CHAPTER 2

LITERATURE REVIEW

Under this chapter, theoretical and empirical evidence focusing on the bank profitability of Private Commercial Banks BUKU IV in Indonesia are being presented. Accordingly, the first segment describes the overall overview of bank and profitability concepts. The second section presents brief information about Private Commercial Banks BUKU IV. And at last, the third section demonstrates review of empirical studies on factors that can impact a bank's profitability.

2.1. Theoretical Overview of Banks Profitability

The theoretical framework was, through a review of existing literature within the banks profitability range, to serve as a platform for the imminent empirical study.

2.1.1. Definition of Bank

Many authors and organizations described banks in different ways. However, the concept of banks is usually the same among authors/organizations, which is as the business activity of accepting and storing money owned by individuals or organizations, and then lending out the money in order to earn a profit.

According to Reserve Bank of India, Section 5 in Banking Regulation 1949, "banking" means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise;.

According to Heffernan (Modern Banking, 2005) definition :

The term ''banking'' can be applied to an enormous range of financial institutions, from savings and loans institutions to the large money-centre commercial banks in the USA, or from the smallest mutually owned building society to the ''big four'' shareholder owned banks in the UK. Numerous European nations have huge regional banks in addition to three to five universal banks. The arrangement of deposit and loan services regularly distinguishes banks from different kinds of monetary firms. Deposit items pay out cash on request or after some notification. Deposits are liabilities for banks, which should be overseen if the bank is to maximise profit. Similarly, they manage the available resources made by loaning. Consequently, the main activity is to act as mediators among depositors and borrowers (Heffernan, 2005 p.1).

Indonesian Law No. 10 year 1998 about *Perbankan* defined a bank as a business entity that collects money from society in the form of savings and gives money to needy society in the form of loans or other forms in order to increase the welfare of Indonesian society. As general, a bank is a firm that performs business activity conventionally, which in the process gives services in the payment traffics. The other researcher defined a bank as a financial institution which deals with debits and credits. It lends, accepts and deposits money, builds the gap between the lenders and the borrowers. Banks are not only dealing with money but are also producers of money (Prabhavathi, 2018).

2.1.2. History and Evolution of Bank in General

Banks have been around since the first currencies were brought into existence and even before that. Before the development of money or cash, barter system was being used, individuals would obtain the goods and services in exchange of other goods or services. The second phase of bank evolution was when people started using the receipts given by the goldsmiths as the medium of exchange.This period was when vendors began lending the portion of their deposits to generate profits which comes in the form of interest which was the third stage of evolution. Goldsmith began the business of loaning, also paid more interests to attract the depositors. Now the central bank and the reserve banks are the monetary power to manage the currency, cash supply and interest rates.

The lack of transferability of goods or services was befuddling and inefficient. In order to resolve these problems the commodity money came into existence, as a kind of good that can acts as a currency. The American Colonialists used precious metals like gold, silver and copper as currency in the eighteen century.Gold Smiths were trusted to be reliable to keep the metals. The Bank of England was the pioneer to issue the bank notes back in 1965. It was hand written initially with the value of money, the carrier. The standard printed notes from £20 to £1000 were printed in 1745. It was in 1855,the complete printed notes that did not require the clerk's signature and the name of the payeethe. The first overdraft facility was used by the Royal Bank of Scotland in 1720. In 1797 when England was threatened by war, Parliament authorized the Bank of England and country bankers to issue the notes of low denomination.

Julius Cesar was the first general to allow banks to take over land in case the loaners unable to pay the loan. This actions were revolutionary, because before the debt were passed to loaner's younger generation if the debt not yet paid.

In 14th century, the families of Bardi and Peruzzi living in the cities of Italy dominated banking industry in many parts of Europe. Banca Monte dei Pan di Siena is the oldest bank still operating since 1472 in Italy.

Adam Smith's "Invisible hand" hypothesis set up banking in the British Empire. His perspectives engaged in self-regulated economy, the state's inclusion in the financial area and in the entire economy was figured out how to minimize by the bankers.

2.1.3. History of Bank in Indonesia

The bank's popularity has increased time by time, including in Indonesia. The banking system in Indonesia was first introduced first during the Dutch colonialism. De Javasche Bank (DJB), now known as Bank Indonesia (BI), is the first Bank in Indonesia founded in 1828. The purpose of DJB establishment is to fulfill local businessman demands at that time. They demanded the government to create a bank that can satisfy their business requirements. Because of that need, then DJB was created. The establishment of DJB was temporary, under special timed authority or *Oktroi* of ten years. The first *Oktroi* was signed on the First of January 1828 and expired on 31st of December 1837.

