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Reducing Risk and Improving the Performance of Islamic Banks in Indonesia

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ABSTRACT : This study aims to examine the direct and indirect effects of shariah compliance, shariah capital structure, and shariah financing structure on the performance of Islamic Banks through the risks of Islamic Banks. This research uses a quantitative descriptive analysis approach with an explanatory research method. The sample consists of 10 Islamic Commercial Banks in Indonesia registered with the Financial Services Authority (OJK) during the period from 2018 to 2023, resulting in a total of 60 observations. The samples were collected using purposive sampling techniques from the annual financial reports of the Islamic Banks published on their official websites. Data were analyzed using path analysis with Smart Partial Least Squares (PLS) application. The results of this study show that shariah compliance has a significant positive effect on the performance of Islamic Banks, shariah capital structure has no significant effect on the performance of Islamic Banks, shariah financing structure has a significant negative effect on the performance of Islamic Banks, the risk of Islamic Banks has no significant effect on the performance of Islamic Banks, shariah compliance has no significant effect on the risk of Islamic Banks, shariah capital structure has a significant negative effect on the risk of Islamic Banks, shariah financing structure has a significant positive effect on the risk of Islamic Banks, shariah compliance does not significantly affect the performance of Islamic Banks through the risk of Islamic Banks as a mediating variable, shariah capital structure does not significantly affect the performance of Islamic Banks through the risk of Islamic Banks as a mediating variable, and shariah financing structure does not significantly affect the performance of Islamic Banks through the risk of Islamic Banks as a mediating variable.

Keywords: Shariah Capital Structure, Shariah Compliance, Shariah Financing Structure, Islamic Bank Performance, Islamic Bank Risk

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1. INTRODUCTION

The growth of Islamic Banks in Indonesia continues to increase, as evidenced by the rising number of Islamic banking institutions. However, the increase in the number of Islamic Banks must align with improvements in their performance. The performance of Islamic Banks serves as a basis for assessing the condition of an Islamic Bank, which can be analyzed [1]. Based on Bank Indonesia Regulation No. 13/2/PBI/2011 Article 1 Paragraph 4, the soundness level of a bank is the result of an assessment of the bank's condition, conducted by evaluating its performance and associated risks. The performance of Islamic Banks continues to experience growth fluctuations; therefore, their performance must be monitored to enhance their soundness. According to Bank Indonesia Regulation No. 13/2/PBI/2011, the financial performance of Islamic Banks in Indonesia, measured using conventional methods, indicates a good level of soundness. However, the performance evaluation of Islamic Banks must also reflect Islamic and social values, such as halal, purity, and justice. From 2018 to 2023,

the performance of Islamic Banks based on the Islamicity Performance Index (IPI) was unsatisfactory, indicating that Islamic Banks were less able to balance and optimize their business performance with their Islamic performance. The annual reports of Islamic Banks still apply conventional performance measurement indicators. As a result, Islamic indicators, which differentiate Islamic Banks from conventional banks, have not been fully implemented [2]. This has led to unsatisfactory performance measurements from an Islamic perspective. Therefore, further research is needed to identify the factors that can improve the performance of Islamic Banks, both in terms of business and Islamic values, to avoid imbalances in their operations that prioritize financial aspects alone.

The assessment of the soundness level of Islamic Commercial Banks and Sharia Business Units, as regulated by the Financial Services Authority Regulation No. 8/POJK.03/2014, states that Islamic Commercial Banks can individually assess their soundness level based on factors such as Good Corporate Governance (GCG), capital, risk profile, and profitability (earnings). Therefore, this study examines the factors influencing the performance of Islamic Commercial Banks, focusing on several aspects: the GCG factor proxied by the sharia compliance variable, the capital factor proxied by the sharia capital structure variable, the profitability factor proxied by the sharia financing structure variable, and the risk factor of Islamic banks.

The first factor that can influence the performance of Islamic banks is sharia compliance, which aims to establish the existence of Islamic banks by conducting financial operations in accordance with Islamic principles. This is done to create justice, ensure societal welfare, and clarify the objectives of sharia, where the purpose of Islamic banks is not only to generate profit but also to fulfill accountability in complying with sharia principles, thereby enhancing their performance [3]. Several studies have examined the relationship between sharia compliance and the performance of Islamic banks. For instance, research by Oktaviani et al. (2022) and Afdal & Agustin (2023) shows that sharia compliance has a positive effect on the performance of Islamic banks. However, studies conducted by Desta et al. (2022) and Hudaya et al. (2020) indicate that sharia compliance has no significant effect on the performance of Islamic banks.

The second factor is the sharia capital structure, where the capital of Islamic banking originates from liabilities, equity, and temporary syirkah funds. Temporary syirkah funds are a unique characteristic of the capital source owned by Islamic banks. The more syirkah funds received by Islamic banks, the greater the available capital, enabling the bank to disburse more funds to the community, thereby improving its performance. Additionally, the capital structure of Islamic banks functions to absorb risks or losses, such as the risk of problematic financing. With sufficient capital and appropriate capital selection, the risks can be minimized, ultimately enhancing the performance of Islamic banks [6]. Several studies have discussed this relationship. For example, research by Roziq & Ilma Ahmad (2024) and Mardhatillah et al. (2020) concludes that the sharia capital structure influences the financial performance of Islamic banks. However, a study by Kaaffah & Tryana (2021) suggests that temporary syirkah funds do not affect the performance of Islamic banks.

The third factor is the sharia financing structure. The higher the amount of financing disbursed by Islamic banks, the greater the potential for increased profits and improved performance [9]. Several studies have explored this relationship, but the findings remain inconclusive. For instance, research conducted by Sawaldi & Surur (2024) and Febri et al. (2023) indicates that financing in Islamic banks, particularly profit-sharing financing, has a significant positive effect on the financial performance of Islamic banks. However, studies by Purba (2022) and Abdillah & Isnaeni (2024) suggest that financing in Islamic banks does not have a significant impact on their financial performance.

Every operational management activity within Islamic banks carries inherent risks associated with each decision, which in turn affects the performance of Islamic banks [14]. Risk plays a critical role in determining various external, operational, and compliance relationships, making it easier to identify areas that need improvement to achieve optimal performance for Islamic banks [15]. Research conducted by Roziq & Ilma Ahmad (2024) indicates that risk in Islamic banks has a significant negative impact on financial performance. However, a study by Dahlia (2021) suggests that financing risk and liquidity risk do not have a significant effect on the financial performance of Islamic banks.

The implementation of sharia compliance in Islamic banks helps manage potential risks, and through risk management, sharia compliance can enhance the performance of Islamic banks [3]. According to a study by Hartanto (2020), it is stated that Islamic banks need to implement good governance, such as the application of sharia compliance, to manage and control risks within the bank. Research by Roziq & Ilma Ahmad (2024) indicates that the risk in Islamic banks significantly positively mediates the relationship between Good Corporate Governance (GCG) and the financial performance of Islamic banks. However, a study by Mitha Ratna Komala & Yuhelmi (2020) suggests that the implementation of GCG does not have an impact on risks, particularly credit risk, and that credit risk does not mediate the relationship between GCG and the financial performance of banking.

In generating capital, if a bank relies heavily on debt without supporting it with promising business prospects, it will face an increased risk, leading to financial distress risk. A large risk will require costs to address it, and these costs come from capital, which can reduce capital adequacy and decrease financing. Ultimately, the sharia capital structure can affect the performance of Islamic banks through its associated risks. Therefore, a sound capital structure is necessary. This is supported by research conducted by Roziq (2021), which states that the capital structure derived from temporary syirkah funds negatively impacts risk. Research by Asmara (2019) suggests that the capital of Islamic banks, in isolation, does not affect the Non-Performing Financing (NPF). However, a study by Ilma Ahmad (2024) indicates that the risks of Islamic banks do not significantly mediate the relationship between sharia capital structure and the financial performance of Islamic banks.

The financing structure reflects the composition of financing within the bank. By managing and supervising the financing structure effectively, Islamic banks can minimize financing risks, thereby increasing profits and enhancing their performance. According to a study by Fazriani & Mais (2019), it is stated that Islamic financing positively impacts Non-Performing Financing (NPF). Other research by Roziq & Ilma Ahmad (2024) indicates that the Islamic financing structure has a significant negative effect on Islamic bank risks, and Islamic banking risks significantly mediate the relationship between the Islamic financing structure and the financial performance of Islamic banks.

