733794 shows that 73.37% the independent variables take into consideration a portion of the variance in financial performance, namely capital structure and liquidity risk. The rest is clarified by other factors beyond the model that were not included in this analysis. In addition, the Adjusted R-squared value of 0.712497 indicates that, after adjusting for the model's total number of variables, the proportion of financial performance that remains explained is high, suggesting that other models have excellent predictive power and are reliable in explaining the phenomenon under study.

Partial Hypothesis Test

The T-test in this investigation seeks to ascertain the magnitude of the variable X's impact on variable Y, assuming that the remaining variables remain unchanged. In a t-

test, if the p-value is less than 0.05, Ho is discarded. On the other hand, if the likelihood value is more than 0.05, H1 is rejected.

Table 12. T-test Results for Substructure I

Variable	Coefficient	Std. Error	T-statistic	Prob.
DTL_X	0.126245	0.056947	2.216911	0.0356
C	0.743029	0.025586	29.04051	0.0000

Source: data processed (2026)

The t-test findings reveal the impact of independent factors on liquidity risk (LTD). Capital structure (DTL) has a coefficient of 0.126245 with a probability value of 0.0356, which indicates that it has a positive and significant impact on (LTD).

Table 13. T-test Results for Substructure II

Variable	Coefficient	Std. Error	T-statistic	Prob.
DTL_X	0.043976	0.016707	2.632215	0.0413
LTD_Z	0.325589	0.052765	6.170580	0.0000
C	-0.259290	0.039805	-6.513921	0.0000

Source: data processed (2026)

Considering the findings the capital structure variable in the t-test (DTL) had a coefficient of 0.043976 with a p-value of 0.0143, indicating a positive and significant contribution to financial performance (ROA). For the liquidity risk variable (LTD), the coefficient of 0.0325589 with a probability of 0.0000 shows that liquidity risk possesses a favorable and substantial impact on financial performance.

Simultaneous Hypothesis Test (F-test)

Exogenous factors can be tested for their combined or simultaneous effects on endogenous variables using the F test. Variable dependent is simultaneously impacted by all exogenous variables, as indicated by the (F-statistic)

Table 14. F-test for Substructure I

Root MSE	0.032165	R-squared	0.158976
Mean dependent var	0.798000	Adjusted R-squared	0.126629
S.D. dependent var	0.035717	S.E. of regression	0.033379
Akaike info criterion	-3.893026	Sum squared resid	0.028968
Schwarz criterion	-3.797868	Log likelihood	56.50236
Hannan-Quinn criter.	-3.863935	F-statistic	4.914695
Durbin-Watson stat	1.769064	Prob(F-statistic)	0.035582

Source: data processed (2026)

Considering the outcomes of the substructure I F-test, The F-statistic's p-value is 0.035582, which is below the 0.05 significance level. This suggests that the Liquidity Risk (LTD) and Capital Structure (DTL) variables have a big impact on Financial Performance (ROA) simultaneously.

Table 15. F-test for Substructure II

Root MSE	0.008486	R-squared	0.733794
Mean dependent var	0.019679	Adjusted R-squared	0.712497
S.D. dependent var	0.016749	S.E. of regression	0.008981
Akaike info criterion	-6.486546	Sum squared resid	0.002016
Schwarz criterion	-6.343810	Log likelihood	93.81164
Hannan-Quinn criter.	-6.442910	F-statistic	34.45609
Durbin-Watson stat	1.955079	Prob(F-statistic)	0.000000

Source: data processed (2026)

Considering the outcomes of the II structure test, the p-value for the significance level 0.05 is exceeded by the F-statistic of 0.000000. This indicates that the Capital Structure (DTL) variable significantly affects Liquidity Risk (LTD).

Mediation Test

The mediation test aims to evaluate whether it can significantly connect the variables that are dependent and independent variables. In this study, Liquidity Risk (LTD) is used as the mediating variable. The test uses the Sobel Test Online, and the analysis outcomes are displayed in the Table 16.

