Examining the Impact of Bank Health on Profit Growth among Infobank15-Listed Banks

Ida Ayu Jayanti Kusumawardani[1]
Henny Triyana Hasibuan[2]
[1,2]Fakultas Ekonomi dan Bisnis Universitas Udayana, Indonesia
Correspondences: idaayujayanti26@gmail.com

ABSTRACT

Peran perusahaan perbankan dalam perekonomian sangat penting, dengan bank berupaya memaksimalkan laba untuk operasional yang efektif dan efisien. Peninjauan kualitas kesehatan bank melalui pendekatan RGEC sesuai PBI Nomor 13/1/PBI/2011 penting untuk menjaga kepercayaan masyarakat. Penelitian ini menelaah pengaruh *Non Performing Loan* (NPL), *Loan To Deposit Ratio* (LDR), *Good Corporate Governance* (GCG), *Return On Asset* (ROA), *Net Interest Margin* (NIM), dan *Capital Adequacy Ratio* (CAR) terhadap pertumbuhan laba bank yang terdaftar di Indeks Infobank15 periode 2019-2022. Sampel diperoleh melalui teknik sampling jenuh, menghasilkan 26 perusahaan dengan 104 amatan. Data diambil dari annual report dan dianalisis menggunakan regresi linier berganda. Hasil menunjukkan LDR, GCG, ROA, NIM, dan CAR berpengaruh positif signifikan, sementara NPL berpengaruh negatif signifikan terhadap pertumbuhan laba. Implikasi penelitian menunjukkan pentingnya peninjauan rasio keuangan untuk membantu bank mengelola kesehatan dan meningkatkan kinerja.

Keywords: *Risk profile; Good Corporate Governance; Earnings; Capital; Profit Growth*

Tingkat Kesehatan Bank dan Pertumbuhan Laba Perusahaan Perbankan Yang Terdaftar Di Indeks Infobank15

ABSTRAK

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Kata Kunci: *Profil Risiko; Good Corporate Governance; Rentabilitas; Pemodalan; Pertumbuhan Laba*

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INTRODUCTION

The banking industry plays a crucial role in the economic activities of a society or country, primarily functioning as an intermediary institution responsible for the collection and disbursement of public funds for financing. This facilitates increased liquidity and fund availability within the economy. In this context, banks aim to maximize profits to ensure the effectiveness of their intermediary role, as continual profit growth indicates improving operational efficiency and effectiveness. According to (Purwanto, 2017), positive growth in bank profits can attract additional investors, enhancing the bank's capital acquisition and enabling business expansion, which in turn perpetuates profit growth.

However, the Financial Services Authority (OJK) reported a significant decline in the profit of commercial banks in Indonesia by 22.43 percent in 2020 compared to 2019. This downturn, attributed to the COVID-19 pandemic, resulted from lowered interest rates and diminished credit demand. During the first half of 2020, many banks experienced an increase in bad loans, classified as Non-Performing Loans (NPL). Companies that incurred losses during the pandemic were often forced to cease operations, compounding their difficulties in repaying bank loans. This trend was not isolated to Indonesia; according to Çolaka & Öztekin (2021), banks globally have tightened credit standards amidst ongoing economic uncertainties.

Banks are encouraged to implement a health assessment system to maintain public trust in their operations (Sinembela, 2022). A bank is considered healthy if it maintains sufficient capital, preserves good asset quality, generates adequate profits to ensure operational continuity, and possesses enough liquidity to consistently meet its obligations (Purwati, 2019). According to (Juanaristo & Astika, 2022), quality management performance can directly or indirectly enhance a bank's income and capital. Signaling theory posits that if management assesses the company's prospects positively, it will emit favorable signals to prompt investors to react to the information and appraise the company more highly than its competitors.

This study adheres to the Bank Indonesia Regulation No. 13/1/PBI/2011, which mandates the use of the Risk-Based Bank Rating (RGEC) method for evaluating the condition of commercial banks, encompassing assessments of risk profile, good corporate governance (GCG), earnings, and capital. The risk profile is analyzed through two metrics: credit risk, assessed using the Non-Performing Loan (NPL) ratio, and liquidity risk, evaluated with the Loan to Deposit Ratio (LDR). The assessment of GCG is based on self-assessment results, while profitability is measured using the Return on Assets (ROA) and Net Interest Margin (NIM) ratios. Capital assessment is proxied by the Capital Adequacy Ratio (CAR).

