

THE IMPACT OF CREDIT RISK ON THE PROFITABILITY WITH CHARACTERISTICS BANK AS CONTROL VARIABLES

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Abstract

The role of a bank cannot be separated from the existence of credit loans. On the other hand, credit loans will be profitable for banks but have the risk of default. In order to determine the extent of the influence of bad loans on return on assets with the characteristics of the bank as a controller in the banking sector listed on the Indonesia Stock Exchange in 2015-2019, this research is aimed at . Purposive sampling was chosen as a sampling technique where the data obtained were 23 companies with a 5-year observation period. The process of data analysis was carried out through multiple linear regression analysis. The statistical application used is the SPSS Statistic 25 application. The results found from this study, simultaneously bad loans have an influence on return on assets. Partially, net performing loans have a negative and significant effect on return on assets. Then, the Loan to Deposit Ratio also has a positive and significant effect on the return on assets. The existence of the characteristics of the bank as a controller in this study has an influence on the relationship between the independent variable and the dependent variable.

Keywords : Net Performing Loan, Loan to Deposit Ratio, Return on Assets, Capital Adequacy Ratio, Size.

INTRODUCTION

The bank is a financial service institution that has a very strategic role in the financial sector to meet the needs of many people (Hakim & Oktaria, 2018). Indonesia as a developing country, in increasing economic growth cannot be separated from the role of banks. One of the roles of banks that are considered quite important is the provision of credit to the public. This can support the economy and improve people's living standards (Amelia & Marlius, 2018). With a credit loan, the bank as the creditor will not give it easily. The customer as a loan applicant must meet the requirements that have been set. In addition to fulfilling the requirements that must be met, the bank will also carry out a process of analysis and research on the condition of the loan applicant. This process is useful to avoid the risk of default. The example of the default risk case occurred in PT SNP Finance in 2018. The failure to pay Medium Term Note interest was experienced by the company engaged in the financing of household appliances (Permatasari, Komalasari, and Septiyanti, 2019). At that time, the company received a credit loan in the form of working capital credit. A total of 14 banks provide

loans and one of them is the owner of the BMRI stock code or known as Bank Mandiri. Credit payments to Bank Mandiri experienced problems, resulting in a total of 1.2 trillion of bad loans (Chirstin & Yanti, 2020). According to data stated by the Financial Services Authority, the figures recorded as the ratio of bad loans from 2015 to 2019 were 2.49%, 2.93%, 2.59%, 2.37%, and 2, respectively. 57%. So it can be concluded that in that year the ratio of bad loans fluctuated or fluctuated. In providing the amount of credit loans to customers, each bank has a different ability. This happens because each bank has the characteristics of its own bank. What is meant by company characteristics are the characteristics or characteristics inherent in the company which can be described through profitability, capital structure, company size, and others (Fatmawati & Solikin, 2017).

In measuring bad loans in a bank can be described through the ratio. The ratios are Net Performing Loan and Loan to Deposit Ratio . The Net Performing Loan (NPL) ratio is a general indicator in assessing the health of a bank's assets. If the number of bad loans in a bank is allowed to continue to increase, it will have a bad impact on the bank, for example, the occurrence of non-current cash flow. This can make the bank no longer able to provide credit to other customers. Not only that, the increasing level of bad loans can interfere with company profitability (Sinambela & Susanti, 2021). One measure of profitability that has decreased is Return on Assets (ROA), the decline is due to the company's less than optimal performance in using its assets. Then, the Loan to Deposit Ratio is a measure of the ability of banks to refinance funds withdrawn by depositors, and has a positive impact on banks in the form of income, for example in the form of credit. A low level of liquidity in a bank can cause a change in the company's profitability which decreases (Afkar, 2017). This happened because the company was unable to distribute the funds.

As for measuring profitability, the ratio of return on assets describes the ability of a company about the extent to which ownership of company assets is used to generate profits or profits (Poniman & Saragih, 2022). The size of the value of the ROA ratio can describe the company's performance. If the value of ROA is large, it can be said that the company's performance is getting better. This is because the rate of return (return) is getting bigger too (Hadji, Probandani, Subandi, Sandi, & Rusdi, 2017). In this case, there is an underlying motivation for banks in providing credit to customers. The motivation is based on a theory, namely agency theory. Based on this theory, the relationship between the bank and the customer is intertwined with a collaboration. Where the customer is referred to as the principal while the bank is referred to as the agent. In this case, the credit will be given by the bank as an agent whose job it is to distribute funds. Previous research that uses profitability as a proxy for return on assets shows the diversity of the results obtained, such as (Bhattarai, 2017); (Poniman & Saragih, 2022); (Suwandi, 2017) which states that there is a negative and significant effect between Net Performing Loans and Return On Assets . This statement contradicts the results of (Pinasti & Mustikawati, 2018) where the results of his research are that there is a positive relationship between Net Performing Loans and return on assets. Then (Setyarini, 2020); (Dewi, 2017) states that the results of his research show that there is a positive and significant influence between the Loan to Deposit Ratio variable and the return on assets (ROA). These results are different from research (Fajari & Sunarto, 2017); (Poniman & Saragih, 2022) which states that

