

# Profitability Conventional Banking : Are influencing Inflation, Capital Resilience, Efficiency in Fund Gathering and Allocation?

Novi Darmayanti<sup>1\*</sup>, Ana Fitriyatul Bilgies<sup>2</sup>, Sevira Lupita Anjani<sup>3</sup>, Yerisma Welly<sup>4</sup>,  
Martin Yehezkiel Sianipar<sup>5</sup>

<sup>1,2,3</sup> Universitas Islam Darul' Ulum, <sup>4</sup> Sekolah Tinggi Ilmu Ekonomi Sultan Agung,

<sup>5</sup> Universitas Satya Terra Bhinneka

<sup>1</sup>[novidarmayanti@unisda.ac.id](mailto:novidarmayanti@unisda.ac.id), <sup>2</sup>[anafitriyatulbilgies@unisda.ac.id](mailto:anafitriyatulbilgies@unisda.ac.id).

<sup>3</sup>[sevira.2019@mhs.unisda.ac.id](mailto:sevira.2019@mhs.unisda.ac.id), <sup>4</sup>[welly.yerisma@gmail.com](mailto:welly.yerisma@gmail.com),

<sup>5</sup>[martinsianipar@satyaterrabhinneka.ac.id](mailto:martinsianipar@satyaterrabhinneka.ac.id)

\*Corresponding Author

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## ABSTRACT

*This research aims to examine and analyze the influence of inflation, Capital Adequacy Ratio, Loan to Deposit Ratio, and mobile banking on the profitability of conventional commercial banks (an empirical study of conventional commercial banks listed on the Indonesia Stock Exchange from 2018 to 2022). The research design has a causal associative nature with a quantitative approach. The population in this study consist of conventional commercial banks listed on the Indonesia Stock Exchange that implemented mobile banking technology for five consecutive years during the period 2018-2022. The sampling technique used is purposive sampling, resulting in 6 samples out of 30 conventional commercial banks. Data analysis is conducted through descriptive analysis, inner model analysis, outer model analysis, and hypothesis testing using the SmartPLS v.3.2.9 software. The research findings indicate that the variables of inflation, Capital Adequacy Ratio, and Loan to Deposit Ratio have a positive and significant impact on the profitability on conventional commercial banks. However, the mobile banking variable does not have a significant impact on the profitability of conventional commercial banks.*

**Keywords:** Inflation, Capital Adequacy Ratio, Loan to Deposit Ratio, Mobile Banking, Profitability

## INTRODUCTION

The global economy is moving fluctuations in line with the post-COVID-19 economic recovery and the rising inflation rates spreading across various countries. One of the main factors triggering the global inflation increase is the massive fiscal stimulus carried out by the United States government as an effort to mitigate the pandemic's impacts (Dora, 2023). This global inflation increase has an impact on various sectors, such as disruptions in the global supply chain and the rise in oil and other commodity prices due to high consumer demand. In March 2023, Indonesia's inflation reached 5,7% (Investing.com, 2023). This inflation increase has impacted the instability of various economic sectors, including the banking sector that plays a crucial role in the circulation of money within a country.

Inflation is a significant and sustained increase in prices that results in the decline of the intrinsic value of a country's currency (Nur et al., 2021). The increase in inflation rates has an impact on the decrease of real interest rates, thereby reducing the public's interest in saving and resulting in a decline in the growth of funds deposited in banks by the public. (Thio & Yusniar, 2021). The findings of the study by Jeevitha; Mathew; & Shradha (2019), support the presence of a significant influence between inflation rates and profitability. In contrast to the research conducted by Batsinda & Shukla, 2019, which found a positive correlation between inflation and banking profitability. Other studies such as Nur et al. (2021), Trisia & Rofi (2022), and Visita

(2019) present different findings, concluding that inflation does not have an impact on banking profitability.

According to Law No. 10 of 1998, banks are obligated to maintain their soundness by preserving an adequate level of capital as the primary source of operational funding and protection against potential losses on assets or liabilities in the future. The measurement of capital adequacy is often carried out through the Capital Adequacy Ratio (CAR), which indicates the bank's capability to provide funds to address the risk of losses from its banking operations (Anugrah & Yatna, 2019). A high CAR signifies the bank's stability in facing risky asset situations and enhances public trust, leading to improved profitability (Wahyuningsih et al., 2021).

Research conducted by Wahyuningsih et al. (2021), Setiawan et al. (2021), and Visita (2019) states that the Capital Adequacy Ratio (CAR) has a positive and significant influence on profitability. However, Anugrah & Yatna (2019) dan Abdurrohman et al. (2020) assert that CAR has a negative and significant impact on profitability. Some studies like Fanesha et al. (2021), Gusti et al. (2021), and Korri & Baskara (2019) conclude that there is no relationship between CAR and profitability.

