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The Effect of Financial Leverage on Earnings Per Share and Return on Equity

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Abstract

This study aims to analyze the effect of financial leverage on earnings per share (EPS) and return on equity (ROE) in the banking sector of State-Owned Enterprises (SOEs) listed on the Indonesia Stock Exchange (IDX) from 2020-2024. Financial leverage is measured using the debt-to-equity ratio, while EPS and ROE are used as indicators of the company's financial performance. The research method used is quantitative with an ex post facto approach, utilizing secondary data obtained from annual financial reports for the 2020-2025 period. Data analysis was conducted using a simple linear regression test to measure the relationship and effect of financial leverage on EPS and ROE. The results show that financial leverage has a significant and negative effect on EPS in SOE banking companies listed on the Indonesia Stock Exchange (IDX). This indicates that loan interest expenses erode net income per share, thereby reducing shareholder welfare, and that the debt financing structure is not offset by increased interest income or operational efficiency. Financial leverage does not have a significant and positive effect on ROE in SOE banking companies listed on the IDX, indicating that banking management is able to maintain equity profitability despite increases or decreases in leverage levels.

Introduction

The banking sector is a crucial pillar in supporting national economic stability and growth. In Indonesia, government-owned banks, or State-Owned Banks (BUMN), play a strategic role not only as providers of financial services but also as drivers of development, channeling real sector financing, and supporting financial inclusion. Banking is a strategic sector that plays a crucial role in maintaining financial stability and driving national economic growth. State-owned banks (BUMN) such as Bank Mandiri, BRI, BNI, and BTN contribute significantly to collecting public funds, disbursing credit, and supporting government development programs. The financial performance of BUMN banks is a major focus because, in addition to functioning as intermediary institutions, banks are also required to generate profits for shareholders, including the government.

The financial performance of BUMN banks is a primary concern for stakeholders, from the government, investors, financial analysts, and the wider public (Akbar & Siti, 2022; Nuraeni et al., 2024; Swasana et al., 2025). Performance indicators such as net profit, asset growth, credit quality, and return on investment are important benchmarks for assessing the success of implemented business strategies. In this context, financial leverage, or the level of debt utilization, is a strategic factor that can influence a bank's profitability and return on equity. Financial leverage refers to the use of debt or liabilities to finance assets. In the banking

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industry, leverage is generally reflected in the ratio of equity to total assets or liabilities (Arhinful & Radmehr, 2023; Lestari, 2021; Ayoush et al., 2021; Akhtar et al., 2022; Daruwala, 2023). Proper leverage management can increase profit potential through capital optimization, but excessive use can increase financial risk, especially in sectors sensitive to changes in interest rates and global economic conditions, such as banking. The main indicators often used to measure banking profitability are Earnings Per Share (EPS) and Return on Equity (ROE). EPS reflects a company's ability to generate earnings per share, while ROE indicates the company's effectiveness in managing its equity to generate net income. According to Richard Arhinful & Mehrshad (2023), leverage can improve performance if a company is able to effectively manage fixed costs (including interest), but there are risks if interest expenses are high and operating income is inconsistent. This aligns with Sartono's idea that the use of debt carries fixed liabilities that must be paid regardless of profit. Odhiambo et al. (2025) argues that financial leverage is the use of funding sources with fixed costs in the hope of generating additional income that exceeds the fixed costs. If a company uses debt, the risk is that the company will be required to pay interest (Braun & Koddenbrock, 2022; Ramlah, 2021; Mahmood, 2023; Butar et al., 2021). This interest must be paid, regardless of the company's profits. Therefore, companies or industries that use debt naturally expect operating income to exceed interest expenses.

