# Determinants of Profit Growth in Conventional Commercial Banks List on the Indonesia Stock Exchange

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## Abstract

*This study aims to find out the effect of the risk profile, profitability, and capital adequacy on profit growth of conventional general banks in Indonesia. The sampling technique used in this study was probability sampling method, namely simple random sampling where the sample was selected at random and has the same opportunity to be sampled. Based on the results of calculations using the Slovin formula, a sample of 38 banks were obtained. The data used in this study uses quantitative data. In conducting the analysis and hypothesis testing, the procedures were carried out using the help of the Microsoft Excel 2019 program and E-Views version 10.0. Based on the results of the study, it is concluded that the risk profile has no effect on profit growth, and profitability and capital Adequacy have a positive effect on Profit Growth in banking companies listed on the Indonesia Stock Exchange for the period 2017 - 2019. The hypothesis relatet to the influence of risk profile on profit growth was not proven. The results of this study can be used by potential investors and banks, that the risk profile does not affect profit growth, while those that affect profit growth are profitability and capital adequacy.*

# I. Introduction

The Law of Republic Indonesia No. 10 of 1998 on Banking,)stated that Indonesian Banking has a goal to support the implementation of national development in order to increase equity, economic growth, and national stability towards increasing the welfare of the people at large. To support this goal, the real role that banks do is to collect funds from people who have excess funds, and channel them back to people who need funds through loans, so banks are referred to as intermediation institutions. In addition to being an intermediary institution, like other companies, in operating its business, the bank always maximizes profit growth as a long-term goal.

Profit growth is the relative growth calculated from the difference in profit between the current year and the previous year divided by the previous year's revenue, (Mursyidan, Panji and Djoko, 2016). Good profit growth, indicating that the corporation has good financial performance, will eventually increase the value of the corporation, because the amount of dividends to be paid in the future is highly dependent on the condition of the corporation.

The growth of banking profits listed on the IDX has increased from 2017 and 2019, which can be seen in the following graph:
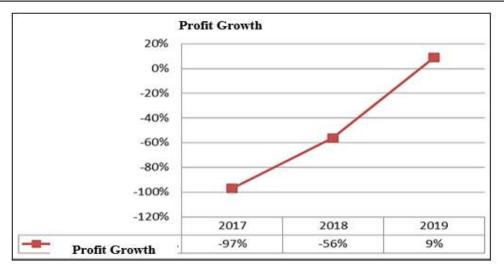
***Figure 1.*** *Graph of Average Banking Profit Growth 2017 – 2019*
Source: Indonesia Stock Exchange

The profit growth of 38 conventional banking companies fluctuated for three years, 12 banks experienced continuous growth, 3 banks experienced a decline in profit for three consecutive years and 23 banks experienced an ups and downs in profit growth. The highest profit growth was achieved by BABP (Bank MNC Internasional Tbk) of 17.545% and the lowest profit ever experienced by -50.58% by PNBN (Bank Pan Indonesia Tbk). Profit growth can be influenced by internal and external factors of the company. Internal factors such as Risk Profile, Profitability, and Capital.

The risk profile is an assessment of the inherent risk and the quality of risk management implementation in banking operations, (Yani, Suryani, and Azwansyah Habibie, 2017). The high level of risk profile indicates that the bank is facing various risks in its operational activities but the application of risk management is less effective. This causes investors to tend to be reluctant to invest in troubled banks, so the profits earned by banks will decrease.

Profitability is the return on investment which is said to be a percentage of the amount of investment. Profit growth is the change in the percentage increase in profit earned by the company (Katriani, Resa, and Aminar, 2019). Profitability in this study is a ratio that describes a bank's ability to increase profits or a measure of the effectiveness of management and measure the bank's rate of return on capital and is used to measure the Rate of Return Equity.

According to Latumaerissa (2014, p.75), capital adequacy is the minimum amount of capital that must be owned by a bank so that the interests of customers or depositors of funds can be protected from the threat of insolvency in banking activities. Large capital can provide opportunities for banks to expand their business and obtain profits that can attract investors to determine investment decisions.

Based on the above background, this study aims to determine and prove whether the Risk Profile, Profitability, Capital Adequacy effect Profit Growth.

