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The Effect of Bank Health Level and GCG Self Assessment on Banking Performance

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Abstract: Bank Bukopin's liquidity difficulties in 2020 were triggered by internal problems which resulted in disruptions to payment traffic, money withdrawals and financing distribution, this had an impact on decreasing public trust and causing harm to the banking world. The research aims to prove the effect of banking soundness level and GCG Self-Assessment on the financial performance of Indonesian banks. The research design is quantitative associatif and the unit of analysis is the company's annual report. Samples were taken from a population of banking entities listed on the IDX for the 2017-2021 period through a purposive-sampling technique and data analysis using panel data regression with the E-Views 10 program. The research results prove that simultaneously financial performance (ROA) is influenced by CAR, BOPO, NPL, LDR and SA-GCG. Partially the CAR, BOPO, and NPL variables affect financial performance (ROA). while LDR and SA-GCG do not affect financial performance (ROA). The research findings indicate that the LDR owned by banks is still in a safe condition and the Self-Assessment-GCG made by the bank does not provide a guarantee that it will increase banking performance.

Keywords: Financial Performance, Bank Soundness Ratio and GCG Self-Assessment.

INTRODUCTION

Banking is a central institution in supporting the progress of the country's economy. The advancement of the banking system indicates the rapid development of the economic order in supporting the ease of transaction traffic which ultimately leads to economic progress. Problems arise when banks experience liquidity difficulties, this results in bank failure in carrying out its functions, both economically and financially which has implications for disrupting payment traffic, withdrawing money and credit financing which ultimately disrupts financial stability and has the potential to reduce the country's economic growth and performance. banking (Veronica, 2021).

For operational purposes or not, performance provides a clear indicator of the organization's capacity in realizing goals, objectives and guiding principles that will guide every activity carried out (Herliana, 2016). Company performance information is usually measured using financial or non-financial criteria (Alfian, 2020). Financial criteria can be

identified through the company's financial statements. Otherwise, non-performance Financial statements can be observed through employee behavior, especially through behavior in the financial sector, where an organization can see both positive and negative employee behavior through its financial reports.

The research motivations are: first, this study complements the suggestions from the limitations of Lesmana's research (2020), concerning the effect of bank soundness ratios on financial performance by adding the GCG self-assessment variable. Second, banks as financial intermediary institutions in supporting the economy, so it is important to study the determinants of banking financial performance so that banking functions run optimally. Third, several previous studies have obtained contradictory results (Research gaps) regarding the factors that affect banking financial performance as carried out by (Setiawan, 2016), (Kiswanto & Purwanto, 2016), (Sheilla & Dharmastuti, 2018), (Welly & Hari, 2018), (Kaljannah, 2018), (Rahayu, 2018),(Dewi & Yadnyana, 2019), (Lesmana, 2020), (Salim & Djausin, 2020), Wibowo, 2020), (Alfian, 2020), (Hidayat, 2021). Based on the information above, this research intends to test and analyze the ratio of the soundness of a bank's CAR, BOPO, NPL, LDR and Good Corporate Governance Self-Assessment (SA_GCG) to financial performance (ROA).

LITERATURE REVIEW

Agency Theory

The contractual relationship between the owner of the company (principal) and the manager (agent) who are bound by a contract agreement is explained by agency theory (Jensen & Meckling, 1978. The company is an organization owned by the principal, while the manager/agent is in charge of running the business in its capacity as an extension of the authority of principal. The contract between the principal and the agent defines their working relationship in achieving the goals of an organization. The principal employs an agent to manage the resources he owns by establishing a company, as well as delegating decision-making to the agent. This causes agency problems, when both parties are the same -both have conflicts of interest, both agents and principals are trying to maximize utility (Puspitasari, 2020).

Financial performance

Financial performance is a broad assessment of an entity's financial health over a certain period, including collection and distribution of cash and other financial metrics such as financial ratios (Dewi & Yadnyana, 2019). Financial ratios are a set of tools used in financial performance analysis, which explain or describe the pros and cons of a company's financial condition as well as its strengths and weaknesses in terms of its financial elements (Hidayat, 2021).

The profitability ratio is the main indicator used to evaluate the success of financial performance. This ratio describes a company's capacity to generate profits over a certain period of time. Banking financial performance is evaluated using a measure of profitability. Based on business profitability proxied by Return on Assets (ROA). Because Return on Assets (ROA) can consider the ability of bank management to achieve profitability by using all of the company's assets, as well as the fact that Return on Assets (ROA) is considered capable of representing other parameters, Return on Assets (ROA) can take into account financial performance capabilities. The ability of the bank's financial performance increases with the Return on Assets (ROA) figure (Dewi & Yadnyana, 2019).

