

Savings Growth, Loan Growth, Customer Growth, Non-Performing Loans, and Capital Adequacy Ratio on Profitability

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Abstract: *This research intends to analyze the connection between savings growth, loan growth, customer growth, non-performing loans, and the capital adequacy ratio on profitability. The study was conducted on Village Credit Institutions (LPD) in Denpasar city during the period 2021-2022. The sample was selected using purposive sampling, resulting in a total sample of 34 LPDs (Village Credit Institutions) and 68 observations. The data obtained were analyzed using multiple linear regression analysis. The test results prove that growth in savings has a negative impact with profitability, while growth in loans and capital adequacy ratio have a positive affect with profitability. On the other hand, growth in customers and non-performing loan do not affect profitability. It is suggested to add other variables such as BOPO (Operating Expenses to Operating Income), LDR (Loans to Deposit Ratio), or asset growth.*

Keywords: growth in savings; growth in loans; growth in customers; non-performing loans; capital adequacy ratio; profitability.

JEL : G2, G3, G5

1. INTRODUCTION

National economic development in recent years has given more attention to villages, as evidenced by the provision of village funds, the establishment of Village-Owned Enterprises (BUMDes), and the promotion of tourism villages. These initiatives are undertaken in recognition of the important role of economic activities in villages. However, the Provincial Government of Bali has long initiated the establishment of Village Credit Institutions (LPDs) as financial institutions in rural communities with the aim of supporting the village economy and becoming a source of funding for traditional villages. To achieve these objectives, LPDs must be in a healthy condition. One of the indicators that can be used to assess the health of LPDs is profitability.

According to Sujarweni (2019), profitability can be used to measure a company's capability to generate profit and its relationship with sales, assets, or profits and equity. High profitability reflects the management's performance to manage its assets to earn profits. Every entity certainly hopes to achieve positive and increasing profitability each year, but the conditions in the field show a different situation as seen in the graph below:

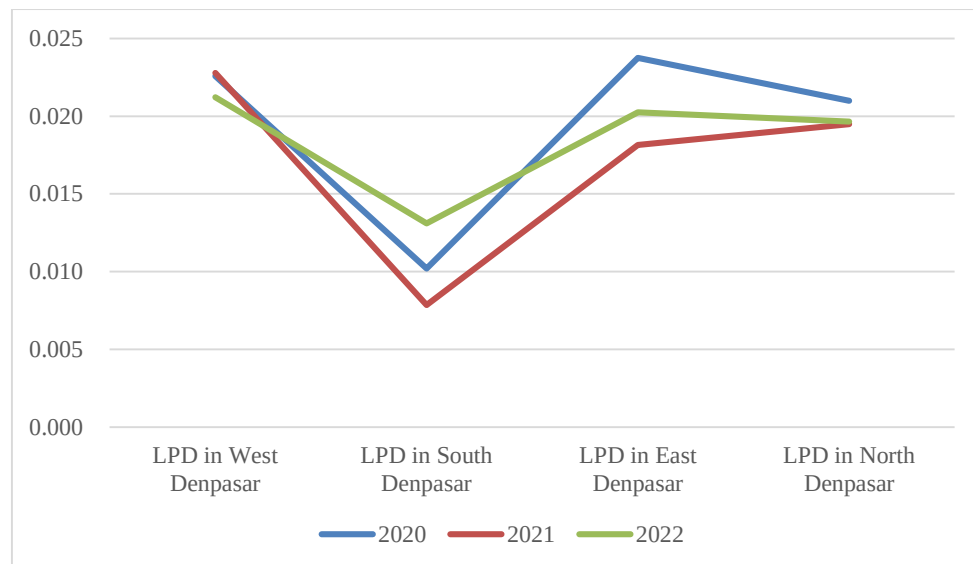


Figure 1. Development of LPD Profitability in Denpasar City Period 2020-2022
Source: Village Credit Institution Empowerment Agency (LPLPD) (2023)

Based on the data on profitability development above, it can be concluded that the profitability values fluctuate in LPDs in West, South, East, and North Denpasar during the period 2020-2022. Several factors are suspected to affect this profitability. The first factor is the growth in savings, where growth in savings refers to the increase in third-party deposits whose withdrawals are subject to certain agreed-upon conditions. This increase indicates an increasing ownership of funds that can be managed to generate income, which in turn impacts the profitability produced. (Dinayanti & Adiputra, 2022) found a positive effect between savings growth and profitability. In contrast, studies by (Mukarromah & Badjra, 2015), (Dewi, et al., 2019), and (Widhiastuti & Andayani, 2022) did not find any effect of savings growth on profitability.