At first, there was only one bank which is located in Batavia, known as Jakarta now. Then, in the second year (1828), other branches were opened outside Batavia, which is located in Semarang and Surabaya. During the fourth *Oktroi*, DJB opened more branches in Padang, Makassar, Solo, Cirebon and Pasuruan. DJB reached their peak era during the eighth *Oktroi*, which managed to own sixteen branches across Indonesia. Approaching the arrival of Japan in 1942, DJB moved their assets, mostly gold, to Australia and South Africa. During the Japanese invasion, the Japanese government created *Nampo Kaihatsu Ginko* to manage money circulation in Java island. Moving forward to 1953, finally Republic Nation of Indonesia owned their own central bank named Bank Indonesia. Until 2020, the number of banks in Indonesia that were classified into four BUKU (Bank Umum berdasarkan Kegiatan Usaha) up to 96 banks.

2.1.4. Definition of Profitability

The 2008 worldwide financial crisis and steep diminishing of interest rates negatively affected bank profitability. The present circumstance raised another arrangement of worries for policymakers. When questioned on July 1, 2016 on how the ECB may utilize money related strategy to invigorate the Eurozone economy, ECB boss chief analyst Peter Praet said: "The benefit of the [banking] area will be a key thought." This affirmation delineates how the idea of bank productivity is at the core of national bank concerns.

Profit and profitability has different meanings. Profit means as an universal measure of acquiring limit, while profitability is relative measure of procuring limit. Profit is defined by Iyer (1995) as “excess of return over expense” (Nimalathasan, 2009) while profitability is defined as “the capability of given investment to earn a return from its utilization’. The words profitability is made out of two words, which is profit and ability. The word profit may differs according to the use and purpose of the organizations to earn the profits. Subsequently, the word profitability may be defined as the ability of given investment to earn a return from its utilization.

Nimalathasan (2009) referenced that profit is the essential goal of a business, which measures not only the success of a product, but also of the improvement of the market for it. Further profit is the report card of the past, the inventive gold star for the future.

Weidenfeld and Nicholson (1970) concerned that the profit as a prize to the proprietor of the capital, however with the re-visitation of capital as a target of an association's exercises.

Velnamby and Nimalathasan (2009) saw the productivity will give a more precise perspective on the company's performance. Pandy (1979) demonstrated that new involvement in nations with completely arranged economies showed that business analysts are likely right in emphasizing the significance of generally speaking productivity as a measure for the effective activity of an enterprise.

In any business, not just banking and profit, profitability is also the primary and basic objective. Profitability is a simple symbol for the difference between the generation of profit and cost expenditure; therefore, the higher the profit, the higher the returns, and the lower the costs. In the banking market, profitability is the indicator of the bank's competitive position with the management quality.

Banks' efficiency can also affect the economic growth via net return to savings and gross return for the investment. (Levine, 1996). There are several factors that can influence banks' profitability, categorized into two factors, which are external and internal factors. Huizinga (1999) in his research used Regression Analysis to determine the relationship between some bank ratios and measure of profitability. According to the data of banks for 80 countries, they found that bank profitability reflects various determinants: macroeconomic conditions, bank characteristics, regulation for insurance of deposit and general financial system. The internal factors that can affect the banks' profitability are firm size, the growth of total asset, leverage, quality of good corporate governance, credit risk, etc. The external factors that can affect banks' profitability are inflation, population growth, GDP (Gross Domestic Product) growth rate and interest rate.

2.1.5 Objectives and Benefits of Profitability

Profitability has objectives and benefits not just for internal side, but also for external side, especially for those who has interest towards the organization. The objectives of profitability according to Kasmir (2014) are :

1. To measure or calculate profit gained by the company in certain periods.
2. To assess the company's profit position from the previous year to the current year.
3. To assess the profit progression from time to time.
4. To assess the amount of net profit after tax with capital
5. To measure the productivity of all company funds used both loan capital and own capital.
6. To measure the productivity of all company funds used for both own capital.

According to Kasmir (2014), the benefits from calculate the profitability ratio are:

1. To understand the level of profit obtained by the company in one period
2. To understand the company's profit position from the previous year to the current year.
3. To understand the progress of profit over time.
4. To understand the amount of net profit after tax with own capital.
5. To understand the productivity of all company funds used both loan capital and own capital.

