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Analysis of Bank Health Level to Potential of *Financial Distress* Using the RGEC Method (Case Study of Regional Development Banks in Indonesia for the 2019-2023 Period)

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ARTICLEINFORE

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ABSTRAK

The objective of this study is to examine the financial health of Regional Development Banks in Indonesia from 2019 to 2023 using the RGEC method as proxies for the *Non-Performing Loan* (NPL) Ratio, Load to Deposit Ratio (LDR), Proportion of Independent Commissioners (KI), *Return on Assets* (ROA), *Return on Equity* (ROE), *Net Interest Margin* (NIM), and *Capital Adequacy Ratio* (CAR).

Secondary data collected from all of Indonesia's regional development bank sites is utilized in this quantitative descriptive research. There were 105 pieces of company data analyzed in this study, with 21 companies making up the sample. Multiple linear regression analysis is the method used for the analysis. The SPSS software was utilized to conduct this computational analysis. Financial distress was found to be significantly affected by the following variables: *Loan to Deposit Ratio* (LDR), Net Interest Margin (NIM), and Capital Adequacy Ratio (CAR), but not by the Noan Performing Loan (NPL) variable, independent commissioners, Return On Assets (ROA), or *Return On Equity* (ROE).

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INTRODUCTION

The government, the central bank, and the bank itself all benefit from knowing how healthy a bank is, since this is one of the key indicators of a country's economic stability. In simpler terms, a bank is considered healthy if it can conduct its regular banking operations and meet all of its obligations correctly, in compliance with all relevant banking regulations. The objective is to assess how well the bank has managed risks, acted prudently, and complied with all relevant regulations.

Banking is a representative of the community who is trusted to manage and manage public finances, therefore assessments related to bank health are very important, especially for banks that have *gone public*, because banks function as a means of achieving financial system stability are required to have good management performance. Banks that have a good level of health, are expected to maintain their rating, while banks that have a level of health that is not good or unhealthy continuously or experiencing *financial distress*, are expected to immediately improve their performance.

Financial distress has occurred repeatedly in various parts of the world, including Indonesia. (Lusiana & Indri Yeni., 2018) . This is due to unresolved global economic challenges, resulting in a global economic slowdown.

Table 1
Average Development of ROA, NPL, LDR, AND CAR at Regional Development Banks

Ratio	FSA Standard	2020	2021	2022	2023
NPL	< 8%	13.52	13.08	12.03	13.22
LDR	<85%	83.15	75.87	77.87	83.03
ROA	>1.26%	2.04	2.03	2.12	1.98
CAR	>9%	22.11	22.77	23.59	25.91

Source: Indonesian Banking Statistics - Vol. 22 No.1 December 2023

Table 1.1 shows the NPL, LDR, ROA, NIM, and CAR development at Indonesian regional development banks from 2020 to 2023. The Financial Services Authority SE No.14 / SEOJK.03 / 2017 established a standard of less than 8% for the Nonperforming Loan Ratio. Regional Development Bank's nonperforming loans (NPLs) surpass the predetermined standards, according to published statistics on Indonesian banks. Specifically, the NPL ratio in 2020 was 13.52%, in 2021 and 2022 it was 13.08%, and in 2023 it increased to 13.22% once again.

According to the established norm, specifically LDR < 85%, the LDR ratio is calculated. There were changes in regional development banks from 2020 to 2023. In 2020, they reached 83.15%, then fell 75.87% the following year, then rose 77.87% in 2022, and finally reached 83.13% in 2023. even though LDR keeps going up, it's still not quite at the level the Financial Services Authority considers acceptable.

Regional Development Banks still have a relatively high nonperforming loan ratio, as seen in the data above. An increase in the Non Performing Loan (NPL) indicates a decline in the quality of bank credit, which in turn leads to an increase in non-performing loans. The situation will influence the bank's health and show how bad a bank's credit is, leading to an increase in non-performing loans and, consequently, larger losses. So that it doesn't affect the possibility of financial hardship, this needs to be followed up.

Based on the description of the problems above, it is necessary to conduct further research on the effect of RGEC-based bank health levels on *financial distress* at Regional Development Banks in Indonesia.

