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THE EFFECT OF CAPITAL STRUCTURE AND FINANCING RISK ON FINANCIAL STABILITY WITH PROFITABILITY AS A MODERATING VARIABLE

Alfina Rosy Rivanda[1*], Ulfi Kartika Oktaviana[1], Razali Ade Syahputra Hasibuan[2]
[1]Maulana Malik Ibrahim State Islamic University, Indonesia
[2]Incief University, Malaysia
*alfinarivanda@gmail.com

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Abstract: This study examines the impact of capital structure and financing risk on the financial stability of BPRS in Java during the 2020–2024 period, with profitability as a moderating variable. A quantitative causal approach was applied using secondary data from the annual financial reports of 82 BPRS, resulting in 410 observations. Panel data regression analysis was conducted using EViews 12. Financial stability was measured by the Z-score, capital structure by CAR, financing risk by NPF, and profitability by ROA. The results show that capital structure significantly affects financial stability, with adequate capital strengthening BPRS's resilience. Financing risk has a negative impact since higher unproductive financing weakens asset quality and stability. Profitability moderates the relationship between capital structure and financial stability, but does not moderate the impact of financing risk. These findings highlight the importance of effective capital and risk management in maintaining BPRS's financial stability.

Keywords: Financial Stability; Capital Structure; Financing Risk; Profitability; BPRS

Abstrak: *Studi ini menganalisis pengaruh struktur modal dan risiko pembiayaan terhadap stabilitas keuangan BPRS di Jawa selama periode 2020–2024, dengan profitabilitas sebagai variabel moderator. Pendekatan kausal kuantitatif diterapkan menggunakan data sekunder dari laporan keuangan tahunan 82 BPRS, menghasilkan 410 observasi. Analisis regresi data panel dilakukan menggunakan EViews 12. Stabilitas keuangan diukur dengan Z-score, struktur modal dengan CAR, risiko pembiayaan dengan NPF, dan profitabilitas dengan ROA. Hasil menunjukkan bahwa struktur modal secara signifikan memengaruhi stabilitas keuangan, menunjukkan bahwa modal yang memadai memperkuat ketahanan BPRS. Risiko pembiayaan memiliki dampak negatif karena pembiayaan tidak produktif yang lebih tinggi melemahkan kualitas aset dan stabilitas. Profitabilitas memoderasi hubungan antara struktur modal dan stabilitas keuangan, tetapi tidak memoderasi dampak risiko pembiayaan. Temuan ini menyoroti pentingnya manajemen modal dan risiko yang efektif dalam menjaga stabilitas keuangan BPRS.*

Kata Kunci: *Stabilitas Keuangan; Struktur Modal; Risiko Pembiayaan; Profitabilitas; BPRS*

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Introduction

The current condition of Sharia Rural Banks (BPRS) in Indonesia is facing difficult challenges such as fierce competition, bad debt, and an urgent need for digitization and product innovation.[1] Along with the problems faced by BPRSs, the number of BPRSs has also decreased due to mergers and license revocations. BPRSs on the island of Java face various problems that reflect internal instability, both in terms of efficiency and asset quality.[2] Based on data published by the Financial Services Authority (OJK) and the Deposit Insurance Corporation (LPS), particularly referring to the LPS Annual Report for the 2020–2024 period, it is evident that during 2024 there was a significant increase in the number of banking institutions whose business licenses were revoked, especially in the Rural Credit Bank (BPR) and BPRS sectors. Specifically, in Java, the stability of BPRS during 2020–2022 showed a relatively stable liquidation trend; however, this condition peaked in 2024 with the revocation of business licenses of two BPRS units.[3] This phenomenon reflects the high operational and managerial risks of BPRS due to their limited business scale and exposure to microfinance activities. These conditions affect financial stability and highlight the importance of strengthening governance, risk management, and prudent supervision, particularly in sharia-based microfinance institutions.[4] Based on this phenomenon, it is important to review long-term financial stability as the basis for operational sustainability.[5]

