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The Effect of Bank Soundness Level Ratio on the Profit Growth in the State-Owned Banks

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Abstract

A healthy bank is able to carry out its intermediary function well, help the smooth flow of payment traffic, maintain public confidence, and can be used by the government in implementing its various policies, especially monetary policy. This study aimed at: 1) analyzing the effect of Risk Profile on profit growth in state-owned banks, 2) analyzing the effect of Good Corporate Governance on profit growth in state-owned banks, 3) analyzing the effect of Earnings on profit growth in state-owned banks, and 4) analyzing the effect of Capital on profit growth in state-owned banks. This study utilized quantitative methods with variables including: the needs to find Risk profile (X1), GCG (X2), Earnings (X3), Capital (X4), and Profit Growth (Y). The results of this study indicated that: 1) Partial risk profile proxied by a Loan to Deposit Ratio (LDR) had no effect on the Profit Growth, 2) Good Corporate Governance partially had no effect on the Profit Growth, 3) Earning proxied by Return on Assets partially had no effect on the Profit Growth, 4) Capital proxied by Capital Adequacy Ratio partially had no effect on the Profit Growth.

Keywords: *Bank; Profit; State-Owned Banks; Risk Profile*

Introduction

Banking currently becomes the most important factor in running a country's economy where all economic activities require banking services. In consequence, it is no wonder that banking is used as the heart of the economy of a country. The important role of banks in growing economic stability is shown when the economic sector has declined; accordingly, one way to restore economic stability is to organize the banking sector. Therefore, the government pays special attention to the existence of banks in the structure of the national economy (Mahendra & Suzan, 2015).

Information on the bank health or soundness can be done by those parties to evaluate the bank's performance in applying the principle of prudence, compliance with applicable regulations, as well as risk management (Lubis, 2013). The importance of healthy banks is to carry out the intermediary function well, help the smooth flow of payment traffic, maintain the public trust, and can be used by the government in implementing various policies, especially monetary policy. Maintaining the bank soundness can be done by maintaining the health of the bank while maintaining liquidity where the bank can fulfill its obligations and maintain its performance. According to Lubis (2013), the provisions of the

bank soundness level are used as the materials to assess, determine the direction of bank development and expansion, so that banks can be managed into viable and healthy banks to continue developing. On the other hand, bank performance can also be used as a benchmark for the soundness of the bank. For management, the company's performance evaluation can be interpreted as an assessment of the achievements that can be achieved. Profit growth can be used as a measure of the achievements accomplished in a company that is shown in the company's financial statements (Marselina, 2017).

Profit growth describes management's performance in generating profits to pay interest on creditors, investor dividends, and government taxes. Lately, there has been a tendency to pay more attention to the size or profit growth on the income statement than other measures or growth. Profit growth is an indicator to measure the level of bank soundness. Based on *Bank Indonesia* Regulations, Bank Indonesia perfected the methodology for evaluating the soundness of commercial banks that previously used the CAMELS method with a Risk-Based Bank Rating approach, whose assessments included Risk Profile, Good Corporate Governance (GCG), Profitability (*Earning*), and Capital; it was then abbreviated as RGEC method (Aprilia *et al.*, 2017).

By the issuance of a Risk-Based Bank Rating using RGEC (Risk profile, Good Corporate Governance, Earning dan Capital) method, banks are expected to be able to identify problems early, make appropriate and faster follow-up improvements, and implement Good Corporate Governance and risk management better so that banks are more resilient in facing a crisis (Lesamana & Ambarwati, 2014).

It is highly expected that there will be an increase in changes in profits within the company in each period. Estimated changes in profits to be achieved by the company for the coming period are needed. For investors, future profit information can influence their investment decisions. Investors certainly expect better company profits in the future. Profit for investors is also related to dividends that will be distributed by the company. Potential investors also expect the similar thing before investing in a company. They will consider the company's prospects in the future. Furthermore, for the management, the one-year profit forecast is part of the company's annual business plan. The prediction is then compared to the actual profit to obtain more or less difference (Marselina, 2017).

