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Determinants of Capital Structure: Analysis of the Islamic Banking Industry in the ASEAN Region

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Abstract

This study aims to evaluate the factors that influence the capital structure of the Islamic banking industry in the ASEAN region using the trade-off theory as a basis for decision-making. In trade-off theory, book leverage can proxy capital structure as the dependent variable and bank-specific factors, including profitability, earnings volatility, bank size, asset growth, asset structure, and bank age, as independent variables. In addition, it also considers macroeconomic conditions, which are manifested in the gross domestic product and the inflation rate. The study results show that total assets can affect the level of debt because fixed assets can be used as collateral when the bank takes on debt. While other factors do not have a significant effect on the debt level of Islamic banks. These results are the first empirical study to explore the determinants of the capital structure of Islamic banks in the ASEAN region with different variables from previous research and updated sample data, namely the 2016-2020 period.

Keywords: *ASEAN; bank-specific factors; capital structure; Islamic bank*

INTRODUCTION

The majority of empirical studies in various countries have explored the determinants of capital structure banks use variables similar to those used for non-financial companies, such as profitability, income volatility, tangibility, growth, and bank size, which has been determined for non-financial companies in developing and developed countries (Sheikh & Qureshi, 2017). Banks act

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as financial intermediaries that channel funds from households (in the form of deposits) and distribute those funds to investors and borrowers. Countries primarily focus on improving the banking sector and financial intermediaries to develop the financial sector to achieve economic growth. This is proven based on the Islamic Finance Development Report (2021) that Islamic banking assets grew by 14%, or USD 1.99 trillion; this makes Islamic banking the main contributor to global Islamic finance. Along with this growth, the banking sector requires capital or funding sources that are getting bigger to face global competition; this shows that the bank's funding decision-making in the form of the composition of the capital structure from internal and external sources is very important for banks. Capital acts as a buffer in absorbing various losses or risks that exist in the company. Sheikh & Qureshi (2017) state that when the firm value is maximum, and the overall cost of capital is low, it can be said that the capital structure (debt and equity composition) of the company is optimal.

Although research on the capital structure has been quite a lot, until now, there is no specific method for management to build an optimal capital structure for the company. However, Al-hunnayan (2020) suggests observing the capital structure of Islamic banks in areas experiencing the development of Islamic banking. According to *Islamic Finance Development Report* (2021), Southeast Asia is the third region with the most significant Islamic banking assets globally. Indonesian and Malaysian Islamic banking assets dominate Islamic banking assets in Southeast Asia. According to the Global Islamic Economic Report, Malaysia has had the best Islamic financial system for eight consecutive times. Indonesia and Malaysia, along with eight other Southeast Asian countries, such as Brunei Darussalam, Singapore, Cambodia, Philippines, Thailand, Vietnam, Laos, and Myanmar, are members of the cooperative organization, ASEAN (Association of Southeast Asian Nations) in the economic and geopolitical fields. The existence of this cooperative organization opens up great opportunities for the Islamic banking industry sector in these countries to continue to develop and compete globally.

The observations regarding the capital structure proxied by book leverage on Islamic banks for the 2016-2020 period in the ASEAN Region are in Figure 1. It shows that the average book leverage is quite volatile between countries;

this illustrates the differences in management policies regulating the composition of equity and debt. Islamic banks in Indonesia have lower book leverage, while Thai Islamic banks have higher book leverage than other countries in the ASEAN Region. Meanwhile, Islamic banks in Malaysia and Brunei Darussalam have relatively stable book leverage. Islamic banks in the Philippines have book coverage that increases yearly. The higher the level of book leverage indicates that the greater the assets financed using external funding sources or debt, the greater the company's risk of default.