Banks not only gather funds but also provide credit to the public as a source of income that reflects effectiveness and efficiency in fund management (Paramitha & Dana, 2019). The provision of credit utilizes funds from both the bank's capital and the public, and measuring the effectiveness of lending becomes crucial for maximizing profits. The volume of credit disbursed by banks is measured through the Loan to Deposit Ratio (LDR). A high LDR indicates low liquidity and potential difficulties for the bank in meeting obligations, while a low LDR signifies inefficiency in lending and reduces profitability opportunities.

Fanesha et al. (2021) and Korri & Baskara (2019) found a significant positive influence of Loan to Deposit Ratio (LDR) on profitability. However, Hasna et al. (2012) argue the opposite, with LDR having a negative impact on profitability. Wahyuningsih et al. (2021), Gusti et al. (2021), and Anugrah & Yatna (2019) concluded that there is no relationship between LDR and profitability.

One form of fintech innovation is mobile banking, which has become a part of people's lifestyles, allowing financial transactions through smartphones (Imamah & Ayu Safira, 2021). The utilization of mobile banking offers convenience for the public and benefits for banks, indicating their readiness to face disruptive innovations and enhancing performance efficiency and profitability by reducing operational costs (Anastasia & Munari, 2021).

Several studies, such as Melky Fuadi (2022), Puspita & Hendranto (2020), and Hidayat et al. (2021), indicate a positive relationship between mobile banking and profitability. However, Pasaribu & Riyadi (2022) found a negative relationship between the two, while Thio & Yusniar (2021) stated that mobile banking does not impact profitability.

The difference in this research from previous studies lies in the inclusion of mobile banking as an additional independent variable. The study was conducted within the timeframe of 2018-2022, aiming to address research gaps that emerged from the varied results of prior studies. This research is focused on conventional commercial banks whose credit disbursement is more dominant, considering the greater risk of losses faced by conventional commercial banks compared to Islamic banks.

Based on this background, the study seeks to examine the "Impact of Inflation, Capital Adequacy Ratio, Loan to Deposit Ratio, and Mobile Banking on the Profitability of Conventional Commercial Banks (An Empirical Study on Conventional Commercial Banks Listed on the Stock Exchange in the Years 2018-2022)" through an empirical approach.

## LITERATURE REVIEW

### Financial Accounting Theory

Financial accounting is the process of identifying, measuring, recording, and reporting financial information about an entity that is useful for decision-making by stakeholders of that entity (Kimmel et al., 2020). In this research, financial accounting theory is utilized to interpret the analysis of bank financial statements and to elucidate the impact of factors on bank financial performance in different situations. This theory provides pertinent recommendations for banks to optimize their financial performance.

## **Banking Accounting Theory**

According to Mahadwartha & Syahputra (2020), banking accounting is a process of recording, classifying, analyzing, and interpreting measurable financial data of banks based on accounting principles in banking, for use by stakeholders. Banking accounting theory aids this research by identifying factors influencing bank profitability, such as financial ratios and the impact of inflation and mobile banking on bank efficiency.

## **Profitability**

Profitability is a measure to ascertain the effectiveness and efficiency in carrying out operational activities (Trisia & Rofi, 2022). In relation to this research, the ratios used to measure profitability are Return on Assets (ROA) and Return on Equity (ROE). ROA is a ratio that measures net income against the total assets employed (Nadya Sumarno et al., 2021). A higher ROA indicates more productive asset management. ROE is a metric that calculates how much net income a company generates relative to its common equity, showing the amount of profit shareholders earn on their common stock investments (Paramitha & Dana, 2019). The higher the ROE, the greater the profitability obtained by the company, and conversely.

## **Inflation**

Inflation is the continuous increase in the prices of goods over a specific period of time, measured through a price index (Nur et al., 2021). Simanungkalit (2020) asserts that there are several theories underlying the occurrence of inflation, namely the quantity theory, Keynesian theory, and structural theory. In this context, inflation is explained through the Keynesian theory. The Keynesian theory was first proposed by Keynes (1936), stating that inflation can arise due to the desire of certain segments of society to live beyond their means (Nadya Sumarno et al., 2021). This prompts individuals to prioritize spending on consumption rather than saving in banks, leading to a decline in bank profitability.

