

**Analysis of Banking Profitability Level (Study Case of PT. Bank Tabungan  
Negara (PERSERO) Tbk Period 2007-2015)**

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## **ANALYSIS OF BANKING PROFITABILITY LEVEL (STUDY CASE OF PT.BANK TABUNGAN NEGARA (PERSERO) TBK PERIOD 2007-2015)**

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### **ABSTRACT**

*Bank is a financial institution which is the executor of fiscal policies in a country. Besides, bank also helps supporting the people's life by providing financial services. The success of a company, no exception bank, can be seen from its financial performance. Profitability level has been chosen by the previous researchers to illustrate the financial performance of a company. This research aims to analyze the factors that influence the profitability level of PT. Bank Tabungan Negara (PERSERO) Tbk or bank BTN. Dependent variable used in this research is profitability, which is illustrated by ROE ratio. The independent variables of this research are Capital Adequacy Ratio (CAR), Loan to Deposit Ratio (LDR), Non Performing Loans (NPL), Net Interest Margin (NIM), Debt to Equity Ratio (DER), Operational Expense to Operational Income Ratio (BOPO), dan total credit. The research method used in this research is multiple regression analysis. The result of this research shows that CAR, DER, BOPO, and total credit significantly influence the profitability level of bank BTN, while LDR, NPL, and NIM are proved don't. CAR and DER has a positive influence to profitability level, while BOPO and total credit has a negative influence to profitability level.*

**Keywords:** Profitability, CAR, LDR, NPL, NIM, DER, BOPO, credit, multiple regression analysis, bank BTN.

## Introduction

PT. Bank Tabungan Negara (PERSERO) Tbk or Bank BTN is one of the state-owned bank. State-owned bank means that most of the share of Bank BTN itself is owned by the government. While the rest is owned by the society and the employees. In 1974, PT. Bank Tabungan Negara (PERSERO) Tbk/Bank BTN is pointed by the government to become the one and only bank to provide the housing credits for the lower-middle society level in Indonesia. Although in 1980s Bank BTN officially became a commercial bank by publishing their first obligation, in 2002 Bank BTN pointed by the government to focus on the housing funds for society. And in 2013, Bank BTN transformed in to leading housing bank and world class banking.

If we talk about banks, the first thing that comes to our mind must be money. Banks let the depositors save their money on them, and then they give loans to anyone to be the borrowers and charged some amount of money which we usually called as interest rates. That interest rates are exactly where the revenue for the bank come from. But, that kind of revenue source is not enough to make sure whether a bank has a great performance – especially in the term of profitability – or not. There are any other kinds of calculation which are included in the financial report calculation, such as the Return on Equity (ROE). Return on equity (ROE) is the amount of net income returned as a percentage of shareholders equity. Return on Equity (ROE) measures a company's profitability by revealing how much profit a company generates with the money shareholders which have invested.

In this research, profitability ratio that will be used is Return on Equity (ROE). ROE is usually used by the investors as an indicator of profitability ratio. This profitability ratio will be used to measure the effectivity of a company operation to gain profit for the company itself. The more the ROE level shown, the financial performance of that company is better. According to Gitman (2003), profitability is the relationship between revenues and cost generated by using the firm's asset- both current and fixed- in productive activities.

There are a lot of researches who are analyzing about profitability level of a banking company. But, most of them take a certain category of bank as a whole – such as all of the conventional or Sharia banks in Indonesia, etc – as their study case. It is very hard to find a research that only uses a specific banking company as their research field. Besides, most of the earlier researchers who conducted the research about bank profitability combined both bank-specific and macroeconomic variables in their researches. This specification matters stimulate the Writer to conduct this research, which specifically analyze the profitability level of PT. Bank Tabungan Negara (PERSERO) Tbk or Bank BTN, by using only bank-specific

variables as its independent variables. The independent variables used, such as Capital Adequacy Ratio (CAR), Loan to Deposit Ratio (LDR), Non-performing Loans (NPL), Net Interest Margin (NIM), Debt to Equity Ratio (DER), Operational Expenses to Operational Income Ratio (BOPO), and Total Credit.

In the previous researches which are conducted by the earlier researchers, there are some indicators that are usually used, such as Bank-specific Variables such as Liquidity Ratio, Cost of Fund Ratio, Productivity Ratio, Recurring Earning Power, Growth Rate of Total Deposit, Bank Size, Loan to Deposit ratio (LDR), Total Interest, Income Ratio, Off-balance Sheet Income, Industry-specific Variables such as (Hirschman-Herfindahl index/HHI), and also Macroeconomics-specific Variables such as Term structure of interest, Inflation, and GDP growth rate. Based on the research conducted by Sukarno & Syaichu (2006), Capital Adequacy Ratio (CAR) is significantly proved as the influence profitability. In this research, they stated that Capital Adequacy Ratio (CAR) is positively influence profitability.

While Islam & Nishiyama (2015) stated that Loan to Deposit Ratio (LDR), which is included in the Liquidity Ratio, is negatively influence a bank's profitability level. It means, when the Loan to Deposit Ratio (LDR) increases, the bank's profitability level decreases. Widiyanti & Pangestuti (2015), in their research "The Impact of Market Structure, Competition, Diversification, Capitalization, Credit Risk, and Size to Bank Profitability (Case Study Conventional Banks in Indonesia Period 2009-2013)" stated that there is a negative and significant relationship between Non-Performing Loans (NPL) and profitability.

