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THE EFFECT OF CREDIT RISK ON PROFITABILITY WITH CAPITAL ADEQUACY AS A MEDIATION VARIABLES

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ABSTRACT

This study aims to determine the relationship between credit risk and profitability through the capital adequacy ratio as a mediating variable. The population in this study is the Rural Bank (BPR) in Badung Regency which is registered with the Service Authority. The data in this research is secondary data. The data analysis technique used is Path Analysis. The results of this study found that credit risk has a negative and significant effect on profitability, credit risk has a positive and significant impact on capital adequacy, capital adequacy has a positive and significant impact on profitability. This research can provide information to become a consideration for banks in Indonesia to maintain standard provisions for financial ratios as indicated by Bank Indonesia.

KEY WORDS

Credit risk, capital adequacy ratio, profitability.

Bank profitability is one aspect that can be used as a benchmark for assessing the success of a bank in carrying out its operations. Analysis of bank profitability is an important analysis done because by analyzing bank profitability it can measure the effectiveness and efficiency of the use of resources owned by the bank during a certain period.

Profitability in the banking world is very important for owners, depositors, government and society (Audhya, 2014). Therefore, banks need to maintain profitability in order to remain stable or even increase. Return on Asset (ROA) is used as a proxy in measuring the profitability of a bank. Return on Asset is used because it is a ratio. Therefore, banks need to maintain profitability in order to remain stable or even increase. Profitability is important for banks and is used to measure the effectiveness of a bank in generating profits by utilizing its total assets (Agustiningrum, 2013). In addition, Return on Assets is the most important proxy of profitability in banking compared to other profitability proxies. The high rate of return on assets shows that the rate of return received by the bank is also high. There are also several bank ratios that affect Return on Assets (ROA), namely capital adequacy, liquidity, operational efficiency, non-performing loans, bank interest rates and others.

In achieving optimal profitability, banks will be faced with various risks, one of which is credit risk. Credit risk is the main risk often faced by banks because the main activities of banking in Indonesia are mostly traditional activities in the form of lending. Lending is one of the highest profits obtained by banks, if it is estimated that up to 90 percent of bank profits are obtained from credit (Fahmi, 2014: 57), so banks must be very careful in determining the eligibility of who is entitled to receive credit so that they can anticipate the existence of credit. bad credit. Credit risk plays an important role in profitability because the decrease in bank income arises from the interest earned on loans. Credit Risk, which is proxied by NPL (Non Performing Loan), functions to measure a bank's ability to cover the risk of credit failure by debtors.

The potential for debt non-payment is high, and this will have an impact on increasing bank operating costs (BOPO), so that the bank becomes inefficient. BOPO is a comparison between operating costs and operating income. This ratio is used to measure the level of efficiency and the ability of a bank to carry out its operational activities. If the resulting BOPO level is lower, the management performance of the bank is getting better. This shows that banks are more efficient in using existing resources for their operational activities.

Apart from credit risk, banks must also pay attention to the level of capital adequacy. An adequate level of capital can protect a bank when it experiences losses from unexpected operational activities (Anjani, 2014). Each bank is generally required to maintain sufficient capital funds to face the possibility of something bad happening in the future (Buyuksalvarci & Abdioglu, 2011). Capital Adequacy Ratio (CAR) is a proxy for measuring the fulfillment of a bank's capital obligations. Based on Bank Indonesia regulation No.15 / 12 / PBI / 2013, the minimum capital that a bank must have is 8%. Apart from being the main source of financing for operational activities, capital also serves as a foundation for the bank itself against possible losses.

The ratio of non-performing loans (NPL) to banks was observed to increase in early 2017. The Financial Services Authority (OJK) said, in 2016, the quality of non-performing loans (NPL) had slightly improved compared to before. Last year, banking NPLs were recorded at 2.93%, down from 2.49% in 2015. In 2017, increasing banking reserves could reduce profitability and slightly reduce bank capital adequacy (CAR). As for the profitability ratio or return on assets (ROA) last year, it was recorded at 2.23% or down from 2015 of 2.32%. Meanwhile, the 2016 CAR was 22.91% or slightly down from the November 2016 position of 21.39%.

The Financial Services Authority said that non-performing loans (NPL) by the People's Credit Agency (BPR) are increasingly taking off. The Financial Services Authority said non-performing loans (NPLs) in Bali in 2017 reached 3.42 percent. This figure is higher than the national average of 2.59 percent. Non-performing loans in Bali were higher than in 2016, reaching 2.42 percent.

