

IMPACT OF CREDIT RISK, LIQUIDITY RISK, OPERATIONAL RISK ON PROFITABILITY WITH GOOD CORPORATE GOVERNANCE AS A MODERATING VARIABLE IN PUBLIC COMMERCIAL BANK ON THE INDONESIAN STOCK EXCHANGE (Period 2017-2021)

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ABSTRACT

The objective of this study is to determine the impact of credit risk, liquidity risk, operational risk, corporate governance, and profitability on Public Commercial Banks listed on the IDX from 2017 to 2021. Additionally, it aims to analyze the moderating effects of these variables and the impact of the Covid-19 pandemic on the health of the Indonesian banking sector. The structures tested are credit risk, liquidity risk, operational risk as an exogenous variable, profitability as an endogenic, and gcg as a moderating variable. The research methods used are explanatory research, descriptive and verification. The research population is in the Public Commercial Bank on IDX period 2017-2021. The sample selection is purposive sampling, which is a method of determining a sample based on specific criteria. Data analysis using SEM-PLS, variance-based multivariate statistical analysis, with Smart-PLS software. The research results showed that NPL increased; LDR, OEIOI and Profitability fluctuated and GCG was relatively stable. In part, the NPL hurt profitability in an insignificant with a direct effect (low), the LDR had a positive effect on profitability in a non-significant (very low), the OEIOI hurt profits in a significant (highly high), and the GCG (moderate). Simultaneously, the reflected by R-Square adjusted at 88.70% (high) influence. GCG didn't moderate (insignificant) the influence of NPL on Profitability with moderating effect size (moderate), GCG isn't moderated, LDR influence on profitability (very low), and GCG isn't moderated, OEIOI impact on profitability (very low). Directly, GCG has a positive influence on profitability significantly (moderate), while GCG with exogenous variable interactions on profitableness respectively shows "non-significant", so the GCG system is a Moderating Predictor model.

Keywords: Credit risk (NPL), Liquidity risk (LDR), Operational risk (OEIOI), Good Corporate Governance (GCG), and Profitability (ROA & ROE).

INTRODUCTION

The risks and difficulties confronting the banking sector both now and in the future will only rise, making the adoption of banking governance more crucial. Good governance and practices are becoming increasingly needed as the risks facing banks become more complex. Good governance is needed to boost bank productivity, protect stakeholder rights, and improve compliance with the legal regulations and codes of conduct common in the banking industry. Improving the quality of the implementation of Good Corporate Governance (GCG) is part of an effort to strengthen the internal conditions of banking. Therefore, the OJK considers it necessary to standardize the application of commercial bank GCG by publishing POJK No. 55/POJK.03/2016 on "the Application of Commercial Bank GCG". Further regulation of the manner of implementation of these regulations is addressed in SEOJK No. 13/SEOJK.03/2017 on "the Applied Governance of the Commercial Bank, which technically regulates the implementation factors of the good governance". Furthermore, to improve the function of supervision, the OJK performs the improvement of the provisions and regulations; one of them is POJK No. 04/POJK.03/2016 on "the Assessment of the Public Bank Health Level, by setting the assessment of bank health level with a risk-based approach". The regulation requires banks to perform self-assessments using methods that match business risk profile and complexity. The role of risk management and governance has become increasingly important in assessing the health of banks by assessing risk profile factors (risk profile), good corporate governance, earnings, and capital based on risk-based bank ratings (RBBR).

The condition of the Indonesian banking industry during its 2017-2021 research period was heavily affected by the COVID-19 pandemic which has a significant impact on various joints of life and is felt in almost all business sectors. The policy has had an impact on the decline in business activity and public income. Changes in economic activity, as a result of the Social Distancing policy, resulted in a decline in global economic activity that led to some firms closing, reducing working hours and Zoom meetings as well as online sales, to maintain business sustainability. Effects on employees, such as companies reducing the number of employees, reducing working hours, and working from home (WFH), thus affecting the reduction in employee income. This hurts the company's income, so either the company or the employee as an individual can affect creditworthiness in terms of the ability to fulfill loans or payment of dividends, thus impacting the banking sector.

As economic performance declines, problem loans (non-performing loans) increase, leading to increased credit risk due to reduced financial capacity to meet obligations to pay loan principal and/or interest when due. In the end, it affects the deteriorating quality of the bank's assets, thus obliging the bank to form a reserve burden for liquidating credit losses or increased operational risks. Business uncertainty, the impact of sustained economic uncertainties, makes entrepreneurs more cautious in making investment and expansion decisions, thus preferring to place their funds in banks while waiting for economic recovery. In addition, banks also tightened credit distribution to reduce credit risk, so that banks in liquidity flooding positions and the excess of such funds are placed in productive assets of securities or effects that give a lower rate of profitability if channeled in the form of credit granted. In order to avoid the occurrence of sustained credit risk and systemic impact on the banking industry, the government intervened

by issuing policy No. 11/POJK.03/2020 on “National Economic Stimulus as a policy of impact of the spread of Coronavirus Disease 2019”. This policy is called a policy of relaxation and restructuring credit given to debtors whose business is affected by COVID 19. Due to high liquidity, the banking industry generally faced interest rate pressure, and subsequently, the government implemented a monetary policy to reduce safe interest rates through the Deposit Insurance Corporation (LPS) continuously in 2021. The impact of COVID-19 on banks will be very different, depending on each bank’s risk profile, which will impact a bank’s performance.

Quoted from the Financial Services Authority's 2021 Annual Report on the Commercial of the Banking Industry for the Financial Performance of the Commercial Bank (Year 2021-2017), source from the website ojk.go.id:

Table 1. 1 – Financial performance of the Commrcial Bank (Period 2021-2017

INDICATOR	2021	2020	2019	2018	2017	AVERAGE
Total Asset	10,112,304	9,177,894	8,562,974	8,068,346	7,387,634	8,661,830
Credit	5,768,585	5,481,560	5,616,992	5,294,882	4,737,944	5,379,993
Third Party Funds	7,479,463	6,665,391	5,998,648	5,630,448	5,289,377	6,212,665
- Current Account	2,143,505	1,687,135	1,465,848	1,315,034	1,233,480	1,569,000
- Saving Account	2,432,260	2,173,501	1,945,185	1,825,259	1,701,224	2,015,486
- Time Deposit	2,903,698	2,804,755	2,587,615	2,490,155	2,354,673	2,628,179
CAR	25.67	23.81	23.31	23.42	23.18	23.88
ROA	1.84	1.59	2.44	2.50	2.38	2.15
NIM	4.51	4.32	4.80	5.00	5.15	4.76
OEOI	83.68	86.55	79.58	78.33	79.28	81.48
NPL/NPF - Gross	3.00	3.06	2.53	2.37	2.59	2.71
LDR/FDR	77.13	82.64	93.64	94.04	89.57	87.40

Source: Processed Data - Annual Report OJK 2021

“In the midst of the global and domestic economic conditions still affected by the Covid-19 pandemic, the overall bank resilience in 2021 is still awake, reflected by the fairly solid bank financing conditions and showing adequate bank capability to absorb risk with a CAR ratio of 25.67%. The banking intermediation function also shows a recovery with credit that has started to grow compared to the previous year and the GDP that is also growing high. The commercial banking liquidity is also sufficient as shown by the high LDR ratio well above the threshold. The recorded profitability also increased reflected in the better ROA and OEOI ratio compared with the preceding year. The registered credit risk decreased with NPL-gross ratio dropping to 3.00% from 3.06% in the prior year.”