Based on the points explained above, the phenomenon can be explained by several theories that support this research. The first theory is the Shariah Enterprise Theory (SET). An Islamic bank that implements shariah compliance is a bank that embodies balance by harmonizing material and spiritual values [19]. This balance encourages SET to consider the interests of others and recognize stakeholders, including God, humans, and nature. Therefore, the presence of shariah compliance in this research indicates that Islamic banking has obligations not only toward its owners but also toward stakeholders and Allah SWT. This is realized in the operational practices of Islamic banks, which are based on sharia principles. It is hoped that this approach will increase customer trust and improve the reputation of Islamic banks, which will ultimately help minimize risks that may occur in Islamic banking.

Another theory supporting the phenomenon in this research is the Shariah Agency Theory proposed by Ahmad Roziq and Sumani (2020). According to the Shariah Agency Theory, every contract, partnership, or agreement inherently involves agency conflicts. However, by incorporating Islamic values or Islamic business ethics in the contract agreements of Islamic banks, agency conflicts can be minimized. This allows both the principal and agent to benefit from motives of welfare, as the contract agreements in Islamic banks have both worldly and ukhrawi consequences, with accountability that extends until the Day of Judgment (yaumil qiyamah). The application of the Shariah Agency Theory to Islamic capital structure shows that equity-based capital can reduce banking performance due to the required return to the capital owners. On the other hand, capital from liabilities can reduce the bank's equity and lower banking performance. If high liabilities are not matched with sufficient profits, banks cannot cover these liabilities with high interest, which will ultimately lead to liquidity risks. This issue can be resolved by forming a capital structure from temporary partnership funds (dana syirkah temporer), a distinctive source of capital for Islamic banks. In business contracts, Islamic ethics are applied, and the more syirkah funds an Islamic bank receives, the larger the capital it holds. This reduces risks for Islamic banks, allowing for larger funds to be channeled to the public, which ultimately enhances the bank's performance.

The application of the Shariah Agency Theory to the Islamic financing structure, particularly in murabaha and mudarabah financing, involves the agent as the customers, while the principal is the Islamic bank. In this relationship, an information asymmetry situation can lead to agency conflicts. The information asymmetry arises because the Islamic bank possesses less information compared to the customers, giving the customers the opportunity to maximize personal interests by concealing information, such as financial reports that the bank does not have access to. This can lower the performance of the Islamic bank because information asymmetry can affect financing risks or credit risks. However, according to the Shariah Agency Theory, the structure of Islamic financing, where business agreements are conducted based on Islamic ethics, helps to avoid such agency conflicts. The contractual agreements in Islamic banks carry both worldly and ukhrawi consequences, with accountability that extends until the Day of Judgment (yaumil qiyamah). This Shariah financing structure can improve the performance of Islamic banks because the more financing is channeled, the greater the profits and welfare of the community, which ultimately enhances the performance of the Islamic bank, either directly or by minimizing financing risks that can contribute to better performance.

This study is a replication and modification of previous research, where the previous study measured the performance of Islamic banks only from the financial or profitability aspect, without considering the shariah compliance aspect. As a result, it did not fully capture the performance of Islamic banks in a comprehensive manner, including both financial and shariah aspects. As an innovation, this study aims to measure the performance of Islamic banks from both the financial and shariah perspectives by adding the variable of shariah compliance as the application of governance based on Islamic principles, which can influence the performance of Islamic banks. The performance of Islamic banks in this study is measured using the Sharia Conformity and Profitability (SCnP) Model. The SCnP model, formulated by Kuppusamy, M., Saleh, A. S., & Samudhram in 2010, measures financial performance by combining two variables: the first variable is sharia conformity, which refers to compliance with the Islamic system, and the second variable is profitability. According to research by Harahap et al. (2022), using the SCnP model to measure the performance of Islamic banks is an appropriate solution. Based on the condition of Islamic bank performance and the inconsistencies found in previous studies, a research gap has emerged, providing a foundation for further research. This study also includes replication and modification of previous research to achieve a more in-depth understanding of the independent and dependent variables and to assess the direct effects of each independent variable on the dependent variable, both directly and through mediation variables.

2. LITERATURE REVIEW

2.1 Sharia Enterprise Theory

According to Mulawarman et al. (2011), in Sharia Enterprise Theory (SET), God is regarded as the highest stakeholder, while humans act as stewards tasked with creating and distributing prosperity for the benefit of all humanity and nature. This concept, known in Islam as khalifatullah fii ard, holds humans accountable to the highest stakeholder, God. It is further developed as a form of responsibility disclosure to other stakeholders, including corporate social responsibility. Its implementation is carried out in accordance with the methods and objectives established by God. Consequently, companies operating under the SET framework can achieve numerous benefits, such as increasing stakeholder trust, enhancing corporate reputation, fostering employee loyalty, and generating sustainable profits [23]. Based on Sharia Enterprise Theory, if Islamic banks implement Islamic principles, such as applying sharia compliance in their operational activities as a form of accountability to God and as a manifestation of sustainable social responsibility disclosure, the performance of Islamic banks can be improved. This is because it enhances customer trust in Islamic banking products and improves the reputation of Islamic banks.

2.2 Sharia Agency Theory

Based on a quantitative analysis of explanatory research, the findings indicate that Islamic business ethics, which include shidiq (truthfulness), amanah (trustworthiness), fathonah (intelligence), istiqomah (steadfastness), and tabligh (communication) among agents, can reduce information asymmetry. Therefore, incorporating Islamic sharia values into the existing agency theory and refining it through kasyf analysis is essential to Islamize agency

theory, enabling it to address sharia agency issues by applying ethical or sharia principles [20]. As explained in the Quran, Surah Sad (38:24), and hadith number 2,079 narrated by Bukhari, conflicts or issues often arise between parties involved in contracts or agreements. For instance, if a party is not trustworthy (amanah), blessings (barakah) will be removed, leading to increased risks and decreased performance. However, if parties adhere to sharia and maintain trustworthiness, blessings will accompany them, resulting in good performance and minimized risks. All parties entering into business partnerships must apply Islamic business ethics, as contracts based on Islamic ethics are accountable until the Day of Judgment (yaumil qiyamah) [24]. Agency problems can thus be aligned with Islamic business contracts, reconstructing agency theory into sharia agency theory. The application of sharia agency theory in this study demonstrates that all operational activities, products, or employment contracts in Islamic banks must incorporate Islamic business ethics to avoid agency conflicts. For instance, problematic financing products can be resolved by applying Islamic business ethics in selecting capital and financing processes, thereby mitigating conflicts or risks and improving the performance of Islamic banks.

2.3 Performance of Islamic Banks

Performance is the quality and quantity of work results achieved by employees in accordance with the responsibilities assigned by the company, where the outcomes meet the company's expectations and fulfill the criteria or standards set by the company [25]. One of the company's objectives is to achieve optimal performance through employees' contributions to generate profit. In Islam, work evaluation is essential because the role and responsibility of Islamic banks extend beyond financial needs to ensuring that operations align with applicable Islamic sharia principles. Islamic economists have developed specific methods for measuring the financial performance of Islamic banks, such as the Islamicity Performance Index (IPI), Maqashid Sharia Index, and Sharia Conformity and Profitability (SCnP).

The performance measurement used for Islamic banks in this context employs the Sharia Conformity and Profitability (SCnP) model formulated by Kuppusamy, Saleh, and Samudhram in 2010. This model measures the performance of Islamic banking by combining two key indicators: 1) Sharia Conformity Indicator: this includes variables such as the sharia conformity ratio and profit-sharing ratio to assess compliance with the Islamic sharia system. 2) Profitability Indicator: this includes conventional financial ratios such as Return on Assets (ROA), Return on Equity (ROE), and profit margin to evaluate financial performance. By integrating these two indicators, the SCnP model provides a comprehensive assessment of the financial performance of Islamic banks, balancing sharia compliance with conventional profitability standards.

