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THE EFFECT OF CAPITAL ADEQUACY AND LENDING ON PROFITABILITY WITH CREDIT RISK AS A MODERATION VARIABLE

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ABSTRACT

The purpose of this study is to determine the effect of capital adequacy and lending on profitability contributed by credit risk in Conventional General Banking Companies Listed on the Indonesia Stock Exchange Period Year 2017-2021. The method used is *purposive sampling* with a total sample of 119. The data analysis technique uses a multiple linear regression analysis model with the help of Eviews 10 software. The results of the analysis in this study show that the level of capital adequacy and lending negatively affects the profitability of Conventional General Banking Companies Listed on the Stock Exchange Indonesia for the 2017-2021 period. Credit risk has a negatively affects moderating capital adequacy to profitability in Conventional General Banking Companies Listed on the Indonesia Stock Exchange for the 2017-2021 Period. Then, credit risk also has a negatively affects lending to profitability in Conventional General Banking Companies Listed on the Indonesia Stock Exchange Period 2017-2021.

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1. INTRODUCTION

The economy in Indonesia is currently dominated by the financial or financing sector, in this case banking as one of the most in demand, where the banking industry plays an important role for economic development as a financial intermediary or intermediary between parties who are overfunded with parties who need funds in accordance with Law of the Republic of Indonesia No. 10 of 1998 concerning Banking that banks are business entities that collect funds from the public in the form of deposits and distributing them to the community in the form of credit and or other forms in order toimprove the standard of living of many people.

The level of bank health is very necessary for the continuity of its business, so an analysis is needed to assess financial statements, on the bank's financial statements contain several bank asset posts and ratios that can show the level of bank health. However, in general the financial performance that indicates the level of health of the bank is its profitability ratio. The profitability ratio is a ratio that shows the ability of an enterprise to make a profit over a certain period. Thefinancial statements reported by the bank may indicate whether the bank is healthy or not. Ifa bank's financial statements continue to be in the unhealthy category, this will threaten the bank to liquidate. Here is a case in point for a bank with a low level of bank health.

In 2018, the Banten Regional Development Bank (BEKS) has recorded a loss of Rp 134,922,000. In BEKS's financial statements, there was a decrease in net interest income of IDR 49,230,000, from IDR 184,640,000 to IDR 135,410,000. The NPL value of BEKS increased from 4.67% in 2017 to 4.92% in 2018. The CAR ratio also decreased from 10.22% to 10.04%.

Table 1. Comparison of BEKS Health Levels

Ratio	2019	2020	2021	Health Level According to Bank Indonesia (BI) Circular Letter No. 6/23/DPNP of 2004
ROA	-2,09%	-3,80%	-2,94%	0.5% < ROA ≤ 1.25 %
CAR	9,01%	34,75%	41,68%	8 % ≤ CAR < 9 %
LDR	95,59	146,77	66,47	75% < LDR ≤ 85%
NPL	4,01	4,51	4,27	2% ≤ NPL < 5%

Source: BEKS Financial Report 2021

BEKS losses continue until the latest reporting in 2021. In the 2021 BEKS annual report, it was noted that BEKS suffered an operating loss of IDR 204,411,000, with a total comprehensive loss of IDR 263,917,000. When compared with the ratios in BEKS's financial statements with the provisions on the level of bank health regulated by Bank Indonesia, the condition of BEKS can be said to be an unhealthy/unhealthy bank.

In this study, several ratios that affect the profitability of banks were used, namely the ratio of capital adequacy and the ratio of lending as well as credit risk as variables that moderate the relationship between the ratio of capital adequacy and the ratio of lending to profitability. Profitability is an indicator that is most often used to measure the performance of banks. The profitability ratio is a ratio to assess the company's ability to seek profit or profit in a certain period. The level of profitability reflects the bank's ability to generate profits or profits from its operational activities (Yulita et al., 2020). If the bank is able to increase its profitability, then the bank will be trusted so that the public does not have doubts in making transactions at the bank. In this study, the benchmark for the profitability ratio is proxied by the Return on Asset (ROA), the greater the ROA of a bank, the greater the level of profit achieved by the bank and the better the bank's position in terms of use as et.