In a research conducted by Dewi et al. (2015) were written that Net Interest Margin (NIM) contributes significantly on the profitability level both partially as well as simultaneously. Sukarno & Syaichu (2006) also conducted a research about the same matter. The results show that variables CAR, LDR, and BOPO are significantly influences profitability, but not for variables NPL and DER. CAR, LDR, and NPL have positive influence to profitability, meanwhile BOPO and DER have negative influence. Prasetyo (2016), on the other side, stated that there is a negative relationship between loans and profitability. He suggested that banks cannot manage to regain their own resources that have been lent to their customers.

As mentioned in the previous paragraphs, this research uses Return on Equity (ROE) as the illustration of profitability of PT. Bank Tabungan Negara (PERSERO) Tbk. Return of Equity (ROE) will be the dependent variable (Y) in this research, while for the independents, this research uses seven bank-specific variables, such as Capital Adequacy Ratio (CAR), Loan to Deposit Ratio (LDR), Non-performing Loans (NPL), Net Interest Margin (NIM),

Debt to Equity Ratio (DER), Operational Expenses to Operational Income Ratio (BOPO), and Total Credit. This study aims to determine what factors that influence the profitability of PT. Bank Tabungan Negara (PERSERO) Tbk or bank BTN. The method used in this research are multiple linear regression and classical assumption tests.

### **Literature Review**

Islam & Nishiyama (2015) in their paper “The Determinants of Bank Profitability: Dynamic Panel Evidence from South Asian Countries” used ROA and ROE as the indicator of profitability on their research. They used three general variables, those were: Bank-Specific Variables such as Equity to Total Asset Ratio (EAR), Liquidity Ratio, Cost of Fund Ratio, Productivity Ratio, Recurring Earning Power, Growth Rate of Total Deposit, Bank Size, Loan to Deposit ratio (LDR), Total Interest, Income Ratio, Off-balance Sheet Income; Industry-specific Variables (on their research they used Hirschman-Herfindahl Index/HHI); and Macroeconomic-specific Variables such as term structure of interest rate, inflation, and GDP growth rate. By using GMM estimator as research methodology that they used, they found out that cost of fund, liquidity, funding gap, term structure of interest rate, and the economic growth rate negatively influence bank profit, while inflation rate positively influence bank profit.

The second research which the writer found is a research by Chowdhury (2015). Chowdhury used Malaysian Islamic Bank as his research object. He used profitability as dependent variable and bank-specific and macroeconomics variables as independent variable. Bank specific variables which were used by Chowdhury were efficiency ratios (overhead costs), equity financing, credit risks, and liquidity risks. While the macroeconomics variables were inflation and savings on gross national income. By using Pooled Ordinary Least Square, Chowdhury found that endogenous factors such as efficiency ratios (overhead costs) negatively influenced the profitability level of Islamic bank’s performance, while equity financing was positive and statistically significant to the profitability of Islamic banks. The Credit risks and Liquidity risks factors were insignificant on the performance of the Islamic banks. On the other hand, exogenous factors such as inflation had a positive and statistically significant impact on the return on assets whereas savings on gross national income had a statistically significant and negative impact on the performance of Islamic banks.

In their journal which titled “The Impact of Market Structure, Competition, Diversification, Capitalization, Credit Risk, and Size to Bank Profitability (Case Study Conventional Banks in Indonesia Period 2009-2013)”, Widiyari & Pangestuti (2015) used

market share, Hirschman-Herfindahl Index (HHI), Lerner Index (LI), Equity to Total Asset Ratio (EAR), bank size, and Non-performing Loans (NPL) as their independent variables. With Ordinary Least Square (OLS) as their research methodology, they found out that the effect of variables such as market share, HHI DIV, Lerner Index (LI), Equity to total asset ratio (EAR), and Size on profitability were positive and significant. Meanwhile, there was a negative and significant relationship between credit risk (NPL) and profitability. The results also indicated that the Indonesian commercial banking industry had become more competitive. The empirical evidence of the relationship between market structure and bank performance had shown that there was a strong support for the theory of Relative Market Power.

Apart from those researches, a journal written by Dewi et al. (2015) which entitled “Analysis the Impact of NIM, BOPO, LDR, and NPL to Profitability (Case Study on National General Private Banks which are Registered in Bursa Efek Indonesia Period 2009-2013)” focused on determining the relationship between bank profitability level and financial ratios like the Writer do right now. They used Net Interest Margin (NIM), Operational Expenses/Operational Income Ratio or BOPO, Loan to Deposit Ratio (LDR), and Non-Performing Loans (NPL) as their independent variables. By using multiple linear regression and classical assumption test, the authors found out that the Net Interest Margin (NIM), Biaya Operasional Cost /Opetating Income (BOPO), Net Performing Loan (NPL), and Loan to Deposite Ratio (LDR) contributed significantly on the profitability both partially and simultaneously as well.

Similar with what Luh Eprima Dewi, Nyoman Trisna Herawati, dan Ni Luh Gede Erni Sulindawati did, a research entitled “The Influence of Non-performing Loans as an Effect of Global Financial Crisis to the Profitability of Banking Companies” which was written by Sari et al. (2015) also focused on the relationship between bank profitability and financial ratio, that was Non-performing Loans (NPL). By using simple linier regression, correlation analysis, determination coefficient analysis, and t-test, the result shows that NPL did not have any influence to profitability. The authors also stated that these two variables show a very weak correlation with negative correlation value.

A research written by Makri (2015) with “Non-performing Loans, Bank Profitability, and the Financial Crisis” as its title used linear regression and panel data as its research methodology. The author used some general banks in Greece and the South Europe countries as case study. In order to investigate the pre and post crisis situation, the authors had spited our sample into two sub-regimes, from 2005-2008 and 2009-2012. The author used non-

performing loans (NPL), bank size, capital adequacy ratio (CAR), and also inflation rate as the independent variables.

