

Assessing the Effect of Bank Performance on Profit Growth Using RGEC Approach

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ABSTRACT

Bank of Indonesia (BI) issued several regulations governing the assessment of a bank's performance, including assessment by using CAMEL, later, CAMELS. Recently issued BI regulations No.13/1/PBI/2011 stipulated that the assessment of a bank's performance must be based on RGEC—Risk Profile, Good Corporate Governance (GCG), Earnings and Capital. Although many researches examining the effect of bank performance on profit growth using CAMEL and CAMELS have been conducted in Indonesia, only a few have used the RGEC method as a proxy for bank performance and examine its impact on profit growth. The present work uses secondary data, such as annual reports and financial statements of banking companies listed in Indonesia Stock Exchange (BEI). Hypothesis testing is done using steps typically applied in SEM. The results show that risk profile, good corporate governance (GCG), earnings as well as capital, significantly affect growth with risk profile and capital exhibiting negative estimate values and a lower risk profile status of the bank enhancing growth in profit. It is shown that banking companies must fulfill the minimum capital and the amount of KPPM as required by the Bank of Indonesia. A bank unable to do so may be deemed to be in an unhealthy state. GCG and earning exhibit negative estimate values. The higher the level of GCG implementation in a bank, the higher is profit growth. If ROA increases, profits grow faster as performance is improved.

Keywords: banking, RGEC, performance level

1. INTRODUCTION

The banking sector has long been an attractive subject for study because of its important role as an intermediary institution mediating between people who have excess funds and communities needing funding. Banks with healthy financial performance are indispensable for ensuring that the function of mediation can proceed smoothly. However, the banking sector is perennially subject to challenges arising from dynamic economic conditions. For instance, external economic shocks stemming from the failure of mortgage payments (subprime mortgage) in the United States had caused severe instability during 2008.

Many US companies went bankrupt during that crisis, e.g., Lehman Brothers investment bank (the fourth largest in the US), Merrill Lynch, Citigroup, and AIG. During that crisis, not only were several international financial institutions in the West crumbling but some East Asian countries also suffered huge financial losses. The global financial and economic crisis resulting from the collapse of Lehman Brothers in 2008 caused great chaos and panic across global financial markets, including the banking industry in Indonesia. In many countries, the flow of funds and credit stopped completely, so daily transactions and economic activities were disrupted while massive outflows occurred. Since, at the time of the crisis, Indonesia had not imposed overall customer fund guarantees, it suffered much more serious capital outflows than countries insisting on such guarantees. Outflows created a severe liquidity crunch, so managing the flow of funds became difficult. On December 2008, the after tax profits of commercial banks fell sharply. The decline in profit was mainly due to higher costs of funds and the fact that customer funds were not guaranteed securely.

The episode underscored the importance of the remaining committed to Prudential Banking Principles (Bank Indonesia, 2010). This was evident from Indonesia's subsequent experience with yet another economic crisis (2009-2011). The term, Prudential Banking Principles, refers to a set of principles that have been practiced broadly since 1998. The principles oblige banks to maintain their performance levels in accordance with certain norms concerning capital adequacy, asset quality, management quality, liquidation, profitability, and solvency.

Banking institutions must maintain their performance levels by adhering to the precautionary principle applied during the 2008 global crisis (Darwini, 2005). The economic state of the Indonesian banking system during 2009-2011 was in the stages of transformation from recovery to growth. This was evident from the earnings growth noted after the global crisis in 2008 in BI statistics, where the majority of the banking company reported increased profits each year. Soon after 2008, the central bank issued several regulations starting with CAMEL and followed by CAMELS. A recent BI ordinance, # 13/1 / PBI / 2011, stipulated the use of RGEC approach (Risk Profile, Good Corporate Governance, Earnings and Capital). This regulation replaced the previous central bank regulation, PBI No.6 / 10 / PBI / 2004; the assessment factors were classified into six factor sets called CAMELS (Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risks).