2.4 Sharia Compliance

Sharia compliance refers to the implementation of operational rules based on sharia principles, particularly in the context of banking, where all compliance must adhere to Islamic sharia, including products, techniques, systems, and the bank's identity [26]. The evaluation of organizational effectiveness in disclosing useful information for stakeholders serves as a tool to demonstrate sharia compliance with sharia principles. Hameed (2004) introduced the concept of sharia compliance components developed through a financial index consisting of several indicators to quantitatively measure sharia compliance. These indicators have been suggested by several Islamic accounting experts as measures of Islamic banks' compliance with sharia rules, including the following: 1) Equitable Distribution Ratio (EDR): this ratio is used to express the proportion of profits distributed to stakeholders, as reflected in the amount spent on qardh (benevolent loans) and donations, shareholders, employee compensation, and other aspects. 2) Directors-Employees Welfare Ratio (DEWR): this ratio compares the welfare of directors to that of employees, addressing concerns that directors may receive disproportionately higher compensation relative to their performance. Employee welfare is reflected in salaries, training, and other benefits.

2.5 Sharia Capital Structure

The capital structure or financial structure of a company represents the composition of long-term funding, which typically consists of a mix of equity and liabilities used to finance the company's assets [28]. Bankruptcy and financial distress can occur if a company makes poor decisions regarding its capital structure. A high level of

capital adequacy can help banks minimize the risk of losses caused by non-performing financing. The capital components in Islamic banks consist of three sources: liabilities, equity, and temporary syirkah funds [1].

2.6 Sharia Financing Structure

The financing structure represents the composition of financing conducted by Islamic banks, whether derived from fixed-profit sales-based financing, profit-sharing financing with fluctuating returns, or lease-based financing as one of the financing products. This financing structure can influence the bank's profits, which in turn impacts the performance of Islamic banks [1]. In conventional banks, credit systems utilize interest mechanisms, while Islamic banks apply a profit-sharing system, where the profit ratio is based on the gains achieved. According to OJK Regulation No. 10 of 2019 concerning the Operation of Sharia Financing Companies and Sharia Business Units of Financing Companies, the business activities of sharia financing companies include: 1) Sales-based financing, using contracts such as *murabahah, salam,* and *istisna'.* 2) Profit-sharing or investment financing, using contracts such as *mudharabah, musyarakah, mudharabah musytarakah,* and *musyarakah mutanaqisah*. 3) Service-based financing, using contracts such as *ijarah, ijarah muntahiyah bittamlik, hawalah or hawalah bil ujrah, wakalah or wakalah bil ujrah, kafalah or kafalah bil ujrah, ju'alah,* and *qard.*

2.7 Risks of Islamic Banks

Risk is a potential loss caused by certain events. In banking, risk refers to potential events, whether foreseeable or unforeseen, that have a negative impact on the bank's income and capital, potentially hindering the bank from achieving its desired objectives. According to OJK Regulation No. 65/POJK.03/2016 on Risk Management Implementation for Islamic Commercial Banks and Islamic Business Units and OJK Regulation No. 8/POJK.03/2014 on the Soundness Level Assessment of Islamic Commercial Banks and Islamic Business Units, Islamic banks must manage ten types of risks: Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Legal Risk, Reputation Risk, Strategic Risk, Compliance Risk, Rate of Return Risk, and Investment Risk. The risk profile assessment of these ten types of risks is derived from the annual financial reports of the respective banks, evaluated based on the Risk-Based Bank Rating (RBBR) concept, which consists of five ranking categories.

2.8 Conceptual Framework

A conceptual framework of research is a model that illustrates the relationship between theory and the factors or variables identified in a study. Below is a conceptual framework summarizing the study on the performance of Islamic banks based on sharia principles, viewed from sharia compliance, sharia capital structure, and sharia financing structure, mediated by the risk of Islamic banks, which reflects the research hypotheses.

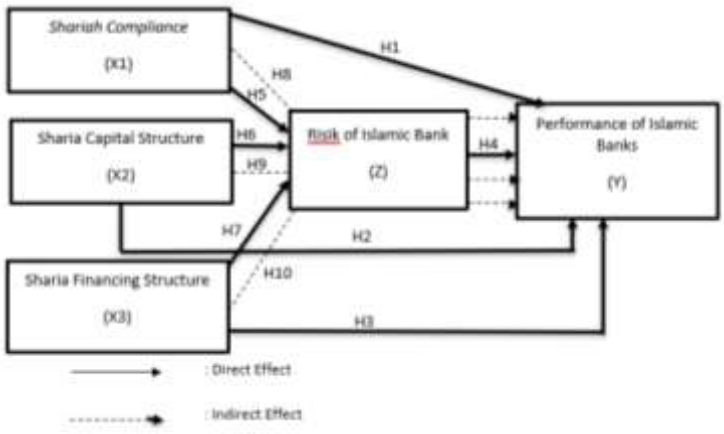

Figure 1. Conceptual Framework

2.9 Hypotehesis Development

2.9.1 The Effect of Shariah Compliance on the Performance of Islamic Banks

Research conducted by Astuty (2024), Abul Khoidir Nasution & Syahrul Amsari (2024), and Afdal & Agustin (2023) demonstrates that shariah compliance has a significant positive effect on the performance of Islamic banks, as measured by financial and social performance based on sharia principles. The implementation of shariah compliance enhances public trust in the sharia-compliance of Islamic banks, leading to increased use of Islamic

banking products by the public, ultimately improving the performance of Islamic banks. This aligns with the Sharia Enterprise Theory (SET), which explains that when Islamic banks implement shariah compliance in their operations as a form of accountability to God and as an expression of sustainable social responsibility management, their performance can be improved. This is achieved by increasing customer trust in Islamic banking products and enhancing the reputation of Islamic banks.

H1: Shariah compliance affects the performance of Islamic banks.

2.9.2 The Influence of Islamic Capital Structure on Islamic Bank Performance

The sources of capital in Islamic Banks consist of liabilities, equity, and temporary partnership funds (syirkah temporer). Research conducted by Roziq & Ilma Ahmad (2024) and Mardhatillah et al. (2020) indicates that capital structure affects the performance of Islamic Banks, which is measured using financial performance. The more Islamic capital structure obtained, the more capital is available to cover potential risks, and with an increased capital structure, the financing distribution carried out by the Islamic Bank will also increase, thereby improving the bank's performance. According to Islamic agency theory, agency issues in Islamic Banks can be addressed by forming a capital structure from temporary partnership funds (syirkah temporer), which is a unique source of capital for Islamic Banks, where business contracts are conducted in accordance with Islamic ethics. The more partnership funds received by the Islamic Bank, the larger the capital owned by the bank, and the more funds distributed to the community, ultimately improving the performance of the Islamic Bank.

H2: Islamic capital structure affects the performance of Islamic Banks.

2.9.3 The Influence of Islamic Financing Structure on Islamic Bank Performance

Financing conducted by Islamic Banks is carried out through profit-sharing, buying and selling, or other means to obtain profits or the margin from buying and selling. Research conducted by Sawaldi & Surur (2024) and Roziq & Ilma Ahmad (2024) states that the volume of financing distributed by Islamic Banks, especially profit-sharing financing, has a significant impact on the financial performance of Islamic Banks in Indonesia because the greater the number of customers using financing products, the higher the bank's profitability, thus improving its performance. This aligns with Islamic agency theory, which states that if financing is conducted by Islamic Banks in a business conducted in accordance with Islamic ethics, agency conflicts that result in problematic financing risks can be avoided, and financing will be returned in accordance with the terms of the contract because Islamic contracts entail both worldly and ukhrawi (hereafter) consequences, with accountability until the Day of Judgment.

H3: Islamic financing structure affects the performance of Islamic Banks.

2.9.4 The Influence of Islamic Bank Risk on Islamic Bank Performance

Risk is an undesired event and a potential occurrence that results in loss if it is not predicted and managed well (Aryani, 2019). Islamic banking must be able to predict and manage risks to avoid losses, ensuring that it can still increase profits and improve Islamic Bank performance. According to research conducted by Roziq & Ilma Ahmad (2024), Jayanti & Sartika (2021), and Mitha Ratna Komala & Yuhelmi (2020), it is stated that Islamic Bank risk has a significant negative impact on financial performance because proper risk management can enhance Islamic Bank performance. Based on Islamic agency theory, every contract, partnership, or agreement involves potential conflicts or issues between those involved, such as when a party is untrustworthy, leading to the withdrawal of blessings (barakah), resulting in risks and lowering performance. However, if the individuals involved in the contract or agreement adhere to Islamic principles and trustworthiness (amanah), barakah will accompany them, with minimal risks, resulting in good performance. In Islamic Banks, all operations and business contracts are carried out based on Islamic business ethics, so risks in Islamic Banks can be minimized, ultimately improving the performance of the Islamic Bank.

