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## DETERMINANTS OF BANK PERFORMANCE THROUGH CAMEL RATIO, DIGITALIZATION, AND BANK SIZE

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### ABSTRACT

#### KEYWORDS

BOPO; CAR; NPL;  
Digitalization; Bank Size

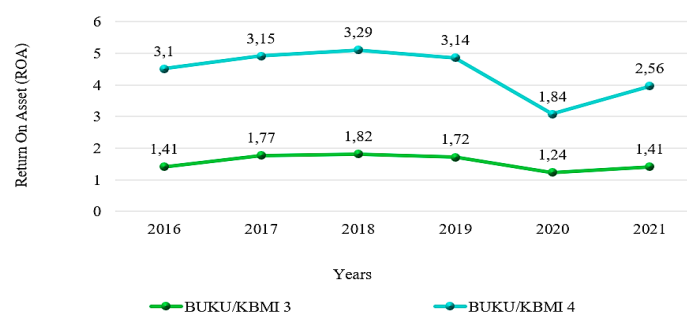
In general, this research aims to analyze the effect of CAMEL's factors, namely BOPO, CAR, NPL, and LDR on the bank's financial performance. As well as the external factors of Digitalization and Bank Size on the bank's financial performance. In this case, the bank's financial performance is proxied by ROA. The population in this study are conventional banks registered with the Financial Services Authority totaling 107 banks. The sampling technique used purposive sampling with a total sample of 10 banks that met the criteria. The approach used is panel data regression with a random effect model as the best model. Data analysis software uses E-Views 12. The results of this study found that BOPO and CAR have a negative effect on financial performance. LDR, Digitization, and Bank Size each have a positive effect on financial performance. But, NPL does not affect bank performance. From these results, banks are expected to be able to improve financial performance and bank management performance so that creditors have a good perception of bank performance in the future. And must be able to maintain the soundness of the bank by considering all possible risks that will arise. In research, bank digitization has shown quite good results. However, banks must continue to innovate on digital banking while continuing to be accompanied by an increase in the number of customers and pay attention to the infrastructure costs of digitalization.

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### INTRODUCTION

The Financial Services Authority (OJK) regulates the assessment of the soundness level of commercial banks through OJK Regulation No. 4/POJK.3/2016 concerning the rating of the soundness level of Commercial Banks According to this regulation, the soundness level of a bank is measured through an assessment of the condition of the bank which includes two main aspects namely bank risk and bank performance. These two aspects are interrelated because the risk to the bank can affect the overall financial performance of the bank. By measuring the financial performance of banks through these two aspects, OJK aims to assess the soundness and financial stability of banks and to supervise that banks continue to operate within safe and sustainable limits.

Historically, ROA has fluctuated which is reflected in the chart below. In the period from 2016 to 2020, banks are still classified under the BUKU group. In 2020, there was a sharp decline in ROA, especially for BUKU 4 banks. This situation was likely caused by the impact of the Covid-19 pandemic which put heavy pressure on the country's economy and created uncertainty in the market. global finance. Despite the decline, banks generally remained in good health. By Bank Indonesia Regulations stipulate that a healthy ROA should not be below 0.5%.



**Figure 1.1. Bank Financial Performance 2016-2021**

Source: OJK Data and Statistics Banking Channel (Processed Data)

Based on the explanation above, the purpose of this research is to analyze the influence of CAMEL's factors, namely BOPO, CAR, NPL, and LDR on the bank's financial performance (Anton et al., 2021). As well as the external factors of Digitalization and Bank Size on the bank's financial performance. In this case, the bank's financial performance is proxied by ROA.

## Previous Research and Hypothesis

### Agency Theory

Agency theory was first coined by Jensen and Meckling (1976), in this theory there is information asymmetry, namely the conflict of interest between principals and agents due to different goals. Syakhrun et al., (2019) explained that the wish of the principal to know information about the funds invested in the company is by holding the agent accountable, in this case, the financial statements. This agency theory underlies financial performance. Where investors or customers want to assess the bank's financial performance to understand the company's prospects in the future.