2.1.6 Profitability Ratio

Financial performance is the company's achievement in a period that illustrates the company's financial health condition with indicators of capital adequacy, liquidity and profitability. Financial performance represents a description of the company's financial condition in a certain period regarding the aspects of raising funds and distributing funds, which are usually measured by indicators of capital adequacy, liquidity and profitability (Jumingan, 2006).

Return on Asset (ROA) is one of profitability ratio commonly used by researchers. Return on Asset (ROA) is form of profitability ratio to measure the ability of the company to generate profits using total assets that exist and after the costs of capital (costs used to finance assets) are excluded from the analysis. Return on Asset (ROA) is the ratio of net tax returns which also means a measure to assess how much the return on assets owned by the company (Riyanto, 1997). Positive Return On Asses (ROA) shows that the total assets used for the company's operations are able to provide profits for the company. Conversely, if the Return On Asses (ROA) is negative, it shows that the total assets used do not provide a gain or result in loss for the company.

Return On Asset (ROA) is the ratio of profit before tax to the bank's total assets (Tjiptono & Fakhruddin, 2012). The Return On Asset (ROA) formula is as follows:

$$Return\ on\ Asset\ (ROA)\ =\ Net\ Income\ \div\ Total\ Asset\ x\ 100$$

The higher the result, means the company is more effective in utilizing assets to generate net profit after tax. Thus it can be concluded that the more Return On Assets (ROA), it means that the company's performance is more effective, because the rate of return will be greater. Return On Asset is often used by top management to evaluate business units within a multidivisional company. Profitability indicators based on Return On Assets (ROA) have the following advantages:

1. Is a comprehensive measurement indicator to see the state of a company based on existing financial reports.
2. Easy to calculate, understand and very meaningful in absolute value.
3. Is a denominator that can be applied to every organizational unit that is responsible for profitability and business units.

Besides having the advantage, Return On Asset (ROA) also has the following disadvantages:

1. Performance measurement using Return On Asset (ROA) makes division managers have a tendency to miss projects that reduce the Return On Asset (ROA) divisional, even though these projects can actually increase the level of overall company profits.
2. Management tends to focus on short-term goals and not long-term goals.

2.2. Private Commercial Banks BUKU IV Brief Information

This research is using five banks that classified in the Private Commercial Banks BUKU IV. Below, is the brief information related to those five banks. The list are sorted based on the most total asset.

2.2.1 Bank Central Asia

Ever since it was established back in 1957, Bank Central Asia (BCA) has kept on developing. This has been the consequence of the committed cooperation of each and every one of their representatives and the unflagging support of their clients. In accordance with their commitment to be "Consistently close by", BCA will keep on endeavoring to acquire the trust, and satisfy the hopes, of all the Bank's clients and different partners in its drive to keep on accomplishing progressing development.

Meanwhile, BCA has consistently offered different financial arrangements through financial exchange administrations for some assorted gatherings and ages. Furthermore, presently everybody can appreciate the financial exchange simplicity and accommodation BCA offers, empowered by solidity between branch interfaces, a broad ATM organization, and the wide range of various electronic financial administrations the Bank offers.

Through the broad scope of all around focused, excellent items and administrations the Bank gives, BCA's monetary arrangements have demonstrated they energize the business development of all the Bank's clients, regardless of whether little, medium-sized, or enormous scope organizations. For BCA, procuring clients' trust through offering them the best answers for meet their monetary necessities is an honor and a wellspring of pride. As in 2020, BCA is the largest private commercial bank based on their total assets.

2.2.2. BANK CIMB NIAGA

CIMB Niaga, Indonesia’s 2nd largest private bank by assets, offers their customers the most comprehensive portfolio of conventional and shariah banking services in Indonesia, combining their strengths in consumer banking, SME, commercial and corporate banking, treasury, and payment services with the support of their 400 over branches nationwide along with their branchless banking platforms.

PT CIMB Niaga Sekuritas, an entity established in 2018 as the result of internal reorganization due to the strategic partnership between CIMB Group Holdings Berhad and China Galaxy International Financial Holdings Limited, was established to maintain the investment banking business in Indonesia. Despite being a newly established entity, they aim to continue to provide excellent investment banking services to their clients.

