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THE IMPACTS OF BANK FINANCIAL SOUNDNESS TOWARDS PROFIT GROWTH: A STUDY ON THE INDONESIAN BANKING INDUSTRY

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Abstract
This research aims to analyze the effect of bank performance on profit growth using RGEC (Risk Profile, GCG, Earnings, and Capital) approach. Risk Profile is measured with NPL and LDR. GCG is assessed with the self-assessment review based on 11 (eleven) assessment factors. Earnings are measured by OER and ROA, and Capital is measured by CAR. The results of this study can be summarized into six independent variables, there are two significant independent variables and four not significant independent variables in explaining the variations in profit growth. The significant are ROA and CAR. The not significant ones are NPL, LDR, GCG, and OER.

INTRODUCTION

Banking industry is one of the most influencing factors in the economy growth of one country (Sun & Dermawan, 2011). By the end of 2016, there are 116 Commercial Banks and 1,633 Rural Banks operating in Indonesia (OJK, 2018). Banks, in carrying out their business activities, are required to always be in a healthy state. A bank's health should be maintained and/or enhanced, so that the public's trust in the bank can be maintained. Trust is an important principle in various business activities (Tarmedi, Sulastri, Sumiyati & Dirgantari, 2018). In addition, bank soundness is used as one of the means to evaluate the condition and problems faced by the bank and to determine the follow up to overcome the weakness or problem of the bank (Bank Indonesia, 2011).

As an economic entity, a bank also prepares financial statements to show the information and financial position presented to interested parties. One of the views is the corporate profit aspect of the bank. Profit growth can be used as a measure of the success of a company shown in the Bank's financial statements. In relation to the success of the performance of banking companies in Indonesia, Bank Indonesia—in the context of performing the

tasks and supervision of banking—has the authority to establish banking regulations based on prudent principles stipulated by Bank Indonesia Regulation to maintain a bank's health.

Bank Indonesia issued SE BI No.6/23/DPNP dated May 31, 2004 which contained the health rating of commercial banks using CAMELS—comprising of Capital, Asset Quality, Management, Earning, Liquidity and Sensitivity to Market Risk. Bank Indonesia then issued Bank Indonesia Regulation Number 13/1/PBI/2011 on January 5, 2011, regarding changes in the rating of soundness of commercial banks. The change in risk rating of risk-based is based on the consideration that there is a change of business complexity and risk profile that can come from banks and from subsidiaries of banks and changes in the approach of appraisal of bank conditions that are applied internationally (Bank Indonesia, 2011). The regulation stipulates that the health rating of commercial banks determined by CAMELS factors is changed to RGEC consisting of Risk Profile, Good Corporate Governance (GCG), Earnings, and Capital.

This study investigates the impacts of financial soundness on banks, as measured by RGEC, on sustainable profits, as measured by profit growth. Assessment of the risk profile factor is an assessment of the inherent risk and quality of risk management implementation in the Bank's operations (Rusdianto & Pratama, 2017). This study focuses on two risks: credit risk as measured by Non-Performing Loan (NPL) proxy and liquidity risk as measured by Loan to Deposit Ratio (LDR). GCG is measured from 11 (eleven) GCG parameters set by OJK (SAL SEOJK 13 about the Implementation of GCG for Commercial Banks), Earnings is measured by Return on Asset (ROA), Operational Efficiency Ratio (OER), and Capital with Capital Adequacy Ratio (CAR) proxy. Pursuant to the breakdown of background above, hence the purpose of this study is to determine the impact of NPL, LDR, GCG, ROA, OER and CAR towards profit growth.

This study found that ROA and CAR have significant influence toward Profit Growth, while NPL, LDR, GCG, OER do not have significant influence toward Profit Growth. This study contributes to the literature in several ways. First, this study uses longer time horizon of five years, while the most current (previous) study conducted by Rusdianto and Pratama (2017) and Aini (2013) only use 3 years of data. Longer time horizon has a better chance to capture the aspects of organization performance due to the changes in internal and external factors. In addition, previous studies conducted by Rusdianto and Pratama (2017) and Aini (2013) do not include GCG as a factor for explaining bank financial performance in RGEC approach that has been explained before.

The rest of this paper is divided into five sections. Subsequent to the introduction, the paper presents a literature review. Third section elucidates materials and methods used in the research by elaborating materials, and the methodological approach adopted, while section four contains the elaboration of research findings along with the discussions. Finally, the last section concludes the study.

