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Original Research Article

Description of Capital Structure and Financial Performance of Sharia Bank in Indonesia

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Abstract: An optimal capital structure can provide maximum profits for the company. So, it requires company value and reduces the risk of bankruptcy. This paper aims to describe the capital structure and financial performance of Sharia Banks in Indonesia. The method of study and data analysis means this research is included in the descriptive research category, which identifies various variables. The method used is survey research for which secondary data is available. The population used in this research is Sharia Banks listed on the Indonesia Stock Exchange in 2022, publish financial reports, and are registered with the Financial Services Authority (OJK) during the 2013-2022 period. The results of the analysis of this research description show that capital market growth has a role in financial performance. This means that the development of the capital market creates wider funding opportunities for Sharia Banks in Indonesia. With more accessible access to the capital market through the issuance of shares or bonds on the capital market, Islamic banks can expand their funding sources to support operational activities and business growth. This can help increase liquidity and financial stability at Sharia Banks in Indonesia to optimize capital market potential. Sharia Banks need to pay attention to and utilize capital market potential effectively. In this case, they can increase collaboration with capital market institutions, carry out a public offering (IPO) program, or use other capital market instruments to strengthen their financial performance.

Keywords: Capital Structure, Financial Performance, Sharia Bank, Indonesia.

1. INTRODUCTION

In principle, every company needs funds. These funds can come from internal or external sources. However, before deciding on this, it is necessary to pay attention to the benefits and costs that must be incurred because each source of funds has different consequences and characteristics. A company's capital structure refers to the composition of the sources of funds used to finance its operational activities. The company's capital structure includes two main components, namely own capital (equity) and loans (debt). Own capital includes contributions from company owners and can be in the form of initial capital, additional capital from shareholders, or retained earnings. Loans include short-term debt (usually less than one year) and long-term debt (terms more significant than one year). Choosing the proper capital structure is essential for a company because it can affect risk, cost of capital, financial sustainability and company value.

The optimal capital structure is the capital structure that can provide maximum profits for the company. The profit in question is obtained from the most efficient and effective use of funding sources. An optimal capital structure can increase company value and reduce the risk of bankruptcy. In determining the optimal capital structure, a company must consider several essential factors such as business risk, cost of capital, tax policy, financial market conditions, company objectives and growth strategy. The level of risk faced by a company can affect its capital structure. If the business has high risks, the company may use less debt and more equity to reduce the risk of bankruptcy. Conversely, if business risk is lower, a company may be more inclined to use more debt to take advantage of financial leverage. The cost of capital, which includes the cost of equity and debt, also affects the capital structure. The cost of equity is generally higher than the cost of debt because shareholders expect a higher rate of return. Therefore, companies must consider the balance between the cost of

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equity capital and the cost of debt capital in determining the optimal capital structure.

A country's tax policy can also affect a company's capital structure. Interest paid on debt is usually deductible from taxable income, while dividends paid to shareholders are not deductible. This may encourage companies to opt for more debt in their capital structure to reduce the tax burden. Financial market conditions, including interest rates, credit availability, and investor demand for company shares or bonds, can also affect capital structure. If interest rates are low and credit is easy to obtain, companies tend to use more debt. However, if interest rates are high or access to credit is limited, a company may use more of its capital. A company's objectives and growth strategy also play an essential role in determining capital structure. If a company wants to expand its business through acquisitions or significant investments, it may need to acquire more debt. On the other hand, if a company is more focused on organic growth or maintaining financial stability, it may be more inclined to use more of its capital. Each company has unique conditions and needs, so determining the optimal capital structure must consider these factors thoroughly. Companies must also carry out risk analysis and pay attention to stakeholders' preferences, including shareholders, creditors and regulatory authorities, in making decisions regarding their capital structure.

