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Determination Of Banking Profitability In Indonesia

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ABSTRACT

This study aims to analyze the determinants that affect banking profitability in Indonesia, as low profitability will reduce banks' ability and willingness to finance the broader economy and difficulties in facing the challenges of an unstable global economy. The population of this study is Conventional Commercial Banks in Indonesia from 2014 to 2023. The sampling technique uses the purposive sampling technique so that 51 research data are obtained. The research analysis used panel data regression and its significance level was 5%. The results of a study of 51 Conventional Commercial Banks in the period 2014-2023 show that the non-performing loan (NPL) ratio has a negative impact on banking profitability (ROA), the liquidity ratio (LDR) has a negative impact on banking profitability (ROA), the capital adequacy ratio (CAR) has a negative impact on banking profitability (ROA), and the operating expense ratio (BOPO) has a positive impact on corporate profitability (ROA).

INTRODUCTION

Banking has a key role in supporting the economy in Indonesia. Reporting from the *www.ojk.go.id* website, the main function of Indonesia banking is as a collector and distributor of public funds and aims to support the implementation of national development in order to increase the equitable distribution of development and it's result, economic growth and national stability, towards improving the standar of living of many people. Banks are part of the main source of funding for companies, the failure of bank can also have an impact on companies other than financial sector companies (Buddi Wibowo & Ham, 2016).

Banking is one of the industries that is vulnerable to the impact of the economic crisis. The economic crisis in 2008 began with the collapse of the property and real estate business in United States. At the time, many financial intermediation companies invested in the business, so the company also experienced destruction. As a result, liquidity conditions in the global financial market are also disrupted. Even the financial market in Indonesia has also been disrupted, resulting in massive capital outflows and banks have difficulty managing their fund flows (Public Relations Bank Indonesia, 2010).

In one of the International Monetary Fund (IMF) blogs on October 16, 2023, about the new outlook on global banking highlighting the risks of higher and longer interest rate, it was conveyed that there are early signals that higher interest interest rates have exposed vulnerabilities in some banks, and many more will be weekend by prolonged period of tight monetary policy (higher for longer). Such a dynamic environment has never been faced by the world's financial markets in a generation. In the last two years and likely to continue in 2024, several risk are expected to accompany global banking (and also Indonesian Banking). The risks in question include the risk of high benchmark interest rates, the risk of geopolitical tensions, the risk of surge in oil prices, the risk of a cost of living crisis, and the risk of fragmentation or divergence of the world economy.

The end of the accumulation and combination of the crisis is the weakening of the economy which has an impact on the financial sector (including banking) and ends with an increase in the ratio of nonperforming loans (NPL) because entrepreneurs are smothered by liquidity and profitability difficulties. This challenge is the basis of the purpose for the Financial Services Authority together with banking companies to create various decisions or policies. One form of supervision is by issuing a health assessment system for commercial banks.

Bank Indonesia Regulation No. 13/1/PBI/2011 concerning the assessment of health of commercial banks using the assessment of risk profile, good corporate governance (GCG), profitability (earnings), and capital. The commercial bank health assessment is called the RGEC commercial bank health assessment. In addition, the importance of knowing various factors that can affect banking profitability is the basic of this research.

This study uses information from the internal side of the bank such as information contained in financial statement. Financial statements are reports that show the financial condition of a company during a certain period to see whether the company's performance is good or not (Ardyanfitri,2019). Financial statement analysis is very important to do, because it can produce information or data in the form of financial ratios. The information can be used to analyze the company's past conditions as well as plan strategies for the future. Ratio analysis is also used to find out and assess the condition of each post in the financial statements such as balance sheets, income statement and cash flows statement.

This study uses considerations based on the health assessment of commercial banks RGEC (Risk Profile, Good Corporate Governance, Earning, and Capital) in choosing a proxy to measure the variables to be used and determine the variable used. The bound variable in this study is bank profitability as an aspect of earnings assessment. For the variable independent from the company's internal fundamental, credit risk and liquidity risk are used as an aspect of risk profile assessment, the management efficient variable is an aspect of assessment of management in applying the principles of good corporate governance and the capital variable is an aspect of capital assessment.