## **Capital Adequacy Ratio**

According to Paramitha & Dana (2019), the Capital Adequacy Ratio (CAR) is a ratio that measures the adequacy of a bank's capital to bear the risk of losses from the provision of credit. CAR is measured by comparing the amount of capital to risk-weighted assets (Nadya Sumarno et al., 2021). Bank Indonesia has set a minimum CAR requirement of 8% of Total Minimum Capital as per Bank Indonesia Regulation No. 10/5/PBI/2008. A higher CAR indicates better resilience of the bank in facing the depreciation of asset value due to the emergence of problematic assets.

The CAR can be explained through the Pecking Order Theory, which involves the financing decisions of a company based on a risk hierarchy. The company's funding sources are divided into internal sources such as retained earnings and external sources such as debt and equity (Suhardi & Afrizal, 2019). Companies opt to use their internal funds to finance operational activities in order to minimize associated risks. Lower risks tend to enhance a company's profitability.

## **Loan to Deposit Ratio**

The Loan to Deposit Ratio is a ratio that indicates the amount of loans disbursed relative to the bank's own capital and funds obtained from the public (Paramitha & Dana, 2019). According to Bank Indonesia Regulation 15/7/PBI/2013, a favorable LDR falls within the range of 78% - 92%. The Anticipated Income Theory can provide an explanation related to the LDR. This theory offers insights into how banks can manage their funds to achieve high profitability and effectively manage risks.

## **Mobile Banking**

*Mobile banking* adalah suatu sistem yang memungkinkan penggunaanya untuk melakukan Mobile banking is a system that allows users to conduct financial transactions from mobile wireless devices or gadgets (Imamah & Ayu Safira, 2021). Implementing mobile banking services can expand a bank's market share, product reach, and reduce operational costs, thereby enhancing the bank's performance, especially in terms of profitability. Mobile banking can be explained through the Resource-Based View Theory, which suggests that the resources possessed by a company can

provide uniqueness and competitive advantage (Rari et al., 2019).

### METHOD

The research design employed is a causal associative study aiming to identify cause-and-effect relationships between each independent variable and the dependent variable (Abdurrohman et al., 2020). Meanwhile, the research approach employed is quantitative, with the goal of testing predetermined hypotheses to examine specific populations or samples using research instruments for data collection and quantitative or statistical data analysis (Sugiyono, 2020). The population for this study consists of conventional commercial banks listed on the Indonesia Stock Exchange (BEI) for the period 2018-2022, totalling 47 banks. The research sample comprises 6 conventional commercial banks listed on the BEI for the period 2018-2022: BBRi, BBNI, BBKA, BMRI, BNGA, and MEGA. In this study, the sample is determined using the purposive sampling technique, which involves selecting samples based on specific considerations (Sugiyono, 2020). The sample criteria include: (1) commercial bank sub-sector companies consecutively listed on the BEI during the period 2018-2022, (2) commercial bank sub-sector companies adhering to conventional principles, (3) commercial bank sub-sector companies that publish annual reports during the period 2018-2022, (4) commercial bank sub-sector companies presenting audited financial reports during the period 2018-2022, (5) commercial bank sub-sector companies implementing mobile banking, and (6) commercial bank sub-sector companies reporting the number of mobile banking transactions during the period 2018-2022.

### Operational Definition

Variable	Definition	Indicator	Scale	Source
<b>Dependent Variable</b>				
Profitability (Y)	Profitability is a measure to determine its effectiveness and efficiency in conducting operational activities.	Profitability is measured through: 1. ROA ( <i>Return On Asset</i> ) - Net profit after tax - Total assets $ROA = \frac{Net\ profit\ after\ tax}{Total\ Assets} \times 100\%$ 2. ROE ( <i>Return On Equity</i> ) - Net profit after tax - Total equity $ROE = \frac{Net\ profit\ after\ tax}{Total\ Equity} \times 100\%$	Ratio	(Trisia & Rofi, 2022)
<b>Independent Variable</b>				
Inflation ( $X_1$ )	Inflation is the continuous increase in the prices of goods over a specific period of time, measured by a price index	Inflation is measured through: CPI (Consumer Price Index) - Consumer Price Index (CPI) of this year - Consumer Price Index of the previous year $CPI = \frac{CPI - CPI_{t-1}}{CPI_{t-1}} \times 100\%$	Index	(Nur et al., 2021)
Capital Adequacy	CAR (Capital Adequacy Ratio) is a ratio that	CAR is measured through a ratio that consists of comparisons:	Ratio	(Paramitha & Dana, 2019)