### Return on Asset (ROA)

Bank Indonesia Regulation No 6/10/PBI/2004 explains that a ROA below 0.5% indicates an unhealthy bank. ROA talks about how a company uses its assets. ROA is very important for both internal and external stakeholders in decision-making. Because ROA is related to production performance or distribution performance. ROA itself is the ratio of profit before tax to total assets

### Operating Expenses and Operating Income (BOPO)

Bank Indonesia Circular No. 6/23/DPNP/2004 states that the efficiency level is quite healthy with BOPO ratios ranging from 94% to 96%. A higher BOPO ratio indicates a lower level of bank efficiency. The BOPO ratio is used by banks as a means of controlling and evaluating operational activities. BOPO aims to describe how a company manages its operational expenditures to achieve maximum profit. When operational costs increase, profits will decrease so performance also decreases. This is to the findings by (Maudhita & Thamrin, 2018) and (Yusuf & Ichsan, 2021) which state that BOPO has a negative effect on ROA.

**H<sub>1</sub>: BOPO has a negative effect on the bank's financial performance**

### Capital Adequacy Ratio (CAR)

OJK Circular No. 14/SEOJK.03/2017 states that the calculation of capital and RWA is guided by the provisions of the Financial Services Authority regarding the minimum capital requirement for commercial banks. Harjadi, (2013:221), explains that based on Bank Indonesia regulations, a healthy bank is a bank that has a minimum CAR value of 8%. IBI (2014: 28), states that the higher the CAR ratio, the bank's ability to support business growth will increase, including covering unexpected losses. the higher the CAR, the greater the bank's ability to improve performance, and vice versa. This reasoning is in line with previous research

conducted by (Juwita et al., 2018), and (Rahman et al., 2022) which argued that CAR has a positive effect on financial performance.

**H<sub>2</sub>: CAR has a positive effect on the bank's financial performance**

*Non-Performing Loan (NPL)*

NPL can be an indicator when a bank is in trouble which if there is no solution will be detrimental to the bank. IBI (2014:29), the net NPL which is the reference for Bank Indonesia is a maximum of 5%. If it is above 5%, the bank is considered to have a high credit risk. A high NPL indicates that most loans have the potential to experience bad credit risk, which can have a negative impact on bank finances and overall financial system stability. The higher the debtor's credit rating, the higher the credit risk that the bank will face. Debtors with high-risk credit have the potential to cause problems in payments, which have an impact on increasing bank NPLs. For banks, managing credit risk is very important to ensure the continuity of operational activities and stability.

**H<sub>3</sub>: NPL has a negative effect on the bank's financial performance**

*Loan to Deposit Ratio (LDR)*

Based on Bank Indonesia regulation Number 12/19/PBI/2010, LDR is a ratio that measures the proportion of credit extended by banks to third parties in the form of Rupiah and foreign currencies. LDR is used as an indicator of bank liquidity, which describes the amount of credit provided by banks compared to funds obtained from third parties. If the LDR is high, it means that the bank relies on more funds from third parties to finance loans. In assessing the soundness of banks using the CAMELS method, Bank Indonesia indicates a healthy LDR ratio in the range of 78% to 85%. If the LDR exceeds this range, then the bank is considered to have a high liquidity risk due to its heavy dependence on third-party funds to finance credit. Banks need to monitor and manage LDR so that it remains within a healthy range and can maintain good liquidity.

**H<sub>4</sub>: LDR has a positive effect on the bank's financial performance**

*Digitalization*

Financial Services Authority Regulation No. 12/POJK.03/2021 concerning commercial banks aims to strengthen institutional rules, one of which is on operational aspects including digital services. This is OJK's effort to provide a clear framework for banks in carrying out digital transformation to increase efficiency, innovation, and service to customers. In addition, PJOK No. 13/POJK.03/2021 has the goal of accelerating digital transformation and innovation of bank digital products and services. This regulation provides guidelines for commercial banks to adopt digital technology and increase innovation in products and services to increase competitiveness and meet the demands of customers who are increasingly digitally savvy. Digital banking can reduce operational costs on average and the adoption of fintech must be matched by an increase in the number of customers. (Risman et al., 2021) explains that fintech refers to technological innovation in the financial industry. Digital finance in payment and transfer services can reduce the risks associated with cash transactions. Thus, digitalization can improve banking performance if implemented properly and accompanied by the right strategy to achieve success in digital transformation.

