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The Effect Of Capital Structure And Liquidity On Profitability Of Bank Rakyat Indonesia Syariah (BRIS)

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ABSTRACT:
A bank's performance can be best gauged by looking at its profitability. You may learn a lot about a company's capacity to turn its money into profit by doing a profitability analysis. The purpose of this research is to analyze Bank Rakyat Indonesia syariah (BRIS) profitability from 2018 to 2022 via the lens of capital structure and liquidity. This study employs a quantitative methodology and draws on documentary data collected quarterly from annual reports released by BRIS between 2018 and 2022. A negative path coefficient of -0.69 with a tiny p-value of 0.01 from 0.05 is produced by the capital adequacy ratio (CAR) with Return On Equity (ROE), according to this study's conclusions. In other words, it has a negative effect on CAR's ability to increase ROE, contributing 0.74, or 74%. Results demonstrate that CAR significantly and negatively affects Return On Equity ROE, impacting it by -69%. A negative path coefficient of -0.47 with a tiny p-value of 0.1 of 0.05 is produced by combining the financing to deposit ratio (FDR) with Return On Equity (ROE). This indicates that the Financing to Deposit Ratio has a negative association with increasing Return On Equity ROE, contributing 0.74 or 74%. The results demonstrate that the Return on Equity (ROE) is negatively affected by the Financing to Deposit Ratio (FDR) (47%).

Keywords: CAR, FDR and ROE

1. Introduction

As an organization that helps to ease the movement of money, banks play an intermediary role between those who have money and others who need it. The banking business plays a crucial role in national development as it acts as a financial mediator,

connecting those with finances with those who require them. A bank is a type of financial institution that facilitates the transfer of funds from individuals with surplus units to those with deficit units. Trust in banking institutions is very important so that the intermediation function can run well. A well-running intermediation function will create optimal and efficient use of funds. This will have an impact on increasing productive activity from the funds lent so that the output of production activities will increase and many new jobs will emerge adding to the level of prosperity and welfare of the community.

Profitability in the company has a strong relationship regarding sales, the amount of assets and own costs. (Wanda and Halimatusadiah 2021)(Waoma, Izmuddin, et al. 2024) (Waoma, Judijanto, et al. 2024) Profitability is the strength or power that the company has in obtaining profits in a certain vulnerable time that has been projected, this is used to find out profits or distribute dividends to be obtained by investors. If the level of profitability increases, it will be an attraction for investors to invest in Islamic banking companies.

When looking at the profitability of Islamic banking, it is possible to see how much profit the bank makes by considering the level of Return on equity (ROE), which can show how much profit Islamic banking firms receive. Referring to figure 1, which illustrates the degree of profitability of BRIS Bank enterprises as measured by return on equity (ROE) during the past five years.

Table 1. Return on Equity BRIS for the 2018-2022 Period

YEAR	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2018	6,92	6,37	4,87	2,49
2019	2,54	1,51	1,6	1,57
2020	6,3	4,87	5,2	5,03
2021	14,12	13,84	13,82	13,71
2022	16,58	17,66	17,44	16,84

Source: Data processed

The average return on equity (ROE) shows performance fluctuations, as shown in table 1 above. Using quarterly statistics from 2018, it fell 6.92% to 2.49% in quarter 4, while in 2019, it rose 0.02% in quarter 1, and it fluctuated from quartile 2 to quarter 4. In 2020, there was a very significant rise of 3.46 percent in average equity (ROE), whereas the bottom two quartiles had rather steady increases and decreases. But in 2021, the profitability showed in the return on equity (ROE) skyrocketed, going from a low of 5.03% in 2019 to a high of 14.12%. This trend carried over into 2022, even though the quarterly data showed some fluctuations; however, these fluctuations were relatively stable, as shown by the average equity quartile reaching 16.84%.

Profitability provides a foundation for banks to assess their efficiency and effectiveness in earning profits. Because of its low profitability, the bank is clearly not performing well. If the profitability ratio is high, though, it can mean that the bank is doing well already (Fatmawati and Hakim 2020).