LITERATURE REVIEW

Financial distress

Hery (2017) states that when a business is in *financial distress,* it means it is having trouble meeting its financial obligations, meaning that its revenue is not enough to cover its total costs, and the business is losing money. Creditors see this as a warning sign of debtor failure. When companies' finances are out of whack, it can be a warning sign of issues with both internal and external factors. Balance sheets and cash flow statements reveal a company's financial health in times of financial trouble. A number of sources, including Kriswanto (2019), have hypothesized the origins of this condition. The disparity between sales and receivables is less than operational expenditures, which is a capital difficulty factor. (2) The company's debt and interest expenses are on the rise; attracting external funding will bring additional challenges, such as the weight of responsibility to repay the loan's principal and interest. (3) The company's net worth is further dwindling because banks incur losses and cannot control all costs.

RGEC

The bank must execute health level assessments using the RGEC method on an individual or consolidated basis in compliance with Bank of Indonesia Regulation Number 13/1/PBI/2011, which pertains to health level assessments of commercial banks. A company's risk profile, corporate governance practices, earnings, and capital all play a role in determining its health status.

Risk Profile

Because most bank failures are caused by banks that cannot control the risks that occur, Risk Profile plays an important role in assessing the health level of banks. The source is Hilmy et al. (2013). Credit risk and liquidity risk, as measured by the Non-Performing Loan (NPL) and the Loan-to-Deposit Ratio (LDR), are the two indicators used in this study to assess risk profiles.

Non Performing Loan (NPL) on *financial* distress

The percentage of total loans that are considered non-performing is known as non-performing loan management capability (NPL). As a result,

financial difficulties will arise as the number of non-performing loans, rather than current loans, increases as the NPL value of the bank rises (Ramadhani, 2019). A higher ratio indicates worse credit quality, which in turn leads to an increase in non-performing loans and a decline in the bank's health. Then there's a chance that a bank might go bankrupt (Habbi Irsyada Haq & Puji Harto, 2019).

According to studies done by (Halim, 2016) and (Setiawan budi, et al., 2023) among others, nonperforming loans significantly and positively impact financial distress. Financial hardship is significantly worsened by the nonperforming loan ratio, according to studies done by Fitriana et al. (2022).

H1: NPL has a significant effect on *Financial distress*

***Loan to Deposit Ratio* (LDR)**

The LDR is the loan-to-deposit ratio.

According to Habbi Irsyada Haq and Puji Harto (2019), the Loan to Deposit Ratio (LDR) indicates the extent to which a bank can repay depositors' withdrawals using loans as a source of liquidity. Banks with higher LDR ratios are less able to meet short-term obligations. This is due to the fact that the capital required to support credit (financing) is increasing. A higher LDR indicates that the bank might be in trouble financially.

Ainun Djariah et al. (2023) found that lower loan-to-deposit ratios are associated with less financial hardship. This goes against the findings of Fitriana (2022), who found that LDR significantly worsens financial hardship.

H2 : LDR has a significant effect on *Financial distress*

Good Corporate Governance

A policy of managing the company in a way that provides more value to stakeholders and shareholders in the long run is known as good corporate governance (Hanafi & Breliastiti, 2016). The indicators used are independent commissioners

Independent Commissioner

When appropriate, the Independent Commissioner is tasked with offering constructive criticism to the Board of Directors and keeping tabs on their policies and attitudes. To ensure that the board of directors is not doing anything detrimental to the company, independent commissioners will keep an eye on their financial control efforts. (Fathonah, 2016).

Helena and Saifi (2018) found that banks will be able to avoid financial distress and good corporate governance will be affected by a large proportion of independent commissioners. John and Ogechukwu (2018) found a strong positive correlation, arguing that having an excessive number of independent commissioners hinders the bank's progress due to a lack of expertise in the inner workings of the institution.

H3 : Independent Commissioners have a significant effect on *Financial distress*

Earnings

One indicator of a bank's success in maximising profits and streamlining operations is its earnings.In a 2016 study, KasmirIts secondary objective is to assess the efficiency with which the company's management operates the business (Kasmir, 2016). Net interest margin (NIM), return on assets (ROA), and return on equity (ROE) are the metrics utilized in this analysis.