**H<sub>5</sub>: Digitalization has a positive effect on bank financial performance**

*Bank Size*

As explained by (Bousrih, 2023), there are several factors used to measure company size, including total assets, total sales, tax expense, profits, and others. Banks with a large number of assets are usually considered stronger and more reliable because they can carry out operational activities freely. Larger assets can increase credibility in the eyes of related parties, provide the ability to make larger investments and expansions, and provide flexibility in obtaining additional funding. (Hidayat, 2014) explains that the level of efficiency is influenced

by size because economically it can determine the extent to which a bank with production technology and similar quality management can work to an optimum scale.

**H<sub>6</sub>: Bank Size has a positive effect on the bank's financial performance**

## RESEARCH METHOD

The method used is quantitative with secondary data sources. This type of research is comparative with panel data. The independent variables of this study are the ratio of BOPO, CAR, NPL, LDR, bank digitization, and bank size. The dependent variable of banking financial performance is proxied by ROA. In this study, the population used was all conventional banks registered with the Financial Services Authority during the study period, namely 107 banks. As well as the sampling technique using purposive sampling. The sample in this study was 10 conventional banks, consisting of 6 KBMI III banks and 4 KBMI IV banks. The data analysis tool used is e-views 12.

## RESULTS AND DISCUSSION

### Analisis Statistik Deskriptif

The following is the output of descriptive test data statistics with Eviews 12.

**Table 1. Descriptive Statistics Test Output**

Date: 03/23/23 Time: 13:46

Sample: 2016 2021

	ROA	BOPO	CAR	NPL	LDR	Digital	Size
Mean	0.019647	0.800358	0.215465	0.012418	0.889448	3.35E+10	4.93E+14
Maximum	0.040000	1.510000	0.357000	0.029600	1.135000	4.43E+11	1.73E+15
Minimum	-0.049000	0.542000	0.156000	0.003000	0.620000	12807485	6.03E+11
Std. Dev.	0.013667	0.138504	0.037550	0.006429	0.093948	9.16E+10	5.04E+14
Observations	60	60	60	60	60	60	60

Source: Eviews Processing Output 12, 2023

The results of the data processing above show that the research data totaled 60 observations, namely from a total of 10 (ten) banks in KBMI III and IV during the research period (2016 to 2021). Table 1 below shows the overall mean is positive.

The dependent variable (ROA) has a maximum value of 4% owned by PT. Bank Central Asia (Persero), Tbk. in 2016, 2018, and 2019. Meanwhile, the minimum value of -4.9% occurred at KBMI III, namely PT. Bank Permata Tbk. (BNLI) in 2016. This shows that the company is unable to generate profits or it could also be due to poor bank management in terms of costs. It was explained in its annual report, BNLI's performance in 2016 suffered a loss due to the creation of a high allowance for impairment losses on financial assets. On average, KBMI III and IV banking during the study period were able to optimize asset value, where every Rupiah asset could generate a profit of 1.9647%.

The maximum BOPO value of 151% is owned by PT. Bank Permata Tbk. (BNLI) in 2016. This occurred in line with an increase in the burden of provision for impairment of credit which was explained in its 2016 annual report. Meanwhile, the minimum BOPO value in this study was 54.20% at the KBMI IV bank, namely PT. Bank Central Asia (Persero) Tbk. (BBCA) in 2021.

