

THE HEALTH LEVEL OF SHARIA BANKS: THE RGEC METHOD APPROACH

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Abstract : This study aims to analyze the influence of bank health using the RGEC method with independent variables of non-performing financing, financing to deposit ratio, good corporate governance, return on assets, operating expenses, operating income, and capital adequacy ratio, on profit growth in banking companies incorporated in Indonesian Sharia Commercial Bank for the period 2020-2022. The research method used is a quantitative approach that uses secondary data obtained through the official website of the Financial Services Authority and the official website of the banking company. There were 11 samples of banking companies selected using purposive sampling. Data analysis using panel data regression through the Eviews 12 program. The results of the study partially showed that non-performing financing, financing to deposit ratio, good corporate governance, and capital adequacy ratio had no effect on profit growth. On the other hand, return on assets has a positive effect and operating expenses have a negative effect on profit growth.

Keywords : Bank Health Level; RGEC; Profit Growth

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1. Introduction

Banks are financial institutions whose primary purpose is to drive the economy by collecting funds in the form of savings and distributing them through credit, loans, financing, and other mechanisms (Sa'diah, 2017). There are two major categories of banking systems: conventional banking and Islamic banking (Mustofa et al., 2016). Islamic banking, which operates based on sharia principles, has a significant role in the Indonesian financial system. It has shown rapid growth in collecting customer funds and increasing stakeholders' participation, particularly in a predominantly Muslim country like Indonesia. However, this rapid growth also brings challenges, including the need for rigorous supervision of bank performance and financial health to maintain stakeholders' trust and sustainability (Mutawali and Melywati, 2023). Evaluating financial performance becomes critical as it reflects a bank's ability to achieve success in both fund collection and distribution (Syaifullah et al., 2020). Despite its significance, limited research has explored the comprehensive health assessment of Islamic banks using a robust framework. This study focuses on addressing this gap by employing the RGEC method, a recognized approach for evaluating bank health, to identify key performance issues and provide actionable insights for Islamic banking stakeholders. Evaluating banking performance is essential for identifying opportunities and risks that may arise in the future. One of the key indicators of banking performance is

profitability, which serves as a benchmark for measuring success. Higher banking profits lead to greater returns for creditors and shareholders, attracting more investors to channel their capital into the banking sector (Nida Imaniah, 2022). A reliable way to estimate banking profitability is through an assessment of bank health (Faiq Baihaqi, 2021). Bank health refers to the capability of a bank to effectively manage its operational activities and fulfill its obligations (Pratikto and Afiq, 2021). A healthy bank maintains public trust and operates efficiently, while an unhealthy bank poses risks to itself and other stakeholders (Anik and Ningsih, 2020).

Previous studies have broadly explored the importance of bank health assessments in maintaining financial stability and promoting investor confidence. However, these studies often focus on conventional banks, leaving a gap in the comprehensive assessment of Islamic banks, particularly within the context of rapidly growing Islamic banking systems. While methods like the RGEC (Risk Profile, Good Corporate Governance, Earnings, and Capital) framework have been employed in conventional banking, their application and effectiveness in Islamic banking remain underexplored. This study aims to address this gap by applying the RGEC method specifically to Islamic banks, providing insights into their unique operational characteristics and challenges.

The assessment of bank health levels can be conducted using the RGEC method, which evolved from the CAMEL and CAMELS methods. The RGEC method consists of four key components: Risk Profile (NPF & FDR), Good Corporate Governance, Earnings (ROA, ROE, NOM, BOPO), and Capital (CAR). It provides a systematic and comprehensive framework for evaluating various critical aspects of bank performance, including risk management, governance quality, profitability, and capitalization (Ralda and Isfandayani, 2022). This holistic approach ensures that all significant operational dimensions of a bank are thoroughly assessed. Since its official implementation on January 1, 2021, the RGEC method has become a standard tool for evaluating the health of banks, replacing the CAMELS method (Darmawi, 2012).