***Return On Assets* (ROA)**

One way to measure a company's profitability is by looking at its return on assets (ROA). Finding this ratio will reveal how well a business makes use of its assets in running its day-to-day operations (Habbi Irsyada Haq & Puji Harto, 2019). Financial difficulties are less likely to befall a company with a high level of profitability.

According to research done by Wardah Mujadidah Hananiyah & Tiara Juliana Jaya (2023), ROA significantly affects financial distress. On the other hand, Setiawan Budi et al. (2023) found that ROA significantly worsens financial distress.

H4 : *Return On Assets* (ROA) has a significant effect on *Financial distress*

***Return On Equity* (ROE),**

Return On Assets (ROA).Is a ratio that helps to figure out how much profit a company can make for its shareholders or how much return an owner gets out of their capital invested in the company per rupiah.(Shidiq & Wibowo, 2017). If a company has a higher level of management of its own capital, it will be less likely that the company will experience *financial distress*.

Research that supports the negative relationship between ROE and *financial* distress is research from Restianti & Agustina (2018). is research from Restianti & Agustina (2018) and Wardah Mujadidah Hananiyah & Tiara Juliana Jaya (2023). Meanwhile, Susanto & Njit (2012) found a significant positive relationship with *financial* distress

H5 : *Return On Equity* (ROE) has a significant effect on *Financial distress*

***Net Interest Margin* (NIM)**

This ratio evaluates the efficiency with which a bank's management can turn its productive assets into net interest income (Restianti & Agustina, 2018). If the NIM ratio is high, it means that the bank's management is good at overseeing its productive assets, which means that the company is less likely to go bankrupt.

Research that supports the existence of a significant negative relationship is research conducted by Halim (2016), and Kuncoro & Agustina (2017).. Meanwhile, research conducted by Hayati (2018) who found a significant positive relationship to *financial* distress

H6 : *Net Interest Margin* (NIM) has a significant effect on *Financial distress*

Capital

For banks, capital is crucial for business development and loss accommodation. Adjusting capital to meet international standards, specifically those set by the Bank for International Settlement (BIS), is necessary for healthy development and competition. So, capital is a measure of how well a bank can handle its present and future credit risks. Referenced in Rivai (2012). The CAR is the indicator that is utilized.

***Capital Adequacy Ratio* (CAR)**

The capital adequacy ratio (CAR) measures a bank's financial strength by contrasting its total risk-weighted assets (ATMR) with its total capital. (Kuncoro & Agustina, 2017) state that this is based on prior studies. With enough capital on hand, the bank has a better chance of turning a profit and reducing the likelihood of financial trouble for the company.

Nandita Salatifa & Diiwanti et al. (2020) found a substantial negative impact on financial distress, in contrast to the research by Budi Setiawan et al. (2019) that supports the positive effect.

H7 : Capital Adequacy Ratio (CAR) has a significant influence on Financial distress

