

The Impact of Balance Sheet Factor Items on Improving the Capital Adequacy of Al Baraka Bank Algeria (1993-2023) Using the Multiple Stepwise Regression Method

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Abstract:

This research aims to shed light on the relationship between general balance sheet variables and the capital adequacy of the Algerian Baraka Bank during the period 1993–2023, using one of the standard econometric models known as the Stepwise Regression Method, with the exclusion of any statistically insignificant variable.

Our results indicate that liquidity and profitability positively impact Al Baraka Bank Algeria's capital adequacy ratio. Conversely, this ratio is negatively impacted by credit risk.

Keywords: Balance sheet items; Capital Adequacy; Islamic Financing; Stepwise Multiple Regression..

Jel Classification Codes: C23, G21, G32.

1. INTRODUCTION

The banking sector has become a vital economic sector, given its pivotal role in mobilising financial resources and directing them toward financing economic and investment activities, ensuring stability and economic growth. Given the rapid transformations and emerging challenges facing this sector, it has become imperative to consider developing tools and methods capable of modelling various banking variables, to regulate the functioning of this sector and enhance its effectiveness.

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In this context, the Islamic banking experience represents a strategic path to creating appropriate financing services and formulas that are compatible with the principles of Islamic Sharia. The experience of Al Baraka Bank Algeria is a pioneering model in this field. This bank began its activities under the 1990 reforms, placing at the top of its strategic priorities the provision of Islamic financing mechanisms that are compatible with the religious and economic specificities of the local market. However, achieving this goal was not without challenges, especially in light of the Algerian economic environment characterised by the dominance of the traditional capitalist model, which relies on its financing strategy on the interest element in pricing its financial services and determining the cost of financing. This constituted an obstacle to strengthening Islamic banking activity, which made the process of harmonising with this model a real impediment to Al Baraka Bank Algeria. This was reflected in the form of organisational and operational difficulties, particularly about banking risk management strategies and compliance with capital adequacy standards adopted by the Bank of Algeria. Accordingly, based on the above, we can pose the following central question: **To what extent do budget items affect the improvement of capital adequacy at Al Baraka Bank of Algeria during the period 1993-2023, in light of the regulatory and legal challenges?**

Based on the central question posed above, we present the following questions:

Sub-questions: Based on the central question posed above, we present the following questions:

- What is meant by capital adequacy? What are the international standards adopted to measure it?
- What are the budget items that have the most significant impact on the capital?
- What is the impact of the liquidity levels maintained by Al Baraka Bank Algeria on capital adequacy during the period (1993-2023)?

Hypothesis:

-Al Baraka Bank is seeking to increase the durability of its capital adequacy, due to the concentration of its assets in the form of financing that involves a significant part of the risk.

-The Algerian bank relies on attracting deposits and investing them in assets that generate returns, which contributes positively to enhancing the percentage of capital adequacy.

-Al Baraka Bank Algeria maintains targeted levels of liquidity to reduce the costs associated with obtaining it, thus ensuring enhanced capital.

Research significance: the research gains its importance from its focus on analysing the impact of budget items on improving capital adequacy at Al Baraka Bank Algeria, which represents one of the most prominent pioneering models in Islamic banking at the national level, especially in a regulatory and economic environment characterised by transformation and volatility.

Research objective: Through this research, we aim to attempt to limit the various steps of building a standard model using the stepwise multiple regression method that helps us limit explanatory variables.

Methodology: Based on the above, we employed a deductive methodology in our research, adopting a descriptive analytical approach to describe the various dimensions of the topic and achieve the research's objectives.

Study limits: This study's time frame is limited to the period from 1993 to 2023, and its spatial frame is specific to Al Baraka Bank Algeria.

2. The Theoretical Framework Of Capital Adequacy And Its Determinants

Most supervisory authorities, especially in light of the increasing risks facing banks, are seeking to focus on the capital adequacy ratio, as it is one of the most important regulatory and supervisory methods for ensuring the safety of banking institutions. Therefore, this section will address the audit determination of capital adequacy, with a focus on its determinants within the budget items.