However, despite its widespread use, the application of the RGEC method in Islamic banking remains relatively limited, particularly in analyzing its unique operational characteristics that differ from conventional banks. This research aims to fill this gap by employing the RGEC method to evaluate the health levels of Islamic banks. Specifically, the study seeks to determine how the RGEC components reveal strengths and potential vulnerabilities in the operational and financial performance of Islamic banks. The results are expected to provide actionable insights for stakeholders, contributing to better governance, risk management, and overall performance enhancement in the Islamic banking sector.

The years 2020–2022, marked by the Covid-19 pandemic, were a challenging period for the banking sector, including Islamic banking. This unprecedented situation significantly impacted banking operations, leading to shifts in behavior within the business world and requiring innovative approaches to maintain relevance in the digital era (OJK, 2022). For Islamic banks, these challenges presented an opportunity to innovate while striving to sustain and improve key financial ratios that reflect their health and operational performance. Banks that experienced declines during this period needed to adapt and implement effective strategies to restore their health and remain competitive.

This research aims to analyze the health of Indonesian Islamic Commercial Banks during the 2020–2022 period using the RGEC method. The study posits that the

pandemic may have had a measurable impact on the components of the RGEC method, including risk profiles, governance practices, profitability, and capitalization levels. By testing this hypothesis, the research seeks to identify how Islamic banks have managed their operations amid these challenges and whether their responses have been sufficient to maintain financial stability and stakeholder trust. The findings are expected to provide valuable insights into the resilience and adaptability of Islamic banks during periods of economic disruption.

2. LITERATURE REVIEW

2.1 Signaling Theory

Signaling theory relates to the importance of transmitting information to company management, investors, or external parties to provide insights into the company's management perspective. Profit information is the primary focus of financial statements. Profit is also used as a means of signaling from management that has not yet been conveyed to the public. Signaling theory represents the behavior of management within a company that serves to guide investors regarding management's view of the company's prospects. Signaling theory highlights the asymmetry in information between management and stakeholders. This information may include details or an overview of the company's condition (Connelly et al., 2011).

Signaling theory explains how asymmetric information between management and shareholders or investors can be mitigated by providing credible signals. In the context of profit growth in Islamic banking, signaling theory can be used to explain profit growth in Islamic banks by interpreting how Islamic banks send positive information to the market and stakeholders through various signals.

2.2 Islamic Banking

Islamic banking operates under sharia principles, prohibiting *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling). It emphasizes fairness, risk-sharing, and ethical investments through contracts such as *mudharabah* (profit-sharing) and *musyarakah* (joint ventures). These principles aim to create a stable, equitable, and inclusive financial system. The operational framework of Islamic banking in Indonesia is governed by Law No. 21 of 2008, which emphasizes transparency, accountability, and sharia compliance. The Financial Services Authority (OJK) oversees its implementation, including the use of the RGEC method to comprehensively assess bank health in terms of risk, governance, profitability, and capital adequacy. In recent years, Islamic banking in Indonesia has experienced significant growth, with total assets exceeding IDR 700 trillion by 2022. Digitalization, such as sharia-compliant mobile banking, has further driven this growth. However, the sector still faces challenges, including high non-performing financing (NPF) rates and low public understanding of sharia financial products. Sustainable strategies are needed to enhance its economic contribution and resilience.

2.3 Bank Health Level

Bank health refers to the condition of a bank that is able to carry out its operational activities stably and meet its obligations in accordance with applicable laws and

regulations (Pratikto and Afiq, 2021). A bank is considered healthy when it can uphold trust and effectively perform intermediation to assist the payment system used by the government in implementing monetary policy (Awliya, 2019). In accordance with Bank Indonesia Regulation No. 13/1/PBI/2011, banks are required to apply the RGEC method in assessing their health levels, both individually and collectively. The factors for assessing bank health include risk profile, good corporate governance, earnings, and capital ("Peraturan Bank Indonesia. No 8/4/PBI/2006 Tentang Pelaksanaan Good Corporate Governance Bagi Bank Umum," n.d.).