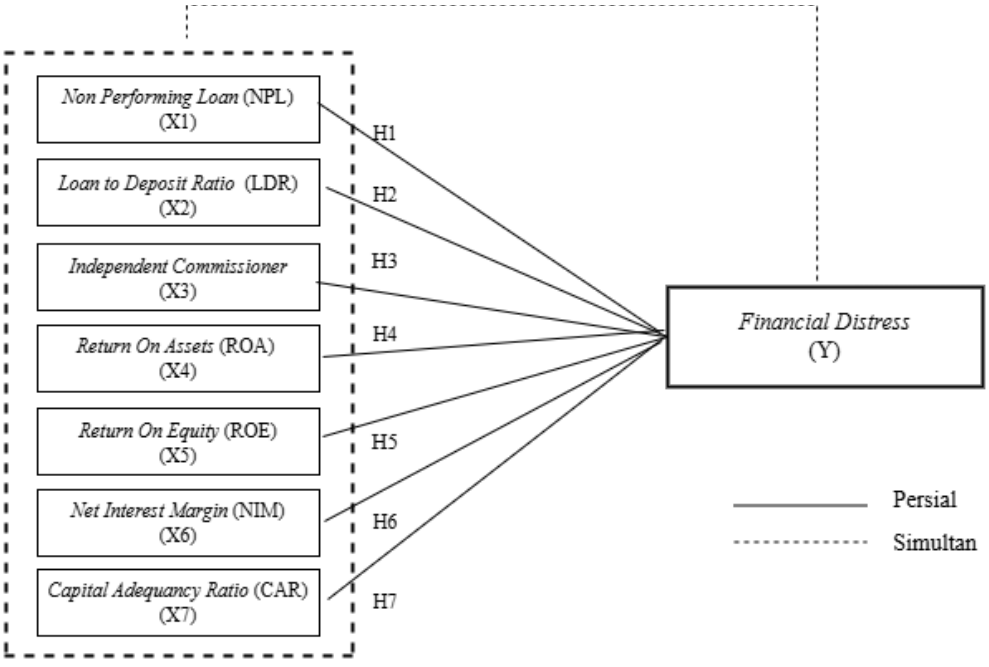

Figure 1 Conceptual Framework

METHODOLOGY

The data was gathered through a documentation study, specifically by gathering research-related documents from each Regional Development Bank site in the form of annual reports on Banking Companies Listed from 2019 to 2023. Financial distress, as measured by the modified Altman Z-Score method, serves as the dependent variable in this study. The independent variables in this study are NPL, LDR, Independent Commissioner, ROA, ROE, NIM, and CAR.

The 27 businesses that make up Indonesia's Regional Development Banks constitute the study's population. This study used a purposive sampling technique for its sampling. For the study, a sample of 105 research samples was obtained by multiplying 21 companies by 5 years, covering the years 2019–2023.

RESEARCH RESULTS

1. Descriptive Statistical Analysis

The study's descriptive statistics make use of the mean, standard deviation, variance, maximum, and minimum values. A descriptive analysis was conducted using IBM *SPSS version 24 for Windows*, and the following are the results:

Table 1
Descriptive Analysis

Descriptive Statistics					
	N	**Minimum**	**Maximum**	***Mean***	**Std. Deviation**
NPL	105	,003	,051	,02380	,010188
LDR	105	,650	1,090	,87305	,094524
KI	105	,330	1,000	,66752	,141059
ROA	105	,009	,788	,02811	,075065
ROE	105	,014	,185	,12085	,029344
NIM	105	,023	,146	,06176	,014533
CAR	105	,152	,385	,24258	,047915
FINANCIAL *DISTRESS*	105	,570	2,458	1,48773	,379984
Valid N (listwise)	105				

Source: Secondary data processed by researchers

2. Classical Assumption Test Results

Table 2
Heteroscedasticity Test Results

Coefficientsa						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	-8,341	4,378		-1,905	,060
	NPL	-20,440	31,095	-,069	-,657	,513
	LDR	5,977	3,200	,188	1,868	,065
	KI	-2,388	2,127	-,112	-1,123	,264
	ROA	-2,584	4,043	-,065	-,639	,524
	ROE	1,415	10,831	,014	,131	,896
	NIM	-9,158	21,525	-,044	-,425	,671
	CAR	6,116	6,832	,097	,895	,373

Source: Data processed by researchers

There is no heteroscedasticity problem as all variables have a significant value above 0.05, as shown in table 2 above, following the Park Test with the LN formula. So, it is clear from this equation that the regression model is not heteroscedastic.

3. Normality Test

If you want to know if your regression model's residual value follows a normal distribution, you can run it through the normality test. It is well-known that the t-test and the F-test presume a normal distribution for the residual value (Ghozali, 2018). The table below displays the results of the Kolmogorov-Smirnov test:

Table 3
Normality Test Results
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		**105**
Normal Parameters[a,b]	*Mean*	,0000000
	Std. Deviation	,28874267
Most Extreme Differences	Absolute	,064
	Positive	,064
	Negative	-,057
Test Statistic		,064
Asymp. Sig. (2-tailed)		,200[c,d]

Asymp. Sig. (2-tailed) = 0.200, as shown in the aforementioned Kolmogorov-Smirnov test. This regression model's residual data is normally distributed, according to these results, since the Asymp. Sig. (2-tailed) is greater than 0.05.