2.1. Capital adequacy concept

sufficient capital is considered the amount that enables the bank to protect its banking operations from failure by absorbing potential losses

(Abusharbeh, Triyuwono, Munawar, & Firdaus, 2023, pp. 162-162), Capital adequacy therefore serves as a safety valve for regulators and bank customers/shareholders in order to reduce the expected risks faced by commercial banks. It expresses the amount that enables the bank to protect its banking operations from failure by absorbing potential losses, especially in cross-border transactions (El-Ansary & Hafez, 2015, p. 806) exposed to during its activity. It is determined by a percentage that represents the minimum amount of funds that the bank owns. Thus, this percentage represents a safety margin to protect depositors' funds. It ensures financial stability (Lorena Bezo & Matilda, 2023, p. 828) by reducing risks (Henrik & Ragnar, 2024, pp. 1-2)

2.2. Capital adequacy indicators

Capital adequacy is one of the basic indicators that supervisory authorities focus on to ensure the safety and ability of banking institutions to confront the risks surrounding them, without affecting the ability to confront losses or the interests of depositors. Capital adequacy can be measured by the following indicators (tebbakh, 2018, p. 60):

-Bank solvency ratio: It is considered one of the traditional measures used to enable banking institutions to fulfil their obligations to return deposits to their owners on the specified date. This indicator expresses the relative relationship between the bank's capital and the total deposits deposited with it.

- Capital/ Assets: This indicator represents the percentage of equity capital compared to total assets, encompassing all investment aspects and various fund investments, which typically include some risky assets.

-Capital/Total Risky Assets: This is considered one of the most essential advanced qualitative indicators for expressing the capital adequacy ratio and the bank's actual ability to absorb expected and unexpected losses. This indicator expresses the relative relationship between owned capital and risky investment assets, with a focus on excluding all risk-free assets from the calculation.

2.3 .The importance of capital adequacy

The importance of capital adequacy can be summarised in (belghalem, 2019, pp. 92-93):

-The availability of a capital adequacy ratio (CAR) indicates a bank's ability to meet its financial obligations, providing protection and security for depositors' funds. Consequently, it contributes significantly to enhancing confidence in financial and banking institutions and providing greater security for both depositors and regulatory bodies.

-Providing adequate capital enables banks to cope with liquidity challenges. It enhances their ability to withstand losses, which contributes to achieving the satisfaction of stakeholders and thus enhances the stability of the banking system.

- It helps banks price the services they provide and maximise operational returns, in addition to setting the necessary policies and procedures to prevent risks resulting from complexities in banking operations and increasing competition.

- capital adequacy plays a role in determining the banking decision regarding the financing mix, such that financing will be relied upon through stocks and issuing bonds or relying on deposit funds.

- Capital adequacy will protect depositors' funds against the risk of loan failure (non-performing loans), meaning that if there is a failure by borrowers to pay their obligations to the bank, this risk will be covered by capital, and thus depositors' funds will be safe and will not be eroded due to loan losses, and this will have a positive impact on the bank's reputation;

2.4 . Literary reviews

The bank's ability to absorb expected and unexpected losses is determined by its ability to balance the three foundations of banking business, namely (liquidity, profitability, and safety), which translates into balancing the budget items, as it is required to preserve depositors' funds, which represent the most significant part of liabilities, by using those funds between achieving liquidity and obtaining a return that covers various costs while controlling the level of risk, as approved by multiple Basel Committee decisions. Accordingly, the determinants of capital adequacy can be limited, according to the literature reviews, to:

-Liquidity: Liquidity is one of the most important determinants of capital adequacy, according to many studies that have proven this (Keqa, 2021, pp. 352-360) (Abdilatif Mao, 2019, pp. 1-15), Liquidity is defined as the bank's ability to meet its obligations (Nur Hazimah & Wahida, 2017, p. 74), which are mainly represented by two elements: meeting depositors' requests to withdraw from deposits, and meeting credit requests, i.e. loans and advances, to meet the needs of society (bdul -Hussein Jassim, 2005, p. 4), It is also known as the amount of assets that can be converted into ready cash (Arndt, 1949, pp. 21-22), , which means the bank's ability to finance increases in assets and meet obligations when due without incurring significant losses (Pavla, 2014, p. 65), Therefore, providing acceptable levels of liquidity to banks makes them less vulnerable to pressures resulting from sudden withdrawals by depositors or funding shocks, which prevents them from selling their assets at significant losses (Dybvig, 1983, pp. 401-405), This protects its capital base from erosion resulting from improper liquidation. Furthermore, the availability of sufficient and flexible liquidity enhances the bank's negotiating ability in the financial market. It reduces its reliance on high-cost external financing sources, particularly during periods of volatility or economic stress. As a result, profitability indicators improve, enabling the bank to bolster its internal capital through retained earnings, which positively impacts capital adequacy ratios.