Table 16. Sobel Test Results

Path	A	B	SE_A	SE_B	t count	Sig.	Description
DTL-LTD-ROA	0.1262	0.3256	0.0197	0.0199	2.0863	0.0369	significant

Source: data processed (2026)

Based on the test using the Sobel Test Online, a p-value of 0.0369 was obtained, which is less than the 0.05 level of relevance. And the Sobel test value of 2.0863 is greater than 1.96. Therefore, thus, it may be said that the effect of capital structure on financial performance is mediated by liquidity risk.

DISCUSSION

The effect of capital structure on financial performance

Considering the outcomes of panel data regression analysis, Capital Structure (DTL) shows a positive effect on financial performance (ROA), with a coefficient of 0.045103 and a probability value of 0.0120, which is less than 0.05, thus indicating that financial performance is considerably improved by capital structure.

These results align with the conclusions of the study by (2024), which discovered that capital structure significantly and favorably affects financial performance in Jordanian banks, and Ayuningtyas & Mawardi (2022), which found that capital structure has a positive and significant effect on financial performance. These results are consistent with the trade-off theory, which states that companies with higher profitability will use more debt as a source of funding. However, this differs from the findings of Verdina & Lestari (2025), which state that the capital structure possesses has a favorable but insignificant effect.

The Effect of Capital Structure on Liquidity Risk

Considering the outcomes of panel data regression analysis, Capital Structure (DTL) shows a positive effect on liquidity risk (LTD), with a coefficient of 0.125767 and a probability value of 0.0362, which is less than 0.05, thus indicating that the capita; structure has a major beneficial impact on liquidity risk.

This result is reliable with the research by Al-Nimer & Arabiat. (2024) , it declares that liquidity risk is significantly impacted by capital structure, suggesting that reduced liquidity risk is linked to a larger amount of the capital structure's debt.

The Effect of Liquidity Risk on Financial Performance

Considering the outcomes of panel data regression analysis, the hypothesis stating that liquidity risk hurts financial performance is not supported. The results of this investigation show that liquidity risk (LTD), utilizing a coefficient of 0.326354 and a probability value of 0.0000 less than 0.05, indicating that liquidity risk has a significant favorable influence on financial outcomes. Accordingly, if all other factors stay the same, a one-unit rise in liquidity ris will result in a 0.326354-unit increase in financial performance.

These findings suggest that a rise in funds (LTD) can increase interest income, thereby boosting financial performance, although however, it increases liquidity risk. These findings differ from the study by Kurniawati et al., (2022) it declares that liquidity risk has a significant negative impact on the financial results.

Liquidity risk mediates the effect of capital structure on financial performance.

Based on the Sobel test results, Liquidity Risk (LTD) acts as a partial mediator inside the connection between the capital structure (DTL) and Financial Performance (ROA), because the p-value is 0.0374132, which is less than the significance level of 0.05. this suggests that capital structure directly or indirectly affects financial performance, but also through liquidity risk. An increase in capital structure can affect the capacity of a business to fulfill objectives liquidity obligations, which ultimately impacts the bank's profitability.

These results align with the study conducted by (Al-nimer & Arabiat, 2024) This asserts that the capital structure possesses a mediating impact on Jordanian banks' financial

performance through liquidity risk. In order to properly control the danger of liquidity banks must balance their capital structure. The important role that liquidity risk plays as a mediator emphasizes how crucial liquidity is to the stability and profitability of banks.

CONCLUSIONS

Contrary to the initial hypothesis, this research found that financial performance is enhanced by liquidity risk. These findings indicate that increased financing, when accompanied by optimal liquidity management, can boost bank revenue and Profitability. Furthermore, liquidity risk has been shown to partially mediate the connection between financial performance and capital structure, functioning as an important transmission mechanism that explains how financing decisions affect financial performance.

Limitations and Recommendations

As a result, Islamic banks must implement a capital structure that is balanced policy and effective liquidity management strategies to achieve optimal and sustainable performance. Further research is recommended to consider adding other variables, extending the observation period, and increasing the sample size to obtain more comprehensive results.

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