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THE EFFECT OF CREDIT RISK, LIQUIDITY RISK AND CAPITAL ON THE FINANCIAL PERFORMANCE OF PT BANK SUMUT PERIOD 2016-2023

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ABSTRACT

The purpose of this study was to determine whether there is an influence between Credit Risk (NPL), Liquidity Risk (LDR), and Capital (CAR) on Bank Financial Performance (ROA). The quarterly financial statements of Regional Development Bank of North Sumatra (PT Bank SUMUT) are the secondary data used in this study. The Bank SUMUT financial ratio report for the years 2016–2023 serves as the study sample. Data processing software was used to process the research data. The findings of data processing for hypothesis testing indicate that the NPL, LDR, and CAR variables all together affect the financial performance of banks. Bank financial performance is positively impacted by the partial test findings of the NPL and CAR variables, however the LDR variable has no effect but is trending in the right way. While the LDR variable has no effect but does have a favorable direction on bank financial performance, the partial test results of the NPL and CAR variables have a positive impact on bank financial performance. The coefficient of determination (R2) test results indicate that the NPL, LDR, and CAR variables have an 18.3% impact on performance (ROA), and the rest is influenced by other variables not examined.

INTRODUCTION

The banking industry plays an important role in Indonesia's economic development, as a financial intermediary between parties who have excess funds (surplus of funds) and parties who need funds (deficit of funds) (Na & Hipertensiva, 2019). According to Cashmere in (Irawati et al., 2019), an assessment of the health of a bank can be seen from the bank's performance. Measuring performance accurately is very important for companies to determine the next step. Performance can be measured by profitability ratios, one of which is the Return on Asset (ROA) indicator (Tangngisalu et al., 2020).

Developments in the banking world and the increasingly dynamic and complex macro economy require banks to improve their ability to anticipate, calculate, and minimize the risks faced. It must also be recognized that the banking industry is an industry laden with risk, especially since it involves managing public money and rotating it in the form of various investments, such as providing credit, purchasing securities and investing other funds(Yushita, 2014). According to the Financial Services Authority Regulation Number 65 /POJK.03/2016, the factors that are indicators of assessing the condition of healthy or problematic banks in their performance include risk profile, Good Corporate Governance, profitability, capital. Risk profile consists of credit risk, market risk, liquidity risk, operational risk, compliance risk, legal risk, reputation risk, and strategic risk.

Many banks in Indonesia have experienced problems in their performance, resulting in bankruptcy. The phenomenon of poor banking performance in Indonesia, one of which occurred in 2003, when Bank Indonesia (BI) revoked the license of PT Bank Kredit Agricole Indosuez due to bad credit and capital problems. And in 2004 Bank Indonesia closed PT Bank Dagang Bali due to liquidity and capital problems that could not be resolved (Susesti, 2018). It

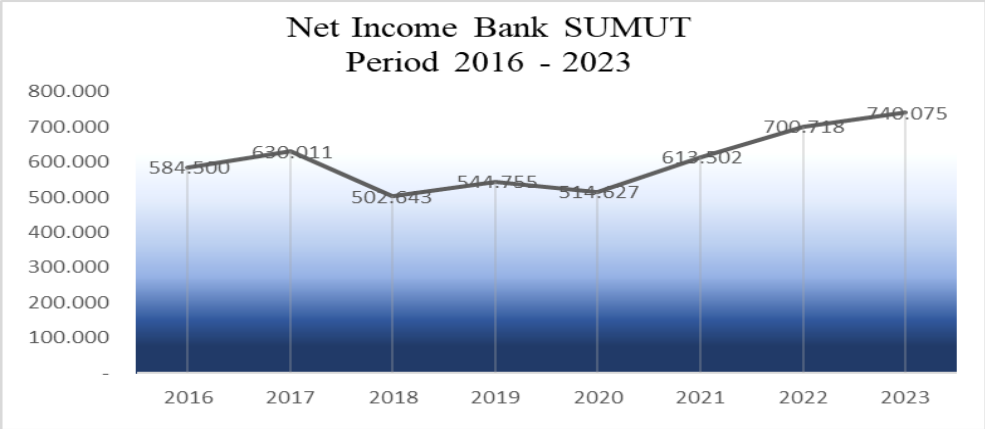
can be concluded that credit risk, liquidity risk, and capital have a very high potential risk to bank performance.