The study conducted by Al-Hunnayan *et al*., (2019) examined the capital structure decisions of Islamic banks operating in the Gulf Cooperation Council (GCC). The findings of the research indicated a significant association between the capital structure of Islamic banks in the GCC and the level of advancement in financial markets, particularly capital markets. Additionally, the study revealed a noteworthy relationship between the financial performance of these banks and their chosen capital structure. In their study titled "The Relationship between Capital Structure and Performance of Islamic Banks," Al-Kayed *et al*., (2014) demonstrate a positive correlation between the performance of Islamic banks and their capital structure. The impetus for investigating the factors influencing capital structure is also rooted in observations of the practices of Sharia Commercial Banks in Indonesia. According to the statistics from the 2019 Islamic Finance Country Index (IFCI), Indonesia has the top position in the global ranking of the Islamic finance industry.

The sharia economy is considered promising in line with the trend of the global Muslim population continuing to increase. Sharia economics is currently also a new trend in the global economy. By 2030, the world's Muslim population is predicted to exceed a quarter of the global population. This must be used as a moment to continue to encourage the development of the sharia economy. "Along with population growth, the global Sharia economic market in 2023 is estimated to reach US$3 trillion, and Sharia financial assets will reach US$3.8 trillion (GIFR 2019). Increasing global public awareness about economic concepts based on ethical economics is also an essential opportunity potential for the development of Indonesia's Sharia economy.

Indonesia has successfully implemented Sharia economic development measures that have yielded good outcomes. The growth of Sharia financial institutions, which currently stands at 4,000, serves as evidence for this assertion. A multitude of institutions provide services and products adhering to sharia principles, including sharia-compliant banks, sharia-compliant credit facilities, sharia-compliant insurance, sharia-compliant pension funds, sharia-compliant pawnshops, sharia-compliant cooperatives, and sharia-compliant financial technology (fintech) solutions. According to data provided by the Financial Services Authority in July 2019, the aggregate value of Indonesian sharia financial assets, excluding shares or Baitul Mal Tanwil (BMT), amounted to US$95 billion, representing a market share of 8.3% in the global market. Meanwhile, total Sharia banking assets reached IDR 500 trillion or 6% of the total Sharia financial market share. Apart from that, the sharia non-bank financial sector reached IDR 102 trillion. Sharia mutual funds recorded assets of IDR 33 trillion, while corporate sukuk amounted to IDR 700 trillion. The Islamic capital market industry has developed positively. Sharia stock capitalization based on the Indonesian Sharia stock index reached IDR 3,700 trillion at the end of June 2019.

Meanwhile, total assets are estimated at IDR 7.2 trillion. This shows that Sharia banking continues to show strong growth in assets, financing and deposits. The government continues to be committed to developing better sharia economic growth. One way is to form the National Sharia Finance Committee (KNKS). The committee, led directly by President Joko Widodo, has the task of developing and supporting sharia economic growth in national economic growth. According to Munawir (2022:28), the benefits of performance measurements are as follows: 5 (1) Contribute to management in achieving overall company goals; (2) Can be used to measure an achievement that an organization or company wishes to achieve within a certain period which reflects the level of success in implementing activities; (3) Provide guidance in making decisions and evaluating performance management; (4) Can be used as a basis for determining investment policies in order to increase investment productivity company. Achieving good performance depends on individuals or groups that continue to be created by its management. The decisions taken impact finances, which causes the company's performance to improve or worsen.

According to Munawir (2014:31), the primary objective of evaluating a company's financial performance is to ascertain its liquidity level. Liquidity refers to the company's capacity to meet its immediate financial commitments or settle its financial liabilities promptly upon receipt of invoices. In order to assess the degree of solvency, specifically the capacity of a company to meet its financial commitments in the event of liquidation, it is necessary to consider both immediate and long-term financial obligations. To ascertain the degree of profitability or profit generation, which serves as an indicator of a company's capacity to generate earnings within a designated timeframe. In order to assess the degree of business stability, specifically the capacity of a company to maintain its operations consistently, several factors are taken into account. These factors include the company's ability to meet interest obligations on its debts, timely repayment of debt principal, and regular payment of dividends to shareholders, all without encountering impediments or financial distress.