One factor believed to influence EPS and ROE is the company's funding structure, specifically the level of financial leverage (Sari et al., 2023; Arhinful & Radmehr, 2023). Financial leverage reflects the extent to which a company uses borrowed funds (debt) in its capital structure. In banking companies, debt often comes from third-party funds (TPF), interbank loans, and debt issuance. Appropriate use of leverage can provide benefits in the form of tax shields and the potential for higher profit increases compared to equity (Michalkova et al. 2021; Sinebe & Ebiaghan, 2024; Kovacova et al., 2022; Gregova et al., 2021; Odhiambo et al., 2025; Mitra & Samanta, 2022). However, excessive leverage also increases the risk of interest expenses and the possibility of declining profits, negatively impacting EPS and ROE. Theoretically, the relationship between leverage and profitability can be explained by several capital structure theories. Bui et al. (2023) theory emphasizes that in a perfect market, capital structure does not affect firm value. However, when considering taxes and bankruptcy costs, the use of debt can impact financial performance. The trade-off theory states that companies will seek an optimal balance between the tax benefits of using debt and the risk of bankruptcy resulting from high interest expenses (Bajaj et al., 2021; Ferriswara et al., 2022; Fuadah et a;l., 2022; Abbas et al., 2023; Wu et al., 2022; Ahmad et al., 2022). Meanwhile, the pecking order theory argues that companies tend to prioritize internal financing, followed by debt, and then issuing new shares. These three theories serve as a foundation for understanding how leverage potentially affects EPS and ROE in the banking sector.

Previous research has shown varying results regarding the effect of leverage on profitability (Akhtar et al., 2022; Daruwala, 2023; Jihadi et al., 2021; Nugraha et al., 2021; Ayoush et al., 2021; Alarussi & Gao, 2023). Some studies found that leverage has a positive effect on ROE when income from assets exceeds interest expenses, resulting in a multiplier effect (leverage effect). Research in the Indonesian banking sector also shows a significant relationship between the Debt-to-Equity Ratio (DER) and ROE, although the strength of this influence depends on macroeconomic conditions. Conversely, other research shows that leverage actually depresses EPS and ROE when companies face increased credit risk and high interest costs, particularly during periods of instability such as the COVID-19 pandemic. In the context of the 2020–2024 period, state-owned banks faced significant challenges due to the pandemic, which suppressed

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credit demand, increased the risk of non-performing loans (NPLs), and reduced net interest margins. This directly impacted bank profitability.

However, during the recovery period of 2022–2024, banking performance began to improve due to increased economic activity, credit distribution, and the digitalization of services. This situation creates an opportunity to reassess how leverage used by state-owned banks affects EPS and ROE from the crisis period to economic recovery. This research is important because although there are several studies examining the effect of leverage on corporate financial performance in Indonesia, research specifically focusing on state-owned banks during the 2020–2024 period is still limited. This analysis is not only theoretically useful for enriching the literature on capital structure in the banking sector but also has practical implications for state-owned bank management and regulators in determining optimal funding strategies. Thus, the study on the effect of financial leverage on EPS and ROE in the state-owned banking sector in the 2020-2024 period is expected to contribute to both the academic world and national banking practice.

Method

This study adopts a quantitative descriptive approach with an ex post facto design. The quantitative descriptive method was selected because it allows the researcher to present data systematically and accurately, while also identifying relationships between financial leverage and profitability indicators in State-Owned Enterprise (SOE) banks. The ex post facto design was considered appropriate since the study relies on historical financial data that cannot be manipulated but can be analyzed statistically to evaluate the relationship between variables. Such a design ensures that the analysis reflects actual financial conditions, thereby enhancing the validity and reliability of the findings.

Population and Sample

The population of this study includes all banking companies listed on the Indonesia Stock Exchange (IDX). From this population, the research sample was determined using purposive sampling, a technique that allows the selection of samples based on specific criteria aligned with the study's objectives. The chosen criteria required the banks to be SOEs that were consistently listed on the IDX during the observation period from 2020 to 2025 and to have published complete financial reports throughout the period. Based on these criteria, four SOE banks were included in the study, namely Bank Mandiri, Bank Rakyat Indonesia (BRI), Bank Negara Indonesia (BNI), and Bank Tabungan Negara (BTN). These banks were selected not only because they satisfied the criteria, but also because of their dominant role in the Indonesian banking sector, their contribution to economic stability, and their consistent financial disclosure practices.