Among studies investigating the relationship between the CAMEL/CAMELS and profit growth was Hapsari (2010), which indicated that capital, credit ratio, the ratio of assets, and liquidity have an influence on future growth in a banking company's earnings growth. Savitri (2011) showed that NPL, NIM, and LDR are proxies for the financial performance levels of banks and have an impact on profit growth while LDR has no effect. Fathoni, et al. (2012) showed that the CAR, NPL, Return of Assets (as proxy of CAMELS) have an influence on the bank's profit growth while the NPM, LDR, Interest Rate Risk have no effect on the growth of bank profits. Meanwhile Sapariyah (2010) stated that the bank's performance indicators such as NPL, NIM, and the LDR have little effect on profit growth.

It is evident that researchers have already been trying to investigate the relationship between the banking performance using several methods such as CAMEL and CAMELS on the growth of bank profits but the generated results were not conclusive, except that there has so far been little research using RGEC (Risk Profile, Good Corporate Governance, Earnings and Capital).

To redress the above gap, this study seeks to answer the following questions:

- Does the risk profile have at least a partial effect on the bank's profit growth as an indicator of the performance of the bank?
- Does corporate governance have at least a partial effect on profit growth?
- Do earnings have at least a partial effect on profit growth?
- Does capital have at least a partial effect on profit growth?
- Does RGEC affect profit growth?

2. LITERATURE REVIEW

A bank is a financial institution or a company engaged in the financial sector. In developed countries, banking is a major prerequisite for completing all requirements for all transactions (Partina and Rahmawati, 2007). Banks can be interpreted simply as a financial institution whose main activity is collecting funds from the public and channeling them back to due members of the community and providing other banking services. From the viewpoint of the bank, a bank can be seen as a place for exchanging money. According to Law No. 1998 of 10 November 1998 on banking, banks are business entities that raise funds from the public in the form of savings and channel them to the public in the form of credit and other forms in order to improve public standard of living. The banking business is always associated with financial problems.

2.1 Bank Performance Levels

The performance level of a bank is an important feature that should be known to its stakeholders. Assessment of a bank performance is useful in implementing GCG and facing future risks (PBI No.13 / 1 / PBI / 2011). Especially for the shareholders, the assessment of bank performance level will act as a signal determining investment decisions. Spence (1973) developed signaling theory which states that, by giving a signal, the shipper (owner information) seeks to provide pieces of relevant information that can be used by the receiving party. A higher performance level of a bank affects the price of the bank's shares in the stock market (Praditasari, 2012).

Assessing banks performances is one of the jobs of Bank Indonesia. Assessment is done under the guidance of a set of regulations governing the supervision of banks. Oriented risk, proportionality, materiality and significance as well as notions of comprehensiveness and structure are among the general principles to be considered (Circular Letter No.13 / 24 / DPNP) while assessing a bank's performance by analyzing its financial statements. Financial statements present a means for providing financial information for consideration during decision-making by the parties concerned (Kieso et al. 2007). In general, assessment of bank performance, has undergone significant changes since it was first enacted upon in 1999, namely from CAMEL to CAMELS to the present RGEC method being used by BI. Through RGEC, the central bank seeks to ensure that banks are able to identify problems even earlier, to follow up through the appropriate repairs faster, and implement Good Corporate Governance (GCG) and better risk management so banks become more robust against financial crises.

2.2 RGEC

However, as banks develop and become more complex, CAMEL and CAMELS have become less effective in evaluating the performance of a bank; the CAMEL method does not provide a conclusion that leads to an assessment of factors of different natures (Bayu aji permana, 2012). To address this problem, on October 25, 2011 the central bank issued a new regulation on the assessment of the level of performance based on the approach of risk (Risk-Based Bank Rating) that includes all the four factors of measurement, i.e., risk profile, good corporate governance (GCG), earnings (earnings) and capital (capital), in short, RGEC. RGEC a bank performance assessment method based on central bank regulation no. 13/1 / PBI / 2011 with regard to a general assessment of bank performance. RGEC consists of a set of ordinances concerning bank ratings, which replace previous ordinances on CAMEL ratings.

The risk profile includes eight types of risk: (a) credit risk, (b) market risk, (c) liquidity risk, (d) operational risks, (e) legal risks, (f) strategic risk, (g) the compliance risk, and (h) reputation risk. Some indicators in the previous CAMELS were realigned to include new Risk Profile factors. For example, the factor of "L", or Liquidity, and the factor "S", or Sensitivity to market risk, in CAMELS assessment have been merged into factor "R" in the RGEC assessment procedure.

