Studi Akuntansi, Keuangan, dan Manajemen
ISSN 2798-0251 , Vol 4, No 2, 2025, 355-364 https://doi.org/10.35912/sakman.v4i2.3786

Liquidity as Mediation of DER and DAR on NPM in LQ45 for the 2019-2023 Period

Fitria Ramadhani[1*], Firdaus Firdaus[2], Nurhayati Nurhayati [3]
Universitas Muhammadiyah Semarang, Jawa Tengah, Indonesia[1,2,3]
Fitriaramadhani640@gmail.com[1], fir@unimus.ac.id[2], nurhayati@unimus.ac.id[3]*

Riwayat Artikel
Received on 16 Novermber 2024
1st Revision 10 December 2024
2nd Revision 12 December2024
3rd Revision 16 December 2024
Accepted on 18 December 2024

Abstract
Purpose: The aim of this research is to study how the liquidity ratio functions as a mediating variable in the relationship between Debt to Equity Ratio (DER) and debt to asset ratio (DAR) to net profit margin (NPM) in LQ45 companies listed on the IDX during the 2019-2023.
Methodology: The quantitative method used in this research uses data from company financial reports for five years. To select samples, purposive sampling technique was used. The influence of direct and indirect variables is evaluated through data analysis using Modeling Equation Structural-Partial Least Squares (SEM-PLS).
Results: Research shows that DER has a positive and significant influence on NPM and liquidity ratios, while DAR has a negative influence on both. The liquidity ratio functions as a positive mediation between DER and NPM, but only affects NPM directly.
Conclusions: The research findings indicate that Return on Equity (ROE) significantly and positively influences the prediction of financial distress in Islamic banking in Indonesia. Conversely, Capital to Total Deposit (CTD) shows a significant negative effect, suggesting that a higher CTD ratio reduces the likelihood of financial distress. Meanwhile, the Loan to Total Asset (LTA) ratio, although showing some influence, does not have a statistically significant effect on predicting financial distress.
Limitations: This study has a limited sample size and observation period. Therefore, the findings do not fully reflect conditions or trends not included in the sample.
Contribution: This research provides opportunities for further studies with other mediating variables to understand more deeply the financial dynamics of companies in the Indonesian capital market and provide an important contribution to capital structure management in an effort to increase company profitability and liquidity.

Keywords: *Debt to Assets Ratio, Debt to Equity Ratio, Liquidity Ratio, Net Profit Margin*

How to cite: Ramadhani, F., Firdaus, F., Nurhayati, N. (2025). Liquidity as Mediation of DER and DAR on NPM in LQ45 for the 2019-2023 period. *Studi Akuntansi, Keuangan, dan Manajemen*, 4(2), 355-364.

1. Introduction

The Indonesia Stock Exchange (BEI) is forum to 45 businesses with strong market capitalization and liquidity that are included in the LQ45 stock market index. These companies are selected based on liquidity, market capitalization, and financial fundamentals, which makes them an excellent representation of the Indonesian stock market. Businesses listed on the Indonesia Stock Exchange's (BEI) LQ45 index have a lot of liquidity. Significant market capitalization and relatively stable financial performance. However, maintaining high profitability remains a major problem amidst market changes and global economic uncertainty (Ginting, 2018). The 2019-2023 period will be filled with challenges and opportunities for LQ45 companies.

During this period, LQ45 companies faced various economic dynamics, such as the global economic slowdown, political uncertainty, and the consequences of the COVID-19 epidemic, which caused global business processes to be disrupted. To survive and remain competitive in today's market, businesses must remain financially stable and liquidity. Due to current pressures, debt and asset management strategies are very important because wrong financial decisions can threaten business continuity (Yanto & Frymaruwah, 2022).

An important analytical tool used to assess the performance and financial health of an organization is financial ratios (Yuliyansa & Sisdianto, 2024). In such circumstances, liquidity ratios, the debt-to-equity ratio (DER), the debt-to-asset ratio (DAR), and net profit margin (NPM) are the primary metrics used to evaluate a company's capacity to manage financial resources and turn a profit.