Data Types and Sources

The study relies entirely on secondary data in the form of panel data, which combines both cross-sectional and time-series dimensions. Cross-sectional data are drawn from the four SOE banks, while time-series data cover the five-year period from 2020 to 2025. Panel data were chosen because they provide a richer and more comprehensive perspective than purely cross-sectional or time-series data, as they capture both differences across banks and changes within each bank over time. The data were obtained from annual financial reports published on the IDX website and the official websites of the respective banks. The research variables include financial leverage, measured by the Debt-to-Equity Ratio (DER), as the independent variable, and two dependent variables: Earnings Per Share (EPS) and Return on Equity (ROE). These

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variables were selected because they represent widely recognized measures of financial performance and are commonly used in prior studies of capital structure and profitability.

Data Analysis Techniques

The data were analyzed in several stages to ensure the accuracy and validity of the results. The first stage involved descriptive statistical analysis, which was used to summarize the characteristics of the data set. Measures such as minimum, maximum, mean, and standard deviation were calculated to provide an overview of the variations in financial leverage, EPS, and ROE among the sample banks. This stage was essential for establishing a baseline understanding of the data before conducting inferential analysis.

The second stage involved testing the assumptions of the classical linear regression model to ensure that the regression estimates would be unbiased and reliable. Three diagnostic tests were conducted. The normality test was performed using the Kolmogorov-Smirnov method to determine whether the data were normally distributed. The autocorrelation test was carried out using the Durbin-Watson statistic to detect whether residuals were correlated across time, as autocorrelation can compromise the validity of regression results. Finally, heteroskedasticity was tested using scatterplot analysis to assess whether residuals had constant variance across observations. The absence of systematic patterns in the scatterplot was taken as evidence of homoskedasticity.

After the diagnostic tests, the explanatory power of the model was assessed using the coefficient of determination (R^2). This measure indicates how much of the variation in EPS and ROE can be explained by financial leverage. A higher R^2 value suggests stronger explanatory capacity, while a lower value implies that other factors outside the model play a larger role in influencing profitability. The main inferential analysis employed in this study was simple linear regression, which was used to measure the direct effect of financial leverage on each dependent variable. The regression model took the general form Y=a+bXY = a + bXY=a+bX, where YYY represents the dependent variable (EPS or ROE), is the constant, BBB is the regression coefficient, and XXX is the independent variable (financial leverage). By applying this model separately to EPS and ROE, the study was able to assess how changes in leverage influence each indicator of financial performance.

The final stage of the analysis involved hypothesis testing using the t-test at a significance level of 5 percent ($\alpha = 0.05$). For each regression model, the null hypothesis stated that financial leverage had no significant effect on the dependent variable, while the alternative hypothesis stated that financial leverage had a significant effect. The decision rule was based on the comparison between the calculated t-value and the critical t-value from statistical tables, as well as the significance level (p-value). If the significance level was less than 0.05 and the calculated t-value exceeded the critical value, the null hypothesis was rejected, indicating that financial leverage significantly affected the dependent variable. This systematic analytical procedure ensured that the findings were both statistically valid and theoretically meaningful in explaining the relationship between financial leverage and profitability in SOE banks.

Result and Discussion

Before presenting the results, it is important to provide an overview of the analytical process conducted to ensure the validity and reliability of the findings. The data collected from the financial reports of state-owned banks listed on the Indonesia Stock Exchange were analysed using descriptive statistics and simple linear regression. Descriptive statistics were used to understand the general characteristics of each variable, while diagnostic tests, including normality, autocorrelation, and heteroskedasticity tests, were conducted to verify that the

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regression assumptions were met. These steps ensured that the subsequent regression analysis accurately captured the relationship between financial leverage and the profitability indicators Earnings Per Share (EPS) and Return on Equity (ROE) across the 2020–2024 observation period.