One way to evaluate a bank's stability is by looking at its Capital Adequacy Ratio, or CAR. Banks are required by Magnitude Capital Adequacy Ratio (CAR) of at least 8% of Risk-Weighted Assets (ATMR) or, depending on the circumstances, a combination of Market Risk and Operational Risk, as stated in PBI No. 10/26/PBI/2008. Financial institutions with a high CAR are excellent choices since they can handle any potential risks. When banks have enough money, they may run their operations more smoothly by investing in assets that provide earnings with less risk (Iswanaji 2018). When the CAR is high, it means that the public has faith in the bank, which means that its operations are more steady.

Table 2. *BRIS Capital Adequacy Ratio* for the 2018-2022 Period

Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2018	0,236	0,293	0,298	0,297
2019	0,278	0,269	0,265	0,253
2020	0,22	0,237	0,194	0,19
2021	0,231	0,226	0,227	0,221
2022	0,172	0,173	0,172	0,173

Source: processed data

Based on Table 2 above, it can be explained that from 2018-2022 *Capital adequacy ratio* (CAR) fluctuated with data in Q1 2018 at 0.236%, rising to 0.279% in Q4. However, in the 1st quarter of 2019, it decreased by 0.019% from the previous quartile and continued to decline until 2020 which reached 0.190%. In 2021, quartile 1 increased by 0.040% from the previous quarter, and in 2021, the CAR experienced a decrease that was not too significant. And in 2020 it experienced a greater decrease than in 2021 where in quarter 1 it was at 0.172 which decreased by 0.049% and until quarter 4 of 2022 CAR BRIS was stable at 0.173%. Since CAR is positively correlated with profit growth (Rositasari and Dailibas 2022), it can be utilized to gauge the anticipated increase in bank earnings over the course of the following year. According to study conducted by Haeril and Albar (2021) and Romdhoni and Chateradi (2018), CAR has a partial effect on ROE. This means that the size of the CAR will affect the magnitude of the ROE. Despite this, studies done in Indonesian Islamic commercial banks have shown that CAR significantly reduces ROE (Idrus 2018).

In an effort to be transparent about the amount of funding that goes to customers, BRIS calculates the financing to deposit ratio, which is a financial flow of capital that is a factor in the long-term and short-term profits that have been anticipated in line with the regulations that apply to the banking industry. As shown in figure 2, BRIS is capable of channeling funding in the following way:

Table 3. *Financingto Deposit Ratio* BRIS for the 2018-2022 Period

Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2018	68,7	77,78	76,4	75,49
2019	79,55	85,25	90,4	80,12
2020	92,1	91,01	82,65	80,99
2021	77,28	74,53	74,45	73,39
2022	74,37	78,14	81,45	79,37

Source: Data processed

Table 3 shows that between 2018 and 2022, BRIS's capacity to channel finance to consumers varied greatly, with a declining average percentage of the perquartile of financing amounts at BRIS. The rate of profit growth for BRIS companies will be significantly impacted by this, which is bad news because Romdhoni and Chateradi (2018) found that FDR has a negative effect on ROE, hence ROE size is unrelated to FDR size. This contradicts the findings of a study (Syakhrun, Anwar, and Amin 2019) that found Islamic commercial banks in Indonesia to be more profitable when FDR is implemented.This finding demonstrates that Islamic Commercial Banks will demonstrate improved channeling of their funds when the FDR ratio increases. That is, if the ratio does not exceed the thresholds established by Bank Indonesia. In this way, banks are also seeing

an increase in their income.

There are a number of research that show how CAR and FDR relate to profitability. Islamic financial institutions can only fulfill their mandates if they are in a sound financial position. Liquidity, capital adequacy, and profitability are three of the most important issues that Islamic banks must address in relation to their financial health. Banks can utilize CAR to predict their profit growth for the future year since, as shown in a study by (Rositasari and Dailibas 2022), CAR increases profit growth. According to study conducted by Haeril and Albar (2021) and Romdhoni and Chateradi (2018), CAR has a partial effect on ROE. This means that the size of the CAR will affect the magnitude of the ROE. Despite this, studies done in Indonesian Islamic commercial banks have shown that CAR significantly reduces ROE (Idrus 2018). CAR does not impact ROE, according to studies (Khoirunnisa, Rodhiyah, and Suryadi 2016). The company's bank has sufficient capital and can fund its operational activities, according to CAR and ROE components. However, the declining trend in ROE profitability suggests that the capital is not being used optimally or that the bank is inefficient in its operations, which leads to a decrease in profitability.