Hypothesis Development

The research framework can be seen in the image below:



1. Effect of Capital Adequacy Ratio (CAR) on Financial Performance (ROA).

Capital adequacy ratio (CAR) is the ratio of a bank's soundness level as measured through the capital aspect (Alamsyah & Meylida, 2021). This ratio is used in assessing the amount of company capital which functions to accommodate the risk of loss in a company (Anisa & Suryandri, 2021). The bank's ability to use its own capital to offset the decline in assets caused by losses due to the use of these assets is indicated by this ratio. Comparing own capital with risk-weighted assets yields a CAR (RWA) value. Banks are better able to withstand risky credit risk or productive assets the higher the CAR. Banks can finance operational activities and help generate company profits if the CAR value is high thereby improving financial performance. Based on the research findings of Darwis (2017) CAR has an impact on banking financial performance.

H₁: The capital adequacy ratio (CAR) has an effect on financial performance (ROA).

2. Effect of BOPO on Financial Performance (ROA).

The BOPO ratio is a comparison between operating costs and operating income. This ratio is often also referred to as the efficiency ratio in measuring a bank's ability (Wibisiono, 2017). The BOPO ratio is used to determine the level of efficiency and capability of a bank in carrying out its operational activities. Considering that in principle the main banking activity is as an intermediary institution, the burden and income from banking operations are dominantly derived from interest costs and interest yields. Changes in the BOPO ratio are very important for the banking sector because it is a benchmark for determining the soundness of a bank (Tarmidji & Widodo, 2021). The high BOPO ratio indicates that the company bears high operational expenses and has an impact on losses, thereby affecting financial performance. The results of previous research conducted by (Ardiansyah, Mawardi, & Wisnu, 2017) show that BOPO negatively affects financial performance (ROA). H₂: BOPO has an effect on financial performance (ROA).

3. The Effect of NPL on Financial Performance (ROA).

The more banks lend money to their customers, it is possible to increase the Non-Performing Loan Ratio (NPL) if there are many non-performing credit loans. The NPL value

is significant, meaning that the bad debt expense is increasing, especially the price of reserves for useful assets and the price of losses on bad loans. Due to the significant risk of nonperforming loans, banks no longer have the ability to benefit from credit interest. The projected profits are affected by the loss of potential profits from bad loans (Patulak, 2014). The increase in the NPL value causes the Bank to provide reserves (allowance) for writing off large receivables, so that the ability to provide credit is limited and if this loan is not collected it will result in losses from the bank's side (Novianti, 2020). The implication of this causes a decrease in the company's financial performance. The results of research conducted by (Darwis, Widarko, & Salim, 2017) prove that NPL affects financial performance (ROA). H_3 : Non-Performing Loans (NPL) have an effect on financial performance (ROA).

4. Effect of Loan to Deposit Ratio on Financial Performance (ROA).

The Loan to Deposit 's Ratio (LDR) is the ratio used to measure the composition of the value of credit disbursed compared to the value of own capital and third parties. The higher the LDR value, the higher the loan disbursement provided by the bank to the borrower. So that the greater the bank earns income if the credit provided goes according to expectations. However, if the credit disbursed is problematic, the bank will bear losses which will have an impact on the company's financial performance. This indicates that the bank's liquidity capacity is getting smaller. If the bank's ability to channel loans is effective, then the LDR value will increase, meaning that the amount of credit disbursed will increase more than the increase in total third party funds, so that the bank's income will increase, which means it will increase ROA (Susilawati & Nurulrahmatiah, 2021) Results from research carried out (Darwis, Widarko, & Salim, 2017), (Ardiansyah, Mawardi, 2017) shows that LDR has a negative effect on ROA.

H₄: Loan to Deposit Ratio (LDR) has a negative effect on ROA.