Net Profit Margin measures a company's profit from sales. A low profit margin indicates higher risk, while a high margin indicates a large profit from sales. However, this ratio cannot be used as the sole measure of a company's success because it does not consider overall sales result (Anggriani & Hasanah, 2017). Business success is also determined by the amount of capital used to generate profits. Operating profit is important because it shows success in purchasing, production, and sales. Changes in operating profit from year to year are influenced by various factors, such as sales levels, cost of goods soldas well as operating expenses. Net profit is measured by the net profit margin and if it is lower than the industry average, this could be caused by a lower selling price or a higher cost of goods sold compared to competitors (Sari, 2021). Research conducted by Khairunnisa, Saputra, and Setiawati (2024) shows that Net Profit Margin (NPM) is significantly influenced by the liquidity ratio, which is measured by the Current Ratio. This is not in line with research conducted by Stema (2019) demonstrating that, at least in part, the current ratio has no discernible impact on net profit margin (NPM).

The comparison between debt and equity is known as the Debt to Equity Ratio. Own capital can come from retained earnings (retained earnings) or company ownership. On the other hand, the debt referred to is long-term and short-term debt. Decisions about the type and amount of funding to be used by the company are included in the company's debt policy. This policy determines the total amount of ordinary shares, preferred shares, long-term debt, and permanent short-term debt (Anggriani & Hasanah, 2017). Previous research, Anggriani and Hasanah (2017) the Debt to Equity Ratio (DER) has a big impact on NPM. However, on the contrary, according to Stema (2019) it shows that Net Profit Margin (NPM) is not significantly influenced by the Debt to Equity Ratio (DER).

DAR (Debt to Asset Ratio), according to by Fadli (2018) the debt ratio is a measure of the comparison between total debt and total assetsThus, this ratio indicates the significant portion of funds derived from both short-term and long-term debt. Due to the higher level of security, creditors prefer a lower debt to total assets ratio or debt ratio. According to research results by Lumbantobing, Adwimurti, and Selfiani (2023) it shows that Net Profit Margin (NPM) is significantly influenced by the Debt to Total Asset Ratio (DAR). This contradicts study by Fadli (2018) which found that the debt to total asset ratio (DAR) had no discernible impact on net profit margin (NPM).

The success or failure of a company in marketing products and services in a way that maximizes profits is the key to the company's success. The more profits a company makes, the greater its ability to cover its liquidity level. According to Stema (2019) the ability of a business to pay its short-term debts on time is known as liquidity. The business is in liquid state if it can meet its financial obligations. Previous research Sari (2021) shows that liquidity has a significant impact on profitability. However, according to research. Hantono (2020) the study's findings demonstrate that there is no discernible relationship between the current ratio and net profit margin (NPM).

In this research, the liquidity ratio is proposed as a mediating variable that can influence the relationship between DER, DAR, and NPM. This hypothesis is based on the idea that good liquidity can help a company manage its debt and assets more effectively, thereby increasing its profitability. In other words, companies that have a high liquidity ratio may be better able to face financial risks and generate better profit margins (Suratminingsih, 2018). Based on the above, it shows that for the 2019-2023

period, LQ45 company research shows the relationship between financial components and how they influence company performance. During this period, businesses that are able to manage assets and debt well and maintain healthy liquidity tend to be better able to face market challenges and generate better profit margins. Therefore, to understand the financial dynamics that influence company performance on the Indonesian stock market, it is very important to conduct an analysis of DER, DAR, liquidity ratios, and NPM in the context of LQ45 companies during this period.