Profit information is also important for people as service users and places to entrust to save their money. State-owned banks are banks which are much in demand by society. They are considered safer since they are guaranteed by the state. According to data obtained from bi.go.id, 48% of total community savings accounts are in the state-owned bank accounts, 44% of them are in private banks, and 7% of them are in regional government banks. Therefore, state-owned banks must be in a healthy condition to carry out banking operations normally and be able to fulfill obligations properly in accordance with applicable banking regulations (Trisnawati, 2014).

Research Methodology

Research Object

The object of this research was the financial statements at the State-Owned Banks including BNI (*Bank Negara Indonesia*), BRI (*Bank Rakyat Indonesia*), BTN (*Bank Tabungan Negara*), and *Bank Mandiri* in the 2015-2017 periods.

Population and Sample

Samples taken were state-owned banks registered at Bank Indonesia: *Bank Mandiri, Bank Negara Indonesia* (BNI), *Bank Rakyat Indonesia* (BRI), and *Bank Tabungan Negara* (BTN) for the 2015-2017 periods.

Data Types and Sources

The type of data used in this study was quantitative data. This type of data was data that could be measured or calculated directly as a variable number or number. The data were in the form of the company's financial statements for the 2015-2017 periods. Data sources used in this study were secondary data, which were data obtained or collected by the researcher from various sources that already existed. Sources of data were from the websites www.bankmandiri.co.id, www.bni.co.id, www.ir-bri.com, www.btn.co.id.

Data Collection Procedure

Data and materials collection in this study was carried out through the following ways:

1. Library Research

It was conducted by collecting material or data relating to the object of discussion, obtained through library research by studying, researching, and analyzing books, national accounting journals, as well as from other supporting sites.

2. Field Research

The data used in this study were secondary data in which data collection procedures were carried out by observation of annual financial reports published on the following websites: www.go.id, www.bankmandiri.co.id, www.bni.co.id, www.ir-bri.com, www.btn.co.id.

Research Variables

1. The independent variable is a variable that does not depend on other variables. In this study, the independent variables included the need to look for *Risk profile* (X_1), GCG (X_2), *Earnings* (X_3), and *Capital* (X_4).

2. Dependent variable is a variable influenced by other variables. In this study, the dependent variable was Profit growth (Y)

Data Analysis Technique

In this study, the researcher used a quantitative approach. Quantitative approach generally focuses more on the goal of generalization by conducting statistical and sterile tests of the subjective influence of the researcher. The analytical tool that the researcher used was multiple regression analysis. Multiple regression analysis was an analysis of several independent variables with one dependent variable. In general, this regression analysis was used to investigate the relationship between the dependent variable and the independent variable by observing the tendency of the relationship pattern by estimating the average value of the dependent variable based on the value of the independent variable known (Hasan, 2008). The value of the regression equation was searched by Least Squares analysis by minimizing the sum of the squares of errors. Some steps undertaken in each linear analysis will be explained below:

Descriptive Analysis

Descriptive statistics provide a description or descriptive data that is seen from the average value (mean), standard deviation, maximum value, and minimum value (Ghozali, 2011). The data studied were grouped into five, namely: Risk Profile, GCG, Earnings, Capital, and Profit growth. Descriptive statistics in this study functioned to describe or provide an overview of the object under study through sample data and make general applicable conclusions.

Statistical Analysis

The analysis conducted in this study included: 1) classical assumption testing was used to see whether the research data could be analyzed using multiple linear regression equations, 2) normality test was used to measure whether the data obtained has a normal distribution that matches a particular theoretical distribution, 3) multicollinearity test aimed at testing whether the regression model found a correlation between independent variables, 4) autocorrelation test examined a correlation in a model to find out whether there was a correlation between variables, 5) heteroscedasticity test was used to find out whether or not there was a deviation of the classical assumption, that was, the variable inequality of residuals for all observations in the regression model (Ghozali, 2011).

Hypothesis Testing

The research hypothesis testing was carried out using a significance test to find out whether the independent variables partially affected the independent variables.

Multiple Linear Regression Analysis

Regression analysis was conducted to determine the shape of the relationship between variables in order to estimate the value of a variable in relation to other variables.