# II. Review of Literature

## 2.1 Profit Growth

According to Brigham and Houston (2011, p. 186) Signaling theory is an action taken by the management of a company to provide instructions to investors on how management assesses the prospects of the company. When a company announces a new share offering, more often than not, its share price decreases, all of which can affect the profits earned by the company. Signal theory was developed in economics and finance to take into account the fact that company insiders generally have better and faster information than outside investors. Therefore, as a manager, the manager is obliged to give a signal about the condition of the company to the owner. The signal given can be done through the disclosure of accounting information such as financial statements.

Lab growth is an irreversible process of increasing size, volume, weight, and cell number (Katriani, Resa, and Aminar Sutra Dewi, 2018). Operating profit is the difference between the realized revenue arising from transactions during a period and the costs associated with that income. The higher the income of a bank indicates that the performance of banking management is getting better. Profit growth is an increase in a bank's profit from period to period

Profits derived from bank operations are an important indicator of financial statements. Profitability can be used as a basis for making investment decisions and the bank's future plans. Changes in profit that continue to increase or grow can have an impact on bank operational activities because it can strengthen bank capital. Profit is an indicator for a business in assessing the performance of the business during a certain period. The higher the profit obtained, the better the performance of the company's management, especially banking. The valuation is based on the financial statements of the company. This can be seen from the amount of income received compared to the costs incurred. The presentation of profit information in the financial statements is the focus of the company, especially the banking sector compared to performance measurement based on the increase or decrease in net capital. Profit can also be used for forecasting profit growth in the following year (Suryani, Yani and Azwansyah Habibie, 2017).

Suryani, Yani and Desi Ika (2016) say that profit growth is a relative growth calculated from the difference in profit between the current year and the previous year divided by the previous year's income. Good profit growth indicates that the company has good financial performance, which in turn will increase the value of a company, because the amount of dividends to be paid in the future is very dependent on the condition of the company. Better profit growth is expected to be a parameter for better performance and management. Thus, other goals are needed to be achieved, such as bank soundness. According to Angkoso (2006), stated that profit growth is influenced by several factors: The size of the company; Company age; Leverage level; Changes in past earnings;

## 2.2 Risk Profile

Risk Profile (Risk profile) is an assessment of the risks inherent in the bank's business activities, both quantifiable and non-quantifiable, which have the potential to affect the bank's financial position. Determination of the level of the related risk profile and the quality of the application of composite risk management is carried out based on a comprehensive and structured analysis of the level of related risk. The Risk Profile is the basis for the current bank level assessment because every activity carried out by the bank is very likely to arise risk. Bank Indonesia explains the risks that are taken into account in assessing the soundness of a bank using the Risk-Based Bank Rating method (PBI NO. 13/1 /PBI/2011) consisting of Liquidity, Credit, Market, Operational, Legal, Strategic, Compliance and Risk Risks. Reputation.

The relationship between Risk Profile and Profit Growth is directly proportional, where if the risk profile increases, then the bank is liquid, then profits increase. This is in line with research by Tamara Putri, Hana (2016), Tamunosiki, Kurotamunobaraomi (2017)and Nathasya Aprilia, Ulvah, et al. (2017) where the Risk Profile has a positive effect on Profit Growth.

The risk profile used in this research is Loan to Deposit Ratioexplain the bank's ability to make payments for money that will be withdrawn by customersnwithnrely on creditnwhich is channeled asnsourcenliquidity or to what extentithe bank in providing credit to customers can remain in balance with the obligation to pay the request of depositors who will withdraw their funds that have been channeled by the bank through credit.

## 2.3 Profitability

Profitability according to Frianto Pandia (2012, p.64) says that the comparison of profit after tax with core capital or profit before tax with total assets owned by the bank in a certain period. Profitability is the ratio used to measure a company's ability to generate profits with the company's resources (Angelia, 2020). According to agency theory, to reduce ignorance of the interests of shareholders in the misuse of funds by managers, it is possible to take advantage of debt for companies that have high profitability (Afiezan, 2020). The profitability of a company shows the ratio between profit and assets or capital that generates the profit. In other words, profitability is the ability of a company to generate profits during a certain period. Economic profitability is the right way to find out whether or not a company is efficient in using existing capital. Economic Profitability Analysis emphasizes the possible use of funds. This analysis states that the funds can be used if the interest rate of the funds is lower than the economic profitability that may be obtained due to the use of the debt. The higher the profitability of a company, the greater the company's ability to generate profits (Mauris, 2021).