Maintaining financial stability is crucial for retaining customer trust, ensuring effective intermediation, and supporting long-term business sustainability, particularly given the structural risks typical of BPRS, such as limited capital buffers, high financing concentration, and restricted diversification capacity.[6] The financial stability of BPRSs reflects their ability to function effectively and efficiently in meeting their financial obligations and maintaining the trust of customers and investors.[7] The financial stability of BPRSs still faces several serious challenges. The relatively small scale of operations makes many BPRSs less resilient to economic pressures and competition from larger banks and fintech firms. Yet, within the regulatory framework of the Indonesian OJK, they maintain a strategic role in promoting financial inclusion for MSMEs and rural communities as an

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[3] Patricia Yashinta Desy Abigail, "Ada 21 Bank Bangkrut Ditutup Sejak 2024 Sampai 2025, Ini Daftarnya," https://finansial.bisnis.com/read/20250419/90/1870293/ada-21-bank-bangkrut-ditutup-sejak-2024-sampai-2025-ini-daftarnya, (15 January 2026).

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[6] Amelia Pratiwi, Baiq Nurlita Dwi Puspita, And Sony Wahyudi, "The Assessment Of Bankruptcy Potential Of Sharia Rural Banks In Indonesia," *Jurnal Economia* 15, no. 1 (2019): 114.

[7] Mohammed Ayoub Ledhem, "The Financial Stability Of Islamic Banks And Sukuk Market Development: Is The Effect Complementary Or Competitive?," *Borsa Istanbul Review* 22, no. 1 (2022): 79.

integral part of Indonesia's Islamic banking system.[8] In addition, the potential increase in the ratio of non-performing loans after the end of the credit relaxation policy could put pressure on asset quality. Limited capital and technology utilization are also obstacles for BPRSs in developing their business and adapting to the digitalization of financial services. These conditions show that efforts to maintain financial stability are increasingly crucial for BPRSs to survive and function optimally amid the existing dynamics and challenges.[9] Financial stability plays a fundamental role as the foundation for the operational sustainability of financial institutions and the economy in general.[10] Stable financial institutions are able to maintain liquidity, fulfill their obligations to customers, and carry out their intermediary functions in a sustainable manner. Conversely, instability has the potential to trigger an increase in non-performing loans, a liquidity crisis, and a decline in public confidence, which could ultimately lead to systemic risk.[11]

Maolana dan Rosia states that financial stability is influenced by internal factors, particularly capital adequacy risk and financing risk, which are important elements in determining the level of financial stability.[12] Capital adequacy plays a strategic role in maintaining financial stability because the higher the level of capital adequacy, the greater the ability of financial institutions to bear the risks of non-performing financing, liquidity fluctuations, and pressure from external economic turmoil without disrupting operational continuity.[13] Capital Adequacy Ratio (CAR) has a significant positive impact on bank stability. An increase in the capital adequacy ratio improves the bank's ability to absorb potential losses and reduce the risk of financial difficulties.[14] For BPRS, which mainly serves micro and small-scale customers with relatively higher financing risks, adequate capital is very important to absorb potential problem financing. A strong capital adequacy ratio enables BPRS to continue channeling financing to the real sector while complying with prudential principles and regulatory standards. Therefore, maintaining an optimal capital

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[14] Fitri Anggraini, Taufik, Muizzuddin Muizzuddin, And Isni Andriana, "Analisis Stabilitas Perbankan Syariah Dan Konvensional Di Negara-Negara Kawasan MENA," *Al-Kharaj : Jurnal Ekonomi, Keuangan & Bisnis Syariah* 6, no. 2 (2023): 609.

adequacy ratio is not only a regulatory obligation but also a strategic step to ensure the sustainability and operational resilience of BPRS.[15]

However, these findings differ from the results of a study conducted by Iriani and Setiawati, which showed that the CAR variable did not have a significant effect on stability.[16] The results of this study indicate that commercial banks with relatively low capital levels are still vulnerable to bankruptcy risk, meaning that their capital adequacy is not yet fully optimized in maintaining banking resilience and stability. CAR is used as a proxy for capital structure based on prudential regulation theory, which positions capital as the primary buffer against risk.