According to signaling theory, the Non-Performing Loan (NPL) ratio can reveal the condition of problematic credit risk that a bank must bear. A high NPL value indicates poor credit quality, which can negatively impact the bank and adversely affect the expected profit growth. High-risk loans result in decreased net profit due to loss provisions and directly pressure profit margins Bikker & Vervliet (2018). This could be interpreted by investors as a negative signal, indicating deteriorating management of NPLs. The study by Uran & Wuryani (2018) revealed

that the NPL variable negatively affects profit growth, a finding consistent with the research of Rusdianto & Pratama (2017) and Yusuf et al. (2022). However, it is inconsistent with the findings of Puspa (2019) and Guicheldy & Sukartaatmadja (2021), which suggest a positive influence.

H_1: NPL has a negative influence on profit growth.

The Loan to Deposit Ratio (LDR) can indicate a bank's proficiency in fulfilling obligations and meeting loan requests from depositors without delay. Management efforts to efficiently allocate third-party funds involve not only placing them into loans but also setting aside idle funds to minimize liquidity risk. When third-party funds increase, the bank's liquidity also increases, enhancing its reputation among investors and depositors for the bank's capability to fulfill their financial obligations smoothly Perdana (2023). The analysis by Utami et al. (2021) found that the LDR variable positively affects profit growth. This discovery is in line with the study conducted by Silaban et al. (2018) and Putra et al. (2021), but it contradicts the findings of Puspa (2019) and Febriyanti & Aini (2022), which state a negative influence.

H_2: LDR has a positive influence on profit growth.

According to agency theory, the disclosure of governance aspects by companies can facilitate the management of relationships between principals (capital owners) and agents (management) (Dwi Urip Wardoyo et al., 2021). Furthermore, when aspects of Good Corporate Governance (GCG) are optimally implemented, they can enhance efficiency in responsible decision-making (Astini & Utama, 2023). Companies that adhere to GCG principles in their business activities often generate positive perceptions among investors, aligning business operations with stakeholder interests. This alignment tends to increase investor interest and capital investment, ultimately benefiting the company. Research by Wulandari (2016) indicates that the GCG variable positively affects profit growth. This finding is consistent with those of (Setiawan et al. (2019) and Pratiwi et al. (2023), though it contradicts the findings of Fauziana & Fidyah (2023) and Putri & Yuliandhari (2020), who found no significant influence of GCG on profit growth.

H_3: GCG has a positive influence on profit growth.

A high Return on Assets (ROA) ratio suggests that a bank is maximizing its income, thereby fostering profit growth. Significant profits indicate positive business prospects and a competitive advantage, attracting further investment. If a company plans to expand, a high ROA also suggests highly efficient asset utilization, enhancing its market position (Zaharum et al., 2022). Research by Bimantoro & Ardiansah (2018) supports the positive influence of ROA on profit growth. This is in line with the findings of Nurhidayah & Purwitosari (2020) and Syafaat (2021), but it contrasts with the conclusions of Nurhayati et al. (2020) and Rizki (2019), who reported a negative influence of ROA on profit growth.

H_4: ROA has a positive influence on profit growth.

The Net Interest Margin (NIM) serves as a measure to assess a bank's effectiveness in utilizing productive assets to generate net interest income. When banks disburse loans, they generate interest income, and a higher NIM ratio indicates more efficient utilization of productive assets (Soares & Yunanto, 2018). Effective asset management can significantly enhance company value (Putu & Hasibuan, 2022). According to signaling theory, an increase in NIM is often

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perceived by investors as a positive indicator of a company's potential for profit expansion. Research by Faujiah (2019) found that the NIM variable positively influences profit growth. This finding aligns with the studies conducted by Su et al. (2020) and Ayu Purwasih & Goenawan Soedarsa (2022), although it contradicts the findings of Nindy (2018) and Hidayatullah et al. (2022), who reported a negative influence.

H_5: NIM has a positive influence on profit growth.