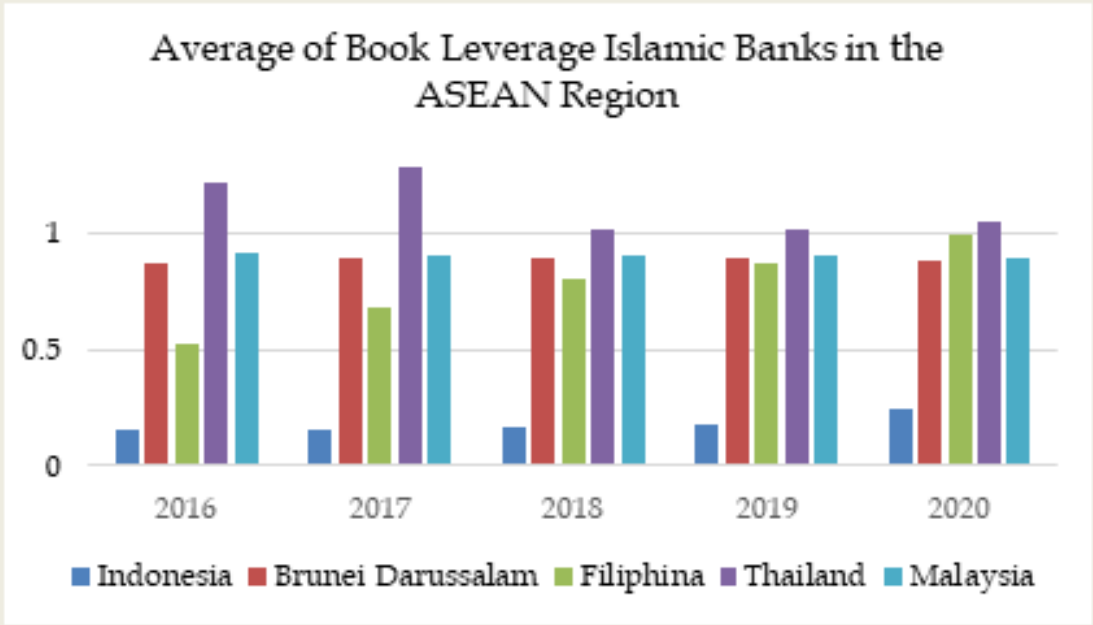

Figure 1.
Average of Book Leverage Islamic Banks in the ASEAN Region
Source: data processed 2022

In previous empirical studies (Al-hunnayan, 2020; Kyissima *et al.,* 2020; Sarwar *et al.,* 2020; Khan *et al.,* 2019; Indriani *et al.,* 2017; Sheikh & Qureshi, 2017) the paper uses the generalized least square (GLS, both in financial and non-financial companies, the researchers found various internal and external factors that influence the company's decisions in determining its capital structure. In this study, we have tested the effect of profitability, earnings volatility, bank size, asset structure, asset growth, and bank age on capital structure proxied by

book leverage. In addition, it also pays attention to macroeconomic conditions manifested through the gross domestic product (GDP) and inflation rates to find out how they affect the Islamic banking industry sector in the ASEAN Region. Finally, this study reports mixed findings.

On the other hand, in Southeast Asia, research on factors that influence the capital structure decisions of Islamic banks is only found in one study, namely Indriani *et al.* (2017), which found that profitability had an insignificant negative effect; asset structure and current ratio have a negative effect; bank size has a positive effect on debt-to-equity ratio as a proxy for capital structure. Based on these phenomena and research gaps, the authors are interested in identifying internal factors that influence capital structure by considering external factors. At the same time, this research is the first empirical study to investigate the capital structure of Islamic banks in the ASEAN region with different variables and with more recent data than previous research, data for the 2016-2020 period.

LITERATUR REVIEW

Capital Structure

Capital structure is an essential element in business management because capital can determine the good and bad prospects in the future. Capital structure is a mixture of debt and equity used to finance assets in a company (Shah *et al.,* 2017). In this study, the ratio of total liabilities to total assets was chosen to proxy the capital structure (Khan *et al.,* 2019; Sheikh & Qureshi, 2017). The optimal capital structure for the company can maximize the company's value and minimize the overall cost of capital (Sheikh & Qureshi, 2017). In achieving the optimal capital structure, the company will be careful in choosing the most optimal one. In trade-off theory, companies with high profitability will increase the amount of debt to reduce taxes, and the addition of debt will reduce taxes.

Meanwhile, according to the pecking order theory, the capital structure composition decision pays attention to the hierarchy. First, the company will use retained earnings, this is chosen because internal funding sources have the least risk among other funding options. If retained earnings are insufficient, then the

second option that can choose is to issue shares, and the last is external funding in the form of debt. This hierarchy is based on the assumption of easier administrative processes and efforts to reduce the impact of financial risk on equity holders. In addition to information asymmetry, external parties demand higher returns as a risk guarantee. A larger debt composition without promising business prospects will increase the company's risk. So, this will undoubtedly be a threat, such as insolvency conditions, rising interest rates, and the risk of financial distress.