-Profitability: Achieving profitability is one of the primary strategic objectives pursued by commercial banks, as is the case with other economic units, given that it represents a necessary condition for ensuring continuity and enhancing the bank's competitiveness. This item is also one of the most prominent factors influencing capital adequacy (Batani & Asghari, 2014, pp. 108-116), It reflects the bank's ability to generate profits from its assets and operational resources, which enhances its financial strength in the long term. When banks achieve high levels of profitability, they can retain a portion of those profits within equity, which leads to an increase in the capital base without.

- **risks:** As exposure to various risks increases, risk-weighted assets will increase, negatively impacting the capital adequacy ratio. To achieve

banking safety, regulatory standards, particularly the Basel Committee's Accords, require banks to maintain capital that is directly proportional to the banking risks they face. Therefore, any increase in the degree of risk requires allocating more capital to absorb those losses. Accordingly, the relationship between risk and capital adequacy is a conditional inverse relationship; as a bank's continued exposure to high levels of risk without a parallel strengthening of its capital will lead to an erosion of the capital adequacy ratio.

3. Method and tools

The study used two analytical approaches to test its hypotheses and arrive at acceptable results. The first relies on capital adequacy analysis, while the second attempts to construct a standard model that illustrates the most important determinants of capital for the period (1993-2023). In this regard, we will provide an overview of how the sample was selected, the variables identified and measured, the data collection method, and a description of how it was summarized as follows.

3.1. Sample selection and submission

The selection of Al Baraka Bank Algeria as a sample in this research came due to the long period of its activity based on the principles and foundations of Islamic economics in the Algerian banking system compared to the relatively recent period of activity of Al Salam Bank, as the long period leads to reaching acceptable results in terms of performance evaluation and building a standard model.

Al Baraka Bank Algeria was established on 20 May 1991 as a joint stock company equally owned by Dallah Al Baraka International Holding Company, with a capital of 500 million DZD. It began its actual activity in September 1991, and its current capital (as of 2023) amounts to 20 billion DZD. The bank currently has an operating network covering all regions of the country, with an estimated number of 34 branches.

3.2.1. Standard Model Construction Variables

In our effort to identify a standard model that illustrates the impact of budget items on enhancing capital adequacy at Al Baraka Islamic Bank, we

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have considered a set of explanatory factors for the period 1993-2023, as detailed in Table No. (01).

Table 1. Model variables

symbol	index	variables	Explanation
dependent variable			
cap	capitaladequacy	-	Capital adequacy is a key indicator of a bank's ability to achieve banking safety by mitigating the risks that may arise from the nature of its activities and assets.
independent variables			
ROA	rate of return on total assets		There is a direct relationship between it and capital adequacy, and it is calculated using the following relationship: annual net result / total assets.
ROE	Return on Equity Rate	Profitability	A direct relationship with the dependent variable is extracted according to the following equation: annual net income/equity.
ROD	Deposit return rate		It measures the extent to which the bank can achieve profits based on sound management of depositors' funds.
VPDA	Relative importance of loans	Creditrisk	This ratio increases significantly in troubled banks, equal to: $VPDA = \text{Total Loans} / \text{Total Assets}$.
REMP	Employment rate	Creditrisk	This ratio indicates the amount of deposits invested in loans. An increase in this ratio indicates an increase in credit risk, and it must be less than one to enhance capital adequacy. This ratio equals: $\text{Total Loans} / \text{Total Deposits}$.
RINTCRD	Creditedinterest	interest rate risk	A high ratio indicates a low interest rate risk, and the relationship between this ratio is given as follows: $\text{Interest credited} / \text{Interest debited}$.

SM	Cash balance ratio	Liquidity	It expresses the bank's ability to meet its immediate and expected obligations through the ready cash available to it. It is calculated according to the relationship: $SM = (\text{cash on hand} + \text{cash at the central bank} + \text{liquid balances in other banks}) / \text{total deposits}$.
MONDC	Cash to current deposits ratio	Liquidity	It has a direct relationship with capital adequacy and is calculated as follows: $\text{cash on hand} / \text{total current deposits}$.
ELM	The relative importance of liquidity	Liquidity	Its increase leads to an increase in capital adequacy and vice versa. The following relationship is expressed as $\text{cash balance} / \text{total assets}$.
COEFEX P	Exploitation factor	Management safety	A low coefficient indicates sound management and improved bank performance, thus enhancing capital adequacy. It is calculated as: $\text{general operating expenses} / \text{net banking income}$.