2.4 Profit Growth

According to Harahap, profit growth is a ratio that reflects a company's ability to increase its net profit compared to the previous year's net profit (S.S., 2015). Profit growth refers to the change in the percentage of a company's profit, indicating an increase. If revenue exceeds costs, the company is experiencing a profit. Conversely, if revenue is less than the company's profit, the company is experiencing a loss. Therefore, it can be concluded that profit growth is a company's ability to increase profit, resulting in a rise from the previous year (Fa'Iq Baihaqi, 2021). The benefits of profit growth include serving as a basis for decision-making regarding whether the company should distribute profits as dividends to shareholders or retain the profits for future investment financing. The formula for predicting profit growth is as follows (Subramanyam, 2017):

$$\text{Profit Growth} = \frac{\text{Net Profit of Year } t - \text{Net Profit of Year } t-1}{\text{Net Profit of Year } t-1}$$

2.5 The Influence of Non-Performing Financing on Profit Growth

Signaling theory describes the relationship with NPF by indicating that NPF, which does not exceed 5%, aligns with OJK regulations, ensuring that the bank's health is at a healthy level. If the banking condition worsens, the number of non-performing loans will increase, leading the bank to face more serious issues (Dwihandayani, 2017). NPF represents the risk resulting from a debtor's failure to fulfill their obligations to the bank (Fauzan et al., 2021). A high NPF indicates that the bank's operational activities are not performing well in terms of risk management. As a result, this can negatively impact profit growth, as the company may have problematic loans, causing investors to hesitate in investing. Therefore, a bank with low NPF will have lower operational costs related to debt collection and loan loss provisions. Low NPF sends a positive signal that can increase investor confidence and operational efficiency, supporting business expansion, revenue growth, and customer acquisition, ultimately driving profit growth (Fa'Iq Baihaqi, 2021). Research by Arifin & Canggih (2022) and Sholiha et al. (2021) shows that NPL has a significant negative impact on profit growth. Therefore, the hypothesis formulated is:

H1 : Non-Performing Financing has a negative effect on profit growth.

2.6 The Influence of Financing To Deposit Ratio on Profit Growth

FDR (Financing to Deposit Ratio) is a ratio that measures how much of the third-party funds (deposits) collected by the bank are allocated to financing. An ideal FDR indicates

efficient use of funds to generate revenue. A high FDR suggests that the bank can utilize most of the funds received from customers for financing, potentially leading to higher income. This situation sends a positive signal that the bank can efficiently manage funds and maximize income from financing. Efficient use of funds can also boost investor and customer confidence in the bank's ability to generate profits, thereby supporting further profit growth.

The signal carried by FDR can indicate that as more credit is disbursed, the lower the bank's liquidity level; conversely, if the FDR is low, the bank's ability to channel financing may be questioned (Wibowo and A.K., 2022). FDR poses a risk when the bank cannot pay off its debts from high-quality liquid assets without disrupting financial activities. To improve financial performance and minimize risk, banks need to keep deposits as low as possible. Therefore, the lower the FDR, the better the financial performance in minimizing liquidity risk (Fa'Iq Baihaqi, 2021). Research by Putri and Yuliandhari (2020) and Fitriana et al. (2021) indicates that FDR has a positive effect on profit growth.

Thus, the hypothesis formulated is:

H2 : Financing To Deposit Ratio has a positive effect on profit growth.

2.7 The Influence of Good Corporate Governance on Profit Growth

GCG (Good Corporate Governance) is a practice that ensures a company is managed effectively, transparently, accountably, and responsibly. Elements of GCG include an effective board structure, protection of shareholder rights, transparency in financial reporting, and good risk management. The presence of GCG provides a signal to management in reducing information asymmetry (Novitasari et al., 2020). GCG is also used to assess bank management according to good governance principles and uses composite scores from self-assessments, so a lower composite score indicates better bank management (Putri and Yuliandhari, 2020). When banks adhere to GCG, it can result in good employee performance and impact profit growth positively (Sirait et al., 2020).