Gyamerah & Amoah (2015) conducted a research that takes banks in Ghana as its object. The research with “Determinants of Bank Profitability in Ghana” as the title used multiple linear regression as its research methodology and cost management, bank size, and credit risk as their research variables. This research used the data in 1999 until 2010. The findings suggested that cost management had an inverse relationship with profitability, bank size and credit risk showed a positive association with profitability. The results applied to both foreign and local banks in Ghana.

A research written by Eldomiaty et al. (2015) illustrated the bank profitability with Return on Equity (ROE). The research with “The Relative Contribution of Micro and Macroeconomics Determinants of Bank Profitability: Empirical Study on MENA and EU” as its title used both financial ratios and macroeconomics variables. The financial ratios which used in this research were net interest margin (NIM), risk provision ratio, operating expense, and financial leverage. While the macroeconomics variables which used were GDP growth and unemployment rate. This research used discriminant analysis as its methodology. The discriminant analysis was used for estimating Z-scores that discriminated between below-median and above-median return on equity for banks operating in the MENA and EU. The results indicated that the effects of some variables are consistent across both regions, namely: the net interest margin and the risk provision ratio. Operating Expenses were positively associated with bank profitability in the MENA region while the financial leverage was negatively associated with bank profitability. In the EU region both Bank Equity and the ratio of liabilities to assets were negatively associated with profitability. In the EU region, GDP growth rate was negatively associated with profitability while the unemployment was positively associated with bank profitability. Nevertheless, in the MENA region, all macroeconomic factors were statistically insignificant.

Apart from that, a research written by Prasetyo (2016) with “The Impact of a Change in Reserve Requirement and Banking Internal to Bank Profitability Level: Case Study of PERSERO Banks in Indonesia Period 2011:3-2014-4” as its title used both Return on Assets (ROA) and Return on Equity (ROE) as its dependent variables. He chose financial ratios as his research variables such as reserve requirements, Non-performing Loans (NPL), Net Interest Margin (NIM), deposits, and loans. The result showed that the reserve requirements changes only affected ROE, negatively and significantly. NPL had a negative and significant



effect on both ROA and ROE, while NIM had a positive and significant effect. Deposits had a positive and significant effect on ROE, while loans had a negative and significant effect.

Rahman et al. (2015) conducted a research about the profitability level in Bangladesh banks. The profitability level was illustrated as Return on Assets (ROA), Net Interest Margin (NIM), and Return on Equity (ROE), while they used capital strength, credit risk, ownership structure, bank size, non-interest income, cost efficiency, off-balance sheet activity, liquidity, GDP, and inflation as the independent variables. The empirical findings suggested that capital strength (both regulatory capital and equity capital) and loan intensity had positive and significant impact on profitability. Results also showed that cost efficiency and off-balance sheet activities had negative and significant impact on bank profitability. The impact of other variables was not uniform in respect of different measures of profitability. Non-interest income, credit risk and GDP were found as important determinant for NIM. Size had a positive and significant impact on ROA. Finally inflation had a negative and significant impact on ROA and ROE.

Rachmawati & Herawati (2013) also conducted a research that analyzing the relationship among third party fund (TPF), loan to deposit ratio (LDR), non performing loans (NPL), operational cost, and net interest margin (NIM) to profitability level. The results of the study of multiple linear regression analysis showed that the simultaneous growth variable Deposits, Loan to Deposit Ratio, Non-Performing Loans, Operating Costs and Net Interest Margin has a significant influence on bank profitability as measured by return on assets ratio. While partially, the variable growth of third party funds, non-performing loans and loan to deposit ratio had no significant influence on profitability, while Operating Costs and Net Interest Margin had significant influence on profitability.

A research conducted by Sukarno & Syaichu (2006) used capital adequacy ratio (CAR), loan to deposit ratio (LDR), non-performing loans (NPL), operational expense to operational income ratio (BOPO), and debt to equity ratio (DER) as their research variables. The results showed that variables CAR, LDR, and BOPO were significantly influences profitability, but not for variables NPL and DER. CAR, LDR, and NPL had positive influence to profitability, meanwhile BOPO and DER had negative influence.

A research conducted by Mawardi (2004) with "Analysis of the Factors that Influence the General Bank in Indonesia (Study Case on General Banks with Total Asset Less than Rp. 1 Trillion)" as its title analyzed the relationship between capital adequacy ratio (CAR), net interest margin (NIM), operational expense to operational income ratio (BOPO), non performing loans (NPL), and financial performance (profitability). Non Performing Loan

(NPL) and Ratio of Total Operational Expense and Total Operational Revenue (BOPO) negatively and significantly influenced the profitability, while Net Interest Margin (NIM) positively and significantly influenced the profitability. On the other side, Capital Adequacy Ratio (CAR) were proved did not influence the financial performance.

Mahardia (2008) used capital adequacy ratio (CAR), operational expense to operational income ratio (BOPO), non performing loans (NPL), net interest margin (NIM), and loan to deposit ratio (LDR) as his research variables. The result of this research showed that CAR, NIM, and LDR variables had a positive and significant influence to profitability. BOPO variable also had a significant influence to profitability, but the distinction between BOPO than another variables were the sign of variable coefficient, it had negative coefficient. In NPL variable case, despite NPL had a negative coefficient, it did not have a significant influence to ROA. The research also showed that BOPO coefficient became the largest coefficient values.

Last, a research conducted by Zulfikar (2014) which used capital adequacy ratio (CAR), loan to deposit ratio (LDR), non performing loans (NPL), operational expense to operational income ratio (BOPO), and net interest margin (NIM) as his research variables, had a similar result with the previous researches. The result of this research showed that all independent variables were proved as having an influence to profitability simultaneously. Analysis result in BPR as whole showed that CAR, NPL, and LDR statistically did not influence profitability level significantly. BOPO significantly and positively influenced profitability. While NIM significantly and negatively influenced profitability.