Source: Prepared by researchers

3.2.2. Data collection method

Data for evaluating the bank's performance and constructing the benchmark model were collected from the Bank of Algeria's reports on Algeria's economic and monetary development from 2009 to 2023, published on the website: www.bank-of-algeria.dz. Data for Al Baraka Bank of Algeria consisted of balance sheets for the period from 1993 to 2023, obtained from the bank's website: www.albaraka-bank.com, and from the Official Bulletin of Legal Notices (B.O.A.L.) of the National Center for the Commercial Register (C.N.R.C.).

3.2.3. Statistical and quantitative tools used

The statistical and quantitative tools used are summarised as follows:

- Arithmetic mean: Used to determine the level of data over the research period .
- Analysis of variance (ANOVA table): Extracts the model's explanation value for the dependent variable.
- Fisher's F value: Confirms the model's high explanatory power from a statistical perspective.

- Student's t-distribution test: Measures the significance of parameters and the effect of variables.
- Jarque-Bera test: Verifies that the estimated residuals follow a normal distribution.
- LM Test: This test helps test autocorrelation of errors, as it measures the degree of correlation between values of the same variable over a specific period, rather than between one or more variables.
- ARCH Test: This test is used to test the homogeneity of the variance of random errors.
- Ramsey Reset Test: This test is typically used to verify the appropriateness of the functional formula used in the estimated model.

4. RESULTS AND DISCUSSION

After explaining how to select the sample, define the variables and how to measure them, the method of collecting data, and describing how to summarise the data and the statistical and measurement tools used, we present the collected data, analyse it, and test the study hypotheses as shown below:

4.1. Evaluating the performance of the Algerian bank for Paria from the financial affairs perspective for the financial solidity of the Bank of Algeria

4.1.1. Evaluation of the performance of the Algerian bank from the perspective of the capital adequacy index

It is evident from Table No. (02) that the capital adequacy ratio of Al Baraka Bank for the period under study is greater than the legal ratio imposed by the Bank of Algeria and less than the average ratio for the Algerian banking system, estimated at 20.61%. It is also noted that this ratio is in continuous decline, but in general, the bank has shown acceptable efficiency in confronting risky assets using its funds.

Table 2. Indicators of the financial solidity of the Bank of Algeria and the Algerian Bank of Algeria for this period

Algerian banking system (%)									
	CAP	ROE	ROA	LIQ		CAP	ROE	ROA	LIQ
2009	26.1	26	1.7	51.8	2017	19.5	17.8	2	23.7
2010	23.6	26.7	2.1	52.9	2018	19.05	22.4	2.4	19.8

201	23.7	24.5	2.1	50.1	2019	19.05	22.4	2.4	19.8
2012	23.6	22.6	1.9	45.8	2020	17.9	14	1.5	15.9
2013	21.5	19	1.6	40.4	2021	19.1	11.6	1.4	13.1
2014	15.9	23.5	1.9	37.9	2022	21.6	14.3	1.7	3.9
2015	18.3	20.3	1.8	27.1	2023	21.5	13.4	1.3	40.2
2016	18.8	18.1	1.8	23.5	2024	-	-	-	-
Al Baraka Bank Algeria (%)									
	CAP	ROE	ROA	LIQ		CAP	ROE	ROA	LIQ
2009	15.8	21.5	2.8	34	2017	10.9	17.8	1.8	41.3
2010	17.1	22.5	2.6	47	2018	10.9	17	1.9	38.7
201	16.7	23.9	2.8	51.1	2019	11	16.2	0.09	36.6
2012	17.7	24.3	2.7	54.2	2020	11.2	12.1	1.4	39.9
2013	18.1	22.3	2.6	52.4	2021	11.4	19.4	1.5	46.7
2014	15.4	22.1	2.6	49	2022	11.6	12.6	1.4	46
2015	14	20.7	2.1	47.6	2023	10.9	12	1.3	48.7
2016	13	19.9	1.4	44.2	2024	10.9	17.8	1.8	41.3

Source: It was prepared by researchers based on the annual reports of Bank of Algeria and the annual reports of Al Baraka Bank for the period (2009-2023).