Loans play a crucial role as they are considered the dominant source of income in LPDs. If loan growth is higher, it means LPDs have more opportunities to earn interest income on the services provided, thus having more chances to achieve higher profitability. (Mukarromah & Badjra, 2015), (Widhiastuti & Andayani, 2022) found a positive influence of loans growth on profitability. In contrast, the study by (Dewi, et al., 2019) did not find any influence of loan growth on profitability.

Customers are a source of revenue for LPDs; therefore, the presence of customers is crucial for LPDs. If LPDs have many savings and deposit customers, they can channel more loans to them, thus generating interest income. The increasing number of customers in each period can increase income, leading to increased profitability (Kasmir, 2014:208). (Friskayanti, et al., 2014) found that the quantity of customers has a positive relationship with profitability. However, Sedana et al. (2017) stated that the growth in the number of customers does not affect profitability.

Non-performing loans (NPLs) serve as a proxy indicating the management's ability to handle problematic loans they have disbursed. A higher level of Non-Performing Loan signifies poorer loan quality, indicating a larger volume of problematic loans. These problematic loans can have negative repercussions, such as losses resulting from unrecovered funds, including expected interest income turning into non-income. Conversely, a low level of Non-Performing Loans indicates fewer problematic loans, thereby potentially increasing profitability. According to (Rachmawati & Marwansyah, 2019) and (Martiningtiyas & Nitinegeri, 2020) showed that non-performing loans have a negative relations on profitability. However, (Widhiastuti & Andayani, 2022) and (Asysidiq & Sudiyatno, 2022) found that non-performing loans are unrelated to profitability.

The last factor suspected to affect profitability is the capital adequacy ratio, which is referred to as a measurement related to meeting the minimum required capital. Additionally, the capital adequacy ratio also reflects the ability of capitalization that can be used to cover potential losses in its credit system. A higher level of the capital adequacy ratio, the better the capability to increase public confidence, which can impact profitability positively (Putri & Mustada, 2019). (Dinayanti & Adiputra, 2022) showed a positively influence of capital adequacy ratio for profitability. Conversely (Soesetio et

al., 2022) showed a negative influence of capital adequacy ratio with profitability. Meanwhile, Rachmawati & Marwansyah, 2019), (Martiningtias & Nitinegeri, 2020) and (Asysidiq & Sudiyatno, 2022) showed no effect of capital adequacy ratio with profitability.

Based on the explanation above, it shows that there is a phenomenon of fluctuating profitability values during the 2020-2022 period in Denpasar City. In addition, previous research also shows inconsistent results, so the purpose of this study is to examine the impact of savings growth, loans growth, customer growth, non-performing loan, capital adequacy ratio on profitability. This research is expected to benefit stakeholders in improving profitability by considering factors that can support its enhancement, thus advancing Village Credit Institutions (LPDs).

2. LITERATURE REVIEW

2.1 Agency Theory

The agency theory was first presented by Jensen & Meckling (1976) stating that the agency relations as a contract in which one or more people (principals) request other individual (agent) to performed certain activities for the the principal's intrest. In LPDs, the principal is referred to as the villagers, while the agents are the LPD managers. However, agents and principals have different interests; LPD managers seek satisfaction not only from the salary provided but also from additional incentives or bonuses. On the other hand, villagers expect an increase in profit from the investments made. One way to minimize this conflict is by enhancing profitability. Increased profitability is the owner's expectation, and by enhancing profitability, the agent will also benefit from compensation. Therefore, it is important to conduct research related to factors affecting financial performance in LPDs.

2.2 Profitability

Profitability can be used to evaluate an entity's capability to earn income during a specific period (Kasmir, 2019). The profitability of a company is measured not only by its profits alone but also by how the company manages and rationalizes all its assets used in its business activities to maximize profits, where the higher the profitability of a company, the better its performance (Sartono, 2015). In this research, profitability can be measured using return on asset (ROA). ROA indicates the level of return from total assets owned. Additionally, ROA is considered a better measure of profitability because it can reflect management efficiency in asset management to generate income.