Profitability

Profitability is used to analyze or measure the level of business efficiency and profitability achieved by a bank. Banking performance in running its business can be seen from the profits derived from the activities carried out (Notoatmojo, 2018). Efficiency can be known by comparing the profits obtained with the assets or capital that generate these profits. In world financial measurement it is known as profitability which is measured using the return on assets (ROA) (Akbar, 2019). ROA is measured by the ratio of net income to assets, the better the productivity of assets in obtaining net income, the ROA will increase. The pecking order theory predicts that profitability is negatively related to leverage. The company used internal funds in retained earnings to finance its operational activities, and debt is an option after the company seeks internal funding. Previous research, Al-hunnayan (2020) on Islamic banks in the GCC Region, Khan et al. (2019) in Saudi Arabia, and Sheikh & Qureshi (2017) on conventional commercial banks and Islamic banks in Pakistan show evidence that leverage has a negative relationship with profitability.

Meanwhile, in the trade-off theory, companies with high levels of profitability will try to increase their debt ratio so that the additional debt will reduce taxes. In other words, the trade-off theory predicts a positive relationship between profitability and leverage, as the result of research by Muhammad & Azmiana (2021) in Asian and European Islamic banking. H1 hypothesizes that profitability has a positive effect on book leverage.

Earnings Volatility

A company with relatively stable profits will obtain more significant debt and incur high fixed expenses compared to a company with unstable income (Brigham & Houston, 2018). Less stable company profits can show higher bankruptcy costs and risks so that the company will reduce its debt level. In addition, the trade-off theory also predicts a negative relationship. Thus, companies with stable incomes have higher debt levels, because they can pay their debts on time and benefit from tax protection. Meanwhile, Sheikh & Qureshi (2017) prove that earnings volatility positively affects bank leverage in Pakistan; this can happen because companies face high business risks, they will increase debt and try to maximize the benefits of tax shields. In this study, earnings volatility is the ratio (earnings before tax - profit before tax-1)/earnings before tax-1 (Sheikh & Qureshi, 2017). H2 hypothesizes that earnings volatility has a positive effect on book leverage.

Bank Size

The bank size in this study is defined by the natural logarithm of total assets (Panda & Nanda, 2020) pecking order theory, agency theory, and theory of free cash flow. The increase in bank assets, followed by an increase in operating results, will further increase public confidence in saving their funds in the bank and increase the attractiveness of investors to invest their funds in the company (Wahdati & Santoso, 2017). This is consistent with the prediction of the trade-off theory that the greater the assets owned by the company, the more likely it is that the company will increase its leverage. Large companies will tend to be in more debt than smaller companies because large companies have easy access to the capital market. In addition, larger Islamic banks have lower bankruptcy costs because Islamic banks must run their business according to sharia principles, which has implications for a diversified portfolio, and investment risk tends to be low (Bukair, 2019). However, it is different from the empirical study by Muhammad & Azmiana (2021) which shows that size has a negative effect on the capital structure of Asian and European Islamic banks. H3 hypothesizes that bank size has a positive effect on book leverage.

Asset Growth

With the higher value of asset growth, the company has a higher growth opportunity, thus requiring more outstanding capital. According to the pecking order theory, companies with high growth rates generally have higher leverage levels, resulting in investment opportunities exceeding the company's retained earnings. In addition, Bukair (2019) predicts that the growth of Islamic bank assets is negatively related to the leverage ratio for two reasons. First is predicting a financial crisis that exceeds the company's growth possibility, pushing the management to minimize the leverage. Second, in general, based on the economic crisis, Islamic banks have suffered losses that have resulted in reduced tangible assets and decreased assets as collateral in obtaining debt; finally, the leverage ratio of Islamic banks is lower. This study measured growth by the ratio (total assets - total assets-1)/total assets-1 (Abdulla, 2017; Al-hunnayan, 2020; Muhammad & Azmiana, 2021). H4 hypothesizes that asset growth has a negative effect on book leverage.