## **Research Methods**

The methods of analysis being used in this research are multiple linear regression and classical assumption tests. Multiple linear regression is used when there are two or more variables. The use of the multiple linear regression is to make the mathematical model from the influence of CAR, LDR, NPL, NIM, DER, BOPO, and total credit to profitability (ROE). From that model, we can know how much the influence of CAR, LDR, NPL, NIM, DER, BOPO, and total credit to profitability (ROE) is to the related bank (bank BTN). There are three different analysis in this multiple linear regression analysis, those are F-test, T-test, and coefficient determinacy ( $R^2$ ).

F-test is used to test the overall equation regression whether all independent variables have an effect to the dependent variable. This analysis is used to test whether the variables of Capital Adequacy Ratio (CAR), Loan to Deposit Ratio (LDR), Non-performing Loans

(NPL), Net Interest Margin (NIM), Debt to Equity Ratio (DER), Operational Expenses to Operational Income Ratio (BOPO), and total credit affect bank profitability level (ROE).

Different with F-test, T-test is used to determine on how far the independent variables influence the dependent variable partially. This analysis is useful to determine the most influential independent variable.

Coefficient determinacy  $R^2$  can be used to know how much is the contribution of all independent variables ( $X_1, X_2, X_3, X_4, X_5, X_6$ , and  $X_7$ ) in influencing the dependent variable ( $Y$ ), while the rest is influenced by the other independent variable independent variable ( $X$ ) which is not included in the model. A model can be said as good if the coefficient determinacy is equal to one or close to one Gujarati (2010).

The second method is classical assumption tests. Classical assumption tests is done to ensure that the data used in the research normally distributes and do not have any problem with multicollinearity, heteroskedasticity, and autocorrelation. Due to this research which uses time series data, all of the classical assumption tests mentioned before (normality, multicollinearity, heteroskedasticity, and autocorrelation) are necessary.

First classical assumption test is normality test. Normality test is used for knowing whether the data we used are normal or not. Normality test is done by looking at the probability value. If the probability value is greater than  $\alpha$  (alpha), it means that the error term is distributed normally. The principle of normality can be detected simply by looking at the probability value in the "Histogram – Normality Test" result box.

The second test is called multicollinearity test. Multicollinearity test purpose is to test whether the correlation between independent variables exists or does not. If there is a high level (or even perfect) correlation between the independent variables in the form of regression model, so that the regression model will be stated as having multicollinear symptom (Suliyanto, 2011). This research uses Eviews 7 as the research tool. In Eviews 7, we can simply conclude whether the data used have multicollinearity problem or do not by doing the "Variance Inflation Factor" test, and check the result table. If the numbers in the table show no number higher than 10, it means that the data used have no multicollinearity problem.

The third one is called heteroskedasticity test. Heteroskedasticity means that an unconstant variable variance is exist in a regression model. Otherwise, if there is a constant variable variance in regression model, this condition is called as homoscedasticity. If we use Eviews, heteroskedasticity test can be done simply by using White Heteroskedasticity test.

After the result appears in the screen, we just have to look at the prob. Chi-Square value. If the value is greater than  $\alpha$  (alpha), then data used have no heteroskedasticity problem.

The last classical assumption test is autocorrelation test. Autocorrelation can be defined as a correlation that happens to the elements of a bunch of observations which period is consecutively happened (if the data used is time series) or correlation between some contiguous places (if the data used is cross section). If the auto-correlation function dies off smoothly at a geometric rate and the partial auto-correlations were zero after one lag, then a first order auto-regressive model is appropriate.

## Discussion

### *Multiple Linear Regression Analysis*

The use of the multiple linear regression is to make the mathematical model from the influence of CAR, LDR, NPL, NIM, DER, BOPO, and Total Credit to profitability (ROE).

The linear equation is:

$$Y_t = \beta_0 + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \beta_4 X_{4t} + \beta_5 X_{5t} + \beta_6 X_{6t} + \beta_7 X_{7t} + \mu$$

Where :

Y = Profitability (ROE)

$\beta_0$  = Constant

$\beta_1$ – $\beta_5$  = Coefficient regression

$\mu$  = Error

$X_1$  = Capital Adequacy Ratio (CAR)

$X_2$  = Loan to Deposit Ratio (LDR)

$X_3$  = Non-performing Loans (NPL)

$X_4$  = Net Interest Margin (NIM)

$X_5$  = Debt to Equity Ratio (DER)

$X_6$  = Operational Expenses to Operational Income Ratio (BOPO)

$X_7$  = Total Credit

Table 1  
Linear Equation

Dependent Variable: ROE  
Method: Least Squares  
Date: 03/16/16 Time: 14:45  
Sample: 2007Q1 2015Q4  
Included observations: 36

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CAR	0.414024	0.195047	2.122691	0.0428
LDR	0.006345	0.047404	0.133858	0.8945
NPL	-0.038976	0.425507	-0.091600	0.9277
NIM	-1.090281	1.044793	-1.043538	0.3056
DER	0.013045	0.002843	4.589285	0.0001
BOPO	-0.949614	0.199808	-4.752634	0.0001
KREDIT	-0.017915	0.009212	-1.944762	0.0619
C	1.000073	0.327677	3.052011	0.0049

Based on the coefficients shown in the Eviews table above, we can make an equation from it, which is:

$$Y = 1,00 + 0,414CAR + 0,006LDR - 0,039NPL - 1,090NIM + 0,013DER - 0,949BOPO - 0,0179KREDIT$$

Based on the linear equation above, we can make an interpretation as written below:

1. As we see in both table and equation, the capital adequacy ratio (CAR) coefficient shows 0,414 in number, with no negative sign. It means the capital adequacy ratio (CAR) positively influence profitability (ROE). The 0,414 number means if there is an increase in capital adequacy ratio (CAR) by 1%, it will make profitability ratio increasead by 0,414% in average (assume that the rest independent variables are constant). And if the capital adequacy ratio (CAR) decreases by 1%, the profitability will decrease by 0,414% in average, if the rest independent variables are constant.
2. The coefficient value of loan to deposit ratio (LDR) shows 0,006 in number and no negative sign. It means loan to deposit ratio (LDR) positively influences the

- profitability (ROE). The number 0,006 means if there is an increase in loan to deposit ratio (LDR) by 1%, the profitability ratio will increase too by 0,006% in average (assume that the rest independent variables are constant). And if the loan to deposit ratio falls by 1%, the profitability level will also fall by 0,006 in averager, if the rest independent variables are constant.
3. The coefficient value of non performing loans (NPL) in the equation shown -0,038 in number. The negative sign tells us that both non performing loans (NPL) and profitability (ROE) has a negative relationship. The number 0,038 means that every 1% increasing in non performing loans (NPL), will bring a decrease in the profitability level by 0,038% in average, with an assumption that the rest independent variables are constant. In other side, if the non-performing loan (NPL) falls by 1%, the profitability level will increase by 0,038% in average, with the assumption that the rest independent variables are constant.
  4. The coefficient value of net interest margin (NIM) shown in the equation is -1,090. The negative sign means that both net interest margin (NIM) and profitability level (ROE) has a negative relationship. It means, when the net interest margin (NIM) increases by 1%, the profitability level will fall by 1,090% in average, with the assumption that the rest independent variables are constant. And when the net interest margin (NIM) falls by 1%, the profitability level will increase by 1,090% in average, with the assumption that the rest independent variables are constant.
  5. The coefficient value of debt to equity ratio (DER) shown 0,013 in number. The sign of the coefficient of this variable is positive. It means that debt to equity ratio (DER) positively influences profitability level (ROE). The number means when there is an incese in debt to equity ratio by 1%, the profitability level will increase as well by 0,013% in average, with the asumption that the rest independent variables are constant.and when the debt to equity ratio decreases by 1%, the profitability level will decrease as well by 0,013% in average, with the assumption that the rest independent variables are constant.
  6. Operational expense to operational income ratio (BOPO) shows -0,949 in number. The negative sign tells us that both operational expense to operational income ratio (BOPO) and profitability level (ROE) has a negative relationship. The number mean there is an incese in BOPO by 1%, will lead a decrease in profitability level by 0,949% in average, with the assumption that the rest independent variables are constant. and if the BOPO ratio falls by 1%, the profitibility level will increase by

0,949 in average, with the assumption that the rest independent variables are constant.

7. The last independent variable is the total credit. The coefficient value of total credit is -0,0179. The negative sign means that both total credit and profitability level has a negative relationship. While the number tells us that if there is an increase in total credit by 1%, it will cause a decrease in profitability level by 0,0179% in average, with the assumption that the rest independent variables are constant. And if there is a decrease in total credit by 1%, it will cause an increase in profitability level by 0,0179% in average, with assumption that the rest independent variables are constant.
8. The “C” in the Table 1 represents the constant of the equation. The numbers of it are 1,000073. It means that, if there is not any single independent variable in this research, the profitability (ROE) is equal to 1,000073.

#### *F-Test*

F-test is used to test the overall equation regression whether all independent variables have an effect to the dependent variable. This analysis is used to test whether the variable Capital Adequacy Ratio (CAR), Loan to Deposit Ratio (LDR), Non-performing Loans (NPL), Net Interest Margin (NIM), Debt to Equity Ratio (DER), Operational Expenses to Operational Income Ratio (BOPO), and total credit affect bank profitability level (ROE).

Table 2

Lower part of multiple linear regression equation table (F-Test)

R-squared	0.922219	Mean dependent var	0.166539
Adjusted R-squared	0.902774	S.D. dependent var	0.037748
S.E. of regression	0.011770	Akaike info criterion	-5.853346
Sum squared resid	0.003879	Schwarz criterion	-5.501452
Log likelihood	113.3602	Hannan-Quinn criter.	-5.730525
F-statistic	47.42647	Durbin-Watson stat	1.222726
Prob(F-statistic)	0.000000		

If we want to see the result of F-test, we can see it directly in the left bottom of the lower part of the multiple linear regression equation table (Table 1). As we can see from the Table 2, the probability value (F-statistic) shows number 0,000000. It means that all independent variables ( $X_1$ - $X_7$ ) are perfectly influencing the dependent variable (Y).

#### *T-Test*

T-test is done to determine the significancy level of each independent variable (X). The significancy level of each variable should fulfill the standard, so that those variables can be said as “significantly influence” the dependent variable (Y). The acceptable value is the T-value which should be less than the  $\alpha$  (alpha). The  $\alpha$  (alpha) is vary, there are  $\alpha$  (alpha) 1%, 5%, and 10%. The T-value should be less than either 1%, 5%, or 10%. The T-value can be seen from the probability values on the right side of the upper part of multiple linear regression equation table (see Table 3 below).