According to the (Otoritas Jasa Keuangan Republik Indonesia, 2016) credit risk is the risk due to the failure of customers or other parties to fulfill obligations to the Bank in accordance with the agreed agreement. The main source of income for the banking sector generally comes from loans (credit) provided by banks, so you can know that credit risk is a high risk and greatly affects the performance and even the sustainability and growth of a bank (Fauziah, 2021). The main indicator used to measure credit risk is using the Non Performing Loan (NPL) ratio, which is the ratio of non-performing loans to the total total loans at the bank.

Liquidity Risk is the risk due to the Bank's inability to meet maturing obligations from cash flow funding sources and / or from high-quality liquid assets that can be collateralized, without disrupting the Bank's activities and financial condition (Otoritas Jasa Keuangan Republik Indonesia, 2016). On average, loans disbursed to the public reach 60% - 70% of total bank assets, indicating that lending is the backbone of a bank's survival (Fauziah, 2021). Loan To Deposit Ratio (LDR) is a liquidity measure that measures the ratio of funds placed in the form of credit, which comes from third party funds.

Capital is an asset in the form of money or other forms that are not money owned by investors that have economic value (Law Number 25, 2007). The amount of capital owned by the bank effectively protects depositors against bank failure and increases customer confidence. The capital indicator is the Capital Adequacy Ratio (CAR), which is the ratio between capital and risk-weighted assets (RWA).

Picture 1



Net Income Bank SUMUT Period 2016-2023
Source: Bank SUMUT Annual Report

From Picture 1 we can see that Bank SUMUT's net profit has increased, thus showing that the bank's performance has generally been going well. In 2023 Bank SUMUT was able to increase profits by 5.62% compared to 2022. According to the Financial Services Authority, Bank SUMUT is the RDB with the largest assets in Indonesia as of the third quarter of 2023 with an asset value of 40.89 trillion, and is the largest in Sumatra.

For information, Bank SUMUT is currently conducting an IPO. From this corporate action, the company will reap funds of Rp1.49 trillion. Around 80% of the IPO funds will be used for business expansion and around 20% for network expansion and information technology development. According to the Association of Regional Development Banks (Asbanda), it is difficult for RDB to conduct an IPO, one of the reasons is that the performance of RDB is still not too attractive. So far only 3 RDB issuers have successfully IPOed, RDB West Java Tbk in 2001, RDB East Java Tbk in 2010 and RDB Banten Tbk in 2012 (Asmaaysi, 2023). With Bank SUMUT that will follow with a long time span is an extraordinary achievement that should be appreciated. The company recorded core capital in 2023 of Rp4.46 trillion. With this condition, according to POJK No.12/POJK.03/2021 related to Bank Group Based on Tier 1 Capital (KBMI), Bank SUMUT is currently included in KMBI I, namely banks with core capital ranging from Rp3-Rp6 trillion. With

the success of the IPO, Bank SUMUT will soon be upgraded to KMBI II, which is a bank with core capital of Rp6-Rp14 trillion. From the description above, we can conclude that the business growth potential of Bank SUMUT is very large in the future and will contribute greatly to SUMUT's Regional Original Revenue from the financial sector.

Research on the effect of credit risk, liquidity risk and capital on bank performance has been carried out by several previous studies with various different conclusions. Based on the description of the problems and inconsistencies of previous research, as well as the lack of research on RDB and based on the background described above, a study was conducted with the title "The Effect of Credit Risk, Liquidity Risk, and Capital on the Financial Performance of PT Bank SUMUT for the Period 2016-2023".

LITERATURE REVIEW

According to Law of the Republic of Indonesia Number 10 of 1998, Banks are financial intermediary institutions, where banks are tasked with collecting funds from the public in the form of demand deposits, savings, deposits and then channeling these funds to the public in the form of credit or other forms in order to improve people's lives.