2.2.3. BANK PANIN

PT Bank Pan Indonesia Tbk, or Panin Bank, was established because of the consolidation of 3 banks, Bank Kemakmuran, Bank Industri Djaja, and Bank Industri dan Dagang Indonesia, back in 1971. The foundation was completed with Deed No. 85 August 17, 1972 by Julian Nimrod Siregar gelar Mangaradja Namora S.H., a Notary in Jakarta.To improve its tasks PaninBank helps out global banks, for example, the French Credit Lyonnais, Dai-Ichi Kangyo Bank, Westpac Banking Corporation Australia which was taken over by ANZ Banking Group Australia.Panin Bank keeps on supporting banking and monetary areas in Indonesia. With its "Selalu Untuk Anda" (Always for You) witticism, Panin Bank is centered around Bank's consistency in providing the best administrations for its clients.

In 2020, Panin Bank reinforced its situation as one of driving banks (fifth biggest bank in Indonesia as far as resources, benefits, complete credit, absolute capital, and CAR). With in excess of 450 branch workplaces and in excess of 36,200 ATM Bersama and Alto ATMs, Panin Bank is prepared to serve clients all through the country. Predictable advancement made by Panin Bank is an aftereffect of our way of thinking, which is centered around adjusting judiciousness and reformist business development. By keeping up our reasonability in managing hazard the board, Panin Bank has figured out how to beat vulnerabilities and financial emergency. Then again, business advancement ought to be kept up as serious as possible conceivable, so Panin Bank could keep up its situation as a principle helper for Indonesian financial industry.

2.2.4. BANK DANAMON

PT Bank Danamon Indonesia Tbk which was established in 1956, starting at 31 December 2020 deals with a complete solidified resource of IDR 200 trillion with its auxiliary, in particular PT Adira Dinamika Multi Finance Tbk. (Adira Finance). As far as offer possession, 92.47% of Danamon's offers are claimed by MUFG Bank, Ltd. furthermore, 7.53% possessed by the general population.

Danamon is upheld by an organization of 846 customary branch workplaces, Syariah units and branch workplaces of its auxiliaries just as in excess of 60,000 organizations of Danamon ATMs, ATM Bersama, PRIMA and ALTO organizations spread across 34 territories.

With an variedty of monetary items and administrations, Danamon is prepared to serve the necessities of clients from different portions including Consumer banking, Small and Medium Enterprises (SMEs), Wholesale (Corporate and Commercial), and Sharia just as car financing through Adira Finance.

As a component of MUFG, a worldwide monetary gathering just as the biggest bank in Japan and one of the world's driving monetary establishments, Danamon will actually want to get to MUFG's solidarity, skill and organization to serve our clients and encourage Danamon's development in acknowledging long haul an incentive for all partners. interests.

Danamon got an honor as number one in the SLE Index 2021 classification for BUKU IV Bank from the 2021 Satisfaction Loyalty Engagement Awards held by Marketing Research Indonesia and Infobank. Danamon likewise won ahead of all comers at the ninth Infobank Digital Brand Awards 2020 in the class of Conventional Commercial Banks with Core Capital above IDR 30 trillion (BUKU IV) with resources underneath IDR 500 trillion. In the global field, Bank Danamon has likewise been named Best Digital Bank Indonesia at the Asiamoney Best Bank Award 2020.

2.2.5. BANK PERMATA

PT Bank Permata Tbk obtained the license as the commercial bank under The Decree of Minister of Finance Number 1937/U.M.II dated 19 February 1957. In 2004, Standard Chartered Bank and PT Astra International Tbk took over PermataBank and started a huge change measure inside the association. Moreover, as a type of its obligation to PermataBank, the joined responsibility for significant investors expanded to 89.01% in 2006.

After a long however smooth interaction, PermataBank made another set of experiences in May 2020 through a securing exchange directed by Bangkok Bank Public Company Limited ("Bangkok Bank"). Bangkok Bank authoritatively turned into the controlling investor of PermataBank in the wake of taking more than 89.12% of PermataBank's offers from the complete number of offers that have been given and settled up by Standard Chartered Bank and Astra International.

Permata bank offer total set-up of banking items and administrations including current and investment accounts, time stores, common assets, bonds, individual advances, Visa and home loan for Retail clients, accessible in Conventional and Sharia. Permata bank likewise offer working capital advances, vendor account, join money, exchange banking, exchange account, unfamiliar trade, just as protections and offices administrations for their SME and Wholesale business.

2.3 Empirical Studies of Factors that can Influence A Bank's Profitability

2.3.1 Concept of Leverage

The idea of leverage is very much uncovered in the writing of corporate accounts (Kapil, 2011), where the expression "leverage" is applied to portray the utilization of certain fixed costs that effect on the organization's presentation, for example on its fundamentally expanded productivity. For an organization the "switch" is a fixed working expense and fixed financing cost. From this, three sorts of influence are isolated – absolute, working and monetary influence. Leverage ratios are used to determine the relative level of debt load that a business has incurred (Alamry,2019).