<i>Ratio (CAR) (X<sub>2</sub>)</i>	measures the adequacy of a bank's capital, which is useful in bearing the risk of losses from the disbursement of granted credits.	<ul style="list-style-type: none"> <li>- Core Capital</li> <li>- Risk-Weighted Assets (RWA)</li> </ul> $CAR = \frac{\text{Core Capital}}{\text{RWA}} \times 100\%$		
<i>Loan to Deposit Ratio (LDR) (X<sub>2</sub>)</i>	The Loan to Deposit Ratio is a ratio that indicates the amount of loans disbursed relative to the bank's own capital and funds sourced from the public.	LDR is measured through a ratio that consists of comparisons: <ul style="list-style-type: none"> <li>- Total loans</li> <li>- Total third-party funds</li> </ul> $LDR = \frac{\text{Total Loans}}{\text{Total Third - Party Funds}} \times 100\%$	Ratio	(Paramitha & Dana, 2019)
<i>Mobile Banking (X<sub>4</sub>)</i>	Mobile banking is a system that enables users to conduct financial transactions from gadgets or other wireless mobile devices.	Mobile banking is measured through: <ul style="list-style-type: none"> <li>- Number of mobile banking users per year at each bank</li> </ul>	Number of users	(Imamah & Ayu Safira, 2021)

### Data Analysis Technique

Data analysis in this research employs Partial Least Square (PLS) analysis. The PLS (Partial Least Square) approach involves the following analysis techniques:

#### Descriptive Analysis

Descriptive statistical analysis provides a description of data for all variables under investigation (Paramitha & Dana, 2019). This analysis reveals the amount of data used in the research, the mean, variance, standard deviation, maximum, minimum, range, sum, skewness, and kurtosis (Ghozali, 2021).

### Outer Model Assessment or Measurement Model Analysis

This evaluation is conducted to test whether the measurements used as indicators are suitable for use (Hair Jr. et al., 2021). The model consists of two tests: validity test and reliability test (Hamid & Anwar, 2019).

#### a. Validity Test

According to Hamid & Anwar (2019), the validity test is intended to demonstrate the significant relationship between constructs and questionnaire items, as well as the insignificant relationship with other constructs. Validity testing is divided into convergent validity test and discriminant validity test.

#### a) Convergent Validity Test

Convergent validity testing is related to a principle stating that the measurements of a construct should be interrelated with a high level of correlation (Hamid & Anwar, 2019). The assessment of convergent validity can be observed based on loading factor values >0.7 and AVE (Average Variance Extracted) values >0.5, indicating high reflective measurement quality.

**b) Discriminant Validity Test**

Discriminant validity is related to a principle stating that measurements of different constructs should not have high correlation (Hamid & Anwar, 2019). Discriminant validity testing with reflective indicators can be conducted by examining the cross-loadings between indicators and their constructs, and using the Fornell-Larcker approach by comparing the square root of a latent variable with the correlations between that latent variable and other latent variables (Gio & Caraka, 2022).

**b. Reliability Test**

Reliability test aims to determine the extent to which an instrument has consistency, accuracy, and precision in measuring a specific construct (Hamid & Anwar, 2019). Reliability testing consists of indicator reliability test and consistency reliability test.

**a) Indicator Reliability Test**

Indicator reliability test is one of the reliability tests used to assess whether an indicator used in the measurement of latent variables is reliable or not. This can be determined by examining Cronbach's Alpha results  $>0.7$  for each indicator.

**b) Consistency Reliability Test**

Consistency reliability test involves internal reliability testing. To assess reliability, it is necessary to evaluate composite reliability  $>0.60$ , indicating that the measurement instrument is reliable (Ferdinandus et al., 2022).

**Inner Model Assessment**

The Inner Model is a testing that demonstrates the correlation between latent variables and their substantive theory (Hamid & Anwar, 2019). The assessment of the Inner Model can be conducted with the following criteria:

**a. Coefficient of Determination ( $R^2$ )**

The coefficient of determination is measured based on the Adjusted R-Square value. If the Adjusted R-Square values are 0.75, 0.50, and 0.25, the model is categorized as strong, moderate, and weak (Hamid & Anwar, 2019).

**b. F-Square**

F-Square is a measure used to assess the relative impact of exogenous variables on endogenous variables in a regression model. If the F-Square values are 0.02, 0.15, 0.35, then there are small, moderate, and large effects of exogenous variables on endogenous variables.

**Hypothesis Testing**

Hypothesis testing is conducted through the resampling bootstrap method developed by Geoseer and Stone (Thio & Yusniar, 2021). The significance value of the predictive model in testing the structural model can be obtained through Path Coefficient, T-statistics  $>1.710$ , and P-value  $>0.05$ .