there is no relationship or influence between the Loan to Deposit Ratio variable and return on assets (ROA).

With the statement above, it shows that the results of previous studies have mixed or different results. Therefore, the need to empirically test the existence of bad loans on the return on bank assets becomes necessary. In this study, researchers made several updates. The first update that was carried out was that the number of research samples was larger with the object of research being banking companies listed on the Indonesia Stock Exchange (IDX). The vulnerable time of data observation is 5 years, where the data is taken from 2015-2019. The second update, namely the use of bank characteristics as a controlling variable (control). Capital adequacy ratio and bank size (size) are proxies of bank characteristics in this study. So the purpose of this study is to determine the relationship or influence of bad credit on return on assets (ROA) by using bank characteristics as the controlling variable in banking listed on the Indonesia Stock Exchange from 2015-2019.

LITERATURE REVIEW

Agency Theory (Agency Theory)

Agency theory is an agency that occurs when one or more people act as principal and agent. Where the principal will employ agents in their cooperation and give authority to agents in the decision-making process (Jensen & Meckling, 1976). Agency theory in the banking world is closely related to bank customers. Where the principal is the bank's customers and the agent is the banking management. As the agent, banking management has a role to manage and distribute the funds that have been collected properly based on the stipulated provisions. The existence of the relationship between the two parties is influenced by the existence of a supervisory body, namely the government through Bank Indonesia (BI). With the existence of Bank Indonesia as the supervisory body, the agent and the party who accepts responsibility from the principal must work based on a contract that has been mutually agreed upon through the policies of Bank Indonesia (BI).

In carrying out responsibilities, the agent will be controlled by the principal. However, in this control, the principal will involve the creditor. This control is known as market discipline. With this, it is a good step to minimize excessive risk (Aqidah, 2017). In the agency perspective, there is a debt relationship that can explain the relationship with creditors (Taswan, 2010). Problems will arise from the use of debt or public funds when banking management makes a decision to make investments that have high risk, one of which is the provision of credit. Such a decision will have a positive impact on the bank if it goes well, but when it fails it will be very detrimental.

HYPOTHESES DEVELOPMENT

The Effect of Net Performing Loans on Return On Assets

In the banking industry, banks earn income by doing various ways. One way to make a profit is from providing loans. When the loan is granted, the debtor will receive compensation

in accordance with what has been agreed, namely in the form of loan interest. By providing credit, the bank will earn income, but if the bank makes the wrong loan, it will result in the risk of default. Where from the existence of these risks can lead to bad credit.

Net Performing Loan (NPL) is the ratio of bad loans to total loans distributed to customers (Poniman & Saragih, 2022). Based on the regulation from Bank Indonesia No. 15/2/PBI/2013, the fair value of the Net Performing Loan for a bank is 5%. If the ratio value exceeds 5%, it can be stated that the bank is included in the unhealthy category. Vice versa, a bank will be categorized as healthy if the value of the NPL ratio is less than 5% (Sari, 2019). So it can be concluded that the size of the NPL ratio has an influence on banking profitability. The lower the NPL ratio, the higher the profitability. Vice versa, the high NPL ratio means low bank profitability (Ramadhany, 2017). This supports the results of research conducted by (Poniman & Saragih, 2022); (Suwandi, 2017); (Bhattarai, 2017) where there is a negative relationship or influence between Non Performing Loans (NPL) and return on assets (ROA). From this statement, the following hypothesis is drawn:

H₁ : Net Performing Loan has a negative and significant relationship or influence on Return On Assets