The leverage ratio is used to explain the use of debt to finance a portion of corporate assets (Tambupulon, 2013). According to Syamsuddin (2013), leverage is usually used to describe the company's ability to use their assets that have fixed cost to increase the level of income (return) for the company. A leverage ratio is any of a few monetary estimations that take a gander at how much capital comes as obligation (credits), or surveys the capacity of an organization to meet its monetary commitments.

The leverage ratio is significant given that organizations depend on a combination of value and obligation to fund their tasks, and knowing the measure of obligation held by an organization is helpful in assessing whether it can take care of its obligations surprisingly.

2.3.2 Leverage Ratio

According to Fahmi (2014) in Harisa, Adam & Meutia (2019) leverage ratio are classified as follows :

1. Debt to asset ratio (DAR) is a debt ratio that is used to measure the ratio between total asset and total debt. In other explanations, it's how much a bank's assets are financed by the debt or how much the bank's debt affects management of assets.

$$DAR = \frac{TOTAL\ DEBT}{TOTAL\ ASSET}$$

2. Long term LDER is the second leverage ratio. LDER is the ratio between long-term debt and equity. The purpose of this ratio is to measure how much of each dollar is being used

as collateral for long-term debt by comparing the long-term debt with the capital provided by the bank.

$$LDER = \frac{Long-term\ Debt}{Own\ Capital}$$

3. Debt to Equity ratio (DER) is the ratio used to evaluate debt with equity. This ratio is sought by comparing all debt, including current debt with all equity. This ratio is useful to find out the amount of funds provided by the creditor and the bank.

$$DER = \frac{Total\ Debt}{Total\ Own\ Capital\ or\ Total\ Equity}$$

Based on the description above, the hypothesis is as follows:

H1 : Leverage positively impacts the bank's profitability of Private Commercial Banks BUKU IV in Indonesia.

2.3.3 Effect of Leverage on Profitability

As this study consolidates capital construction as a determinant of profitability, it is essential to characterize how this examination plans to gauge it. Firms' capital design will be characterized dependent on leverage, as it catches the degree to which firms are dependent on obligation as a piece of their financing structure ((Berk and DeMarzo, 2013, p. 39) found on Andersson and Minerma, 2018). Past research has shown that leverage can show a changing relationship with profitability contingent upon the obligation proportion utilized. For example, Abor (2005, p. 443) tracked down that short-term debt and total debt had a positive relationship with profitability, while long-term debt had a negative relationship. As the leverage ratio relationship with profitability shows different results, hence the researcher will use Debt to Equity ratio.

If the cost of debt is smaller than the cost of equity, then the source of funds originated from loans or debt will be more effective in generating profits (increase the ROAs) and vice versa (Bringham and Houston, 2009). The reason why the researcher is using leverage as factors that might influence the bank's profitability is because based on the research conducted by Margaris and Maria (2010), they found that leverage ratios have a positive impact on the level of profitability.

2.3.4 Concept of Firm Size

Firm size will also be included as a determinant of profitability. Currently, Indonesian banking industry contains many banks with varying sizes. Due to this, it is interesting to investigate if this variable has any relationship with firm profitability. Firm size can be classified as the size of the organization as indicated by certain ways, likes dependent on their total assets, stock market value and so forth. As per Machfoedz (1994), organization size is separated into three classifications dependent on their complete resources: large, medium and small. Seftianie & Handayani (2011) describes firm size as the size of the bank.

Firm size can be determined based on several measurements like total sales, total assets and average sales level (Harissa.et al, 2019). A bank variable is measured by natural logarithm (Ln) of total assets. This is on the grounds that the extent of the total asset of each different bank even has a huge contrast, so it can cause outrageous qualities. The use of total assets as a measurement of bank size is based on the research conducted by AlGhusin (2015) “variable size of the bank can be expressed as follows : Firm size = LnTotalAsset. Total Assets are chosen as a proxy for firm size by considering that asset value is relatively more stable compared to market value capitalization (Wuryatiningsih, 2014).