Partially Significance Test (T Test)

The T statistical test basically showed how far the influence of one independent variable individually in explaining the variation of the dependent variable (Ghozali, 2009).

Coefficient of Determination Test (R^2)

Coefficient of Determination R^2 was used to measure how far the model's ability to explain variations in the dependent variable. The coefficient of determination is 0 and 1. The greater the R^2 (close to 1), the better the results for the regression model are. The closer the R^2 to 0, then the overall independent variable cannot explain the dependent variable. A small value of R^2 shows that the ability of the independent variables to explain the dependent variables is very limited. A value close to 1 means that the independent variables provide almost all the information needed to predict the dependent variable or the relationship between the two variables that is getting stronger.

Results and Discussion

Research Data

The following are data on Risk Profile, GCG, Earnings, Capital, and Profit growth in BNI, BRI, BTN, and Mandiri Bank in 2015-2017 which have been processed:

Table 1. RGEC and Profit Growth Data of Stated-Owned Banks in 2015-2017

No	Bank Names	Year	Risk Profile	GCG	Earnings	Capital	Profit growth
1.	BNI	2015	87.8 %	2	2.6 %	19.5 %	-15.6 %
		2016	90.4 %	2	2.7 %	19.4 %	25.1 %
		2017	85.6 %	2	2.7 %	18.5 %	20.1 %
2.	BRI	2015	86.8 %	1	4.1 %	20.5 %	4.8 %
		2016	87.7 %	2	3.8 %	22.9 %	3.2 %
		2017	88.1 %	1	3.6 %	22.9 %	10.7 %
3.	BTN	2015	108.7 %	2	1.6 %	16.9 %	65.9 %
		2016	102.6 %	2	1.7 %	20.03 %	41.4 %
		2017	103.1 %	2	1.7 %	18.8 %	16.1 %
4.	Mandiri	2015	87.0 %	1	3.1 %	18.6 %	2.4 %
		2016	85.8 %	1	1.9 %	21.3 %	-30.7 %
		2017	87.1 %	1	2.7 %	21.6 %	46.3 %

Results of the Research

1. Descriptive Analysis

Descriptive statistics are used to provide data of the amount of data, minimum value, maximum value, mean value and standard deviation. Based on the results of secondary data collection on risk profile, GCG, earning, capital, and Profit growth at BNI, BRI, BTN, and Mandiri Banks in 2015-2017, the descriptive statistics on the research variables are as follows:

Table 2. Descriptive Statistics Test Results

Statistics

		Risk Profile	GCG	Earning	Capital	Profit Growth
N	Valid	12	12	12	12	12
	Missing	0	0	0	0	0
Mean		.91725	1.50000	.02683	.20100	.15808
Std. Deviation		.081067	.522233	.008526	.018380	.266871
Minimum		.856	1.000	.016	.169	-.307
Maximum		1.087	2.000	.041	.229	.659

Based on the table 2 above, bank profit growth in 2015-2017 has an average value of 0.15808 or 15.808%, which means that the banking companies sampled have fulfilled compliance with bank health or soundness, since sound banks can perform well and generate optimal profits.

2. Classic Assumption Test

a. Normality Test

According to Ghozali (2009), normality test aims to test whether in a regression model, the dependent variables and independent variables are normally distributed.

Table 3. Kolmogorov-Smirnov Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		12
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.19693719
Most Extreme Differences	Absolute	.126
	Positive	.124
	Negative	-.126
Test Statistic		.126
Asymp. Sig. (2-tailed)		.200[c,d]

Based on the table of *One-Sample Kolmogorov-Smirnov Test* above, the value of the probability of significance (Asymp. Sig. (2-tailed)) is 0.200. It shows that the data are normally distributed because the significance value is more than 0.05. Thus, it can be concluded that the regression model meets the assumptions of normality and can be used to test the hypotheses.

b. Multicollinearity Test

To find out whether multicollinearity occurs can be seen from the value of Tolerance and Variance Inflation Factor (VIF). If the tolerance value is above 0.10 or the value of Variance Inflation Factors (VIF) is below 10, then there is no multicollinearity (Ghozali, 2009).