The level performance of a bank can be measured by its level of profitability. Profitability is the ability of a company to generate profits using the company's assets (Gitman & Zutter, 2012). The size of the profit can be used as an indicator of whether the company's performance has been done well or not. The profitability ratio is a ratio used to measure the company's ability to generate profits from its normal business activities (Hery, 2016). Profitability is the main key to supporting the stability and development of banks. The level of development of a bank's performance that is getting better and growing, will have a big impact on the bank's profitability. It can be clearly seen that banking sector is profitable in good conditions and is able to withstand all negative shocks and can contribute to the stability of the financial system (Athanasoglou et al, 2008).

According to Hanafi & Halim (2016) there are three ratios that are often discussed related to profitability, namely ROA (Return On Asset), ROE (Return On Equity) and Profit Margin. This study assess bank profitability by measuring the return on asset (ROA) ratio. According to I Made Sudana (2012) explained that ROA shows the company's ability to use all its assets to generate

profit after tax. This ratio is important for management to evaluate the effectiveness and efficiency of company management in managing all company assets. The larger the ROA, the more efficient the use of the company's assets or in other words the same amount can generate greater profits.

Non Performing Loan are loans that are disbursed, but are less liquid, doubtful, and stuck. NPL aims to determine the performance of management in using all activities efficienty. NPL can be found out by calculating Non Current Financing to Total Financing. The lower the NPL, the more the bank will experience profits, on the countrary, the high NPL level of the bank will suffer losses due to the rate of bad credit returns. The large number of Non Performing Loan causes the erosion of capital, which can be seen from the Capital Adequacy Ratio (Syamsuddin, 2013).

Profitability is also closely related to the amount of credit provided as seen using Loan to Deposit Ratio (LDR). Loan to Deposit Ratio (LDR) is the ratio between the total amount of credit provided by the bank and the funds received by the bank. LDR is the extent to which a bank is able to pay off depository payments by relying on loans provided as a source of liquidity. Adapted from the research of Pinasti & Mustikwati (2018).

The Capital Adequacy Ratio (CAR) variable can effect the profitability level of banking companies. The higher the CAR, the better the bank's ability to bear the risk of any risky productive asset. If the CAR value is high, the bank is able to finance operational activities and make a considerable contribution to profitability. A high capital ratio can protect depositors and increase public trust in banks, and ultimately can increase a bank's revenue (Febrianti & Ladinus, 2019)

Operating Costs Operating Income (BOPO) is a comparison between operating costs and operating income. Operational cost are costs incurred by banks in order to carry out their main business activities (such as interest costs, labor costs, marketing costs, and others). Operating income is the bank's main income, namely interest income obtained from the placement of funds in the form of credit and other operasional placements. Bank Indonesia stipulates that the BOPO requirement for commercial banks is not more than 85%. The smaller the BOPO, the smaller the operational costs incurred so that the bank is more likely to make a profit.

Based on the explanation of the financial performance ratio, the researcher intends to examine the influence of the NPL, LDR, CAR, and BOPO variables on banking ROA based on the category of Conventional Commercial Banks for the period 2014 to 2023. The results obtained can be a refence for analysis of banking financial performance in Indonesia so that it is expected to determine future policies and maintain economic stability in Indonesia.

LITERATURE REVIEW

Signaling Theory

Signaling Theory was first introduced by Spence in his research entitled Job Market Signalling Spence (1973) stated that a signal or signal gives a signal, the sender (owner of the information) tries to provide a piece of relevant information that can be used by the receiver. The receiver will then adjust its behavior according to its behavior according to its understanding of the signal. According to Brigham & Houstan (2019), signal theory is an action taken by company management that provides clues to investors on how management views the company's prospects. Signal Theory explains that all actions contain information, and this is due to the asymmetry of information.

One way to reduce information asymmetry is to signal to outsiders, in the form of positive and trustworthy financial information that will reduce uncertainty regarding the company's future prospects so as to increase the company's credibility and success (Brigham & Houston,2019).

Signal theory itself explain how will make investment. This signal can be in the form of information about what has been by the management to realize the wishes of investors. The

signal issued by the company is important, because it effects the investment decision of the company's external parties. The better the signal given by the company, the better it will reflect the company's good performance as well. The higher the company's value, the higher the market confidence not only in the company's current performance but also in reflecting the company's future prospects (Yuliawan & Wirasedana, 2016).