5. Effect of GCG Self Assessment on Financial Performance (ROA)

Self Assessment Good Corporate Governance (SA-GCG) is a self-assessment of the implementation of GCG by the company based on the applicable rules. Self-assessment of Good Corporate Governance is expected to use a combined rating calculation from each used in banking companies (Purwitasari, 2021). SA-GCG implementation must be complete and systematic using three Governance Structure, Process and Outcome techniques. To ensure that the process of implementing the principles of good corporate governance produces results that are in accordance with stakeholder expectations, this component involves evaluating the suitability of the bank's governance structure and infrastructure. The better the implementation of SA-GCG, the better the corporate governance. This has an impact on the smooth operation of the company, so as to improve the company's financial performance. The results of research conducted by (Setiawati, 2016). (Sholichah, 2021) shows that SA-GCG has an effect on financial performance (ROA).

H₅: GCG Self Assessment influences financial performance (ROA).

6. Effect of Bank Soundness Level and SA-GCG on Financial Performance (ROA).

Financial performance is an indicator in assessing the success of a company which can be seen through the achievement of profits (profitability). The higher the profitability value, indicates that the bank's ability to earn higher profits, so that the functions and roles of banking run optimally which are ultimately able to advance the economy of a country (Welly & Harry, 2018). Banking financial performance is dominantly influenced by internal company factors, which consist of financial soundness and implementation of good corporate governance. The condition of financial health can be seen through the aspects of capital, aspects of lending, aspects of operating expenses, aspects of credit risk and liquidity aspects, while the implementation of governance can be seen based on the indicators that form the composite value of the GCG Self Assessment implementation carried out by the company (Setiawan, 2016). With a healthy condition and good corporate financial governance, the company's operations run smoothly, because the bank has adequate resources to generate profits. This has implications for increasing the company's financial performance. H_6 : Bank Soundness Level and SA-GCG have a simultaneous effect on financial

performance (ROA).

RESEARCH METHODS

a. Types of research

The research method used in this study is associative quantitative, namely a research approach that uses numbers as analytical material to show the relationship of a variable with other variables. The type of data used is secondary data which is data obtained or collected from existing sources. Research data comes from financial reports and is taken via the web <u>www.idx.co.id</u> in 2017-2021 for banking companies on the IDX. The purposive method was used to take samples through the following criteria: 1. Conventional Banks listed on the IDX consecutively 2017-2021; 2. Publish audited financial reports; 3. Has a self- assessment index -GCG. Data collection methods used are documentation and literature.

b. Data analysis method

Analyzed using panel data through Eviews 10. The results of the analysis are used in answering the hypothesis related to influence

CAR, BOPO, NPL, LDR, and GCG Self-Assessment of financial performance.

c. Estimation of Panel Data Regression Model Selection

According to Ghozali (2016) in the data panel there are 3 models available, namely: the Common Effect Model (CEM) method, the Fixed Effect Model (FEM) model, and the Random Effect Model (REM) model.

d. Choose Panel Data Regression

The model was selected through Chow Tests, Hasuman Test, and Lagrange Multiplier test.

e. Classic assumption test

Classical assumption testing must be carried out if CEM and FEM are selected, because this model is a least square approach through data pooling (Ghozali & Ratmono, 2018).

1) Multicollinearity Test

Aims to test whether in the regression model there is a high or perfect correlation between the independent variables (Ghozali, 2017)

2) Heteroscedasticity Test

It also arises because of a violation of the classic-9 assumption, namely the regression model has been specified correctly.

f. Panel Data Regression

This regression is to find out whether CAR, BOPO, NPL, LDR and GCG Self Assessment affect financial performance.

$ROA = \alpha + \beta_{1}CAR + \beta_{2}BOPO + \beta_{3}NPL + \beta_{4}LDR + \beta_{4}SA_{GCG} + \varepsilon$

Information: ROA = Return on Assets α = Constant β 1, β 2, β 3, β 4, β 5 = regression coefficient of each variable BOPO = Operating Costs to Operating Income NPL = Non-performing Loans LDR = Loan to Deposit Ratio SA-GCG = GCG Self Assessment ϵ = Error Rate

g. Determination Coefficient Test (R²)

The coefficient of determination is between 0 and 1. The small value of R 2 means that the influence of the independent variable in explaining the dependent variable is very small. (Dewi & Suryana, 2016).

h. Partial Test (t)

Partial testing was obtained to determine the effect of variable X in research with a regression model, especially the partial effect on variable Y (Dewi & Suryana). The provisions can be seen from the sig. research result. It has an effect if the sig value < 0.05 (Ghozali, 2016).

i. Simultaneous Test (F)

Tests carried out in knowing the simultaneous effect of the independent variables on the dependent variable. this test is a test of the research model that was made (Ghozali, 2016). It is concluded that it has an effect if the sig value is <0.05 or t count > t table.