According to Kasmir (2016), performance is the result of work and work behavior that has been achieved in completing the tasks and responsibilities given within a certain time. According to (Kasmir, 2019), profitability ratio is a ratio used to assess a company's ability to seek profit in a certain period. The profitability of a bank is measured by assets whose funds mostly come from public deposits so that ROA is more representative in measuring the level of bank profitability. Return on Asset (ROA) is a ratio that shows the results on the total assets used in the company. The greater the ROA value, the better the performance of the banking company in terms of asset management. According to (Kasmir, 2019), ROA can be formulated as follows: ROA = (Net Income) / (Bank Assets) x 100%

Theory Of Credit Risk

Credit risk is the risk due to the failure of customers and/or other parties to fulfill obligations to banks in accordance with agreed agreements (Financial Services Authority, 2016). The main source of income for the banking sector generally comes from loans (credit) provided by banks, so it can be seen that credit risk is a high risk and greatly affects the performance and even the sustainability and growth of a bank.

Saleh & Abu Afifa (2020) from Al Zaytoonah University of Jordan, who conducted research on banks in Jordan, stated that credit risk can put pressure on financial profitability which can lead to the failure of a bank. The continuous occurrence of non-performing loans is one of the main causes of failure in the banking system. The results of the above research are also in accordance with research by Ekinci & Poyraz (2019) from Dokuz Eylül University and Izmir and Istanbul University. In their research involving 26 commercial banks operating in Turkey, stated that a high level of non-performing loans on the bank's balance sheet reduces the bank's profitability and affects its performance. Nurfitriani (2021)states that the increase in NPL does not result in a decrease in ROA and even increases the value of ROA because the value of the Provision for Earning Assets (PPAP) is still in covering non-performing loans. Previous research shows that credit risk affects bank financial performance, either positively or negatively.

The Non Performing Loan (NPL) ratio is used as an indicator of credit risk. The higher the NPL ratio, the worse the credit quality. Based on Bank Indonesia Circular Letter No. 3/30 / DPNP dated December 14, 2001, the formula for the Non Performing Loan (NPL) Ratio, as follows: NPL=(Non-performing Loans)/(Total Loans)

H 1 : Credit Risk (NPL) affects the Bank's Financial Performance (ROA).

Theory Of Liquidity Risk

Liquidity Risk is the risk due to the bank's inability to fulfill its maturing obligations from cash flow funding sources and/or from high-quality liquid assets that can be collateralized, without

disrupting the bank's activities and financial condition (Otoritas Jasa Keuangan Republik Indonesia, 2016). According to Bank Indonesia Regulation No. 15/7/PBI/2013, to support financial sector stability and anticipate various potential risks arising from economic dynamics, it is necessary to strengthen bank liquidity while still paying attention to the role of banks in carrying out the intermediation function, namely the function of banks in mobilizing funds from parties with excess funds to parties with insufficient funds.

Research by Chen et al. (2018) from National Taiwan University and National University of Kaohsiung conducted research on 12 commercial banks in developed countries (Australia, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Switzerland, Taiwan, the United Kingdom, and the United States). The results of his research found that liquidity risk can have an impact on reducing bank profitability, if there is a dependence on external funding, lack of supervision and regulatory factors and macroeconomic factors. The results of the hypothesis test by Sedana & Jayanti (2023) state that if liquidity is high, it can be said that the bank's financial resources are used productively, so that it can increase bank profitability.

According to Bank Indonesia Regulation (2013), LDR (Loan to Deposit Ratio) is the ratio of loans granted to third parties to third party funds. Bank Indonesia Regulation (PBI) No.12/19/ 2010, sets the LDR of commercial banks in the range of 78-100%. The higher the LDR, the more likely the bank is in a problematic condition. Based on Bank Indonesia Circular Letter No. 3/30/ DPNP dated December 14, 2001, the Loan to Deposit Ratio (LDR) formula is as follows: LDR = (Loans) / (Third Party Funds)

H 2 : Liquidity Risk (LDR) affects the Bank's Financial Performance (ROA).

Theory Of Capital

Capital is an asset in the form of money or other forms that are not money owned by investors that have economic value (Law Number 25, 2007). Bank capital is used to maintain public trust. The better the capitalization by a bank shows that the bank's performance is getting better which can protect its customers, thereby increasing customer confidence in the bank which in turn can increase company profits (Widyastuti & Aini, 2021).