The ability of a bank to channel cash to those in need of capital is reflected in their FDR. A larger FDR indicates more profitability, which is a direct outcome of a higher asset level, which in turn increases the bank's capacity to lend. The size of FDR has no bearing on ROE since, according to study (Romdhoni and Chateradi 2018), FDR has a negative effect on ROE. and bolstered by the findings of the study (Mulyani 2021) that demonstrate that FDR significantly reduces ROE in Islamic financial institutions. Despite this, FDR does impact ROE significantly, according to the study of (Rahmani 2017). Supported by studies showing that FDR boosts profits (Syakhrun et al., 2019) and a positive but small effect on return on equity (Prasetiono and Aulia, 2016), we can say that FDR is a strong performer.

Return on equity (ROE) has a positive association with changes in profits, which is why the author employs ratios to quantify the profit/profitability of corporate performance based on the data shown above. When evaluating a company's success, return on equity (ROE) is the metric most often used by investors and top executives. Raising the company's profit level results in a higher return on equity. One more reason the author looks at these six variables is that previous studies have shown that Capital Adequacy Ratio (CAR) and Financing to Deposit Ratio (FDR) have different or inconsistent effects on profitability proxied return on equity (ROE). So, the author wants to see what happens when they use more recent data and a bigger sample to look at these three variables.

2. Theoretical Foundation

Agency Theori

Agency theory, one of the most fundamental theoretical frameworks, provides a solid basis for research on profitability. According to Agency Theory, there is a direct correlation between operational expenses and operational income in the pursuit of profit. This correlation, in turn, establishes a connection between company ownership (the principal) and management (the agents) in the context of problem-solving initiatives (Muhfiatun et al. 2022) In essence, the goals of the company's management (Agent) and owner (Oktafiana and Suryono 2022) are fundamentally at odds with one another. This is due to the fact that both the owner and the manager have an interest in seeing the company's assets maximized.

According to this theory's premise, agency issues might arise when there is a wall separating business owners and management. An information asymmetry occurs when the

principal and agent do not have equal access to knowledge regarding firm problems; this is the main issue with agency theory. This leads to a lack of control and oversight, which is bad for shareholders since it makes it hard for principals to keep an eye on agents and prevent them from acting in their own self-interest (agency expenses) agency expenses.

Profitability

How well a business can turn its revenues, assets, and equity into profit over time is what we mean when we talk about profitability.As said by Sartontono in 2010. The ratio of profit to sales and investment is a measure of how well management is working as a whole (Zulkarnain and Heliyani 2020). Since it is the foundation for assessing a company's status, profitability has significant meaning for the business.(Oktafiana, Suryono, Dewe, Nur Afni, 2022)

The banking industry uses Return on Equity (ROE) as a metric of profitability. The profitability of own capital ratio, also known as return on equity (ROE), compares a company's net profit after taxes to its own capital. Using one's own capital efficiently is demonstrated by this ratio. A larger ratio is preferable. This bodes well for the company's owner and bodes poorly for the company's position.One way to evaluate a company's performance is by looking at its Return On Equity (ROE). One measure of a company's financial health is its return on equity, or ROE. When all of a business's assets are added together, that's the owner's equity. In this case, the computation Equity Return The formula can be used to calculate a company's value. (Wachowicz and Horne, 2005)

$$ROE = \frac{Laba\ Bersih\ Setelah\ Pajak}{Total\ Ekuitas} \times 100\%$$

Capital Structure

Banks utilize a mix of debt and their own capital in their capital structure to support their activities. The maximum capital structure allows the bank to make more money. This research examined the capital structure by calculating the Capital Adequacy Ratio (CAR), which is a measure of a bank's ability to withstand potential losses. Banks with greater CARs are better able to handle hazardous loans and productive assets. A high CAR value allows the bank to fund operational activities, which in turn contributes significantly to profitability.(El-Ansary and Hafez. 2015)