Based on BI SE No.6/23/DPNP/2004, the assessment of the profitability factor can be measured by indicators, namely Return on Equity, Return on Assets, Net Interest Margin, and Operating Expenses on Operating Income. ROE in banking is said to be healthy if ROE > 1.5%. The relationship between Profitability and Profit Growth is directly proportional where if profitability has increased, it means that the company's profit has increased. Securities analysts and shareholders generally pay close attention to this ratio. The higher the return generated by a company, the higher the price. This is in line with the research of Suryani, Yani and Azwansyah Habibie (2017) and Tamara Putri, Hana (2016).

Here are several types: iratioi profitability which can be used fornmeasure performancencompany in producingnprofitjDuringjcertain period according to the Indonesian Bankers Association (2018, p.78), namely:

## a. Return on Asset (ROA)

Ratio that describes the bank's ability to generate profits by using assets for the company's operational activities. The greater the ROA, the better the bank's performance. This ratio is the most important ratio among other profitability ratios. The higher the ROA indicates the effectiveness of the bank's performance.

**Table 1.** The Return on Asset Criteria

| RANK | ROA RATIO | PREDICATE |
|------|-----------|-----------|
| 1 | ROA > 1.5% | Very healthy |
| 2 | 1.25% < ROA 1.5% | Healthy |
| 3 | 0.5% < ROA 1.25% | Healthy enough |
| 4 | 0% < ROA 0.5 % | Unwell |
| 5 | ROA 0% | Not healthy |

### b. Return on Equity (ROE)

Ratio which show ratio net profit with capital to determine the ability of banks to manage capital that available.

**Table 2.** ROE Rating Criteria

| RANK | ROE RATIO | PREDICATE |
|------|-----------|-----------|
| 1 | ROE > 1.5% | Very healthy |
| 2 | 1.25% < ROE 1.5% | Healthy |
| 3 | 0.5% < ROE 1.25% | Healthy enough |
| 4 | 0% < ROE 0.5% | Unwell |
| 5 | ROE 0% | Not healthy |

Source: SE BI No. 6/23/DPNP 2004

### c. Net Interest Margin (NIM)

Net Interest Margin Ratio (NIM) is used for measure ability to manage assets productive for generate in come clean flowers.

**Table 3.** Net Interest Margin Rating Criteria

| RANK | NIM RATIO | PREDICATE |
|------|-----------|-----------|
| 1 | NIM > 3% | Very healthy |
| 2 | 2 % < NIM 3% | Healthy |
| 3 | 1.5% < NIM 2% | Healthy enough |
| 4 | 1% < NIM 1.5% | Unwell |
| 5 | ID 1% | Not healthy |

### d. BOPO (Operating Expenses Operating Income)

The ratio is used to measure the ability of the Bank's management in controlling operating costs to operating income. It can be concluded that profitability is the company's expertise in obtaining profit with take the advantage of available resources owned for a certain period. Good company performance will be described through the success of management when generating maximum profit for the company, so that profitability has a direct relationship with the value of the company where if profitability increases, it means that the value of the company also increases. Increased profitability gives a positive signal to decisions investors.

### 2.4 Capital Adequacy

According to Latumaerissa (2014, p. 47) capital is the main source used to fund operational activities of the bank which also has a role to buffer the possibility of loss. From this understanding, it can be seen that capital is an important part for banks during company development and to cover risks loss. Adequacy level of the company's capital usually depends on the portfolio his assets. Adequacy capital has a purpose to ensure banks can absorb losses arising from activity operations. Minimum capital adequacy ratio for banking according to Financial Services Authority Circular Letter Number 8/POJK.03/2016 concerning Minimum Capital Adequacy Requirements and Fulfillment of Minimum Core Capital for Rural Banks is 8%.

The calculation of the minimum capital adequacy or bank capital adequacy is based on the ratio or comparison between the capital owned by the bank and the total risk-weighted assets. The ratio used in calculating capital adequacy is the Capital Adequacy Ratio (CAR). The more high CAR. ratio then it means that the bank has sufficient capital

to support the needs and take the risk that appear, including risk credit. The high CAR ratio can also make banks channel more credit to customers, because banks have the ability to generate optimum profit from their operational activities.