2. THEORETICAL BASIS

2.1 Capital Structure

Riyanto (2013:22) posits that capital structure refers to the equilibrium between external capital, specifically long-term foreign capital, and internal capital. The matter of capital structure holds significant importance for all companies as it directly impacts their financial standing, hence necessitating careful consideration of whether the capital structure is favorable or unfavorable. Capital is typically categorized into two distinct components: active capital, also referred to as debit, and passive capital, commonly known as credit. The capital structure refers to the equilibrium or juxtaposition of external capital and internal capital. In this particular context, foreign capital is delineated as a form of indebtedness, encompassing both long-term and short-term obligations. In addition, it is worth noting that capital can be further categorized into retained earnings and corporate ownership.

The capital structure is an indicator of the relative allocation of debt in financing investments. By gaining knowledge of the capital structure, investors are able to assess the equilibrium between risk and return associated with their investment. The requirement for internal funds, sometimes referred to as own capital, pertains to the money sourced from within the organization itself. This includes profit reserves generated by the company and capital contributed by the owner, such as share capital. The capital in question assumes responsibility for the comprehensive risks associated with the company and serves as collateral for creditors. In the interim, external funds refer to resources sourced from creditors, often known as funders. The capital in question represents a financial obligation for the company in question (Riyanto, 2013: 12).

An essential concept of capital management is the issue of sources of funds and use of funds. Funds can be met from internal sources or external sources of the company. These funds are allocated to spend on company assets. In essence, fulfilling and allocating funds concerns the financial balance within the company, namely maintaining a financial balance between assets and liabilities as well as possible. Financial balance can be achieved if the company while carrying out its functions, can handle financial disturbances caused by an imbalance between the amount of capital available and the capital required. Capital structure management aims to combine the sources of funds used by the company to finance operations. In other words, this goal is a search for a combination of funds to minimize the cost of capital and maximize share prices. We call such a capital structure an optimal capital structure.

An essential concept of capital management is the issue of sources of funds and use of funds. Funds can be met from internal sources or external sources of the company. These funds are allocated to spend on company assets. In essence, fulfilling and allocating funds concerns the financial balance within the company, namely maintaining a financial balance between assets and liabilities as well as possible. Financial balance can be achieved if the company while carrying out its functions, can handle financial disturbances caused by an imbalance between the amount of capital available and the capital required.

2.2. Capital Structure Components

As stated by the author (2013, p. 240), the composition of a company's capital structure typically encompasses multiple elements, including its shareholder equity and long-term debt from foreign sources. The source of proprietary capital originates from the proprietor of the company and is perpetually invested within the organization. The capital is derived from both internal and external sources. Internal sources of funding are derived from the earnings created by the firm itself, whilst external sources of funding are obtained from funds originating from the company owner. The capital component is comprised of two elements: the first being share capital, and the second being retained earnings. Shares represent ownership or participation in a Limited Liability Company (LLC), wherein the share capital is comprised of both ordinary and preferred shares. Ordinary shares represent a type of enduring capital contribution made by investors. The possession of these shares entails. The individual engages in the acquisition of potential opportunities and is prepared to assume any risks commensurate with the capital invested. The user expresses a preference. Shares represent a type of enduring capital component that encompasses a blend of equity and long-term liabilities.

The second component of capital is comprised of retained earnings, which refers to the portion of profits that is held within the company rather than distributed to shareholders as dividends. The aforementioned element of capital refers to the capital within a corporation that is exposed to various risks, including business risks and potential losses. This particular form of capital does not necessitate the use of collateral or impose an obligation for repayment in all circumstances, nor is there a definitive timeframe specified for the payback of the contributed capital. Hence, it is imperative for any firm to possess a requisite level of cash in order to guarantee the sustenance of the organization.