The adequacy of capital in this study is calculated using the Capital Adequacy Ratio (CAR) ratio because the ratio is one of the parameters used in assessing the level of capital health of a bank in supporting assets that have the potential to cause risks such as financing provided (Agustini in Jayanti & Sartika, 2021). Based on the regulation of the Financial Services Authority No. 11 / POJK.03 / 2016 states that banks are required to provide a minimum capital of 8% from ATMRs. If the capital adequacy ratio increases , the profit obtained by the bank also increases. On the other hand, if the capital adequacy ratio is indicated to have decreased, it reflects the health of the bank's capital weakening so that when the bank is weak, it is less than optimal in providing service to the community. This is in line with the research conducted by Sriyono & Nabellah (2022); Bernadin (2016); Rembet & Baramuli (2020) which states that capital adequacy has a significant effect on profitability. However, contrary to the results of research from Anggraini et al., (2022); A. A. P. Dewi et al., (2021) which states that capital adequacy has no significant effect on profitability.

The next factor is credit disbursement which is proxied by the Loan to Deposit Ratio (LDR). The superior value of the LDR ratio can show the bank's ability to apply its intermediary responsibilities. Therefore , if the funds held by a bank can be disbursed, this will affect the profitability position because the profits obtained by the bank also increase. The distribution of kredit is the main activity of the bank as a financial institution. However, in carrying out his responsibilities as an intermediary, this of course cannot escape credit risk. Research conducted by Larashati & Badjuri (2022); Jayanti & Sartika (2021); Warnayanti & Dewi (2018) concluded that lending has a significant positive effect on profitability. While the research results from Sriyono & Nabellah (2022); (Bernadin, 2016); Anggraini et al., (2022) are inversely proportional where lending does not have a significant effect on profitability.

Another aspect that can affect capital adequacy and lending to profitability is credit risk. The size of a bank's credit risk ratio can be assessed with a Non-Performing Loan (NPL). This is because NPL are used to assess management's skills in controlling credit risk, be it non-current, doubtful credit, and even bad debts. If the value of credit risk increases, it can cause a bank to face a financial crisis (T. Funso et al., 2012).

The level of risk profile, rentability, and capital can be maintained by taking into account the bank's financial ratios. A healthy banking financial ratio has been regulated by Bank Indonesia so that each bank can control its own financial ratio. The bank's carelessness in maintaining its health level will cause the bank to be in a risky and unhealthy condition until it finally experiences liquidity.

Then research on credit risk that can moderate the effect of capital adequacy on profitability in the research of Anggraini et al., (2022) states that credit risk is able to moderate the relationship between capital adequacy and profitability. However, the research of Kurniawan & Irawan (2021) concluded that credit risk weakens the relationship between capital adequacy and profitability. While Sriyono & Nabellah (2022); Jayanti & Sartika (2021) stated that credit risk is unable to moderate the influence of the relationship between capital adequacy and profitability.

Research on credit risk that can moderate the effect of credit distribution on profitability in the research of Anggraini et al., (2022) concluded that credit risk is able to moderate the relationship between lending and profitability. Then the research of Warnayanti & Dewi (2018); N. P. E. N. Dewi & Budiasih (2016) stated that credit risk weakens the relationship between lending and profitability. While Jayanti &

Sartika (2021); A. A. P. Dewi et al., (2021) concluded that credit risk cannot moderate the effect of the relationship between lending and profitability.

Based on the research that has beendone, there are different *research gaps* in the factors that affect profitability. Therefore, this study aims to test and analyze the effect of capital adequacy and lending on profitability in Conventional Commercial Bank Companies Listed on the Indonesia Stock Exchange for the 2017-2021 period as well as credit risk in moderating the influence of the relationship between capital adequacy and lending on profitability in Conventional Commercial Bank Companies Listed on the Indonesia Stock Exchange for the 2017-2021 period.