Bank for international settlements (B.I.S) establishes terms and calculations *Capital Adequacy Ratio* which banks around the world must participate in, as a level in the game of fair competition in global financial markets. The formula determined by BIS is "a minimum ratio of 8 percent capital to risk-bearing activities". The provision of 8% CAR as the bank's minimum capital provision obligation is divided into 2 parts, namely: 4% core capital consisting of equity and 4% secondary capital consisting of allowance expenses for losses on productive assets and subordinated securities.(Abusharba et al. 2013).

$$CAR = \frac{Modal}{Aset\ Tertimbang\ Menurut\ Resiko}\ x\ 100\%$$

Liquidity

One of the most crucial parts of any financial analysis is liquidity. This is due to the fact that a company's liquidity can be viewed as a measure of its success based on its ability to satisfy its existing obligations. The capacity of a corporation to meet its short-term financial commitments, including those of long-term debt that mature in the same year, is known as its liquidity (Mardiyanto 2009).

The Financing to Deposit Ratio (FDR) was used as a liquidity metric in this study.

A bank's financing to deposit ratio (FDR) measures the proportion of total financing to total funds received by the bank. One way to look at it is that this ratio is used to figure out how much money to lend to consumers by balancing against the bank's need to pay out depositors' withdrawals right away due to the fact that all of the money that was raised has been put into financing.

One measure of a bank's liquidity that is part of the banking ratio is the Financing to Deposit Ratio (FDR), which compares the total financing that the bank has issued to the total savings that the bank has collected from the public. Liquidity management is a complicated issue in the operating activities of banks since the public funds that banks handle are short-term and can be withdrawn at any time. If an Islamic bank has a high FDR ratio, it means it is good at its intermediation function, says Ubaidillah in (Utomo 2021). Therefore, this ratio can reveal the role of intermediation, which is the process of moving money from units with surpluses to units with deficits, via credit loans and other means (Rusyamsi 2005). The following mathematical procedures can be employed to ascertain the FDR ratio's value:

$$FDR = \frac{Pembiayaan\ yang\ diberikan}{Total\ aset} \times 100\%$$

The Relationship of CAR to Profitability (ROE)

Examining liquidity is a crucial part of any financial analysis. For the simple reason that a company's liquidity its capacity to pay its short-term debts is one indicator of its health. According to (Mardiyanto 2009), a company's liquidity can be defined as its capacity to meet its short-term debt commitments, including the fraction of its long-term debt that matures in the given year, without incurring any additional costs.

A liquidity metric known as the Financing to Deposit Ratio (FDR) was employed in this study. The Financing to Deposit Ratio (FDR) measures the proportion of a bank's total financing to its total deposit funds. Since the bank is required to promptly pay out depositors' withdrawals due to the utilisation of the funds collected for financing, this ratio can be seen as a means by which the amount of financing to customers is determined. The banking ratio also includes the financing to deposit ratio (FDR), which is a measure of a bank's liquidity that is calculated by dividing the total financing that the bank has dispensed by the total savings that the bank has gathered from the public. Since the public's money that banks handle is both short-term and easily withdrawable, liquidity management poses a complex challenge to the operational activities of banks. Ubaidillah states in (Utomo 2021) that an Islamic bank's ability to perform its intermediation function is enhanced by a greater FDR ratio. So, this ratio can reveal the role of intermediation, which is the process of moving money from units with surpluses to units with deficits, via credit loans and other means (Rusyamsi 2005). Here are the mathematical calculations that can be used to determine the value of the FDR ratio:

FDR's Relationship to Profitability (ROE)

The ability of a bank to channel cash to those in need of capital is reflected in their FDR. A larger FDR indicates more profitability, which is a direct outcome of a higher asset level, which in turn increases the bank's capacity to lend. The size of FDR has no bearing on ROE since, according to study (Romdhoni and Chateradi 2018), FDR has a negative effect on ROE. also supported by the findings of the study (Mulyani 2021) that Islamic bank ROE is significantly impacted negatively by FDR.

Hypothesis

In an attempt to boost Return On Equity in Indonesian Islamic banking organisations, this study theoretically reviews the relationship between CAR and FDR on Profitability. The following hypotheses will be put forward for future testing based on an analysis of the findings of multiple supplementary studies:

H1: *Capital Adequacy Ratio* Has a significant and positive effect on *Return On equity*

H2: *Financing to Deposit Ratio* Significant and negative effect on *Return On equity*

3. Research Methodology

Qualitative research methods are employed. The goal of this study is to examine the relationship between the endogenous variable of profitability and the exogenous variable of capital adequacy ratio (the ratio of financing to deposits) in BRIS companies from 2018 to 2022 using a comparative causal approach (Sugiyono, 2015).