4. Multicollinearity Test

To determine if the independent variables were correlated by the regression model is the goal of this multicollinearity test. The absence of correlation between independent variables is a hallmark of a high-quality regression model (Ghozali, 2018). You can view the results of the multicollinearity test in the table below:

Table 4
Multicollinearity Test Results

Coefficients			
Model		**Collinearity Statistics**	
		Tolerance	**VIF**
1	(Constant)		
	NPL	,865	1,156
	LDR	,949	1,054
	KI	,964	1,037
	ROA	,943	1,061
	ROE	,860	1,163

	NIM	,887	1,127
	CAR	,810	1,234

Source: Data processed by researchers

All of the independent variables have tolerance values greater than 0.10, according to the results of the tolerance value calculation. Variance inflation factor (VIF) calculations also reveal that all independent variables have a VIF value less than 10. Therefore, the independent variables in the regression model do not exhibit multicollinearity.

5. Autocorrelation Test

To determine if confounding errors in period t and period t-1 (previous) are correlated in a linear regression model, the autocorrelation test is used. An autocorrelation problem exists when there is a correlation. In research, the Run Test is the measuring tool that is used to detect the presence of autocorrelation. Here are the findings of the study's Run Test:

Table 5
Run Test Results

Test Runs	
	Unstandardized Residual
Test Value[a]	-,00765
Cases < Test Value	52
Cases >= Test Value	53
Total Cases	105
Number of Runs	45
Z	-1,666
Asymp. Sig. (2-tailed)	,096

Source: Data processed by researchers

This table shows that the Asymp. Sig. (2-tailed) is greater than the 5% confidence level, ruling out the possibility of rejecting Ho. This indicates that there is no autocorrelation in the data distribution. It is clear that the independent variables do not exhibit any autocorrelation, rendering the regression model practicable.

6. F Statistical Test

Table 6
F Statistical Test Results

ANOVA[a]						
Model		**Sum of Squares**	**df**	***Mean* Square**	**F**	**Sig.**
1	Regression	6,346	7	,907	10,141	,000[b]
	Residuals	8,671	97	,089		
	Total	15,016	104			

a. Dependent Variable: *Financial distress*
b. Predictors: (Constant), NPL, LDR, KI, ROA, ROE, NIM, CAR

Source: Data processed by researchers

The significance value obtained is 0.000 <0.005, as shown by the results of the F statistical test. There is a correlation between financial distress and the following variables: Independent Commissioner, Non-Performing Loan (NPL), *Return on Assets* (ROA), *Return on Equity* (ROE), *Net Interest Margin* (NIM), and Capital Adequacy Ratio (CAR).

7. Statistical Test t

The statistical test (t test) is used to determine the individual effect of each independent variable on the dependent variable.

Table 7
Statistical Test Results t

Coefficients[a]						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	Std. Error	Beta		
1	(Constant)	-,835	,436		-1,917	,058
	NPL	2,946	3,094	,079	,952	,343
	LDR	,724	,318	,180	2,273	,025
	KI	-,134	,212	-,050	-,634	,527
	ROA	-,133	,402	-,026	-,330	,742
	ROE	,035	1,078	,003	,032	,974
	NIM	7,136	2,142	,273	3,332	,001
	CAR	5,232	,680	,660	7,698	,000

Source: Data processed by researchers

1) With a significance level of 0.343> 0.05 (α = 5%), the t-count value of the variable Noan Performing Loan (NPL) on Financial Distress is 0.952. This means that the significance level is higher than the threshold of 0.05. These findings disprove H2 and show that the Noan Performing Loan (NPL) variable is unrelated to financial hardship.
2) With a significance level of 0.025 <0.05 (α = 5%), the t-count value of the Loan to Deposit Ratio (LDR) variable on Financial distress is 2.273. Because of this, we know that the significance level is less than 0.05. Based on these findings, we accept H2 and conclude that the LDR variable significantly affects financial distress.
3) With a significance level of 0.527> 0.05 (α = 5%), the independent commissioner variable on financial distress has a t-count value of -0.634. This means that the significance level is higher than the threshold of 0.05. These findings disprove H2 and show that the independent commissioner variable does not influence financial hardship.
4) The financial distress variable, Return On Assets (ROA), has a t-count value of -0.330 and a significance value of 0.742> 0.05 (α = 5%). This means

that the significance level is higher than the threshold of 0.05. Based on these findings, we can conclude that ROA is not a factor in financial hardship (H2 rejected).