2. LITERATURE REVIEW

Agency Theory

Agency theory explains that in a company, there is a contractual working relationship between shareholders who are referred to as principals and agents are the management who manage the company. This agency relationship can occur due to an agreement from shareholders with the manager to carry out certain tasks. The authority and responsibility of both are provided for in the employment contract by mutual consent. With the attachment of this employment contract, the manager has the responsibility to report the results of his work and increase the value of the company so that the interests of shareholders are met.

In a company, shareholders will hand over the company to be managed by manager, then manager must be responsible for providing information on the company's reports to the shareholders. As a party who is authorized to manage the company, managers know more information in the company than shareholders. However, it does not refuse the possibility that sometimes the information provided by the manager does not reflect the actual state of the company. Managers tend to provide information that can benefit their personal interests, which will trigger the emergence of information asymmetry, causing agency problems.

Agency problems can cause agency costs which will also affect the decline in the company's profitability level. Agency problems can be prevented by the existence of surveillance mechanisms. One of them is by paying attention to financial performance, if the company maintains and continues to improve its good performance, the profit or profitability generated is also high. The high profitability is expected to meet the wishes of shareholders so that the agency costs incurred by the company can be minimized.

Signalling Theory

Signal theory is based on the assumption that the information received by each party is not the same. This theory is related to information asymmetry which indicates the existence of information asymmetry between the company's management and parties interested in information. For this reason, managers need to provide information for interested parties through the issuance of financial statements. This theory is based on the idea that managers will provide information to investors or shareholders when getting good information relating to the company such as increasing the value of the company. However, investors do not trust this information because managers are considered to have their own interests, so companies that have high value will signal the company's financial policies.

Signals in the form of such information can be provided through the company's financial statements. Managers provide information through financial statements that they have carried out policies that generate quality profit. This policy is a principle that prevents companies from exaggerating profits and helps users of financial statements by presenting profits and assets that are not excessive. There are two possibilities related to signals or information that arerhymed by investors, namely it can be in the form of good news or bad *news*). A good signal, if the company's reported profit increases and vice versa if the profit reported by the company decreases, then it is a bad signal for investors. Users of financial statements, especially investors, need information to analyze the risks of each company. A good company will publish financial statements publicly.

Signal theory explains why companies have the urge to provide financial statement information to external parties. The company's push to provide information is because there is an asymmetry of information between the company and outsiders because the company is more aware of the prospects that will be ng data (Brigham and Houston in Lestari, 2019). In signal theory, the manager's motivation for presenting financial information is expected to provide a *signal* of prosperity to owners or shareholders. The publication of financial statements presented by the company is expected to signal the growth of dividends and the development of the company's share price.

Effect of Capital Adequacy on Profitability

Capital adequacy or CAR is the ability of banks to provide a certain amount of funds to anticipate the occurrence of something bad such as losses in credit or trading securities. Profitability which in this study is proxied by ROA cannot be separated from a banking company because it is the main purpose of obtaining profit or profit to guarantee survival of a banking enterprise. This ratio gives an idea that the company is able to make a profit using the total assets owned by the company (Tritanti & Fitriati, 2022). The higher the CAR, the better the ability of a bank to deal with losses and its operational activities also run smoothly. Thus, the public's trust to make transactions at a bank also increases so the company makes a profit. Similar to the research that has been done by Warnayanti & Dewi (2018); Suardita & Putri (2015); Septiarini & Ramantha (2014) which states that capital adequacy has a positive effect on profitability. Based on previous theories and research, the following hypotheses can be compiled:

H_1: Capital Adequacy positively affects Profitability.