**RESULTS****Descriptive Statistical Analysis**

Descriptive statistical analysis is one of the tests aimed at presenting a description of specific data to make the data clearer and easier to understand

**Table 1. Descriptive Statistics**

	No.	Missing	Mean	Median	Min	Max	Standard Deviation
IHK	1	0	2,877	2,770	1,843	4,789	1,079
CAR	2	0	22,658	22,189	17,049	31,038	3,096
LDR	3	0	75,698	80,230	24,140	98,849	16,789
Number of users	4	0	1.567.908.963	317.600.000	2.489.774	13.674.480.000	3.092.324.679
ROA	5	0	1,998	1,987	0,368	3,135	0,722
ROE	6	0	12,965	13,147	2,906	20,936	4,119

Source: Data processed by the researcher using SmartPLS v.3.2.9, 2023.

Based on Table 4.8, it is known that the analysis of the Inflation variable ( $X_1$ ) represented by the CPI indicator, has a minimum value of 1.843; a maximum value of 4.789; a mean value of 2.877; a median value of 2.770; and a standard deviation of 1.079.

The analysis of the Capital Adequacy Ratio (CAR) variable ( $X_2$ ) represented by the Capital Adequacy Ratio (CAR) indicator, reveals a minimum value of 17.049; a maximum value of 31.038; a mean value of 22.658; a median value of 22.189; and a standard deviation of 3.096.

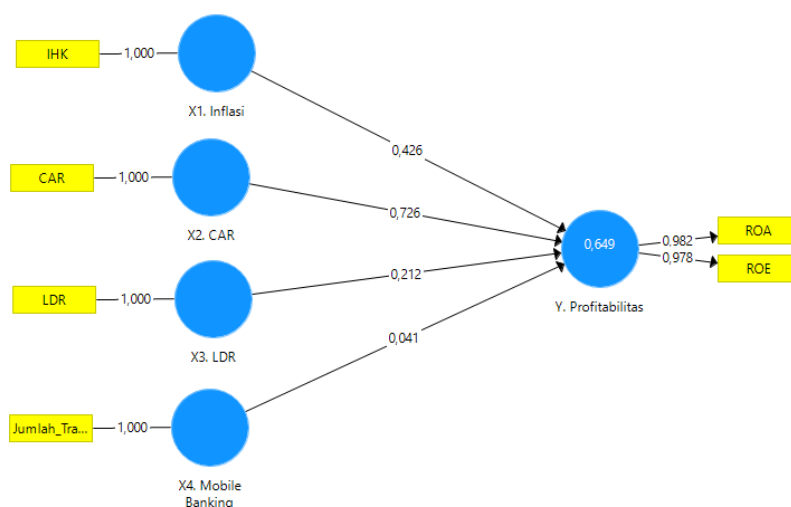
The analysis of the Loan to Deposit Ratio (LDR) variable ( $X_3$ ) represented by the Loan to Deposit Ratio (LDR) indicator, indicates a minimum value of 24.140; a maximum value of 98.849; a mean value of 75.698; a median value of 80.230; and a standard deviation of 16.789.

The analysis of the Mobile Banking variable ( $X_4$ ) represented by the Mobile Banking indicator, shows a minimum value of 2,489,774.00; a maximum value of 13,674,480,000.000; a mean value of 1,567,903,330.033; a median value of 317,600,000.000; and a standard deviation of 3,092,326,984.127.

The analysis of the Profitability variable (Y), represented by the Return On Asset (ROA) indicator, reveals a minimum value of 0.368; a maximum value of 3.135; a mean value of 1.998; a median value of 1.987; and a standard deviation of 0.722. Meanwhile, the analysis of the Profitability variable (Y), represented by the Return On Equity (ROE) indicator, has a minimum value of 2.906; a maximum value of 20.936; a mean value of 12.965; a median value of 13.147; and a standard deviation of 4.119.

### 1. Outer Model Assessment or Measurement Model Analysis

The Outer Model is one of the measurements aimed at testing the relationship between constructs and variable indicators (Hair Jr et al., 2021).



#### a. Validity Test

##### a) Convergent Validity Test

Convergent validity testing can be observed based on loading factor values  $>0.7$  and AVE (Average Variance Extracted) values  $>0.5$ , indicating high reflective measurement quality.