5) A significance value of 0.974> 0.05 (α = 5%) is associated with the Return On Equity (ROE) variable's impact on financial distress, which has a t-count value of 0.32. This means that the significance level is higher than the threshold of 0.05. This data disproves Hypothesis 2 and suggests that ROE is not a factor in financial hardship.
6) The financial distress variable, Net Interest Margin (NIM), has a t-count value of 3.332 and a significance value of 0.001, which is less than 0.05 (α = 5%). Because of this, we know that the significance level is less than 0.05. According to these findings, financial distress is significantly influenced by the Net Interest Margin (NIM) variable (H2 accepted).
7) With a significance level of 0.000 <0.05 (α = 5%), the t-count value of the variable Capital Adequacy Ratio (CAR) on Financial distress is 7.698. Because of this, we know that the significance level is less than 0.05. Based on these findings, we accept H2 and conclude that the Capital Adequacy Ratio (CAR) is a significant predictor of financial distress.

8. **Determination Coefficient Test**

Table 4.15
Determination Coefficient Test Results

Model Summary		
R Square	**Adjusted R Square**	**Std. Error of the Estimate**
,423	,381	,298980
a. Predictors: (Constant), NPL, LDR, KI, ROA, ROE, NIM, CAR,		

Source: Data processed by researchers

Data analyzed by academicsThe results of the test for the coefficient of determination (Adjusted R2) are displayed in table 4.15, and it is 0.381. This indicates that other variables account for 61.9% of the variation in financial distress, while the independent variables NPL, LDR, Independent Commissioner, ROA, ROE, NIM, and CAR affect only 38.1%.

DISCUSSION

1. *Non Performing Loan* (NPL), *Loan to Deposit Ratio* (LDR), Independent Commissioner, *Return On Assets* (ROA), *Return On Equity* (ROE), *Net Interest Margin* (NIM), *Capital Adequacy Ratio* (CAR) to *Financial distress*.

Based on the results of the F statistical test above, it can be concluded that the variables *Non Performing Loan* (NPL), *Loan to Deposit Ratio* (LDR), Independent Commissioner, *Return On Assets* (ROA), *Return On Equity* (ROE), *Net Interest*

*Margin (*NIM), *Capital Adequacy Ratio* (CAR) together have an effect on *Financial distress* (**H_1 accepted**).

2. The effect of *Non Performing Loan* (NPL) on financial *distress*

Based on the regression output, the non-performing loan (NPL) variable does not impact financial distress; this is due to its beta coefficient of 2.946 and significance value of 0.343, which is greater than 0.05. Consequently, we can reject the null hypothesis (H2) that there is a relationship between financial distress and the non-performing loan (NPL) variable. Whereas the likelihood of financial distress for a company is unaffected by its NPL percentage. However, just because a company's nonperforming loan percentage is low doesn't imply it isn't going through financial trouble. Muhamad Tri Aditya Tria Setiawan (2019) found no correlation between non-performing loans and financial hardship, and our findings corroborate that

3.* The effect of *Loan to Deposit Ratio* (LDR) on financial *distress

Financial hardship and the Loan-to-Deposit Ratio (LDR)This study found that the LDR variable affects financial distress; the beta coefficient is 2.946 and the significance value is 0.025, which is smaller than 0.05, according to the regression test results. Financial distress is indeed affected by the Loan to Deposit Ratio (LDR), as stated in the third hypothesis (H3). According to the results of the tests, the LDR ratio significantly increases the likelihood of financial distress; this indicates that the relationship between the two variables is unidirectional; in other words, as the LDR ratio increases, financial distress also increases. John and Ogechukwu (2018) and Fitrianna (2022) found that the Loan Deposit Ratio (LDR) affects financial distress, and our results are in line with that.

4.* Effect of Independent Commissioner on financial *distress

The study's findings show that the proportion of independent commissioners variable is significantly related to the dependent variable ($p < 0.05$) with a regression coefficient of -0.634. Hence, the independent commissioner variable (KI) does not influence financial hardship, according to the results of the tests. That being the case, we can rule out the possibility that the independent commissioner variable influences financial hardship (H4). This demonstrates that a company's financial health is not always directly proportional to the proportion of independent commissioners. Also, businesses that don't have a high enough percentage of independent commissioners won't be able to help a struggling business. Since the significance value yields insignificant results, this is consistent with the findings of Putri et al. (2018), who found that the size of the independent board of commissioners has no effect on financial distress.