The Capital Adequacy Ratio (CAR) is a metric used to evaluate a bank's capacity to manage risks that might impact its capital. Banks with high capital levels can reduce capital costs, which ultimately supports profit growth (Gupta & Mahakud, 2020). In line with signaling theory, companies with sufficient capital can offer a sense of security to investors, safeguarding against potential financial losses. The findings of Miqdad et al. (2018) demonstrate that the CAR variable has a positive influence on profit growth. These results are consistent with those of Nugroho (2018) and Yunika & Muslih (2018), but they diverge from the findings of Katriani & Dewi (2019) and Baihaqi (2021), who found a negative influence.

H_6: CAR has a positive influence on profit growth.
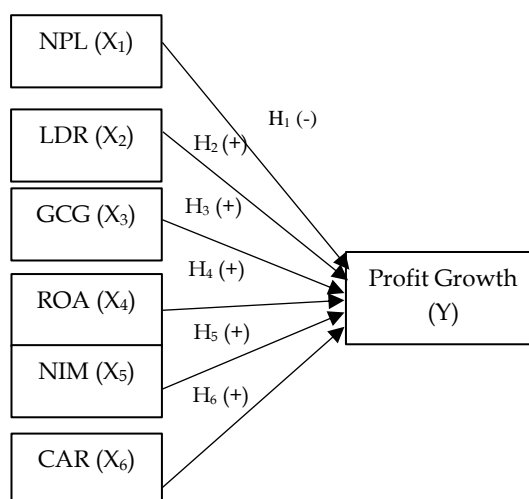
Picture 1. Model Penelitian

Source: Researched Data*, 2024*

RESEARCH METHOD

The research methodology employed is quantitative and associative. This study was conducted on banking companies listed in the Infobank15 index for the period from 2019 to 2022. Data were accessed through official websites, including idx.co.id, ojk.go.id, and the respective companies' official websites. The objects of this study include the Non-Performing Loans (NPL), Loan to Deposit Ratio (LDR), Good Corporate Governance (GCG), Return on Assets (ROA), Net Interest Margin (NIM), Capital Adequacy Ratio (CAR), and profit growth ratios. The population of this study comprises all banking companies listed in the Infobank15 index during the specified period. The sampling method employed is saturation sampling, whereby all 26 banking companies in the population were included in the sample. Consequently, the total number of observations in this study is 104. The variables investigated include independent variables such as NPL (X1), LDR

(X2), GCG (X3), ROA (X4), NIM (X5), and CAR (X6), while the dependent variable is profit growth (Y). The calculation formula for each variable, according to Riza et al., (2022), is as follows:

NPL is measured using the following formula, then multiplied by (-) when testing regression:

$$NPL = \frac{Non\ Performing\ Loans}{Total\ Loans} \times 100\ \%.................................…………………………..(1)$$

LDR measured using the following formula :

$$LDR = \frac{Total\ Loans}{Total\ Deposit} \times 100\ \%.................................…………………………… (2)$$

GCG measured using the self-assessment results obtained by the bank

ROA measured using the following formula :

$$ROA = \frac{Net\ Income\ Before\ Tax}{Average\ Total\ Asset} \times 100\ \%.................................…………………………..(3)$$

NIM measured using the following formula :

$$NIM = \frac{Net\ Interest\ Income}{Average\ Earning\ Asset} \times 100.................................…………………………..(4)$$

CAR measured using the following formula :

$$CAR = \frac{Total\ Capital}{Risk-Weighted\ Asset} \times 100\ \%.................................…………………………..(5)$$

Profit Growth measured using the following formula:

$$Y = \frac{Y_t - Y_{t-1}}{Y_{t-1}} \times 100\ \%.................................…………………………..(6)$$

Where:

Y   = Profit Growth

Y_t = Current Year Net Income

Y_{t-1} = Previous Year Net Income

      Data collection for this research was conducted through non-participant observation. Data analysis comprised several statistical tests, including descriptive statistics, classical assumption tests, multiple linear regression analysis, coefficient of determination tests, model feasibility tests, and hypothesis testing. The regression model employed is represented by the following equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + e ………………………………….(7)$$

Where :

Y = Profit Growth

α = Constant

X_1 = NPL

X_2 = LDR

X_3 = GCG

X4 = ROA

X5 = NIM

X6 = CAR

β_{1-6} = Regression Coefficient

e   = *Standard Error*

RESULT AND DISCUSSION

The results of the descriptive statistical analysis in this study aim to provide an overview of the characteristics of the variables under investigation. These characteristics include the minimum value, maximum value, mean, and standard deviation of each variable.