H4: Islamic Bank risk affects the performance of Islamic Banks.

2.9.5 The Influence of Shariah Compliance on Islamic Bank Risk

A study conducted by Hartanto (2020) states that shariah compliance affects Islamic Bank risk because Islamic Banks need to implement good governance, such as applying shariah compliance, to manage and control the risks of Islamic Banks. This aligns with Shariah Enterprise Theory (SET), according to Mulawarman et al. (2011), which asserts that an Islamic Bank that applies shariah compliance is a bank that maintains a balance between

material and spiritual values, harmonizing them. SET encourages banks to consider the interests of others and acknowledge stakeholders, including God, humans, and nature. Thus, the presence of shariah compliance in this study demonstrates that Islamic Banks have responsibilities not only toward their business owners but also toward stakeholders and Allah SWT. This responsibility is reflected in the operations of Islamic Banks, which are conducted according to shariah principles, ultimately helping to minimize risks within the bank.

H5: Shariah compliance affects Islamic Bank risk.

2.9.6 The Influence of Islamic Capital Structure on Islamic Bank Risk

High risk requires significant costs to manage, and these costs are covered by capital, which can reduce capital adequacy and financing, ultimately affecting the performance of Islamic Banks as they may lack the capital to distribute financing. A study conducted by Roziq (2021) states that capital structure sourced from temporary partnership funds (syirkah temporer) has a negative effect on risk because the more capital available in the Islamic Bank, the better it can absorb the costs associated with managing risks. As a result, the more capital the bank has, the more it can minimize risks within the bank. This aligns with Islamic agency theory, which states that agency issues can be addressed by forming a capital structure, particularly from temporary partnership funds, which are a unique source of capital for Islamic Banks. In this case, business contracts are conducted according to Islamic ethics. The more partnership funds received by the Islamic Bank, the larger the capital, the more risks can be minimized, and the greater the amount of funds distributed to the community.

H6: Islamic capital structure affects Islamic Bank risk.

2.9.7 The Influence of Islamic Financing Structure on Islamic Bank Risk

The volume of financing in the form of mudharabah will lead to a reduction in non-performing financing (NPF) risks, as it reflects the customers' ability to make timely payments, which can help minimize the risk of credit default (Fazriani & Mais, 2019). On the other hand, financing in the form of musyarakah has a positive impact on NPF, as the higher the financing provided, the greater the risk of NPF, since financing inevitably carries the risk of credit default. Therefore, it can be concluded that financing influences banking risk; however, good risk management through the establishment of an Islamic financing structure can mitigate these risks. This is in line with Islamic agency theory, which states that Islamic financing, especially mudharabah and musyarakah, involves customers as agents and the Islamic Bank as the principal. The relationship between the two is typically marked by information asymmetry, which can lead to agency conflicts. However, according to Islamic agency theory, if the financing structure is implemented by the Islamic Bank with business contracts conducted in accordance with Islamic ethics, agency conflicts can be avoided, as the contracts in the Islamic Bank have both worldly and spiritual consequences that hold accountability until the Day of Judgment. Thus, this Islamic financing structure can influence and minimize the risk of potential financing issues.

H7: Islamic financing structure affects Islamic Bank risk.

2.4.8 The Influence of Shariah Compliance on Islamic Bank Performance with Islamic Bank Risk as a Mediating Variable

Research conducted by Roziq & Ilma Ahmad (2024) indicates that Islamic banking risk has a significant positive influence in mediating the relationship between compliance in banking management, particularly Shariah compliance, and the performance of Islamic Banks. With Shariah compliance, risks such as compliance risk and others can be addressed, thereby increasing public trust in using Islamic Bank products and improving Islamic Bank performance. This aligns with the Shariah Enterprise Theory (SET), which states that an Islamic Bank implementing Shariah compliance is a bank that embodies balance, harmonizing material and spiritual values. This balance encourages SET to consider the interests of others and recognize stakeholders, including God, humans, and nature. Thus, Shariah compliance in this research shows that Islamic Banks have obligations not only to their business owners but also to stakeholders and Allah SWT. This is manifested in the operations of Islamic Banks conducted based on Shariah principles, which help minimize risks. The responsibility to stakeholders in minimizing such risks enhances customer trust in Islamic Bank products, improves the bank's reputation, and ultimately boosts the bank's performance through risk reduction.

H8: Islamic Bank risk mediates the relationship between Shariah compliance and Islamic Bank performance.

2.9.9 The Influence of Islamic Capital Structure on Islamic Bank Performance with Islamic Bank Risk as a Mediating Variable

Research conducted by Roziq & Ilma Ahmad (2024) states that the adequacy of Islamic capital structure can be influenced by risk levels, especially credit risk. As credit risk increases, the bank must incur costs to cover the risk, with the cost of covering the credit risk coming from the bank's capital. This could reduce the adequacy of Islamic bank capital and decrease the funding available to be distributed to customers, thereby reducing Islamic Bank performance. This aligns with Islamic agency theory, which states that agency problems can be addressed by forming a capital structure, particularly from temporary partnership funds (syirkah temporer), a unique source of capital for Islamic Banks. Business contracts are carried out in accordance with Islamic ethics, so as the amount of syirkah funds received by the Islamic Bank increases, the bank's capital grows, which can help minimize liquidity risks or other risks, thereby improving Islamic Bank performance.

H9: Islamic Bank risk mediates the relationship between Islamic capital structure and Islamic Bank performance.

2.9.10 The Influence of Islamic Financing Structure on Islamic Bank Performance with Islamic Bank Risk as a Mediating Variable

Financing in Islamic Banks is also not free from the risk of failure to repay the financing. The presence of an Islamic financing structure can help minimize the risks associated with Islamic Bank financing operations, with the expectation that these risks can be controlled and provide maximum returns, thereby improving Islamic Bank performance (Roziq & Ilma Ahmad, 2024). This aligns with Islamic agency theory, which states that Islamic financing structures, especially musyarakah and mudharabah financing, are carried out in situations where there is information asymmetry between the customer and the Islamic Bank, which can lead to agency conflicts. This can result in risks, such as financing risk, that may lower Islamic Bank performance. However, according to Islamic agency theory, these financing structures are implemented by the Islamic Bank, where business contracts are executed according to Islamic ethics. Therefore, agency conflicts can be avoided, as the contracts in Islamic Banks have both worldly and otherworldly consequences, with accountability extending to the Day of Judgment. Thus, Islamic financing structures can influence the minimization of financing risks and improve the performance of Islamic Banks.

H10: Islamic Bank risk mediates the relationship between Islamic financing structure and Islamic Bank performance.

3. RESEARCH METHODOLOGY

3.1 Research Type

The type of approach in this study employs a quantitative descriptive analysis approach with the explanatory research method. The explanatory research method is a research method that explains the influence of relationships between variables and tests hypotheses that have been formulated as temporary answers to the existing research problem statements [16]. This study discusses variables that affect the performance of Islamic banks in Indonesia, both directly and through Islamic bank risk as a mediating variable.

3.2 Population and Research Sample

The population used in this study includes all Islamic Banks in Indonesia registered with the Financial Services Authority (OJK), totaling 17 Islamic Commercial Banks during the 2018–2023 period. The sample size in this study is determined using Hair's formula, where the minimum sample size is 5–10 times the number of variables or the highest number of indicators. Therefore, the sample size in this study is calculated by multiplying the number of indicators by 6. This study has 10 indicators, requiring 60 research samples from Islamic Banks in Indonesia during the 2018–2023 period. The sampling technique used in this study is purposive sampling, with the sample criteria being as follows:

1. Islamic Commercial Banks in Indonesia registered on the official Financial Services Authority (OJK) website.
2. Islamic Commercial Banks in Indonesia operating during the 2018–2023 period.
3. Islamic Commercial Banks in Indonesia that have published complete annual reports related to the research variables on their respective websites during the 2018–2023 period.