The financing risk ratio reflects the level of problematic financing in Islamic banks, particularly arising from profit-sharing contracts and trade-based financing structures that are inherently exposed to business performance risk and moral hazard.[17] This ratio shows the proportion of the financing portfolio that has experienced late payments or does not meet the specified conditions, known as Non-Performing Financing (NPF).[18] Financing risk is directly related to financial stability because it reflects the quality of assets owned by financial institutions. High levels of financing risk, as reflected in an increase in the ratio of non-performing loans, can lead to a decline in installment income and disrupt the smooth flow of cash for financial institutions.[19] This condition could potentially undermine financial stability if not managed properly. Other studies show that NPF has a negative but insignificant effect on the stability of Islamic banks. These findings indicate that an increase in the NPF ratio tends to reduce banking stability. Although the effect is not statistically significant, banks still need to pay serious attention to credit risk management in order to maintain sustainable financial stability.[20]

The effect of independent variables on the financial condition of BPRS is not always direct, but can be influenced by other variables that act as moderating variables.[21] Return on Assets (ROA) is a key indicator that reflects a company's ability to generate profits from its total assets.[22] The higher the ROA value, the more efficient the company is in managing

[15] Rustendi, "Pengaruh Kecukupan Modal Terhadap Stabilitas Keuangan Bank Perkreditan Rakyat."

[16] Ririt Iriani Sri Setiawati, "Analisis Pengaruh Faktor-Faktor Fundamental Kinerja Bank Dan Makro Ekonomi Terhadap Stabilitas Perbankan Di Indonesia," *Jurnal Ilmiah Bisnis Dan Ekonomi Asia* 14, no. 2 (2020): 123.

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[20] Fitri Anggraini, Taufik, Muizzuddin Muizzuddin, And Isni Andriana, "Analisis Stabilitas Perbankan.

[21] Fanda Savestra, Sri Hermuningsih, And Gendro Wiyono, "Peran Struktur Modal Sebagai Moderasi Penguatan Kinerja Keuangan Perusahaan," 6 (2021); Aditya Kusuma Wardhana And Wiwi Idawati, "Analysis Of Financial Distress With Profitability As Moderation Variable," *Jurnal Akuntansi* 25, no. 2 (2021): 222.

[22] Abdul Rohman, Ahmad Nurkhin, And Christian Wiradendi Wolor, "Determinants Of Indonesian Banking Profitability : Before And During The COVID-19 Pandemic Analysis," (2022)

its assets to generate profits.[23] Increased profitability is a positive signal for business sustainability because the profits generated can be used as a buffer or cushion against potential future losses. Meanwhile, Z-Score is used as a quantitative measure to assess the level of financial stability of an institution.[24] Profitability, as proxied by ROA, plays an important role as a moderating variable in the relationship between CAR and NPF on bank financial stability. In the relationship between CAR and financial stability, ROA strengthens the positive effect of capital adequacy. This indicates that even though banks have a high CAR, financial stability will be more optimal if this condition is supported by good profitability performance.[25] Conversely, in the relationship between NPF and financial stability, ROA plays a role in mitigating the negative impact of non-performing loans. Banks with high ROA have sufficient profit reserves to cover losses resulting from an increase in NPF, thereby maintaining financial stability. The role of profitability as a moderating variable is reinforced by various previous studies, which state that profitability has a significant effect on all variables used in testing financial stability.

Profitability can moderate the influence of independent variables on financial stability, as reinforced by previous studies stating that profitability has a significant effect on all variables used.[26] In line with this understanding, the internal condition of BPRSs is an aspect that cannot be ignored in seeing how profitability plays a role in maintaining the stability of financial institutions. BPRSs in Java Province still face various problems that reflect internal instability, both in terms of operational efficiency and asset quality. This instability is reflected in the limited ability of some BPRSs to reduce operational costs, optimize revenue, and maintain healthy financing portfolios. The increase in NPF further pressures financial health and may reduce public confidence.[27] These conditions highlight the urgency of strengthening risk management, enhancing internal supervision, and improving human resource competencies. From a policy and managerial perspective, regulators need to reinforce prudential oversight and supervisory standards, while BPRS management must implement stricter financing evaluation and monitoring systems to ensure sustainable performance and financial stability.[28]