Banks that have a maximum value of 35.70% and a minimum of 15.60% in Capital Adequacy Ratio (CAR) are PT. Bank Permata, Tbk. (BNLI) occurred in 2020 and 2016 respectively. It was explained in the 2021 annual report, that BNLI's strong capital was the

basis for providing complete services for customers to accelerate business growth. In 2016, the condition of BNLI was still sufficient because statistically, it had exceeded the minimum standard set by Bank Indonesia, which was 8%.

The maximum value of the NPL ratio of 2.960% is owned by PT. State Savings Bank (Persero), Tbk. (BBTN) in 2019. As described in the 2019 annual report, BBTN has changed its business plan in the context of implementing PSAK 71 which was effective from 1 January 2020 as well as challenges to banking liquidity which increased NPLs. The minimum NPL value is 0.3%, which belongs to PT. Bank Central Asia (Persero), Tbk. 2016. The mean is 1.2418% which is lower than Bank Indonesia regulations and PJOK No. 15 /POJK.03/2017, which is 5%. So it can be said that the bank has good credit quality so that the risk of non-performing loans can be reduced.

The LDR variable has a maximum value of 113.50% at PT. State Savings Bank (Persero), Tbk. 2019. This was due to challenges from tight banking liquidity conditions. While the minimum LDR value in this study was 62% at PT. Bank Central Asia (Persero), Tbk. (BBCA) in 2021. The conditions in 2021 cannot be separated from the growth in the collection of demand deposits and savings funds (CASA) which is greater than the credit growth that occurred during the Covid-19 pandemic.

The maximum digitization value of 443,000,000,000 transactions is owned by Bank Pan Indonesia, Tbk. (PNBN) in 2021. As an effort to carry out digital transformation, PNBN invests in sophisticated Information Technology architecture and infrastructure and prepares digital talent. To strengthen digital transformation, PNBN launched an omnichannel mobile application. Meanwhile, the minimum value of 12,807,485 transactions belongs to PT. Bank Danamon Indonesia, Tbk. (BDMN) in 2016. An integral part of BDMN is technology and digital development. Comprehensively developed digital services include SMS banking, Internet banking, and mobile banking.

The maximum size value is Rp. 1,725,611,128,000,000, - owned by PT. Bank Mandiri (Persero), Tbk. (BMRI) in 2021. While the minimum value is Rp. 709,330,000,000, - owned by PT. Bank Negara Indonesia (Persero), Tbk. 2017. Bank size can be used to provide an overview of a bank's ability to face competition. The increasing value of assets shows the investment made increases.

### Panel Data Regression Model

The election results show that the REM model is selected as the best model, along with the panel data regression equation with the Random Effect Model.

**Table 2. Basic Panel Data Regression Equations**

Dependent Variable: ROA  
 Method: Panel EGLS (Cross-section random effects)  
 Date: 03/25/23 Time: 15:00  
 Sample: 2016 2021  
 Periods included: 6  
 Cross-sections included: 10  
 Total panel (balanced) observations: 60  
 Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.064899	0.064448	1.007002	0.3185
BOPO	-0.084674	0.005659	-14.96293	0.0000
CAR	-0.039181	0.018406	-2.128653	0.0379
NPL	-0.001147	0.001625	-0.705851	0.4834
LDR	0.030647	0.007751	3.953920	0.0002
Digitalisasi	0.000807	0.000396	2.040416	0.0463
Size	0.025086	0.009821	2.554301	0.0136
F-statistic				70.65207
Prob(F-statistic)				0.000000

Source: Eviews Processing Output 12, 2023

From the results of the selection of the panel data regression model above, which shows that the REM model was chosen as the best model, here is the panel data regression equation with the Random Effect Model.

$$\text{Financial Performance (ROA)} = 0.064899 - 0.084674 \text{ BOPO} - 0.039181 \text{ CAR} - 0.001147 \text{ NPL} + 0.030647 \text{ LDR} + 0.000807 \text{ Digitalization} + 0.025086 \text{ Size}$$