The increase in NPL was inseparable from the impact of the natural event of the eruption of Mount Agung at the end of 2017 which was one of the factors driving the increase in non-performing loans. The Financial Services Authority previously issued a policy stipulating that Karangasem Regency receive special treatment for bank credit after a study of the impact of the eruption of Mount Agung. The leniency policy, among others, is related to the quality of restructured loans for commercial banks and rural banks that are restructured due to natural disasters, which is determined to be smooth since the restructuring up to a period according to the Decree of the Board of Commissioners. This credit restructuring can be carried out on loans disbursed either before or after the disaster. Meanwhile, although NPL performance in Bali is not very good, OJK noted that in general the economy in Bali has grown positively in line with the growth of national economic conditions. The economic growth of Bali Province in 2017 reached 5.59 percent, even higher than the national economic growth, namely 5.07 percent.

The greater the NPL ratio, the greater the cost of allowance for credit write-off which results in a bank's income decreasing so that it will reduce ROA. The results of research conducted by Ogboi et al (2013), Rotinsulu et al (2015), Maryam et al (2015), Adela et al (2013), Joseph et al (2012), Nawaz (2012) and Kolapo et al (2012) found that NPL has a negative effect on ROA. The results of research conducted by Anshika (2016), Gizaw et al (2015) found that financial risk management has a significant impact on bank profitability. Different research results were found by Huang (2014) and Syafri (2012), it was found that NPL had a positive effect on ROA because of the greater contribution of income obtained from modern banking activities compared to the contribution of income from traditional activities in total. Based on previous research, there is still a research gap between the effect of NPL on ROA.

The greater the credit risk faced by a bank will increase the formation of the Provision for Earning Asset Losses (PPAP) from its equity, thereby reducing the share of equity which is a component of capital adequacy. The results of research conducted by Poernamawatie (2009), Pastory and Mutaju (2013), Margaretha and Setiyaningrum (2011) found a negative relationship between NPL and CAR. The results of research conducted by Anshika (2016), Tracey (2011) and Ahmet and Hasan (2011) also found that credit risk can affect the capital adequacy of a bank. Different research results were found by Chishty (2011), Fitrianto and Mawardi (2006) where NPLs do not have a significant effect on CAR, because the collateral of credit held by a bank has a higher liquidation value than the remaining credit debit balance

so it can delay the formation PPAP can even be used to cover bad loans. Based on previous research, there is still a research gap on the effect of NPL on CAR.

The effect of NPL on ROA can be mediated by CAR. Where CAR can have a positive or negative effect on ROA. The positive effect of CAR on ROA can occur because the greater the capital means that the bank can better carry out its loan portfolio or investment portfolio to generate optimal returns. Research results by Huang (2014), Hasan and Aykut (2014), Agbeja et al (2015), Maryam et al (2015), Asikhia and Sokefun (2013), Ogboi et al (2013), Widati (2012), Sudiyatno and Suroso (2010) found that CAR has a positive effect on ROA. Gizaw et al (2015) found that CAR has a significant impact on bank profitability. However, when the capital of a bank is large enough and conditions of high competition, the bank will focus more on growing the size of the company, meaning that the bank will encourage an increase in its assets along with the increase in bank capital. In achieving the desired growth, the bank will reduce the spread, thus reducing the profitability of a bank. The results of research conducted by Hasan and Aykut (2014), Poposka et al (2013), Jha and Hui (2012), Qin and Pastory (2012) found that CAR has a negative effect on ROA. Rotinsulu et al (2015) also found that CAR has no effect on ROA.

Rotinsulu et al (2015) also found that CAR has no effect on ROA. Based on previous research, there is still a research gap on the relationship between CAR and ROA.