Effect of Lending on Profitability

The level of lending or LDR is the ability of banks to disburse credit with the capital owned by the bank. LDR is a composition to find out the amount of total credit compared to funds provided to third parties. The greater the total credit disbursed, the higher the profit obtained by the bank from the loan interest so that this can affect the profitability position of the a bank. Research conducted by A. Lestari & Santoso (2022); N. P. E. N. Dewi & Budiasih (2016); Suardita & Putri (2015); Septiarini & Ramantha (2014); concluded that lending has a positive effect on profitability. Based on previous theories and research, the following hypotheses can be compiled:

H_2: Lending has a positive effect on Profitability.

Credit Risk Moderates the Effect of Capital Adequacy on Profitability

In carrying out its operational activities, the bank is inseparable from credit risk. Credit risk is divided into several criteria or categories, namely current, less current, doubtful , and bad. Credit risk can arise due to lack of risk management so that it can affect the profitability of a bank. The credit risk ratio or NPL is used to determine the amount of non-performing loans to the total credit provided. Meanwhile, capital adequacy is a ratio that shows how far all bank assets that contain risk (credit and securities) are also financed from capital owned by banks (Sriyono & Nabellah, 2022). Research conducted by Sriyono & Nabellah (2022); N. L. A. Lestari (2019); Suardita & Putri (2015) which states that credit risk negatively affects the influence of capital adequacy on profitability. Based on previous theories and research, the following hypotheses can be compiled:

H_3: Credit Risk negatively moderates the effect of the relationship between Capital Adequacy and Profitability.

Credit Risk Moderates the Effect of Lending on Profitability

In banking companies, the size of the profits generated by the company is greatly influenced by the amount of credit disbursed. The greater the credit given, the higher the profit the company will get (Berrios & Modern Hairstyle Institute, 2013). However, if the credit given is not on target, it will make things worse because the interest on the resulting loan also decreases. Research by Sriyono & Nabellah (2022); N. L. A. Lestari (2019); Jayanti & Sartika (2021) concluded that credit risk negatively affects the effect of lending on profitability. Based on previous theories and research, the following hypotheses can be compiled:

H_4: Credit Risk negatively affects moderating the effect of the relationship between Lending and Profitability.

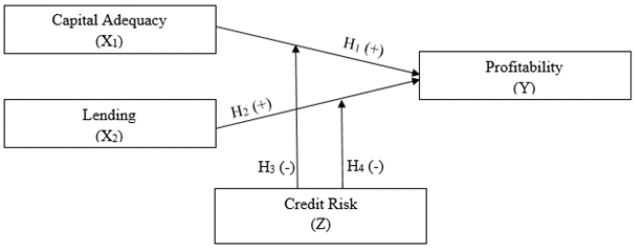

Figure 1. Conceptual Outline

3. METHODS

The research method used is quantitative with multiple linear regression analysis techniques. The population in this study was 88 companies, the sample selection technique used purposive sampling technique with the following sample selection criteria:

Table 2. Sample Selection Criteria

No.	Sample Selection Criteria	Number of Companies
1.	Conventional general banking companies listed on the Indonesia Stock Exchange for the period 2017-2021.	88
2.	Conventional general banking companies that publish complete and consecutive annual reports on the Indonesia Stock Exchange for the 2017-2021 period.	(10)
3.	A conventional general banking company listed on the Indonesia Stock Exchange that generated positive profits during the 2017-2021 period.	(25)
4.	Conventional general banking companies listed on the Indonesia Stock Exchange for the 2017-2021 period which present complete annual reports and ratios in accordance with the variables to be studied.	(28)
	Total sampelous	25
	Total observation for 5 years	125