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Methods

This study uses a quantitative approach with a causality method to analyze the effect of capital structure and financing risk on financial stability, with profitability as a moderating variable. The data used are secondary data in the form of annual financial reports of BPRS in Java Province obtained from official publications of the OJK during the period 2020–2024. The total population during the observation period consisted of 101 BPRS. The sample was determined using purposive sampling based on specific inclusion and exclusion criteria. The inclusion criteria were BPRS that operated continuously and consistently published complete annual financial reports during the research period, while BPRSs with incomplete data or those that ceased operations were excluded. Based on these criteria, 82 BPRS were selected, resulting in 410 observations. Data analysis was performed using panel data regression with the help of EViews 12 software, where financial stability was proxied by Z-score, capital structure by CAR, financing risk by NPF, and profitability by ROA, and moderation variable testing was performed through Moderated Regression Analysis (MRA).[29]

Result And Discussion

Descriptive statistics

Descriptive analysis is used to provide an overview and summarize the statistical characteristics of each research variable. The CAR reflects the ability of BPRS to maintain sufficient capital to cover the risk of loss, while NPF indicates the level of financing risk faced by banks. ROA is used to measure profitability, which describes the effectiveness of BPRS in generating profits from its assets, while financial stability is proxied using Z-score as an indicator of the bank's financial resilience. Through descriptive statistical analysis, the mean, minimum, maximum, and standard deviation of each variable were obtained, providing an overview of the data distribution and general financial performance of BPRS during the research period.

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Z-score	410	-0.560000	31.32000	4.442244	4.703060
CAR	410	-96.94000	199.2800	30.82773	22.91285
NPF	410	0.000000	55.57000	7.165317	7.333282
ROA	410	-55.48000	97.55000	1.265512	7.958876

Source: Data Processed 2026

The results of the descriptive analysis of BPRS in Table 1 show that the average financial stability of 4.442244 reflects the varying levels of financial resilience of BPRS. The average CAR of 30.82773 indicates the adequacy of BPRS capital in absorbing risk, while the average NPF of 7.165317 illustrates the level of financing risk faced by BPRS. The average ROA of 1.265512 reflects the ability of BPRS to generate profits from its assets. This data provides an initial overview for analyzing the relationship between the research variables.

[29] Sofwatillah, "Teknik Analisis Data Kuantitatif Dan Kualitatif Dalam Penelitian Ilmiah," *Journal Genta Mulia* 15, no. 2 (2024): 79.

Model selection

This study uses panel data regression, which is an advanced method of OLS that combines cross-sectional and time-series characteristics. To estimate the parameters of the model, there are three main approaches, namely Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM).

Chow Test

This test is conducted to determine whether the use of the FEM model in panel data regression provides more accurate results than the CEM model. The model is determined by considering the probability value in Cross-Section F. If the p-value is greater than 0.05, then the appropriate model is CEM. Conversely, if the p-value is less than 0.05, then the selected model is FEM.

Table 2. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	52.909352	(81, 326)	0.0000
Cross-section Chi-square	1086.272544	81	0.0000

Source: Data Processed 2026

Based on the table, it can be seen that the Cross-Section F and Chi-Square probability values are both below 0.05, with a prob value of 0.0000 < 0.05, so the appropriate model is FEM. After that, the testing continued with the Hausman test.

Hausman Test

This test was conducted to determine whether the REM or FEM model was more appropriate. The model selection was based on the probability value (p) in Cross-Section Random. If p > 0.05, the appropriate model was REM, whereas if p < 0.05, the selected model was FEM.

Table 3. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-sectional random	15.309339	2	0.0005

Source: Data Processed 2026

Based on the table above, it can be seen that the probability value is 0.0005 < 0.05. Therefore, the Fixed Effects Model is selected.