Taswan (2010, p. 225) states the technical requirements for minimum capital adequacy, determination of proportion and each other's role capital group in brief can described as following:

a. Tier 1 Capital (Core Capital)

Capital in this group consists of capital paid up, capital donations, and suggestion if ormedio profit after tax and profit a rnedia after tax calculation.

b. Tier 2 Capital (supplementary capital)

Capital in this group is specifically capital complement consists of: backup revaluation fixed assets allowance for write-off productive assets, capital loans, and loans subordination.

c. Tier 3 Capital (additional supplementary capital)

Capital in this group is only used to meet capital requirements on market risk. For purpose of taking into account Provision Needs Capital Minimumi/KPM Mnorn CAR by individual/consolidation with subsidiaries.

In capital adequacy, there is something called RWA. RWA is a company asset that has the possibility to increase company profits while at the same time having risks. In this calculation, items from the position of assets or assets are calculated based on the risk weight in the form of a percentage. According to the Indonesian Bankers Association (2018, p. 176) Risk Weighted Assets (RWA) include:

a. ATMR for Risk Credit

Multiplication between net bill with weight top risk asset exposure on the balance sheet, as well as the obligation of commitment and contingency in administrative account.

b. ATMR for Risk Market

Covering the risk ethnic group interest, value risk exchange, risk equity and/or commodity risk. All kinds of risks calculated market load amount the capital by convert amount capital expense for all kinds of risk the market becomes equivalent to RWA with multiply by figure 12.5 or 100/8.

c. ATMR for Risk Operational

It can be obtained by multiplying capital expense operational risk with the number 12.5 or 100/8. Capital expense operational risk i.e. average of total income positive annual gross in the last 3 years multiplied by 15%.

## II. Research Methods

Our study used data secondary type. Dataisecondaryjis dataawhich obtained indirectly by researchers fromjmain source of the objectnstudy. Research datanthisnis banking databin the form of a reportipublication financeiAnnual Conventional Commercial Banks listed on the Indonesia Stock Exchange fori3 years in a rowtfromiperiod 2017 to yeari2019. The source of the data in this study was obtained from the reportifinancejbankiconventional generaliregisteredbin StockfEffectkIndonesia period 2017 – 2019ywhich has been iniaudit and inipublish. Data obtained on the official website of the ExchangejEffectjIndonesia (IDX), namelyiwww.idx.co.id

The sampling technique used is the probability sampling method, namely simple random sampling where the sample is selected at random and has the same opportunity to be sampled. Based on the results of calculations using the Slovin formula, a sample of 38 banks was obtained. Data collection techniques in this study were carried out by means of Library

Research and Documentation. Analysis of the data used in this study using quantitative data. All data collected in this study will then be analyzed and tested for hypotheses. In conducting the analysis and hypothesis testing, the procedures were carried out using the help of the Microsoft Excel 2019 program and E-Views version 10.0.

This study uses quantitative data in data analysis. All data which collected in this study then processed by analyzing andndonenhypothesis test. In doing analysisnandnhypothesis testing, procedures performed'use helpnMicrosoft Excel 2013 program and E-Views version 10.0. The data analysis technique used is panel data regression analysis.

## III. Discussion

The following is the mean, maximum, minimum and standard deviation of the individual variables obtained from data processing with the E-Views application program version 10.0.

**Table 4.** Descriptive Statistics

|              | PT_EAT    | LDR       | ROE       | CAR      |
|--------------|-----------|-----------|-----------|----------|
| mean         | -0.481410 | 0.882337  | 0.033748  | 0.234852 |
| median       | 0.098320  | 0.884850  | 0.057750  | 0.212450 |
| Maximum      | 17.94222  | 1.631000  | 0.990000  | 1.474400 |
| Minimum      | -50.58042 | 0.085323  | -0.940100 | 0.002890 |
| Std. Dev.    | 5.362295  | 0.179557  | 0.202123  | 0.153073 |
| Skewness     | -7.035965 | 0.071127  | -1.461963 | 5.042453 |
| Kurtosis     | 69.65560  | 8.807361  | 14,83849  | 39,59926 |
| Jarque-Bera  | 22044.70  | 160.2920  | 706.3212  | 6845,751 |
| Probability  | 0.000000  | 0.000000  | 0.000000  | 0.000000 |
| Sum          | -54.88069 | 100.5865  | 3.847273  | 26.77314 |
| Sum Sq. Dev. | 3249,226  | 3.643213  | 4.616450  | 2.647725 |
| Observations | 114       | 114       | 114       | 114      |