The panel data regression equation above simultaneously has a probability value of 0.000000 less than 5% with F count 70.65207 greater than F table 2.19. This output shows that simultaneously the independent variables namely BOPO, CAR, NPL, LDR, Digitalization, and Bank Size influence the bank's financial performance which in this study is proxied by ROA. In the regression equation, if BOPO increases by 1%, the bank's financial performance will decrease by -0.084674. This result proves that BOPO has a negative effect on performance. The regression coefficient value on the CAR variable is -0.039181. This means that when CAR increases by 1%, the bank's financial performance decreases by 0.039181. These results prove that CAR has a negative effect on performance. At RWA, the value of these assets that have the greatest risk is credit. Increased risk from bank operational activities, especially related to credit, can reduce bank profitability. The regression coefficient value on the NPL variable is -0.001147. This means that when there is an increase of 1% of NPL, the bank's financial performance decreases by 0.001147. A high NPL indicates that most loans have the potential to experience bad credit risk, which can have a negative impact on bank finances and overall financial system stability.

The regression coefficient value on the LDR variable is 0.030647. This means that if the LDR increases by 1%, the bank's financial performance will increase by 0.030647. illustrates the amount of credit provided by banks compared to funds obtained from third parties. When a bank provides a loan, the bank will earn interest on the loan which can then increase bank profitability. The regression coefficient value on the digitization variable is 0.000807. This means that if there is a 1% increase in digitization, the bank's financial performance will increase by 0.000807. Digital banking can reduce operational costs on average and the adoption of fintech must be matched by an increase in the number of customers. The regression coefficient value on the size variable is 0.025086. This means that when the size increases by 1%, the bank's financial performance increases by 0.025086. The asset value obtained by the bank comes from efficient credit distribution with timely credit repayments so that it can influence the positive direction for profitability.

Based on the explanation above, BOPO is the most dominant variable affecting a bank's financial performance. BOPO is a ratio that describes operating expenses to a bank's operating income. When expenses increase, the bank's income will decrease and this can affect a decrease in ROA. ROA itself is a comparison ratio of net income to total assets.

### Hypothesis Testing

This hypothesis test was carried out by the Wald Test to analyze the effect of each independent variable on the dependent variable. The first independent variable is BOPO. BOPO is a ratio that describes the comparison between the operational costs and the operating income of a bank. Bank Indonesia Circular No. 6/23/DPNP/2004 stipulates the range of BOPO that is considered quite healthy ranging from 94% to 96%, which indicates the level of efficiency expected in bank operations. The value research output shows that the probability of BOPO is below 5%, which is 0.0000 and the t value is -14.96293. So, the hypothesis that BOPO has a negative effect on the bank's financial performance is acceptable. In its relationship with

the Agency Theory introduced by Jensen and Meckling (1976), when customers know in financial reports that operational costs are high, it is considered that bank management may be inefficient in managing costs and resources, which can reduce investor and other stakeholder confidence in the bank. The results of the research are in line with research from (Sudarmawanti & Pramono, 2017), Juwita et al (2018) Maudhita and Thamrin (2018), (Suwarno & Muthohar, 2018), (Santoso et al., 2020), Saputra and Lina (2020), (Yuhasril, 2019), (Arif & Masdupi, 2020), (Cahyana & Suhendah, 2020), stated that BOPO had a negative effect on banking performance. BOPO has a negative effect on a bank's financial performance because when operational costs increase, the profit before tax generated by banks tends to decrease. This decrease in profit has an impact on the decline in bank profitability and ultimately affects the overall financial performance.

OJK Circular No. 14/SEOJK.03/2017 states that the calculation of capital and RWA is guided by the provisions of the Financial Services Authority regarding the minimum capital requirement for commercial banks. Harjadi, (2013: 221), the minimum CAR standard set by Bank Indonesia and the Bank for International Settlements is 8%. The Capital Adequacy Ratio has a probability value of 0.0379 which is less than 0.05 with a t-value of -2.128653. The results showed that CAR had a negative effect on the bank's financial performance. So it can be said the hypothesis is rejected. The results of the research are in line with previous studies conducted by (Kinanti & Purwohandoko, 2017), Santoso et al (2020), and Al-fadzar et al., (2021) which prove CAR has a negative effect on ROA. The bank's basic capital is used to maintain investment in fixed assets and liquidity. In the CAR ratio, capital is divided by RWA. Where the value of these assets that have the greatest risk is credit. Increased risks from bank operational activities, especially those related to credit, can reduce bank profitability and ultimately affect overall financial performance. It is important for banks to carefully consider risk management in managing credit and ensure adequate capital levels to support operational activities and sustainable growth. An adequate CAR value is important to ensure banking stability and soundness, but a high level of capital must also be balanced with good risk management to achieve optimal financial performance.