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Financial Leverage	30	0.83	0.94	0.8765	0.03384
EPS	30	1.80	1009.48	344.9778	254.62635
ROE	30	0.01	1.09	0.1561	0.18396
Valid N (listwise)	30				

Based on the results presented in Table 1, the descriptive statistics provide an overview of the values of Financial Leverage, Earnings Per Share (EPS), and Return on Equity (ROE) for SOE banking companies, with a total of 30 observations. The highest value of Financial Leverage was 0.94, recorded by Bank Tabungan Negara (Persero) Tbk, while the lowest value was 0.83, observed in PT Bank Mandiri (Persero) Tbk. The average value of Financial Leverage was 0.8765 with a standard deviation of 0.03384, indicating relatively small variation across the sample. For EPS, the highest value reached 1009.48 at PT Bank Rakyat Indonesia (Persero) Tbk, while the lowest was 1.80 at PT Bank Tabungan Negara (Persero) Tbk. The mean EPS was 344.98 with a standard deviation of 254.63, reflecting substantial variation among the companies. Meanwhile, the highest ROE value of 1.09 was recorded by PT Bank Mandiri (Persero) Tbk, whereas the lowest value of 0.01 was observed at PT Bank Tabungan Negara (Persero) Tbk. On average, the ROE was 0.1561 with a standard deviation of 0.18396, showing a moderate degree of variability across the sample banks.

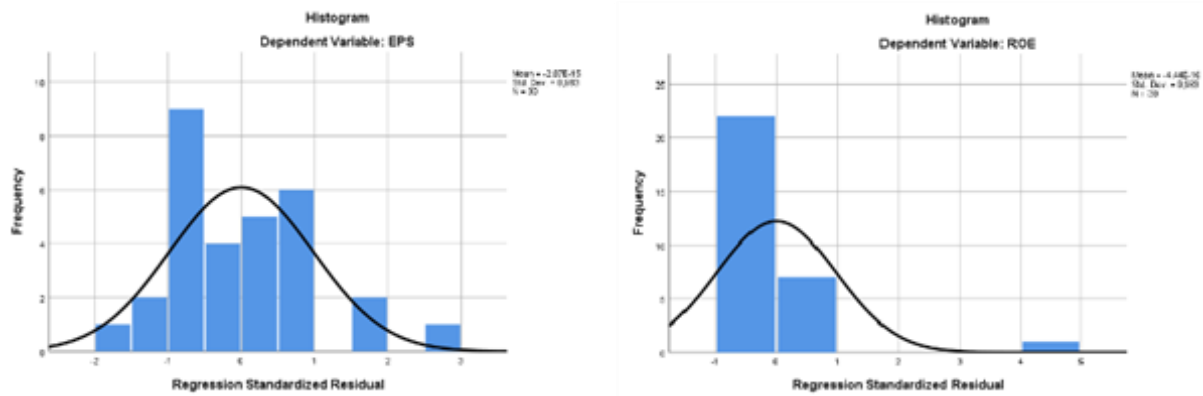

Figure 1. FL to EPS and FL to ROE diagram

The histograms in Figure 1 display the distribution of the standardized residuals for the regression models with EPS and ROE as dependent variables. The purpose of this test is to evaluate whether the residuals are normally distributed, which is one of the key assumptions of classical linear regression. For the EPS model (left histogram), the residuals are distributed around the mean of zero, with most values concentrated between -2 and +2. The curve drawn over the histogram approximates a normal distribution, although some deviations are visible, particularly at the tails. Despite these minor deviations, the overall pattern suggests that the residuals are reasonably close to normality, allowing the regression model to be considered valid in terms of this assumption. For the ROE model (right histogram), the residuals also cluster around the mean, but the distribution appears more skewed compared to EPS. A large concentration of residuals is observed on the left side of the distribution, and the curve does

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not perfectly align with the histogram bars. This indicates some departure from normality, which may influence the robustness of the regression results. However, given the small sample size (N = 30), such deviations are not uncommon and may still be acceptable if supported by additional tests, such as the Kolmogorov-Smirnov or Shapiro-Wilk normality tests.