Important details concerning RGEC performance assessment methods contained in the Bank Indonesia Regulation Number 13/1 / PBI / 2011 dated January 5, 2011 on the Assessment of Commercial Banks are as follows. First, in this study, the risk profile of an assessment of the inherent risk and quality of risk management in the operational activities of the bank used the results from self-assessment ratings that are compulsory in banking (PBI No.13 / 1 / PBI / 2011). Second, Rules of Good Corporate Governance (GCG) is a system that regulates the relationship between stakeholders in the achievement of corporate objectives (Zarkasyi, 2008), in which the proxy used to measure the GCG consists of the composition of an independent board, a number of directors, a number of audit committee members and institutional ownership. Research conducted by Nurkhin (2009), Arifani (2013) and Winda (2013) has shown that all four of these variables affect the performance of the company. Third, rentability (earnings) shows the company's ability to generate profits from capital invested in total assets (Marlina and Clara, 2009) as measured by Return On Assests (Anggraini, 2011; Papadogonas, 2005; Rose in Kuncoro and Suhardjono, 2002); refer to the Circular Letter No. 6/23 / DPNP where adequate ROA is above 1.25 percent. Finally, capital shows the amount of the minimum capital required to cover the risk of loss that may occur from the planting of assets containing risks and finance the fixed assets and inventory bank; BI requires banks to provide a minimum capital of 8 percent of risk-weighted assets (PBI No. 10/15 / PBI / 2008). Among the few studies that have used a rating system for assessing bank performance with the method of CAMELS include Karya Utama and Dewi (2012), Dash and Das (2009) and Nimalathanasan (2008) who indicated that the CAMELS can be used as an assessment of the level of banking performance in Indonesia.

2.3 Research Hypotheses

Based on previous studies, this study has sought to investigate the effect of bank performance levels by using RGEC methods to assess profit growth, so the hypotheses developed in this study are:

H1: Risk profile has an effect on profit growth

H2: Good Corporate Governance has an effect on profit growth

H3: Earnings has an effect on profit growth

H4: Capital has an effect on profit growth

3. RESEARCH METHODOLOGY

This research used a form of Structural Equation Modeling (SEM). As for the measurement model, a Confirmatory Factor Analysis (CFA) pointed to a latent variable measured by one or more variables observed. The latent variables used in this research are the risk profile, good corporate governance, earnings, capital, and profit growth. Figure 1 illustrates the model.