Assets Structure

Company assets are classified into tangible assets and intangible assets. Asset structure is measured by the ratio of tangible assets to total company assets (Al-hunnayan, 2020; Neves *et al.,* 2020; Abdulla, 2017). In trade-off theory, asset structure is one of the crucial variables in determining a company's funding decisions because tangible assets are helpful as collateral. If the company fails to fulfill its leverage, the tangible assets are helpful to pay off the debt, and the borrowing company is safe from bankruptcy. Therefore, companies with larger tangible assets are expected to have lower risk, so the asset structure ratio has a positive relationship with debt. In addition, the pecking order theory states that information asymmetry will tend to decrease along with the increase in tangible assets owned by the company, because tangible assets can be used as collateral. Consistent with this, Shah *et al.* (2017), found that asset structure is positively related to leverage of Islamic banks in Pakistan. However, in contrast to Khan *et al.* (2019) which finds that asset structure is negatively related to leverage in Saudi Arabian commercial banks. H5 hypothesizes that asset structure has a positive effect on book leverage.

Bank Age

Bank age is the years since it started a business based on sharia principles (Bukair, 2019; Neves *et al.,* 2020). In business continuity, the company will experience a life cycle, starting with establishment, expansion, high growth, maturity, and decline. The company's age is one of the criteria for reputation in the capital structure, so the increasing age of the company shows that the business is run sustainable and leads to a reduction in information asymmetry (Bukair, 2019). Companies with a lower level of information asymmetry will have a greater chance of obtaining debt. Therefore, the firm's age is positively related to the level of firm leverage. In addition, according to the trade-off theory, at a more mature age, the company will have more debt to finance its projects. According to the pecking order theory, more mature companies tend to have more accumulated income (retained earnings), so companies will prioritize retained earnings to finance their operational activities. That encourages companies to reduce their debts as the company ages. H6 hypothesizes that bank age has a positive effect on the book leverage.

The results of previous studies found different relationships between capital structure and bank-specific factors. However, several studies have found that bank-specific factors simultaneously affect the capital structure (Dilla, 2020; Nasrah & Resni, 2020). Therefore, this research also examines the simultaneous effect of bank-specific factors on capital structure. H7 hypothesizes that profitability, earnings volatility, asset structure, total asset growth, bank size, and bank age significantly affect the book leverage of Islamic banks in the ASEAN Region.

Besides bank-specific factors, this study used the macroeconomic factors such as Gross Domestic Product (GDP) and inflation rates as external factors in examining banks and capital structure, as in previous studies (Al-hunnayan, 2020; Smaoui *et al.,* 2019; Hoque & Pour, 2018). GDP is measured by the annual gross domestic product growth percentage based on market prices (Bukair, 2019; Khan *et al.,* 2019) In addition, the GDP growth can increase welfare in a country and provide promising investment opportunities. Meanwhile, inflation is proxied by the percentage of annual inflation growth as measured by the consumer price index method (Saif-Alyousfi *et al.,* 2020; Chow *et al.,* 2018; Hoque & Pour, 2018). The higher inflation rate causes the central bank to intervene by increasing interest

rates, thus encouraging companies to take on less debt and use equity funding (Bitar *et al.*, 2017).

Based on the theory and hypothesis above, the research model can be described as follows. The continuous line shows that the independent variable (bank-specific factors) influences the dependent variable (capital structure), and the dotted line shows the control variable to neutralize the research results.