Panel Data Regression Analysis Results

Based on the results of the regression model selection, it was found that the most appropriate model was the FEM. After the model was determined, the next step was to perform panel data regression analysis, considering that this study involved two independent variables, one dependent variable, and one moderating variable. The independent variables consist of capital structure (X1) and financing risk (X2), while the moderating variable is profitability (Z), with financial stability (Y) as the dependent variable. The following table presents the regression estimation results using the fixed-effects model.

Table 4. Panel Data Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C (Constant)	2.780909	0.178959	15.53934	0.0000
CAR	0.056070	0.004428	12.66304	0.0000
NPF	-0.007132	0.013082	-0.545159	0.5860
ROA	-0.012692	0.009889	-1.283396	0.2003

Source: Data Processed 2026

From the table above, the regression analysis model equation can be formulated as follows: Y = 2.780909 + 0.056070 (CAR) - 0.007132 (X2) - 0.012692 (Z)

The constant coefficient value of 0.056070 indicates that when the independent variable in the model, including the CAR, is at zero or does not change, the level of financial stability is predicted to be 0.056070.

The constant coefficient shows a value of -0.007132, which indicates that when the independent variable, namely NPF, is at a certain unit value without the influence of other variables, the value of financial stability is estimated to be -0.007132.

The constant coefficient shows a value of -0.012692, which indicates that when the independent variable, namely profitability, is at a certain unit value without the influence of other variables, the financial stability value is estimated to be -0.012692.

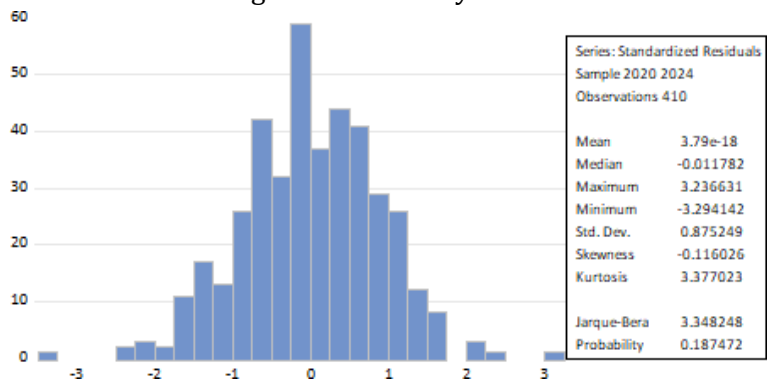
Classical Assumptions Test

The normality test is applied as one of the classical assumptions in regression to ensure that the model residuals follow a normal distribution. In addition, autocorrelation often appears in time series data because such data essentially presents a series of observations from the same entity over a certain period of time. The following classical assumption tests will be used in this study:

Normality Test

The normality test in this study was conducted using the Jarque-Bera method. The following presents the output of the normality test obtained through EViews software:

Figure 1. Normality Test



Source: Data Processed 2026

Based on these results, the data are declared to be normally distributed if the Jarque-Bera probability value exceeds the significance level of 0.05, thus accepting H0. Conversely, if the probability value is below 0.05, then H0 is rejected. From the normality test results, a

Jarque-Bera probability value of 0.187472 was obtained, which is greater than 0.05. Thus, it can be concluded that the data in this study are normally distributed.

Multicollinearity Test

Multicollinearity testing is conducted to determine whether there is a sufficiently strong correlation between independent variables in the regression model. An ideal regression model should not show a high linear relationship between independent variables. In this study, multicollinearity was analyzed using the VIF values. If the VIF exceeds 10, H0 is rejected, which means that multicollinearity occurs in the model. Conversely, if the VIF value is below 10, H0 is accepted, and it can be concluded that there is no multicollinearity between the independent variables.

Table 5. Multicollinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.032026	7.754907	NA
X1	1.96E-05	5.534728	1.023134
X2	0.000171	3.194083	1.066441
Z	9.78E-05	1.126615	1.088691

Source: Data Processed 2026

Based on the table above, the multicollinearity test results show that there is no indication of multicollinearity between independent variables. This can be seen from the VIF values, which are below 10, so it can be concluded that the multicollinearity assumption in the model has been fulfilled.