Financial Performance

Financial performance is a financial analysis that can be used to see whether the rules of financial implementation have been implemented properly and correctly (Fahmi,2014). According to the Indonesian Institute of Accountants (IAI) (2007), financial performance is the ability of a company in terms of managing and controlling the resources owned by the company. According to Mulyadi (2007), financial performance is a periodic determination of the operational effectiveness of an organization or company and its employees, based on previously set goals, standards and criteria.

Because finance in a company is a benchmark for how a company can survive in the future. The financial data of a company will be realized in the financial statement. Starting from incoming and outgoing money. Thus, financial flows can be monitored properly.

Non Performing Loan (NPL)

The Non Performing Loan (NPL) Ratio has been determined based on the provisions of Bank Indonesia No, 23/2/PBI/2021 that the maximum NPL level of a bank is 5% where, if the NPL level of a bank exceeds above 55, it can be said that the bank is unhealthy or has bad credit problems. NPL is a ratio that shows the ability of bank management to manage non performing loans to generate net interest income. Net interest income is obtained from interest income minus interest expenses. The larger the scale of bank's operations, the lower the supervisory aspect. In this study, the NPL formula is measured by (Shara & Nasution, 2019) :

$$NPL = \frac{Kredit\ Bermasalah}{Total\ Kredit}$$

Loan to Deposit Ratio (LDR)

One measure of calculating bank liquidity is the Loan to Deposit Ratio (LDR), which is how much bank funds are released to credit. Bank Indonesia has issued a provision that this ratio range is 85% to 110% (Hidayati, 2015). The higher the value of bank's Loan to Deposit Ratio, the bank's profit will also increase. This means that banks are able to distribute their credit effectively. With the increase in profits owned by a bank, this will also improve its financial performance. In the sense that the rise and fall of the LDR value will affect the performance of a bank (Sofyan, 2019). In this study, the LDR formula is measured by :

$$LDR = \frac{Pembiayaan}{Dana\ Pihak\ Ketiga}$$

Capital Adequacy Ratio (CAR)

The capital adequacy ratio in showing the ability of a bank to maintain its capital is the capital Adequacy Ratio (CAR). The higher or stronger a bank's ability to bear the risk of every credit or loan given, the better its capital position will be. Banks that are said to perform well are banks that meet the criteria where the provisions issued by Bank Indonesia are 8%. Seeing this provision, banks must still maintain that the CAR value must always be above 8%. If the bank's CAR value is below 8%, the bank is unable to control its operational activities efficiently (Wijaya,2018). In this study, the CAR formula is measured by (Siregar & Widyawati, 2016) :

$$CAR = \frac{Modal}{Aktiva\ Tertimbang\ Menurut\ Risiko}$$

Operating Costs to Operational Opinion (BOPO)

In measuring how efficient and capable a bank is in carrying out its operational activities, banks usually compare operational costs with their operating income. This comparison in the financial ratio is called BOPO or Operating Costs to Operational Opinions. The smaller this ratio means the more efficient the operational costs incurred by the bank in question (Shara & Nasution, 2019).

This ratio reflect the level of efficiency of the bank in carrying out its operations. According to Azwa & Afriani (2016) the operating cost ratio is used to measure the level of efficiency and ability of banks to carry out their operations. In this study, BOPO formula is measured by (Shara & Nasution, 2019) :

$$BOPO = \frac{Biaya\ Operasional}{Pendapaan\ Operasional}$$

Return On Asset (ROA)

Return On Asset (ROA) is a ratio that shows the return on the use of the company's assets in creating net profit so that this ratio is an important ratio for the company, because the greater the Return On Asset, the more efficient the company is in using its assets to earn profits by utilizing its assets. In this study, return on assets is measured by (Fahmi, 2014) :

$$ROA = \frac{Earning\ After\ Tax\ (EAT)}{Total\ Asset}$$

METHODS

This research is included in a casual study conducted to determine the relationship between variables. This study uses a hypothesis that also considers events that have occurred as an aid in its testing. Based on the data source, the data source of this study uses secondary data that is quantitative.