FINDINGS AND DISCUSSION

Panel Data Regression Estimation

a. Common Effect Model (CEM)

The CEM model can be seen in the following table:

Table 1. CEM Test Results

Dependent Variable: Y Method: Panel Least Squares Date: 08/01/22 Time: 14:34 Sample: 2017 2021 Periods included: 5 Cross-sections included: 13 Total panel (balanced) observations: 65

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|--------------------|-------------|-------------|-------------|----------|
| С | 9.898099 | 1.084598 | 9.126050 | 0.0000 |
| X1 | -0.138331 | 0.040645 | -3.403355 | 0.0012 |
| X2 | -0.067035 | 0.007897 | -8.488801 | 0.0000 |
| X3 | -0.205649 | 0.103658 | -1.983924 | 0.0519 |
| X4 | 0.004414 | 0.007673 | 0.575235 | 0.5673 |
| X 5 | 0.079604 | 0.431676 | 0.184407 | 0.8543 |
| R-squared | 0.777305 | Mean depe | ndent var | 1.546154 |
| Adjusted R-squared | 0.758433 | S.D. depen | dent var | 2.858479 |
| S.E. of regression | 1.404927 | Akaike info | o criterion | 3.605613 |
| Sum squared resid | 116.4554 | Schwarz cr | iterion | 3.806326 |
| Log likelihood | -111.1824 | Hannan-Qu | inn criter. | 3.684807 |
| F-statistic | 41.18738 | Durbin-Wa | itson stat | 1.447459 |
| Prob(F-statistic) | 0.000000 | | | |

b. Fixed Effects Model (FEM)

The FEM model can be seen in the following table:

Table 2. FEM Test Results

| Date: 08/01/22 Tin Sample: 2017 2021 Periods included: 5 Cross-sections inclu Total panel (balance | ne: 14:36 ded: 13 ed) observatio | ns: 65 | | |
|--|--|---------------------------|-------------|----------|
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| С | 9.669837 | 2.303798 | 4.197346 | 0.0001 |
| X1 | -0.212613 | 0.060942 | -3.488773 | 0.0011 |
| X 2 | -0.056827 | 0.010016 | -5.673388 | 0.0000 |
| X3 | -0.225721 | 0.128270 | -1.759727 | 0.0850 |
| X4 | 0.015516 | 0.011496 | 1.349733 | 0.1836 |
| X5 | 0.189359 | 0.688660 | 0.274967 | 0.7845 |
| | Effects Spe | cification | | |
| Cross-section fixed | (dummy varia | ables) | | |
| R-squared | 0.852761 | Mean dependent var | | 1.546154 |
| Adjusted R-squared | 0.799505 | S.D. dependent var | | 2.858479 |
| S.E. of regression | 1.279932 | Akaike info criterion | | 3.561098 |
| Sum squared resid | 76.99663 | Schwarz criterion | | 4.163236 |
| Log likelihood | -97.73567 | Hannan-Quinn criter. 3.7 | | 3.798680 |
| F-statistic | 16.01234 | 4 Durbin-Watson stat 2.06 | | 2.065721 |
| Prob(F-statistic) | 0 000000 | | | |

c. Random Effect Model (REM) Test

REM models can be seen in:

Table 3. REM Test Results

| Dependent Variable: Y Method: Panel EGLS (Cross-section random effects) Date: 08/01/22 Time: 14:38 Sample: 2017 2021 Periods included: 5 Cross-sections included: 13 Total panel (balanced) observations: 65 Swamy and Arora estimator of component variances | |
|--|--|
| Method: Panel EGLS (Cross-section random effects) Date: 08/01/22 Time: 14:38 Sample: 2017 2021 Periods included: 5 Cross-sections included: 13 Total panel (balanced) observations: 65 Swamy and Arora estimator of component variances | Dependent Variable: Y |
| Date: 08/01/22 Time: 14:38 Sample: 2017 2021 Periods included: 5 Cross-sections included: 13 Total panel (balanced) observations: 65 Swamy and Arora estimator of component variances | Method: Panel EGLS (Cross-section random effects) |
| Sample: 2017 2021 Periods included: 5 Cross-sections included: 13 Total panel (balanced) observations: 65 Swamy and Arora estimator of component variances | Date: 08/01/22 Time: 14:38 |
| Periods included: 5 Cross-sections included: 13 Total panel (balanced) observations: 65 Swamy and Arora estimator of component variances | Sample: 2017 2021 |
| Cross-sections included: 13 Total panel (balanced) observations: 65 Swamy and Arora estimator of component variances | Periods included: 5 |
| Total panel (balanced) observations: 65 Swamy and Arora estimator of component variances | Cross-sections included: 13 |
| Swamy and Arora estimator of component variances | Fotal panel (balanced) observations: 65 |
| | Swamy and Arora estimator of component variances |
| | Cross-sections included: 13 Total panel (balanced) observations: 65 Swamy and Arora estimator of component variances |