LITERATURE REVIEW

Profit Growth

Banks, in carrying out their business activities, rely heavily on public trust, so that every bank in a sustainable manner needs to maintain health condition. Transparency of information on the health condition or financial performance of a bank is in the interests of all related parties, owners, bank managers, investors, Bank Indonesia, and *Otoritas Jasa Keuangan* (OJK) as a decision-making tool.

Banks are required to maintain good performance, especially performance in profit growth and be able to distribute dividends to shareholders, as well as business prospects that always grow and always meet the prudential banking regulation requirements. Each of the bank will gain public trust as a bank that has a good performance. Based on the latest Bank Indonesia regulation, a bank's health rating is assessed by using RGEC (Risk Profile, GCG, Earnings, and Capital) on Risk-Based Bank Rating.

Relationship between RGEC and Profit

NPL and Profit Growth

NPL represents the ratio of non-performing loans to loans. The lower the NPL the lower the risk borne by the bank is, and vice versa the higher the NPL, the higher the credit risk problematic (Ikatan Bankir Indonesia, 2014), which potentially lower interest income and lower earnings. BI sets the criteria for maximum NPL ratio is 5%. When this ratio gets higher, it will continue to encourage banks to continue to channel funds to better credit activities, which will increase revenue so that profits also increase. Messai and Jouini (2013) stated "each impaired loan in the financial sector increases the possibility to lead company to difficulty and unprofitability". Therefore, hypotheses can be proposed as follows:

H_{A1}: NPL negatively influences profit growth

LDR and Profit Growth

LDR is a ratio that indicates the level of liquidity of a bank. The LDR also demonstrates the ability to perform the intermediary function in channeling third party funds to credit. If this ratio shows a low number, then the bank is in idle money condition or excess liquidity which will cause the bank to lose the opportunity to earn bigger profit. The amount of LDR is considered to be eligible provisions if the LDR is between 78% and 100% (Ikatan Bankir Indonesia, 2014). Therefore, it can be said that the higher the LDR is, then the profits earned by the bank will also increase (with the assumption that the bank is able to channel its credit effectively, so it is expected that the amount of bad credit is low). In other words, LDR has a positive effect on Profit Growth (Sun & Dermawan, 2011). So the proposed hypothesis is:

H_{A2}: LDR positively influences profit growth

GCG and Profit Growth

Corporate Governance is the process affected by a set of legislative, regulatory, legal, market mechanism, listing standards, best practices, and efforts of all corporate governance participants, including the company's directors, officers, auditors, legal counsel, and financial advisors, which creates a system of checks and balances with the goal of creating and enhancing enduring and sustainable shareholder value, while protecting the

interests of other stakeholders (Rezaee, 2008). One of the benefits that can be derived from the implementation of corporate governance according to the Forum for Corporate Governance Indonesia (FCGI) is to improve the company's performance through the creation of better decision-making process, improve the operational efficiency of the company and further improve the service to stakeholders. Therefore, most companies that implement GCG are expected to have better performance than the performance of companies that do not implement GCG, both in terms of operational performance and financial performance (Torodovic, 2013). Based on the theory, the hypothesis can be expressed as follows:

H_{A3}: GCG positively influences profit growth

ROA and Profit Growth

ROA is a ratio that measures the overall effectiveness of management in generating profits with its available assets. The higher the ratio, the greater the return on total assets is, which means that the company is effective in using their assets to generate profit. This indicates that the company is able to utilize their total assets in its operational activities to generate revenue, so it can increase company's profit. Therefore, high ratio of ROA leads to increase the profit of bank (Alamsyah, 2017). In conclusion, ROA positively affects profit growth:

H_{A4}: Return On Assets positively influences profit growth

OER and Profit Growth

OER is the ratio between the costs incurred by the bank in carrying out its main activity to the income derived from the activity. The main activities of banks, such as interest costs, labor costs, marketing costs and other operating costs, while operating income is interest income derived from fund placements in the form of loans and other operating income. The ratio of OER shows the efficiency in running the main business, especially credit based on the amount of funds collected, and the smaller the ratio of OER is, it shows the more efficient a bank is in carrying out its business activities, so that in the management of the bank's business will increase profits. Thus, the OER negatively affects the changes in earnings (Lubis, 2013). Based on the concept, the following hypothesis can be proposed:

H_{A5}: OER negatively influences profit growth

CAR and Profit Growth

CAR is the capital adequacy shown by the bank's ability to maintain sufficient capital and bank's management capability in identifying, measuring, and controlling risks that may affect the amount of bank capital. Based on Bank Indonesia Regulation No:10/15/PBI/2008, a minimum capital requirement of the bank is 8%, and this is in line with the standards set by Bank of International Settlements.