Operational Definition and Variable Measurement

Capital Adequacy

The capital adequacy ratio shows the bank's ability to maintain sufficient capital and the bank's management ability to identify, measure, monitor and control risks that arise that can affect the amount of bank capital (Lullah et al., 2020). According the explanations, Lullah et al. (2020) states the formula for calculating capital adequacy is:

$$CAR = \frac{Capital}{ATMR}\ x\ 100\%$$

Lending

The ratio that describe the bank's ability to pay back withdrawals made by customers by relying on loans as a source of liquidity (Lullah et al., 2020). According the explanations, Lullah et al. (2020) states the formula for calculating lending is:

$$LDR = \frac{Total\ credit}{Third - party\ funds}\ x\ 100\%$$

Profitability

The ratio to assess the bank's ability to generate profits from the assets used (Lullah et al., 2020). According the explanations, Lullah et al. (2020) states the formula for calculating profitability is:

$$ROA = \frac{Net\ profit}{Total\ asset}\ x\ 100\%$$

Credit Risk

The ratio used to assess non performing loans. The higher the score, the worse the credit quality (Azizah and Taswan, 2019). According the explanations, Azizah and Taswan (2019) states the formula for calculating credit risk is:

$$NPL = \frac{Bad\ credit}{Total\ credit}\ x\ 100\%$$

4. RESULT AND DISCUSSION

Descriptive Statistical Analysis

Table 4. Descriptive Statistical Analysis Before Outlier Elimination
Date: 01/26/23 Time: 5:36 PM
Sample: 1 125

	ROA	CAR	LDR
Mean	0.027508	0.239174	1.479896

Maximum	0.690400	0.671500	82.10000
Minimum	0.000700	0.022000	0.123500
Std. Dev.	0.084998	0.098106	7.272501

In accordance with Table 4 proved the results of descriptive statistical analysis prior to the elimination of *outliers* against 125 samples on their normality test showed abnormal results. So that a re-check was carried out and it was found that there were 6 *outlier* data which were then eliminated from the research sample. Therefore, the number of samples used after elimination of *outliers* became 119 data with the results of descriptive statistical analysis as follows:

Table 5. Descriptive Statistical Analysis After Outlier Elimination

Date: 01/26/23 Time: 4:22 PM
Sample: 1 119

	ROA	CAR	LDR
Mean	0.016436	0.232309	0.518648
Maximum	0.046000	0.381200	0.964600
Minimum	0.000700	0.126700	0.123500
Std. Dev.	0.009512	0.057040	0.215328

In Table 5 it is known that the average value of ROA is 0.0164, while the maximum value is 0.0460 . The minimum value of the sedan is 0.0 00 7 with a standard deviation of 0.0095. It is known that the average value of CAR is 0.2323, then the maximum value of CAR is 0.3812. The minimum value of CAR is 0.1267 with a standard deviation of 0.0570. Next, it is known that the average value of the LDR is 0.5186 followed by the maximum value of 0.9646. The minimum value of the LDR is 0.1235 with a standard deviation of 0.2153.

Test Classical Assumptions

Normality Test

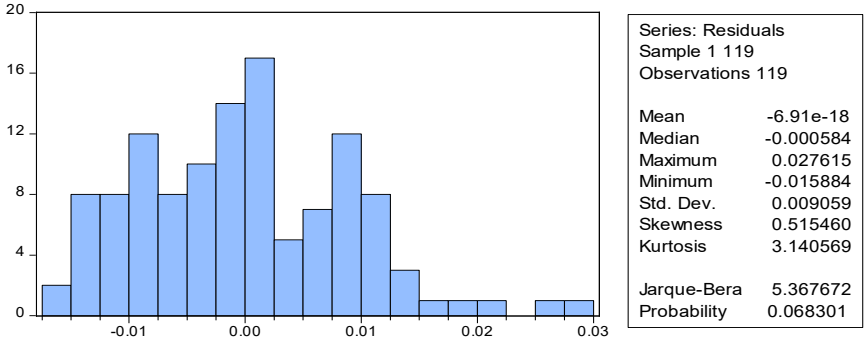

Figure 2. Normality Test with *Jarque-Bera*

Based on Figure 2, it can be seen that the probability value of the J-B statistic is 0.068301. Because the probability value is 0.0 68301 greater when compared to the significance level of 0.05 this means that the assumption of normality is met.