Based on the sample selection process and the criteria outlined above, 10 Islamic Commercial Banks were included in this study over six years, resulting in 60 observational data samples. The following are the research samples used in this study:

Table 1. List of Research Samples

No.	Bank Umum Syariah
1.	PT. Bank Aceh Syariah
2.	PT. BPD Nusa Tenggara Barat Syariah
3.	PT. Bank Muamalat Indonesia
4.	PT. Bank Victoria Syariah
5.	PT. Bank Jabar Banten Syariah
6.	PT. Bank Mega Syariah
7.	PT. Bank Panin Dubai Syariah
8.	PT. Bank Syariah Bukopin
9.	PT. BCA Syariah
10.	PT. Bank Tabungan Pensiunan Nasional Syariah

3.3 Research Data

This study utilizes quantitative data, which is presented in the form of numbers or statistics [31]. The data source used is secondary data. The data collection technique applied in this study is documentation, carried out by extracting secondary data from reports, documents, records, electronic media, and others [32]. The secondary data used in this study consists of the annual financial reports of Islamic Commercial Banks published on the websites of the 10 Islamic Commercial Banks in Indonesia, selected based on predetermined characteristics, with annual report data spanning six years from 2018 to 2023.

3.4 Research Variables

Table 2. Variables, Indicators, Measurements, and Scales Research

Variabel	Indikator	Pengukuran	Skala
Performance of Islamic Banks (Y)	• Islamic Income Ratio (IsIR) • Profit Sharing Ratio (PSR) • ROA • ROE • NPM	• *Islamic Income* / *Islamic Income* + non-*Islamic Income* • *Mudharabah* + *Musyarakah* / *Total Financing* • *Net Income / Total Assets* • *Net Income / Stockholde's Euqity* • *Net Income / Total Reveneu*	Ratio
Shariah Compliance (X1)	• *Equitable Dsitribution Ratio* (EDR) • *Directors-Employees Welfare Ratio* (DEWR)	• *Average Distributionfor Each Stakeholders* / *Total Reveneu* • Remunerasi Direksi / Kesejahteraan Karyawan	Ratio
Sharia Capital Structure (X2)	• Liability • Equity • Temporary Shirka Fund	• Total Liability / *Total Asset* x 100% • Total Equity / *Total Asset* x 100% • Total Temporary Shirka Fund / *Total Asset* x 100%	Ratio
Sharia Financing Structure (X3)	• *Murabahah* Financing	• Total *Murabahah* Financing / Total Financing x 100% • *Mudharabah* Financing / Total Financing x 100%	Ratio

	• *Mudharabah* Financing • *Musyarakah* Financing	• *Musyarakah* Financing / Total Financing x 100%	
Risk of Islamic Banks (Z)	1. Credit Risk 2. Market Risk 3. Liquidity Risk 4. Operational Risk 5. Legal Risk 6. Reputation Risk 7. Strategic Risk 8. Compliance Risk 9. Rate of Return Risk 10. Investment Risk	1. Ranking 1-5 2. Ranking 1-5 3. Ranking 1-5 4. Ranking 1-5 5. Ranking 1-5 6. Ranking 1-5 7. Ranking 1-5 8. Ranking 1-5 9. Ranking 1-5 10. Ranking 1-5	Ordinal

3.5 Data Analysis Techniques

Data analysis techniques are the process of analyzing obtained data to be processed into information that can be understood and used to draw conclusions regarding the research problem formulation [1]. The data analysis technique in this research utilizes path analysis, which is employed to test hypotheses using the Smart Partial Least Squares (PLS) application. PLS is a multivariate statistical technique capable of comparing multiple independent variables with multiple dependent variables [33].

4. RESULT AND DISCUSSION

4.1 Outer Model Analysis

The Outer model analysis or measurement model evaluation is an assessment to test the relationship between indicators or construct variables and their latent variables, evaluated by examining the validity and reliability results. The results of the outer model calculation before modification are presented in Fig. 2 below:

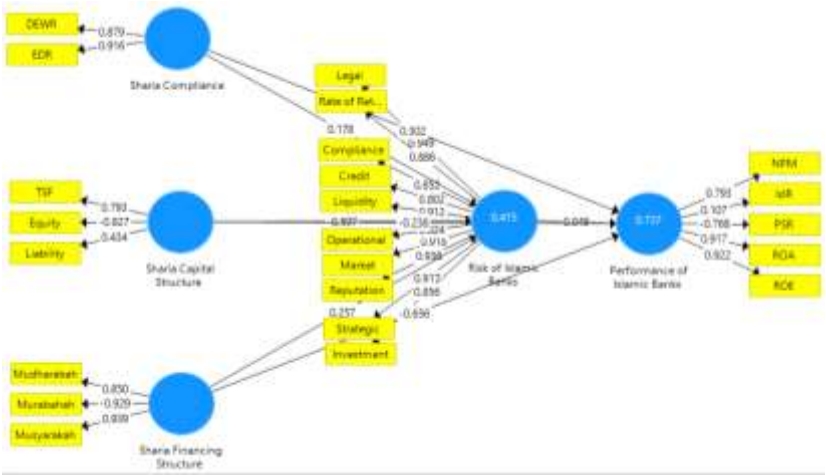

Figure 2. Outer Model Results Before Modification

Based on the outer model results in Fig. 2 above, it is shown that some indicators do not meet the validity requirements as their values are below 0.70. Therefore, the indicators that do not meet the required values must be modified by re-measuring and removing those indicators to produce variable indicators that meet the validity requirements, ensuring valid and accountable results. The modified outer model results after removing indicators that did not meet validity requirements are presented in Fig. 3 below:

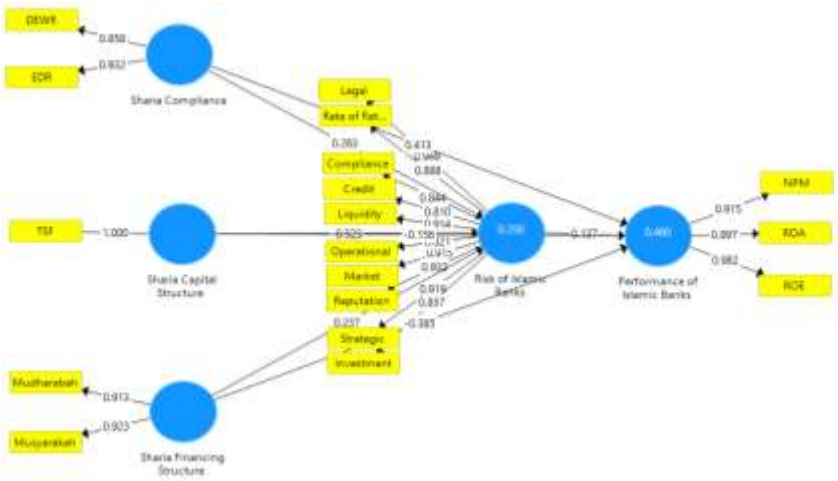

Figure 3. Modified Outer Model Results

The modified outer model results in Fig. 3 indicate that after modifying by removing the indicators for liabilities, equity, murabahah financing, sharia income ratio, and profit-sharing ratio, it was found that all remaining indicators met the validity requirements with values above 0.70. As a result, all these indicators will produce valid and accountable results.

1. Convergent Validity Test

Convergent Validity Test is an assessment conducted to evaluate the extent to which the indicators used to measure a construct have a high correlation with that construct [34]. An individual indicator with a correlation value or loading factor greater than 0.70 is considered to have a high or valid value. Convergent validity is considered satisfied if each construct has an Average Variance Extracted (AVE) value greater than 0.5, which means the construct can explain 50% or more of the variance of its items. The results of the convergent validity test can be seen in Table 3 based on the loading factor and in Table 4 based on the Average Variance Extracted (AVE) below:

Table 3. Outer Loading

Variable	Indicator	*Loading Factor*	Significance
Shariah Compliance	*Equitable Dsitribution Ratio* (EDR)	0,932	Valid
	Directors-Employees Welfare Ratio (DEWR)	0,858	Valid
Sharia Capital Structure	Temporary Shirka Fund	1,000	Valid
Sharia Financing Structure	*Mudharabah*	0,913	Valid
	Musyarakah	0,923	Valid
Risk of Islamic Banks	Credit Risk	0,810	Valid
	Market Risk	0,915	Valid
	Liquidity Risk	0,914	Valid
	Operational Risk	0,821	Valid
	Legal Risk	0,949	Valid
	Reputation Risk	0,932	Valid
	Strategic Risk	0,919	Valid
	Compliance Risk	0,844	Valid
	Rate of Return Risk	0,888	Valid
	Investment Risk	0,857	Valid

Performance of Islamic Banks	ROA	0,897	Valid
	ROE	0,982	Valid
	NPM	0,915	Valid

Based on Table 3 above, it shows that all the variables used in this study, after undergoing the modification process, resulted in outer loading values greater than 0.70. This indicates that each variable has been adequately explained by its indicators and has met the requirements of the convergent validity test, allowing the testing to proceed to the next stage.