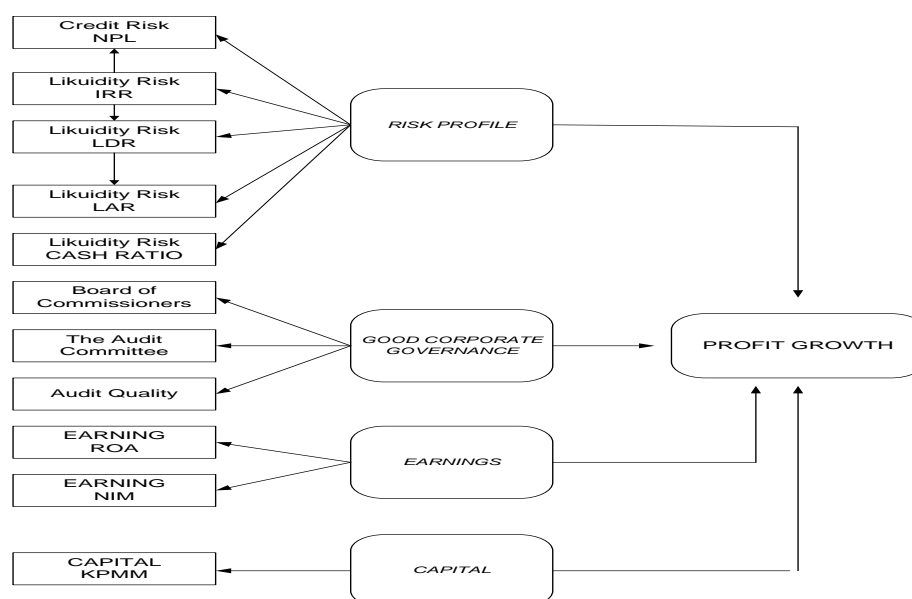


Figure 1.
Research Model

3.1 Variable Operationalization

Latent variables are the key variables that are the focus of attention in this study. A variable is an abstract concept that can only be observed indirectly and imperfectly through its effect on observed variables (Wijanto 2006). The variable of interest in this research is profit growth. The latent variables are risk profile, good corporate governance, earnings, and capital.

Profit Growth

Profit growth is the relative growth calculated from the difference in earnings between the current year and the previous year divided by the previous year's earnings. This growth is considered to be more representative than absolute growth due to the fact that the use of relative growth rate will reduce the company's internal influences (Machfoedz, 1994). Profit growth in 2005 was calculated from the difference between profits in 2005 with the profit in 2004 divided by profits in 2004:

$$\Delta Y_n = \frac{Y_n - Y_{n-1}}{Y_{n-1}}$$

Dimana:

ΔY_n = Profit growth year-to-n

Y_{n-1} = profits the previous year

n = year-to-n

Risk Profile

Risk Profile is just one indicator of the performance of the bank. The RGEC method has eight indicators of risk: credit risk, market risk, liquidity risk, operational risk, legal risk, strategic risk, compliance risk, and reputation risk. This study uses only credit risk, market risk and liquidity risk as measures of risk profiles because the other five risk profiles that—operational risk, legal risk, strategic risk, compliance risk, and reputation risk—can't be quantified. Three risk profiles that can be quantified are credit risk, market risk, and liquidity risk.

Net Performing Loan (NPL) is a ratio that reflects the amount of problem loans faced by banks. The higher this ratio, the worse are credit quality banks causing great numbers of problem loans, and the possibility the bank is facing a more problematic condition. The credit risk assessment method described in Appendix I of Bank Indonesia Circular No13 / 24 / DPNP dated October 25, 2011, is based on the following calculation:

$$\text{NPL} = \frac{\text{Non-Performing Loans}}{\text{Total Credit}} \times 100\%$$

Market risk assessment (see Appendix I of Bank Indonesia Circular No13 / 24 / DPNP dated October 25, 2011) is based on the inherent risk held by banks from the viewpoint of the Net Open Position (NOP). NOP is the sum of the absolute value of the amount of the net difference between assets and liabilities in the balance sheet for each foreign currency, plus the net difference between receivables and liabilities, comprising commitments and contingent on account administration for each currency. These are all stated in rupiah in accordance with Bank Indonesia provisions concerning net open position.

Market risk assessment based is based on the following calculation:

$$\text{Net Open Position (PDN)} = \frac{\text{PDN}}{\text{Total Capital}} \times 100$$

Loan to Deposit Ratio (LDR) reflects the ratio between financing granted by commercial banks to their customers more than incoming funds, or funds collected from the public. According to Siamat (2005), LDR is a ratio that provides an indication of the amount of third party funds distributed in the form of credit. Judging from the ability of banks to finance, the higher the LDR, the greater is the financing provided to customers in the form of bank credit. Then the bank's profit derived from loan interest is even higher. According to banking practitioners, the safe limit for LDR was 80%.

According to Appendix I, in this study the liquidity risk will be measured using the Loan to Deposit Ratio (LDR), with the following formula:

$$\text{LDR} = \frac{\text{Total Loans}}{\text{Total Deposits} + \text{Bank Indonesia Liquidity Credit} + \text{Core Capital}} \times 100\%$$

Good Corporate Governance

1. Measurement by the Board of Commissioners
The size of the Board of Commissioners is SIZEKOM, calculated as:
 $DEKOM = \Sigma \text{ Internal Commissioner} + \Sigma \text{ External Commissioner}$
2. Measurement of the Audit Committee
The size of the audit committee is SIZEDIT, calculated as:
 $KOMDIT = \Sigma \text{ Internal Audit Committee} + \Sigma \text{ External Audit Committee}$
3. Measurement of Quality Audit
The, variable, audit quality, is measured using variable audit opinions by external auditors. Quality audit is symbolized by KUADIT. Variables audit opinion in this study using the audit opinion are provided by the external auditor to the bank.