4.1.2. Evaluating the performance of Al Baraka Bank Algeria from a profitability perspective

- Return on equity (ROE): It is evident from Table No. (02) that the average of this ratio for the bank reached 18.9%, which is less than the average ratio for the Algerian banking system, estimated at 19.7%. However, in general, Al Baraka Algerian Bank achieved efficiency in exploiting its funds to generate profits.

- Return on Assets (ROA): It is noted from the table above that the average of this ratio reached 1.93% in the bank, which is higher than the average ratio for the Algerian banking system, 1.84%, which indicates the efficiency of Al Baraka Bank's Islamic financing formulas as profitable investment formulas.

4.1.3. Evaluating the performance of Al Baraka Bank Algeria from a liquidity perspective:

The average of this ratio in Table No. (02) of 45.16% for the bank shows that it has a high ability to meet its obligations on its agreed dates. Still, this ratio remains high compared to the industry average of 31.06%.

4.2. Measuring the determinants of capital adequacy of the Algerian Bank within the budget items for the period (1993-203)

4.2.1. optimal model

Based on previous studies in this field, we decided to adopt the standard linear model, which takes the following form:

$$CAP = \beta_0 + \beta_1ROA + \beta_2ROE + \beta_3ROD + \beta_4MONDC + \beta_5ELM + \beta_6REMP + \beta_7VPDA + \beta_8SM + \beta_9RINTCRED + \beta_{10}COEFFEXP$$

Since the estimated model takes a linear form and is based on classical assumptions, we can use the ordinary least squares (OLS) method to find the linear equation for the model. SPSS 25 was used, using the stepwise regression method, which proposes entering variables one by one, as in the usual entry method, while excluding variables that become ineffective in the presence of the remaining variables. Thus, it allows for the exclusion of some variables selected in the previous stages at each subsequent stage if a strong relationship is discovered between them and one of the independent variables included in the model in the subsequent stages. Using this approach, the findings are presented in Table 1 in the appendices, indicating that the third-best model among the proposed options can be considered. As shown in Table 3, the coefficient of determination (R2) has a value of 0.821, indicating that the independent variables account for 82.1% of the variation in the dependent variable.

Table 3. Coefficient of determination of the optimal model

Model	R	R Square	Adjusted R Square	Std. Error
1	.525a	.276	.251	.055565445919187
2	.741b	.549	.516	.044644832653765
3	.821c	.674	.637	.038668559268495

a. Predictors: (Constant), VPDA

b. Predictors: (Constant), VPDA, ROD

c. Predictors: (Constant), VPDA, ROD, SM

Source: Prepared by researchers using SPSS.25

It is noted from Table No. (04) that the value of F is equal to 18.56 and Sig = 0,000, which confirms the high explanatory power of the multiple linear regression model from a statistical point of view.

Table 4. Analysis of variance for the optimal model

ANOVA ^a						
	Model	Sum of Squares	df	Mean Square	F	Sig.
3	Regression	.083	3	.028	18.56	.000 ^d
	Residual	.040	27	.001		
	Total	.124	30			

a. Dependent Variable: CAP

b. Predictors: (Constant), VPDA

c. Predictors: (Constant), VPDA, ROD

d. Predictors: (Constant), VPDA, ROD, SM

Source: Prepared by researchers using SPSS.25

addition to the above, we conclude from the table below that the Student T-test calculated for the independent variables is significant at a 0.5% significance level and up to 0.1% for all variables, indicating that the model is statistically acceptable.

Table 5. Model parameter estimation results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
3	(Constant)	.203	.041		4.965	.000
	VPDA	-.322-	.066	-.579-	-4.848-	.000
	ROD	4.260	.760	.695	5.607	.000
	SM	.046	.014	.409	3.213	.003