This quantitative approach uses a set of information in the form of numbers and can be analyzed for the decision making process (Kuncoro, 2009). The research population used is Conventional Commercial Banks in Indonesia, which is 69 population. In this study, a purposive sampling technique is used, where the sampling technique is based on data source with certain consideration (Sugiyono, 2015). From this population, 32 sample banks were obtained in accordance with the criteria that have been set as follow, Bank that are included in the category of Conventional Commercial Banks in Indonesia for the period 2014 to 2023, issuing and publishing annual financial statement in the period 2014 to 2023.

In this study, the data analysis technique used to solve is using panel data regression analysis. In regression model estimation method using panel data, it can be done through three approaches including the Common Effect Model, Fixed Effect Model, and Random Effect Model. In testing the hypothesis, the research was carried out through the chow test (testing to determine the Fixed Effect or Random Effect that is best used in estimating panel data). Hausman Analysis (statistical testing to choose whether the Fixed Effect or Random Effect model is most appropriate to use), Lagrange Multiplier Analysis (to find out if the Random Effect model is better than the Common Effect method) classic analysis (Normalitas, Heterokendatisitas, Multikolinearitas, Autokorelasi) and Significant Analysis (Model Qualification F, Hipotesis t, and Ajusted R. This analysis is used to find out and obtain an overview of the influence of financial performance on profitability in banking sector companies in Indonesia in 2014 – 2023.

RESULTS

Regression Model Selection

UJi chow aims to determine the best model between the Common Effect Model (CEM) or the Fixed Effect Model (FEM) in estimating the data of the Chow Test panel is a test to compare the common effect model with the fixed effect (Widarjono, 2009). The basis for decision-making in the chow test is seen from the probability value of cross-section F. If the probability value of cross section F > 0.05, then the model chosen is a common effect approach. If the probability cross section value F < 0.05, then the model chosen is a fixed effect approach. To find out the panel data model to be used, the F-restriced test or Chow test is used by comparing the statistical F and F tables. By testing the hypothesis as follows:

1. H_0 = Pooled Least Square (Restriced) Model
2. H_1 = Fixed Effect (Unrestriced) Model

From the regression results based on the Fixed Effect Model and Pooled Least Square methods, the following statistics are obtained:

Table 1 Chow Test Results

Effect Test	Probability	Result
Cross-Section F	0.0002	Selected Finite Element Method (FEM)

Source: E-views 12 Processing Result (2024)

Based on table 1, the result of Uji Chow test is Finited Element Method (FEM) with a probability value of 0.0002 < 0.05. Therefore, a Hausman test is necessary to choose between the fixed effect model and Random Effect Model. If probability

Table 2 Hausman Test Results

Effect Test	Probability	Result
Cross-Section F	0.2280	Selected Random Effect

Source: E-views 12 Processing Result (2024)

Based on Table 2, the results of the Hausman test indicate that Random Effect Model (REM) is chosen, with a probability value of 0.2280 > 0.05.

Widarjono (2009) explained that the Lagrange Multiplier Test aims to determine the best model between the random effect approach and the common effect approach which should be done in panel data modeling. The Lagrange Multiplier test is not used when the Chow test and the Hausman test show that the most appropriate model is the Fixed Effect approach. So the next step to determine whether the Random Effect is better than the Common Effect, the Lagrange Multiplier Test is needed.

Table 3 Lagrange Multiplier Test Result

Effect Test	Probability	Result
Cross-Section F	0.0002	Selected Random Effect Model (REM)

Source: E-views 12 Processing Result (2024)

Based on Table 3, the results of Lagrange Multiplier Test indicate that Random Effect Model (REM) is chosen with a probability value 0.0002 <0.05

Classic Assumption Test

The multicollinearity test was carried out with the aim of finding out whether a regression model found a correlation between independent variables (Ghozali, 2016). The multicollinearity test aims to find out whether the regression model finds a correlation between independent variables (Ghozali, 2016). This means that the standard error is large, so when the coefficient is tested, the t-count will be a small value from the t-table. This shows that there is no linear relationship between independent variables or independent variables that are influenced by dependent variables or bound variables.