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|----------------------|-------------|---------------------------|-------------|--------------------|
| С | 9.946076 | 1.184717 | 8.395317 | 0.0000 |
| X1 | -0.157770 | 0.041751 | -3.778863 | 0.0004 |
| X 2 | -0.064945 | 0.007911 | -8.209375 | 0.0000 |
| X3 | -0.205584 | 0.101806 | -2.019367 | 0.0480 |
| X4 | 0.006507 | 0.007981 | 0.815385 | 0.4181 |
| X 5 | 0.103964 | 0.444767 | 0.233750 | 0.8160 |
| | Effects Spe | ecification | | |
| | | | S.D. | Rho |
| Cross-section rando | n | | 0.450747 | 0.1103 |
| Idiosyncratic randon | a | | 1.279932 | 0.8897 |
| - | Weighted | Statistics | | |
| R-squared | 0.765180 | Mean depe | ndent var | 1.214736 |
| Adjusted R-squared | 0.745280 | S.D. dependent var | | 2.623564 |
| S.E. of regression | 1.324108 | Sum squared resid | | 103.4424 |
| F-statistic | 38.45124 | Durbin-Wa | atson stat | 1.598507 |
| Prob(F-statistic) | 0.000000 | | | 0.04003-04203-0520 |
| | Unweighte | d Statistics | | |
| R-squared | 0.775755 | Mean dependent var 1.5 | | 1.546154 |
| Sum squared resid | 117.2662 | Durbin-Watson stat 1.4100 | | 1.410069 |

Panel Data Regression Model

a. Testing Chow test

This test chooses between the Common Effect model and the Fixed Effect model. This test is based on the prob value. Cross-Sec F and Cross-Sec Chi-square And the terms: CEM is selected, if the Cross-Section F and Cross-Sec prob chi square $> \alpha$ (0.05)

H_a: FEM, if the probability of Cross Section F and Cross Section chi square $< \alpha$ (0.05)

| Redundant Fixed Effects Tes Equation: EQ01 Test cross-section | ts on fixed effects | | |
|---|------------------------|---------------|---------------|
| Effects Test | Statistic | d.f. | Prob. |
| Cross-section F Cross-section Chi-square | 2.007188 26.893520 | (12,47) 12 | 0.0449 0.0080 |

Prob value. Cross-sec F 0.0499 and Cross-sec Chi-square 0.0080 is less than 0.05, so the estimation modell used is the Fixed Effects model.

b. Hausman test

This test compares the Fixed Effect Model and the Random Effect Model. It can be seen from the prob value. Cross Section Random. By hypothesis:

H₀: REM, if the probability of Cross Section Random $> \alpha$ (0.05)

H_a: FEM, if the probability of Cross Section Random $< \alpha$ (0.05)

Correlated Random Effects - Hausman Test

| Equation: EQ01 Test cross-section random effects | | | | | | |
|---|--------------------------|-----------|-------|--|--|--|
| Test Summary | Chi-Sq. Statistic Chi | -Sq. d.f. | Prob. | | | |
| Cross-section random | 9.142929 | 5 | 0.103 | | | |

Random Cross Section value in the prob column. 0.1035 is higher than 0.05, so the estimated model chosen is the Random Effect Model (REM).