Table 4. Multicollinearity Test Results

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	RiskProfile	.478	2.091
	GCG	.418	2.394
	Earning	.445	2.248
	Capital	.511	1.958

Based on the table 4 above, the value of tolerance risk profile is 0.478, GCG is 0.418, earning is 0.435, and capital is 0.511, indicating that the tolerance value in this study is greater than 0.1. Moreover, the VIF value of the risk profile variable is 2,091, GCG is 2,394, earning is 2,248 and capital is 1,958. VIF values of the four independent variables in this study indicate the values smaller than 10. Therefore, it can be concluded that the four variables do not have multicollinearity problems between the independent variables in the regression model.

c. Autocorrelation Test

The autocorrelation test is used to test whether in a regression model there is a correlation between the intruder in period t and the fault in the period t-1 (previous).

Table 5. Autocorrelation Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.675[a]	.455	.144	.246874	2.197

Table 5 shows that the Durbin-Watson value in this regression model was 2.197. Based on the predetermined criteria, this value falls into the criteria 1.55 to 2.46, which means that there is no autocorrelation in this regression model.

d. Heteroscedasticity Test

Heteroscedasticity test is used to determine whether or not there is a deviation from the classical assumption of heteroscedacity, that is the variance of the residual inequality for all observations in the regression model. Heteroscedasticity test results obtained in this study can be seen in Figure 1 as follows:

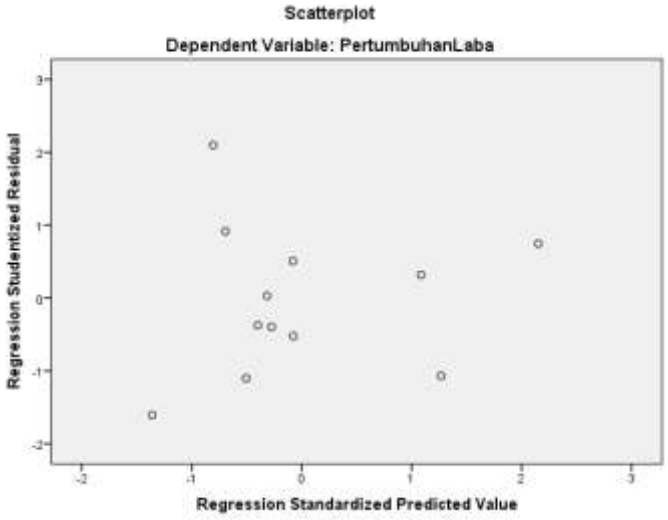

Figure 1. Heteroscedasticity Test Results (Scatter Plot)

It is shown in the scatterplot graph that the points spread randomly, do not form a clear or regular pattern, and the points are spread above and below the 0 point on the Y axis. Thus, the pattern picture above illustrates the occurrence of heteroscedasticity symptoms in the regression model, by which the regression model in this study is feasible to use.

3. Hypothesis Testing

a. Multiple Linear Regression Analysis

Based on the data of risk profile, GCG, earning, capital and Profit growth in the period of 2015 to 2017, how much the relationship and influence of each variable can be determined through the regression coefficient.

Table 6. Regression Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.174	1.972		-1.102	.307
	RiskProfile	2.548	1.328	.774	1.919	.096
	GCG	.017	.221	.033	.076	.941
	Earning	8.870	13.089	.283	.678	.520
	Capital	-1.337	5.668	-.092	-.236	.820

The constant value obtained is -2.174. It means if the Profit growth (Y) variable is not influenced by the four independent variables or Risk Profile (X1), Good Corporate Governance (X2), Earning (X3), and Capital (X4) is zero, then the average size of Profit growth will be worth -2.174.

The value of the regression coefficient on the independent variables illustrates if it is estimated that the independent variable rises by one unit and the value of the other independent variables is estimated to be constant or equal to zero, then the value of the dependent variable is expected to increase or decrease in accordance with the regression coefficient mark of the independent variable.