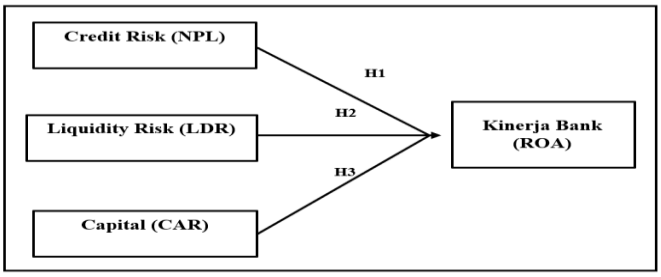
Saleh & Abu Afifa (2020) from Al Zaytoonah University of Jordan conducted research related to the effect of bank capital on 13 commercial banks on the Amman Stock Exchange, Jordan. His research emphasizes the important role of capital ratio regulation in bank risk-taking and its impact on bank profitability. Banks that have large capital will also get large profits. Ekinci & Poyraz (2019) from Dokuz Eylül University and Istanbul University. In their research involving 26 commercial banks operating in Turkey, stated that the stability of the banking sector depends on profitability and capital adequacy. Therefore, from the above research, it can be seen that capital is not only a buffer in the face of losses but also increases profits for banks.

The Financial Services Authority Regulation (POJK) Number 27 of 2022 concerning the obligation to adjust the minimum capital (KPPM) of commercial banks requires a minimum bank capital or CAR of 8% of RWA. Capital Adequacy Ratio (CAR) is a capital adequacy ratio to compensate for the risk of loss faced by the bank. This ratio indicates that the higher the CAR, the better the bank can bear risky productive assets. Based on Bank Indonesia Circular Letter No. 3/30/DPNP dated December 14, 2001, the Capital Adequacy Ratio (CAR) formula is as follows: CAR = Capital / (Risk Weighted Assets (RWA))

H 3 : Capital (CAR) affects the Bank's Financial Performance (ROA).

RESEARCH METHODS

Picture 2



Conceptual Framework

The type of data used in this research is secondary data sourced from Bank SUMUT's quarterly financial reports obtained through www.bankSUMUT.co.id. In addition, supporting data from books and literature that have relevance to the topic being studied are also used. Population is a generalization area consisting of; objects / subjects that have certain characteristics set by researchers to study and then draw conclusions (Sugiyono, 2021). The population in this study is the financial statements of PT Bank SUMUT in the period 2016-2023.

The variable parameters used consist of independent variables (X), namely the level of NPL (X1), LDR (X2), and CAR (X2), and the dependent variable (Y), namely Bank Performance. while the performance indicator used is ROA. All variables used in this study will be entered into a multiple linear regression model which generally has the following model:

$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta e$ …..……..……

Description:

Y = Dependent Variable Bank Performance (ROA)
A = Constant
X1 = Independent Variable Credit risk (NPL)
X2 = Independent Variable Liquidity risk (LDR)
X3 = Independent Variable Capital (CAR)
β 1-3 = Independent variable regression coefficient
e = error

This research data will be tested with classical assumption testing consisting of, multicollinearity test, autocorrelation test, heteroscedasticity test, and normality test. Hypothesis testing using multiple linear regression analysis, simultaneous test (F test), partial test of the significance of individual parameters (t test), and the coefficient of determination (R^2) using SPSS version 25 data processing software.

RESEARCH RESULTS AND DISCUSSION

Table 1
Statistics Descriptive

	N	Minimum	Maximum	Sum	Mean	Std. Deviation	Variance
NPL	32	2.38	6.40	134.18	4.1931	1.12573	1.267
LDR	32	68.58	97.91	2611.76	81.6175	7.29422	53.206
CAR	32	13.61	22.70	585.35	18.2922	2.47503	6.126
ROA	32	1.42	2.91	73.05	2.2828	.32130	.103
Valid N (listwise)	32						

Source : Outputs SPSS 25

Based on Table 1 it can be concluded that:

The average NPL variable at Bank SUMUT is 4.1931 % with a maximum NPL value of 6.40 % in 2016 quarter II and a minimum NPL value of 2.38 % in 2023 quarter IV.

The average LDR variable at Bank SUMUT was 81.6175 % with a maximum LDR value of 97.91 % in 2018 quarter IV and a minimum LDR value of 68.58 % in 2017 quarter III.

The average CAR variable at Bank SUMUT is 18.2922 % with a maximum CAR value of 22.70 % in 2023 quarter IV and a minimum CAR value of 13.61 % in 2018 quarter II.

The average ROA variable at Bank SUMUT was 2.2828 % with a maximum ROA value of 2.91 % in 2016 quarter III and a minimum ROA value of 1.42 % in 2018 quarter II.