2. Literature Review

2.1 Debt to Equity Ratio (DER)

According to to Anggriani and Hasanah (2017) states that the Debt to Equity Ratio is a comparison between a company's debt and its own capital. The higher this ratio, the less equity capital is compared to debt. Hantono (2020) says that the debt to equity ratio is a measure of how well own capital guarantees all debt. In other words, it is the ratio between outside funds and company owner funds. Stema (2019) states that DER is a ratio that can be used to determine how much loan funds will be used to finance business assets. According to Syamsuddin (2009) DER is a ratio that can illustrate the connection between the quantity of capital contributed by the business owner and the amount of loans issued by creditors. The following is one way to formulate this ratio (Siringoringo, 2020):

$$Debt\ to\ Equity\ Ratio\ (\text{DER}) = \frac{Total\ Debt}{Equity} \text{ x } 100\%$$

2.2 Debt to Assets Ratio (DAR)

The debt-to-asset ratio, or DAR, indicates how much of the company's funding comes from debt and how well it can pay its debts with its available assets (Andhani, 2019). The amount of debt utilized to finance assets is determined by this ratio. The greater the ratio, the more debt is used to finance the assets, and the higher the company's risk. This ratio displays the amount of money used for debt repayment or the number of assets utilized to secure debt. Both current and long-term debt are included in total debt (Yulsiati, 2016). Debt to Asset Ratio (DAR) is a debt ratio that shows how much a company's debt affects asset management or how much debt finances assets. A high DAR value indicates that the company has a greater risk for creditors due to the company's inability to pay all its obligations (Faujia & Nurulrahmatia, 2024). DAR can be calculated using the following formula:

$$Debt\ to\ Assets\ Ratio\ (\text{DAR}) = \frac{Total\ Debt}{Total\ Assets} \text{ X } 100\%$$

2.3 Liquidity Ratio

The company's ability to take on and pay off short-term debt is demonstrated by its liquidity. Additionally, liquidity might demonstrate a company's capacity to pay down short-term debt.

The ratio can be calculated using current assets and current liabilities as a source of working capital information (Cahyani & Sitohang, 2020). A company's ability to generate short amounts of money to meet its obligations is known as liquidity. This depends on the company's cash flow, as well as its share of current assets and liabilities. In relation to each other, liquidity and profitability ratios show the ability and performance of effective company management during operational activities, so that the company can survive or develop optimally. Therefore, it is hoped that an organization's financial ratios show harmonious proportions which show a balance between the ratios and other ratios ratios (Wahyuni & Suryakusuma, 2018). The Current measure (CR) is the liquidity measure utilized in this study. In order to demonstrate how well a company's current assets can cover its short-term liabilities when they become

due, the current ratio compares current debt with current assets (Stema, 2019). The following is the current ratio formula according to (Kieso, Weygandt, & Warfield, 2014):

$$Current\ Ratio\ = \frac{Current\ Assets}{Current\ Liabilities}$$

2.4 Net Profit Margin (NPM)

The ratio of net profit, or sales, to all expenses, including taxes, is known as the net profit margin (Anggriani & Hasanah, 2017). NPM is one of the profitability ratios which is very important for knowing how effective a company is in generating net profit from each revenue or sale sale (Lumbantobing et al., 2023). In the financial literature Djou, Pakaya, and Selvi (2022) there are many definitions of NPM and methods to understand it. adding a new perspective, that NPM shows the company's level of efficiency in reducing operational costs over a certain period of time. This ratio demonstrates the business's capacity to manage operating expenses and generate profits from strong sales. If NPM decreases, it shows the company's ability to gain profits from declining sales, as well as efficiency in reducing operational costs. Apart from that, Melinda and Ompusunggu (2022) revealed that to calculate NPM accurately, if this ratio is greater, then the company's profitability increases, attracting investors. The most commonly used formula to measure NPM is

$$Net\ Profit\ Margin = \frac{Net\ Profit}{Sales} \times 100\%$$

Research conducted by Anggriani and Hasanah (2017) shows that the Debt to Equity Ratio (DER) has a significant effect on the Net Profit Margin (NPM), (Roni & Dewi, 2015) and (Hantono, 2020) also supports this statement, stating that the Debt to Equity Ratio significantly affects the Net Profit Margin (NPM). A lower ratio value indicates that the entity can reduce its debt burden, increase stakeholder confidence, and maintain healthy finances (Sutarni & Maharati, 2023).
H1: Debt to Equity Ratio Significantly Affects Net Profit Margin