a. Dependent Variable: CAP

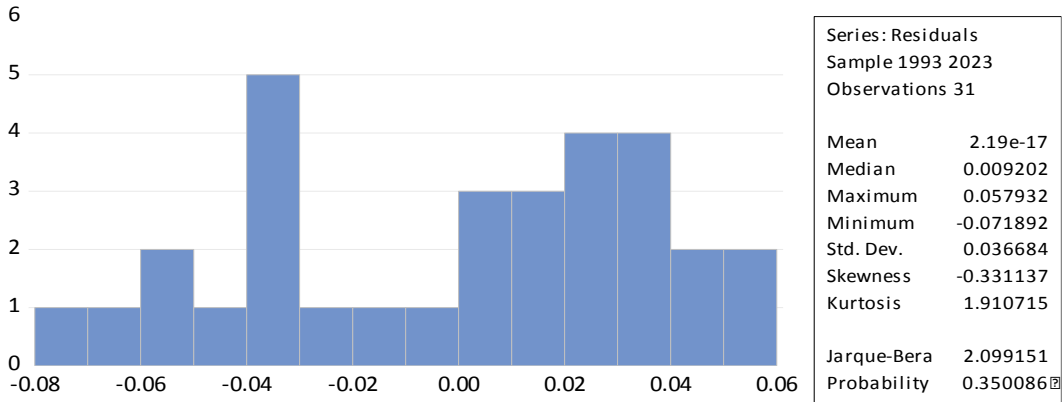
Source: Prepared by researchers using SPSS.25

4.2.2. Statistical diagnosis of the model

This model cannot be relied upon to interpret the results of the previously established hypotheses, except after conducting tests that prove that the estimated model does not suffer from standard problems that would affect the quality of the model, and these can be limited to:

- **Testing the normal distribution of the estimated residuals**

Fig.1. Jarque-Bera test results



Source: Prepared by researchers based on Eviews 12 outputs.

We notice from the figure that the model follows a normal distribution.

- Testing the autocorrelation of errors:

Table 6. LM-Test results.

Bräusch-Godfrey Serial Correlation LM Test:

Null hypothesis: No serial correlation at up to 2 lags

F-statistic	2.175015	Prob. F(2,25)	0.1346
Obs*R-squared	4.594576	Prob. Chi-Square(2)	0.1005

Source: Prepared by researchers based on Eviews 12 outputs

We find from the outputs of the table that there is no problem of self-correlation of errors.

- Test of homogeneity of random error variance

Table 7. Breusch-pagan-Godfrey test results.

Heteroskedasticity Test: Breusch-Pagan-Godfrey

Null hypothesis: Homoskedasticity

F-statistic	1.628668	Prob. F(3,27)	0.2060
Obs*R-squared	4.750239	Prob. Chi-Square(3)	0.1910
Scaled explained SS	1.640862	Prob. Chi-Square(3)	0.6502

Source: Prepared by researchers based on Eviews 12 outputs

Through our induction, we can conclude that there is no problem of variance.

-Ramsey Reset Test:

Table 8. Ramsey Reset test results

Ramsey RESET Test
Equation: UNTITLED
Omitted Variables: Squares of fitted values
Specification: CAP VPDA ROD SM C

	Value	df	Probability
t-statistic	1.977682	26	0.0587
F-statistic	3.911226	(1, 26)	0.0587
Likelihood ratio	4.344257	1	0.0371

Source: Prepared by researchers based on Eviews 12 outputs.

4.3. Hypothesis testing and economic interpretation of results

Based on most of the tests we conducted to ensure that the third model does not suffer from standardisation problems, we can write the optimal model equation (see Appendix No.1):

$$CAP = 0.203 - 0.32VPDA + 4.26ROD + 0.046SM$$

- we can accept the first hypothesis, where a one-unit decrease in credit risk leads to a 0.322 units, which is consistent with the study of both: (Sudiyatno, Elen, Susilowati, & Sudarsi, 2019, pp. 115-127) (Qandouz & Muash, 2022), This inverse relationship in Islamic banks can be explained by the special nature of the adopted financing models, especially contracts based on participation and speculation, which involve high levels of uncertainty regarding the realization of returns, which increases the possibility of default in financing based on participation and speculation, which requires larger capital reserves to cover potential losses, which leads to the erosion of the capital base. Furthermore, the weak diversification of financing portfolios due to the commitment of Islamic banks to specific activities increases the concentration of risks (Beck a, Kunt, & Merrouche, 2013, p. 433).

- We accept the second hypothesis, because an increase in profitability levels by one unit leads to 4.26, which is consistent with the study (Abdilatif Mao, 2019). This is because the increased profitability in Islamic banks leads to further strengthening of capital allocations through retained earnings, without the need to increase capital through shareholders or resort to financing instruments that are not compatible with Sharia.

-The results of the decline equation allow us to accept the third hypothesis, as an increase in the liquidity index by one unit leads to an improvement in

the capital adequacy index by 0.046 units, and what was reached by both the study (Mesra Berlyn & Dilasari, 1-9, pp. 1-9), This is because when a bank has sufficient liquidity, it reduces the need to sell assets when prices fall or expand emergency financing, which curbs capital gains and losses.