Assumption Classic Test

Table 2
Autocorellation Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.343[a]	.118	.023	.31752	.836

a. Predictors: (Constant), CAR, LDR, NPL

b. Dependent Variable: ROA

Source : Outputs SPSS 25

In Table 2, the durbin-watson test results obtained a value of 0.836. The durbin-watson table value in the Durbin-Watson table (k,n) = (3,32), namely dl = 1.2437 and du = 1.6523. The durbin-watson value of 0.836 < du value = 1.6523. The basis for assessment according to (Ghozali, 2018), is if du < d_Hitung < 4-du then there is no autocorrelation. It can be concluded, with a d_Count value that is smaller than the du value, it means that there is autocorrelation in the variables in the regression model.

If in the regression model there is an autocorrelation problem, then to solve it, the Cochrane Orcutt test is needed (Ghozali, 2018). The Cochrane Orcutt test is performed by transforming the value of each variable in the study.

Table 3
Autocorellation Test - Transformation

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.514[a]	.264	.183	.24973	1.861

a. Predictors: (Constant), LAG_CAR, LAG_LDR, LAG_NPL

b. Dependent Variable: LAG_ROA

Source : Outputs SPSS 25

In Table 3, the durbin-watson test results after being transformed show a value of 0.836. The durbin-watson table value in the Durbin-Watson table (k,n) = (3,31), namely dl = 1.2292 and

du = 1.650. According to Ghozali (2018), if du < d_Count < 4-du then there is no autocorrelation. It can be concluded, with the d_Count obtained, namely 1,650 < 1,861 < 2,350, it can be concluded that there is no autocorrelation between the variables in the regression model.

Table 4
Multicollinearity Test

Coefficients[a]

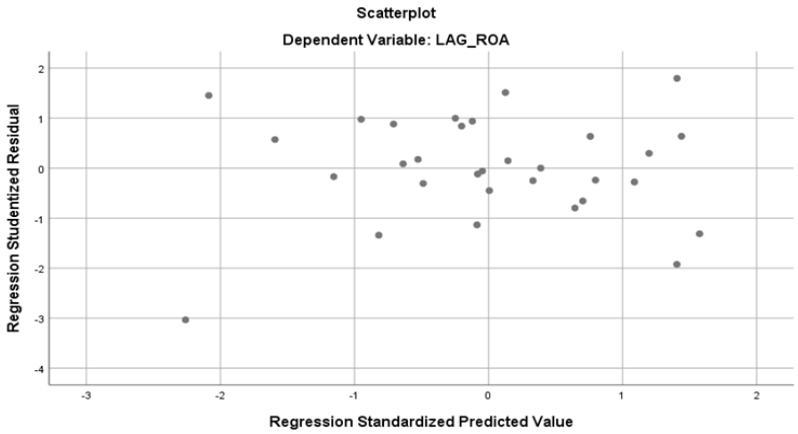
Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	-.823	.587		-1.403	.172		
	LAG_NPL	.285	.115	.594	2.484	.020	.476	2.101
	LAG_LDR	.010	.007	.277	1.385	.177	.683	1.465
	LAG_CAR	.122	.043	.585	2.811	.009	.629	1.589

a. Dependent Variable: LAG_ROA

Source : Outputs SPSS 25

The multicollinearity test results can be seen in Table 4. According to Ghozali (2018), the value to indicate the presence of multicollinearity is a tolerance value ≤ 0.10 or the same as VIF ≥ 10. It can be concluded that the results of the tolerance calculation in the table show that none of the independent variables have a tolerance value <0.10, and none of the independent variables have a VIF value> 10, so there is no multicollinearity in the regression model.

Picture 3



Heteroscedasicity Test
Source : Outputs SPSS 25

The multicollinearity test results are shown in Picture 3. It can be seen from the scatterplot graph pattern that the points spread randomly and are spread both above and below the number 0 on the Y axis. According to Ghozali (2018), if there is no clear pattern on the scatterplot, and the points spread above and below the number 0 on the Y axis, then there is no heteroscedasticity.