The regression coefficient for the independent variable X1 (Risk Profile) is positive, which indicates a direct relationship between Risk Profile (X1) and Profit growth (Y). Additionally, the regression coefficient of variable X1 is 2.548 which means that for each increase in Risk Profile (X1) by one, the profit growth will increase by 2.548 assuming that the other independent variables in the regression model are constant.

The regression coefficient for the independent variable X2 (Good Corporate Governance) is positive, indicating a direct relationship between Good Corporate Governance (X2) and Profit growth (Y). The regression coefficient of variable X2 is 0.17 which means that each increase in Good Corporate Governance (X2) of one will cause an increase in Profit growth (Y) of 0.17 with the assumption that the other independent variables in the regression model are constant.

The regression coefficient for the independent variable X3 (Earning) is positive, indicating a direct relationship between Earning (X3) and Profit growth (Y). The regression coefficient of variable X3 is 8.870, meaning that every increase in Earning (X3) of one, the profit growth will increase by 8.870, assuming that the other independent variables in the regression model are constant.

The regression coefficient for the independent variable X4 (Capital) is negative, indicating a relationship in the opposite direction between Capital (X4) and Profit growth (Y). The variable regression coefficient X4 is equal to -1.333 meaning that each increase in Capital (X4) of one, the profit growth will decrease by 1.337 assuming that the other independent variables in the regression model are constant.

b. Determination Coefficient Test (R2)

Multiple linear regression analysis uses the Adjusted R Square value because it has been freed from the influence of degrees of freedom which means that the value has really shown how the influence of the independent variables on the dependent variable. The results of the analysis of the coefficient of determination (R^2) can be seen in table 7 below:

Table 7. The Coefficient of Determination Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.675[a]	.455	.144	.246874

Table 7 shows the adjusted coefficient of determination (Adjusted R Square) of 0.144. It shows that the ability of Profit growth in state-owned banks can be explained together by the Risk Profile, GCG, Earning and Capital variables which are proxied by LDR, GCG, ROA and CAR by 14.4% while the remaining 85.6% is explained by other variables outside of the research methods such as Non-Performing Loan (NPL), Operational Cost to Operational Expenses (BOPO), Quality of Productive Assets (KAP), Non Performing Financing (NPF), etc.

4. Partial Test with t-test

Partial test with t test is basically to find out how much influence the independent variable partially affects the dependent variable. T test results are shown in table 6 with the significance column (sig.).

Table 8. Partial Test Results with t-test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.174	1.972		-1.102	.307
	RiskProfile	2.548	1.328	.774	1.919	.096
	GCG	.017	.221	.033	.076	.941
	Earning	8.870	13.089	.283	.678	.520
	Capital	-1.337	5.668	-.092	-.236	.820

Table 6 above shows the results of partial regression coefficient testing by considering the significance value for each independent variable as follows:

a. The first hypothesis testing (H1). Based on the results of partial test calculations on the Risk Profile variable (X1), the calculated t value of 1.919 is obtained. This value is smaller than the t table value of 2.36462. The significance value (sig.) of Risk Profile (X1) is 0.96. It is greater than the α value (0.05). It means that Risk Profile (X1) has no effect on the profit growth (Y) (not significant). Based on the explanation above, it can be concluded that Risk Profile (X1) does not affect the Profit Growth (Y); therefore, the first hypothesis is rejected.

b. The second hypothesis testing (H2). Based on the results of partial test calculations for Good Corporate Governance variable (X2), the t value is 0.76. This value is smaller than the t table value of 2.36462. The significance value (sig.) of Good Corporate Governance (X2) is 0.941 that is greater than the α value of 0.05. It indicates that Good Corporate Governance (X2) has no effect on the Profit growth (Y) (not significant). Based on the explanation above, it can be concluded that Good Corporate Governance (X2) does not affect the Profit Growth (Y); therefore, the second hypothesis is rejected.

c. The third hypothesis testing (H3). Based on the results of partial test calculations for the Earning variable (X3), the calculated t value obtained is 0.678. This value is smaller than the t table value of 2.36462. The significance value (sig.) of Risk Profile is 0.520 that is greater than the α value of 0.05.