Table 3  
Upper part of multiple linear regression equation table

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CAR	0.414024	0.195047	2.122691	0.0428
LDR	0.006345	0.047404	0.133858	0.8945
NPL	-0.038976	0.425507	-0.091600	0.9277
NIM	-1.090281	1.044793	-1.043538	0.3056
DER	0.013045	0.002843	4.589285	0.0001
BOPO	-0.949614	0.199808	-4.752634	0.0001
KREDIT	-0.017915	0.009212	-1.944762	0.0619
C	1.000073	0.327677	3.052011	0.0049

As we can see from Table 3, the T-value is on the right side of the table. Each row represents the value of each independent variable (X). As we can see, there some values which can be categorized as significant, and some cannot be. The T-value of CAR, DER, BOPO, and total credit are 0,0428, 0,0001, 0,0001, and 0,0619. Those values are definitely



lower than  $\alpha$  (alpha) 5% (0,05). But, in total credit case, the T-value is lower than 10%  $\alpha$  (alpha). So, in the end we can conclude that CAR, DER, BOPO, and total credit are statistically significant in influencing profitability level (ROE) of Bank BTN.

If we see the T-values of LDR, NPL, and NIM, all of these variables values are quite high. We can see that the T-value of LDR is 0,8945, T-value of NPL is 0,9277, and T-value of NIM is 0,3056. All of these variables values are much higher than all of the  $\alpha$  (alpha). So, we can conclude that LDR, NPL, and NIM are not statistically significant in influencing profitability level (ROE) of Bank BTN.

#### *Coefficient Determinacy ( $R^2$ )*

Coefficient determinacy  $R^2$  can be used to know on how much the contribution of all independent variables (X1, X2, X3, X4, X5, X6 and X7) in influencing the dependent variable (Y) is, while the rest is influenced by the other independent variable independent variable (X) which is not included in the model. A model can be said as good if the coefficient determinacy is equal to one or close to one (Gujarati, 2010).

Table 4

Lower part of multiple linear regression equation table ( $R^2$ )

R-squared	0.922219	Mean dependent var	0.166539
Adjusted R-squared	0.902774	S.D. dependent var	0.037748
S.E. of regression	0.011770	Akaike info criterion	-5.853346
Sum squared resid	0.003879	Schwarz criterion	-5.501452
Log likelihood	113.3602	Hannan-Quinn criter.	-5.730525
F-statistic	47.42647	Durbin-Watson stat	1.222726
Prob(F-statistic)	0.000000		

As we see in the Table 4 above, the R-squared ( $R^2$ ) value is shown on the first row in the lower part of multiple linear regression equation table. As already highlighted, we can see that the R-squared value is shown as 0,922219. This value means that all independent variables in this research (X1, X2, X3, X4, X5, X6, and X7) give contribution to the

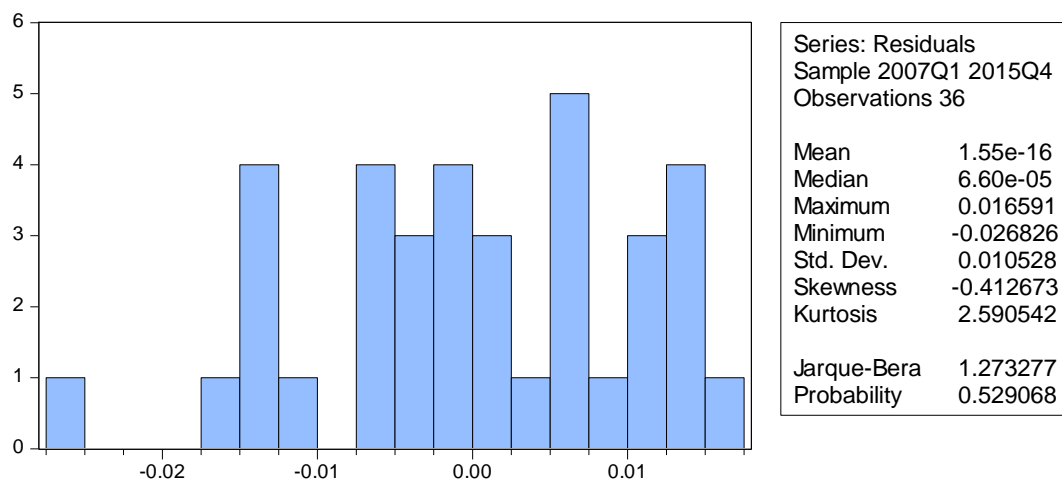
dependent variable (Y) 92% in total, while the rest 8% is explained by the other variable which is not include in this research, named as exogeneous variables.

### *Normality Test*

Normality test is used for knowing whether the data we used are normally distributed or not. The term “normal” means that there is no extreme value in the error ( $\mu$ ). A data is categorized as passed the normality test when the probability value in the bottom side of the right box (see Table 4) is greater than  $\alpha$  (alpha).

Table 5

Normality test result



Based on the box in the Table 4 above, the number shown for the probability value is 0,529068. It means that the numbers are greater than any other 1%  $\alpha$  (alpha). So, with 90% of confidence level, we can conclude that the error term in this regression model is normally distributed.

### *Heteroskedasticity Test*

Heteroskedasticity means that an unconstant variable variance is exist in a regression model. Otherwise, if there is a constant variable variance in regression model, this condition is called as homoscedasticity.

Table 6

## Heteroskedasticity test result

## Heteroskedasticity Test: White

F-statistic	1.480844	Prob. F(33,2)	0.4841
Obs*R-squared	34.58457	Prob. Chi-Square(33)	0.3921
Scaled explained SS	16.63829	Prob. Chi-Square(33)	0.9920

Same as normality test, we can determine whether the data used in the research is having heteroskedasticity problem or not from the probability value shown in the Eviews result box (in this case, “Heteroskedasticity Test: White” box). The data is categorized as having no heteroskedasticity problem when the number shown on Prob.Chi-Square value is greater than the 1%  $\alpha$  (alpha). As already highlighted in the Table 5 above, we can see that the Prob.Chi-Square(33) value of the data used in this research is 0,3921. These numbers are greater than even the highest 1%  $\alpha$  (alpha). So, with 90% of confidence level, we can conclude that the data used in this research has no heteroskedasticity problem, and appropriate to be used in this research.