CAR is also an indicator of the ability of banks to cover asset losses as a result of losses caused by assets at risk with the capital adequacy they have (Dendawijaya, 2005), in other words, the smaller the risk is, the more profits will be gained (Kuncoro & Suhardjono, 2002), so the higher the CAR achieved, it shows better bank performance and profits will increase, so the

CAR has a positive effect on profit growth. Thus the following hypothesis can be proposed:

H_{A6}: CAR positively influences profit growth

MATERIALS AND METHODS

Research Model and Hypothesis

This study takes secondary data in the form of financial statements and GCG implementation reports of banking companies for the period 2011-2015 contained on the Indonesian Stock Exchange (IDX) and the respective bank's website. The sample is selected using a purposive sampling method with the following conditions: 1) Company under banking subsector listed in Indonesia Stock Exchange from 2011 – 2015, 2) Banking companies that published its annual audited financial report continuously for the year 2011 – 2015, 3) Banking companies that reported complete and clear data regarding related variables, 4) Banking companies that published its annual audited financial report in Rupiah currency. The final sample size for this study is 105 firm-years with 21 unique samples from each year in the 5-year sample periods. The collected data were analyzed using multiple regression analysis with 95% confidence level.

This study is an associative research, which is a research that aims to find the influence of independent variable to variable dependent. The dependent variable is profit growth, while the independent variables are Risk Profile (NPL and LDR), GCG, Earnings (ROA and OER), and Capital (CAR). Figure 1 illustrates the model.

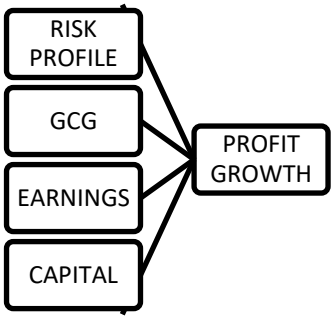

Figure 1. Research Model

Method of Data Analysis

Regression analysis is one of the methods which is usually employed by researchers to analyze the relationship among variables. Therefore, this study uses multiple regression analysis in order to analyze the effect of a bank's financial performance on profit growth. The model is shown below:

$$PGi,t = \alpha + \beta\ 1NPLi,t + \beta\ 2LDRi,t + \beta\ 3GCGi,t + \beta\ 4BOPOi,t + \beta\ 5ROAi,t + \beta\ 6CARi,t + ei,t$$

Where:

PG_i = Profit Growth of Bank i at period t
$NPL_{i,t}$ = Non-Performing Loan of Bank i at period t
$LDR_{i,t}$ = Loan to Deposit of Bank i at period t
$GCG_{i,t}$ = Good Corporate Governance of Bank i at period t
$OER_{i,t}$ = Operational Efficiency Ratio of Bank i at period t

$ROA_{i,t}$ = Return on Assets of Bank i at period t
$CAR_{i,t}$ = Capital Adequacy Ratio of Bank i at period t
A = Constanta
$\beta_{1-}\beta_{6}$ = Coefficient Regression Variable Independent
ei,t = Error

Dependent Variable
Profit Growth

Profit growth is the relative growth calculated from the difference in earnings between the current year and the previous year divided by previous year's earnings. This growth is considered to be more representative than absolute growth due to the fact that the use of relative growth will reduce the company's internal influences (Machfoedz, 1994).

$$\Delta Yit = \frac{Yit - Yit - 1}{Yit - 1} \; x \; 100\%$$

Independent Variables

In Bank Indonesia regulation no. 13/1/PBI/2011 article 2, paragraph 3 states that commercial banks are required to conduct a health rating by using a risk approach (Risk-based Bank Rating). The RBBR method uses an assessment of four factors based on SE BI no. 13/24/DPNP which become the independent variable in this study. The independent variables referred to in this study are:

1. Risk Profile

Assessment of the risk profile is an assessment of the inherent risk and quality of risk management implementation in the bank's operations on eight risks, namely credit risk; market; liquidity; operational; law; strategic; obedience; and reputation. This study uses two types of risk, namely credit and liquidity risks. The use of these risks is because both risks can be measured by using financial ratio.

a. Credit Risk is measured by NPL

$$NPL = \frac{Non - performing\ Loans}{Total\ Loans} \; x100\%$$

b. Liquidity Risk is measured by LDR

$$LDR = \frac{Loans}{Deposit} \; X \; 100\%$$

2. Good Corporate Governance (GCG)

Assessment of GCG is an assessment of the Bank's management of the implementation of GCG principles with due regard to the characteristics and complexity of the Bank's business.