Effect of Loan to Deposit Ratio on Return On Assets

In determining the bank's ability to channel third party funds collected by debtors, it can be seen from the value of the Loan to Deposit Ratio. The existence of this ratio will affect the profit of a bank. According to Bank Indonesia regulation No. 15/15/PBI/2013 stated by Bank Indonesia regarding the determination of the lower and upper limits of the Loan to Deposit Ratio. The regulation regulates the lower limit of the LDR, which is 78% and the upper limit of 92%. If the LDR ratio of a bank is below 78%, it means that the credit distribution process carried out by the bank is below the established standard. So, the small value of LDR in a bank illustrates that the bank is less effective in distributing credit so that later it will affect profit. When the value of the LDR ratio is high, the profit or profit generated by the bank will increase because the credit distribution process is carried out effectively. Banking profitability will increase if the value of the LDR ratio is higher and profitability will tend to decrease if the value of the LDR ratio is lower (Peling, Adiatmayani, and Sedana, 2018). This view supports the results of previous research conducted by (Setyarini, 2020); (Dewi, 2017) which states that there is a positive and significant relationship or influence between the Loan to Deposit Ratio and return on assets. So that the hypothesis is drawn in this study, namely:

H₂ : Loan to Deposit Ratio has a positive and significant relationship or influence on Return On Assets

Characteristics of Banks as Controlling Variables

Bank characteristics can be said to be the nature or characteristics inherent in a bank and can be described through profitability ratios, capital structure, company size, and others (Fatmawati & Solikin, 2017). In this study, the characteristics of the bank used as research indicators are the Capital Adequacy Ratio and the size of the bank (size). Adequacy of capital in a bank is reflected in the existence of the Capital Adequacy Ratio (CAR). The value of the CAR ratio will be followed by the amount of profitability that will be obtained. It is assumed

that a large capital indicates that the bank's management is able to manage its funds into a profitable investment form for the bank. Size is the total assets that can describe the size of the company where the company can be said to be large or small. Total assets owned by the company in large numbers will affect profits to achieve greater market reach because large companies will find it easier to get funding sources (Sukmayanti & Triaryati, 2019). That way the company's operations can be carried out optimally so that profits can also be achieved optimally. From this statement, the following hypothesis is drawn:

H₃ : Bank characteristics have a relationship or influence on Return On Assets

H_{3a} : Capital Adequacy Ratio has a positive and significant relationship or influence on Return On Assets

H_{3b} : Bank size (size) has a positive and significant relationship or influence on Return On Assets

Conceptual Framework

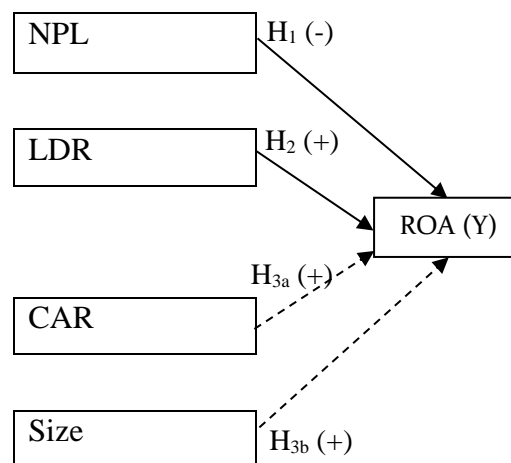


Figure 1. Research Model

Source: Data processed by the author (2022)

RESEARCH METHOD

Population and Sample

The object of research in this study are banking companies listed on the Indonesia Stock Exchange in 2015-2019. So that all of the banking companies are the population of this study. There are 45 companies in total. From this population, 23 banking companies were sampled in this study, where the observation period was 5 years starting from 2015 to 2019.

Sampling Techniques

The sampling process was carried out using purposive sampling technique . Where the sample is selected based on criteria or standards. The following criteria or standards set by researchers include:

- Companies listed on the IDX in 2015-2019 are banking sector companies that are used for research,

- Provide the required information in the form of an annual report that is published regularly from 2015-2019, and
- Has a positive value of the ratio of Return On Assets of banking companies.

Variables and Measurements

Variable	Measurement	Scale
Dependent Variable		
Return on Asset	(Profit before tax/Total Assets) X 100%	Ratio
Independent Variable		
Net Performing Loans (NPL)	(Non-performing loans/Total credit) X 100%	Ratio
Loan to Deposit Ratio (LDR)	(Total credits/Total TPF) X 100%	Ratio
Control Variable		
Capital Adequacy Ratio (CAR)	(Owned Capital / ATMR) X 100%	Ratio
Bank size (Size)	Ln(Total Assets)	Ratio

Source: Data processed by the author (2022)