Besides being mediated by CAR, the effect of NPL on ROA is also mediated by BOPO. The greater the BOPO ratio, which means the bank, is more inefficient, so that the effect of OEOL to ROA is negative. Research results from Defri (2012), Satrosuwito and Susuki (2012), Farhan et al. (2011), Sukarno and Syaichu (2006) found that BOPO has a negative effect on ROA. Different research results found by Rahim and Irpa (2008) at Bank Syariah Mandiri for the period 2004-2008 found that BOPO had a positive effect on ROA, because the operational expenses in the form of adding new branches and promotions could affect profitability. Based on previous research, there is still a research gap on the relationship between BOPO and ROA.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

NPL or it can be said as bad credit is a loan that is experiencing repayment difficulties. According to Putri (2013) this ratio shows the ability of bank management to manage non-performing loans provided by banks. With the emergence of credit risk, operating income in the form of loan interest cannot be obtained in accordance with a predetermined agreement or agreement. The smaller bank operating income will affect profits. When credit risk increases in a bank, it will have an impact on decreasing credit extended by the bank so that the opportunity for the bank to obtain income from credit disbursed will be lost which results in decreased profitability. This means that the greater the value of this ratio indicates that the increasing number of non-performing loans will worsen profitability because the bank is experiencing difficulties in repaying funds obtained from third parties. Therefore, a bank must be able to reduce the value of its NPL in order to increase profitability and trust in the bank. Based on the description above and with the results of research by Ogboi et al (2013), Rotinsulu et al (2015), Maryam et al (2015), Adela et al (2013), Joseph et al (2012), Nawaz (2012) and Kolapo et al. al (2012) found that NPL has a negative effect on ROA.

H1: Credit Risk has a significant negative effect on profitability.

Credit risk in a broad sense can be defined as the risk of financial loss due to the borrower's failure to perform its obligations. The more bad credit from a bank (NPL increases), the bank will lack funds and the bank will experience losses. To cover these losses, the bank returns it from the capital it owns so that it will reduce the CAR value of the bank (Fitrianto and Mawardi, 2006). Expansion in the banking sector which is considered high risk, will increase credit risk and lower capital held by banks. Therefore, the relationship between credit risk and banking capital is predicted to be negative (Sufian, 2011). This negative effect is caused by the greater the credit risk faced by a bank, which will increase the PPAP, thereby reducing equity, which is the ratio of the bank's capital adequacy component (Margaretha and Setiyaningrum, 2011). The results of research conducted by

Poernamawatie (2009), Pastory and Mutaju (2013), Margaretha and Setiyaningrum (2011) found a negative relationship between NPL and CAR.

H2: Credit Risk has a significant negative effect on the Capital Adequacy Ratio.

CAR is the bank's ability to provide capital to cover the decline in assets caused by bad credit. Functionally, adequate capital is considered as the amount of capital that is effective in carrying out primary activities. The capital function prevents bank failures by absorbing losses. These losses are related to the risks that banks undertake as a natural consequence of their efforts to serve the legitimate credit needs of the public. Adequate capital will provide the main protection against bankruptcy and liquidation arising from banking business risks. In a study conducted by Poernawatie (2009), it is explained that to minimize the amount of non-performing loans, banks must maintain CAR above 8%.

Research conducted by Ponco (2008) with the title Analysis of the Effect of CAR, NPL, OEOI, NIM, and LDR on ROA (Case Study of Banking Companies Listed on the Indonesia Stock Exchange Period 2004-2007) with multiple linear regression analysis techniques shows that CAR has an effect positive and significant towards ROA. Syafri's (2012) research on Factors Affecting Bank Profitability in Indonesia, using multiple linear regression analysis techniques, shows that CAR has a positive and significant effect on ROA. These results mean that the higher the capital owned to support assets that contain risk, the higher the profitability of a bank.

H3: Capital Adequacy Ratio has a significant positive effect on profitability.

The increasing number of non-performing loans will worsen profitability because these banks have difficulty in turning back funds obtained from third parties. Therefore, a bank must be able to reduce the value of its NPL in order to increase profitability and trust in the bank. Using CAR as a mediator is expected to cover the decline in assets caused by bad debts. Functionally, adequate capital is considered as the amount of capital that is effective in carrying out primary activities. The capital function prevents bank failures by absorbing losses. These losses are related to the risks that banks undertake as a natural consequence of their efforts to serve the legitimate credit needs of the public. Adequate capital will provide the main protection against bankruptcy and liquidation arising from banking business risks. Research conducted by Ponco (2008) and Syafri (2012) shows that CAR has a positive and significant effect on ROA.

H4: Capital adequacy can mediate the effect of credit risk on profitability.