Pursuant to SE BI 15/15/DPNP/2013, a bank conducts its GCG self-assessment review based on three governance aspects, which are: structure, process, and outcome. The three aspects of governance are evaluated in the 11 (eleven) assessments factors: (a) Implementation of duties and responsibilities of the Board of Commissioners, (b) Implementation of duties and responsibilities of the Board of Directors, (c) Adequacy and implementation of duties of committees, (d) Handling of conflict of interests, (e) Implementation of compliance function, (f) Implementation of internal

audit function, (g) Implementation of external audit function, (h) Implementation of risk management, including the internal control system, (i) Funding to related party and large exposures, (j) Transparency of financial and non-financial condition of the Bank, GCG implementation report and internal report, and (k) The Bank's strategic plan

The self-assessment report on GCG implementation is published on the website of each bank.

3. Earnings

Earnings show the company's ability to generate profits. Earnings can be calculated by using ROA and OER ratios. ROA measures the overall effectiveness of management in generating profits with its available assets. OER measures the efficient level and ability of bank in conducting its operational activity. ROA and OER do not obviously change the increase of its profit growth. The variables ROA and OER have coefficient of correlation of -0.0902, which is less than 0.80. Thus, the problem of multicollinearity does not exist between these measures for the period.

a. ROA

$$ROA = \frac{Net\ Income}{Average\ Total\ Asset}\ x\ 100\%$$

b. OER

$$OER = \frac{Operational\ Expense}{Operational\ Income}\ x\ 100\%$$

4. Capital

Capital is the main source of financing the operational activities of a company and also serves as a buffer for the possibility of loss of the company (Latumaerissa, 2014). Capital can be measured by using Capital Adequacy Ratio.

$$CAR = \frac{Capital}{Asset\ Delibrated\ According\ to\ Risk}\ X\ 100\%$$

RESULTS AND DISCUSSIONS

The Result of Regression

The results of the regression show that Independent variables of NPL, Good GCG, ROA, and CAR have positive correlations with profit growth as expected. Meanwhile, LDR and OER have negative correlations with profit growth as hypothesized.

Table 1. *The Result of Regression*

Dependent Variable: PG
Method: Panel Least Squares
Date: 05/12/17 Time: 20:12
Sample: 2011 2015
Periods included: 5
Cross-sections included: 21
Total panel (balanced) observations: 105

Variable	Expected Sign	Coefficient	Std. Error	t-Statistic	Prob.
C		-131.0406	93.97038	-1.394489	0.1671
NPL	-	25.47970	66.19482	0.384920	0.7013
LDR	+	-0.291855	0.594991	-0.490520	0.6251
GCG	+	0.162678	0.309873	0.524984	0.6011
OER	-	-0.607238	0.522791	-1.161532	0.2490
ROA	+	104.2620	48.98316	2.128527	0.0365
CAR	+	2.024104	0.597408	3.388146	0.0011

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.533304	Mean dependent var	0.793419
Adjusted R-squared	0.377739	S.D. dependent var	0.278761
S.E. of regression	0.219896	Akaike info criterion	0.025712
Sum squared resid	3.771638	Schwarz criterion	0.708159
Log likelihood	25.65012	Hannan-Quinn criter.	0.302253
F-statistic	3.428167	Durbin-Watson stat	2.616004
Prob(F-statistic)	0.000014		

Source: Data processed with EVIEWS 9.0

Coefficient of Determination Analysis (R^2 adjusted)

R^2 adjusted is a key output of regression analysis. It measures how far the model explains the variation of independent variables towards dependent variable in percentage proportion. The range of the coefficient of determination (R^2) is from 0 to 1. The higher the value, the better its model. In table 2, the value of R^2 adjusted is 0.377739, which is 37.77%. It shows that 37.77% variations in the dependent variable, Profit Growth, can be explained by the independent variables, which are NPL, GCG, OER, ROA, and CAR. The remaining 62.23% variations in Profit Growth, is influenced by other factors outside this scope of study.

Table 2. *Summary of Hypothesis Testing*

Hypothesis	Description	Conclusion
H_{A1}	NPL negatively influence Profit Growth	Not accepted
H_{A2}	LDR positively influence Profit Growth	Not accepted
H_{A3}	GCG positively influence Profit Growth	Not accepted
H_{A4}	OER negatively influence Profit Growth	Not accepted
H_{A5}	ROA positively influence Profit Growth	Accepted
H_{A6}	CAR positively influence Profit Growth	Accepted

Source: Author

Influence of Risk Profile measured by NPL to Profit Growth

Based on the analysis, it can be concluded that NPL does not significantly influence Profit Growth. This is indicated by the result which shows the significant value is 0.7013.