It means that Earning (X3) has no effect on Profit growth (Y) (not significant). Based on the explanation above, it can be concluded that Earning (X3) has no effect on the Profit growth (Y); therefore, the third hypothesis is rejected.

d. The forth hypothesis testing (H4). Based on the results of partial test calculations for the Capital variable (X4), the calculated t value obtained is -0.236. This value is smaller than the t-table value of 2.36462. The significance value (sig.) of Capital is 0.820 that is greater than the α value of 0.05. It means that Capital (X4) has no effect on the profit growth (Y) (not significant). Based on the explanation above, it can be concluded that Capital (X4) has no effect on the profit growth ,(Y); therefore, the fourth hypothesis is rejected.

Discussion

The Effect of Risk Profile on the Profit Growth

Risk Profile proxied by Loan to Deposits Ratio (LDR) is a measure of a bank's ability to repay withdrawals of funds made by depositors by relying on loans provided as a source of liquidity.

The results of the statistical tests carried out showed that the t value was 1.919. This value was smaller than the t table value of 2.36462. The significance value (sig.) of the Risk Profile (X1) was 0.96 that was greater than the α value of 0.05. It means that Risk Profile (X1) has no effect on the Profit growth (Y) (not significant). Based on the explanation above, it can be concluded that the Risk Profile (X1) does not affect the Profit Growth (Y); therefore, the first hypothesis is rejected.

The results of this study are in line with previous research conducted by Setiawan (2016) which considers that LDR partially has no effect on the profit growth. Third party funds that have been collected by banks are not fully channeled back in the form of credit so that the bank has a number of idle funds which have an impact on the absence of the profit growth. However, this research is not in line with a research conducted by Andayani *et al.*, (2015). which concludes that LDR affects the profit growth. The positive effect of LDR shows that the higher the LDR of a Village Credit Institution (LDP), the greater the credit extended, which will increase LDP interest income and will result in increased profits.

LDR is a ratio used to measure the level of bank liquidity. This ratio states the ability of banks to repay withdrawals of funds made by depositors by relying on loans provided as a source of liquidity (Rivai et al., 2007). The higher ratio gives an indication of the low ability of the bank's liquidity. However, if this ratio is too low, it shows that the bank has not been fully able to optimize the use of public funds to expand credit, so that the cost of maintaining idle cash will be greater than the interest received from loans to customers.

Companies that have a high LDR ratio does not mean that they will be able to increase the profit growth more than the companies which have a low LDR ratio. This is presumably because the LDR owned by the bank used as a research sample did not contribute much to profit growth (Noer Yuliantyningrum, 2016).

The Effect of Good Corporate Governance on the Profit Growth

A Good Corporate Governance (GCG) is an assessment of bank management on the implementation of GCG principles referring to *Bank Indonesia* regulations regarding GCG for commercial banks by taking into account the characteristics and complexity of bank business.

The results of statistical tests conducted show that the t value is 0.76. This value is smaller than the t table value of 2.36462. The significance value (sig.) of Good Corporate Governance (X2) is 0.941 which is greater than the α value of 0.05. It means that Good Corporate Governance (X2) has no effect on the profit growth (Y) (not significant). Based on the explanation above, it can be concluded that Good Corporate Governance (X2) has no effect on Profit Growth (Y); therefore, the second hypothesis is rejected.

The results of this study are in line with the previous research conducted by Trimurti (2014) which emphasizes that Good Corporate Governance does not affect the Profit growth. Good Corporate Governance is able to provide benefits for banking companies in terms of providing accountability to stakeholders so that there is no deviation of authority or power in the company's management. However, this research is not in line with a research conducted by Wulandari (2016) which asserts that Good Corporate Governance affects the profit growth. Basically, GCG has a goal to provide progress towards financial performance in a company. The better the GCG that a company has, the more the company profits which are expected.

The basic principles of GCG basically have a goal to provide progress towards financial performance in a company. According to Wati (2012), GCG is "one of the key elements in increasing economic efficiency, which includes a series of relationships between company management, the board of directors, shareholders and other stakeholders". GCG is only corporate governance by which there is no deviation of authority in the company's management and GCG of a company's management compliance with *Bank Indonesia* regulations that does not have a direct influence on the implementation in generating profits.