5. CONCLUSION

Capital adequacy is of pivotal importance as an indicator of the strength of a bank's financial position and its effectiveness in addressing banking risks. In light of the increasing need to explore the structural aspects affecting capital adequacy in Islamic banks, this study sought to analyze the impact of budget items on improving capital adequacy in Al Baraka Bank Algeria during the period (1993-2023), relying on the multiple stepwise regression methodology, which allowed for reaching a set of results that we summarize as follows:

- Al Baraka Bank Algeria adopts a conservative financing policy that takes into account risk management principles by Sharia-compliant formulas. This has enabled it to reduce credit risk levels, thereby enhancing capital adequacy.

-Al Baraka Bank Algeria is highly efficient in investing its assets in return-generating activities that comply with Sharia principles, which has directly contributed to enhancing profitability levels. This positive performance has been reflected in strengthening capital adequacy.

-Al Baraka Bank Algeria maintains acceptable levels of liquidity, consistent with the requirements of financial and banking discipline in the Islamic environment. This has enabled it to avoid short-term financing pressures that often negatively impact the capital base.

-The bank enjoys acceptable profitability, which is higher than the industry average, in terms of the rate of return on assets, which means that it is distinguished by its high efficiency in generating returns from its assets.

Based on the results of the applied study, a set of recommendations can be proposed:

- It is recommended that Al Baraka Bank Algeria adopt a financing policy focused on controlling credit risks by enhancing risk assessment methods

through a precautionary approach aligned with the principles of Islamic banking.

-Al Baraka Bank officials should focus on investment strategies based on investing assets in activities that generate regular returns and are Sharia-compliant, as this directly contributes to supporting profitability.

-Al Baraka Bank Algeria officials should focus on strengthening strategies aimed at maintaining comfortable and disciplined liquidity levels, thus reducing reliance on short-term financing and contributing to alleviating capital pressures.

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6. Appendices

Table .1 Results of estimating the parameters of the three proposed models **Coefficients^a**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.314	.048		6.535	.000
	VPDA	-.292	.088	-.525	-3.324	.002
2	(Constant)	.273	.040		6.839	.000
	VPDA	-.380	.074	-.684	-5.154	.000
	ROD	3.347	.814	.546	4.114	.000
3	(Constant)	.203	.041		4.965	.000
	VPDA	-.322	.066	-.579	-4.848	.000
	ROD	4.260	.760	.695	5.607	.000
	SM	.046	.014	.409	3.213	.003

Appendix 2: Shows the variables that were excluded using the stepwise regression method.

Excluded Variables^a

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics Tolerance
1	ROA	.512 ^b	3.799	.001	.583	.938
	ROE	.157 ^b	.915	.368	.170	.853
	ROD	.546 ^b	4.114	.000	.614	.916
	MONDC	.193 ^b	1.031	.311	.191	.714
	ELM	-.251 ^{-b}	-.998-	.327	-.185-	.394
	REMP	.508 ^b	2.349	.026	.406	.461
	SM	.142 ^b	.833	.412	.155	.869
	RINTCRED	.281 ^b	1.823	.079	.326	.971
	COEFFEXP	-.557 ^{-b}	-3.851-	.001	-.588-	.809
2	ROA	.082 ^c	.225	.823	.043	.127
	ROE	-.387 ^{-c}	-2.262-	.032	-.399-	.479
	MONDC	.146 ^c	.970	.341	.184	.710
	ELM	-.435 ^{-c}	-2.255-	.032	-.398-	.378
	REMP	.489 ^c	2.951	.006	.494	.461
	SM	.409 ^c	3.213	.003	.526	.747
	RINTCRED	-.109 ^{-c}	-.634-	.531	-.121-	.561
	COEFFEXP	-.278 ^{-c}	-1.330-	.195	-.248-	.358
3	ROA	.253 ^d	.804	.429	.156	.124
	ROE	-.238 ^{-d}	-1.429-	.165	-.270-	.420
	MONDC	.161 ^d	1.245	.224	.237	.709
	ELM	-.109 ^{-d}	-.456-	.653	-.089-	.220
	REMP	.280 ^d	1.425	.166	.269	.302
	RINTCRED	.110 ^d	.672	.507	.131	.462
	COEFFEXP	-.316 ^{-d}	-1.781-	.087	-.330-	.357