Table 4 Multikolinearitas Test Result

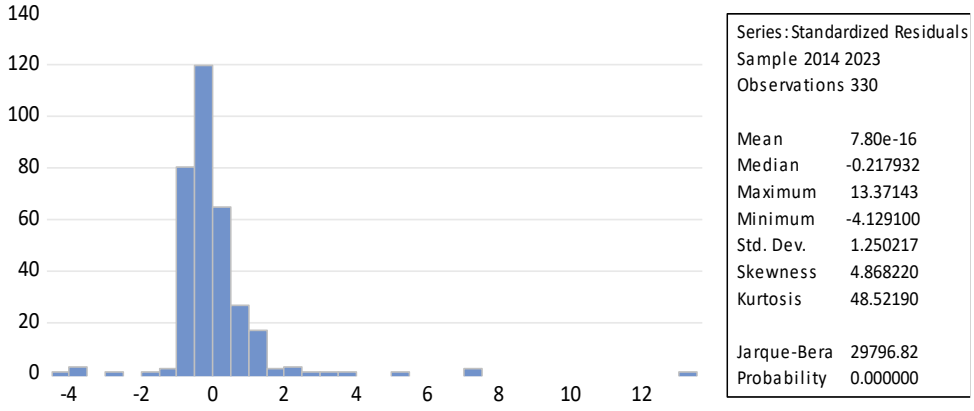
	X1	X2	X3	X4
X1	1.000000	-0.106058	0.069511	0.509020
X2	-0106058	1.000000	0.033305	-0.168279
X3	0.069511	0.033305	1.000000	-0.064348
X4	0.509020	-0.168279	-0.064348	1.000000

Source: E-views 12 Processing Result (2024)

Based on Table 5, The correlation coefficients of X1 and X2 were -0.106058<0.85, X1 and X3 were 0.069511<0.85, X1 and X4 were 0.509020<0.85, X2 and X3 were 0.033305<0.85, X2 and X4 were -0.168279<0.85, and X3 and X4 were -0.064348<0.85. Therefore, it can be concluded that multicollinearity is free or passes the multicollinearity test.

The Normality Test is a test conducted with the aim of assessing the distribution of data on a group of data or variables, whether the distribution of the data is normally distributed or not.

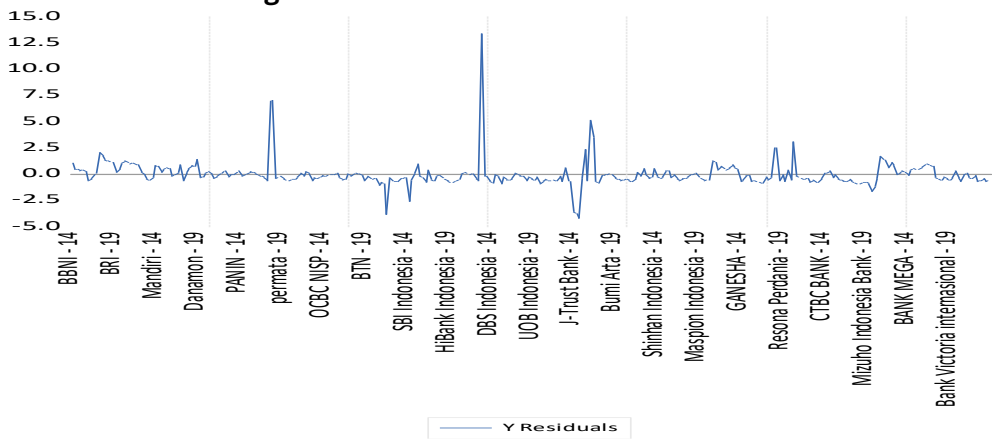
Figure 1 Normalitas Test Result



Source: E-views 12 Processing Result (2024)

Figure 1, The result of the probability is 0.0000<0.05, then the data is not distributed normally. The heteroscedasticity test was carried out on a regression model to test whether there was a variance difference from residual to another observation (Juliandi et al., 2014). The heteroscedasticity test was carried out to determine whether in a regression model there was a discomfort of variants from residual to other observations. Usually, crosssection data contains heteroscedasticity because this data collects data that represents various small, medium, and large sizes (Ghozali, 2016).

Figure 2 Heterokedastisitas Test Result



Source: E-views 12 Processing Result (2024)

Based on Figure 2, The blue residual graph does not appear to cross the boundary (500 and -500), meaning that the residual variant is the same. Therefore, there are no symptoms of heterokedasticity or passing the heterokedasticity test.