GCG sends a positive signal to the market and investors that the bank is well-managed and has stable growth prospects (Fa'Iq Baihaqi, 2021). Good GCG enhances investor confidence, reduces risk, and improves operational efficiency, all contributing to profit growth. Conversely, poor GCG practices send a negative signal that can hinder investment and profit growth. Research by Putri and Yuliandhari (2020) and Sholiha et al. (2021) shows that good corporate governance positively affects profit growth. Therefore, the hypothesis formulated is:

H3 : Good Corporate Governance has a positive effect on profit growth

2.8 The Influence of Return on Assets on Profit Growth

Return on Assets (ROA) is a financial ratio that measures how efficiently a company generates profit from its assets. In the context of signaling theory, ROA can provide important signals to investors and stakeholders about the effectiveness of a company's management and future profit growth prospects (Fa'Iq Baihaqi, 2021). A high ROA indicates that the company's management is able to utilize assets efficiently, which is a positive signal for investors. ROA reflects a company's operational performance. Consistently high ROA suggests that the company has stable and profitable operations,

signaling that it is capable of maintaining or increasing profits in the future (Soko and M.F., 2022).

Banking profit is derived from the difference between operational income and operational costs. Therefore, ROA can represent the effectiveness of a bank's profitability. ROA acts as a signal of operational performance and management efficiency in asset usage. A high ROA sends a positive signal to investors about the company's ability to generate profit efficiently, which enhances investor confidence and access to capital. This supports profit growth through better investment and operational efficiency. Conversely, a low ROA sends a negative signal that may hinder the company's profit growth. Research by Arifin & Canggih (2022) and Sholiha et al. (2021) shows that ROA has a positive effect on profit growth. Thus, the hypothesis formulated is:

H4: Return on Assets has a positive effect on profit growth.

2.9 The Influence of Operating Expense to Operating Income Ratio on Profit Growth

Operating Expense to Operating Income Ratio (BOPO) is a ratio used to measure the operational efficiency of a bank. BOPO indicates how much operational cost is incurred to generate operational income. This ratio is crucial in banking as it provides insight into management's effectiveness in controlling costs. In the context of signaling theory, BOPO can provide important signals to investors and stakeholders about the performance and operational efficiency of the bank, which ultimately affects profit growth.

BOPO measures a bank's operational efficiency by showing how much cost is required for each unit of income generated. A low BOPO indicates that the bank manages its operational costs effectively, sending a positive signal about management efficiency. Banks with a low BOPO are considered more profitable and less risky, allowing them to obtain financing at lower costs. This cheaper funding can be used for investments that support profit growth (Reskiana, 2019). Conversely, a high BOPO reflects less efficient operational costs, suggesting that the bank may face problems (Sullivan and S., 2022). BOPO serves as a signal of operational efficiency and management's ability to control costs. A low BOPO sends a positive signal to investors about cost efficiency and the bank's profit growth prospects. This enhances investor confidence and the bank's access to capital, supporting profit growth through better investment and operational efficiency. Conversely, a high BOPO provides a negative signal that can hinder the bank's profit growth.

Research by Susfayetti and Safelia (2020) and Fitriana et al. (2021) indicates that BOPO has a negative effect on profit growth. Thus, the hypothesis formulated is:

H5: Operating Expense to Operating Income Ratio has a negative effect on profit growth.

2.10 The Influence of Capital Adequacy Ratio on Profit Growth

Capital Adequacy Ratio (CAR) is a ratio used to measure a bank's capital adequacy to cover potential risks. CAR indicates how robust a bank's capital position is to support its operations and absorb unexpected losses. In the context of signaling theory, CAR can provide important signals to investors and stakeholders about the bank's financial

health and risk management, which ultimately affects profit growth. A high CAR indicates that the bank has sufficient capital to cover credit, operational, and market risks. This signals that the bank is in a strong financial position and can handle unforeseen losses, thereby potentially increasing profitability. Thus, if the capital invested in the bank increases, profitability is expected to rise as well (Sullivan and S., 2022).

CAR measures the ratio of a bank's capital to its risk-weighted assets, serving as a basis for assessing the bank's capital adequacy. A higher CAR generally indicates higher profitability and vice versa (Aprilia Maramis, 2019). CAR functions as a signal of financial health and risk management. A high CAR sends a positive signal to investors about financial stability and the bank's ability to manage risks, which in turn enhances investor confidence and the bank's access to capital. This supports profit growth through strategic investments and improved operational efficiency. Conversely, a low CAR sends a negative signal that can hinder the bank's profit growth.