2.3 Savings Growth

Savings are a form of deposit made by individuals or other parties, which can only be withdrawn under certain agreed-upon conditions and cannot be withdrawn using checks, promissory notes, or similar instruments (Taswan, 2017:95). The conditions include the ability to withdraw either in cash or non-cash (transfer to another bank) via ATMs or tellers, the withdrawal amount does not exceed the minimum balance, and withdrawals can be made at any time. Savings growth indicates the development of the amount of savings in the current period compared to the amount of savings in the previous period.

2.4 Loan Growth

Loans disbursed by banks are defined as the supply of money or claims that can be equated to it, based on agreements or loan agreements between bank and other person that require borrowers to repay them after a specific period with interest, fees, or profit-sharing (Taswan, 2017: 215). Loan growth indicates the development of the amount of loans disbursed by banks from one period to another. High loan growth indicates that LPDs will experience increased income because they earn interest from the loans disbursed.

2.5 Customer Growth

Customers are individuals or businesses that have direct interests in the bank (Kasmir, 2015:208). Customer growth indicates the development of the number of customer in the current period compared to the number of customer in the previous period. In LPDs, customers consist of borrowers, savings customers, and deposit customers. LPDs can generate profit if the growth of their customer base increases from the previous period. The higher the rate of customer growth, the more funds are accumulated, allowing for more disbursements.

2.6 Non-Performing Loan

A non-performing loans is one of the financial ratios that indicate credit risk faced due to lending and investment of funds in different portfolios (Rusnaini, et al. 2019). Additionally, non-performing loan can be described as loan facing difficulties in repayment due to factors such as gaps or external factor beyond the borrower's control. Bank Indonesia Circular Letter No. 8/31/DPBPR dated December 12 states that the purpose of non-performing loan is to determine the amount of credit with less than smooth, doubtful, and bad quality. Therefore, a good credit analysis is needed in formulating policies for credit disbursement to creditors. One way to do this is by tightening credit disbursement requirements without eliminating the income obtained.

2.7 Capital Adequacy Ratio

Capital adequacy ratio is a ratio that has a relationship with the provision of own capital needed to cover the risk of losses that may arise from the movement of bank assets, which are primarily funded by third parties or the public (Herdiarta, 2015). For LPDs, the minimum capital adequacy ratio that must be met is 12% (twelve percent) of ATMR (Risk-Weighted Assets). Setting this minimum standard aims to maintain the liquidity of LPDs stable. If the capital adequacy ratio falls below this minimum standard, the health level of LPDs may be affected, resulting in a reduction in the amount of funds that can be disbursed.

2.8 Savings Growth on Profitability

Savings growth reflects the rate of development in the volume of savings deposited by third parties, which can have an effect on the increase in LPD profitability. An increased amount of savings indicates that LPDs have more funds. This indicates that LPDs gain the trust of customers that their savings are kept in a secure place. Therefore, the customer savings deposited in LPDs must be managed well to generate higher interest income than the interest costs to be paid, thereby enhancing profitability. This is in line with the results of the study (Dinayanti & Adiputra, 2022) which found a positive impact of savings growth with profitability. Based the preceding explanation, the proposed hypothesis is as follows:

H₁ : Savings growth has a positive impact on profitability

2.9 Loan Growth on Profitability

Credit disbursement is a crucial activity in LPDs because, from these loans, LPDs earn income in the form of interest, which is the main source of income for LPDs. The amount of loans disbursed will affect the development of LPDs. For LPDs to have good development, especially in financial conditions, it is expected that loans disbursed will grow every year or, in other words, experience an increase. This implies that as the amount of loans disbursed grows, LPDs will earn larger income, thus increasing the profitability of LPDs. This statement is supported by (Mukarromah & Badjra, 2015), (Widhiastuti & Andayani, 2022) who found that loan growth has a positive effect on profitability. Based on the preceding explanation , the proposed hypothesis is:

H₂ : Loan growth has a positive impact on profitability

2.10 Customer Growth on Profitability

Customer growth refers to the increase in the number of customers this year compared to the previous year. The increase in the number of customers will certainly have an impact on Village Credit Institutions, especially regarding their ability to generate income because the source of income for LPDs comes from customers (Pudja & Suartana, 2014). The customers in question come from savings, deposits, and loans. On one hand, an increase in the number of loan customers can increase interest income from loan disbursements, but it is contrasted with savings and deposit customers, which can make LPDs incur payments for interest expenses. However, it should be noted that if LPDs do not have customers from savings or deposits, they will have difficulty acquiring loan customers due to constrained funds available for disbursement. Because of this interconnectedness, an increase in the overall number of customers can enhance the profitability of LPDs. This statement is supported by the researcher (Friskayanti, et al. 2014) which showed that the number of customers has a positive relationship with profitability. The proposed hypothesis is as follows, given the preceding explanation:

H₃ : Customer growth has a positive relationship with profitability

2.11 Non-Performing Loans on Profitability

While loans are indeed a source of income for LPDs, poor-quality loans indicate the presence of non-performing loans (NPLs). NPLs reflect the condition of loans facing issues, whether caused by LPDs' lack of diligence during credit analysis or by customers or debtors deliberately or unintentionally failing to make payments (Kasmir, 2019:155). If non-performing loans are high, they can lead to an increase in expenses due to the increase in provisions for non-performing assets or other expenses. Furthermore, high non-performing loans can also result in the bank incurring losses because the funds disbursed cannot be recovered, including interest income that cannot be received. Conversely, the lower the non-performing loans, the higher the quality of loans disbursed, and the fewer bad loans, which consequently lead to increased profitability (Sunaryo, 2020). This statement is supported by (Rachmawati & Marwansyah, 2019) and (Martiningtias & Nitinegeri, 2020) stating that non-performing loans have a negative effect with profitability. Based on the explanation above, the proposed hypothesis is:

H₄ : Non-performing loans have a negative impact with profitability

2.12 Capital Adequacy Ratio on Profitability

According to (Dendawijaya, 2015: 116) the Capital Adequacy Ratio is an indicator that assesses the ability of LPDs to cover asset declines resulting from losses caused by risky assets. According to Governor Regulation No. 44 of 2017 of Bali, LPDs must meet a minimum Capital Adequacy Ratio of 12%. According to (Lullah, et al., 2020), a higher the Capital Adequacy Ratio, the greater the ability to generate profits and fund productive assets, thus increasing profitability. Conversely, if the capital is too small, it will reduce public confidence, potentially decreasing profitability. This statement is supported by (Dinayanti & Adiputra, 2022) who found a positive relationship of the capital adequacy ratio with profitability. The proposed hypothesis is as follows, given the preceding explanation:

H₁ : Capital adequacy ratio has a positive influence on profitability

3. METHOD

This study was conducted at Village Credit Institutions (LPD) in the city of Denpasar. The population in this research consisted of 35 Village Credit Institutions (LPD), and the sample was selected using the purposive sampling method, resulting in 34 Village Credit Institutions with 68 observations. The data collected was secondary data obtained from the Village Credit Institution Empowerment Agency (LPLPD). The data analysis method used is time series data with a time period from 2021-2022. The data obtained were analyzed using multiple linear regression analysis with the assistance of SPSS, and the regression equation is as follows:

$$ROA = \alpha + \beta_1 PTAB + \beta_2 PKRE + \beta_3 PNAS + \beta_4 NPL + \beta_5 CAR \dots \dots \dots (1)$$

Description:

ROA = Return on assets
 PTab = Saving growth
 PKre = Loan growth
 PNas = Customer growth
 NPL = Non-performing loans
 CAR = Capital adequacy ratio

The operational definition of the variables is outlined as follows:

Profitability can be used to evaluate the ability of an entity to generate profit over a specific period (Kasmir, 2019:114). In this research, profitability is measured by return on asset (ROA). According to Governor Regulation No. 44 of 2017 regarding the implementation guidelines for Provincial Regulation No. 3 of 2017 concerning Credit Institutions in Bali, the ROA ratio can be calculated using the following formula:

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}} \times 100\% \dots \dots \dots (2)$$

Savings growth is the development of the amount of savings in the current period compared to

the amount of savings in the previous period. The formula used to measure savings growth is:

$$\text{Saving Growth} = \frac{\text{Savings at time } t - \text{Savings at time } t-1}{\text{Savings at time } t-1} \times 100\% \dots\dots\dots(3)$$

Loan growth is the development of the amount of credit distributed by the bank from one period to another. The formula used to calculate loan growth is:

$$\text{Loan Growth} = \frac{\text{Credit amount at time } t - \text{Credit amount at time } t-1}{\text{Credit amount at time } t-1} \times 100\% \dots\dots\dots(4)$$

Customer growth is the development of the total number of customers, including savings, deposit, and loan customers, in the current period compared to the previous period. The formula used to calculate it is:

$$\text{Customer Growth} = \frac{\text{Number of customers at time } t - \text{Number of customers at time } t-1}{\text{Number of customers at time } t-1} \times 100\% \dots\dots\dots(5)$$