Earning

Analysis of bank profitability ratio is a measuring tool useful in assessing the level of business efficiency and profitability achieved by the bank concerned (Dendawijaya, 2003). One general goal of a bank is to make a profit. One way to measure the performance of a bank is to determine its ability to make profit. A bank constantly suffering losses from operations will run out of capital. Banks in such a state can't be said to be good performers. Return on Assets (ROA) focuses on the company's ability to derive earnings from its operations, whereas Return on Equity (ROE) only measures the returns earned on an investment in the company's business (Siamat, 2002).

The ratio that can be used to assess profitability is the net interest margin. According to Husnan (1998), the greater the ROA, better is the bank's financial performance, because the greater is the return. When the ROA is increased, increasing the company's profitability, the company's performance also improves. The ratios used in this study are the Net Interest Margin (NIM) and Return on Assets. They measure the ability of the bank's management in managing its productive assets to generate net interest income; the greater this ratio, the greater is the bank's earnings derived from interest income.

Capital

This research has used assessing capital adequacy ratio of capital or capital factors as a part of the assessment of the bank. The calculation of the Capital and Risk Weighted Assets (RWA) is guided by the provisions of Bank Indonesia regarding Capital Adequacy Ratio (KPPM) of commercial banks. In this study, the capital adequacy ratio was calculated using the formula:

$$KPPM = \frac{\text{Capital}}{\text{Risk-Weighted Assets}} \times 100\%$$

The data used in this research are secondary in nature, such as annual reports and financial statements of banking companies listed in Indonesia Stock Exchange (BEI), which came from the official website of the Stock Exchange (www.idx.co.id), and the official website of the bank. The data include:

1. Data on the board of directors, audit committee and external auditors were obtained from the bank's annual report in 2013.

2. Data risk profile, earnings, and capital were obtained from the bank's financial statements in 2013.

The units of analysis in this study are banks listed on the Indonesia Stock Exchange (BEI) in 2013. Testing is conducted by following the steps in SEM using the method of maximum likelihood estimation (MLE). According to Hair et al. (1998), evaluation of the degree of fit of the data to the model SEM was done through the following steps:

1. The overall model fit
2. The measurement model fit
3. The structural model fit

4. RESULTS AND DISCUSSION

Overall model fit

The analysis of the structural model in SEM began with testing the overall model fit as seen by the indicators Goodness-of-fit index (GFI) statistics of output LISREL (Hair et al., 1995). A summary of the critical values in the overall suitability testing model is provided in Table 1.

Table 1. The overall model fit

| Criteria Fit of Model | Indicator of Level Fit | Result of Estimation Model | Level Of Model Fit |
|-----------------------|--|--|--------------------|
| RMSEA | RMSEA < 0,08 | 0,00 | <i>Good fit</i> |
| P (close fit) | P > 0.05 | 1.00 | <i>Good fit</i> |
| ECVI | Smaller values of Independence and closer to Saturated Model | M* = 0.93 S** = 1.21 I*** = 1.46 | <i>Good fit</i> |
| AIC | Smaller values of Independence and closer to Saturated Model | M* = 42.00 S** = 129.15 I*** = 156.00 | <i>Good fit</i> |
| CAIC | Smaller values of Independence and closer to Saturated Model | M* = 119.32 S** = 173.33 I*** = 443.21 | <i>Good fit</i> |
| NFI | NFI > 0,90 | 1.00 | <i>Good fit</i> |
| NNFI | NNFI > 90 | 2.69 | <i>Good fit</i> |
| CFI | CFI > 0,90 | 1.00 | <i>Good fit</i> |
| IFI | IFI > 0,90 | 2.18 | <i>Good fit</i> |
| RFI | RFI > 0,90 | 1.00 | <i>Good fit</i> |
| RMR | Standardized RMR < 0.05 | 0.048 | <i>Good fit</i> |

| Criteria Fit of Model | Indicator of Level Fit | Result of Estimation Model | Level Of Model Fit |
|-----------------------|---|----------------------------|--------------------|
| GFI | GFI >0,90, <i>good fit</i> ; 0.90 < GFI > 0.80, <i>marginal fit</i> | 0,82 | <i>Good fit</i> |

The overall results represent estimates based on existing criteria and the values reported are marginal. Based on the reliability of the overall model output for testing, we could confirm the validity of the model; it is marginally fit.