Table 1. 2 – Minimum Core Capital Grouping – Per 31 Desember 2021

Number	Bank	Code	Core Capital	Core Capital Group	Dated IPO
1	Bank BRI	BBRI	231,98 T	4	10/11/2003
2	Bank Central Asia	BBCA	181,16 T	4	13/05/2000
3	Bank Mandiri	BMRI	165,49 T	4	14/07/2003
4	Bank BNI	BBNI	112,68 T	4	25/11/1996
5	Panin Bank	PNBN	44,09 T	3	29/12/1982
6	CIMB Niaga	BNGA	39,38 T	3	29/11/1989
7	Bank Permata	BNLI	34,58 T	3	15/01/1990
Number	Bank	Code	Core Capital	Core Capital Group	Dated IPO
8	Bank BTPN	BTPN	32,14 T	3	12/03/2008
9	Bank Danamon	BDMN	31,01 T	3	06/12/1989
10	OCBC NISP	NISP	28,96 T	3	20/10/1994
11	Bank BTN	BBTN	25,69 T	3	17/12/2009

12	Maybank Indonesia	BNII	25,46 T	3	21/11/1989
13	Bank Mega	MEGA	18,48 T	3	17/04/2000

Source: Processed Data – Annual Report 2021

Table 1. 3 – Commercial Public Banks

Indicator	Variable	2021	2020	2019	2018	2017	Average
NPL	Credit risk	2.80	2.78	2.56	2.52	2.65	2.66
LDR	Liquidity risk	81.40	84.94	98.63	90.99	87.60	88.71
OEOI	Operational risk	77.42	82.79	78.20	76.36	78.07	78.57
ROA	Profitability	1.94	1.59	2.33	2.48	2.27	2.12
ROE	Profitability	11.13	8.21	11.37	12.94	12.26	11.18
GCG	Corporate Governance	1.77	1.77	1.77	1.77	1.77	1.77

Source: Processed Data – Annual Report Commercial Public Banks

These data occur a variation or change of mutation of each financial ratio which shows the following:

1. There has been a change in the NPL from 2020 of 2.78 and in 2021 of 2.80 there has been an increase in NPL by 0.02 but followed by a rise in profitability (ROA=0.36 and ROE=2.92), theoretically it should be if NPLs increase, then there will be a decrease in the profitability.
2. LDR in 2018 was 90.99 and in 2019 was 98.63, there was an increase of 7.64 but there was a decrease in profitability (ROA=-0.15 and ROE=-1.57). In theory, if the LDR rises, then there will be a rise in profitability. On the contrary, there has been a decline of LDRs by -3.55 where 2020 is 84.94 and 2021 is 81.40 but what has happened is a rise in profitability (ROA=0.36 and ROE=2.92), theoretically if LDR falls then profitability will also fall.
3. For OEOI conditions that occur according to the theory where if there is an increase then will decrease profitability so vice versa.
4. The GCG is relatively fixed, because what is shown in the results of the own assessment of the GCG is a ranked value associated with the number of banks.

The above data indicates an inconsistency between the theory and the research data for credit risk indicators (NPLs) and liquidity risk (LDRs), but for operational risk (OEOIs) has matched the theories and research data, the suspected impact of COVID-19 indicates a trend that is not as it should be (anomaly). Furthermore, further research needs to be carried out on 11 GCG implementation factors that still need attention so that banks can be more optimized in improving their performance.

LITERATURE REVIEW

In this review of the library, the author presents theories that are relevant to the problems faced, such as the statements that will be made in this study are things about Credit Risk (LDR), Liquidity Risk, Operational Risk (OEOI), Profitability (ROA and ROE), and Good Corporate Governance (GCG). Starting with a general understanding, focusing on the theoretical understanding that is relevant to the problem the author intends to study.

Financial ratio

The Bank's view of financial ratio according to Christianti and Wenno, (2022: 151); "Financial ratio is a measure used in the interpretation and analysis of financial statements that include the balance sheet, loss report, cash flow report. The definition of the ratio was actually only a tool expressed in arithmetical terms (percentages or simple proportions) that can be used to explain the relationship between two kinds of financial data". A bank's financial ratio is one of the indicators for measuring the health of a bank. The financial statements compiled by the bank describe the performance of the bank over a certain period of time. The processing of financial statements is carried out in accordance with the standards established by the authority. Bank financial ratio, which will be studied in the writing of this thesis with reference to SEOJK No.9/SEOJK.03/2020, on "Transparency and Publication of Commercial Conventional Bank Report".

The bank soundness ratios required by the regulator

Bank health is a tool that regulators use to develop strategy and oversight of banks. A bank or subsidiary of a bank may experience changes in the complexity of the business and risk profile that affect the health of the bank. Therefore, in order to improve the effectiveness of assessing the level of risk resilience of banks, a risk-based approach is needed in evaluating the degree of bank resiliency. OJK continues to revise the regulations adapted to developments and banking conditions, by publishing POJK No.4/POJK.03/2016 and its implementation provisions referred to in SEOJK Number 14 /SEOJK.03/2017, on "the Assessment of the Health Level of the Commercial Bank which obliges banks to maintain and or improve the level of bank health by applying the precautionary principle in performing risk management of business activity". Bank self-assessment of bank health level using Risk Based Bank Rating (RBBR) methodology, both individually and consolidated with the coverage of assessment against factors; Risk Profile, Good Corporate Governance, Rentability (Earnings), and Capital to obtain the results of the bank health rating in a comprehensive manner, here is the Composite Ranking table used in the study:

Table 2. 1 – Matrix Calculation of Asset Quality (NPL), Liquidity (LDR), Rentability (OEOI, ROA, ROE) and GCG