Documentary data research relies on information culled from quarterly reports published by BRIS on the Indonesia Stock Exchange IDX from 2018 to 2022. This information was sourced from the IDX (Indonesia Stock Exchange) and IDN Financials websites.

Utilises data analysis techniques with the aid of WarpPLS 7.0 software to examine the relationship between endogenous variables Profitability, variable X1 Capital Adequacy Ratio, variable X2 Financing to Deposit Ratio, and variable Y Profitability, which is a proxy for return on equity in BRIS companies from 2018 to 2022. In addition to testing structural models, PLS, a variant-based structural equation analysis (SEM), may test measurement models all at once (Sholihin 2013). Both of the model's requirements must be satisfied. The outer model's convergent, discriminant, and composite reliability tests should be run first. To be considered a Goodness of Fit, an inner model must satisfy the following conditions:

Table 4. Goodness of Fit Criteria

No	Model Fit and Quality Indices	Fit Criteria
1	Average path coefficient (APC)	P<0.05
2	Average R-squared (ARS)	P<0.05
3	Average Adjusted R-squared (AARS)	P<0.05
4	Average block VIF (AVIF)	acceptable if <= 5, ideally <= 3.3
5	Average Full Collinearity VIF (AFVIF)	acceptable if <= 5, ideally <= 3.3

Source: (Sholihin 2013)

Two things are the outcomes of testing hypotheses. An analysis of the direct impact link should be carried out first. To do this, we examine the direct effect pathway coefficient. The hypothesis can be accepted or declared significant if the p-values are less than 0.05, which are the necessary criterion. Secondly, by the use of an investigation of the relationships between indirect effects. Profitability can mitigate this effect, as shown by the substantial indirect influence coefficient (axb) (Sholihin 2013)

4. Results and Discussion

Evaluation of the Inner Model

To determine whether a model is good, it is necessary to run it through the model fit test, also known as goodness of fit. All five goodness-of-fit criteria—APC, ARS, AARS, AVIF, and AFIF—must be satisfied (Sholihin 2013). The model fits the data well, or the goodness of fit requirements are satisfied, as shown in table 6.

Table 4. Model Fit and Quality Indices

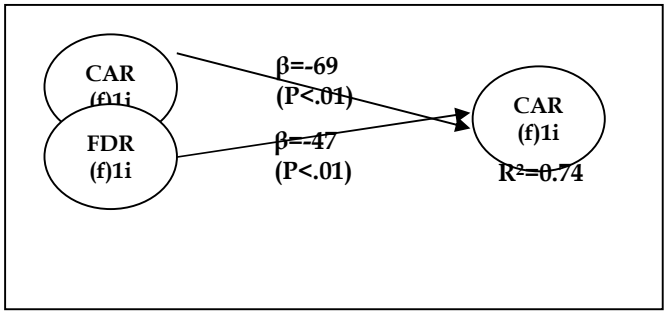
Model Fit	Index	P-value	Criterion	Information
APC	0.582	P<0.001	P<0.05	Good
ARS	0.735	P<0.001	P<0.05	Good
AARS	0.704	P<0.001	P<0.05	Good
AVIF	1.003		acceptable if <= 5, ideally <= 3.3	Ideal
AFVIF	1.193		acceptable if <= 5, ideally <= 3.3	Ideal

Source: Output WartPLS 7.0

Hypothesis Testing Results

Here are the findings of the hypothesis testing for each variable in this study using the Direct Effect model:

Figure 1. Direct Effect Model



Source: WarpPLS 7.0 output

The correlation between CAR and ROE (Return on Equity) is illustrated in Figure 1. With a p-value of only 0.01 out of 0.05, the figure produces a negative route coefficient of -0.69. In other words, CAR has a negative correlation with ROE growth, contributing 0.74, or 74% for the rise. Evidence that CAR significantly and negatively affects ROE (Return on Equity) by -69% when considering the ratio of financing to deposits (FDR) to ROE (Return on Equity).