Source: E-views 10.0 (data processed)

Based on the Chow Test, Hausman Test and Lagrange Multiplier Test, it can be concluded that the model used in this study uses the Common Effect Model. The following is the regression model in Table 5.

**Table 5.** Panel Data Regression Results

Dependent Variable: PT_EAT
Method: Least Squares Panel
Date: 12/31/20 Time: 12:13
Sample: 2017 2019
Periods included: 3
Cross-sections included: 38
Total panel (balanced) observations: 114

| Variable | Coefficient | Std. Error | t-Statistics | Prob. |
|---|---|---|---|---|
| C | 1.281546 | 2.575655 | 0.497561 | 0.6198 |
| LDR | -4.595145 | 2.681921 | -1.713379 | 0.0895 |
| ROE | 12.61730 | 2.414629 | 5.225358 | 0.0000 |
| CAR | 7.944166 | 3.072059 | 2.585942 | 0.0110 |
| Adjusted R-squared | 0.193231 | SD dependent var | | 5.362295 |
| SE of regression | 4.816431 | Akaike info criterion | | 6.016401 |
| Sum squared resid | 2551.781 | Schwarz criterion | | 6.112408 |
| Likelihood logs | -338.9348 | Hannan-Quinn Criter. | | 6.055365 |
| F-statistics | 10.02162 | Durbin-Watson stat | | 1.467974 |
| Prob(F-statistic) | 0.000007 | | | |

Source: E-views 10.0 (data processed)

Based on Table 5, the regression equation can be written as follows:

Profit Growth = 1.281546 - 4.595145 Risk Profile + 12.61730 Profitability + 7.944166 Capital Adequacy. The Adjusted R-Squared value of 0.193231 means that the Adjusted R-Squared value is far from the value 1. This value means that 19.3231% of the dependent variable, namely Profit Growth, can be explained or influenced by the four independent variables, namely Risk Profile, Profitability, and Capital Adequacy. 80.6769% of the profit growth variance can be explained by other variables outside of variables that are not used in this study such as company size, company age, leverage level, sales level, past earnings changes, and others. Based on table 5, the results of statistical data processing using the E-Views 10.0 program, it can be seen that the effect of the independent variable on the dependent variable partially is as follows:

### 3.1 The Effect of Risk Profile (LDR) on Profit Growth

Risk profile as measured by Loan to Deposit Ratio (LDR) shows a significance value greater than , 0.0895 < 0.05 with a t-count coefficient of -1.713379 and a t-table value of -1.98177 or it can be said that 1 t-count > t-table namely -1.713379 > -1.98177 with df = 114 - 5 = 110 and a significant level of 5% or 0.05, this indicates that the Risk Profile has no effect on Profit Growth, from 38 banks there are 15 banks that experience an increase in their Risk Profile (LDR) annually or by 39.47%, 19 banks that experience an increase and decrease in LDR annually or by 50%, and 4 banks that experience a decrease in LDR every year or by 10.53%. And from 38 banks there are 5 banks that experience an increase in Profit Growth every year or 13.16%, 10 banks that experience a decrease in Profit Growth every year or by 26.32%, and 23 banks experience an increase and decrease in Profit Growth from the previous year to the following year or equal to 60.53%.

Based on the signal theory, investors will see the profit earned by a bank, of course the bank must make several considerations before distributing their Third Party Funds to a credit account. If too much credit is disbursed, it will provide a greater return, it will prosper investors, meaning that the bank's LDR is good. And vice versa, if the provision of credit is small, it can allow for idle money and small bank LDR. Therefore, banks are more considerate of increasing the amount of lending even though the Third Party Funds owned by banks are high, this is to avoid large liquidity risks and to keep banks running their operations properly.