METHODS OF RESEARCH

The causality research in this study is about the effect of credit risk on profitability with capital adequacy and operational efficiency as mediating variables. This research was conducted by accessing the sites www.bi.go.id and www.ojk.go.id by taking data from rural bank financial reports published by Bank Indonesia. The object of this research is focused on the profitability of Rural Banks (BPR) in Badung Regency. From the financial reports, through the profitability value it can be seen that the financial condition of BPR in Badung Regency is of course very important for the public to know to invest the capital they have for the progress of BPRs in Badung.

The data collection method used in this study is the non-participant observation method. The non-participant observation method in this study was carried out by observing data and recording the required data at the Rural Bank (BPR) in Badung Regency.

The population in this study is the Rural Bank (BPR) in Badung Regency in 2013-2017. The sample is the smallest part taken from the population and is considered to be representative of the population. In this study, the sample used is the Rural Bank (BPR) in Badung Regency which is registered with the OJK for the 2013-2017 period. Sampling in the study was used with the saturated sampling method, namely the sampling method when all members of the population were used as samples.

The analysis technique used in this study is the path analysis technique. Path analysis is a statistical analysis developed from multiple regression. In this analysis, the main subjects are variables that have a correlation and the model of the relationship between these

variables is predetermined by the researcher. The basis for calculating the path coefficient is correlation and regression analysis in calculations using software with the SPSS 13.00 for windows program.

RESULTS AND DISCUSSION

Description of Research Variables. The variables in this study are NPL, CAR, BOPO and ROA. The following is a description of each of the following variables:

Table 1 – Descriptive Statistics

n/n	N	Minimum	Maximum	Mean	Std. Deviation
NPL	190	1.00	23.00	6.1579	4.95443
CAR	190	10.00	55.00	20.6000	7.63229
BOPO	190	42.00	499.00	84.5842	32.80858
ROA	190	-3.00	13.00	3.3789	2.60055
Valid N (Listwise)	190				

Source: Secondary Data, 2018.

Non Performing Loan (NPL) is a ratio used to measure credit risk. Bank Indonesia provides a maximum limit for bank NPLs of 5%. Based on Table 1, NPL has a minimum value of 1.00, a maximum value of 23.00 with an average value of 6.1579 and a standard deviation of 4.95443. Judging from the average NPL value in Table 5.1, it is clear that the NPL position of Rural Banks in Badung Regency and registered with the OJK is classified as less healthy because it has an average value of slightly above 5%.

Capital Adequacy Ratio (CAR) is a ratio used to measure the fulfillment of a bank's minimum capital. The Minimum Capital Requirement Requirement or CAR set by Bank Indonesia is 8%. Based on Table 1, CAR has a minimum value of 10.00, a maximum value of 55.00 with an average value of 20.6000 and a standard deviation of 7.63229. Looking at the average CAR value in Table 5.1, it explains that the CAR position of Rural Banks in Badung Regency and registered with the OJK is above 8% as determined by Bank Indonesia.

The comparison between operating costs and operating income (BOPO) is a ratio used to measure the level of efficiency and the ability of a bank to carry out its operations. Based on Table 1, BOPO has a minimum value of 42.00, a maximum value of 499.00 with an average value of 84.5842 and a standard deviation of 32.80858. Judging from the average BOPO value in Table 1, it explains that the BOPO position for Rural Banks in Badung Regency and registered with the OJK is quite high, this indicates that the bank is not efficient in using existing resources for its operational activities.

Return on assets (ROA) is a ratio used to measure profitability. The requirement for the level of profitability of a bank set by Bank Indonesia is 1.5%. Based on Table 1, ROA has a minimum value of -3.00, a maximum value of 13.00 with an average value of 3.3789 and a standard deviation of 2.60055. Judging from the average ROA value in Table 1, it is clear that the ROA position of Rural Banks in Badung Regency and registered with the OJK is above 1.5% as determined by Bank Indonesia.

This study uses data analysis techniques with path analysis to test the hypothesis of the direct and indirect effect of credit risk and profitability with capital adequacy and operational efficiency as the mediating variables. The completion of the path analysis is divided into three models: the first model is the effect of credit risk (NPL) on capital adequacy (CAR), the second model is the effect of credit risk (NPL) on operational efficiency (BOPO) and the third model is the effect of credit risk (NPL), capital adequacy (CAR) and operational efficiency (BOPO) on profitability (ROA). The steps in path analysis are as follows.

Hypothesis: Credit risk affects capital adequacy.

$$Y_1 = \rho y_1 x X + \varepsilon_1$$

Capital Adequacy $Y_1 = 0.310$ credit risk + 0.95

Where: Y_1 = Capital Adequacy; X = Credit Risk.