*Autocorrelation Test*

Autocorrelation can be defined as a correlation that is happened to the elements of a bunch of observations which period is consecutively happened (if the data used is time series) or correlation between some contiguous places (if the data used is cross section).

Table 7

## Autocorrelation test result

## Breusch-Godfrey Serial Correlation LM Test:

F-statistic	3.067275	Prob. F(2,26)	0.0637
Obs*R-squared	6.872472	Prob. Chi-Square(2)	0.0322

A data is categorized as having no correlation problem when the Prob.Chi-Square(2) value is greater than the  $\alpha$  (alpha). As already highlighted in the Table 6, the Prob.Chi-Square(2) value is 0,0322. It means that the numbers are greater than the 1%  $\alpha$  (alpha). So, we can conclude that with 90% of confidence level, there is no any problem with autocorrelation in the regression model.

#### *Multicollinearity Test*

Multicollinearity means that there is the existence of a perfect or absolute linear relationship between some or all of the variables which describe the regression model. In short, the multicollinearity test aims to check whether the linear relationship between variables used in the research is exist or not.

Table 8

#### Multicollinearity test result

Variance Inflation Factors

Date: 05/09/16 Time: 07:52

Sample: 2007Q1 2015Q4

Included observations: 36

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
CAR	0.024701	191.3400	2.510040
NPL	0.170758	45.65579	1.281973
NIM	1.054317	776.5019	8.743429
DER	5.14E-06	189.7283	4.960453
BOPO	0.037513	7310.958	6.872051
KREDIT	7.67E-05	2449.746	6.872215
C	0.096573	25974.34	NA

Table 8 shows the result box of multicollinearity test on Eviews. A data that is categorized as having no multicollinearity problem is when the number shown on the Centered VIF row are less than 10. As we can see above, there is no single variable which

number/value is higher than 10. So, it means that the regression model has no multicollinearity problem in it.

### *Implication*

A bank's performance is completely important because it will be a health indicator for the bank. Besides, a bank which has a good performance will gain society trust to consume the services provided by the bank. The health indicator of a bank can be seen from its profitability level. Profitability level can be an indicator to see the bank's ability to manage all of its productive assets. Profitability measurement can be done by looking at its Return on Equity (ROE).

Based on the data management in this research, we can know that Capital Adequacy Ratio (CAR), Loan to Deposit Ratio (LDR), Non-performing Loans (NPL), Net Interest Margin (NIM), Debt to Equity Ratio (DER), Operational Expense to Operational Income Ratio (BOPO), and total credit are simultaneously significant to bank's profitability level (ROE). Then, we can conclude that bank's profitability level is affected by those seven variables.

Capital Adequacy Ratio (CAR) is the ratio that shows how much the whole bank assets which contains risks (credit, participation, securities, the bill from other banks risks) is which is also funded by their own capital apart from funds from sources out of the bank (PBI, 2008). As one of the independent variables used in this research, CAR is proved positively and statistically affect the profitability level (ROE) of bank BTN. Positive means that when CAR increases, the profitability level of bank BTN will also increase. And when the CAR decreases, the profitability level will also fall. This result strengthen the result from a research conducted by Mahardia (2008) which stated that CAR is positively and significantly affect profitability level. This result (positive sign) might be because of the CAR ratio of bank BTN that always tends to be exceeding the standard which settled by BI (8%).

*Loan to Deposit Ratio* (LDR) is a ratio between total credit which given by bank and the amount of fund received by bank (Dendawijaya, 2003). In this research, LDR is proved does not influence the profitability level of bank BTN, due to its probability value of LDR itself which is greater than the  $\alpha$  (alpha). This result strengthen the result of the research conducted by Rachmawati & Herawati (2013) which found that there is no significant relationship between LDR and profitability level. The positive sign of the coefficient value of LDR in the equation means when LDR increases, the profitability level will increases as well. It does make senses, because loans are profit source for banks, and on the other side, deposits are the money source for banks to be lent to the customers/borrowers. So, the more ratio the

LDR has, the better also the give-and-take actions between banks and their customers (in giving credit/loans).

Non-performing Loan (NPL) is the credit which its collectibility in a special attention (special mention), less smooth (sub standard), doubtful, and non-performing (Rosmilia, 2009). From the result shown above, NPL is not significantly influence profitability level of bank BTN. This result is similar with the result of a research conducted by Sari et al. (2015) who found that there is no significant influence between NPL and profitability level. This result may be due to the ability of bank BTN itself in maintaining the credit risk they will face. The negative sign in front of the coefficient value means NPL brings negative influence to profitability level of bank BTN. It means when NPL ratio increase, the profitability level of bank BTN will decrease, and vice versa.

*Net Interest Margin* (NIM) is the ratio which counts the comparison between net interest income and the average productive assets used (Riyadi, 2006). In this research, NIM is proved as insignificant to profitability level, and also has a negative sign on it. The negative sign may be due to the high rate of interest application to the debtors, so the credit transfer is yet to accomplish the optimum number of nominal or debtors to gain profit. The latest interest rate of bank BTN which the Writer obtained from the official website of bank BTN is 15,2 %. It is too much higher than the BI rate (6%). The result of this research is in the same path with a research conducted by Zulfikar (2014) which stated that NIM brings a negative influence to profitability level.