Non-performing loans (NPLs) are a financial ratio indicating the credit risk faced due to the provision of loans and investment of funds in different portfolios (Rusnaini, et al. 2019). Based on Bank Indonesia Circular No: 18/14/PBI/2016, non-performing loans can be calculated using the following formula:

$$\text{NPL} = \frac{\text{Problem Loans}}{\text{Total Loans}} \times 100\% \dots\dots\dots(6)$$

Capital adequacy ratio is a ratio that has a relationship with the provision of own capital needed to cover the risk of losses that may arise from the movement of bank assets, which are primarily funded by third parties or the public (Herdiarta, 2015). The formula used to calculate the capital adequacy ratio is as follows (Governor Regulation No. 44 Year 2017):

$$\text{CAR} = \frac{\text{Total Capital}}{\text{Adjusted Total Managed Risk (ATMR)}} \times 100\% \dots\dots\dots(7)$$

4. RESULTS AND DISCUSSION

4.1 Results of the Normality Test

Table 1. Results of the Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		68
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.34294275
Most Extreme Differences	Absolute	.204
	Positive	.145
	Negative	-.204
Test Statistic		.204
Asymp. Sig. (2-tailed)		.200 ^{c,d}

Source: Data processed (2024)

The normality test results indicate that the test statistic value is 0.204 with the asymp.sig (2-tailed) value is 0.200 > 0.05. This means that the data used follows a normal distribution.

4.2 Results of the Multicollinearity Test

Table 2. Results of Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	PTab	.906	1.103
	PKre	.896	1.116
	PNas	.918	1.090
	NPL	.973	1.027
	CAR	.937	1.067

Source: Data processed (2024)

The multicollinearity test results obtained tolerance values for each variable exceeding 0.10 and VIF values less than 10. This indicates that the model used is free from multicollinearity symptoms.

4.3 Results of the Autocorrelation Test

Table 3. Results of the Autocorrelation Test

Model	R	R Square	Model Summary ^b		
			Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.445 ^a	.198	.129	.62747	1.926

a. Predictors: (Constant), CAR, PNas, NPL, PTab, PKre

b. Dependent Variable: ROA

Source: Data processed (2024)

The autocorrelation test results show a value of dw at 1.926 and a value of du at 1.768, thus $du \text{ (Durbin's h)} < dw \text{ (Durbin-Watson)} < 4-du$ or $1.7678 < 1.926 < 2.2322$. This shows that there is no autocorrelation in the research model used.

4.4 Results of the Heteroskedasticity Test

Table 4. Results of the Heteroskedasticity Test

Model		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.338	1.057		.320	.762
	PTab	.264	.108	.936	2.457	.057
	PKre	-.002	.125	-.008	-.018	.986
	PNas	-.189	.099	-.684	-1.909	.115
	NPL	.065	.130	.195	.502	.637
	CAR	.218	.246	.347	.886	.416

a. Dependent Variable: ABS_RES

Source: Data processed (2024)

The results of the heteroskedasticity test obtained a significant value for each variable that exceeds 0.05. This result indicates that there is no heteroskedasticity in the model.

4.5 Results F-Test

Table 5. Results F-Test

		ANOVA ^a				
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.024	5	.005	8.758	.000 ^b
	Residual	.034	62	.001		
	Total	.058	67			

a. Dependent Variable: ROA

b. Predictors: (Constant), CAR, PNas, NPL, PTab, PKre

Source: Data processed (2024)

The test results show an F value of 8.758 with a significance of $0.000 < 0.05$. This means that savings growth, loan growth, customer growth, non-performing loans, and capital adequacy ratio simultaneously affect profitability.

4.6 Results of Coefficient of Determination Test

The coefficient of determination test results in table 3 shows an adjusted R square value of 0.367. This indicates that profitability can only be explained by 36.7% of the independent variables used, while the remaining 63.3% is explained by other variables outside the model.