The concept of permanent capital entails the retention of funds within the organization, which can be accessed as needed to ensure the company's ongoing operations and safeguard against the potential threat of insolvency. Internal capital is considered the most suitable source of cash for companies to allocate towards long-term fixed assets and investments that entail a substantial risk of loss or failure. The occurrence of an investment loss or failure, regardless of the underlying cause, poses a significant risk to the ongoing operations and long-term viability of the organization.The second component of a company's capital structure is foreign capital/Long Term Debt. Foreign Capital / Long-Term Debt Foreign capital or long-term debt is debt whose maturity is long, generally more than ten years. This long-term debt is generally used to finance company expansion (expansion) or modernization because the capital requirements cover large amounts. The types of long-term debt are bond loans and mortgage loans. A bond loan is a loan of money for an extended period, where the debtor issues a debt acknowledgement letter with a specific nominal value. Repayment or repayment of bond loans can be taken from depreciation of fixed assets financed with the bond loan and from profits. A mortgage loan is a long-term loan in which the lender (the creditor) is given a mortgage right to an immovable item so that if the debtor does not fulfil its obligations, the item can be sold, and the proceeds from the sale can be used to cover the bill.

The capital structure refers to the long-term financial composition of a company, comprising both equity and debt. Equity, in turn, encompasses different types of shares and retained earnings. The utilization of foreign money will impose a static obligation, hence influencing the level of financial leverage employed by the organization. Consequently, if the share of foreign capital or long-term debt in a company's capital structure increases, the risk of being unable to fulfill obligations to repay long-term debt and interest upon maturity also increases. Creditors have an increased likelihood of their invested funds being exposed to potential losses. By prioritizing internal sources for meeting finance demands, a corporation can significantly decrease its reliance on external parties. Nevertheless, the need for financial resources has experienced a significant surge as a result of the company's expansion, depleting all available cash from internal channels. Under such circumstances, the available options are limited to utilizing external cash, which can be obtained through either debt financing or the issuance of new shares, in order to fulfill the company's funding requirements.

If we prioritize debt alone in meeting our funding needs from internal sources, our dependence on external parties will become more significant, and the financial risks will become more outstanding. On the other hand, if we only base it on shares, the costs will be prohibitive. The cost of using funds originating from new shares (cost of new common stock) is the most expensive compared to other sources of funds. Therefore, it is necessary to strive for an optimal balance between these two sources of funds. If we base it on careful principles, we base it on conservative financial structure rules and look for an optimal capital structure. To find out the optimum amount of capital, it is necessary first to determine the critical period. From the description above, capital structure is essential for every company because whether the capital structure is good or not will have a direct effect on the company's financial position. A company that has an optimal capital structure where the company has huge debts. It will impose a heavy burden on the company concerned so that it will affect its profits. Capital structure reflects the company's policy in determining the type of securities issued.

3. METHODOLOGY STUDY

3.1 Research Design

Nazir (2002: 99) explains that what is meant by research design is all the processes required in planning and carrying out research. In this design, a picture or diagram is needed to provide initial clues to the clarity of further research so that it can facilitate further data analysis. This research explains how much influence the latent variables, namely Capital Markets and Liquidity, have on the Financial Performance and Capital Structure of Sharia Commercial Banks in Indonesia.

The anticipated outcome of this study is the utilization of its findings in the advancement of management science, particularly financial management theory. This includes two main objectives: firstly, to offer valuable insights to stakeholders in the field of Sharia Banking in Indonesia, pertaining to the establishment and enhancement of Financial Performance and Capital Structure, with the ultimate aim of fortifying the position of Sharia Banking in Indonesia. Secondly, the research findings will serve as informative material for investors, enabling them to actively and effectively engage in investment activities by fostering a comprehensive understanding of Financial Analysis, thereby facilitating wise investment decisions. The given statement is deemed suitable or fitting within the given context.

3.2 Research Methods Used

Study and analysis of data means this research is included in the category of descriptive research, which identifies various variables. The method used is survey research for which secondary data is available. The population used in this research is Sharia Banks listed on the Indonesia Stock Exchange in 2022, publish financial reports, and are registered with the Financial Services Authority (OJK) during the 2013-2022 period.