Data analysis technique

The process of data analysis was carried out by researchers using multiple linear regression analysis techniques. The analysis is used because it is able to determine the relationship or influence of the problem under study. In addition, the analysis also helps determine the direction of the relationship. In the early stages of data analysis, the researcher tested the classical assumptions before performing multiple linear regression analysis and hypothesis testing. This is done to find out whether the regression model used is feasible or not. In processing the data, the researcher uses the SPSS version 25 application. The regression equation model in this study is:

$$ROA = \alpha + \beta_1 NPL + \beta_2 LDR + \beta_3 CAR + \beta_4 Size + \dots (1)$$

Where

α = Constanta

ROA = Return On Assets

NPL = Net Performing Loan

LDR = Loan to Deposit Ratio

CAR = Capital Adequacy Ratio

Size = Company size

β = Coefficient of independent variable

μ = Error term

RESULTS AND DISCUSSION

Classic assumption test

1. Normality test

Table 1. Normality Test Results

		Unstandardized Residual
	N	115
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.46669556
Most Extreme Differences	Absolute	.077
	Positive	.076
	Negative	-.077
Test Statistics		.077
asymp. Sig. (2-tailed)		.093 ^c
a. Test distribution is Normal.		
b. Calculated from data.		

Source: Data processed by the author (2022)

The information obtained from the table above is that the significance value is 0.093 > 0.05. This indicates that the data in this study came from a normally distributed population.

2. Multicollinearity Test

Table 2. Multicollinearity Test Results

Model	Collinearity Statistics	
	Tolerance	VIF
NPL	.980	1.021
LDR	.971	1.030
CAR	.928	1.077
Size	.958	1.043

Source: Data managed by the author (2022)

The results of this test are the numbers in the tolerance column and the VIF (Variance Inflation Factor) as a reference in the analysis process. The expected result in this multicollinearity test is that there is no multicollinearity where the tolerance value is > 0.01 and the VIF value is < 10. The information obtained from the multicollinearity test results table states that the tolerance value in this study is > 0.01 and the VIF value < 10. So it can be concluded that the independent variable, namely the controlling variable, has passed the multicollinearity test.

3. Heteroscedasticity Test

Table 3. Heteroscedasticity Test Results

Model	Unstandardized Coefficients (B)	t	Sig.
(Constant)	.006	.783	.435
NPL	-.369	-3.503	.006
LDR	.081	.808	.421
CAR	.099	1.553	.123
Size	2,939	.597	.552

Source: Data processed by the author (2022)

The table above is the result of the heteroscedasticity test, where the significance probability value obtained is > 0.05 . This means that the variables used in this study have passed this test.

4. Autocorrelation Test

Table 4. Autocorrelation Test Results

Model	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.782 ^a	.612	.35119	1,715

a. Predictors: (Constant), ROA, NPL, LDR, CAR, Size
 b. Dependent Variable: ROA

Source: Data processed by researchers (2022)

Table 4 shows the results of the autocorrelation test. From the table, the value of Durbin Watson in this study is 1.715. By using the Durbin Watson table, the lower limit value (dl) obtained in this study is 1.6246 while the upper limit (du) is 1.7683. Both values are obtained from a significance of 0.05, the number of samples used (N) is 115, and the number of independent variables is 4 (k=4). So from these data it was concluded that there was a positive autocorrelation in this study.

5. Partial Correlation Test

Table 5. Partial Correlation Test Results

	Control Variables	ROA	NPL	LDR
ROA	Correlation	1,000	-.392	.224
	Significance (2-tailed)	.	.000	.017
	Df	0	111	111
CAR & Size	Correlation	-.392	1,000	-.099
	Significance (2-tailed)	.000	.	.295
	Df	111	0	111
LDR	Correlation	.224	-.099	1,000
	Significance (2-tailed)	.017	.295	.
	Df	111	111	0

Source: Data processed by the author (2022)

From the table above, we can see that the resulting correlation value is 0.392. This means that there is a relationship with a weak strength between the NPL and ROA variables using CAR and size as controllers. The direction of the relationship that is owned is negative as seen from the correlation value which is negative. This means that the increase in Net Performing Loan will be followed by a decrease in profitability as proxied by return on assets. The significance value obtained is $0.000 < 0.05$. This indicates that there is a significant relationship or influence between the two variables. The direction of the influence is negative.

From table 5 it can also be seen that the correlation value obtained is 0.224, namely between LDR and ROA. This means that there is an influence or relationship with very weak strength between the two variables using CAR and size as controllers. The direction of the relationship that is owned is positive as seen from the positive correlation value. This means that an increase in the value of the Loan to Deposit Ratio will also be followed by an increase in profitability as proxied by return on assets (ROA). The significance value obtained is $0.017 < 0.05$. This indicates that there is a significant relationship or influence between the two variables. The direction of the influence is positive.