Measurement model fit

To test the model, fit measurements were performed against each construct separately through an evaluation of construct validity and reliability (Wijanto, 2006). The aim of this testing phase was to ensure that the constructs used in the study had met the criteria of validity and reliability.

Validity Test

Validity testing was done using the Student t value and the standardized loading factor. t-values should be above the critical value 1.96 and standardized loading factor greater than 0.5 (Iqbaria et al., 1997). Questions that are not valid criteria can't be included in further testing. Factor loadings for each indicator against the latent variables are presented in the diagram path obtained by running LISREL program.

The validity and reliability of each construct of observed variables can be seen in Table 2.

Table 2. Validity and Reliability Model

| No | Variable Observe | Confirmatory Factor Analysis | | | |
|---------------------|------------------|------------------------------|---------|--|-------------------------------------|
| | | Validity | | Reliability | |
| | | SLF | t-value | Construct Reliability (CR \geq 0.70) | Variance Extracted (VE \geq 0.50) |
| 1 | NPL | 0.98 | 14.01 | | |
| 2 | PDN | 0.99 | 14.46 | | |
| 3 | LDR | 0.99 | 14.20 | | |
| 4 | LAR | 0.74 | 9.04 | | |
| 5 | CASH | 0.99 | 14.45 | | |
| RISK PROFILE | | | | 0.976 | 0.892 |
| 1 | KPPM | 1.00 | 1.00 | | |
| CAPITAL | | | | 0.990 | 0.990 |
| 1 | DEKOM | 0.99 | 14.45 | | |
| 2 | KOMDIT | 1.00 | 14.53 | | |
| 3 | KUADIT | 0.67 | 7.91 | | |
| GOVERNANCE | | | | 0.925 | 0.811 |

| No | Variable Observe | Confirmatory Factor Analysis | | | |
|----------------|------------------|------------------------------|---------|---|--|
| | | Validity | | Reliability | |
| | | SLF | t-value | Construct Reliability (CR \geq 0.70) | Variance Extracted (VE \geq 0.50) |
| 1 | ROA | 1.00 | 14.52 | | |
| 2 | NIM | 0.99 | 14.39 | | |
| EARNING | | | | 0.992 | 0.992 |

Based on the results for the five variables lisrel program RISK PROFILE, variable CAPITAL, GOVERNANCE three variables, and two EARNING variables, showed that all had t values above the critical magnitude of 1.96 and a standardized loading factor above 0.5. Satisfying these criteria was taken to indicate validity.

Test Reliability

Reliability test aims to test the consistency of the grains present in a question or a statement in the questionnaire. To test the reliability of this test is conducted by calculating the construct reliability and variance extracted from each of the observed variables (Hair et al. (1995)). To calculate the reliability and variance extracted construct, we used the following formula:

$$\text{Construct Reliability} = \frac{(\sum \text{std.loading})^2}{(\sum \text{std.loading})^2 + \sum e_j}$$

$$\text{Variance Extracted} = \frac{\sum \text{std.loading}^2}{\sum \text{std.loading}^2 + \sum e_j}$$

std.loading : standardized loading
 e_j : measurement error

If the construct reliability of a calculation is larger than 0.70 and the extracted variance greater than 0.50, it can be said that the reliability of the construct is quite good (Wijanto, 2008). The figures used to calculate the reliability construct and the variance extracted are taken from the standardized solution. Summary calculations of the construct reliability and the extracted variance for the latent variables are presented in Table 2.

All the results for RISK PROFILE, variable CAPITAL, the three GOVERNANCE variables, the two EARNING variables have values above 0.70 for Construct Reliability (CR > 0.70) and values above 0.5 for Variance Extracted (VE > 0.50). This confirmed that all the variables were reliable.