NPL is an indicator of whether a bank is in trouble. Copy of OJK Circular No. 14/SEOJK.03/2017 explains credit risk. According to IBI (2014: 29), the net NPL which is the reference for BI is a maximum of 5%. The output of data processing gives the result that the NPL probability value is 0.4834 greater than 0.05 with a negative t value (-0.705851). Hereby state that there is no significant effect of NPL on the bank's financial performance. That is, the research results reject the hypothesis. In agency theory, when customers see a high NPL indicating that most loans have the potential to experience bad credit risk, this can have a negative impact on bank finances and overall financial system stability. The results of this study are in line with research conducted by (Soekapdjo, 2020), (Parvin et al., 2019), and Fietroh and Fitriyani (2022). In this study, fluctuations in the level of non-performing loans (NPL) do not significantly affect the rate of return on bank assets (ROA), because they are carried out in banks that have large capital so that they can cover all risks.

The last CAMEL factor in this study is the Loan to Deposit Ratio. Based on Bank Indonesia regulation Number 12/19/PBI/2010, LDR is a ratio that measures the proportion of credit extended by banks to third parties in the form of Rupiah and foreign currency. The research output shows that LDR has a probability value of 0.0002, which is smaller than 0.05 with a t-value of 3.953920. So, the LDR hypothesis that has a positive effect on the bank's financial performance is acceptable. In assessing the soundness of banks using the CAMELS method, Bank Indonesia indicates a healthy LDR ratio in the range of 78% to 85%. relationship with agency theory that is, customers can see good prospects for the bank's future performance because the bank has been able to channel its credit effectively. The results of this study are in

line with research conducted by Sudarmawanti and Pramono (2017), Juwita, et al (2018), Soekapdjo (2020), and Al-fadzar et al., (2021) which prove LDR has a positive effect on financial performance. As banks make more loans, the interest income generated from these loans also increases. Banks get interest from loans given to customers. LDR will increase and bank profits will also increase. However, the lower the LDR the bank can lose the opportunity to make a profit.

In the current era of industrial reform 5.0, digitization plays an important role, especially in banking. Bank digitization makes it easier for customers in various transactions. (Risman et al., 2021) explains that fintech refers to technological innovation in the financial industry. The research output shows that digitization has a probability value of 0.0463 which is less than 0.05 with a t value of 2.040416. These results prove that the digitalization hypothesis affecting bank financial performance is acceptable. Operational-related uses including bank digital services are regulated in Financial Services Authority Regulation No. 12/POJK.03/2021. As well as the Financial Services Authority Regulation No. 13/POJK.03/2021 encourages the acceleration of digital transformation and innovation of bank digital products and services. The results of this study are in line with research conducted by Ginting et al (2022) and (Bousrih, 2023) which proves that the presence of banking digitalization has a positive impact on bank performance. Digitalization is a significant trend in the banking world because it provides various benefits for banks and customers. Digitalization can assist banks in expanding market access and improving service quality to customers. The use of digital technology in banking services makes it easier for customers to make transactions, manage accounts, and access other banking services quickly and easily. This increases customer satisfaction and can encourage the growth of the bank's business. Findings in research prove that digitization has a positive effect on bank financial performance. The successful implementation of digitalization can provide benefits for banks in the form of increased revenue from digital services and operational efficiency. With increased income and efficiency, bank profitability can increase.