Panel Data Regression Analysis

The model that is considered the most feasible to use is REM. The results of the REM model test can be seen from the following table:

| | Table. 4 RE | EM Test Re | sults | |
|---|--|---|---|--|
| Dependent Variable Method: Panel EGL Date: 08/01/22 Tin Sample: 2017 2021 Periods included: 5 Cross-sections inclu Total panel (balance Swamy and Arora et | : Y S (Cross-sect ne: 14:38 ded: 13 ed) observatio stimator of co | on random o ns: 65 omponent var | effects) riances | |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C X1 X2 X3 X4 X5 | 9.946076 -0.157770 -0.064945 -0.205584 0.006507 0.103964 | $\begin{array}{c} 1.184717\\ 0.041751\\ 0.007911\\ 0.101806\\ 0.007981\\ 0.444767\end{array}$ | 8.395317 -3.778863 -8.209375 -2.019367 0.815385 0.233750 | 0.0000 0.0004 0.0000 0.0480 0.4181 0.8160 |
| > | Effects Spe | ecification | S.D. | Rho (|
| Cross-section random Idiosyncratic random | | | 0.450747 1.279932 | 0.1103 0.8897 |
| | Weighted | Statistics | | |
| R-squared Adjusted R-squared S.E. of regression F-statistic Prob(F-statistic) | 0.765180 0.745280 1.324108 38.45124 0.000000 | Mean dependent var S.D. dependent var Sum squared resid Durbin-Watson stat | | 1.214736 2.623564 103.4424 1.598507 |
| | Unweighte | d Statistics | | |
| R-squared | 0.775755 | Mean dependent var 1.546 | | 1.546154 |
| Sum squared resid | 117.2662 | 2 Durbin-Watson stat 1.4100 | | |

Based on the estimation results in the table above, the panel data regression equation is as follows:

$Y = -9.946 - 0.157CAR - 0.064BOPO - 0.205NPL + 0.006LDR + 0.103SAGCG + \epsilon$

Simultaneous Test (F)

To determine the effect of independent variables simultaneously on the dependent variable. Based on the test results, it is known that the results of the probability value F (0.000000) < α (0.05) , so it can be decided that the Capital Adequacy Ratio, Operating Expenses to Operating Income, NPL , L DR and GCG Self Assessment Together have an influence on Financial Performance .

Determination Coefficient Test

From the results of the value of the coefficient of determination (R2) shows a value of 0.745280 or 74.52%, while the remaining 25.48%. It is explained that the Capital Adequacy Ratio, Operating Expenses to Operating Income, Non - Performing Loans, Loan to Deposit Ratio and GCG Self Assement have an effect on financial performance (ROA) of 74.52%, while the remaining 25.48%.

Partial Test (t)

The partial effect of the independent variable on the dependent can be known through the hypothesis t test. Table results show:

- 1) Variable t- statistic Capital Adequacy Ratio (-3.778863) > t table (2.00100) and Prob value. 0.0004 <0.0005, so it can be concluded that the CAR variable has a significant negative effect on financial performance (ROA).
- 2) Variable t- statistic Operating Costs on Operating Income (-8.209375) > t Table (2.00100) and the value of Prob. 0.0000 < 0.0005 so it can be decided that the variable Operating Costs on Operating Income negatively affect financial performance (ROA).
- 3) Variable t- statistics Non-Performing Loans (-2.019367) > t Table (2.00100) and Prob. 0.0480 < 0.0005 so it can be decided that the variable Non-Performing Loans have a negative effect on financial performance (ROA).
- 4) Loan to Deposit Ratio t- statistic variable (0.815385) < t table (2.00100) and the Prob value. 0.4181 > 0.0005 so it can be concluded that the Loan to Deposit Ratio variable has no significant effect on financial performance (ROA).
- 5) t- statistic Self Assessment Good Corporate Governance (0.233750) < t table (2.00100) and the value of Prob. 0.8160 > 0.0005 so it can be concluded that Self Assessment of Good Corporate Governance has no significant effect on financial performance (ROA).

1. Effect of CAR on ROA.

The Capital Adequacy Ratio is the soundness level of the Bank as measured by capital. One factor that is very important for generating income in managing funds for the purpose of making bank profits effectively and efficiently is capital. The Capital Adequacy Ratio provides an explanation regarding capital adequacy in order to carry out banking activities. If the bank has more capital than a predetermined minimum amount, it can anticipate bank failure problems. Banks that have sufficient capital will have the flexibility to carry out all their activities, so that the target of lending and financing can run well, the implication is that the bank will generate maximum income, so that it can increase the value of profitability. However, if the capital aspect is too large and the Bank does not optimally carry out credit and financing, the bank will bear the risk of interest expense for funds placed by customers. The result will be a burden and reduce the profit that can be generated. This research is in accordance with the results of research (Dewi & Yadnyana (2019) which states that the Capital Adequacy ratio has a significant negative effect on financial performance (ROA).