Multiple Linear Regression Analysis

Table 6. Multiple Linear Regression Test Results

Model	Unstandardized Coefficients (B)	Standardized Coefficients (Beta)
(Constant)	-.835	
NPL	-.868	-.363
LDR	.025	.183
CAR	.073	.275
Size	.016	.018

Source: Data processed by the author (2022)

From the results of multiple linear regression analysis, the regression model in this study is as follows:

$$\text{ROA} = -0.835 - 0.868\text{NPL} + 0.025\text{LDR} + 0.073\text{CAR} + 0.016\text{Size} +$$

The constant value obtained in this study is -0.835. This means that when the independent variable is constant, the Return on Assets (ROA) will decrease by 0.835%. The value of the regression coefficient on the Net Performing Loan (NPL) variable is -0.868. This means that if the NPL ratio increases by 1%, the ROA ratio will decrease by 0.868%. This statement can occur on condition that the other independent variables are constant. Furthermore, the regression coefficient value of Loan to Deposit Ratio (LDR) is 0.025. This means that if the LDR ratio increases by 1%, the ROA ratio will increase by 0.025% assuming other independent variables are constant. The value of the CAR regression coefficient is 0.073. This means that the CAR ratio has increased by 1%, so the ROA ratio will increase by 0.073% assuming other independent variables are constant. Finally, the regression coefficient value for banking size is 0.016. This means that if the size of the bank increases by 1%, the ROA ratio will increase by 0.016% assuming other independent variables are constant.

Hypothesis Testing

1. F Uji test

Table 7. F Test Results

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.480	4	2.370	10,500	.000 ^b
	Residual	24,830	110	.226		
	Total	34,310	114			

Source: Data processed by the author (2022)

The results of data analysis, can be concluded simultaneously by performing the F test. From the table the results of this test obtained a sig value of 0.00 and a calculated F value of 10.500. In hypothesis testing, it can be accepted if the value of sig < 0.05 and the calculated F value > F table. In this study, the sig value of 0.000 < 0.05 was obtained. The F table value is greater than the calculated F, which is 2.45 < 10.500. From the data obtained, a conclusion can be drawn which simultaneously states that there is a relationship or influence of bad loans on the return on assets.

2. T Uji test

Table 8. T Test Results

Model	Unstandardized Coefficients (B)	Standardized Coefficients (Beta)	T	Sig.
(Constant)	-.835		-.441	.660
NPL	-.868	-.363	-4.322	.000
LDR	.025	.183	2.167	.032
CAR	.073	.275	3.195	.002
Size	.016	.018	.208	.835

Source: Data processed by the author (2022)

The results of the study can be seen partially through the t test. In table 8 we can see that the significance value of the Net Performing Loan variable is 0.000 and the t-count value is -4.322. If the value of sig < 0.05 and t count > t table, it can be stated that the hypothesis from the research is accepted. The significance value of NPL is 0.00 < 0.05 with the acquisition of the t arithmetic value that exceeds the t table, namely 4.322 > 1.981. The minus sign in the calculated T value indicates the direction of the effect. From this test, it can be concluded that there is a negative and significant effect between Net Performing Loans and Return On Assets. The results of hypothesis testing for the Loan to Deposit Ratio variable obtained a sig value of 0.032 < 0.05 with a t count of 2.167 which exceeds the t table of 1.98177. From the results obtained, it is concluded that there is a positive and significant relationship or influence between the Loan to Deposit Ratio and Return On Assets. The value of the significance of the Capital Adequacy Ratio shows 0.002 < 0.05 and the t count is 3.195 which exceeds the t table value, which is 1.98177. From these data, it can be concluded that there is a positive and significant relationship or influence from the Capital Adequacy Ratio Return On Assets. From the significance value of bank size (size) , which shows that it is 0.835 > 0.05 and t count is 0.208 < t table is 1.98177. It is concluded that there is no relationship or influence between bank size (size) and Return On Assets.

Effect of Net Performing Loan (NPL) on Return on Assets (ROA)

Based on table 8 shows that the Net Performing Loan with Return On Assets has a statistically significant negative relationship or effect. By looking at the beta value of -0.363, the sig value of the NPL variable is $0.000 < 0.05$ and the t-count value is 4.322. It is concluded that **H1 is accepted**. From the acquisition of research results, it shows similarities with research (Poniman & Saragih, 2022); (Suwandi, 2017); (Bhattarai, 2017) where there is a negative and significant effect of Net Performing Loans and Return On Assets. Thus, these results support the theory which says that the lower the value of the Net Performing Loan, the profitability will increase (Ramadany, 2017).