The structural model fit

The coefficients of structural equations were analyzed by specifying a certain level of significance. The purpose of analysis was to test the hypotheses proposed in this study.

For a significance level of 0.05, t value of structural equation must be greater than or equal to 1.96 or greater for practical purposes equal to 2 (Wijanto, 2008). Structural Equation Model:

- H1: Risk profile has an effect on profit growth
- H2: Good Corporate Governance has an effect on profit growth
- H3: Earnings has an effect on profit growth
- H4: Capital has an effect on profit growth

$$\text{EARGROW} = -0.30*\text{RISKPROF} - 0.11*\text{CAPITAL} + 0.12*\text{GCG} + 0.33*\text{EARNING}$$

| | | | |
|---------|---------|---------|---------|
| (0.023) | (0.011) | (0.013) | (0.025) |
| -13.10 | -10.53 | 9.07 | 13.37 |

Errorvar = 0.0050, R² = 0.98

It can be seen from the above equation that all the coefficients have significant t values larger than 2. This means that the structural equation has represented the complete hypothesis. It can be concluded that hypotheses H1, H2, H3, and H4 have been shown to be significant, but the sign for each t-value per indicator shows a different sign. Hypothesis 1 and Hypothesis 2 prove the significant influence of risk profile and capital on profit growth with a negative sign. As for hypotheses 3 and 4, they have t-values greater than 2 but have positive signs, i.e., positive influence. Next, we assessed how good the coefficients of determination of the structural equations were, judging from the magnitude of R² (Wijanto, 2006). The LISREL test results can be seen in Equation Reduced Form R² values. The value of R² is 0.98, which means that the model is able to explain 98% of the change in the latent variable profit growth.

The conclusion is that model has worked quite well. The overall t values for the four hypotheses are summarized in Table 3.

Table 3. t-value for each hypothesis

| Hipotesa | Path | Estimate | Nilai t-value | Conclusion |
|----------|------------------------|----------|---------------|-------------|
| H1 | RISK PROFILE → EARGROW | -0.30 | -13.10 | Significant |
| H2 | CAPITAL → EARGROW | -0.11 | -10.53 | Significant |
| H3 | GCG → EARGROW | 0.12 | 9.07 | Significant |
| H4 | EARNING → EARGROW | 0.33 | 13.37 | Significant |

Figure 2 shows the results path diagram.