Predicate	Ratio	Ranking	Ratio	Ranking
1	$NPL \leq 2\%$	Very Healthy	$50\% < LDR \leq 75\%$	Very Healthy
2	$2\% < NPL \leq 5\%$	Healthy	$75\% < LDR \leq 85\%$	Healthy
3	$5\% < NPL \leq 8\%$	Moderate	$85\% < LDR \leq 110\%$	Moderate
4	$8\% < NPL \leq 12\%$	Less Healthy	$110\% < LDR \leq 120\%$	Less Healthy
5	$NPL > 12\%$	Unhealthy	$LDR > 120\%$	Unhealthy
1	$83\% < OEOI \leq 88\%$	Very Healthy	$ROA > 1.50\%$	Very Healthy
2	$89\% < OEOI \leq 93\%$	Healthy	$1.25\% < ROA \leq 1.50\%$	Healthy
3	$94\% < OEOI \leq 96\%$	Moderate	$0.50\% < ROA \leq 1.25\%$	Moderate
4	$97\% < OEOI \leq 100\%$	Less Healthy	$0 < ROA \leq 0.50\%$	Less Healthy
5	$OEOI > 100\%$	Unhealthy	$ROA \leq 0\%$	Unhealthy
1	$ROE > 15\%$	Very Healthy	$GCG < 1.5$	Very Good
2	$12,50\% < ROE \leq 15\%$	Healthy	$1.5 \leq GCG < 2.5$	Good
3	$5\% < ROE \leq 12,50\%$	Moderate	$2.5 \leq GCG < 3.5$	Moderate
4	$0\% < ROE \leq 5\%$	Less Healthy	$3.5 \leq GCG < 4.5$	Less Good
5	$ROE \leq 0\%$	Unhealthy	$4.5 \leq GCG < 5$	Not Good

Sumber: SEBI No.6/23/DPNP Tahun 2004 on the Commercial Bank Health Assessment System NPL, LDR, OEOI, ROA dan ROE and SEBI No.9/12/DPNP Tahun 2007, on GCG Implementation for the Commercial Bank

Risk management

In assessing the risk profile, the bank also pays attention to the scope of risk management implementation as regulated in POJK No. 18/POJK.03/2016 “concerning the implementation of risk management for commercial banks, such as: (1.) credit risk, which usually occurs in all bank operations, the performance of which depends on the performance of the counterparty, issuer, or borrower; (2.) Market risk is the risk caused by changes in market conditions, including the risk of changes in option prices, interest rates, exchange rates, and commodity risks that can originate from trading book and bank book positions; (3.) Liquidity risk, which can originate from the bank's inability to meet maturing obligations from cash flow funding sources and/or high-quality liquid assets that can be collateralized without disrupting the bank's activities and financial condition; (4.) Operational Risk: sources of operational risk can come from human resources, internal processes, systems, and infrastructure, as well as external events that affect bank operations; (5.) Legal risk is the risk caused by lawsuits and/or weaknesses in legal elements. This can also occur due to the absence and/or changes in laws and/or weaknesses in the agreement, such as the inability to fulfill contractual requirements or imperfect collateral binding, which causes bank transactions to not comply with the rules; (6.) Reputation risk: banks risk losing stakeholder trust due to negative reports and rumors in the media as well as poor communication strategies; (7.) Strategic risk is a danger that arises because the bank is inappropriate in making strategic decisions and cannot anticipate changes in the business environment. Sources of strategic risk include, but are not limited to, inadequate management information systems, inadequate internal and external environmental analysis results, overly aggressive strategic goal setting, inappropriate strategy implementation, and failure to anticipate changes in the business environment; (8.) Compliance Risk: sources of compliance risk include bank behavior that deviates from or violates statutory rules and regulations. Legal behavior includes bank behavior or activities that deviate from or violate statutory rules and regulations; organizational behavior includes bank behavior or activities that deviate from or conflict with general standards”.

Good Corporate Governance (GCG)

GCG is a popular topic in Indonesia as many companies use corporate governance as a benchmark in running their business. The concept of corporate governance is also related to the theory of Corporate Governance which is currently being discussed mainly in the face of poor performance and business perpetrators. The main theories relating to corporate government, cited from Sudarmanto, et al. (2021: 11-18) among others; Agency Theory; Stewardship Theories; Stakeholder Theory, and Political Theory. The implementation of good governance, in particular banking, has been regulated in Regulations of the Financial Services Authority No. 55/POJK.03/2016 concerning “the application of Good Governance to the General Bank”, the administration of the banking industry is always based on the 5 (five) basic principles of good Governance known as the abbreviation TARIF, each of which is described as follows; (i) Transparency; that is, openness in submitting material and relevant information as well as transparency in carrying out the decision-making process; (ii) Accountability is the clarity of the function and execution of the responsibilities of the Bank's organs so that its management runs effectively; (iii) Responsibility is the compliance of the management of Bank with the rules of law, regulations and sound bank management principles; (iv) Independence is the professional management of Banks without influence or pressure from any party; and (v) Fairness is justice and equity in the fulfilment of the rights of Interests arising from agreements and regulations. By ensuring the implementation of the five basic principles of good governance, the Bank conducts self-assessments on a periodic basis that cover eleven assessment factors of implementation. The results of the selection against the application of the GCG are one of the coverage factors of the Bank's risk

approach or RBBR (Risk Based Bank Rating) both individually and consolidated which, among other things, includes the assessment of Governance Factors based on the five basic principles of the CGG. Furthermore, the OJK issued the Editorial Letter No.13/SEOJK.03/2017 on “the implementation of governance system for the general bank, specifically regulating the Matrix of the Management Factor Rating. In the Self-Assessment Working Paper on the Implementation of Governance, the Governance Structure, Governance Process and Governance Outcome assessments are the results of the implementation process of the principles of good governance supported by the adequacy of the structures and infrastructure of the Bank's Governance. Indicators assessed for each implementation factor, include the own assessments for 11 implementation assessment factors:

1. Execution of the duties and responsibilities of the Board of Director.
2. Executing the tasks and responsibility of the Board of Commissioners;
3. Compliance and performance of the committee's tasks;
4. Assessment of conflicts of interests;
5. Implementation of compliance functions;
6. Application of the internal audit function;
7. Applying the function of external audit;
8. Implements risk management including the internal control system;
9. Provision of funds to relevant parties and provision of large funds;
10. Transparency of the financial and non-financial conditions of Banks, reporting and implementation of internal governance and reporting;
11. Strategic planning of the Banks”.