Table 1. Descriptive Statistics Test Results

	N	Minimum	Maximum	Average	Standard Deviation
NPL	104	0.00	0.101	0.026	0.016
LDR	104	0.123	1.631	0.855	0.259
GCG	104	1	3	1.971	0.428
ROA	104	-0.147	0.135	0.018	0.027
NIM	104	-0.035	0.265	0.056	0.040
CAR	104	0.126	1.699	0.308	0.228
Profit Growth	104	-9.842	28.556	-0.273	10.282

Source: Researched Data, 2024

Based on Table 1, the Non-Performing Loans (NPL) variable (X1) exhibits an average value of 0.026, equivalent to 2.6 percent. This indicates that the sample companies maintain a low NPL level, classified as a healthy NPL range within 2 percent (Riza et al., 2022). The relatively close data distribution of NPL is suggested by the lower standard deviation compared to its mean.

For the Loan to Deposit Ratio (LDR) variable (X2), an average value of 0.855 or 85.5 percent was recorded. This value demonstrates that the sample companies possess a low LDR level, considered healthy at approximately 85 percent. A lower standard deviation compared to the mean suggests a close data distribution for LDR.

The Good Corporate Governance (GCG) variable (X3) has an average value of 1.971, indicating a low composite GCG value that falls within the healthy range of 1.5 to 2.5. GCG's data distribution is relatively narrow, as evidenced by the lower standard deviation compared to its mean.

The Return on Assets (ROA) variable (X4), with an average value of 0.018 or 1.8 percent and a standard deviation of 0.027, indicates a high average ROA level among the sample companies. The data distribution for ROA is relatively wide, suggested by the higher standard deviation compared to the mean. The average ROA value categorizes it as very healthy, being above 1.5 percent.

The Net Interest Margin (NIM) variable (X5) shows an average value of 0.056 or 5.6 percent, classifying the distribution of NIM values in the sample as very healthy, being above 3 percent. The data distribution is relatively narrow, as indicated by the lower standard deviation compared to the mean.

For the Capital Adequacy Ratio (CAR) variable (X6), with an average value of 0.308 or 30.8 percent and a standard deviation of 0.228, the average CAR level of the sample companies is deemed very healthy, being well above 12 percent. The data distribution is relatively close.

Lastly, the profit growth variable (Y) has an average value of -0.273, which is close to the maximum value, indicating relatively high profit growth among the sample companies. The standard deviation of 10.282, compared to the mean, suggests that the data distribution of profit growth in the sample is wide.

Table 2. Classic Assumption Test

	Multicollinearity		Heteroscedasticity	Normality	Autocorrelation
Variable	*Tolerance*	VIF	*Sig.*	*Asymp Sig. (2-tailed)*	Durbin-Watson
NPL	0.775	1.290	0.634		
LDR	0.669	1.496	0.646		
GCG	0.613	1.632	0.813		
ROA	0.489	2.045	0.362		
NIM	0.528	1.894	0.316		
CAR	0.833	1.200	0.694		
				0.908	2.198

Source: Researched Data*, 2024*

Based on the findings from the normality test, the data is observed to be normally distributed, evidenced by a significance level of 0.908, well above the 0.05 threshold. Additionally, the tolerance values for all variables exceed 0.1, and the Variance Inflation Factor (VIF) values are below 10, confirming that the results have successfully passed the multicollinearity test.

In the autocorrelation test, the Durbin-Watson statistic 'd' is calculated to be 2.198. This value is compared against the critical values for 'd', which are determined based on a significance level of 5%, a sample size of 104 (n), and six independent variables (K=6). The upper bound (dU) is 1.8040, and the lower bound (dL) is 1.5607. Since the observed 'd' value of 2.198 exceeds the upper bound of 1.8040, and this upper limit is less than the calculated value of 4−d4−d, 4-2.198 = 1.802, it can be concluded that the study successfully passes the autocorrelation test.