Hypothesis Test Results

T - Test is one of the statistical tests used to test the truth or falsity of a hypothesis that states that between two mean samples taken randomly from the same population, there is no significant difference (Sudjiono, 2010).

Table 5 T-Test Results

Variable	Coefficient	Probability	t-Statistic
C	-1.662563	0.0136	-2.482168
X1	0.002828	0.3749	0.888601
X2	0.002320	0.1821	1.337334
X3	0.048713	0.0000	8.286355
X4	-0.032194	0.5609	-0.582162

Source: E-views 12 Processing Result (2024)

Table 5, The t-value of the table 2.039513 The following analysis of the influence of independent variables on the dependent variable is as follows:

The results of the t-test on the X1 variable were obtained with a calculated t-value of 0.888601< the t-table is 2.04 and the sig value is 0.3749>0.05, then Ho is accepted and Ha is rejected, meaning that the X1 variable does not have a significant effect on the ROA of Commercial Banks in Indonesia.

The t-value on variabel X2 were obtained with a calculated t-value of 1,337334<t tabel which 2,04 and sig value 0,1821>0,05, then Ha is rejected dan Ho is accepted, meaning that the X2 does not have a significant effect on the ROA of Commercial Banks in Indonesia.

The results of the t-test on the X3 variable obtained a calculated t-value of 8.286355<t table which is 2.04 and a sig value of 0.000<0.05, then Ho was rejected and Ha was accepted, meaning that the X3 variable has an effect on the ROA of commercial banks throughout Indonesia.

The result of the t-test on X4 variable obtained a calculated t-value of -0,582162<t tabel which 2,04 dan sig value 0,5609>0,05, then Ho was accepted dan Ha was rejected, meaning variabel X4 does not have a significant effect on the ROA of Commercial Banks in Indonesia.

Table 6 F-Test Result

R-Squared	0.234392
Adjusted R-squared	0.224670
S.E of regression	1.142496
F-statistic	24.10949
Prob (F-statistic)	0.000000

Source: E-views 12 Processing Result (2024)

F value of table: 2.701399 F value calculated as 24.10949> F table is 2.7 and the sig value is 0.000000<0.05, then Ho is rejected and Ha is accepted, meaning that the variables X1, X2, X3 and X4 affect the ROA of commercial banks throughout Indonesia.

Table 7. Coefficient of Determination

R-Squared	0.234392
Adjusted R-squared	0.224670
S.E of regression	1.142496
F-statistic	24.10949
Prob (F-statistic)	0.000000

Source: E-views 12 Processing Result (2024)

The adjusted R square value is 0.224670 or 22.4670 %. The value of the determination coefficient shows that the independent variables consisting of X1, X2, X3, and X4 are able to explain the ROA variable of commercial banks in Indonesia by 22.4670 %, while the remaining 77.533% is explained by other variables that are not included in this research model.

DISCUSSION

The results revealed that the NPL variable in this study had a negative influence on ROA and was in accordance with the hypothesis. This is because a bad NPL ratio will cause liquidity risks that can arise due to high NPLs, namely the lack of bank cash, so that there is no money that can be used to pay employees or return money from customers and other third parties. The money used by the bank to provide loans to debtors is money from the customer, so if the debtor cannot pay the debt, the bank will also find it difficult to return the money to the depositor customer concerned (rentability), with the low amount of money in a bank due to high NPLs, the bank's operations as a whole can be disrupted. In addition, banks are also required to make a loss reserve on non-performing assets which in turn affects profitability and there are costs associated with efforts to recover bad loans. Profitability is measured in terms of return on assets (ROA) while non-performing loans (NPL) is measured as the NPL ratio (which is calculated as the percentage of non-performing loans to gross loans, thus Gross NPLs/Gross loans). The results of this study are in line with the results of a study conducted by Mardi & Faradila (2016); Yusriani (2018); Vernanda & Widyarti (2016); Amin Moh (2019) & Alshebmi, Mohammad Adam, Mustafa, Thomran, & Fathelbab (2020) who stated that the correlation results show a negative relationship between the non-performing loans (NPL) ratio and profitability (ROA).