Previous research

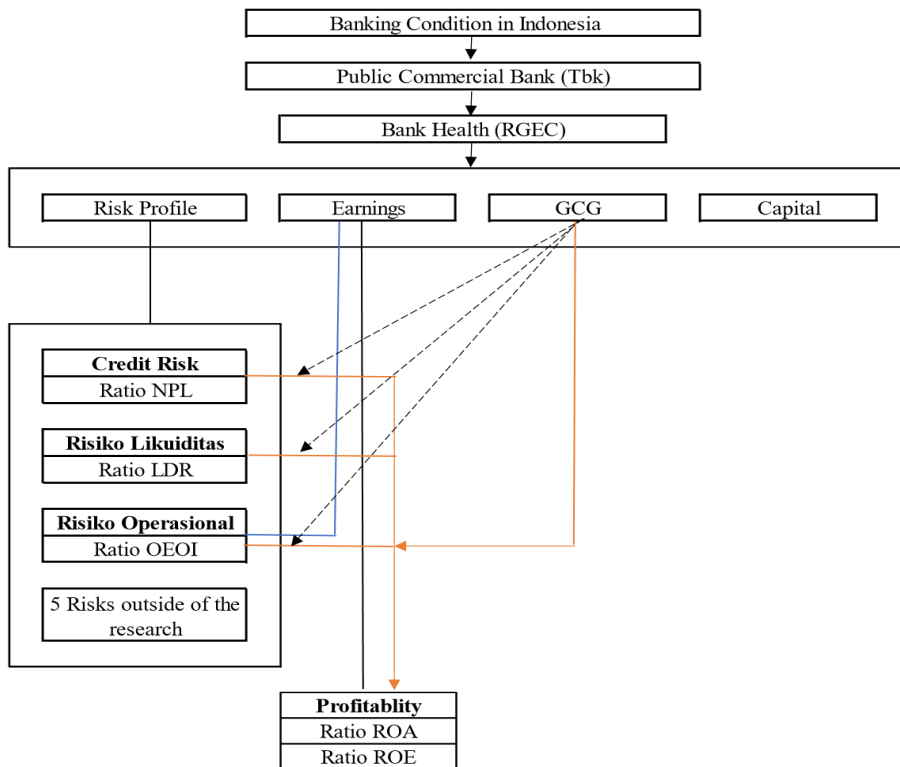
This research differs from previous research that usually only uses one variable as a dependent variable, except for the article Nazariyah, S., Roni, M., & Kusriani, N. (2021), in which the financial performance of BRI Sharia Period 2015-2019 using the variables 2 dependent namely ROA and ROE. In addition, for the study of GCG, the researchers of Sharia Banking, Raya, A., Z., Mujibno, Priyojadmiko, E. (2021) use 10 (ten) value factors to apply GCG, but no application studies of each factor of application of GCG were found in their research. The researchers described a study that was similar to the previous one, but had significant differences as limitations and no similarities with this study, so the differences guaranteed the authenticity of this study.

Framework

Difference Thought Framework of this study is the author using secondary data for the five years 2017-2021, sources from the annual report of Public Commercial Bank with the limitation criteria of Core Bank Group of Capital 3 & 4, which is listed on the Indonesian Stock Exchange. Using 3 independent variables, X1=Credit risk on proxy with (NPL), X2=Likidity risk on Proxy (LDR), X3=Operational risk on proxies (OEIO), and 2 dependent variables measuring proxy profitability (Y1 = ROA and Y2 = ROE), then using the moderating variable Corporate Governance (GCG) reflected with 11 GCG Application Factor indicators on an ordinal scale. (Likert).

The answer was taken from the explanations in the annual reports of each bank for the years 2017-2021. The theoretical need to explain the relationship between a free variable and a bound variable. With the presence of a moderator variable in the study, it is necessary to explain why the variable is included in the research. The relationship between these variables is then expressed in the form of the relationship between the research variables. Studies dealing with two variables or more often formulate hypotheses in the form of comparisons or relationships, as described below:

Table 2. 2 – Framework

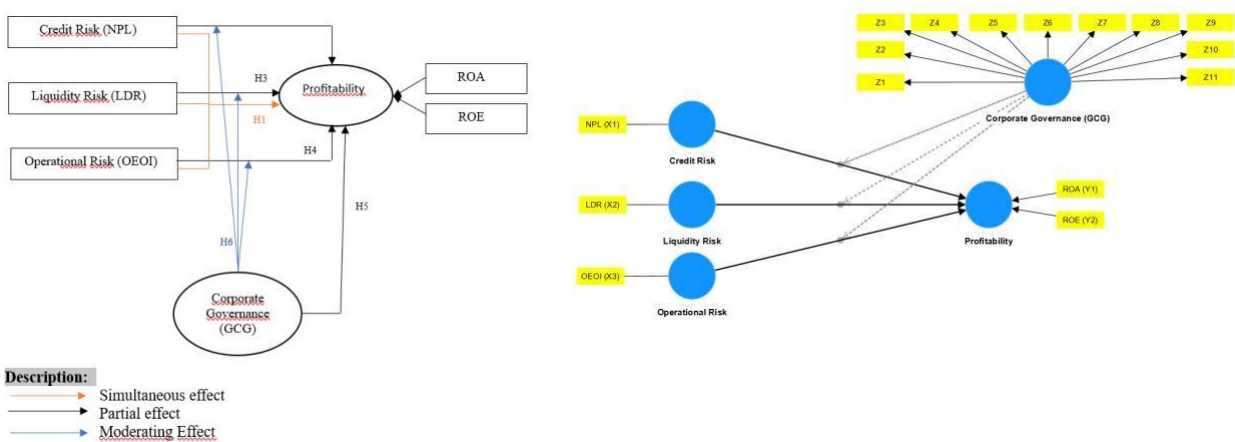


In the Implementation of Governance for Commercial Banks, which is explained in “Appendix III of SEOJK No. 13/SEOJK.03/2017, a self-assessment working paper format is established to assess three aspects of governance: governance structure, governance processes, and governance outcomes”. For question 11, the GCG implementation factor is included in the ordinal scale type, which is classified and ranked based on self-assessment sourced from each bank’s annual report with an assessment format in the form of a classified ranking. To conduct a self-assessment, banks must first understand the purpose of assessing the implementation of their management system.

Paradigm and Design Research

Based on the background of the problem, the problem formula, the purpose of the study, and the theoretical foundations that have been presented, the relationship between the variables in this study is described in the theory framework, which is used by the authors in the study:

Table 2. 3 – Paradigm and Design Research



Source: processed data

Hypothesis

The hypothesis is a temporary answer to the formula of the research problem. Provisional, since the answers given are based on relevant theories, they are not based on empirical facts obtained through data collection. (Sugiyono, 2018: 98).

Based on the description in the above framework of thinking, the hypothesis formed is as follows:

1. Credit risk, Liquidity risk, Operational risk, and Corporate Governance (GCG) simultaneously affect the Profitability in Public Commercial Banks on the Indonesian Stock Exchange, period 2017-2021.
2. Credit risk affects Profitability in Public Commercial Banks on the Indonesian Stock Exchange, period 2017-2021.
3. Liquidity risk affects Profitability in Public Commercial Banks on the Indonesian Stock Exchange, period 2017-2021.
4. Operation risk affects Profitability in Public Commercial Banks on the Indonesian Stock Exchange, period 2017-2021.
5. Good Corporate Governance affects Profitability in Public Commercial Banks on the Indonesian Stock Exchange, period 2017-2021.
6. The Corporate Governance System (CGG) moderating the impact of credit risk, liquidity risk, and operational risk on Profitability in Public Commercial Banks on the Indonesian Stock Exchange, period 2017-2021.

RESEARCH METHODS

This research uses quantitative methods as scientific methods because it has met the scientific principles of concrete/empirical, objective, measurable, rational, systematic and reproducible (replicable). This method is also called a confirmation method because the data is numerical. According to Sugiyono (2017:6), “explanatory research is a method of research intended to explain the position of the variable studied as well as other influences”.