2.3.5. Effect of Firm Size on Profitability

Some authors concluded in their research that there is a negative relationship between size and profitability ((Yazdanfar & Öhman, 2015, p. 115; Goddard et al., 2005, p. 1280), Andersson and Minerma, 2018)) . Existing research has also provided empirical results that support the opposing relationship, that size is positively related to profitability ((Chadha & Sharma, 2015, p. 300; Simerly & Li, 2000, p. 44), Andersson and Minerma, 2018)). According to Seftianne & Handayani (2011), banks with large total assets reflect the durability of the bank. Banks that are already established are usually in a stable financial condition. This statement was supported by research conducted by AlGhusin (2015), which showed that firm size has a positive effect on profitability.

Based on the explanation above, the following hypothesis can be concluded :

H2 : Firm Size positively impacts bank's profitability of Private Commercial Banks BUKU IV in Indonesia.

2.3.6. Concept of Bank Deposit

Based on the law of the Republic of Indonesia Number 10 of 1998 concerning Islamic banking, bank deposits are deposits whose withdrawals can only be made at a certain time based on the deposit customer agreement with the bank. According to Lukman Dendawijaya in his book "Banking Management" he states that: "Bank Deposits are deposits from third parties to banks whose withdrawals can only be made within a certain period of time according to the agreement between the third party and the bank concerned". (2001: 27).

Another definition of Bank Deposit according to Habib Nazir and Muhammad Hassanudin (2004: 132), says: "Bank deposits or deposits are deposits of third parties in banks whose withdrawals can only be made within a certain period of time according to the agreement between the third party and the bank concerned". The deposits are important as they are the lifeblood of banks and the main source of money. They may account for more than 90% of the total opponents which are the lowest cost and are among the most fertile sources of money (Casu & Molyneux, 2006).

There are several types of deposits in Indonesia, including:

a. Time deposit

Time deposits are deposits issued according to a certain period of time.

Time deposits usually vary from 1,2,3,6,12,18 and 24 months. Time deposits are issued on behalf of both individuals and institutions. This means that the deposit certificate contains the name of a person or institution.

b. Certificate of Deposit

Certificate of deposit represents issued deposits with a maturity of 2,3,6,12 month. Certificates of deposit are issued in the form of certificates and can be traded or transferred to other parties. Disbursement of certificate of deposit interest can be made in advance, either cash or non-cash. The value of the certificate of deposit is printed in nominal value and usually in a lump sum. So that customers can buy in multiple sheets for the same nominal amount.

c. Deposit on call

Deposit on call is a deposit with a minimum term of 7 days and the most less than a month long. Published on behalf of and usually in large amounts, for example 50 million rupiah. Disbursement of interest is made at the time the deposit is disbursed on call, divided 3 days before the customer is calculated per month and usually to determine the interest, negotiations are carried out between the customer and the bank.

Loan To Deposit Ratio (LDR) is a comparison between loans and funds received by banks (Sudirman, 2000: 193). LDR is a traditional measurement that shows the time deposits, current accounts, savings, etc. used in fulfilling customer loan requests. This ratio is used to measure the level of liquidity. A high ratio indicates that a bank lends all of its funds (loan-up) or is relatively illiquid (illiquid). Conversely, a low ratio indicates a liquid bank with excess funding capacity that is ready to be lent (Latumaerissa, 1999: 23).

$$LDR = \frac{Total\ Loan}{Total\ Deposit + Total\ Equity}$$

2.3.7. Effect of Bank Deposit on Profitability

The study conducted by Oleiwi (2020) demonstrates that there is a significant relationship between deposits and bank profitability indicators. The savings deposit is the most significant contribution to profitability, then the term deposits and, finally, the current deposits with the lowest contribution to profitability. LDR is also called the ratio of credit to total third party funds which is used to measure third party funds channeled in the form of credit. According to Sapariyah (2010) research, the Loan to Deposit Ratio partially has a positive and significant effect on ROA. Other studies conducted by Dewi and Suartana (2008), Mahardian (2008), Purwana (2009), Susanthi (2010), Jantarini (2010) and Rahtini (2011) found that the Loan to Deposit Ratio has a significant effect on profitability.

Based on the explanation above, the hypothesis can be concluded as :

H3 = Bank Deposit positively impacts the bank's profitability of Private Commercial Banks BUKU IV in Indonesia

2.2 Conceptual Framework

Different empirical studies and evidence suggested that profitability of banks should be analysed using more than one indicator. With that being said, this research will be conducted using three indicators (Leverage, Firm Size and Bank Deposit). While for profitability, this research will use Return on Asset (ROA) as the sole indicator.

Figure 2.1. Theoretical Framework