The higher the LDR of a bank is not a measure of the success of bank management to obtain high profits. A high LDR has no effect on profit growth, this could be because the amount of credit is not supported by credit quality (bad credit category and doubtful credit).

Poor credit quality will increase risk, especially if lending is carried out without using the principle of prudence and expansion in lending that is less controlled so that banks will bear greater risks. In addition, the LDR is not significant because of the movement of data or the LDR ratio that fluctuates (not fixed) in each banking company every year.

The results of the study are supported by previous research by Ginting, Suriani (2019), Kusuma Sari, Indah and Desta Rizky (2018), Suryadi, Bambang (2017) which states that the Risk Profile (LDR) has no effect on Profit Growth.

### 3.2 The Effect of Profitability on Profit Growth

Profitability as measured by Return on Equity (ROE) shows that the significance value is smaller than , namely $0.0000 < 0.05$ with a t-count coefficient of 5.888160 and a t-table value of 1.98177 or it can be said that t-count > t-table is $5.888160 > 1.98177$ , with df $= 114 - 4 = 110$ and a significant level of 5% or 0.05, then H0 is rejected and H3 is accepted. This indicates that Profitability (ROE) has a positive effect on Profit Growth. Of the 38 banks, 7 banks experienced an increase in ROE annually or by 18.42%, 13 banks experienced a decrease in ROE annually or by 34.21%, and there were 18 banks experiencing an increase and decrease in ROE from the previous year to the following year or by 47.37%.And from 38 banks there are 5 banks that experience an increase in Profit Growth every year or 13.16%, 10 banks that experience a decrease in Profit Growth every year or by 26.32%, and 23 banks experience an increase and decrease in Profit Growth from the previous year to the following year or equal to 60.53%.

According to Brigham Houston, (2015 p. 110), where if banks experience an increase in ROE, Profit Growth will increase. So that if the profit earned is high then Profit Growth will increase because investors will be interested in investing in a bank that has increased profits. The results of this study are supported by previous research conducted by Suryani, Yani and Azwansyah Habibie (2017) and Tamara Putri, Hana (2016) which stated that Profitability (ROE) had a positive effect on Profit Growth.

### 3.3 The Effect of Capital Adequacy on Profit Growth

Capital Adequacy as measured by the Capital Adequacy Ratio (CAR) shows that the significance value is smaller than , namely $0.0110 < 0.05$ with a t-count coefficient of 2.585942 and a t-table value of 1.98177 or it can be said that t-count > t-table is $2.585942 > 1.98177$, with df $= 114 - 4 = 110$ and a significant level of 5% or 0.05, then H0 is rejected and H4 is accepted. This indicates that Capital Adequacy (CAR) has a positive effect on Profit Growth. Of the 38 banks, there are 14 banks experiencing an increase in CAR annually or by 36.84%, 14 banks experiencing a decrease in CAR annually or by 36.84%, and 10 banks experiencing an increase and decrease in CAR annually or by 26.32%.And from 38 banks there are 5 banks that experience an increase in Profit Growth every year or 13.16%, 10 banks that experience a decrease in Profit Growth every year or by 26.32%, and 23 banks experience an increase and decrease in Profit Growth from the previous year to the following year or equal to 60.53%.

Based on signal theory, a bank's profit growth will affect investors to invest their capital (Sochib, 2016, p.3). Thus, increasing the level of bank solvency will indirectly affect the performance of the bank, because the losses borne by the bank cannot be absorbed by the capital owned by the bank. If the bank's capital is good and even increases, investors are interested, then Profit Growth will increase. The results of this study are supported by previous research conducted by Katriani, Resa and Aminar Sutra Dewi (2019), Purwanto, Hendri (2017), Ulfiantari, et al (2017), and Ermala, Yun (2017) which stated that Capital Adequacy (CAR) positive effect on Profit Growth.

## IV. Conclusion

Based on the results of the study, it is concluded that the Risk Profile has no effect on Profit Growth and Profitability and Capital Adequacy has a positive effect on Profit Growth in banking companies listed on the Indonesia Stock Exchange for the period 2017 - 2019. Where the hypothesis says if the Risk Profile increases then Profit Growth increases, with Thus, the research hypothesis is not proven. The results of this study can be used by potential investors and banks, that the risk profile does not affect profit growth, while those that affect profit growth are profitability and capital adequacy.

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