The reason why the researchers use this explanatory study method primarily to test the hypothesis put forward in this study, in the hope of explaining the relationship and influence between exogenous and endogenous constructions in the hypotype. According to Sugiyono (2018: 48), the descriptive method is; "Research carried out to find out the existence of independent constructions, either on only one or more constructions (constructions standing alone) without making comparisons and looking for relationships between one construction and another".

According to Ghozali (2018:19), stating that descriptive statistics are; "statistics used to analyze data by providing an overview or descriptiveness of a data seen from the mean value (mean), standard deviation, variance, maximum, minimum, sum, range, curtosis and skewness (distribution constraint)".

The methods used in this study are quantitative descriptive methods and verification methods, using these methods of research can be known the existence of a significant relationship between the specimens studied, so that the conclusion can describe the object of the study clearly.

Definition and Operation of Research Variables

According to Sugiyono (2018: 57) the relationship between one variable and the other variable is distinguished as "Independent variable called also a variable of stimulus, predictor or can be called a free variable or variable X, which means a variabel that affects or is the cause of change, with the emergence of a bound variable (dependant). Depending variables are called "as an output variable, criterion, consequence or better known as a tied variable".

SEM (Structural Equation Modeling) or Modeling of Structural Equations, independent variables are referred to as exogenous constructions. Independent variables (exogeneous constructions) are also called as free variables, in this study they are latent constructions that cannot be measured directly then after given indicators such as ratio scales change into manifest variables such as Credit Risk, Liquidity Risk variables and Operational variables.

While in SEM, dependent variables are called endogenous constructs like profitability variables. SEM is a statistical method used to test a structurally dependent variable hypothesis that can be more than one. The author uses a method of data analysis of a structural equation model, i.e. a variance-based SEM processed with Smart-PLS (Partial Least Squares).

A moderation variable or moderator is a variable that strengthens or weakens the relationship between an independent variable and a dependent. (2018: 58). Baron and Kenny (1986); Henseler and Fassott (2010) in Ghozali, (2021: 205), SEM analysis with Moderation Effect is, “the moderation effect indicates the influence between the exogenous structure (predictor) and the moderation variable of interaction in this case of the endogenic structure”. Measurements for variables characterized as moderation or moderator are analyzed based on the indicator score standardization approach on the moderated and moderated latent variables, then perform the production of the interaction of the late variable by multiplying the standard indicator that moderates with the Moderated. (Musyaffi, M., M., Khairunnisa, H., & Respati, D., K. (2021: 20).

Operation of Research Variables

Table 3. 1 – Operation of Research Variables

Variables	Dimention	Indicator	Conceptual	Formula	Scale
Credit Risk X1	Non Performing Loan	NPL	Quality of funding provision and adequacy of reserves	$\frac{\text{Total Loans Problem}}{\dots}$	Ratio

				Total Loans	
Liquidity Risk X2	Loan to Deposit	LDR	The bank's ability to fulfill shortterm obligations (Liquidity and Intermediary)	Total Loans ----- Total Party Funds III	Ratio
Operational Risk X3	Operating Expenses to Operating Income	OEOI	Measuring the efficiency of operational activities	Total Operating Expenses ----- Total Operating Income	Rasio
Profitability (Y)	Return on Aset	ROA	Bank performance in generating profits	Profit Before Tax ----- Average Total Asset	Ratio
	Return on Equity	ROE		Profit After Tax ----- Average Capital Tier 1	Ratio
GCG (Z)	Corporate Governance (GCG)	Z1	Implementation of the duties and responsibilities of the Board of Directors		Ordinal
		Z2	Implementation of the duties and responsibilities of the Board of Commissioners		Ordinal
		Z3	Completeness and implementation of committee duties		Ordinal
		Z4	Handling conflicts of interest		Ordinal
		Z5	Implementation of compliance function		Ordinal
		Z6	Implementation of internal audit function		Ordinal
		Z7	Implementation of external audit function		Ordinal
		Z8	Implementation of risk management including internal control system		Ordinal
		Z9	Provision of funds to related parties and provision of large funds		Ordinal
		Z10	Transparency of the Bank's financial and non-financial conditions, reports on the implementation of governance and internal reporting		Ordinal
		Z11	Bank strategic plan		Ordinal

Source: data from various sources and processed by researchers

Data Analysis Methods

Data Analysis Methods Currently, regression is the most commonly used method for quantitative research. With the development of research methods in business and management, regression analysis methods are considered unable to answer research questions. Structural Equation Modelling (SEM) is one of the methods currently used to cover up the weaknesses of regression methods. Quoting from Yamin, (2023:4), explains why Partial Least Square (PLS) was chosen, because; (i) the purpose of the research is to predict/excavate/develop structural theory; (ii) the measurement model can be reflective or formative; (iii) there are some complex structural models/assumptions of research; (iv) the size of the sample is flexible; (v) certain data assumptions (data distribution) are not necessary.

Why use SEM-PLS, according to Hair, et al. (2011) quoted from Yamin (2023:4), is; (i) the purpose of research is predictive/ exploration/development of structural theory; (ii) the model of measurement can be reflective or formative; (iii) the complex structural model/hypothesis of research quite a lot; (iv) the size of the sample is flexible; and (v) does not require certain data assumptions. (distribusi normal).

Discourse

Tabel 4. 1 – Hipotesis

Exogenous Variables	Original sample (O)	P-values	f-square	Effect Size
Credit risk -> Profitability	-0.102	0.104	0.052	Low
Liquidity risk -> Profitability	0.014	0.786	0.001	Very Low
Operational risk -> Profitability	-1.060	0.000	3.643	Very High
Good Corporate Governance -> Profitability	0.248	0.001	0.247	Moderate

Endogenous Variables	Loading Factor	P-values	R-square Adj.	Effect Size
ROA -> Profitability	0.997	0.000	0.887	High
ROE -> Profitability	0.895	0.049		
Moderating Variables	Original sample (O)	P-values	f-square	Model
GCG -> Profitabilitas	0.248	0.001	0.247	Moderasi
GCG x Risiko Kredit -> Profitabilitas	-0.049	0.463	0.011	Interaksi
GCG x Risiko Likuiditas -> Profitabilitas	-0.013	0.849	0.001	Interaksi

GCG x Risiko Operasional -> Profitabilitas	-0.008	0.910	0.000	Interaksi
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Source: Smart-PLS processed data

a) Credit risk, Liquidity risk, Operational risk, Corporate Governance (GCG) simultaneously affects the profitability of the Public Open Bank in the IDX in the period 2017-2021.

To obtain how big the simultaneous influence of the independent (exogenous) variable is on the dependent (endogenous) variable, which is reflected by R square, namely the coefficient of determination in the structure of the endogenous variable, the table above describes the influence of variations in the exogenous variable on the endogenous as follows:

- Effect of Credit Risk on profitability P-value 0.104 (not significant) with f-square 0.052 (low);
- Effect of Liquidity Risk on profitability P-value 0.786 (not significant) and f-square 0.001 (very low);
- Effect of Operational Risk on profitability P-value 0.000 (significant) with f-square 3.643 (very high);
- The influence of governance risk (GCG) on profitability: P-value 0.001 (significant) and f-square 0.247 (moderate);
- The effect of ROA on profitability P-value 0.000 (significant) and ROE on profitability P-value 0.049 (significant) with an adjusted R-square value of 0.887 (high).