3.3 Population and Sample

According to Sanusi (2011: 87), population is the entire collection of elements that show specific characteristics that can be used to make conclusions. The collection of elements indicates the quantity, while specific characteristics indicate the collection's character.

According to Chandrarin (2017: 125), population is a collection of elements with specific characteristics that can be used to make conclusions. These elements include people, managers, auditors, companies, events, or anything interesting to observe/research. Population is a generalized area consisting of objects/subjects that have certain qualities and characteristics determined by researchers to be studied and then conclusions drawn. (Sugiono, 2017: 80). The population in this research is Islamic commercial banks that publish financial reports, are registered with the Financial Services Authority (OJK) and are listed on the Indonesia Stock Exchange during the 2013-2022 period.

3.4 Descriptive Data Analysis

This analysis is a descriptive technique that provides information about the data held and does not aim to test hypotheses. Statistical analysis is used to find the picture or description of each variable related to the research. The measurements used in this research are the mean, maximum, minimum and standard deviation. The Capital Market Variable (X1) in this research is measured using Market Capitalization to Country GDP (X11) and IHSG Development (X12). The Liquidity Variable (X2) is measured using the Financing to Deposit Ratio value (X21) and the Current Ratio value (X22). The Financial Performance Variable (Y2) is measured using Return on Equity (Y21) and Return on Assets (Y22). In contrast, the Capital Structure Variable (Y1) is measured using the Debt to Equity Ratio (Y11) and Capital Adequacy Ratio (Y12), which will be presented next in The table for each research object in the period 2013 – 2022 as follows:

The Capital Market Development variable, which can be seen from Market Capitalization to Country GDP, has an increase in value of 4.3 points from 44.20 points to 48.50 with an average value of 46.93 points. This reflects PT. National Pension Savings Bank Tbk. There is an increase in the market capitalization value, which shows the growth and confidence of investors in this institution, while the IHSG development value, which appears to have decreased in the 2013-2022 period, is 19.21 points from 61.20 to 41.99 with an average value of 43.44 reflecting sentiment investors' negative impact on overall economic conditions and financial markets. Looking at the background of Capital Market Development with indicators of Market Capitalization on Country GDP and IHSG Development, of course, the internal factors appear to be favourable with the increase in market capitalization value in this institution, trust arises and encourages investors to continue investing however, although the overall IHSG value has decreased.

The liquidity variable measured through the Financing to Deposit Ratio (FDR) value increased by 7.68 points from 88.00 in 2013 to 95.68 in 2022. This shows an increase in the use of financial resources obtained by PT. Sharia National Pension Savings Bank, Tbk. to provide financing or loans to customers compared to the amount of savings received from customers. This is accompanied by potential. This increase in FDR also signals greater dependence on external sources of funds such as loans from other banks or financing. Do not be short. High dependence on external sources of funds can make banks more vulnerable to changes in market conditions. The current ratio is also an indicator of liquidity assessment at PT. Sharia National Bank, Tbk. The current ratio also experienced an increase of 0.04 points from 0.01 in 2013 to 0.05 in 2020, with an average value of 0.03 with a standard deviation of 0.018, thereby increasing the proportion of cash owned by PT. Sharia National Pension Savings Bank, Tbk. as part of its liquid assets, can provide security and stability for PT. Sharia National Bank, Tbk. in dealing with unexpected financial situations, as well as increasing PT's capabilities. Sharia National Pension Savings Bank, Tbk. to meet its short-term obligations with adequate liquidity, the Financing to Deposit Ratio (FDR) and current provide an increase and something positive for liquidity, meaning this could be a PT strategy. Sharia National Bank, Tbk. Balance between credit growth or customer financing as reflected in an increase in the Financing to Deposit Ratio (FDR) and maintenance of adequate liquidity as reflected in an increase in the current *ratio* by ensuring the availability of sufficient liquidity to meet short-term obligations.