2. Effect of BOPO on ROA.

BOPO is a ratio that compares how much operational expenses incurred can generate bank income in a certain period Tarmidji & Widodo (2021) . The greater the BOPO ratio, indicating an imbalance between operational expenses incurred and income generated, this of course makes the operational expenses borne by banks very high, the implication of this will make banking financial performance decrease, so that the profitability ratio (ROA) will be generated by banks will tend to fall and result in poor banking performance (Gustiana, Soleh, & Ferina, 2021) . The results of this research are in line with research conducted by Slamet Fajari and Sunarto (2017) which states that BOPO has a significant negative effect on financial performance (ROA).

3. Effect of NPL on ROA.

NPL ratio is a comparison between a number of non-performing/bad credit distribution with the total credit disbursement provided by banks to debtors. The occurrence of problem loans indicates a failure on the part of management in analyzing, assessing and granting credit to debtors. This was triggered by the bank's inaccuracy in assessing the ability of debtors at the time of assessment for lending. This failure will have an impact on decreasing the income that will be generated by the Bank. The implication of this will result in losses for the company which will ultimately reduce financial performance. The higher the failure of lending (NPL) will result in decreased profits so that the ROA becomes smaller and causes the bank's performance to decline.

4. The effect of LDR on ROA.

Research results show that LDR does not affect ROA. The LDR ratio measures the composition of the amount of credit extended to debtors compared to the amount of funds from own capital and funds deposited from third parties. The high LDR ratio shows the higher the credit extended by banks to borrowers. So that the greater the Bank earns income if the credit provided goes according to expectations. However, if the credit disbursed is problematic, the bank will incur losses which will result in a decline in the company's financial performance. This indicates that bank liquidity is getting lower. The effectiveness of lending carried out by the Bank will increase the LDR value, meaning that the bank is successful in extending high credit. Increasing credit distribution does not necessarily guarantee an increase in the Bank's financial performance if there are non-performing loans from a number of loans disbursed. The implications of this have no impact on improving bank financial performance (Susilawati & Nurulrahmatiah, 2021). This result is in line with Wibowo's research (2020) which states that the LDR ratio does not affect financial performance (ROA).

5. Effect of SA-GCG on ROA.

Self-assessment (self-assessment) on the implementation of GCG is an assessment of the implementation of GCG principles in reporting assessments using available composite standards (Sheilla & Dharmastusti, 2018). The maximum implementation of SA-GCG shows better corporate governance carried out by management, because company management refers to the principles of governance that are able to make all company activities run better. Good corporate governance will have an impact on the smooth running of the company's operational activities, starting from the functions of planning, implementation, supervision, control and evaluation so that in the end the company is

able to run optimally, however, self-assessment does not necessarily reflect the actual conditions when management act independently of that self-assessment. As a result, this self-assessment is unable to provide a guarantee to ensure that if the self-assessment of corporate governance (GCG Self-assessment) is good, then the financial performance will also be good. this is not necessarily able to improve the company's financial performance (Rachmawati, 2018).

6. Effect of CAR, BOPO, NPL, LDR, and SA-GCG on financial performance (ROA).

Financial performance is an indicator in assessing the success of a company which can be seen through the achievement of profits (profitability). The greater the profitability, the higher the bank's ability to earn profits, so that the banking functions and roles will run optimally which will ultimately be able to advance a country's economy (Welly & Hari, 2018) . The banking financial performance is dominantly influenced by the company's internal factors, which consist of the condition of financial health and the implementation of good corporate governance. The condition of financial health can be seen through the aspects of capital, aspects of lending, aspects of operational expenses, aspects of credit risk and aspects of liquidity, while the implementation of governance can be seen based on the indicators that form the composite value of the implementation of GCG Self Assessment carried out by the company (Setiawan , 2016) . With this condition of financial health and good corporate governance, the company's operations will run smoothly, because the bank has adequate resources to generate profits. This will have implications for increasing the company's financial performance.

CONCLUSION AND RECOMMENDATION

From the results of the testing and analysis that has been carried out, the conclusion of this research is that the variables CAR, BOPO and NPL have a negative effect on financial performance. Meanwhile, the LDR and SA-GCG variables do not affect financial performance. The implication of this research is that the financial performance generated by the Bank is strongly influenced by the capital aspect in carrying out operations, success in lending and control over operational expenses incurred by the Bank in carrying out all activities.

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