The research results show a profitability value with R-square = 0.899 and R-square adjusted = 0.887; the value used is R-squared adjusted (which has been adjusted) because there is an insignificant influence in this research, namely credit risk and liquidity risk. The coefficient of determination used is adjusted R-square = 0.887, or 88.70%, which has a 'high' influence in this research, and the remaining 11.30% is another variable outside of this research.

b) Credit risk affects profitability in the public Open Bank of the IDX in the period of 2017–2021.

The results of the partial hypothesis calculation for the effect of credit risk on profitability P-value is 1.104 (not significant) with a correlation coefficient or original sample (O) value of -0.102, indicating that credit risk hurts profitability with a low effect size. Banks experience an increase in credit risk, which is proxied by NPL, which will have a negative effect on profitability, meaning that if NPL increases, it will reduce profitability, which is proxied by ROA and ROE, insignificantly with a low direct effect size (low). In order for bank credit to have good credit quality, it is necessary to divide functions into credit organizations. This separation is carried out so that each function (section) can work optimally and minimize the occurrence of non-objective assessments that have the potential to cause deviations, which will ultimately cause the credit disbursed to become problematic (Frida, 2020: 77). Another opinion from Akbar and Lanjarsih (2019) is that NPL is a ratio that shows the performance of credit disbursed by a bank, and the higher the NPL value, the higher the level of problem loans owned by the bank. In the opinion of Ekawati et al. (2021), the increase in non-performing loans leads to an inevitable decline in bank profitability; this opinion is in line with Mariana et al. (2018). Meanwhile, in Buchory's (2015) opinion, NPL is used to measure a bank's ability to cover the risk of loan default by debtors. The large number of non-performing loans will have an impact on the high value of the reserve burden that the bank must bear. An increase in the allowance for decreased assets will have an impact on reducing profits or profitability. According to Simatupang and Prabowo (2021), a high NPL ratio in financial reports indicates inefficient management of credit allocation, which is a bad signal for principals or information users. The higher value of non-performing loans (NPL), shows that the bank is less healthy because it has to bear higher credit risks. The increasingly unhealthy condition of banks will result in a decline in bank profitability, which will ultimately affect investment decisions among stakeholders.

c) Liquidity risk affects profitability in the public Open Bank of the IDX in the period of 2017–2021.

The results of the research data show that the original sample (O) is 0.014 (positive effect), meaning that increasing LDR will have a positive effect on increasing profitability but not significantly (P-values = 0.786) with a direct effect size of 0.001, which indicates very low. Liquidity risk has an insignificant positive effect on profitability, meaning that if there is an increase in liquidity risk, which is proxied by LDR, it will increase profitability, which is proxied by ROA and ROE, insignificantly and very low. Quoted by Syaifuddin et al. (2018), liquidity for banks is like a double-edged sword because if the LDR functions with high liquidity, then profits will be low; conversely, if liquidity is low, then profits will be high. According to Wangsawidjaja (2020:4), liquidity risk is "the risk resulting from the bank's inability to meet maturing liabilities from cash flow funding sources and from high-quality liquid assets that can be pledged as collateral without disrupting the bank's financial activities and condition." In the opinion of previous researchers, the credit distribution is quite high compared to the funds collected, so the bank will receive a large interest income, which is a profit for the bank (Izdihar et al., 2017). Another opinion from Simatupang and Prabowo (2021) is that LDR is a ratio that shows a bank's ability to provide credit to third parties other than the bank to generate income. This ratio is designed to measure the bank's ability to pay its obligations to other parties and fulfill credit requests without delay. According to signal theory, the LDR value presented in financial reports provides a positive signal to users. This is because this ratio provides users with a reflection regarding the management of secondary funds obtained by the bank and their distribution to the public to provide profits to the bank (Hikmawati and Sutrisno, 2021). In other words, LDR can describe the effectiveness of bank funding guidelines, where a low LDR indicates the bank chooses to maintain liquidity and a high LDR reflects the bank being more aggressive in disbursing credit. In other words, LDR can describe the effectiveness of fund distribution carried out by banks (Akbar and Lanjarsih, 2019). A high LDR indicates that a bank has lent all its funds (loan-up) or has become illiquid (illiquid). Meanwhile, a low LDR indicates a liquid bank with excess fund capacity to lend (Randy et al., 2015). The effect of increasing the LDR to the upper limit allowed has a positive effect or increases bank profitability while maintaining the principle of prudence, even in the Fairly Healthy category.

d) Operation risk affects profitability in the public Open Bank of the IDX in the period of 2017–2021.

Research data shows that there was an increase in OEI of -1,060 (a negative effect), which resulted in a significant reduction in profitability (P-value = 0.000) with a direct effect of 3,643, indicating the effect of OEI on "very high" profitability. Operational risk has a significant negative effect on profitability, meaning that if there is an increase in operational risk, which is proxied by OEI, it will reduce profitability, which is proxied by ROA and ROE. According to Chistianity, R., & Wenno, M. (2022: 197), operational risks are losses resulting from inadequate internal processes, internal process failures, human errors, system failures, and/or external events that affect operations. bank. Operational risk is measured using the Operational Activity Efficiency Ratio, which compares operational expenses to operational income (OEI) and is used to measure the bank's level of efficiency and ability to carry out its operational activities. The causes of increases and decreases in OEI include human resources (human error), system failure, fraudulent acts (fraud), and acceptable business risks. An increase in the OEI ratio reflects a low level of efficiency. A low level of efficiency will have an impact on reducing the company's financial performance (Mardiana et al., 2018). Simatupang and Prabowo's opinion (2021) is that bank financial performance will experience a decline when the OEI ratio level increases. This is because income is used to finance the majority of bank expenses, so bank profits will decrease. OEI is used by management to measure the bank's level of efficiency in managing costs against operational income. This is similar to Buchory's (2015) observation that operational efficiency is very important for banks to increase the level of profits they want to achieve. One of the ratios commonly used to measure the level of bank efficiency is the ratio of operating expenses to operating income (OEI). An OEI with a low value indicates the bank's efficiency in spending costs on operational activities, which can lead to an increase in financial performance (Nazariyah et al., 2021). A higher OEI indicates that a bank's operational expenses are increasing, so an increase in OEI is inversely proportional to a bank's profitability (Akbar and Lanjarsih, 2019). From the review above, the provisions, regulations, theories, and previous research indicate that for operational risk with the operational activity efficiency ratio (REO), or OEI, increasing OEI will have the effect of reducing bank profitability.

e) Good Corporate Governance affects profitability in the public Open Bank of the IDX in the period of 2017– 2021.