Table 5
Normality Test

One-Sample Kolmogorov-Smirnov Test

		LAG_NPL	LAG_LDR	LAG_CAR	LAG_ROA
N		31	31	31	31
Normal Parameters[a,b]	Mean	1.6592	34.3210	7.8787	.9559
	Std. Deviation	.57514	7.66388	1.32150	.27624
Most Extreme Differences	Absolute	.139	.104	.098	.157
	Positive	.139	.104	.060	.102
	Negative	-.087	-.070	-.098	-.157
Test Statistic		.139	.104	.098	.157
Asymp. Sig. (2-tailed)		.135[c]	.200[c,d]	.200[c,d]	.051[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Source : Outputs SPSS 25

The normality test results can be seen in Table 5, it can be seen that the Asymp. Sig. (2-tailed) all independent variables, both NPL, LDR, CAR as independent variables, and ROA as the dependent variable, have a Kolmogorov Smirnov (KS) value greater than 0.05. The basis of analysis according to Ghozali (2018), if the table shows a probability value> 0.05, then this means that the data is normally distributed. With this, it can be concluded that the data is normally distributed because it is significantly greater than 5% or 0.05 so that the regression model has met the assumption of normality.

Hypotesis Test

Table 6
Multiple Linear Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.823	.587		-1.403	.172		
	LAG_NPL	.285	.115	.594	2.484	.020	.476	2.101
	LAG_LDR	.010	.007	.277	1.385	.177	.683	1.465
	LAG_CAR	.122	.043	.585	2.811	.009	.629	1.589

a. Dependent Variable: LAG_ROA

Source : Outputs SPSS 25

From Table 6, the multiple linear regression equation is obtained as follows;
Y = - 0.823 + 0.285 $X1$ + 0.010 $X2$ + 0.122 $X3$

The constant value (a) indicates the value of variable Y if variable X is 0. The constant value (a) is negative, namely - 0.823, which means that if the NPL, LDR, CAR variables are equal to zero (0), the bank's performance (ROA) will decrease. Based on the regression equation above, it can be analyzed the effect of each independent variable on ROA.

a. The regression coefficient value of 0.285 (X1) on the independent variable NPL shows that there is a positive relationship with the dependent variable ROA. This shows that every one percent increase in the NPL variable will cause an increase in the ROA variable received by the coefficient value.

b. The regression coefficient value of 0.010 (X2) on the independent variable LDR shows that there is a positive relationship with the dependent variable ROA. Every one percent increase in the LDR variable causes an increase in the ROA variable received by the coefficient.
c. The regression coefficient value of 0.122 (X3) on the CAR variable shows that there is a positive relationship with ROA. Every one percent increase in CAR causes an increase in the ROA received by the coefficient.

Table 7
Partial T Test

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	-.823	.587		-1.403	.172		
	LAG_NPL	.285	.115	.594	2.484	.020	.476	2.101
	LAG_LDR	.010	.007	.277	1.385	.177	.683	1.465
	LAG_CAR	.122	.043	.585	2.811	.009	.629	1.589

a. Dependent Variable: LAG_ROA

Source : Outputs SPSS 25

On t table = (0.05/2; 31-3-1) then t table = (0.025; 27) shows the t_Table value of 2.051. Based on Table 7, the test results according to Ghozali (2018) are concluded as follows:
a. The regression output shows the sig value of NPL of 0.020 and the t value of 2.484. With a significance value of 0.020 <0.05 and reinforced by the t_Count > t_Table value, 2.484 > 2.051, so it can be said that the NPL variable partially affects the ROA variable.
b. The regression output shows the sig value of LDR of 0.177 and the t value of 1.385. With a significance value of 0.177> 0.05 and reinforced by the value of t_Count < t_Table, 1.385 < 2.051, so it can be said that the LDR variable has no partial effect on the ROA variable.
c. The regression output shows a CAR sig value of 0.009 and a t value of 2.811. With a significance value of 0.009 <0.05 and reinforced by the value of t_Count > t_Table, 2.811 > 2.051, so it can be said that the CAR variable partially affects the ROA variable.

Table 8
Simultaneous F Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.605	3	.202	3.236	.038[b]
	Residual	1.684	27	.062		
	Total	2.289	30			

a. Dependent Variable: LAG_ROA

b. Predictors: (Constant), LAG_CAR, LAG_LDR, LAG_NPL

Source : Outputs SPSS 25

Based on Table 8, the F value is 3.236 and the sig value is 0.037. F table value = (k; n-k) = (3; 28) = 2.95. F_Count value = 3.236> F_Table = 2.95. Sig value 0.038 <0.05. According to Ghozali (2018), if F_Count < F_Table or sig value < 0.05, the hypothesis is accepted, which means that there is a significant influence between the independent and dependent variables. It can be concluded that NPL, LDR, and CAR together or simultaneously have an influence on ROA.