Table 4. Avarage Variance Extracted (AVE)

	AVE	Nilai Kritis	Hasil
Shariah Compliance	0,803	>0,5	Meet
Sharia Capital Structure	1,000	>0,5	Meet
Sharia Financing Structure	0,842	>0,5	Meet
Risk of Islamic Banks	0,786	>0,5	Meet
Performance of Islamic Banks	0,869	>0,5	Meet

Based on Table 4 above, it shows that each measured variable has an AVE value greater than 0.5, which means that all variables have met the critical value of AVE. Therefore, these research variables can explain the measurements in the model and can be considered to be good.

2. Discriminant Validity Test

Discriminant Validity Test is an assessment used to determine whether reflective indicators are indeed a good measurement for their construct variables, based on the premise that each indicator has a high correlation with its construct [35]. In testing using the PLS application, discriminant validity is evaluated using several values, including the Fornell-Larcker criterion, HTMT (Heterotrait-Monotrait Ratio), and cross loading.

Table 5. Fornell-Larcker Criterion

	Performance of Islamic Banks	Risk of Islamic Banks	Shariah Compliance	Sharia Capital Structure	Sharia Financing Structure
Performance of Islamic Banks	**0,932**				
Risk of Islamic Banks	0,193	**0,886**			
Shariah Compliance	0,571	0,114	**0,896**		
Sharia Capital Structure	-0,141	-0,525	0,100	**1,000**	
Sharia Financing Structure	-0,510	0,191	-0,412	-0,119	**0,918**

Based on Table 5. above, it shows that each variable has met the discriminant validity because it has a square root of AVE value greater when explaining the variable itself compared to explaining the correlations among other variables in the research model.

Table 6 Heterotrait-Monotrait Ratio (HTMT)

	Performance of Islamic Banks	Risk of Islamic Banks	Shariah Compliance	Sharia Capital Structure	Sharia Financing Structure
Performance of Islamic Banks					
Risk of Islamic Banks	0,202				
Shariah Compliance	0,665	0,161			
Sharia Capital Structure	0,145	0,531	0,131		
Sharia Financing Structure	0,584	0,239	0,557	0,133	

Based on Table 6. above, it can be seen that the HTMT values for variable pairs are below 0.90, so it can be concluded that the discriminant validity test based on HTMT values has been fulfilled.

Table 7. Cross Loading

	Shariah Compliance	Sharia Capital Structure	Sharia Financing Structure	Risk of Islamic Banks	Performance of Islamic Banks
EDR	**0,932**	0,030	-0,276	0,094	0,590
DEWR	**0,858**	0,175	-0,505	0,115	0,407
TSF	0,100	**1,000**	-0,119	-0,525	-0,141
Mudharabah	-0,473	-0,150	**0,913**	0,258	-0,442
Musyarakah	-0,287	-0,070	**0,923**	0,097	-0,512
Credit Risk	0,180	-0,442	-0,028	**0,810**	0,249
Market Risk	0,061	-0,485	0,362	**0,915**	0,111
Liquidity Risk	0,144	-0,508	0,123	**0,914**	0,196
Operational Risk	-0,059	-0,387	0,145	**0,821**	0,124
Legal Risk	0,062	-0,477	0,304	**0,949**	0,128
Reputation Risk	0,055	-0,488	0,336	**0,932**	0,108
Strategic Risk	0,138	-0,457	0,209	**0,919**	0,214
Compliance Risk	-0,069	-0,430	0,250	**0,844**	0,090
Rate of Return Risk	0,249	-0,503	-0,024	**0,888**	0,275
Investment Risk	0,177	-0,453	-0,021	**0,857**	0,196
ROA	0,388	-0,264	-0,577	0,191	**0,897**
ROE	0,564	-0,111	-0,502	0,168	**0,982**
NPM	0,650	-0,013	-0,337	0,179	**0,915**

Based on Table 7. above, it can be seen that the cross-loading values of each variable with its respective indicators have higher values than the correlation values of each indicator with other variables, with cross-loading values greater than 0.7. Therefore, it can be concluded that the discriminant validity test is well satisfied.

3. Reliability Test

Reliability testing aims to assess the reliability or consistency of the instruments used, ensuring that when applied repeatedly to measure the same object, they will produce the same data [35]. In PLS reliability testing, two methods can be used: Cronbach's alpha and composite reliability. The results of the reliability test based on Cronbach's alpha, rho_A, and composite reliability are shown in Table 8. below:

Table 8. Reliability Test

	Cronbach's Alpha	***rho_A***	***Composite Realibility***
Performance of Islamic Banks	0,924	0,927	0,952
Risk of Islamic Banks	0,969	0,975	0,973
Shariah Compliance	0,761	0,825	0,890
Sharia Capital Structure	1,000	1,000	1,000
Sharia Financing Structure	0,813	0,815	0,915

Based on Table 8 above, it can be seen that the values of Cronbach's alpha, rho_A, and composite reliability are all greater than 0.70. Therefore, it can be concluded that these values are good and meet the expected reliability standards, making them suitable and reliable to be used as research instruments.

4.2 Inner Model Analysis

The structural model or inner model is an evaluation test used to determine whether there is collinearity among constructs and to predict the model's ability. The structural model testing consists of several stages, including the model fit test, which considers the R-Square (R2) and Q-Square (Q2) values. The results of the bootstrapping process on the structural model can be seen in Fig. 4 below:

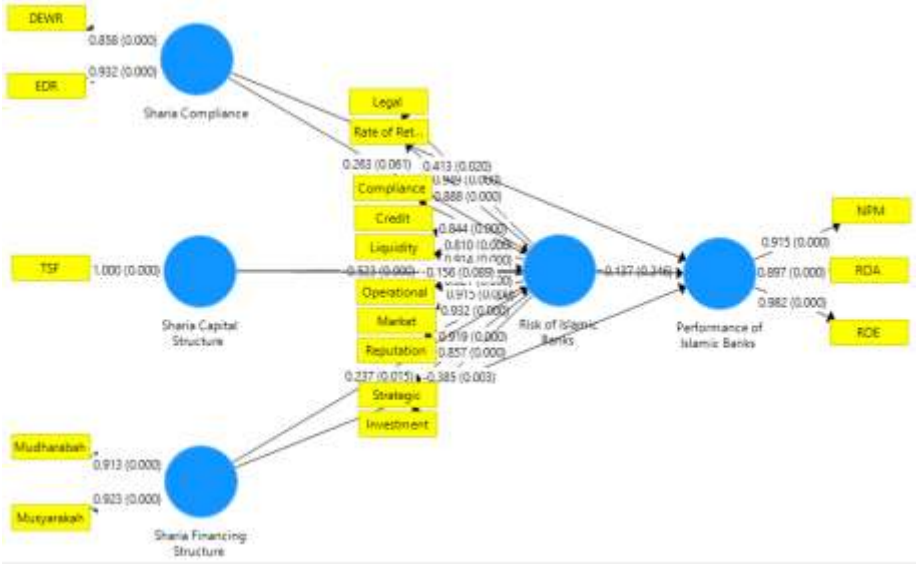

Figure 4. Inner Model

The measurement in the structural model uses five criteria, which are: variance inflation factor (VIF), coefficient of determination (R2), cross-validated redundancy (Q2), effect size (f2), and path coefficients.

1. *Variance Inflation Factor* (VIF)

Table 9. *Variance Inflation Factor* (VIF) Test

	Performance of Islamic Banks	Risk of Islamic Banks	Shariah Compliance	Sharia Capital Structure	Sharia Financing Structure
Performance of Islamic Banks					
Risk of Islamic Banks	1,538				
Shariah Compliance	1,314	1,208			
Sharia Capital Structure	1,438	1,018			
Sharia Financing Structure	1,299	1,213			

Based on Table 9. above, it can be seen that the VIF values meet the collinearity requirement, which is less than 5 for the relationship between each variable. Each variable has a value of 1, which indicates a good value. Therefore, it can be concluded that there is no multicollinearity among the variables in the model.