Influence of Earning Against the Profit Growth

Earning proxied by Return on Assets (ROA) is one of the profitability ratios that can measure a company's ability to obtain profits and assets used.

Based on the results of statistical tests conducted, the t value was 0.678. This value is smaller than the t table value of 2.36462. Significance value (sig.) of earning is 0.520 that is greater than the α value of 0.05. It means that Earning (X3) has no effect on the profit growth (Y) (not significant). Based on the explanation above, it can be concluded that Earning (X3) has no effect on the profit growth (Y); therefore, the third hypothesis is rejected.

The results of this study are in line with a previous research conducted by Alamsyah (2016) which points out that ROA has no effect on the profit growth. It can be explained that a portion of the profits earned by the bank is used as capital back. However, this study is not in line with a research conducted by Agustina *et al.*, (2017) which believes that ROA has an effect on the profit growth. Changes that occur in the ROA ratio are followed by a significant profit growth since the greater the ROA ratio obtained, the greater the profits achieved by the banks, causing bank profit growth will continue to increase.

ROA is an indicator commonly used in assessing the ability of bank management in managing all bank assets to create income in the form of profit. The higher profits generated reflect that the bank is well managed. The greater the value of this ratio also shows that the bank is more productive. ROA which is dominant decreases in state-owned banks and fluctuating company profits shows that there is no influence between the two variables. The assets used by the company are not used entirely for activities that generate profits, but these assets are reused as the company capital.

The stability of bank profits is sometimes motivated by capital adequacy rules and mandatory reserve deposits to maintain public confidence in the banking system. Banks must also comply with minimum capital requirements. This limiting nature of minimum capital causes banks to change their mixed business in support of activities and assets that require lower capital requirements. However, even though these assets have less risk, they can get lower returns (Hennie & Sonja, 2011).

The Effect of Capital on the Profit Growth

Capital proxied by Capital Adequacy Ratio (CAR) is a ratio that reflects the ability of banks to cover the risk of loss from their activities and the ability of banks to fund their operational activities.

Based on the results of statistical tests conducted, the t value is -0.236. This value is smaller than the t table value of 2.36462. The significance value (sig.) of Capital is 0.820 that is greater than the α value of 0.05. It means that the Capital (X4) has no effect on the profit growth (Y) (not significant). Based on the explanation above, it can be concluded that Capital (X4) has no effect on the profit growth (Y); therefore, the fourth hypothesis is rejected.

The results of this study are in line with a previous research conducted by Aprilia *et al.*, (2017) which strongly advocates that CAR has no effect on the profit growth. It can be explained that the CAR ratio indicates that banks are still able to increase their credit expansion, and can absorb various risks such as credit risk, liquidity risk, and market risk. However, this research is not in line with a research conducted by Aini (2013) which ellaborates that CAR affects the profit growth. With a large CAR ratio, it also shows a large bank capital, so that banks can freely place funds from that capital for productive asset portfolios and will have an impact on interest income or profits.

Signal theory in which CAR as a ratio in measuring capital adequacy is considered as a signal for customers and investors in seeing the ability of the company's capital to maintain the possibility of risk of loss. The value of an increased CAR ratio will not necessarily result in the increased profits as well. It is because the higher the capital of a company, the higher the risks that occur, including the risk of failure or loss that will be borne by the company.

Changes in bank profits are sometimes also supported by capital adequacy rules such as mandatory reserves. To maintain public confidence in the banking system, banks must comply with minimum capital requirements. However, too many mandatory reserve requirements and minimum mandatory liquidity can damage earnings and encourage disintermediation (Hennie & Sonja, 2011).

Conclusion

Based on the results of the study, the following conclusions were obtained: 1) The risk profile proxied by a partial Loan to Deposit Ratio has no effect on the profit growth, 2) Good Corporate Governance partially has no effect on the profit growth, 3) Earning proxied by Return on Assets partially has no effect on the profit growth, 4) Capital partially proxied by the Capital Adequacy Ratio has no effect on the profit growth.

Reference

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