The financial performance variable in this study is measured using Return on Equity (ROE), which appears to have increased by 10.3 points from 2013, which was 26.20 points, to 2017, which was 36.50 points in a year. This shows an in-efficiency profitability at PT. Sharia National Bank, Tbk. because ROE measures how efficient it is. Sharia National Pension Savings Bank, Tbk. Generated profits based on equity or capital owned, but in 2022, it experienced a sharp decline of 12.29 points. This shows that there are factors that influence PT's profitability. National Pension Savings Bank Tbk. Negatively.

The financial performance variable in this research is also measured using Return on Assets (ROA), which in this research is also seen to have increased by 6.93 points from 2013, namely 4.50, to 2022, namely 11.43.pointwith an average value of 8.67 and a standard deviation of 3.643, this is the cases how enhancement efficiency and Profitability at PT. Sharia National Pension Savings Bank, Tbk. in utilizing the assets owned inproduceprofit, because ROA measures how effective PT. Sharia National Bank, Tbk. in generating profits from the total assets owned, this means that PT. Sharia National Pension Savings Bank, Tbk. Succeeded in increasing its ability to generate profits from its assets. Of the two indicators, namely ROE and ROA, which are the benchmarks for financial performance in this research, it means that PT. Sharia National Bank, Tbk. Indicates a focus on efficiency and operational profitability; even though returns to shareholders (ROE) decreased, the company could improve efficiency and generate profits (ROA).

The research assesses the capital structure variable by employing the Equity Ratio, which exhibits a notable growth of 130.22 points between 2013 (at 275.90 points) and 2017. This indicates that PT. Bank Nasional Syariah, Tbk has a higher proportion of funding through debt compared to equity in its financial structure. In essence, PT. Sharia National Pension Savings Bank, Tbk exhibits a tendency to rely more on funding/debt rather than its capital. However, this reliance has gradually decreased over time, as evidenced by a decline of 208.11 points to 2022. Specifically, during the period of 2013-2022, the bank experienced a loss of 24.21 points, indicating a reduction in debt utilization and a renewed emphasis on capital as a funding source. This shift suggests that PT. Bank Nasional Syariah, Tbk is actively working towards mitigating financial risks associated with excessive debt usage and prioritizing the utilization of its capital.

The Financial Performance Variable in this research also uses the Capital Adequacy Ratio (CAR) as an indicator in measuring PT's financial performance. Sharia National Pension Savings Bank, Tbk from Table 6 shows that the CAR value shows an increase of 30.60 points from 2013, namely 23.10 points, to 2022, which is 53.70 points. In other words, PT. Sharia National Pension Savings Bank, Tbk, will have enormous capital reserves in 2022. This can indicate healthy growth and the bank's ability to maintain financial stability and meet applicable regulatory requirements. An addition of 30.60 points in the CAR very clearly shows there was a significant improvement in the financial position of PT. Sharia National Pension Savings Bank, Tbk, provides additional strength and resilience against potential losses or financial stress by looking at DER and CAR in PT's Capital Structure. Bank Nasional Syariah, Tbk as a whole, shows the efforts of PT. Bank Nasional Syariah, Tbk to improve capital structure and increase financial strength, a decrease in DER shows steps in reducing dependence on debt. In contrast, an increase in CAR shows an increase in capital capacity.

4. DISCUSSION

The present dissertation incorporates a discussion of the research analysis findings, which are derived from prior investigations. This discussion aims to address the problem formulation put forward in this study. This discourse is conducted by examining the causal connections that arise in order to evaluate the hypothesis provided in this study through the utilization of data and the overall investigation. The present discourse encompasses both theoretical and empirical aspects. The utilization of theories or empirical research findings conducted by prior scholars serves as a foundation for the examination and interpretation of study outcomes. Do the theoretical framework and empirical findings align with or contradict the outcomes of the hypothesis testing conducted in this study? Moreover, the researchers also acknowledged many limits in their study, prompting them to strive for further advancements. Similarly, this phase entails an examination of the factual information derived from the computations pertaining to the theory and empirical conditions associated with each variable as specified by the existing hypothesis.