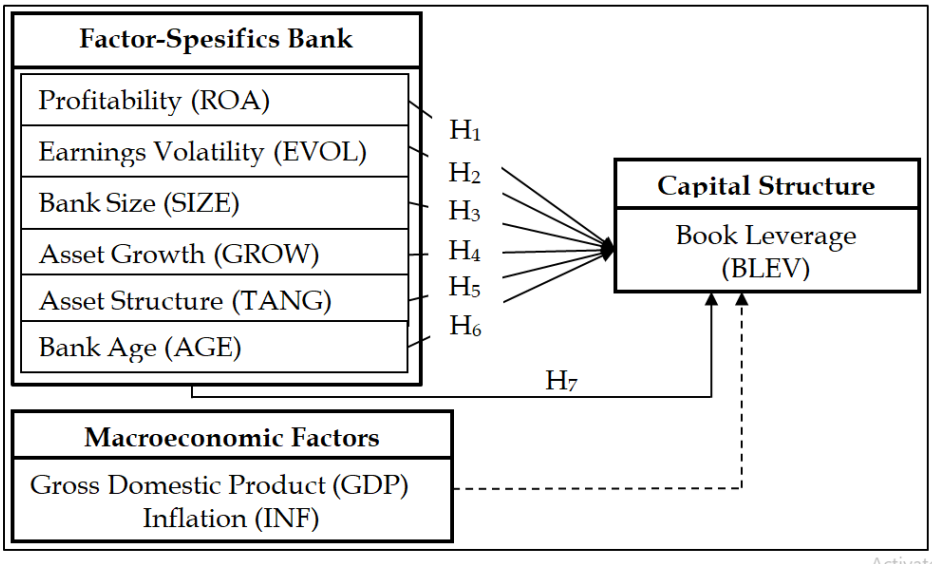

Figure 2.
Research Model

RESEARCH METHOD

The population of this study is Islamic banks in the ASEAN Region for 2016-2020. The samples were determined by random sampling technique and obtained 17 Islamic banks as a sample. Finally, formed the observation data of 85 balanced panel data. The data from the annual financial statements of Islamic banks are published on the official website of each bank to estimate the relationship between book leverage as a dependent variable and bank-specific factors as dependent variables. The data on macroeconomic indicators (GDP

and inflation rate) was obtained from the world bank data. Panel data regression analysis uses three models [(common effects (CEM), fixed effects (FEM), and random effects (REM)] to estimate the best relationship between the independent and dependent variables.

RESULT AND DISCUSSION

Result

Table 1 summarises descriptive statistics for all variables in this study. From the table, it can be seen that 64% of ASEAN Islamic bank assets are funded using debt, this is indicated by the mean BLEV value of 0,649. The average profitability is -0,18% and the volatility is -4,1%; the average bank size is 21,33; average asset growth is 4,9%; the proportion of fixed assets is 1,01% of total bank assets. ASEAN Islamic banks are 17 years old on average. In the research period, the GDP growth and inflation rate in the ASEAN Region were 2,9% and 1,8%, respectively.

Table 1
Statistic Descriptive of The Data

Var.	Obs.	Mean	Median	Max.	Min.	Std. dev.
BLEV	85	0.649257	0.887834	1.279090	0.083980	0.362557
ROA	85	-0.001810	0.004993	0.019175	-0.123914	0.026530
EVOL	85	-0.041181	0.058757	2.156250	-5.842527	0.918596
SIZE	85	21.335203	21.603605	23.796636	16.353696	1.698408
GROW	85	0.049869	0.053928	0.330177	-0.238065	0.126637
TANG	85	0.010168	0.003089	0.061949	1.37E-05	0.015177
AGE	85	17.294118	13.000000	46.000000	5.000000	10.268796
GDP	85	2.920691	4.769927	7.149457	-9.573030	3.947482
INF	85	1.895535	2.090567	5.211605	-1.260506	1.652116

In the common-effect model (CEM) and fixed-effect model (FEM) using the OLS approach, the normality test is not carried out but must be carried out in the GLS approach or in this case, the random effects model. In addition, the

autocorrelation test in the panel data regression analysis was also not carried out, this is because the cross-section is more representative of panel data. After being analyzed using the statistical tool EViews version 12, the best regression equation in this study is the fixed effect model. Therefore, the classical assumption test in this study was only the heteroscedasticity test (Table 2) and the multicollinearity test (Table 3).

Table 2

Heteroscedastisity Test

HT: Glejser			
Null hp.: Homoskedasticity			
F-stat.	0.663503	Probability F (8,76)	0.7218
Obs*R-square	5.549048	Probability chi square (8)	0.6976
Scaled Explained SS	4.962286	Probability chi square (8)	0.7616

Table 3

Multicollinearity Test

	ROA	EVOL	SIZE	GROW	TANG	AGE	GDP	INF
ROA	1,000							
EVOL	0,0735	1,000						
SIZE	0,7106	-0,0703	1,000					
GROW	0,2310	0,1190	0,1322	1,000				
TANG	-0,1630	-0,0176	-0,2173	-0,2148	1,000			
AGE	-0,6419	-0,0426	-0,3169	-0,2235	0,4470	1,000		
GDP	0,0802	0,3620	-0,1014	0,1184	-0,0109	-0,0703	1,000	
INF	-0,0691	0,2312	-0,3694	0,2866	0,3023	0,0225	0,6327	1,000

Based on the results of the above heteroscedasticity test conducted with the Glejser test, the chi-square probability is 0,6976 (0,6976 > 5%), which means that in this regression model there is no heteroscedasticity problem. A multicollinearity

test was carried out to detect the correlation level of each independent variable in the study. The results showed that the correlation value of each independent variable was less than 0.85, which means that the dependent variable in this study was safe from multicollinearity. Therefore, based on the classical assumption test results above, the regression equation obtained has estimation accuracy, is unbiased, and is consistent.