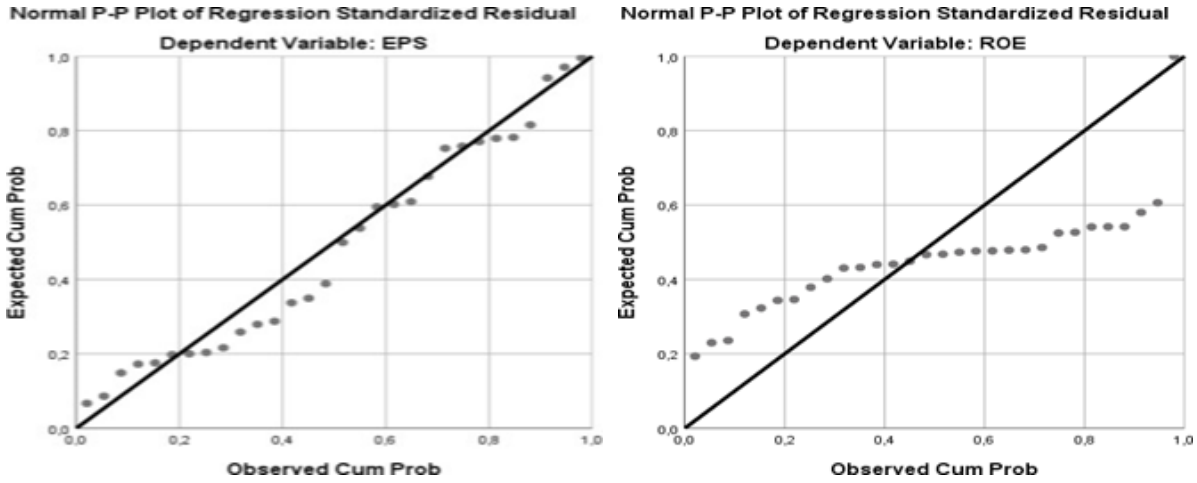

Figure 2. Normality Test Graph

The Normal P–P Plot of regression standardized residuals is used to visually assess whether the residuals of a regression model follow a normal distribution. In this test, the closer the data points lie to the diagonal line, the stronger the indication that the residuals are normally distributed. For the EPS model, the plot shows that the data points are distributed closely along the diagonal line, with only minor deviations at the lower and upper ends. This pattern suggests that the residuals of the EPS regression model approximate a normal distribution, thereby fulfilling the assumption of normality required for linear regression analysis. The minor deviations are acceptable and do not significantly distort the model's reliability. In contrast, the P–P Plot for the ROE model shows a greater deviation of the data points from the diagonal line, particularly in the middle and upper ranges of the distribution. The clustering of points away from the line indicates that the residuals are not as well aligned with a normal distribution. This suggests a potential departure from the normality assumption in the ROE regression model, which may affect the robustness of the statistical results. However, the violation does not necessarily invalidate the model, as regression analysis is relatively robust to mild deviations from normality, especially when sample sizes are moderate.

Table 2. Autocorrelation Test of Financial Leverage on EPS

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.377a	0.142	0.111	240.01209	1.159

Based on the results in Table 2, the Durbin-Watson (DW) statistic for the regression model of Financial Leverage on EPS is 1.159. The lower bound (dl) and upper bound (du) values from the DW table at a significance level of 0.05 are 1.3734 and 1.5019, respectively. The DW value of 1.159 lies below the lower bound and is less than 4 – du (2.4981). According to the decision rule, if the DW statistic falls within the range $du < d < 4 - du$, no autocorrelation is present. However, since 1.159 does not meet this condition, the results indicate a potential concern regarding autocorrelation in the model for EPS.

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Table 3. Autocorrelation Test of Financial Leverage on ROE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.180a	0.032	-0.002	0.18417	2.109

Autocorrelation Analysis and Model Implications

The autocorrelation test using the Durbin Watson (DW) statistic is a critical diagnostic step in regression analysis because the presence of autocorrelation can distort the validity of statistical inferences. In this study, the DW statistic for the EPS model is 1.159, which lies below the lower bound value (dl = 1.3734) and upper bound (du = 1.5019). This result suggests the potential presence of positive autocorrelation among the residuals, thereby violating one of the essential classical assumptions of linear regression that residuals should be independent. Autocorrelation implies that error terms from one observation are correlated with those from another, leading to inefficiency in the estimation of coefficients and unreliable inferential statistics.