The R square value in model I is 0.096, which means that the effect of credit risk on capital adequacy is 9.6%, while the rest is influenced by other factors outside the model.

Hypothesis: Credit risk and capital adequacy affect profitability.

$$Y_2 = \rho_{y_2x} X + \rho_{y_2y_1} Y_1 + \varepsilon_3$$

$$\text{Profitability } Y_2 = -0.301 \text{ credit risk} + 0.365 \text{ capital adequacy} + 0.86$$

Where: Y_2 = Profitability; Y_1 = Capital Adequacy; X = Credit Risk.

The R square value in model II is 0.258 which means that the effect of credit risk, capital adequacy, and operational efficiency on profitability is 25.8%, while the rest is influenced by other factors outside the model.

Table 2 – Recapitulation of Model I Output

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std Error	Beta		
1 (Constant)	17,659	0,843	0,310	20,939	0,000
Credit Risk	0,478	0,107		4,472	0,000
R Square = 0,096			F Value = 19,998		
Adj. R Square = 0,091			Probability/sig = 0,000		

Source: Secondary Data, 2021.

Effect of Credit Risk on Capital Adequacy. Based on the calculation results, the ratio of the sig.t value of 0,000 is less than the sig value. used ($0.000 \leq 0.05$), this indicates that model I has a significant effect. The beta value on standardized coefficients is 0.310 which indicates a positive direction. Based on the calculation, it can be concluded that credit risk on capital adequacy has a positive and significant effect, which means that H_0 is accepted and H_1 is rejected. The first hypothesis states that credit risk has a negative and significant effect on capital adequacy. Statistically, the results of data analysis prove different, that there is a positive and significant influence between the variable credit risk proxied by non-performing loans (NPL) on the capital adequacy ratio, which is proxied by the capital adequacy ratio (CAR). The purpose of this positive is that the credit risk seen from non-performing financing affects the level of capital adequacy in the banking sector so that any disbursement of uncollectible financing will cause changes in capital or capital adequacy to be reduced. The results of research (Afkar, 2015) on Islamic banking in Indonesia for the 2011-2013 period found that NPLs had a significant positive effect on CAR.

Table 3 – Recapitulation of Model II Output

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std Error	Beta		
1 (Constant)	3,897	0,576		6,769	0,000
Credit Risk	-0,158	0,036	-0,301	-4,382	0,000
Capital Adequacy	0,124	0,023	0,365	5,434	0,000
R Square = 0,258			F Value = 10,447		
Adj R Square = 0,247			Probability/sig = 0,000		

Source: Secondary Data, 2018.

Sig test results. F is 0,000 which is less than the sig value. ($0.000 \leq 0.05$), this indicates that credit risk and capital adequacy simultaneously affect profitability. The following is an analysis of the hypothesis model II.

Effect of Credit Risk on Profitability. Based on the calculation results, the ratio of the sig.t value of 0,000 is less than the sig value. used ($0.000 \leq 0.05$), this indicates that there is a significant effect. The beta value on standardized coefficients is -0.301 which indicates a negative direction. Based on the calculation, it can be concluded that credit risk on profitability has a negative and significant effect, which means that H_0 is rejected and H_2 is accepted.

Credit risk has a negative and significant impact on profitability. Statistically, the results of data analysis prove that there is a negative and significant influence between the variable credit risk proxied by non-performing loans (NPL) on profitability which is proxied by return on assets (ROA). The negative effect indicates that the higher the credit risk, the lower the level of profitability. This result is in line with the theory that if the high NPL ratio causes the bank to form a reserve for credit write-off which causes a bank's income to decrease so that this has an impact on bank profitability.

The results of statistical tests in this study are also supported by previous research, the results of research (Al Haq et al, 2012) in his research on commercial banks in Indonesia for the 2008-2010 period found that NPLs had a negative effect on ROA. The results of research (Farhan et al, 2011) on commercial banks in Pakistan for the 2006-2009 period also found that NPLs had a negative effect on ROA. (Nawaz, 2012) also concluded that NPL is negatively related to profitability. This research is the same as the research conducted (Poposka and Trpkoski, 2013) which shows the results that NPL has a negative effect on profitability.