5. The effect of *Return On Assets* (ROA) on financial distress

One way to evaluate a bank's management is by looking at their Return on Asset (ROA) ratio. A negative and statistically insignificant effect of ROA (with a coefficient of -1.33 and a significance level of 0.742) on the likelihood of financial hardship was determined by the regression test results. Thus, the conclusion

drawn from this study is that Return On Asset (ROA) is not a factor in financial hardship. We reject the fifth hypothesis (H5) that says Return On Asset (ROA) is a variable that affects financial distress. In this case, a higher ROA percentage has no bearing on whether or not a company will be in financial trouble. The converse is also true: a low ROA percentage does not always indicate financial trouble for a company. This study's findings corroborate those of Habibi Irsyadi and Puji Hartanto (2019), who found no relationship between financial distress and return on assets (ROA).

6. The effect of *Return On Equity* (ROE) on financial *distress*

Return on equity's (ROE) impact on financial hardshipAccording to the results of the regression, the return on equity (ROE) variable is statistically significant (p 0.974 > 0.05) with a beta coefficient of 0.035. Therefore, there is no statistically significant relationship between the ROE ratio and the likelihood of financial trouble. Therefore, we reject the sixth hypothesis (H6), which posits that financial distress is influenced by the variable Return On Assets (ROE). Whereas, a higher ROE percentage for a bank has no bearing on whether or not the company will be in financial trouble. The converse is also true: a low return on equity (ROE) percentage does not always indicate that a company is in financial trouble. This study's findings corroborate those of fitriana (2022), who found no relationship between financial distress and return on equity (ROE).

7. Effect of *Net Interest Margin* (NIM) on financial *distress*

Using a significance level of 0.001, which is less than 0.05, and a coefficient of 7.135, the Net Interest Margin (NIM) ratio was found to have an effect on financial distress in this study through multiple regression analysis. This means that there is an effect of Net Interest Margin (NIM) on financial distress, as shown by the acceptance of the seventh hypothesis (H7). This leads us to accept the seventh hypothesis (H7), which posits that financial distress is influenced by the variable of Net Interest Margin (NIM).

8. Effect of *Capital Adequacy Ratio* (CAR) on financial *distress*

A regressive coefficient value of 5.232 and a significance value of 0.0000 (less than 0.05) were found for the Capital Adequacy Ratio (CAR) in the partial test results. This proves that there is no correlation between the Capital Adequacy Ratio (CAR) and the likelihood of experiencing financial difficulties. Financial distress is indeed affected by the Capital Adequacy Ratio (CAR), as stated in the eighth hypothesis (H8). The likelihood of financial distress for a company is positively correlated with its CAR level, meaning that a lower CAR level is associated with a lower likelihood of financial distress for the company.

Regina Agriany (2022) found that financial distress is influenced by the Capital Adequacy Ratio (CAR), and our results corroborate that

CONCLUSIONS

1. The variables Non Performing Loan (NPL), Loan to Deposit Ratio (LDR), Independent Commissioner, Return On Assets (ROA), Return On Equity (ROE), Net Interest Margin (NIM), and Capital Adequacy Ratio (CAR) all influence financial distress collectively, according to simultaneous testing, with a significance value of 0.000 <0.005.

2. From the Results of Individual Exams While the variables of Non-Performing Loans (NPLs), independent commissioners, Return on Assets (ROA), and Return on Equity (ROE) did not show a significant effect on Financial distress, the following did: Loan to Deposit Ratio (LDR), Net Interest Margin (NIM), and Capital Adequacy Ratio (CAR).

FURTHER STUDY

To obtain more significant and different results, future researchers are expected to use the Zmijewski, Grover, and Springate bankruptcy prediction models by adding observation years. Other recommendations for future studies include including additional financial ratio variables like BOPO, Cash Ratio (CR), and Loan to Assets Ratio (LAR), as well as other samples for comparison like BUMN or BUMS banks.

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LITERATUR

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