High NPL indicates the higher cost of the bank, thus it potentially decreases the bank's profit. The higher the NPL, the higher the credit arrears that decrease the interest revenue and the profit of bank, which can cause banks suffer from loss. However, in this study, NPL has no effect towards Profit Growth. This indicates that even though NPL ratio in the banking industry is increasing, it is still possible to increase the profit of the bank, because if the total loans given also increase, the interest of unpaid loan (interest receivable) can be covered by the increase of credit interest rate due to the realization of new loans. In addition, credit interest rate is not offset with deposit interest rate, where credit interest rate keeps increasing and deposit interest rate keeps decreasing. Therefore, credit interest income is higher compare to deposit interest income. This result is in contrast with previous studies conducted by Jumono, Achsani, Hakim & Fidaus (2015), and by Irma, Hadiwidjaja, and Widiastuti (2016). They found that NPL has a significant and negative effect towards Profit Growth. However, this result is consistent with the previous study conducted by Aini (2013). Aini found that NPL has a positive effect but no significant effect towards Profit Growth.

Influence of Risk Profile measured by LDR to Profit Growth

LDR reflects between the financing provided by banks compared to funds from public. This ratio indicates the amount of fund that has been distributed to public in the form of credit. In increasing profit growth, the most important is not the quantity or the amount of funds that has been distributed, but it is the quality of credit disbursed. If high amount of credit is disbursed but non-performing loans is not smoothly paid, this will be a burden for the banks and it will decrease banks profit growth. In addition, low LDR indicates that there is a lot of idle funds in the bank which caused bank losses the chance to obtain more profit. This condition can cause pressure for the bank because there will be a cost for maintaining the idle fund.

In this study, LDR has no effect towards Profit Growth. This is indicated by the result which shows the t-value of -0.490520 with significant value of 0.6251. In conclusion, the null hypothesis cannot be accepted because the significant value of LDR is more than α=5% (0.6251> 0.05). Therefore, LDR does not significantly influence Profit Growth. This result is in contrast with previous studies conducted by Irma, et al. (2016), and Lubis (2013). They found that LDR has a significant and negative effect towards Profit Growth. This result is consistent with previous studies conducted by Alamsyah (2017) and Nuraini (2016). They found that LDR has a negative effect but no significant effect towards Profit Growth.

Influence of Good Corporate Governance to Profit Growth

According to GCG assessments, there is no assessment based on bank business activity which influences Profit Growth of banks. It shows that GCG is only a part for bank's management to act professionally and carefully in managing their business by well managing the investor funds to create added value for all stakeholders and shareholders.

Based on the results, it can be concluded that GCG does not significantly influence Profit Growth. This shows that the coefficient regression of GCG is 0.162678. The value shows that GCG has a positive effect towards Profit Growth. GCG has a t-value of 0.524984 with a significant value of 0.6011. In conclusion, the null hypothesis cannot be accepted because the significant value of GCG is more than α=5% (0.6011>0.05). Therefore, GCG does not significantly influence Profit Growth.

In this study, GCG has no effect on profitability, because the GCG assessment in this study uses Corporate Governance Performance Index (CGPI), which is the result of unilateral assessment of the bank through self-assessment. Therefore, GCG does not have a significant influence towards Profit Growth. Because even though banks conducted its company GCG well, it does not influence Profit Growth due to other factors which might more influence Profit Growth. Good management and performance of GCG in a bank might bring positive impact towards Profit Growth, however it is not a primary thing in increasing profit growth because there are still a lot of other factors such as economy condition of a country, bank's competition. In conclusion, GCG may not be the primary factors that influences bank's Profit Growth, but bank must still pay attention to its GCG in managing their business activity.

This result is in contrast with the previous studies conducted by Irma, et al. (2016). They found that GCG has a significant and positive effect towards Profit Growth. However, this result is consistent with the previous studies conducted by Pracoyo & Putriyanti (2016) and Dewi, Arifati, and Andini (2016). They found that GCG has a positive effect but no significant effect towards Profit Growth.