Effect of Capital Adequacy on Profitability. Based on the calculation results, the ratio of the sig.t value of 0,000 is less than the sig value used ($0.000 \leq 0.05$), this indicates that there is a significant effect. The beta value on standardized coefficients is 0.365 which indicates a positive direction. Based on the calculation results, it can be concluded that capital adequacy on profitability has a positive and significant effect, which means that H_0 is rejected and H_2 is accepted.

The second hypothesis states that capital adequacy has a positive and significant effect on profitability. Statistically, the results of data analysis prove that there is a positive and significant influence between the capital adequacy ratio (CAR), which is proxied by the capital adequacy ratio (CAR) on profitability, which is proxied by return on assets (ROA). The positive effect shows that if the CAR increases, the ROA will also increase. A bank that has a high enough CAR will protect the bank from the risks faced by the bank, so that the bank can improve its performance which results in increased profitability.

Banks that have high capital will get higher returns because these banks are more careful in choosing sources of financing (Al-Qudah and Mahmoud, 2013). Research conducted by (Agustiningrum, 2013) explains that CAR has a positive effect on profitability. Research conducted by Ponco (2008) shows that CAR has a positive and significant effect on ROA and Syafri's research (2012) shows that CAR has a positive and significant effect on ROA. These results mean that the higher the capital held to support assets that contain risk, the higher the profitability. a Bank.

The Effect of Credit Risk on Profitability through Capital Adequacy. Based on the calculation results, the sig value is $0.0017 < 0.05$, so that H_0 is rejected and H_6 is accepted, in other words, credit risk affects profitability through capital adequacy. The results of empirical testing prove that capital adequacy can mediate the effect of credit risk on profitability. The increasing number of non-performing loans will worsen profitability because these banks have difficulty in turning back funds obtained from third parties.

Therefore, a bank must be able to reduce the value of its NPL in order to increase profitability and trust in the bank. Using CAR as a mediator is expected to cover the decline in assets caused by bad debts. Functionally, adequate capital is considered as the amount of capital that is effective in carrying out primary activities. The capital function prevents bank failures by absorbing losses. These losses are related to the risks that banks undertake as a natural consequence of their efforts to serve the legitimate credit needs of the public. Adequate capital will provide the main protection against bankruptcy and liquidation arising from banking business risks. Research conducted by Ponco (2008) and Syafri (2012) shows that CAR has a positive and significant effect on ROA.

Calculation of Direct Effect, Indirect Effect and Total Effect. Based on the results of the path analysis, the direct effect, indirect effect and total effect of the research model can be calculated. The following is a table of calculating the direct effect, indirect effect and total effect between variables.

Table 4 – Calculation of Direct Effect, Indirect Effect and Total Effect of Credit Risk, Capital Adequacy, and Profitability Variables

Variable Effect	Direct	Indirect	Total
NPL→ROA	-0,301	0,113	-0,284
NPL→CAR	0,310	-	0,310
NPL→BOPO	0,304	-	0,304
CAR→ROA	0,365	-	0,365
BOPO→ROA	-0,315	-	-0,315

Source: Secondary Data, 2020.

Based on the calculation, the result of the indirect effect of credit risk on profitability through capital adequacy is 0.113, which means that capital adequacy is able to mediate the effect of credit risk on profitability.

Check the validity of the model can be done by calculating the total determinant coefficient: $R^2_m = 1 - (Pe_1)^2 - (Pe_2)^2 - (Pe_3)^2 = 0.398$.

The coefficient of determination of the total structural equation of the research model according to the calculation, the R^2_m value is 0.398, meaning that 39.8 percent of the information contained can be explained by the model formed, while the remaining 60.2 percent is explained by variables outside the model.

CONCLUSION

Through this research, it is hoped that it will contribute in an empirical form to the science of financial management regarding the effect of credit risk on profitability with the capital adequacy ratio as a mediating variable. The results show that the increase in credit risk is inversely related to profitability due to the formation of reserves for losses taken from profit. Management can take different points of view in making strategic decisions related to controlling credit risk while maintaining the soundness of the bank and its profitability. These actions will affect the company's financial performance, which will eventually become material for consideration and evaluation material for management and company stakeholders to make strategic decisions in order to maintain the company's survival in the future.

For future researchers, it is hoped that the results of this study can become a reference in writing a study and further research can be more perfect. For bank management, it is hoped that the results of this study can serve as an evaluation in assessing the financial performance of the bank. In addition, bank management can take corrective action if the bank's financial performance decreases.

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