Heteroscedasticity Test

A heteroscedasticity test was conducted to determine whether the residuals in the regression model had constant variance or not. The results of the heteroscedasticity test are presented below.

Table 6. Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.099706	0.026444	3.770525	0.0002
CAR	0.000855	0.000666	1.283332	0.2003
NPF	0.001656	0.002007	0.825137	0.4099

Source: Data Processed 2026

The table shows that all probability values are above 0.05. Thus, it can be concluded that there are no signs of heteroscedasticity in the data and H0 is accepted.

Coefficient of Determination Test

The coefficient of determination test is used to assess the extent to which the model can explain the dependent variable. The R-squared value is an indicator that shows the level of contribution. In this study, the test was used to assess the extent to which the Capital Adequacy Ratio and Non-Performing Financing variables, as well as profitability as a moderating variable, can explain the variation in financial stability.

Table 7. Coefficient of Determination Test

R-squared	0.939170
Adjusted R-squared	0.923448

Source: Data Processed 2026

Based on the results of the table above, the adjusted R-squared value of 0.923448 shows that the variables of CAR and NPF, as well as profitability as a moderating variable, are able to explain the variable of financial stability very well, namely 93.9%. Meanwhile, the remaining 6.1% is influenced by other factors outside the variables studied in this research.

t-Test

The t-test was conducted to evaluate the magnitude of the effect of each independent variable independently (partially) on the dependent variable. The results of the t-test are as follows:

Table 8. t-Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.780909	0.178959	15.53934	0.0000
X1	0.056070	0.004428	12.66304	0.0000
X2	-0.007132	0.013082	-0.545159	0.5860

Source: Data Processed 2026

Based on the results of the regression model estimation, the CAR variable shows a coefficient of 0.056070 with a probability value of 0.0000 < 0.05, which means that CAR has a positive and significant effect on the financial stability of Islamic banks. This positive coefficient indicates that every one-unit increase in CAR will increase financial stability by 0.056070 points. This finding indicates that the higher the level of capital adequacy owned by a bank, the stronger the bank's ability to absorb potential losses and deal with financing risks, thereby maintaining its financial stability. From the perspective of financial stability theory, banks with higher capital adequacy levels have a greater ability to withstand shocks, absorb risks, maintain the sustainability of intermediation functions, increase resilience to financing volatility, strengthen customer confidence, and maintain smooth operations, thereby ultimately improving overall financial stability. The results of this study are in line with research conducted, which shows that CAR has a significant effect on financial stability.[30]

Based on the regression results, the NPF variable has a coefficient of -0.007132 with a probability value of 0.5860 > 0.05, indicating that NPF does not have a statistically significant effect on the financial stability of Islamic banks. The negative coefficient suggests that each one-unit increase in NPF tends to reduce financial stability by 0.007132 points, although the effect is not statistically significant. In the context of BPRS, which primarily focus on MSME financing and operate on a relatively small scale, the potential impact of rising NPF may be mitigated by close customer relationships, localized market knowledge, and internal risk management practices. Although theoretically higher NPF can weaken asset quality, reduce risk absorption capacity, and disrupt intermediation, these effects have

[30] Rustendi, "Pengaruh Kecukupan Modal Terhadap Stabilitas Keuangan Bank Perkreditan Rakyat."

not been proven significant in this study. The results are consistent with research conducted by Anggraini and Lasty.[31]

Moderate Regression Analysis

MRA is applied in regression to assess the extent to which moderating variables can influence both strengthening and weakening the relationship between independent and dependent variables. The decision criteria are that if the probability value is < 0.05, H0 is rejected, whereas if the probability value is > 0.05, H0 is accepted. The following is the panel data regression equation used in this study:

Table 9. Moderate Regression Analysis (MRA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.194705	0.157088	13.97119	0.0000
CAR*ROA	0.001408	0.000196	7.186572	0.0000
NPF*ROA	-0.001497	0.000418	-3.585264	0.0004