Table of Convergent Validity Test

Variable	Indicator	Criteria	Loading Factor	AVE	Evaluation
Inflation	CPI	$>0,5$	1,000	1,000	Valid
Capital Adequacy Ratio	CAR		1,000	1,000	Valid
Loan to Deposit Ratio	LDR		1,000	1,000	Valid

Mobile Banking	Number of users		0,982	1,000	Valid
Profitability	- ROA - ROE		0,978	0,980	Valid

Based on the table above, it can be observed that each indicator of variables including inflation, CAR, LDR, Mobile Banking, and profitability has a loading factor value greater than 0.5. Furthermore, based on the AVE values, it is evident that each variable has an AVE value exceeding 0.5. Thus, it can be stated that all constructs have good convergent validity.

#### b) Discriminant Validity Test

Discriminant validity testing with reflective indicators can be performed by examining Cross Loading values and the square of AVE using the Fornell-Larcker approach.

**Table of Discriminant Validity Test Based on Cross Loading Values**

	Inflation	CAR	LDR	Mobile Banking	Profitability
CAR	-0,016	1,000	-0,318	0,442	0,669
IHK	1,000	-0,016	-0,144	0,120	0,388
Number of Users	0,120	0,442	-0,110	1,000	0,389
LDR	-0,144	-0,318	1,000	-0,110	-0,084
ROA	0,351	0,707	-0,058	0,433	0,982
ROE	0,414	0,599	-0,110	0,323	0,978

Based on the testing results using the generated cross loading values, it is evident that all indicators have cross loading values greater than the cross loading values of other latent variables. Thus, all latent constructs have good discriminant validity, indicating that latent constructs can predict indicators in their own block better than in other blocks.

**Table of Discriminant Validity Test Based on Fornell-Larcker Values**

Variable	Inflation	CAR	LDR	Mobile Banking	Profitability
Inflation	1,000				
CAR	-0,016	1,000			
LDR	-0,144	-0,318	1,000		
Mobile Banking	0,120	0,442	-0,110	1,000	
Profitability	0,388	0,669	-0,084	0,389	0,980

Based on the results of the discriminant validity test using Fornell-Larcker values, it was found that all constructs in the study have square root of AVE values greater than the correlations between constructs and other latent variables. This indicates that the study has good discriminant validity according to the Fornell-Larcker approach.

#### b. Reliability Test

##### a) Indicator Reliability Test

The assessment of indicator reliability test is based on Cronbach's Alpha results >0.7 for each indicator.

**Table of Indicator Reliability Test**

Variable	Criteria	Cronbach's Alpha	Evaluation
Inflation	>0,7	1,000	Reliable
CAR		1,000	Reliable
LDR		1,000	Reliable
Mobile Banking		1,000	Reliable
Profitability		0,959	Reliable

Based on the results of the indicator reliability test using the Cronbach's Alpha method, it was found that all indicators have good reliability with Cronbach's Alpha values

>0.7. This indicates that the measurement instruments used in this study have high consistency, accuracy, and precision in measuring the intended variables.

**b) Consistency Reliability Test**

The assessment of consistency reliability test is based on Composite Reliability > 0.60, where if constructs have values above 0.60, they are considered reliable.

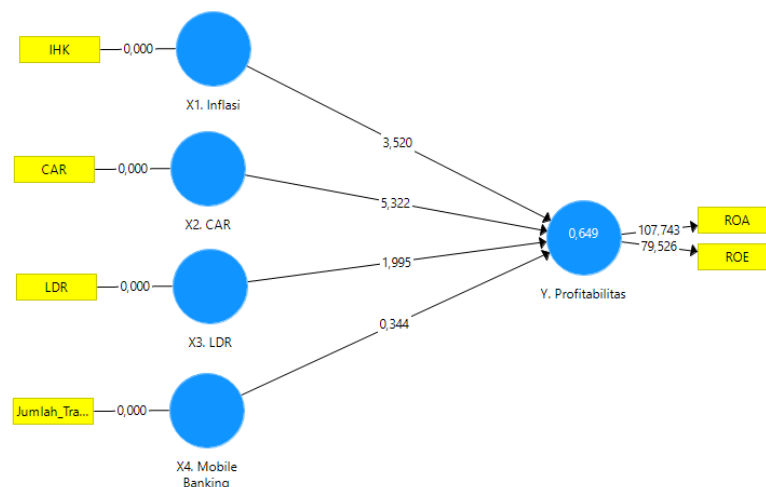
**Table of Consistency Reliability Test**

Variable	Criteria	Composite Reliability	Evaluation
Inflation	>0,60	1,000	Reliable
CAR		1,000	Reliable
LDR		1,000	Reliable
Mobile Banking		1,000	Reliable
Profitability		0,980	Reliable

Based on the results of the conducted consistency reliability testing, the testing outcomes indicate a high level of reliability for all tested constructs, as they possess composite reliability values > 0.60.