Debt to equity ratio (DER) is the financial ratio company which describes the ability to pay back debts by using the existed capital/equity. The test result obtained from this result shows that Debt to Equity Ratio (DER) is positive and significant to profitability level of bank BTN. This result supports the research conducted by Budialim (2013) and Sukarno & Syaichu (2006) who found that DER is significant to the profitability level, and a research conducted by Mareta et al. (2013) stated that DER is positively significant influencing the profitability level. Most of the researchers who analyzed about the relationship between DER and profitability level stated that DER and profitability level have a negative relationship. But, in fact, the result of this research is proved differently. DER is proved bring a positive impact to profitability level. It means, when DER increases, the profitability level will also increase. In other words, the debt done by bank BTN is proved to be a “safe” debt, because through this debt, bank BTN can expand its business and gain more profit.

The result about operational expense to operational income ratio (BOPO) shows a negative and significant influence to bank BTN's profitability level. This result is in the same

path with the researches conducted by Sukarno & Syaichu (2006), and also Mawardi (2004). In both researches, the authors stated that BOPO significantly affects profitability level, and both of the BOPO and profitability level has a negative relationship. Negative relationship means when BOPO ratio increases, the profitability level of bank BTN will fall. And on the other side when the ratio of BOPO decreases, the profitability level of bank BTN will rise. This result does make sense, because too much spending, eventhough it is for operational reasons, is not good for banks or any company. So, paying more attention to the BOPO ratio will be wise for bank BTN.

Credit is all kind of loans that has to be paid back with its interest by the borrower as the agreement that has been agreed (Hasibuan, 2008). In this research, credit or loans is proved significantly influences the profitability level. The mathematic sign shown in the coefficient value is negative. It indicates that both credit (loans) and profitability level has a negative relationship. This result is in the same path with the result found by Prasetyo (2016) in his research. The result in that research stated that both credit (loans) and profitability level has a negative and significant influence. This negative relationship between loans and profitability suggests that banks cannot manage to regain their own resources that have been lent to their customers. In bank BTN case, this negative relationship could be because of the high interest rate charged by bank BTN to the borrowers. So, the borrowers tend to cannot pay back the money they borrowed.

Based on the independent variables used for analyzing profitability level (ROE) of bank BTN in this research, which are Capital Adequacy Ratio (CAR), Loan to Deposit Ratio (LDR), Non-performing Loans (NPL), Net Interest Margin (NIM), Debt to Equity Ratio (DER), Operational Expense to Operational Income Ratio (BOPO), and total credit, the most dominant variables for this case are Capital Adequacy Ratio (CAR) and Debt to Equity Ratio (DER). Capital adequacy is a minimum amount of capital that a company should own. So, it is not surprising that this variable completely rules the bank, because the more capital a bank has, the opportunity of business expansion will be higher too. On the other side, although debt sounds bad, but actually a company/bank should borrow some money from others to expand its business. In this case (bank BTN case), debt ratio may be one of the factors that keeps them run the business.

## **Conclusion**

The health of a bank performance in doing their activities is determined by some indicators, both internal and external factors. The performance of a bank can be seen from the

bank's profitability level. Profitability is the ability of a bank in earning profit in a certain time or period. The measurement of profitability can be done using Return on Equity (ROE). The ROE ratio is chosen as an indicator of profitability, because ROE can measure the whole ability and efficiency of a bank.

The purpose of this study is to analyze what factors that influence a bank's profitability level. Some factors are chosen as the independent variables of this research, those are Capital Adequacy Ratio (CAR), Loan to Deposit Ratio (LDR), Non-performing Loans (NPL), Net Interest Margin (NIM), Debt to Equity Ratio (DER), Operational Expense to Operational Income Ratio (BOPO), and total credit. While the dependent variable used is profitability level, illustrated as Return on Equity (ROE). After went through some tests, the conclusion of this research as follows:

- ❖ Capital Adequacy Ratio (CAR) variable is proved has positive and significant influence to profitability (ROE). It means that the capital adequacy amount of bank BTN is considered as enough to let the bank runs its business.
- ❖ Loan to Deposit Ratio (LDR) variable is proved has no significant influence to profitability (ROE). Although LDR does not influence ROE of bank BTN significantly, the positive sign on the coefficient numbers (see Table 1) tells us that bank BTN has no liquidity risk so far, because profitability level of bank BTN grows along this ratio (LDR) or has positive relationship.
- ❖ Non-performing Loans (NPL) variable is proved has no significant influence to profitability (ROE). This result might be due to the ability of bank BTN itself in maintaining the credit risk which they will face, so the non-performing loans problem does not really affect the profitability.
- ❖ Net Interest Margin (NIM) variable is proved has no significant, and negative influence to profitability (ROE). This may be due to the high rate of interest application to the debtors, so the credit transfer is yet to accomplish the optimum number of nominal or debtors to gain profit.
- ❖ Debt to Equity Ratio (DER) variable is proved has a positive and significant influence to profitability level (ROE). It is a quite surprising result considering the great numbers shown in the data of bank BTN's DER (1000% in average). Fortunately, this debt is included in a "safe" debt, because bank BTN can keep running its business as well as paying back the debt.
- ❖ Operational Expense to Operational Income Ratio (BOPO) variable is proved has a negative and significant influence to profitability (ROE). This result is along with the



theory, when the operational expense grows higher than the income, it can block the profitability level to grow.

- ❖ Total credit variable is proved has a negative and significant influence to profitability (ROE). This negative relationship between credit and profitability suggests that banks cannot manage to regain their own resources which have been lent to their customers.

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