Source: Data Processed 2026

The moderation test results show that the interaction between CAR and ROA (CAR*ROA) has a t-statistic of 7.186572 with a probability of 0.0000, which is below 0.05. This finding confirms that ROA significantly moderates the relationship between CAR and financial stability in a positive direction. This indicates that higher profitability strengthens the role of capital adequacy in maintaining financial stability. In the context of BPRSS, which generally rely on core capital and have limited access to external funding sources, profitability becomes an important internal mechanism for strengthening capital. Higher ROA allows BPRSs to accumulate retained earnings, thereby reinforcing their capital buffer. As a result, capital adequacy can function more effectively in absorbing financing risks and maintaining operational sustainability. Thus, profitability not only supports performance but also supports capital management strategies that enhance the financial resilience of BPRS.

The interaction between NPF and ROA (NPF*ROA) produces a t-statistic value of -3.585264 with a probability of 0.0004, which is below 0.05. This finding indicates that in BPRS, profitability cannot replace effective financing risk management. Although higher ROA reflects stronger earnings, rising NPF continues to pressure financial stability through increased provisioning and potential capital erosion. Therefore, BPRS must strengthen risk mitigation policies by applying stricter creditworthiness assessments, improving post-disbursement monitoring, conducting timely restructuring of problematic financing, and maintaining adequate impairment allowances. These measures ensure that profitability supports, rather than conceals, underlying financing risks and helps safeguard long-term stability. Even though banks exhibit high profitability, elevated NPF continues to exert pressure on asset quality and may disrupt financial stability. The inability of ROA to moderate this relationship suggests that profitability in BPRSs does not fully reflect strong

[31] Fitri Anggraini, Taufik, Muizzuddin Muizzuddin, And Isni Andriana, "Analisis Stabilitas Perbankan; Lasty Agustuty, Andi Rifqqah Purnama Alam, Afriyani Afriyani, Nurfatwa Andriani Yasin, And Hariyanti Hariyanti "The Influence Of Financial Performance On The Stability Of Islamic Banks In Indonesia" 8, no. 2 (2025): 119.

risk management or sustainable earnings. Under high financing risk, profit growth may be accompanied by increased exposure to default risk, so profitability does not function as an effective buffer against instability. This finding aligns with financial stability theory, which explains that the role of profitability depends on the structure and sustainability of risk-taking.

Conclusion

Based on the results of the study, it shows that partially, the CAR has a significant effect on the financial stability of BPRS, where every change in CAR, whether an increase or decrease, directly affects the level of financial stability, because a higher CAR reflects the stronger ability of BPRS to bear risks and maintain financial resilience. Meanwhile, NPF is not proven to have a significant effect on the financial stability of BPRS, as indicated by a probability value above 0.05, so that changes in the level of NPF have not had a significant impact, even though the direction of the relationship is negative. Furthermore, CAR moderated by ROA has been proven to have a positive and significant effect on financial stability, indicating that a combination of strong capital and high profitability can improve BPRS's ability to withstand risk, maintain intermediation functions, and strengthen overall financial resilience.

Conversely, NPF moderated by ROA has a negative and significant effect on financial stability, indicating that under high NPF conditions, increased profitability is not sufficient to mitigate financing risk. This condition limits the ability of BPRSs to absorb losses, maintain asset quality, and perform their intermediary function, thereby reducing financial stability. This study has several limitations, particularly in terms of the observation period and the limited variables used in the model. The analysis does not include other potential determinants such as liquidity, operational efficiency, or risk management quality. Therefore, future research is recommended to incorporate additional variables and extend the observation period to obtain a more comprehensive understanding of the financial stability of BPRS.

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Author Contributions Statement

AR was responsible for writing the manuscript and analyzing the data. RA assisted in analyzing and interpreting the data. UK gave permission and supported the research by guiding AR and RA. All three authors collaborated closely in developing the discussion, validating the results, and critically revising the manuscript to improve its quality and academic clarity. All authors contributed substantially to the reported work, approved the final version of the paper, and agreed to be accountable for all aspects of the research.

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