The research conducted by Lumbantobing et al. (2023) found that the Debt to Asset Ratio (DAR) has a significant and positive impact on the Net Profit Margin. Subsequently, the results of the research by Shabrina (2020) concluded that there is a positive and significant influence of the Debt to Asset Ratio (DAR) on the Net Profit Margin (NPM). The ability to meet financial obligations without disrupting operations is demonstrated by a healthy debt-to-asset ratio (Sutarni & Maharati, 2023).
H2: Debt to Assets Ratio Significantly Affects Net Profit Margin

The research conducted by Salman (2019) shows that the Debt to Equity Ratio (DER) has a significant effect on the Liquidity Ratio. Then, the results of the study by Hidayat and Suci (2023) indicate that the Debt to Equity Ratio (DER) has a significant effect on the liquidity ratio measured by the Current Ratio.
H3: Debt to Equity Ratio Significantly Affects Liquidity Ratio

The research conducted by Salman (2019) shows that the Debt to Assets Ratio (DAR) has a significant effect on the Liquidity Ratio. In line with the research by Ramadhani, Hidayati, and Retnowati (2021), which states that the Debt to Assets Ratio (DAR) has a significant effect on the liquidity ratio measured by the Current Ratio. The company's liquidity level does not affect the decision to disclose financial information.(Aryani & Laksmiwati, 2021).
H4: Debt to Assets Ratio Significantly Affects the Liquidity Ratio

Research conducted by Anggriani and Hasanah (2017) shows that the Liquidity Ratio measured by the Current Ratio has a significant effect on the Net Profit Margin (NPM), and (Sari, 2021) also aligns with this statement, stating that liquidity partially has a positive and significant effect on profitability.

(NPM). Liquidity, which is calculated using the current ratio, decreased over one year but then increased again in the following year. A high current ratio indicates that the entity has the ability to meet its short-term obligations with its current assets. During the period, the average ratio shows a high level of liquidity, indicating effective and sound financial management (Aryani & Laksmiwati, 2021).
H5: Liquidity Ratios Have a Significant Impact on Net Profit Margin

3. Methodology Research

The population used consists of companies that were registered on the Indonesia Stock Exchange between 2019 and 2023 and that fell under the LQ45 index category in February 2024. One type of sampling technique is purposeful sampling. The results of sample selection show that 12 companies will be research subjects with a total of 60 observations (Ginting, 2018). Secondary data is used in this research. The documentation method collects data on research variables from newspapers, magazines, minutes, and other relevant sources (Dewi, Endiana, & Arizona, 2019). Data was mostly collected through the official website www.idx.co.id. Structural Equation Modeling-Partial Least Squares (SEM–PLS) is a quantitative method that assesses the relationship between independent and dependent variables (Zeng, Liu, Gong, Hertogh, & Konig, 2021). In the meanwhile, PLS performs admirably when dealing with multivariate models that include a large number of explanatory and response variables. When developing hypotheses, this study integrates theoretical and empirical data. This idea is supported by the capital structure theory, which highlights the impact of financial ratios like the debt-to-asset ratio (DER) on liquidity and profitability (NPM). It is expected that DER and DAR can influence NPM both directly and indirectly through the intermediary role of liquidity ratios. Previous studies have shown the importance of these financial metrics in measuring business performance. Therefore, the hypothesis indicates a positive or negative relationship among these variables, providing a structured method to observe how these variables interact in the context of LQ45 companies during the observation period.