Based on the analysis carried out to test between CEM, FEM, or REM as the good fit model, FEM is obtained as the good-fit model with an adjusted R-square value of 0,98. The regression equation from the fixed-effect model as the best model estimate is:

Table 4

Fixed Effects Model (FEM)

Var.	Coeff.	Std. Error	t-stat.	Prob.
Constant	-0.245768	0.902395	-0.272351	0.7863
ROA	-4.245389	0.742698	-5.716172	0.0000*
EVOL	0.020845	0.006050	3.445564	0.0010*
SIZE	0.037882	0.044589	0.849571	0.3989
GROW	-0.007615	0.052679	-0.144561	0.8855
TANG	4.757470	1.342788	3.540917	0.0008*
AGE	0.001117	0.005841	0.191202	0.8490
GDP	-0.002994	0.001996	-1.499855	0.1389
INF	0.011317	0.005635	2.008380	0.0491**
Effects Spec.				
Cross-section fixed (dummy variables)				
R^2	0.990934	Mean dep. var		0.649257
Adj. R^2	0.987307	S.D. dep. var		0.362557
S.E of reg.	0.040846	AIC		-3.318073
RSS	0.100105	Sch warz criterion		-2.599646
Log likelihood	166.0181	Hannan-Quin criter.		-3.029102
F-stat.	273.2493	DW stat		1.920828
Prob. (F-stat.)	0.00000	*, ** : Signifikan $\alpha < 1\%$, $\alpha < 5\%$		

Discussion

Profitability and Capital Structure

The results showed that the t value of ROA was -0,571 (p = 0,000) meaning that profitability was not significantly negatively related to capital structure; this indicates that this study rejects hypothesis H1. These results indicate that Islamic banks have not been able to generate profits from their activities, indirectly showing the ineffectiveness of the performance of Islamic banks on average in the ASEAN region. These results follow previous research by Al-hunnayan (2020); Khan *et al.* (2019); Sheikh & Qureshi (2017) that profitability is negatively related to firm leverage. The company will use internal funding sources (retained earnings) to finance the company's activities in the future. Moreover, if the profitability is more significant, it will increase retained earnings and minimize the company's dependence on external funding. External funding sources tend to be associated with information asymmetry and agency costs; this makes external funding sources a long, complicated, and relatively expensive process for companies. However, this result contrast with Muhammad & Azmiana (2021) the paper uses the generalized least square (GLS; Bukair (2019); and the trade-off theory that firms with significant profitability prefer to use external sources rather than equity.

Earnings Volatility and Capital Structure

The results showed that the t value of EVOL was 3,445 (p = 0,001), meaning that earnings volatility had a positive and significant relationship to capital structure, so this study rejected the H2 hypothesis. These results support the study of Khan *et al.* (2019); Sheikh & Qureshi (2017). This positive relationship occurs due to volatile interest rates and the conditions of the political environment, which can affect bank profitability and volatility (Sheikh & Qureshi, 2017). In addition, the projection that the company will have better earnings in the future can encourage the company to increase its debt; this is in line with tangible assets that are useful as collateral so that companies dare to take debt. However, this result contrast with the trade-off theory that more volatile earnings imply higher bankruptcy costs, thus pushing firms toward less leverage.

Bank Size and Capital Structure

The results showed that the t value of SIZE was 0,849 (p = 0,398), meaning that bank size is positively related, and has no significant effect; this indicates that this study rejects the H3 hypothesis. This result is in line with Wahdati & Santoso (2017), who states that bank size is positively insignificant to the capital structure. In addition, positive results are also in line with Al-hunnayan (2020); Sheikh & Qureshi (2017); Tin & Diaz (2017)because they play a key role as financial catalysts in the growing economy of Vietnam. The analysis employs multiple linear panel regression models, namely, Ordinary Least Squares (OLS. In general, organizations or individuals will deposit their funds in large banks, because large banks are more established and can manage risk well, so they have the opportunity to get high profitability. That can attract depositors or investors to invest their funds in banks with significant asset holdings. In addition, small banks tend to have a limited branch network and have more expensive transaction fees, while banks with many branch networks will have lower transaction costs (Sheikh & Qureshi, 2017). Therefore, investors prefer to save their funds in large banks.