Multicholinearity Test

Table 6. Multicholinearity Test

Variance Inflation Factors
Date: 01/26/23 Time: 15:49
Sample: 1 119
Included observations: 119

	Coefficient	Uncentered	Centered
Variables	Variance	VIFs	VIFs
C	2.22E-05	31.61406	NA
CAR	0.000236	19.26633	1.086775
LDR	1.66E-05	7.445183	1.086775

Based on Table 6, it can be concluded that the results of multicholinearity testing are that there are no symptoms of multicholinearity between independent variables as evidenced by the VIF value of the CAR and LDR variables < 10.

Autocorrelation Test

Table 7. Autocorrelation Test

Log likelihood	391.4180	Hannan-Quinn criter.	-6.499584
F-statistics	5.942538	Durbin-Watson stat	1.038385

Based on Table 7 the value of D-W is 1.038385. Because the D-W value is located between 1 and 3, namely 1.038385, there are no symptoms of residual autocorrelation.

Heterochedasticity Test

Table 8. Heterochedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistics	0.811881	Prob. F(2,116)	0.4465
Obs*R-squared	1.642761	Prob. Chi-Square(2)	0.4398

Based on the results of the Breusch-Pagan-Godfrey test in Table 8, it can be known the value of Prob. Chi-Square is 0.4398 which means that heterochedasticity does not occur.

Selection of Panel Data Regression Model
Chow Test

Table 9. Chow Test

Redundant Fixed Effects Tests
Pool: DPANEL
Test cross-section fixed effects

Effects Test	Statistics	d.f.	Prob.
Cross-section F	4.406917	(23,93)	0.0000
Cross-section Chi-square	87.715842	23	0.0000

Based on the chow test that has been carried out in Table 9, it is known that the probability value is 0.0000. Because the probability value is 0.0000 which is < 0.05, therefore the right model to use is the *Fixed Effect Model* (FEM) model.

Hausman Test

Table 10. Hausman Test

Correlated Random Effects - Hausman Test
Pool: DPANEL
Test cross-section random effects

Test Summary	Chi-Sq. Statistics	Chi-Sq. d.f.	Prob.
Cross-section random	1.543112	2	0.4623

Based on the results of the hausman test in Table 10, it can be seen that the probability value is 0.4623 which is ≥ 0.05. So it can be concluded that the right model to use is the *Random Effect Model* (REM) model.

Lagrange Multipler (LM) Test

Table 11. Lagrange Multipler (LM) Test

Breusch-Godfrey Serial Correlation LM Test:			
F-statistics	18.14261	Prob. F(2,114)	0.0000
Obs*R-squared	28.73164	Prob. Chi-Square(2)	0.0000

Based on the results of the LM test in Table 11 it can be seen that the value of Prob. Chi-Square is 0.0000 which is < 0.05. So, the right model to use is the *Random Effect Model* (REM) model.

Model Test Plan
Coefficient of Determination

Table 12. Coefficient of Determination

Dependent Variable: ROA?
Method: Pooled Least Squares
Date: 01/26/23 Time: 4:13 PM
Sample: 2017 2021
Included observations: 5
Cross-sections included: 24
Total pool (unbalanced) observations: 119
Cross sections without valid observations dropped

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	0.021366	0.006377	3.350349	0.0012
CAR?	-0.012178	0.017327	-0.702833	0.4839
LDR?	-0.004051	0.007108	-0.569882	0.5701
R-squared	0.565974	Mean dependent var		0.016436
Adjusted R-squared	0.449300	S.D. dependent var		0.009512
S.E. of regression	0.007059	Akaike info criterion		-6.878587
Sum squared resid	0.004634	Schwarz criterion		-6.271384
Log likelihood	435.2759	Hannan-Quinn criter.		-6.632021
F-statistics	4.850906	Durbin-Watson stat		2.222147
Prob(F-statistic)	0.000000			

Based on Table 12, it can be seen that the value of the coefficient of determination (R^2) of 0.5659 can be interpreted as CAR and LDR simultaneously or together affecting ROA by 56.59%, the rest 43.41% was influenced by other factors.