Effect of Loan to Deposit Ratio on Return On Assets

Based on table 8 shows that the Loan to Deposit Ratio with Return On Assets has a statistically significant positive relationship or influence. This is evident from the positive beta value of 0.183, the sig value of the LDR variable of 0.032, and the t-count value of 2.167. It can be concluded that **H2 is accepted**. From the results of the research conducted, it shows that there are similar results with Setyarini, 2020); (Dewi, 2017) which shows a positive and significant relationship or influence between Loan to Deposit Ratio Return On Assets. This similarity supports a theory which states that profitability will increase accompanied by an increase in LDR (Peling, Adiatmayani, and Sedana, 2018).

Characteristics of Banks as Controlling Variables

From table 5, it is known that there is a relationship or influence between Net Performing Loans, Loans to Deposit Ratios, and Return On Assets by including bank characteristics as the controlling variable in this study. It can be seen with the correlation values obtained 0.392 and 0.224 with sig 0.00 and 0.17. So it can be concluded that the presence of bank characteristics as proxied by the CAR variable and size as a controller (control) will have an influence on the relationship between the independent variable and the dependent variable. Table 8 explains that there is a positive and significant relationship or influence between the Capital Adequacy Ratio and Return On Assets. It can be proven by the acquisition of a positive beta value of 0.275, the sig value of the CAR variable of 0.02, and the t-count value of 3.195. It can be concluded that **H3a is accepted**.

From the results obtained, there are similarities in the results of (Setyarini, 2020); (Ambarawati & Abundanti, 2018) where there is a positive and significant relationship or influence on Capital Adequacy Ratio with Return On Assets. The high and low value of CAR will have an influence on the level of return on assets obtained by banks. The more sufficient banking capital, the tendency of the return on assets generated will also increase. This will be very good in supporting the continuity of the banking business. Table 8 explains that there is no relationship or influence between size and Return On Assets as evidenced by a positive beta value of 0.018, a sig value of 0.835, and a t-count value of 0.208. It can be concluded that **H3b is rejected**. From the obtained results, there is a discrepancy in the results of the study which explains that size has a significant and significant relationship or influence on profitability as proxied by Return On Assets. From that research, the profits obtained in large numbers will be in accordance with the size of the company. However, the results obtained from this study have

similarities with (Asri & Suarjaya, 2018) which says that there is no relationship or influence between size and Return On Assets . In this case, the size of the company does not affect the return on assets. It is said like that because many factors must be taken into account. The way the company's management manages its assets so that it can generate profits is one of the factors. The large size of the company will create a large organization, so that the operational costs incurred are also large. The inability of the company's management to manage the company will not increase the profitability of the company.

CONCLUSION

Based on the process of data analysis, literature review, and discussion, the results simultaneously are the relationship or influence of bad loans on return on assets . The existence of the Capital Adequacy Ratio and the size of the bank as the controlling variables in this study have an influence on the relationship between the independent and dependent variables. As for the results of this study partially, in which bad loans are proxied by the Net Performing Loan and Loan Deposit to Ratio with the Capital Adequacy Ratio and bank size (size) as the controlling variable, the results are: (1) there is a negative and significant influence between Net Performing Loans with Return On Assets , (2) there is a positive and significant influence between Loan to Deposit Ratio and Return On Assets , (3) there is a positive and significant influence between Capital Adequacy Ratio and Return On Assets , (4) there is no relationship or influence between bank size with Return On Assets .

In the banking world, the view of the existence of bad loans for bank stability is often considered negative. If banks, apply high interest rates, banks can increase their profitability. The implications and contributions of this research is to provide literature on the extent to which bad loans can have an effect on profitability. With this literature , it will be useful for those who want to invest in the banking industry. By paying attention to the value of the NPL and LDR ratios, it can be seen how far a bank's capital adequacy is in managing its funds. Therefore, as an investor, you must be careful by reviewing the risks first. The limitations faced by researchers are that the population used is only limited to banking companies listed on the Indonesia Stock Exchange, so the number of samples obtained is small. Suggestions for future researchers to use a larger population, so that the number of samples obtained will be adequate. In addition, the use of measuring tools in measuring bad credit and profitability is recommended for more. So that the information obtained is clearer.

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