2. Coefficient of determination (R^2)

Table 10. Coefficient of determination (R^2) Test

	R Square	*Adjusted R Square*
Performance of Islamic Banks	0,480	0,442
Risk of Islamic Banks	0,350	0,315

In Table 10. it shows that the adjusted R2 value for Islamic Bank risk is 0.315, which can be identified as a moderate model with an interpretation indicating a value of 31.5%. This means that 31.5% of the adjusted R2 value for Islamic Bank risk is influenced by shariah compliance, shariah capital structure, and shariah financing structure. Meanwhile, the adjusted R2 value for Islamic Bank performance is 0.442, which can be identified as a moderate model with an interpretation indicating a value of 44.2%. This means that 44.2% of the adjusted R2 value for Islamic Bank performance is influenced by shariah compliance, shariah capital structure, shariah financing structure, and Islamic Bank risk also affects the performance of the Islamic Bank, as in this study, Islamic Bank risk acts as a predictor of Islamic Bank performance.

3. *Cross-Validated Redundancy* (Q^2)

Table 11. Cross-validated redundancy (Q^2) Test

	SSE	SSO	Q^2 (=1-SSE/SSO)
Performance of Islamic Banks	180,000	110,138	0,388
Risk of Islamic Banks	600,000	441,471	0,264
Shariah Compliance	120,000	120,000	
Sharia Capital Structure	60,000	60,000	
Sharia Financing Structure	120,000	120,000	

Based on Table 11. above, it can be seen that the Q2 value for Islamic Bank performance is 0.388, and the Q2 value for Islamic Bank risk is 0.264. These values are greater than 0, indicating that the model has accurate predictive relevance.

4. Standardized Root Square Residual (SRMR)

Table 12. Hasil *Uji Standardized Root Square Residual* (SRMR)

	Estimated Model
SRMR	0,090

Based on Table 12. above, the obtained SRMR value is 0.090, indicating that the model has an acceptable fit, meaning the relationships between variables can be adequately explained by the data.

5. Effect Size (f^2)

The interpretation of f^2 is as follows: if the f^2 value is 0.02, it indicates a small effect; if the f^2 value is 0.15, it indicates a medium effect; and if the f^2 value is 0.35, it indicates a large effect [34]. Table 13 below shows the f2 values:

Table 13. Effect Size (f^2) Test

	Performance of Islamic Banks	Risk of Islamic Banks	Shariah Compliance	Sharia Capital Structure	Sharia Financing Structure
Performance of Islamic Banks					
Risk of Islamic Banks	0,024				
Shariah Compliance	0,249	0,088			
Sharia Capital Structure	0,032	0,413			
Sharia Financing Structure	0,219	0,071			

Based on Tables 13. above, it can be concluded that the relationships between variables in the study exhibit small, medium, and large effects. A large effect is shown by the relationship between the Islamic capital structure variable and the risk of Islamic banks, with an f^2 value of 0.413. A medium effect in this study is indicated by the relationship between the shariah compliance variable and the performance of Islamic banks, with an f^2 value of 0.249, and by the relationship between the Islamic financing structure variable and the performance of Islamic banks, with an f^2 value of 0.219. Meanwhile, a small effect in this study is indicated by the relationship between the Islamic capital structure variable and the performance of Islamic banks, with an f^2 value of 0.032; the relationship between the Islamic bank risk variable and the performance of Islamic banks, with an f^2 value of 0.024; the relationship between the shariah compliance variable and the risk of Islamic banks, with an f^2 value

of 0.088; and the relationship between the Islamic financing structure variable and the risk of Islamic banks, with an f^2 value of 0.071.

4.3 Hypotehsis Testing of Direct and Indirect Effects

Hypothesis testing is conducted to determine the validity of the hypothesis. The hypothesis test can be assessed based on the t-statistic value and the probability value.

Table 14. Hypothesis Testing of Direct Effects

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P-Values	Explanation
Shariah Compliance > Performance of Islamic Banks	0,413	0,406	0,180	2,294	0,020	Significant
Sharia Capital Structure > Performance of Islamic Banks	-0,156	-0,184	0,085	1,830	0,089	Not Significant
Sharia Financing Structure > Performance of Islamic Banks	-0,385	-0,396	0,132	2,920	0,003	Significant
Risk of Islamic Banks > Performance of Islamic Banks	0,137	0,139	0,118	1,165	0,246	Not Significant
Shariah Compliance > Risk of Islamic Banks	0,263	0,277	0,136	1,941	0,061	Not Significant
Sharia Capital Structure > Risk of Islamic Banks	-0,523	-0,545	0,121	4,314	0,000	Significant
Sharia Financing Structure > Risk of Islamic Banks	0,237	0,236	0,101	2,342	0,015	Significant

Table 15. Hypothesis Testing of Indirect Effects

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P-Values	Explanation
Shariah Compliance > Risk of Islamic Banks > Performance of Islamic Banks	0,036	0,037	0,041	0,882	0,378	Not Significant
Sharia Capital Structure > Risk of Islamic Banks > Performance of Islamic Banks	-0,072	-0,075	0,069	1,046	0,296	Not Significant
Sharia Financing Structure > Risk of Islamic Banks > Performance of Islamic Banks	0,032	0,030	0,031	1,031	0,303	Not Significant

4.4 Discussion

4.4.1 The Influence of Shariah Compliance on the Performance of Islamic Banks

The hypothesis testing results on the influence of shariah compliance on the performance of Islamic banks show a t-statistic value of 2.294, which is greater than the t-table value of 1.96, with a p-value of 0.022, which is less than 0.05. Thus, it can be concluded that shariah compliance has a significant positive effect on the performance of Islamic banks, and the proposed hypothesis is accepted. Therefore, it can be inferred that proper implementation of shariah compliance can influence the improvement of Islamic banks' performance in Indonesia. This research is supported by studies conducted by Astuty (2024), Abul Khoidir Nasution & Syahrul Amsari (2024), Afdal & Agustin (2023), and Oktaviani et al. (2022), which state that the shariah compliance variable has a significant positive effect on the performance of Islamic banks. This performance is measured using financial and social performance based on shariah principles. The implementation of shariah compliance

serves as a form of accountability to stakeholders, thereby increasing public trust in the shariah adherence of Islamic banks, ultimately enhancing their performance.

4.4.2 The Influence of Shariah Capital Structure on the Performance of Islamic Banks

The hypothesis testing results on the influence of shariah capital structure on the performance of Islamic banks show a t-statistic value of 1.830, which is smaller than the t-table value of 1.96, with a p-value of 0.068, which is greater than 0.05. Thus, it can be concluded that the shariah capital structure does not have a significant effect on the performance of Islamic banks, and the proposed hypothesis is rejected. Therefore, it can be inferred that the shariah capital structure does not influence the performance of Islamic banks in Indonesia. This research is supported by a study conducted by Kaaffah & Tryana (2021), which states that temporary syirkah funds do not affect the performance of Islamic banks. This is due to an imbalance between the collected temporary syirkah funds and their disbursement, which hinders their impact on the performance of Islamic banks.

4.4.3 The Influence of Shariah Financing Structure on the Performance of Islamic Banks

The hypothesis testing results on the influence of the shariah financing structure on the performance of Islamic banks show a t-statistic value of 2.920, which is greater than the t-table value of 1.96, with a p-value of 0.004, which is less than 0.05. Thus, it can be concluded that the shariah financing structure has a significant negative effect on the performance of Islamic banks, and the proposed hypothesis is accepted. Therefore, it can be inferred that a high shariah financing structure can lead to a decline in the performance of Islamic banks in Indonesia. This research is supported by studies conducted by Roziq & Ilma Ahmad (2024) and Amalia & Munandar (2022), which state that the shariah financing structure in Islamic banks significantly negatively affects their financial performance. This is because an increase in financing disbursement without a corresponding repayment may lead to non-performing financing, which ultimately hampers the performance of Islamic banks.