Research data shows that if there is an increase in GCG implementation of 0.248 (positive effect), it will increase profitability significantly (P-value = 0.001), with a direct effect of 0.247 (moderate effect). Corporate governance (GCG) has a significant positive effect on profitability, meaning that if there is an increase in the implementation of corporate governance (GCG), it will increase profitability, which is proxied by ROA and ROE. The current crisis condition due to the pandemic still shows a better condition than the previous crisis because of the active role of the government, in this case, Bank Indonesia, OJK, and LPS, in providing education and literacy to banks or financial service institutions to build awareness of the importance of risk management, good corporate management, and compliance as the work culture of every company that must be implemented. As written by Kusmayadi et al. (2015), good corporate governance, or the presence of good corporate governance (GCG), is expected to have a strengthening effect on company performance. In financial markets, there is increasing recognition that corporate governance tends to improve performance rather than hinder it (Nazariyah et al., 2021).

f) The Corporate Governance System (CGG) moderating the impact of credit risk, liquidity risk, operational risk on profitability on the Open Bank in the IDX period 2017-2021.

Corporate governance (GCG) is unable to moderate (P-value = 0.463) and does not significantly influence credit risk on profitability, with a moderate moderating effect size of 0.011. Corporate governance (GCG) is not able to moderate (P-value = 0.849); it does not significantly influence liquidity risk on profitability, showing a very low influence (very low) of 0.001. Corporate governance (GCG) is not able to moderate (P-value = 0.910); it is not significant in influencing operational risk on profitability with a moderating effect size of 0.000, indicating a very low influence (very low).

According to the results of previous research on corporate governance (GCG), as a moderating variable, corporate governance (GCG) is unable to moderate NPL against ROA, according to Akbar and Lanjarsih (2019) and Ekawati et al. (2021). GCG is unable to moderate LDR on ROA as a result of Simatupang and Prabowo (2021) and Hikmawati and Sutrisno (2021). GCG is unable to moderate OEI on ROA as a result of research (Simatupang and Prabowo, 2021; Nazariah et al., 2021).

Corporate governance (GCG) as a moderating variable on profitability shows a P-value of $0.001 < 0.05$: Significant. Meanwhile, the relationship between corporate governance (GCG) and liquidity risk, operational risk, and credit risk as an interaction variable on profitability shows P-values of 0.849, 0.910, and 0.463, all > 0.05 , indicating "not significant", so they are included in the "moderating predictor" model.

CONCLUSION

Based on the results of previous research and discussion, the findings can be concluded as follows:

- a) The influence of the exogenous variables credit risk and liquidity risk on the profitability variable shows that it is not significant with a weak and very weak effect size. Meanwhile, the influence of the operational risk variable and the governance variable is significant, with the direct influence being very high and medium, respectively. Therefore, it is necessary to make adjustments to exogenous variables that have an insignificant influence, namely credit risk with a weak effect size and liquidity risk with a weak effect size. So the R2 used is R-squared adjusted (which has been adjusted), namely 0.887, or 88.70%, which has a 'high' influence in this research, and the remaining 11.30% is another variable outside of this research.

- b) The influence of credit risk on profitability in open commercial banks on the IDX for the period 2017 to 2021 is as follows; The average value of credit risk as a proxy for NPL tends to increase, especially in 2019–2020, from 2.56 to 2.78, although in 2021 it will decline to 2.80. The highest NPL of 4.78 occurred at BBTN (Bank BTN) in 2019, and the average NPL value of 2.66 was still in the healthy category ($2\% < \text{NPL} \leq 5\%$), while the Commercial Bank industry average value for NPL was 2.71, which is also still in the healthy category. Things that cause the influence of credit risk on profitability to be insignificant with a low size are, among others: there is a government policy to anticipate an increase in NPL through the Credit Relaxation Stimulus given to debtors affected by COVID 19, in the form of postponing loan interest payments and/or credit restructuring with a review adjusted to the debtor's capabilities, resulting in a decline in bank revenues in operational income. Even though there is a credit relaxation policy, the NPL continues to increase, especially in 2019–2020. This is in line with data from the commercial banking industry in 2020, which has the highest NPL prospects for re-entering business or being laid off for workers. Due to the increase in NPL, the bank had to create a credit loss reserve expense, so operational expenses increased.
- c) The influence of liquidity risk on profitability in open commercial banks on the IDX for the period 2017 to 2021 is; LDR trends tend to fluctuate; there was an increase in 2017–2019 from 87.60, 90.99, and 98.63, then decreased to 84.94 in 2020 and 81.40 in 2021. The average LDR value of 88.71 is categorized as fairly healthy, namely between $85\% < \text{LDR} \leq 110\%$, while the average LDR commercial bank industry value is 87.40 in the fairly healthy category. Bank BCA (BBCA) LDR in 2019 was 80.50, decreased to 65.80 in 2020, and decreased again to 62.00 in 2021. The same thing happened to Bank BTPN (BTPN), where in 2019, the highest LDR was 163.00, which decreased to 134.20 in 2020 and 123.10 in 2021. Things that cause the influence of liquidity risk (LDR) on profitability to be insignificant and very low are: third-party funds, during the research period from 2017 to 2021, continued to experience growth even during the COVID-19 pandemic. This was because, during the pandemic, fund owners or investors were reluctant to invest funds in their businesses as a result of large-scale social restrictions (social distancing). causes uncertainty in business. On the other hand, banks, to avoid increasing credit risk, only distribute credit to sectors that are not affected by COVID-19 with very strict or selective requirements, so that there is a decrease in the loan portfolio provided and excess funds are placed in productive assets other than credit.
- d) The influence of operational risk on profitability in open commercial banks on the IDX for the period 2017–2021 is; OEI fluctuates; since 2017–2018, it has decreased from 78.07 to 76.36, increased in 2019 to 78.20, increased in 2020 to 82.79, and decreased to 77.42 in 2021. The OEI mean value of 78.57 indicates the Very Healthy category ($83\% < \text{OEI} \leq 88\%$), while the Commercial Bank industry average value for OEI is 81.48 in the Very Healthy category. The highest OEI in 2019 was 98.12 at Bank BTN (BBTN), and the highest average OEI occurred in 2020, namely 82.79, while the lowest OEI (Min) occurred in 2021 at 54.20 at Bank BCA (BBCA). Things that cause the influence of operational risk (OEI) on profitability to be very significant are: in 2020–2019, there was an increase in OEI due to credit risk (NPL) increasing significantly; however, in 2021–2020, there was a significant decrease in OEI due to liquidity risk, where LPS reduced the guarantee interest rate. The impact of credit risk (NPL) and liquidity risk (LDR) has an indirect influence on operational risk or influences the measurement of the level of efficiency of business operational activities, caused by an increase in bank operational costs due to an increase in the formation of credit losses due to an increase in non-performing loans (NPL). On the other hand, the impact of liquidity risk (LDR) on the decrease in operational income is due to the placement of funds in productive assets, such as securities, which provide lower income. Apart from that, the policy of reducing the interest rate of the LPS guarantee level has a high influence on reducing expenses.
- Bank operations. The influence of governance risk on profitability in open commercial banks on the IDX for the period 2017 to 2021 is; Corporate governance (GCG) has a significant positive effect on profitability in open commercial banks on the Indonesia Stock Exchange for the period 2017 to 2021, meaning that if there is an increase in corporate governance (GCG), it will increase profitability, which is proxied by ROA and ROE. The research data shows that if there is an increase in GCG implementation of 0.248 (positive effect), it will increase profitability significantly (P value of 0.001), with a direct effect size of 0.247 (moderate effect). The current crisis condition due to the pandemic still shows a better situation than the previous crisis because of the active role of the government, in this case, Bank Indonesia, OJK, and LPS, in raising awareness of the importance of risk management, good corporate management, and compliance as the work culture of every company, which will ultimately add company value and improve company performance.
 - Matters that need attention or improvement in the implementation of governance include:
 - Z2: In the implementation of the duties and responsibilities of the Board of Commissioners, research results showed that members of the Board of Commissioners held positions in non-profit organizations or institutions. So that more or less the Board of Commissioners loses time in carrying out their duties and responsibilities optimally. We can see this in the number of attendees at meetings, which is not optimal, especially since there are several commissioners who also represent the interests of shareholders, especially those whose shares are owned by foreign banks, because of their financial relationships and relationships with controlling shareholders of the bank. Several members of the Board of Commissioners still have to wait for the results of the fit and proper test to obtain a letter of approval from the Financial Services Authority.
 - Z5: Implementation of the compliance function to monitor and maintain the bank's compliance with all agreements and commitments made by the bank to the Financial Services Authority and competent authority institutions, as well as building a culture of compliance in decision-making and bank operational activities. It has been found in research that several banks, based on OJK findings, did not carry out any follow-up actions by the banks, including payment of fines.