Furthermore, results from the Glejser test indicate that the significance values for each variable exceed 0.05, thus demonstrating that the study also passes the heteroskedasticity test.

Table 3. Multiple Linear Regression Test Result

Model		Unstandardized Coefficients		Standardized Coefficients		
		β	Std. Error	Beta	t	Sig.
1	(Constant)	-0,005	0,059		-0,081	0,935
	NPL	-0,298	0,067	-0,302	-4,431	0,000
	LDR	0,185	0,073	0,187	2,551	0,012
	GCG	0,161	0,076	0,163	2,120	0,037
	ROA	1,068	0,085	1,081	12,591	0,000
	NIM	0,683	0,082	0,692	8,372	0,000
	CAR	0,226	0,065	0,229	3,478	0.001
	Adjusted R²	0,629				
	Sig. F	0,000				

Source: Researched Data, 2024

The constant value ß is -0.005. This result indicates that if all independent variables are zero, the profit growth will decrease by -0.005. The coefficient of NPL (X1) is -0.298, indicating that for each rise in the NPL variable, the profit growth variable decreases by -0.298. The coefficient of LDR (X2) is 0.185, indicating that for each rise in the LDR variable, the profit growth variable will increase by 0.185. The coefficient of GCG (X3) is 0.161, indicating that for each rise in the GCG

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variable, the profit growth variable will increase by 0.161. The coefficient of ROA (X4) is 1.068, indicating that for each rise in the ROA variable, the profit growth variable will increase by 1.068. The coefficient of NIM (X5) is 0.683, indicating that for each rise in the NIM variable, the profit growth variable will increase by 0.683. The coefficient of CAR (X6) is 0.226, indicating that for each rise in the CAR variable, the profit growth variable will increase by 0.226. The results indicate that the adjusted R-squared in the regression model is 0.629. This means that the collective contribution of NPL, LDR, GCG, ROA, NIM, and CAR to Y is 62.9 percent, while the rest is influenced by variables other than those included in this study. Through the Sig F value, it is obtained that this regression model is applicable because it obtains a significance value of 0.000. It can be deduced that all variables NPL (X1), LDR (X2), GCG (X3), ROA (X4), NIM (X5), and CAR (X6) have a significant influence on profit growth simultaneously.

Through Table 3, it can be seen that the NPL variable obtains a significance value of 0.000 and a regression coefficient value of -0.298. This finding concludes that NPL has a negative and significant influence on profit growth. The LDR variable obtains a significance value of 0.012 and a regression coefficient value of 0.185, indicating that LDR has a positive and significant influence on profit growth. The GCG variable obtains a significance value of 0.037 and a regression coefficient value of 0.161, indicating that GCG has a positive and significant influence on profit growth. The ROA variable obtains a significance value of 0.000 and a regression coefficient value of 1.068, indicating that ROA has a positive and significant influence on profit growth. The NIM variable obtains a significance value of 0.000 and a regression coefficient value of 0.683, indicating that NIM has a positive and significant influence on profit growth. The CAR variable obtains a significance value of 0.001 and a regression coefficient value of 0.226, indicating that CAR has a positive and significant influence on profit growth.

The findings indicate that Non-Performing Loans (NPL) have a significant negative influence on the profit growth of banks listed in the Infobank15 index for the period 2019-2022. According to signaling theory, high NPLs suggest that funds allocated to the public through credit are not being managed effectively. Banks burdened with bad loans may experience reduced opportunities to generate profit through interest income from circulating third-party funds. From the perspective of depositors, the value of deposits may decrease as banks struggle to offer competitive interest rates due to the necessity of setting aside reserves for credit losses, thus inhibiting deposit growth. This analysis aligns with the findings of Baihaqi (2021), Geriadi & Astawa (2022), and Yusuf et al. (2022).