Research by Putri and Yuliandhari (2020) and Efendy and Suyanto (2022) shows that CAR has a positive effect on profit growth. Thus, the hypothesis formulated is:

H6: Capital Adequacy Ratio has a positive effect on profit growth.

3. METHODOLOGY

This research employs a quantitative approach as described by Sugiyono (2014). The research data consists of panel data analyzed using Eviews 12 software (Priyatno, 2022). The study focuses on financial reports from sharia banks that are part of the Bank Umum Syariah (BUS) during the 2020–2022 period. These financial reports were obtained from the Financial Services Authority (OJK) and accessed through their official website at www.ojk.go.id.

The unit of analysis in this research comprises sharia banks categorized as Bank Umum Syariah (BUS) during the specified period. Each bank serves as an independent entity representing the object of study, and the analysis is based on financial performance data, including key indicators such as non-performing financing (NPF), financing to deposit ratio (FDR), good corporate governance (GCG), return on assets (ROA), operating expenses to operating income (BOPO), and capital adequacy ratio (CAR).

The data collection process involved the systematic extraction of secondary data from the annual financial reports of sharia banks published on the official OJK website. These reports were reviewed and verified to ensure completeness and consistency. The criteria for selecting data included the availability of financial indicators relevant to the RGEC method and a consistent reporting framework across the sampled banks.

The population of this research comprises all sharia banks classified as Bank Umum Syariah (BUS) in Indonesia during the 2020–2022 period. From this population, a purposive sampling technique was applied to select 11 banks based on the following criteria:

1. Banks that consistently publish complete and regular annual reports during the study period (2020–2022).

2. Banks that are officially registered as Bank Umum Syariah (BUS) for the entire study period.
3. Banks with complete data for all RGEK indicators required for analysis.

The research employs a structured data analysis approach with the following stages:

1. Descriptive Analysis: Used to summarize the key characteristics of the financial data from the sampled banks, focusing on trends and patterns in RGEK indicators.
2. Panel Data Regression: The primary analysis method applied to test the impact of RGEK indicators (NPF, FDR, GCG, ROA, BOPO, CAR) on profit growth. This analysis uses fixed-effects or random-effects models based on the results of the Hausman test.
3. Software Tools: All statistical analyses were conducted using Eviews 12, which provides robust capabilities for handling panel data.

4. RESULT AND DISCUSSION

1. Descriptive Statistics

Table 1 below presents the results of the descriptive analysis of the study.

Table 1 Descriptive Statistics

	NPF	FDR	GCG	ROA	BOPO	CAR	PL
Mean	1.3079	81.195	2.0803	0.9410	109.51	58.011	20.946
Median	0.8600	81.300	2.0000	1.1000	85.520	26.360	0.0879
Maximum	4.9500	196.73	3.0000	11.430	428.40	390.5	609.88
Minimum	0.0000	0.0000	1.0000	-10.850	56.160	15.210	-37029
Std. Dev	1.5144	36.920	0.5277	4.4541	78.871	85.957	106.56
Observations	33	33	33	33	33	33	33

Source : *Output Eviews 12, 2024*

The mean value of NPF is lower than the standard deviation, indicating high variability in the NPF levels. This suggests significant risk in the loan portfolio and a need for tighter monitoring and better risk management strategies. The lowest NPF value is 0.000000, held by PT Bank Aladin Syariah, Tbk, while the highest value is 4.950000, by PT Bank Syariah Bukopin.

The mean value of FDR is higher than the standard deviation, indicating low variability and a relatively uniform distribution of FDR levels. This means banks have consistent and stable fund utilization policies, reflecting good risk management and higher predictability in liquidity management. The minimum FDR value is 0.000000, held by PT Bank Aladin Syariah, Tbk, while the maximum value is 196.7300, by PT Bank Syariah Bukopin.

The mean value of GCG is higher than the standard deviation, indicating that most companies have consistent and similar corporate governance practices. The lowest GCG value is 1.000000, held by PT BCA Syariah, while the highest values are 3.000000, by PT Bank Muamalat Indonesia, PT Bank Jabar Banten Syariah, and PT Bank Syariah Bukopin.