Influence of Earnings measured by OER to Profit Growth

OER is a ratio that measures the efficient level and ability of bank in conducting its operational activity. In this study, OER does not have significant influence towards Profit Growth. This indicates that the bank is inefficient in running their business, where banks do not have the ability to increase their operational profit, and they do not have the ability to decrease their operational cost efficiently. In addition, the analysis result shows that OER has a negative effect toward Profit Growth, which is interesting to explain the direction of the non-significant ratio. The higher the OER ratio, it indicates bigger operational cost spent by the bank compared to the operational income gained by the bank. Therefore, it can be said that the bank is inefficient in running their business because they do not use their resources in an efficient way. With high operational cost, it will decrease the bank's profit growth.

Based on the analysis, coefficient regression of OER is -0.607238. The value shows that OER has a negative effect towards Profit Growth. OER has t-value of -1.161532 with significant value of 0.2490. In conclusion, the null hypothesis cannot be accepted because the significant value of OER is more than α=5% (0.2490>0.05). Therefore, OER does not significantly influence Profit Growth.

This result is in contrast with previous studies conducted by Aini (2013) and Lubis (2013). They found that OER has a significant and negative effect towards Profit Growth. However, this result is consistent with the previous

study conducted by Nuraini (2016). Nuraini found that OER has a significant effect towards Profit Growth.

Influence of Earnings measured by ROA to Profit Growth

From the analysis, it shows that ROA has a positive effect and significant influence towards Profit Growth. This indicates that the company is able to utilize their total assets in its operational activities to generate revenue, so it can increase company's profit. Increased profits show a high level of profitability in the company, with a high level of profitability reflects that the company is running well.

Based on the analysis, it can be concluded that ROA significantly influences Profit Growth. Table 2 shows that the coefficient regression of ROA is 104.2620. The value shows that ROA has a positive effect towards Profit Growth. ROA has t-value of 2.128527 with significant value of 0.0365. In conclusion, the null hypothesis is accepted because the significant value of ROA is less than α=5% (0.0365<0.05).

This result is in contrast with previous studies conducted by Ariyanti (2010). Ariyanti found that ROA has a positive effect but not significant towards Profit Growth. However, this result is consistent with previous studies conducted by Nuraini (2016) and Alamsyah (2017). They found that ROA has a significant and positive effect towards Profit Growth.

Influence of Capital measured by CAR to Profit Growth

CAR is a ratio used by banks to determine the required amount of their capital to cover their risk exposures. In this study, CAR has a positive and significant impact towards Profit Growth. This indicates that the higher the CAR ratio is, it shows that the capital owned by the bank is also higher, so the banks are able to bear the risk of any given credit. In addition, high CAR indicates that the bank is solvable. Other than to cover the risk, capital is used to expand the business. By expanding the business, it will increase the banks income. Increased bank capital and increased loans indicate that banks are able to finance bank operations. Therefore, CAR can increase Profit Growth.

Based on the analysis, it can be concluded that CAR significantly influences Profit Growth. Table 2 shows that the coefficient regression of CAR is 2.024104. The value shows that CAR has a positive effect towards Profit Growth. CAR has t-value of 3.388146 with significant value of 0.0011. In conclusion, the null hypothesis is accepted because the significant value of CAR is less than α=5% (0.0011<0.05).

This result is in contrast with a previous study conducted by Pracoyo and Putriyanti (2016). They found that CAR has a positive effect but not significant towards Profit Growth. However, this result is consistent with previous studies conducted by Aini (2013), and Dewi, et al. (2016). They found that CAR has a significant and positive effect towards Profit Growth.

CONCLUSIONS

This research aims to analyze the effect of bank performance on profit growth using RGEC (Risk Profile, GCG, Earnings, and Capital) approach. Risk Profile is measured by NPL and LDR. GCG is assessed by the self-assessment review based on 11 (eleven) assessment factors. Earnings are measured by OER and ROA, and Capital is measured by CAR.

The results of this study can be summarized as follows: from six independent variables, two independent variables are significant and four independent variables are not significant in explaining the variations in profit growth. The significant ones are ROA and CAR. The not significant ones are NPL, LDR, GCG, and OER.

This study has several recommendations. The coefficient determination of this research is 37.7%. This means that only 37.7% of the dependent variable (Profit Growth) can be explained by the variation of independent variables. It indicates that there might be other independent variables that can influence the profit growth other than the independent variables that have been used. Further research should reconsider in adding other independent variables. This study is only limited to companies in Indonesia. Thus, it will be interesting if the study can use the sample from other countries. This study only used the sample from banking companies that are listed in IDX. For further study, the sample can be wider by including banking companies that are listed in OJK.

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