Additionally, the findings demonstrate that the Loan to Deposit Ratio (LDR) has a significant positive influence on the profit growth of banks listed in the Infobank15 index during the same period. Liquidity, as described by Trang et al. (2021), indicates the ease with which assets can be converted into cash efficiently and without significant cost. A bank's LDR within reasonable limits suggests effective functioning of credit allocation activities to customers, enabling the bank to fulfill depositor withdrawals promptly without postponements. This outcome supports signaling theory, which posits that adequate liquidity can instill confidence in investors, encouraging them to deposit funds that the bank can then utilize for further credit allocation activities. This is consistent with findings from

Siregar et al. (2019), Utami et al. (2021), and (Putra et al., 2021), and further explored by (Handoyo et al., 2023).

The findings indicate that Good Corporate Governance (GCG) has a significant positive influence on the profit growth of banks listed in the Infobank15 index for the period 2019-2022. These results are consistent with agency theory, which posits that proper reporting of governance aspects can help manage the relationship between capital owners and management. According to Kabir et al. (2019), when implemented effectively, GCG can mitigate the risk of information asymmetry being exploited by management. (Anggraini, 2021) notes that robust corporate governance forms the cornerstone for banks to safeguard stakeholder interests. Furthermore, a bank's favorable public reputation for maintaining exemplary corporate governance can enhance its prospects for capital investments from investors (R. Setiawan, 2019). These findings align with the research conducted by Silaban et al. (2018), Setiawan et al. (2019), and Pratiwi et al. (2023).

Additionally, the findings reveal that Return on Assets (ROA) has a significant positive impact on the profit growth of banks listed in the Infobank15 index from 2019 to 2022. This observation concurs with the studies by Nurhidayah & Purwitosari (2020), Utami et al. (2021), and Baihaqi (2021). Banks that efficiently utilize their assets are likely to enhance their profit potential (Baihaqi, 2021). Consistent with signaling theory, the efficient use of assets not only signifies a bank's competitive advantage but also generates positive sentiment in the stock market. Furthermore, the profits derived from effective asset utilization facilitate enhanced management strategies and improved service quality, contributing to overall company growth (AlihodŽiĆ, 2020).

The findings indicate that the Net Interest Margin (NIM) has a significant positive influence on the profit growth of banks listed in the Infobank15 index for the period 2019-2022. Banks with a favorable NIM are able to effectively reduce funding costs, enhancing their profitability (Warno & Farida, 2017). In line with signaling theory, an increase in NIM suggests that the bank has successfully optimized its interest margins through appropriate interest rate settings, leading to increased interest income and positively impacting the bank's profits. These results are consistent with previous studies conducted by Su et al. (2020), Putri & Yuliandhari (2020), and Ayu Purwasih & Goenawan Soedarsa (2022).

Additionally, the findings show that the Capital Adequacy Ratio (CAR) has a significant positive influence on the profit growth of banks listed in the Infobank15 index during the same period. This observation aligns with the research by Miqdad et al. (2018), Rizki (2019), and Guicheldy & Sukartaatmadja (2021). A high CAR provides banks with greater opportunities for profitable investment activities. Banks with robust capital are perceived as better equipped to handle economic instabilities and contribute to the stability of the banking sector (Livoreka & Grajçevci-Livoreka, 2023). Consistent with signaling theory, investors tend to feel more secure investing in banks that are deemed capable of mitigating potential risk losses.

CONCLUSION

The research findings indicate that the Loan to Deposit Ratio (LDR), Good Corporate Governance (GCG), Return on Assets (ROA), Net Interest Margin (NIM), and Capital Adequacy Ratio (CAR) exert a positive and significant impact on profit growth. Conversely, Non-Performing Loans (NPL) negatively affect profit growth. The robust health of a bank influences its profit growth since healthy banks can operate more effectively and efficiently and are generally more trusted by the public. Therefore, maintaining optimal bank health is essential for fostering profit growth.

This study has several limitations, including its focus only on banks listed in the Infobank15 index and its analysis of a restricted set of ratios—Non-Performing Loan (NPL), Good Corporate Governance (GCG), Net Interest Margin (NIM), and Capital Adequacy Ratio (CAR)—to assess bank health. Future research should broaden the scope to include more banks and not only using a single index such as LQ45 or KOMPAS 100, to enhance the generalizability of the results. Additionally, it is recommended that future studies explore other independent variables not examined in this study, such as the Quick Ratio (QR) for liquidity, the Operating Expense to Operating Income (BOPO) ratio for profitability, and the Debt to Equity Ratio (DER) for solvency.

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