4. Result and Disscussion

4.1 Research result

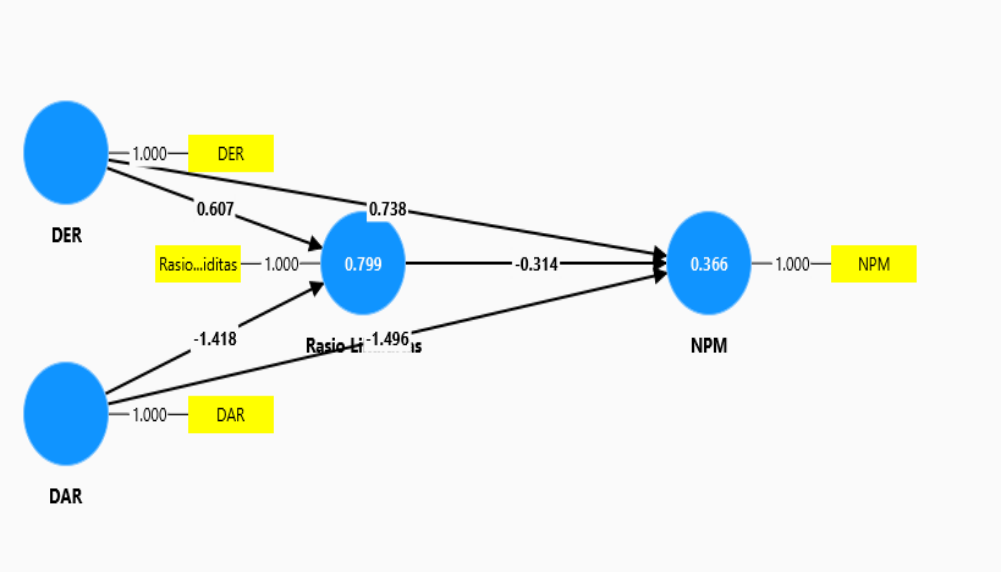

Figure 1. Validity Test Based on Outer Loading
Source: SEM-PLS Processing Results (2024)

Table 1. Outer Loading Matrix

	DAR	DER	NPM	Rasio Likuiditas
DAR	1.000			
DER		1.000		
NPM			1.000	
Rasio Likuiditas				1.000

Source: SEM-PLS Processing Results (2024)

The outer loading criterion is accepted if it is more than 0.5 (Hair Jr., Howard, & Nitzl, 2020). The results above are accepted because the value exceeds 0.5.

Table 2. Validity Testing Based on AVE and Reliability Testing Based on CR and

	Cronbach's alpha	Composite reliability	AVE
DAR (X2)	1.000	1.000	1.000
DER (X1)	1.000	1.000	1.000
Rasio Likuiditas (Z)	1.000	1.000	1.000
NPM (Y)	1.000	1.000	1.000

Source: SEM-PLS Processing Results

The criteria for AVE is that the value must be 0.5 (50%) or higher (Hair Jr. et al., 2020). From the data above, it shows that the AVE results have met the requirements because the results show a value of 1,000 which means more than 0.5. CR and CA criteria are accepted if they have a value of more than 0.7 (Hair & Alamer, 2022). From the results above, it shows that all constructs are accepted because they have a value of 1,000 or more than 0.7.

Table 3. Discriminant Validity (HTMT)

	Original Sampel (O)	Sampel Mean (M)	2.5%	97.5%
DER < - > DAR	0.918	0.921	0.900	0.939
NPM < - > DAR	0.547	0.551	0.399	0.688
NPM < - > DER	0.417	0.425	0.273	0.588
Rasio Likuiditas < - > DAR	0.861	0.861	0.789	0.912
Rasio Likuiditas < - > DER	0.696	0.700	0.625	0.765
Rasio Likuiditas < - > NPM	0.460	0.466	0.305	0.622

Source: SEM-PLS Processing Results

According to Hair Jr. et al. (2020) the accepted HTMT value is <0.90. From the results of the data processing above, several information are shown as follows:

a. DER <-> DAR: The HTMT value of 0.918, which is close to the limit of 0.90, indicates that the discrimination between DER and DAR may not be ideal. This can indicate a strong correlation between the two variables.
b. NPM <-> DAR: Considerable discrimination between NPM and DAR is shown by the HTMT value of 0.547.
c. NPM <-> DER: Good discrimination between NPM and DER is also shown by the HTMT value of 0.417.
d. Liquidity Ratio <-> DAR: The HTMT value of 0.861 shows the relationship between Liquidity Ratio <-> DAR: Close to the limit, but still acceptable.
e. Liquidity Ratio <-> DER: Good discrimination is shown by the HTMT value of 0.696.
f. Liquidity Ratio <-> NPM: Quite good discrimination shown by the HTMT value of 0.460.