A negative route coefficient of -0.47 and a p-value of 0.1, which is small from 0.05, are produced by the figure. With a contribution of 0.74, or 74%, the Financing to Deposit Ratio has a negative connection with increasing Return On Equity ROE. Results demonstrate a negative correlation between FDR's Financing to Deposit Ratio and Return On Equity ROE, with a coefficient of -47%.

Table 5. ***Indirect and Total Effects***

Indirect effects for paths with 2 segments			
	CAR	***FDR***	***ROE***
CAR			
FDR			
ROE		*-0.471*	
P values of indirect effects for paths with 2 segments			
	CAR	***FDR***	***ROE***
CAR			
FDR			
ROE		*0.006*	

Source: Output WartPLS 7.0

Table 4 displays the findings from the investigation, which indicate whether the CAR and FDR (Financing to Deposit Ratio) *A P-value of 0.006, which is less than 0.05, indicates that the variable CAR has a negative effect on ROE, as does FDR, according to table 4*.

Table 3. *Latent Variable Coefficients*

	CAR	FDR	ROE
R-squared			**0.735**

Source: WarpPLS 7.0 Output

According to Table 3, the Return on Equity (ROE) variable has an R-squared value of 0.735. Results show that CAR (X1) and FDR (X2) *account for 73.5% of the variance in ROE, with the remaining 26.5% coming from factors not included in the study and human mistake.*

Over the course of the 2018–2022, this study sheds light on the interplay between the variables of Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), and Return on Equity (ROE) at Bank Rakyat Indonesia Syariah BRIS.

Influence *Capitas Adequacy Ratio (CAR) to Return on Equity (ROE)*

With a p-value of only 0.01 out of 0.05, the path coefficient turns out to be negative, coming in at -0.69. In other words, the Capital Adequacy Ratio is inversely related to the improvement of Return On Equity (ROE), contributing 0.74, or 74%. This indicates that the Financing to Deposit Ratio (FDR) significantly and negatively affected Return on Asset (ROA) by 74%. This suggests that a bank's profitability will be lower when its capital adequacy ratio (CAR) rises, according to the statistics and tests. On the flip side, a bank's profitability will skyrocket if its capital adequacy level is inadequate. The results are corroborated by research that found that CAR significantly reduces ROE in Islamic commercial banks in Indonesia (Idrus 2018).

Influence *Financing to Deposit Ratio (FDR) to Return on Equity (ROE)*

The path coefficient comes out as negative, coming in at -0.47, and the p-value is just 0.01 out of 0.05. In other words, the Capital Adequacy Ratio is inversely related to the improvement of Return On Equity (ROE), contributing 0.74, or 74%. The ratio of financing to deposits is displayed by Return on Asset ROA was significantly and negatively impacted by FDR (74% influence). Since FDR is not directly tied to ROE but is directly related to ROA, testing data reveals that a greater FDR value will substantially lower the ROE value. Where return on assets (ROA) is the pretax profit divided by the average asset value for the same time period. The *Financing to Revenue Ratio* (FDR) measures the proportion of financing to total cash raised from outside sources. Therefore, FDR is more closely tied to Islamic banks' profits than their equity. The results of this study are corroborated by those of (Mulyani 2021) and (Romdhoni and Chateradi 2018), respectively, which found that FDR significantly reduces ROE in Islamic banks and that the size of FDR has no bearing on ROE

5. Conclusion and Advice

Using Return on Equity (ROE) as a proxy for profitability, this study examined the link between factors at Bank Rakyat Indonesia yariah (BRIS), such as the Capital Adequacy Ratio (CAR) and the Financing to Deposit Ratio (FDR). with the use of WarpPLS 7.0, we find that CAR yields significantly lower ROE. Because this study found no evidence of a positive and statistically significant association between the two variables, we may conclude that the hypothesis put forward in the introduction was incorrect. FDR, on the other hand, sees a substantial and negative impact on ROE. This study confirms the

null hypothesis based on the data, which indicate a negative and statistically significant association and influence between the two variables.

This study implies that Return On Equity (ROE) is a good proxy for Islamic banks' profitability in research. In order to examine the impact of FDR and CAR on the profitability of Islamic banks using additional variables, it is possible to quantify profilibility using Return on Assets (ROA) and Net Profit Margin (NPM).

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