4.1 Capital Market Development on Financial Performance at the National Bank in Indonesia

Capital market developments have a role in financial performance. This means that the development of the capital market creates wider funding opportunities for Sharia Banks in Indonesia. With more accessible access to the capital market through the issuance of shares or bonds on the capital market, Islamic banks can expand their funding sources to support operational activities and business growth. This can help increase liquidity and financial stability at Sharia Commercial Banks in Indonesia. Capital market developments can improve the image and confidence of investors in Sharia Commercial Banks in Indonesia. When Islamic commercial banks are listed on the stock exchange, they must submit financial and operational information transparently and regularly. This increases investor confidence in the performance and prospects of Islamic Commercial Banks in Indonesia, which can support Islamic banking access to new capital. Capital market developments can also incentivize Islamic banks to improve their efficiency and performance quality. Competition in the capital market encourages Sharia banking to improve risk management, operational efficiency, and product and service innovation. This has the potential to improve the overall financial performance of Islamic commercial banks.

The results of this research support the theory of Nurhayati, Sri and Wasilah (2013:352), which reveals that the development of the capital market is in line with the general definition of the capital market. The capital market is a place for trading long-term financial instruments such as shares, bonds and other derivative instruments. These instruments can be traded on the capital markets, allowing companies to access funds from investors and allowing investors to invest in these financial instruments. Capital market developments also play an essential role. Sharia commercial banks listed on the stock exchange can utilize the capital market to obtain funds by issuing sharia shares or bonds. Apart from that, Sharia banking can also sell capital market-based financial products to its customers, such as Sharia bonds or Sharia mutual fund investment units. The development of the capital market opens up opportunities for Islamic banks to diversify funding sources, increase liquidity and strengthen their capital structure. Thus, Sharia banking can be more effective in supporting economic activities related to the real sector. Sharia banking needs to ensure that financial instruments traded in the capital market comply with sharia principles and that transactions in the capital market do not violate applicable sharia provisions.

This is directly proportional to the results of this research, where bank size and capital markets can be related and have a positive effect on the company's financial performance. Well-developed capital markets can provide access to a broader range of funding sources, increase stock liquidity and create profitable investment opportunities. This can encourage companies to improve operational efficiency, increase profitability, and achieve better results in using capital. As a result, the company's financial performance, as measured by ROE and ROA, can improve significantly. Market Capitalization to a Country's GDP is an indicator that describes the market value of all shares listed on the stock exchange about the country's GDP. If capital market development increases, this indicates growth in the overall stock market value in the economy. When the market capitalization of the country's GDP increases, this can reflect investor confidence in the growth potential and financial performance of Sharia Commercial Banks in Indonesia. The IHSG value, which is a composite stock price index, reflects overall share price movements on the stock exchange. If the IHSG value rises, this indicates a general increase in share prices in the capital market. This can indicate investor optimism and confidence in the company's prospects.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 CONCLUSION

Based on the results of hypothesis testing and discussions that have been carried out, the conclusion is that capital market development has a role in financial performance. This means that the development of the capital market creates wider funding opportunities for Sharia Banks in Indonesia. With more accessible access to the capital market through the issuance of shares or bonds on the capital market, Islamic banks can expand their funding sources to support operational activities and business growth. This can help increase liquidity and financial stability at Sharia Banks in Indonesia.

5.2 SUGGESTIONS

Based on the discussions and conclusions that have been carried out, the researcher provides suggestions for Sharia banking to optimize the potential of the capital market: Sharia banks need to pay attention to and utilize the potential of the capital market effectively. In this case, they can increase collaboration with capital market institutions, carry out a public offering (IPO) program, or use other capital market instruments to strengthen their financial performance. Apart from that, it is also hoped to maintain a balance between financial performance and capital structure. Although partial liquidity has been proven to have a significant effect on financial performance and capital structure, Islamic banks need to maintain a balance between the two. They must consider solid financial performance as an essential factor in making capital structure decisions while still considering other factors influencing capital structure, such as company policy and Sharia principles. Thus, Islamic banks can maximize their potential financial performance and achieve an optimal capital structure.

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