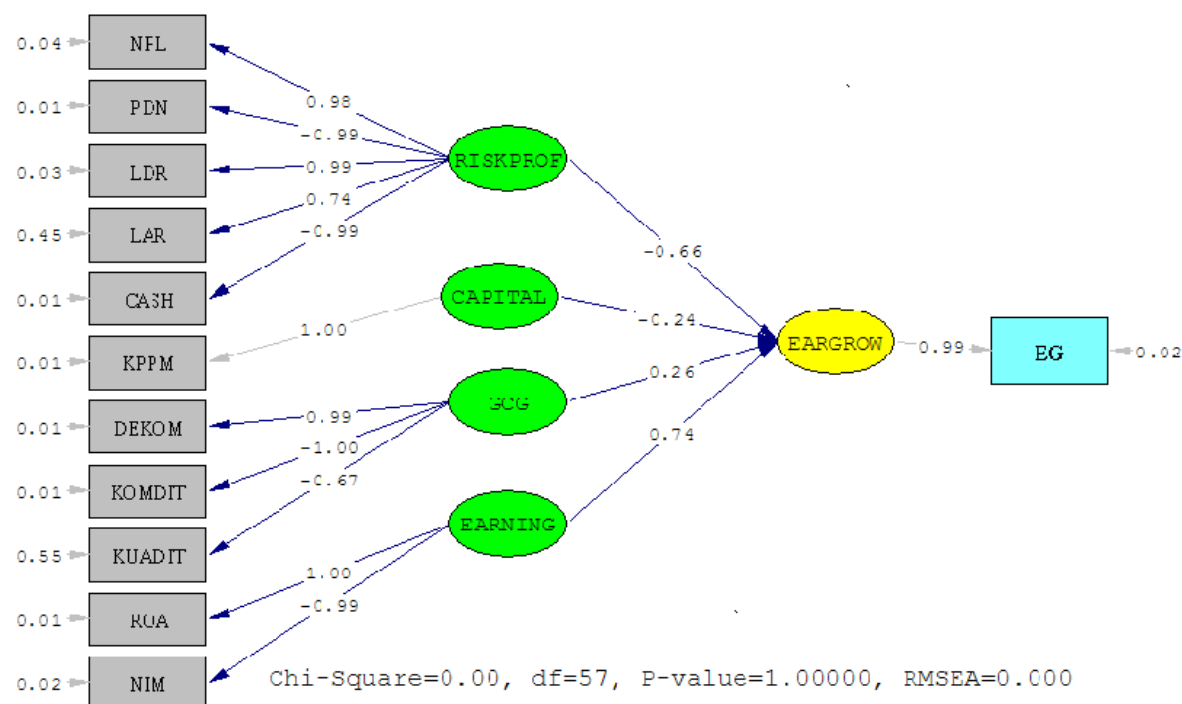


Figure 2
Path Diagram

Analysis of Test Results

Risk profile has been found to have a significant negative effect on profit growth of profits because lower risk profiles of banks will increase a company's profit growth. Risk Profile is measured using the ratios related to NPL, PDN, LDR, LAR, and CASH. The lower the risk profile of a company, higher is the growth in profits generated by the bank.

Results pertaining to the second hypothesis showed a significant negative relationship between capital and profit growth. Every banking company is expected to be able to meet the minimum capital stipulated by the central bank (KPPM). These regulations can be expected to be beneficial to the bank itself and its customers. Banks with a predetermined minimum capital can grow and achieve increased profits and asset increases. The Central bank (BI) has also stipulated that the bank can't fulfill the KPPM limit declared for unhealthy banks. The performance of a bank with relatively small capital and only at the minimum KPPM limit does not affect the number of profit changes.

Results for the third hypothesis showed a positive and significant effect, meaning there is a positive and significant relationship between good corporate governance mechanisms and profit growth. This means that a superior GCG implementation mechanism in a bank will enhance a bank's profit growth. Good Corporate Governance is measured by using a board of commissioners, an audit committee, and audit quality. The results have confirmed that the implementation of GCG mechanism

in a bank will also improve profit growth. Research results for the third hypothesis are in line with those for the fourth hypothesis which showed, meaning that there is a positive and significant effect on the ratio of earnings to profits growth. This study is consistent with and supports research by Husnan (1998) which states that the greater the ROA, greater is the profit growth because of a greater the level of return. When the ROA increased, thus increasing the company's profitability, the company's performance also improves so the bank's profit growth is improved. The ratio used in this study is the Net Interest Margin (NIM) and Return on Assets. This ratio measures the ability of the bank's management in managing its productive assets to generate net interest income. So the greater this ratio, the greater are the bank's earnings derived from interest income.

5. CONCLUSIONS

This research has been motivated by a range of previous studies using RGEC to the profit growth. The purpose of this study was to assess the extent to which RGEC can affect the likelihood of a company achieving profit growth.

Risk profile proved to significantly affect earnings growth but with an estimated negative value. A lower risk profile status of a bank will improve its profit growth.

Good Corporate Governance (GCG) has been found to significantly affect earnings growth; with a positive estimated value. A better GCG implementation mechanism in a bank will increase the bank's profit growth.

Earning proved to significantly affect profit growth, with a positive estimate value. This means that, with a greater ROA, the profit growth also gets better because of greater returns. If ROA increases, the profitability of the bank increases along with its performance.

Capital proved to significantly affect profit growth; with a negative estimate value. Banking companies should fulfill the minimum capital requirement and the amount of KPPM required by the Bank of Indonesia. A bank that is unable to fulfill these requirements is unhealthy. The performances of banks with relatively small capital and above the minimum limit of the value of appropriate KPPM did not affect profit growth.

Future studies should seek to increase the number of samples and expand the number of years of observation (firm years) as well as investigate the level of performance of banks suspected of having an effect on profit growth.

The major limitations of this study relate to the small number of respondents used which has meant that one could not use the weighted least square (WLS) which could have led to different results.

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