4.4.4 The Influence of Islamic Bank Risk on the Performance of Islamic Banks

The hypothesis testing results on the influence of Islamic bank risk on the performance of Islamic banks show a t-statistic value of 1.165, which is smaller than the t-table value of 1.96, with a p-value of 0.245, which is greater than 0.05. Thus, it can be concluded that Islamic bank risk does not have a significant effect on the performance of Islamic banks, and the proposed hypothesis is rejected. Therefore, it can be inferred that Islamic bank risk does not influence the performance of Islamic banks in Indonesia. This research is supported by studies conducted by Dahlia (2021) and Irawan & Kusuma (2020), which found that risks in Islamic banks do not significantly affect their financial performance. This is because the risks encountered do not disrupt the daily operational activities of Islamic banks.

4.4.5 The Influence of Shariah Compliance on the Risk of Islamic Banks

The hypothesis testing results on the influence of shariah compliance on the risk of Islamic banks show a t-statistic value of 1.941, which is smaller than the t-table value of 1.96, with a p-value of 0.053, which is greater than 0.05. Thus, it can be concluded that shariah compliance does not have a significant effect on the risk of Islamic banks, and the proposed hypothesis is rejected. Therefore, it can be inferred that shariah compliance does not influence the risk of Islamic banks in Indonesia. This research is supported by studies conducted by Prayogo & Ifazah (2024) and Mitha Ratna Komala & Yuhelmi (2020), which found that the implementation of shariah compliance and good corporate governance (GCG) does not affect the risk of Islamic commercial banks.

4.4.6 The Influence of Shariah Capital Structure on the Risk of Islamic Banks

The hypothesis testing results on the influence of shariah capital structure on the risk of Islamic banks show a t-statistic value of 4.314, which is greater than the t-table value of 1.96, with a p-value of 0.000, which is less than 0.05. Thus, it can be concluded that the shariah capital structure has a significant negative effect on the risk of Islamic banks, and the proposed hypothesis is accepted. Therefore, it can be inferred that a high shariah capital structure can reduce the risk of Islamic banks in Indonesia. This research is supported by a study conducted by Roziq (2021), which found that capital structure derived from temporary syirkah funds negatively affects risk. A larger capital base in Islamic banks enables them to cover costs associated with managing risks, thus minimizing the risks faced by the banks.

4.4.7 The Influence of Shariah Financing Structure on the Risk of Islamic Banks

The hypothesis testing results on the influence of shariah financing structure on the risk of Islamic banks show a t-statistic value of 2.342, which is greater than the t-table value of 1.96, with a p-value of 0.020, which is less than 0.05. Thus, it can be concluded that the shariah financing structure has a significant positive effect on the risk of Islamic banks, and the proposed hypothesis is accepted. Therefore, it can be inferred that a high shariah financing structure can increase the risk of Islamic banks in Indonesia. This research is supported by a study conducted by Fazriani & Mais (2019), which found that shariah financing positively affects Non-Performing Financing (NPF). This is because a higher volume of financing disbursed without corresponding returns can increase the risk of NPF in Islamic banks.

4.4.8 The Influence of Shariah Compliance on the Performance of Islamic Banks with Islamic Bank Risk as a Mediating Variable

The hypothesis testing results on the influence of shariah compliance on the performance of Islamic banks through Islamic bank risk as a mediating variable show a t-statistic value of 0.882, which is smaller than the t-table value of 1.96, with a p-value of 0.378, which is greater than 0.05. Thus, it can be concluded that shariah compliance does not have a significant effect on the performance of Islamic banks through Islamic bank risk as a mediating variable. In other words, Islamic bank risk cannot mediate the effect of shariah compliance on the performance of Islamic banks, and the proposed hypothesis is rejected. This research is supported by a study conducted by Mitha Ratna Komala & Yuhelmi (2020), which stated that the implementation of shariah compliance or good corporate governance (GCG), representing compliance governance in Islamic banks, does not affect profitability through credit risk as an intervening variable.

4.4.9 The Influence of Shariah Capital Structure on the Performance of Islamic Banks with Islamic Bank Risk as a Mediating Variable

The hypothesis testing results on the influence of shariah capital structure on the performance of Islamic banks through Islamic bank risk as a mediating variable show a t-statistic value of 1.046, which is smaller than the t-table value of 1.96, with a p-value of 0.296, which is greater than 0.05. Thus, it can be concluded that the shariah capital structure does not have a significant effect on the performance of Islamic banks through Islamic bank risk as a mediating variable. In other words, Islamic bank risk cannot mediate the effect of the shariah capital structure on the performance of Islamic banks, and the proposed hypothesis is rejected. This research is supported by a study conducted by Roziq & Ilma Ahmad (2024), which stated that Islamic bank risk does not significantly mediate the relationship between the shariah capital structure and the financial performance of Islamic banks. This is due to the imbalance between the funds obtained and the funds disbursed, as not all acquired funds are allocated to financing. As a result, this does not influence the risk level and does not improve the performance of Islamic banks.

4.4.10 The Influence of Shariah Financing Structure on the Performance of Islamic Banks with Islamic Bank Risk as a Mediating Variable

The hypothesis testing results on the influence of shariah financing structure on the performance of Islamic banks through Islamic bank risk as a mediating variable show a t-statistic value of 1.031, which is smaller than the t-table value of 1.96, with a p-value of 0.303, which is greater than 0.05. Thus, it can be concluded that the shariah financing structure does not have a significant effect on the performance of Islamic banks through Islamic bank risk as a mediating variable. In other words, Islamic bank risk cannot mediate the effect of the shariah financing structure on the performance of Islamic banks, and the proposed hypothesis is rejected. This research is supported by studies conducted by Purba (2022) and Abdillah & Isnaeni (2024), which stated that financing in Islamic banks does not significantly affect the financial performance of Islamic banks through Islamic bank risk as a mediating variable. This is because the shariah financing structure cannot address all the existing risks of Islamic banks, and risk cannot be managed solely through the presence of a shariah financing structure.

5. CONCLUSION AND SUGGESTIONS

5.1 Conclusion

The conclusion of the research conducted by the researcher, focusing on the influence of shariah compliance, shariah capital structure, and shariah financing structure on the performance of Islamic banks, shows that shariah compliance has a significant positive effect on the performance of Islamic banks, while shariah financing structure has a significant negative effect on the performance of Islamic banks. Both shariah capital structure and Islamic bank risk do not have a significant effect on the performance of Islamic banks. Additionally, shariah capital structure has a significant negative effect on Islamic bank risk, while shariah financing structure has a significant positive effect on Islamic bank risk. Shariah compliance, however, does not have a significant effect on Islamic bank risk. As for the indirect influence through Islamic bank risk as a mediating variable, the results show that shariah compliance, shariah capital structure, and shariah financing structure do not have a significant effect on the performance of Islamic banks through Islamic bank risk as a mediating variable.

5.2 Limitations of the Study

This study has several limitations faced by the researcher, including The sample used in this study is relatively small, as there are still Islamic banks in Indonesia that do not meet the research sample criteria set. This study is limited to the measurement tools and shariah variables used, as the results still indicate that the performance of Islamic banks is influenced by other measurement tools and variables. This study is also limited to the literature supporting the measurement of Islamic bank performance variables from both a shariah perspective and a profitability perspective in the research.

5.3 Suggestions

Several recommendations can be made to future researchers based on the limitations of this study Islamic banks should optimize the implementation of shariah compliance and shariah capital structure, as the statistical test results prove that shariah compliance positively influences the performance of Islamic banks, and the shariah capital structure helps reduce Islamic bank risks. By optimizing these two aspects, Islamic banks can benefit from their operational activities to enhance their performance. Additionally, Islamic banks must pay attention to and manage their shariah financing structure properly, as the results show that a high shariah financing structure, without proper management and supervision, can lead to financing problems that could negatively impact the performance and increase the risk of Islamic banks. Future researchers may also consider increasing the sample size by including Islamic banks from other countries to obtain more accurate and robust research findings. Future research can employ other measurement tools or ratios for the variables and explore additional shariah variables, such as Islamic Corporate Governance (ICG), Islamic Social Responsibility (ISR), Islamicity Performance Index (IPI), maqashid shariah, and other shariah variables. Lastly, future researchers should strengthen the literature review by further exploring the measurement of Islamic bank performance variables from both a shariah perspective and a profitability perspective in their research.

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