**2. Inner Model Assessment Analysis**

The inner model testing aims to determine the correlation between latent variables and the underlying substantive theory (Hamid & Anwar, 2019).



**a. Coefficient of Determination (R<sup>2</sup>)**

The coefficient of determination is measured through the Adjusted R-Square value. If the Adjusted R-Square is 0.75, 0.50, and 0.25, then the model can be categorized as strong, moderate, and weak respectively.

**Table R-Square**

	<i>R-Square</i>	<i>R-Square Adjusted</i>
<b>Profitability</b>	0,649	0,593

Based on the coefficient of determination testing results, it is known that the Adjusted R-Square in the model is 0.593. This means that the variables inflation, Capital Adequacy Ratio, Loan to Deposit Ratio, and Mobile Banking can explain 59.3% of the variability in profitability, while the remaining 40.7% is influenced by other variables not examined in this study. Therefore, the model falls into the moderate category.

**b. F-Square**

The evaluation of F-Square is based on changes in the R2 value if a specific exogenous variable is removed from the model, whether it has a substantive impact on the endogenous construct (Juliandi et al., 2018). If the F-Square values are 0.02, 0.15, and 0.35, then the exogenous variable has a small, moderate, and large effect on the endogenous variable.

**Table of F-Square Values**

	<b>Inflation</b>	<b>CAR</b>	<b>LDR</b>	<b>Mobile Banking</b>	<b>Profitability</b>
<b>Inflation</b>					<b>0,492</b>
<b>CAR</b>					<b>1,082</b>
<b>LDR</b>					0,112
<b>Mobile Banking</b>					<b>0,004</b>
<b>Profitability</b>					

Based on the above F-Square test results, the following conclusions can be drawn:

- The F-Square test result for the inflation variable on profitability is 0.492. This means that about 49.2% of the variability in profitability can be explained by variations in inflation. Therefore, the inflation variable has a significant effect ( $>0.35$ ) on profitability.
- The F-Square test result for the Capital Adequacy Ratio (CAR) variable is 1.082  $> 0.35$ . This indicates that 108.2% of the variability in profitability can be explained by variations in Capital Adequacy Ratio (CAR). Therefore, the Capital Adequacy Ratio variable has a significant effect ( $>0.35$ ) on profitability.
- The Loan to Deposit Ratio (LDR) variable has an F-Square value of 0.02  $< 0.112 < 0.15$ . This shows that 11.2% of the variability in profitability can be explained by variations in Loan to Deposit Ratio (LDR) and has a moderate effect.
- The Mobile Banking variable also demonstrates a relatively low effect on profitability, with an F-Square value of 0.004  $< 0.02$ . This means that 0.4% of the variability in profitability can be explained by variations in Mobile Banking.
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**Hypothesis Testing**

Hypothesis testing is used to test the causality described in the model, which is the relationship of the influence of exogenous variables on endogenous variables. The criteria used in hypothesis testing are:

- $H_1$  is rejected if the significance  $> \alpha = 5\%$  atau  $T_{\text{value}} < T_{\text{tabel}} (1,710)$
- $H_1$  is accepted if the significance value  $< \alpha = 5\%$  atau  $T_{\text{value}} > T_{\text{tabel}} (1,710)$

**Table of Hypothesis Testing**

	<b>Original Sample (O)</b>	<b>Sample Mean (M)</b>	<b>Standard Deviation (STDEV)</b>	<b>T Statistics ( O/STDEV )</b>	<b>P Values</b>
<b>Inflation -&gt; Profitability</b>	0,426	0,441	0,121	3,520	<b>0,000</b>
<b>CAR -&gt; Profitability</b>	0,726	0,729	0,136	5,322	<b>0,000</b>
<b>LDR -&gt; Profitability</b>	0,212	0,228	0,106	1,995	<b>0,046</b>
<b>Mobile Banking -&gt; Profitability</b>	0,041	0,056	0,118	0,344	<b>0,731</b>

Based on the table, the following conclusions can be drawn:

- The coefficient parameter value is 0.426, T-statistics  $> T$ -table ( $3.520 > 1.710$ ), and P-values ( $0.000 < 0.05$ ). Thus,  $H_1$  is accepted, meaning that inflation has a significant positive effect on the profitability of conventional commercial banks.