- Z4: Handling conflicts of interest: in the event of conflicts of interest that bind every management and employee of the bank, bank operational activities are free from intervention by owners, related parties, or other parties that could give rise to conflicts of interest that could harm the bank or reduce the bank's profits. The implementation of the duties and responsibilities of the Board of Commissioners as stated above relates to conflicts of interest, especially with the bank's controlling shareholders.
- e) Moderating Governance: The Influence of Credit Risk, Liquidity Risk, and Operational Risk on Profitability in Open Commercial Banks on the IDX for the period 2017 to 2021 is:
- Corporate governance (GCG) cannot moderate credit risk (NPL) on profitability or weaken it insignificantly with moderate;
 - Corporate governance (GCG) cannot moderate liquidity risk (LDR) on profitability or weaken it insignificantly with very low
 - Corporate governance (GCG) cannot moderate operational risk (OEOI) on profitability or weaken it insignificantly, with a very low

Hypothesis results show that corporate governance is unable to moderate the influence of credit risk, liquidity risk, and operational risk on profitability. The moderating effect size of moderate credit risk, liquidity risk, and very low operational risk on profitability is not significant. Things that cause corporate governance (GCG) not to moderate are: the factors for implementing GCG, each element of which consists of a structure, namely consisting of the Board of Directors, Board of Commissioners, and Executive Officers, are the main factors that control the running of an organization; they must be accountable, competent, and responsible; then infrastructure (process) and results (outcome) will produce as expected. So the human factor (people) plays an important role in governance (GCG). Credit risk, liquidity risk, and operational risk are parts of risk management that depend heavily on more technical risk management decisions and practices. Governance relationships have an influence on risk management to the extent of helping create a work culture and work environment that supports professional and transparent decision-making, which is ultimately expected to improve performance (profitability). External factors that significantly impact governance (GCG) do not affect the causal relationship, such as changes in economic conditions, changes in interest rates, and changes in consumer behavior.

From the description above, the conditions that greatly influence corporate governance are unable to moderate; the influence of credit risk, liquidity risk, and operational risk on profitability is more influenced by external factors in the organization, namely that in 2020, the government issued a credit relaxation and restructuring policy, and in 2021, LPS reduced the guarantee interest rate.

SUGGESTION

Based on the results of the research in the previous discussion and the conclusions above, the author intends to convey several suggestions, which it is hoped will be useful input for the parties involved. The suggestions that researchers can convey based on the results of the research that has been carried out are as follows:

- a) Credit Risk (NPL), Banks are expected to pay more attention to credit risk because the main income of banks generally comes from credit, so it is appropriate to maintain asset quality to control non-performing loans. The impact of an increase in non-performing loans will hurt profitability because banks must create a reserve for credit-productive assets. If the quality of the assets falls into substandard collectibility, the bank cannot recognize income, including income that has been previously recognized. For this reason, banks' business activities of providing credit must be carried out with the principle of caution because they use public funds or third-party funds.
- b) Liquidity Risk (LDR): banks are expected to be able to manage liquidity risk by optimizing the loan-to-deposit ratio by increasing the amount of credit provided to business sectors that are worthy of financing and have a controllable level of risk. According to best practice, the LDR category is quite healthy at a ratio value of 95%.
- c) Operational Risk (OEOI): The bank is expected to be able to manage operational risk well by optimizing operational income and minimizing operational losses or expenses without disrupting the smooth running of the bank's operations. For this reason, banks are expected to take steps to increase operational risk. Banks must pay attention to the supervision attached to each part and apply a minimum of dual control in each transaction process, meaning that the maker must be the person who checks the transaction or approves it (maker, checker, and approver). Banks need to increase the role of internal control to increase inspection samples and inspection frequency, as well as inspection coverage. Banks need to carry out IT audits regularly by paying attention to bank security, confidentiality of customer data, system updates, contingency plans, and recovery plans. To avoid errors caused by human error, it is necessary to rotate and transfer jobs to avoid boredom and, at the same time, as a control function.
- d) Good Corporate Governance (GCG), Banks can increase awareness about implementing corporate governance (GCG), with directors and commissioners having to play an active role in implementing GCG. Building a work culture based on the company's vision and mission as outlined in GCG; GCG implementation factors are prepared based on five (five) basic principles of good governance known as TARIF. In carrying out their assessments, banks can draw conclusions based on an analysis of all assessment indicators containing positive and negative factors in aspects of governance structure, governance process, and governance outcome.
- e) Profitability: The bank is expected to increase profitability through improved management performance in increasing quality and optimal credit distribution, as well as controlling the company's operational costs to make them more effective and efficient. Apart from that, companies also need to pay attention to various external factors that can influence the bank's internal policies so that they do not have a negative impact on the bank's profitability.

The bank strives to always look for sustainable business opportunities, improve asset management and healthy credit portfolio quality, increase profitability, and provide added value to all stakeholders by increasing company value through dividend distribution. These suggestions are aimed at improving company performance while maintaining the bank's health level by building awareness for the application of governance factors (GCG). In addition, banks must be able to understand the risk profile, starting from inherent risk and risk tolerance (risk appetite) as well as risk mitigation for each product, including exposure to credit risk (NPL), liquidity risk (LDR), and operational risk (OEOI).

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