Bank Size can be an important indicator in analysis related to a bank's financial performance. As explained by Brigham and Houston (2010: 4), one of the factors that can measure bank size is total assets. The research output shows that Bank Size has a probability value of 0.0136, which is smaller than 0.05. With a t value of 2.554301. The findings of this study prove that accepting the hypothesis that Bank Size has a positive influence on a bank's financial performance. The relationship with agency theory is that the size value indicates that the bank is in good health and customers believe that the bank has sufficient assets to improve performance in its operational activities. The findings are in line with research conducted by (Parvin et al., 2019) and (Nguyen & Nguyen, 2020). Size can be an indicator in measuring the size of the asset. The value of this asset is an indicator of future development. The asset value obtained by the bank comes from efficient credit distribution with timely credit repayments so that it can influence the positive direction for profitability.

**Table 3. Hypothesis Test Output**

Wald Test:  
Equation: Untitled

Variabel	Test Statistic	Value	Df	Probability
BOPO	t-statistic	-14.96293	53	0.0000
CAR	t-statistic	-2.128653	53	0.0379
NPL	t-statistic	-0.705851	53	0.4834
LDR	t-statistic	3.953920	53	0.0002
Digital	t-statistic	2.040416	53	0.0463
Size	t-statistic	2.554301	53	0.0136



Source: Eviews Processing Output 12, 2023

### Determination Coefficient Test

Testing the coefficient of determination is carried out to find out how much the independent variable can explain the dependent variable. Based on the figures presented in the table below, it can be concluded that 88.8868% of the variation in the dependent variable, namely the bank's financial performance, can be explained by a combination of the independent variables (BOPO, CAR, NPL, LDR, Digital, and Bank Size). The regression model has a fairly good fit to explain the variation in ROA. However, the remaining 11.1132% could be explained by other independent variables not included in the model, as well as other factors that may not have been considered in the analysis, possibly contributing to the remaining variation in the bank's financial performance.

**Table 4. Determination Coefficient Test Output**

Root MSE	0.003273	R-squared	0.888868
Mean dependent var	0.008512	Adjusted R-squared	0.876288
S.D. dependent var	0.009900	S.E. of regression	0.003482
Sum squared resid	0.000643	F-statistic	70.65207
Durbin-Watson stat	2.190459	Prob(F-statistic)	0.000000

Source: Eviews Processing Output 12, 2023

### CONCLUSION

Based on the explanation above, the following is a summary of research findings, namely: (1) BOPO is proven to have a negative effect on bank financial performance. If bank operating costs increase, profit before tax can decrease, which will have an impact on reducing bank profitability, (2) CAR is proven to have a negative effect on bank financial performance. An increase in bank capital that is not balanced with risks from bank operations can affect the efficiency and ability of the bank to overcome losses, (3) NPL is not proven to affect the bank's financial performance. A low NPL value indicates that the bank is capable of managing non-performing loans and can reflect a healthy bank performance, (4) LDR has a positive effect on the bank's financial performance. When banks can distribute credit effectively, LDR increases, and income from loan interest can increase bank profits, so banks are considered to be in good condition, (5) Digitalization applied by banks has a positive effect on their financial performance. Effective use of bank services can increase bank revenue from digitalization services, (6) There is a positive effect of Bank Size on bank financial performance. A large bank size indicates that the bank's performance is good and it has sufficient assets to increase operational efficiency and bank profitability.

Based on the findings in this study, some suggestions can be given to banks, namely that banks are expected to improve bank performance and management to create a good perception of creditors about future bank performance. Banks must also maintain soundness by taking into account possible risks that may arise. This research shows that banks have made quite good innovations in digitalization. However, banks are also expected to be able to continue to innovate on digital banking while still being accompanied by an increase in the number of customers and paying attention to the infrastructure costs of digitalization. For future researchers, it is recommended to use transaction volume to proxy bank digitalization and measure bank financial performance in different periods, as well as consider macroeconomic variables that might affect bank financial performance. More research conducted with various methodologies can provide a deeper understanding of the factors that may affect a bank's financial performance.

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