- b. The coefficient parameter value is 0.726, T-statistics > T-table ( $5.322 > 1.710$ ), and P-values ( $0.000 < 0.05$ ). Therefore, it can be concluded that Capital Adequacy Ratio has a positive and significant effect on profitability, leading to the acceptance of  $H_2$ .
- c. The coefficient parameter value is 0.212, T-statistics > T-table ( $1.995 > 1.710$ ), and P-values ( $0.046 < 0.05$ ). Thus, it can be concluded that Loan to Deposit Ratio has a positive and significant effect on profitability, leading to the acceptance of  $H_3$ .
- d. The coefficient parameter value is 0.041, T-statistics < T-table ( $0.344 < 1.710$ ), and P-values ( $0.731 > 0.05$ ). Therefore, it can be concluded that Mobile Banking does not have a significant effect on profitability, resulting in the rejection of  $H_4$ .

## DISCUSSION

### Influence of Inflation on Conventional Commercial Bank Profitability

The results of this study indicate a positive relationship between inflation and the profitability obtained by banks, where a higher inflation rate tends to lead to increased profitability and vice versa. In this study, it is noted that inflation has decreased due to the COVID-19 pandemic. Several factors contributing to this decline include low domestic interest rates, weak domestic demand, and low credit demand (Dithania & Suci, 2022). As a result, banks experienced a decrease in profitability.

This is in line with the research conducted by Dithania & Suci (2022), which suggests that inflation has a significant positive impact on the profitability of conventional commercial banks. Low inflation will encourage the public to deposit their money because the purchasing power of money tends to remain stable or even increase over time (Dithania & Suci, 2022). This condition will have a positive impact on bank profitability as banks can use these third-party funds for various investment activities or channel them back to customers with higher interest rates, thereby increasing the bank's profit margin.

Thus, the results of this study align with the Keynesian theory.

This study is consistent with the research conducted by Dithania & Suci (2022), Batsinda & Shukla (2019), and Dodi (2020), which suggest that inflation has a positive and significant effect on the profitability of conventional commercial banks.

### Influence of Capital Adequacy Ratio on Conventional Commercial Bank Profitability

The research results indicate that the higher the CAR value, the higher the profitability obtained by conventional commercial banks. An increase of one unit in CAR leads to a 72.6% increase in profitability. This suggests that the bank's performance is more stable in bearing risks from risky assets, increasing public confidence in conducting transactions with the bank. Consequently, the bank's profitability will increase. The research results adhere to the pecking order theory, where banks prefer to use their own internal capital or funds to finance operational activities to minimize risks (Suhardi, 2019). This study's findings are consistent with the results of research conducted by Paramitha & Dana (2019), Visita (2019), and Wahyuningsih et al. (2021), which state that Capital Adequacy Ratio has a positive and significant effect on the profitability of conventional commercial banks.

#### 1. Influence of Loan to Deposit Ratio on Conventional Commercial Bank Profitability

The research results show that bank profitability increases with an increase in the Loan to Deposit Ratio (LDR). A high LDR reflects a bank's ability to optimize third-party funds as credit to the public. However, it's important to note that the ideal LDR range is between 78% and 92%. Therefore, banks should maintain a reasonable LDR to ensure increased profitability.

This study fulfills the Anticipated Income Theory, which emphasizes the importance of maintaining liquidity, paying funds from third parties, allocating funds to credit, and effectively repaying bank debt to avoid risk (Anastasia & Munari, 2021). The results of this study are aligned with the research conducted by Paramitha & Dana (2019), Fanesha et al. (2021), and Gerinata (2021), which state that Loan to Deposit Ratio has a positive and significant effect on profitability.

#### 2. Influence of Mobile Banking on Conventional Commercial Bank Profitability

The research results indicate that an increase or decrease in Mobile Banking, measured

by the number of users, does not have a significant effect on bank profitability. This suggests that while mobile banking has become a significant part of modern banking services and enhances customer convenience in transactions, its impact on bank profitability is not substantial. Therefore, this study rejects the Resource-Based View Theory, where mobile banking as a unique corporate resource can provide competitive advantage (Rari & Rt, 2019).

This study is in line with the research conducted by Thio & Yusniar (2021), Wijayanti et al. (2021), and Arini (2021), which conclude that mobile banking does not significantly affect bank profitability.

### CONCLUSION

1. Based on the results of the first hypothesis testing, it is proven that the inflation variable has a positive and significant effect on bank profitability.
2. Based on the results of the second hypothesis testing, it is proven that the Capital Adequacy Ratio variable has a positive and significant effect on bank profitability.
3. Based on the results of the third hypothesis testing, it is proven that the Loan to Deposit Ratio variable has a positive and significant effect on bank profitability.
4. Based on the results of the fourth hypothesis testing, it is proven that the Mobile Banking variable does not have a significant effect on bank profitability.

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