Although the report acknowledges the DW value's deviation from the acceptable range, its discussion of implications remains limited. The presence of autocorrelation has serious consequences: it can cause biased standard errors and inflated t-statistics, resulting in potentially misleading conclusions regarding the significance of independent variables. In this case, the significant negative effect of financial leverage on EPS becomes less reliable because the validity of its p-values and confidence intervals is compromised. Without corrective measures, the conclusions drawn from this model risk being overstated or statistically misleading. To strengthen the analysis, the study should explicitly discuss how autocorrelation may undermine the reliability and robustness of the EPS regression model and the interpretation of its coefficients.

By contrast, the DW statistic for the ROE model is 2.109, which falls within the acceptable range ($du < d < 4 - du$), indicating that autocorrelation is not a concern in this model. However, the ROE model shows a low coefficient of determination ($R^2 = 0.032$), suggesting that financial leverage explains only 3.2% of the variation in ROE. While the absence of autocorrelation supports the model's reliability, the low explanatory power implies that ROE is influenced by other variables beyond financial leverage such as operational efficiency, asset management quality, macroeconomic conditions, and regulatory constraints in SOE banking. The model would benefit from a broader explanatory framework incorporating these determinants to better capture the complexity of profitability drivers.

To address the detected autocorrelation in the EPS model, several methodological remedies could be considered. The use of robust or Newey West standard errors can correct the bias in standard errors, ensuring more reliable hypothesis testing. Alternatively, time-series models, such as ARIMA (Autoregressive Integrated Moving Average), can explicitly model the serial correlation structure, providing more efficient and accurate parameter estimates. Furthermore, the presence of autocorrelation in the EPS model may reflect underlying economic or institutional factors such as macroeconomic cycles, seasonal patterns in financial reporting, or systemic influences within the banking sector. Discussing these potential causes would enhance the interpretive depth of the study and provide valuable insight into how external conditions shape the relationship between leverage and earnings performance in state-owned banks.

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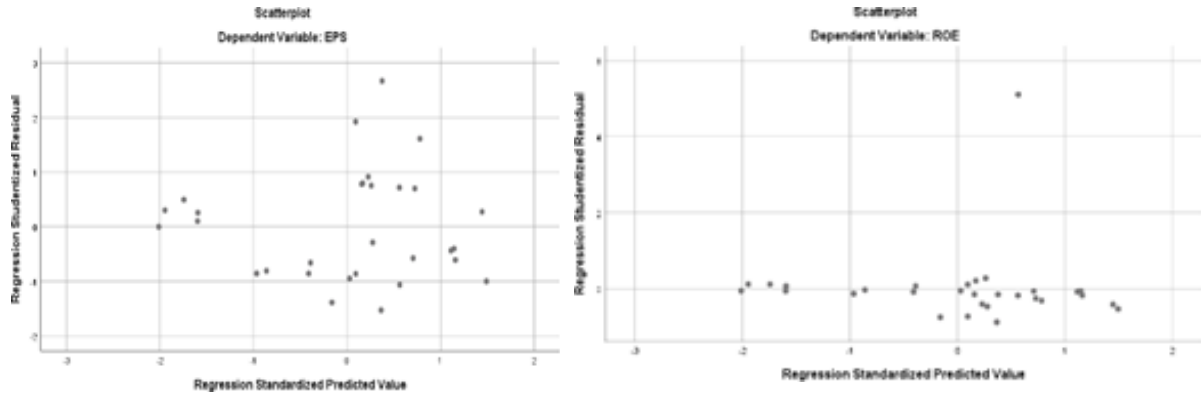