Overall, most relationships between constructs demonstrated good discriminant validity; however, the relationship between DER and DAR, which is close to the HTMT limit of 0.90, requires further attention.

Table 4. Significance Test (Hypothesis) Effect (Bootstrapping) (Inner Model)

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
DAR -> NPM	-1.496	-1.497	0.387	3.862	0.000
DAR -> Rasio Likuiditas	-1.418	-1.421	0.112	12.684	0.000
DER -> NPM	0.738	0.735	0.299	2.472	0.013
DER -> Rasio Likuiditas	0.607	0.609	0.107	5.690	0.000

Rasio Likuiditas -> NPM	-0.314	-0.310	0.209	1.499	0.134

Source: SEM-PLS Processing Results

a) DAR (X2) has a negative impact on NPM (Y) with a coefficient of -1.496 and is significant with a p-value = 0.000.
b) DAR (X2) has a negative impact on the Liquidity Ratio (Z) with a coefficient of -1.418 and is significant with a p-value = 0.000
c) DER (X1) has a positive impact on NPM (Y) with a coefficient of 0.738 and is significant for the p value - value = 0.013
d) DER (X1) has a positive impact on the Liquidity Ratio (Z) with a coefficient of 0.607 and is significant for the p value - value = 0.000
e) NPM (Y) is negatively influenced by the Liquidity Ratio (Z) with a coefficient of -0.314 and is not significant at p – value = 0.13

Table 5. R-Square

	R-square	R-square
NPM (Y)	36.6	33.2
Rasio Likuiditas (Z)	79.9	79.2

Source: SEM-PLS Processing Results

With an R-square NPM (Y) value of 0.366, DER (X1) and DAR (X2) are able to influence NPM by 0.366%. With an R-square value of Liquidity Ratio (Z) of 0.799, DER (X1) and DAR (X2) are able to influence the Liquidity Ratio by 0.799%.

Table 6. Mediation

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistic (|O/STDEV|)	P values
DAR -> Rasio Likuiditas -> NPM	0.445	0.445	0.312	1.426	0.154
DER -> Rasio Likuiditas -> NPM	-0.190	0.192	0.140	1.358	0.174

Source: SEM-PLS Processing Results

a) With a Liquidity Ratio of 0.445, DAR (X2) has a positive impact on NPM, but is not significant with a p - value of 0.154 > 0.05
b) With the Liquidity Ratio, DER (X1) has a negative impact on NPM, with a coefficient of -0.190, but not significant with a p - value of 0.174 < 0.05

4.2 Discussion

4.2.1 The Influence of Debt to Equity Ratio on Net Profit Margin

The test findings demonstrate that NPM is significantly and favorably impacted by the DER variable. A higher DER indicates a higher NPM for the business. In other words, even though a company has greater debt than its equity, it can still utilize that debt to do productive things, increasing its profitability. As a result, the hypothesis can be accepted and is in line with research conducted by (Lumbantobing et al., 2023) and (Shabrina, 2020).

4.2.2 The Influence of Debt to Assets Ratio on Net Profit Margin

The study's findings indicate that NPM is significantly impacted negatively by the DAR variable; an increase in DAR causes a decrease in NPM. This shows that debt finances most of the company's assets. As a result, the NPM ratio level will decrease because the profits obtained are always allocated to meet

debt. The author's hypothesis is not supported by the test's findings. However, research conducted by (Nazir, Azam, & Khalid, 2021) and (Sudirman et al., 2020) supports the results of this research which shows that debt financing or DER negatively and significantly influences NPM.