4.7 Results of the t-test

Table 7. Results of the t-test

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	.006	.007		.848	.400
	PTab	-.014	.005	-.274	-2.687	.009
	Pkre	.106	.031	.349	3.395	.001
	Pnas	-.014	.033	-.043	-.423	.674
	NPL	-.102	.055	-.182	-1.848	.069
	CAR	.069	.019	.372	3.701	.000

Source: Data processed (2024)

The t-test results shows that the savings growth variable has a t-value of -2.687 and a significance level of $0.009 < 0.05$, indicating that savings growth has a negative impact with profitability, thus rejecting H1. Conversely, the test results for credit growth result in a t-value of 3.395 and a significance level of $0.001 < 0.05$, indicating that loan growth has a positive impact with profitability, thus accepting H2. Similarly, the test results for the capital adequacy ratio result in a t-value of 3.701 and a significance level of 0.000, indicating a positive effect on profitability, thus accepting H5. Meanwhile, the test results for customer growth yield a t-value of -0.423 and a significance level of $0.674 > 0.05$, indicating that customer growth does not have an impact on profitability, thus rejecting H3. The test results for non-performing loan result in a t-value of -1.848 and a significance level of $0.069 > 0.05$, indicating that non-performing loan do not have an impact with profitability, thus rejecting H4.

4.8 Savings Growth on Profitability

The test results demonstrate that savings growth has a negative relationship with profitability, thus rejecting H1. This outcome indicates that as savings grow, profitability decreases. This is likely due to an imbalance between the amount of savings collected and the distribution of those funds. If the funds collected from savings are greater than the amount disbursed, the Village Credit Institutions (LPD) will bear a heavier burden as they must pay interest on the savings held by the rural community in the LPD. The increased interest expense will reduce the LPD's profits, leading to a decline in

profitability.

4.9 Loan Growth on Profitability

The test results prove that loans growth has a positive relationship with profitability, thus H2 is accepted. This result indicates that as loans grow, profitability increases. This is likely because loans are a source of income for Village Credit Institutions (LPD); by disbursing loans, LPDs will earn income from the services they provide. Therefore, if the amount of loans grows in each period, income will also increase, leading to an increase in LPD profitability. This research is supported by studies (Mukarromah & Badjra, 2015) and (Widhiastuti & Andayani, 2022) which found that loan growth has a positive influence with profitability.

4.10 Customer Growth on Profitability

The test results prove that customer growth does not have an impact with profitability, thus H3 is rejected. This means that increasing or decreasing customer growth does not affect profitability. This may be because the customers used in this study include the total number of customers consisting of savings account, deposit, and loan customers, where an increase in savings and deposit customers will result in LPDs incurring expenses, while loan customers can generate income for LPDs. Additionally, what can affect profitability more is not the number of customers but the monetary value of each customer. If the number of customers grows but their monetary value remains the same, it will not increase or decrease the profitability of the LPD. These research results are consistent with those of (Sedana, et al., 2017) who state that the growth in the number of customer are unrelated to profitability.

4.11 Non-Performing Loans on Profitability

The test results indicate that non-performing loans do not affect profitability, hence H4 is rejected. This suggests that whether non-performing loans are high or low, they do not impact profitability. This may be due to existing regulations that govern the recommended maximum threshold for non-performing loan, and currently, the average non-performing loan is below its maximum limit (Rahmawati, et al., 2021). Additionally, if losses occur due to bad loans, they will be covered by the productive asset reserves that have been formed previously. Therefore, a low non-performing loan ratio in Village Credit Institutions (LPD) does not necessarily mean they are unable to achieve good profitability. This research aligns with (Asysidiq & Sudiyatno, 2022) which suggests that non-performing loans have no correlation with profitability.

4.12 Capital Adequacy Ratio on Profitability

The test results demonstrate that the capital adequacy ratio has a positive affect with profitability, thus H5 is accepted. This means that the higher the capital adequacy ratio, the higher the profitability. As known, the capital adequacy ratio is a ratio that measures the ability of a financial entity to provide capital to anticipate losses caused by non-performing loans (Fahmi, 2015). A high capital adequacy ratio can reduce the dependency of Village Credit Institutions (LPD) on the use of funds from external sources in bearing the risk of non-performing loans, thereby enhancing profitability (Ozili, 2015). These research findings are consistent with the study by Dinayanti & Adiputra (2022) which find a positive affect of the capital adequacy ratio with profitability.

5. CONCLUSION AND RECOMMENDATIONS

5.1 CONCLUSION

According to the explanation above, it should be concluded that savings growth has a negative influence with profitability, while loan growth and capital adequacy ratio have a positive influence on profitability. Conversely, customer growth and non-performing loan do not have an effect with profitability.

5.2 RECOMMENDATIONS

The study conducted has several limitations, such as being conducted only on Village Credit Institutions in Denpasar city for two periods, using 5 independent variables, and the adjusted R-square value is only 36.7%. The next research is suggested to extend the research period and add other variables

that can affect profitability, such as BOPO, LDR, asset growth, and other factors.

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