Test F

Table 13. Test F

Dependent Variable: ROA?
Method: Pooled Least Squares
Date: 01/26/23 Time: 4:13 PM
Sample: 2017 2021
Included observations: 5
Cross-sections included: 24
Total pool (unbalanced) observations: 119
Cross sections without valid observations dropped

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	0.021366	0.006377	3.350349	0.0012
CAR?	-0.012178	0.017327	-0.702833	0.4839
LDR?	-0.004051	0.007108	-0.569882	0.5701
R-squared	0.565974	Mean dependent var		0.016436
Adjusted R-squared	0.449300	S.D. dependent var		0.009512
S.E. of regression	0.007059	Akaike info criterion		-6.878587
Sum squared resid	0.004634	Schwarz criterion		-6.271384
Log likelihood	435.2759	Hannan-Quinn criter.		-6.632021
F-statistics	4.850906	Durbin-Watson stat		2.222147
Prob(F-statistic)	0.000000			

According to Table 13, it is known that the *Prob (F-Statistic)* value is 0.0000 which is < 0.05 so it can be concluded that all free variables, namely CAR and LDR, simultaneously have a significant effect on the ROA variable.

Hypothesis Test (t-test)

Table 14. t-test

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	0.021366	0.006377	3.350349	0.0012
CAR?	-0.012178	0.017327	-0.702833	0.4839
LDR?	-0.004051	0.007108	-0.569882	0.5701

Based on Table 14 obtained the equation of multiple linear regression as follows:

Y = 0.021366 - 0.012178 - 0.004051 + e

From Table 14 can be known:

1) It is known that CAR negatively affects ROA, with a coefficient value of -0.0121 and is not significant with a Prob value. 0.4839 > 0.05.
2) It is known that LDR negatively affects ROA, with a coefficient value of -0.0040 and is not significant with a Prob value. 0.5701 > 0.05.

Moderation Testing

Table 15. Moderation Testing

Dependent Variable: ROA
Method: Least Squares
Date: 01/26/23 Time: 4:00 PM
Sample: 1 119
Included observations: 119

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	0.026348	0.009164	2.875209	0.0048
CAR	-0.022441	0.029437	-0.762320	0.4475
LDR	-0.004929	0.007426	-0.663753	0.5082
NPL	0.097286	0.597176	0.162910	0.8709
CAR_NPL	0.241018	1.881045	0.128130	0.8983
LDR_NPL	-0.556677	0.436292	-1.275927	0.2046

Based on Table 15 obtained the moderation equation as follows:

Y = 0.026348 - 0.022441X1 - 0.004929X2 + 0.097286Z + 0.241018X1Z - 0.556677X2Z

From Table 15 can be known:

1) Credit risk is not significant as a modulator of the relationship between CAR and ROA, with a Prob value of 0.8983 > 0.05.
2) Credit risk is not significant as a moderation of the relationship between LDR and ROA, with a Prob value of 0.2046 > 0.05.

DISCUSSION

The Effect of Capital Adequacy on Profitability

Capital Adequacy (CAR) is a bank's ability in capital to cover possible losses in credit or in trading securities. CAR reflects the company's own capital, the larger the CAR, the less likely the bank is to increase its business. The first hypothesis states that capital adequacy has a positive effect on profitability. However, based on the results of hypothesis testing, a coefficient value of -0.0121 was obtained with a Prob value. 0.4839 > 0.05 which means that capital adequacy has a negative and insignificant effect on profitability, then The first hypothesis **is rejected**.

This happens because banking companies cannot set too high CAR values on the company because a high level of capital adequacy will reduce the income earned. In addition, the high amount of capital channeled to the community causes the funds not to return in full due to the community not smoothly paying their obligations. CAR that is too high can reduce the bank's ability to increase its business, due to the large amount of reserve capital used to cover losses.