Figure 3. Heteroscedasticity Test Graph

The scatterplot of residuals for the EPS regression model shows that the residuals are dispersed unevenly around the zero line, with several clusters and a slight funnel shape. This pattern indicates the presence of heteroskedasticity, suggesting that the variance of the errors is not constant across predicted values. Combined with the Durbin-Watson statistic of 1.159, which indicates potential autocorrelation, the EPS regression model does not fully meet the classical assumptions of linear regression. This condition weakens the reliability of the EPS model and reinforces the finding that financial leverage has a significant negative effect on EPS, as the interest burden from debt reduces earnings per share. In contrast, the residual scatterplot for the ROE regression model displays a more even horizontal spread around zero, with no strong funneling effect. Although one outlier is observed, the overall pattern suggests that homoscedasticity is largely present. This interpretation is supported by the Durbin-Watson value of 2.109, which falls within the acceptable range, indicating no autocorrelation problem. Consequently, the ROE model better satisfies regression assumptions, strengthening the conclusion that financial leverage does not significantly influence ROE. These results imply that while debt erodes earnings per share, banks are still able to maintain equity profitability through effective management strategies.

Table 4. Coefficient of Determination of Financial Leverage on EPS

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.377a	0.142	0.111	240.01209	1.159

The R-squared value is 0.142 (14.20%), meaning that 14.20% of EPS is influenced by Financial Leverage, while the remaining 85.80% is explained by other factors not included in this study.

Table 5. Coefficient of Determination of Financial Leverage on ROE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.180a	0.032	–0.002	0.18417	2.109

The R-squared value is 0.032 (3.20%), which shows that only 3.20% of ROE is influenced by Financial Leverage, while 96.80% is affected by other external factors.

Table 6. Simple Linear Regression of Financial Leverage on EPS

Variable	B	Std. Error	Beta	t	Sig.
(Constant)	2831.647	1155.348	—	2.451	0.021

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Financial Leverage	–2837.001	1317.170	–0.377	–2.154	0.040

EPS=2831.647−2837.001 FLEPS = 2831.647 - 2837.001, FLEPS=2831.647−2837.001FL The coefficient is negative and significant, meaning that an increase in Financial Leverage reduces EPS.

Table 7. Simple Linear Regression of Financial Leverage on ROE

Variable	B	Std. Error	Beta	t	Sig.
(Constant)	1.012	0.887	—	1.141	0.263
Financial Leverage	–0.976	1.011	–0.180	–0.966	0.342

ROE=1.012−0.976 FLROE = 1.012 - 0.976 \, FLROE=1.012−0.976FL The coefficient is negative but not significant, showing that financial leverage does not meaningfully affect ROE.

Table 8. t-Table Reference Value

n	k	df	α (5%)	t-Table
30	1	28	0.025	2.048

At α = 5%, the t-table value is 2.048, which is the critical value used to test hypotheses.

Table 9. Hypothesis Test of Financial Leverage on EPS

Variable	B	Std. Error	Beta	t	Sig.
(Constant)	2831.647	1155.348	—	2.451	0.021
Financial Leverage	–2837.001	1317.170	–0.377	–2.154	0.040

The significance value is 0.040 (< 0.05), and the t-count (–2.154) is smaller than the –t-table (–2.048). Therefore, H0 is rejected and Ha is accepted. This means that Financial Leverage has a significant negative effect on EPS.

Table 10. Hypothesis Test of Financial Leverage on ROE

Variable	B	Std. Error	Beta	t	Sig.
(Constant)	1.012	0.887	—	1.141	0.263
Financial Leverage	–0.976	1.011	–0.180	–0.966	0.342

Based on table 10, it can be seen that the sig result is 0.342 > 0.05. Likewise, the t-count result is 0.966, while the t-table with a sig level of 0.05 and degrees of freedom df = 30 (n-k-1 = 32-1-1) can be seen from the attached t-table resulting in 2.048, then it is known that the t count < t table is 0.966 < 2.048, So from the two results it can be concluded that H01 is accepted and Ha1 is not accepted. This means that Financial Leverage does not have a significant and positive effect on ROE. So, ROE is directly proportional to Financial Leverage and does not have an influence on each other. This can be explained that when ROE increases it will not be accompanied by an increase in Financial Leverage.