The results revealed that the LDR variable in this study had a negative influence on ROA and was not in accordance with the hypothesis. This is because the high percentage of LDR does not necessarily directly affect the size of profitability (ROA). Some of the factors that greatly affect the loan to deposit ratio are economic factors. If an economic crisis occurs, every customer will compete in applying for a credit loan at the bank to meet their lives while unemployed. Meanwhile, bank assets will also decline along with the decline in people's income. Another factor that affects the loan to deposit ratio is the interest rate applied by the central bank. If the central bank sets a low interest rate, then borrowing funds will increase along with the level of

the economy in the area. The level of stability of economic security will also affect the LDR value. So high or low LDR does not affect the amount of bank profits. According to Lesmana Usahawan (2008), the lower the LDR indicates the lack of effectiveness of banks in distributing credit so that the bank loses the opportunity to earn profits, so it can be interpreted that an increase in LDR is able to increase profitability, or in this study ROA. The results of this study are not supported by this theory, where an increase in LDR results in a decrease in ROA, so it can be said that the higher the LDR, the worse or illiquid the bank's condition. The increase in LDR shows that banks are less able to fulfill their obligations to pay funds to customers/depositors on the loans disbursed, In addition, the increase in LDR also indicates the existence of high credit provision but not accompanied by a high rate of return or bad loans, so that instead of earning profits, the bank actually suffers losses or decreases profitability.

The results of the study revealed that the CAR variable in this study had a positive influence on ROA and was not in accordance with the hypothesis. According to Wibowo (2013), the amount of bank capital adequacy (CAR) does not necessarily affect the size of the bank's profit. Thus, it can be formulated that CAR has a significant negative effect on ROA. This negative relationship is in line with the results of research conducted by Buyuksalvarci and Abdiglu (2013) and Harly (2011) who stated that CAR has a negative effect on ROA.

The results of the study revealed that the BOPO variable in this study had a negative influence on ROA and was not in accordance with the hypothesis. The results of this study support the research of Widayani (2005) which stated that BOPO has a negative effect on ROA. BOPO is a comparison between operational costs and operating income (Dendawijaya, 2005), the lower the BOPO, the more efficient the bank's operational activities. So it can be interpreted that low operational costs will increase the overall profitability of the bank. Previously, it was known that the condition of BOPO had decreased, but the profitability indicated by ROA had also decreased, this is possible because the decline in the BOPO ratio has not shown significant efficiency in the bank's operational activities, so profitability still shows a downward trend. Therefore, the bank still needs to further improve its efficiency.

CONCLUSION

The results of the analysis and discussion, the following are summarized as follows, The NPL (Non-Performing Loan) variable has a negative effect on ROA in conventional commercial banks in Indonesia in the period 2014 - 2023. The results of this study are empirically in accordance with the research hypothesis that the NPL variable has a negative effect on the bank's ROA.

The LDR ratio variable has a negative influence on ROA in conventional commercial banks in Indonesia in the period 2014 - 2023. The empirical findings of this study are not in accordance with the research hypothesis that the LDR variable has a positive effect on the ROA of conventional general banks.

The CAR ratio variable has a negative effect on the ROA of conventional commercial banks in Indonesia for the period 2014 - 2023. The empirical findings of this study are in accordance with the research hypothesis that the CAR variable has a negative effect on ROA. This proves that the amount of capital adequacy (CAR) does not affect the size of the bank's profit or ROA.

The BOPO variable has a positive effect on ROA in conventional commercial banks in Indonesia. period 2014 - 2023. The empirical findings of the study are in accordance with the research hypothesis which states that the BOPO variable has a positive effect on the ROA of banks. This proves that the higher the BOPO ratio, it can be said that the operational activities carried out by banks are inefficient and vice versa. If the BOPO ratio is lower, then the bank's operational activities will be more efficient. If all activities carried out by the bank run efficiently, then the profits that will be obtained will also be greater which will ultimately improve the bank's financial performance.

SUGGESTION

Banks need to pay attention to the principle of prudence in distributing funds or be effective in providing credit so that it does not become bad credit, besides that banks must always supervise debtors in fulfilling their obligations so that banks are able to increase the rate of return so that they can increase their profitability. Persero banks are expected to be able to improve their operational efficiency by lowering the BOPO ratio, streamlining operational costs incurred for their operational activities in order to increase opportunities to increase their profitability.

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