Table 9
Coefficient Of Determination (R^2)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.514[a]	.264	.183	.24973	1.86

a. Predictors: (Constant), LAG_CAR, LAG_LDR, LAG_NPL

b. Dependent Variable: LAG_ROA

Source : Outputs SPSS 25

Based on Table 9 in the Adjusted R^2 column, a value of 0.183 is obtained. According to Ghozali (2018), the coefficient of determination is (0 < R < 1), so with (0 < 0.183 < 1) it can be concluded that the variables NPL, LDR and CAR have an effect on ROA. The Adjusted R^2 value of 0.183 means that only 18.3% of the variation in Bank Performance with ROA indicators is explained by NPL, LDR, and CAR while 81.7% is explained by variations in other variables not included in the variables studied.

CONCLUSION

1. Based on the results of statistical tests partially Credit risk (NPL) has a positive effect on Bank Financial Performance with ROA indicators.
   According to the research, NPL has a positive effect on ROA at Bank SUMUT, among others, due to direct local government intervention in controlling NPLs through Government Regulation of the Republic of Indonesia Number 14 of 2005 concerning Procedures for the Elimination of State / Regional Receivables, where RDB loans include regional receivables. Regulation of lending to government projects with minimal risk through Law of the Republic of Indonesia Number 13 of 1962 concerning Basic Provisions of Regional Development Banks Article 5, as well as the bank's own efforts in controlling non-performing loans so that Bank SUMUT can increase its profitability, The results of this study are in line with research by Hediati & Hasanuh (2021); Nurfitriani (2021) which states that the increase in NPL does not result in a decrease in ROA and even increases the value of ROA because the value of the Provision for Elimination of Earning Assets (PPAP) is still in covering non-performing loans.

2. Based on the results of statistical tests showing a positive direction, but partially Liquidity Risk (LDR) has no effect on the Bank's Financial Performance with ROA indicators.
   According to the research, the cause of LDR does not really affect ROA because of the regulation, namely Law of the Republic of Indonesia Number 13 of 1962 concerning Basic Provisions of Regional Development Banks Article 5 Paragraph (1) which prioritizes lending to potential sectors and credit with government guarantees to minimize the risk of default. The existence of government intervention through these regulations oversees regional banks related to the possibility of liquidity risk. This research is in line with research by Nurfitriani, (2021); Widyastuti & Aini (2021) state that the size of LDR in banks has no effect on profitability, but is influenced by the quality of the credit provided.

3. Based on the research results that the statistical test results partially Capital (CAR) has a positive effect on Bank Performance with ROA indicators.
   According to the research, the cause of CAR having a positive effect on ROA is the existence of capital participation from the government as stated in the Regional Regulation of North Sumatra Province Number 2 of 2016, regulations related to the determination of KPPM / CAR

standards in POJK Number 27 of 2022 which requires minimum bank capital or CAR 8% of RWA, as well as in the Notes to the Financial Statements of Bank SUMUT which shows credit lending to healthy parties with the potential for high credit recovery rates. This research is in line with the results of research by Irawati et al. (2019); Saleh & Abu Afifa, (2020); Sedana & Jayanti (2023) state that if a bank with more equity capital, the bank should have an advantage in managing its operations.

Suggestion

Based on the results of data analysis and conclusions, in this study the authors provide suggestions in the hope that they can provide benefits and input for related parties. The bank is good enough in its strategy to manage credit risk and improve credit quality. Bank SUMUT can organize policies related to lending to be even better, such as channeling more productive loans such as working capital and investment loans. The bank can strengthen capital by increasing capital from general reserves derived from the use of net income, and strengthening the capital structure through corporate actions, namely IPO.

This study has limitations that can affect the research results. The limitations contained in this study, the amount of Adjusted R Square value that can be explained is only 18.3%, which means that the remaining 81.7% can still be explained by other factors that can affect bank profitability. Therefore, future researchers can conduct research with other variables besides those used in this study.

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