So it can be concluded that this research is in line with the results of research conducted by Jayanti & Sartika (2021) which states that capital adequacy has an insignificant negative effect on profitability. However, it is not in line with research conducted by Suardita & Putri (2015) which shows that capital adequacy has a positive effect on profitability.

The Effect of Lending on Profitability

Next, the second hypothesis states that lending has a positive effect on profitability. When viewed from the results of hypothesis testing , a coefficient value of -0.0040 with a Prob value was obtained. 0.5701 > 0.05, which means that lending has a negative and insignificant effect on profitability, so the second hypothesis is also **rejected**.

With the influence of lending on profitability in a negative direction, it can be concluded that lending does not guarantee to increase profits or increase profitability because the amount of credit given to customers must alsopay attention to credit quality, because of the possibility of occurrence Bad debts are getting bigger which causes profits to decline. On the other hand, safe and productive lending can have a positive impact on banks, such as increasing public confidence in the banking industry and maintaining profitability and business continuity (Sriyono & Nabellah, 2022).

So far, banks have the responsibility to improve people's lives, but in practice, they remain profit-seeking business institutions. Through these loans, people can carry out investment, distribution, and consumption activities that are always related to the use of money, thereby encouraging people's economic development. Given the very consumptive culture of Indonesian society, lending is one of the alternatives that banks can do to play an active role in economic development.

This research is not in line with the results of a study conducted by Warnayanti & Dewi (2018) which concluded that lending has a significant positive effect on profitability. However, in line with the results of research conducted by Sriyono & Nabellah (2022) that lending has an insignificant negative influence on profitability.

Credit Risk Moderates the Effect of Capital Adequacy on Profitability

Furthermore, the third hypothesis states that credit risk has a negative effect in moderating the influence of the relationship between capital adequacy and profitability. Based on the results of hypothesis testing, the coefficient value of the interaction between the level of adequacy of model and credit risk was 0.2410 with a Prob value of 0.8983 > 0.05. This means that credit risk does not have a significant effect on the relationship between capital adequacy and profitability, so the third hypothesis **is accepted**.

The credit risk proxied by the NPL shows that the higherthe ratio value, the worse the credit quality and cannot be moderated. With a high level of capital adequacy, which is not balanced with good credit quality, the company will suffer losses due to the distribution of non-performing loans or many bad debts (Sriyono & Nabellah, 2022).

This research is in line with the results of research conducted by Sriyono & Nabellah (2022) that credit risk has no effect on the relationship between capital adequacy and profitability and is not in line with research conducted by Septiarini & Ramantha (2014) which concludes that credit risk positively affects the relationship between capital adequacy and profitability.

Credit Risk Moderates the Effect of Lending on Profitability

The fourth hypothesis states that credit risk negatively affects moderating the effect of the relationship between lending on profitability. It can be observed from the results of hypothesis testing obtained the coefficient value of the interaction between credit distribution and credit risk of -0.5566 Prob value 0.2046 > 0.05. This means that credit risk has no significant effect on the relationship between lending and profitability, meaning that the fourth hypothesis **is accepted**.

The more credit that is channeled, the greater the profit obtained. However, the higher the lending, the more likely it is for bad debts to occur. If the loan distribution is not on target, it can pose a greater risk of bad debts, which will affect the interest income received. This means that the size of a bank's profit is greatly influenced by the amount of credit disbursed and the percentage of credit risk in a period.

The results of this study are not the same as the research proposed by Suardita & Putri (2015) which explains that credit risk has a positive effect on the relationship between lending and profitability. However, this study is uniform with Sriyono & Nabellah (2022) that credit risk does not have a significant effect on the relationship between lending and profitability.

5. CONCLUSION

Based on the results of the analysis that has been carried out on conventional general banking companies registered on the Indonesia Stock Exchange for the 2017-2021 period, it can be concluded that capital adequacy and lending has an insignificant negative effect on profitability. Credit risk has a

negatively affects moderating the relationship between capital adequacy and profitability. Then, credit risk also has a negatively affects the relationship between lending and profitability.

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