4.2.3 The Influence of Debt to Equity Ratio on Liquidity Ratio

According to the test results, the DER variable significantly and favorably affects the liquidity ratio. A higher DER indicates a higher liquidity ratio, indicating that the business can use debt to settle short-term obligations. based on the presumptions of (Salman, 2019) and (Hidayat & Suci, 2022). With a low DER, the company has the ability to pay off its debts with its internal capital (Aryani & Laksmiwati, 2021).

4.2.4 The Influence of Debt to Assets Ratio on Liquidity Ratio

The study's findings indicate that the DAR variable has a negative effect on the liquidity ratio, albeit not a substantial one. In the event that DAR rises, the liquidity ratio falls. This indicates that the corporation has more debt than assets, even while its capacity to fulfill its immediate obligations declines. in keeping with studies carried out by (Utami, 2021).

4.2.5 The Influence of Liquidity Ratio on Net Profit Margin

According to the test results, there is a negligible and unfavorable impact of the liquidity ratio to NPM. Stated differently, changes in the NPM level will not be impacted by an increase in the liquidity ratio. On the other hand, the business could not have enough current assets to cover its short-term liabilities if the liquidity ratio falls. This can quickly lead to cash flow problems and problems paying debts or other obligations. On the other hand, a decline in NPM shows how well a company generates profits from sales, which reduces profitability. Both of these circumstances can worsen a company's financial position, increase the likelihood of liquidity problems, and make it no longer attractive to creditors and investors, according to research conducted by (Lumbantobing et al., 2023). That a higher CR indicates that the company has funds to pay dividends and large internal funds (Aryani & Laksmiwati, 2021).

4.2.6 The Influence of DAR On NPM Through Liquidity Ratio

The analysis's findings indicate that, with a correlation of 0.445, Net Profit Margin (NPM) and Debt to Asset Ratio (DAR) are positively correlated through liquidity ratios. Accordingly, a rise in DAR will be followed by a rise in liquidity ratios, which can then enhance NPM. A p-value of 0.154, however, is greater than the 0.05 threshold of significance, indicating that this influence is not statistically significant.

4.2.7 The Influence of DER On NPM Through Liquidity Ratio

The results of the analysis show that the Debt to Equity Ratio (DER) negatively affects the Net Profit Margin (NPM) through the Liquidity Ratio, with a coefficient of -0.190. This suggests that when the Liquidity Ratio acts as a mediator, an increase in DER will result in a drop in NPM. However, because the p-value of 0.174 is higher than the 0.05 cutoff, this link is not statistically significant. With a low DER, the company has the ability to pay off its debts with its internal capital (Jackson & Laksmiwati, 2021).

5. Conclussion

The analysis conducted in accordance with the objectives of this research is the ROE variable significantly influences the prediction of financial distress. Return on equity has a value of 0.043, which is much smaller (<0.05), and the characteristic function coefficient value is 0.051 < 0.05, indicating that return on equity has a significant positive effect on the prediction of financial distress. The CTD variable can have an impact and is important in predicting financial difficulties. Since CTD has a much lower value of -0.521 (<0.05) and because CTD has a characteristic function coefficient value of -1.017 < 0.05, it indicates that CTD has a significant negative effect on the prediction of financial distress in Islamic banking in Indonesia. The LTA variable has an effect but is not significant in predicting financial distress. This is because LTA has a value of 1.059 with a significance level greater than (>0.05), and because LTA has a characteristic function value of.

Limitations and future study

This study has a limited sample size and observation period. Therefore, the findings do not fully reflect conditions or trends not included in the sample. Future research should incorporate a broader set of macroeconomic variables, a longer observation period, and comparative analysis with conventional banks to provide deeper insights into financial distress predictors.

Acknowledgements

The researcher extends sincere gratitude to all parties who contributed to this study, particularly academic mentors and financial institutions that provided the necessary data and insights. Their support and feedback were instrumental in completing this research.

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