Asset Growth and Capital Structure

The result showed that the t value of GROW was -0,144 (p = 0,885), meaning that growth is negatively insignificant related to capital structure, indicating that this study rejects the H3 hypothesis. This result is in line with Nasrah & Resni (2020) research that the growth of banks' assets has an insignificant negative effect on leverage. This negative effect indicates that bankruptcy costs and agency costs will increase with high growth rates, thus pressing the company not to increase its debt.

Asset Structure and Capital Structure

The result showed that the t value of TANG was 3,540 (p = 0,0008), meaning that the asset structure is positively significant to the capital structure, so H5 is accepted. These results prove that companies can use tangible assets as collateral in obtaining debt. This finding also proves that the existence of tangible assets will reduce information asymmetry in the company, thus encouraging bondholders

to provide funds as predicted by the pecking order theory. Empirical evidence also finds that asset structure positively relates to leverage (Guizani, 2021 Bukair, 2019; Shah *et al.*, 2017). However, Khan *et al.* (2019) on commercial banks in Saudi Arabia showed a negative effect between tangibility and leverage.

Bank Age and Capital Structure

The result showed that the t value of AGE was 0,191 (p = 0,849); these results indicate that bank age is positive and insignificantly related to capital structure, so H6 is rejected. The result implies that more mature companies use more debt than younger companies. This result is consistent with Bukair (2019) that the company's age is one of the criteria for reputation standards. The increasing age of the company shows a better reputation, and the business runs sustainably, reducing information asymmetry. Finally, the company will be more accessible for companies to gain investor trust and gain more funding sources from debt. However, these findings contrast with Neves *et al.* (2020), which state that companies that have been around for longer or older have a higher level of income accumulation, so companies do not need to use large debt as a funding source.

Table 4 also shows that the macroeconomic factor, GDP has a negative insignificant on capital structure, as found by Saif-Alyousfi *et al.* (2020). The negative relationship shows that along with increasing GDP growth, company profits will also increase so that the company's internal funding sources increase and the company does not increase its debt. When economic growth increases, the company will have sufficient capital from internal sources, by the pecking order theory that companies will choose to use internal sources of funds (retained earnings and current year profits) first compared to debt so that the level of leverage will decrease as the economy improves. In addition, when the gross domestic product increases, it will affect interest rates, which also tend to rise. Along with increasing interest rates, the cost of obtaining debt issued by banks will also increase, so companies tend to hold back from increasing the debt. That way, when the debt level decreases and the bank's assets' book value is fixed, the bank's book leverage ratio increases.

Meanwhile, the inflation rate significantly positively affects the capital structure. That shows that the higher the inflation growth rate, the company will add funding sources through debt. These findings support the result of Khemiri & Noubbigh (2018), which states that it can be associated with a tax shield that will increase during inflation.

CONCLUSION

Theoretically, this study contributes to developing the trade-off and pecking orders theory. The findings show that bank size, total asset growth, asset structure, and bank age show the direction of the relationship as expressed based on the trade-off theory. While profitability, as stated in the pecking order theory, is negatively related to capital structure, Islamic banks in the ASEAN region use retained earnings as the primary funding source so that bank debt decreases when the profitability ratio increases.

In addition, based on the study results, the management needs to pay attention to its tangible assets. Islamic banks with more significant tangible assets will have a lower risk of failure because tangible assets can be used as a warranty to get more significant debt. If the company fails to fulfil its leverage, the assets can help pay off these obligations, and the company can avoid bankruptcy. Therefore, the authors suggest that if Islamic banks hope to obtain more significant external funding to fund their activities, they must increase their tangible assets. Overall, bank-specific factors affect the capital structure, so Islamic bank management in the ASEAN region is expected to review the sources of funding, both internal and external, as well as improve bank performance so that it can compete globally and obtain an optimal composition of capital structure for the bank concerned.

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