The Effect of Financial Leverage on EPS

The research results show that financial leverage has no significant and, to a lesser extent, negative effect on earnings per share (EPS) in state-owned banking companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2024 period. This indicates that changes in leverage levels do not directly impact earnings per share received by shareholders. A negative trend indicates that higher leverage levels actually lead to a decline in EPS. This aligns with the characteristics of the banking sector, where the majority of funding comes from third-party funds (TPF), rather than long-term debt. Therefore, additional leverage does not necessarily

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increase profitability per share, but rather has the potential to increase interest expenses and credit risk, thereby reducing net income available to shareholders. This finding can be linked to the trade-off theory, which explains that while the use of debt can provide benefits in the form of a tax shield, it also incurs interest costs and the risk of bankruptcy. In state-owned banking, credit risk factors and strict capital regulations (e.g., the Capital Adequacy Ratio (CAR) make the positive effect of leverage on EPS insignificant. In addition, the COVID-19 pandemic in early 2020–2021 also put pressure on banks' financial performance, so that leverage was unable to make a real contribution to increasing EPS.

The Effect of Financial Leverage on ROE

The results of the study indicate that financial leverage has no significant and, to a lesser extent, a positive effect on Return on Equity (ROE). This means that while theoretically, increasing leverage can increase returns on equity through the leverage effect, in reality, this effect is not strong and consistent in the state-owned banking sector. A positive trend indicates that the use of leverage can increase ROE, but its contribution is insignificant because it is more influenced by other variables such as operational efficiency, asset quality (NPL), and net interest margin (NIM). This positive but insignificant trend aligns with the pecking order theory, which states that companies prefer to use internal funding (retained earnings) over debt (Rodriguez, 2024; Gautam & Purohit, 2024; Djabang et al., 2025; Yıldırım & Çelik, 2021; Hamad, 2025). State-owned banks tend to maintain leverage at a moderate level in accordance with regulations and are not overly aggressive in increasing debt. Thus, leverage is only a supporting factor, not the primary determinant, in increasing ROE. Managerial factors such as credit risk control, diversification of non-interest income, and the implementation of digital technology are more dominant in influencing the return on equity performance of state-owned banks.

From these two results, it can be concluded that leverage is not the primary variable determining EPS or ROE in state-owned banks. This is also consistent with several previous studies that found that the relationship between leverage and bank financial performance is not always significant. Bank profitability is more determined by external conditions such as macroeconomic stability, monetary policy (BI interest rates), and internal factors such as cost efficiency and asset quality. Therefore, capital structure management in state-owned banks must consider risk and regulatory aspects, rather than simply increasing leverage to pursue short-term profitability. Therefore, the results of this study reinforce the view that, in the context of Indonesian state-owned banks, leverage must be managed carefully and proportionally. EPS and ROE are more appropriately improved through increased operational efficiency, digital innovation, credit risk management, and strengthening core capital, rather than solely relying on a leverage-increasing strategy.

Conclusion

The Financial Leverage variable has no significant and tends to be negative impact on EPS. This indicates that increasing leverage in state-owned banks does not directly increase earnings per share received by shareholders. Interest expenses and the risks inherent in the use of debt can actually reduce net income, resulting in a weak and inconsistent impact on EPS. The Financial Leverage variable has no significant and tends to be positive impact on ROE. This means that although the use of debt can provide an opportunity to increase returns on equity, in practice, in state-owned banks during this study period, its influence was not strong enough to significantly increase ROE. This could be due to capital regulations (such as CAR) and the dominance of other factors such as operational efficiency, asset quality, and credit risk management. Overall, the results of this study indicate that the level of leverage is not the primary factor determining the movement of EPS or ROE in state-owned banks during the

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2020–2024 period. Other factors such as net interest margin (NIM), non-performing loans (NPL), operating costs, and dividend policy play a more significant role in influencing bank profitability.

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