The mean value of ROA is lower than the standard deviation, indicating that the average return on assets is relatively lower compared to the variation in returns. The minimum ROA value is -10.85000, by PT Bank Aladin Syariah, Tbk, while the maximum value is 11.43000, by PT BTPN Syariah, Tbk.

The mean value of BOPO is higher than the standard deviation, indicating that the average operational costs are higher than the variation in these costs. The lowest BOPO value is 56.16000, by PT Bank Aladin Syariah, Tbk, while the maximum value is 428.4000, also by PT Bank Aladin Syariah, Tbk.

The mean value of CAR is lower than the standard deviation, indicating that the banks have a relatively low capital adequacy ratio compared to its variability. This suggests that banks may need to increase their capital to meet capital adequacy requirements. The minimum CAR value is 15.21000, by PT Bank Muamalat Indonesia, while the maximum value is 390.5000, by PT Bank Aladin Syariah, Tbk.

The mean value of profit growth is lower than the standard deviation, indicating that the average profit growth is relatively lower compared to the variation in profit growth. The lowest profit growth value is -3.702929, held by PT Bank Aladin Syariah, Tbk, while the highest value is 609.8749, by PT BTPN Syariah, Tbk.

2. Model Selection Test Results

The results of the model selection test are shown in the following table.

Table 2 Model Selection Result

Test Type	Value	Conclusion
<i>Chow Test</i>	<i>Prob. Cross-section Chi-square 0.0210 < 0.05</i>	<i>Fixed Effect Model (FEM)</i>
<i>Hausman Test</i>	<i>Prob. Cross-section random 0.0303 < 0.05</i>	<i>Fixed Effect Model (FEM)</i>

Source : *Output Eviews 12, 2024*

Table 2 shows the Chow test results with a Prob. Cross-section Chi-square of $0.0210 < 0.05$, leading to the rejection of H_0 and the selection of the FEM model. Subsequently, the Hausman test results indicate a Prob. Cross-section random of $0.0303 < 0.05$, resulting in the rejection of H_0 and confirming that the appropriate model for the study is FEM. Therefore, the FEM model is not further tested with the Lagrange multiplier test.

3. Classical Assumption Test Result

The results of the classical assumption tests for Multicollinearity and Heteroscedasticity are shown in Table 3 below.

Table 3 Results of Multicollinearity and Heteroscedasticity Tests

Test Type	Value	Conclusion
Multicollinearity	The correlation value of each independent variable is below 0.85	No multicollinearity issues
Heteroscedasticity	The probability value of each variable is greater than 0.05	No heteroscedasticity issues

Source : *Output Eviews 12, 2024*

Based on table 3, the results of the classical assumption test are explained using 2 approaches, namely the multicollinearity test and the heteroscedasticity test. So that information is obtained that in table 3, this study has passed the verification of the classical assumption test which is possible to proceed to panel data regression analysis and hypothesis testing.

4. Panel Data Regression Test Result

The results of the panel data regression test are shown in the following table 4.

Table 4 Panel Data Regression Test Results

Variabel	Coefficient	Std. Error	t-Statistik	Prob.
C	520.8993	280.7445	1.855421	0.0821
NPF	41.19935	40.86333	1.008223	0.3284
FDR	0.098441	0.839076	0.117321	0.9081
GCG	-95.26953	122.4615	-0.777955	0.4479
ROA	73.96754	25.49504	2.901252	0.0104*
BOPO	-3.514759	1.255745	-2.798943	0.0129*
CAR	1.566394	0.975670	1.605454	0.1279

Source : *Output Eviews 12, 2024*

Table 4 of the data regression panel can be formulated the following equation:

$$PL = 520.89932483 + 41.1993455581 \text{ NPF} + 0.0984409174666 \text{ FDR} - 95.2695266558 \text{ GCG} + 73.9675418151 \text{ ROA} - 3.51475889656 \text{ BOPO} + 1.56639402269 \text{ CAR} + [\text{CX}=\text{F}]$$

It can be interpreted that the probability value for the NPF variable is $0.3284 > 0.05$, which means NPF does not affect profit growth (**H1 is rejected**). The probability value for the FDR variable is $0.9081 > 0.05$, indicating that FDR does not affect profit growth (**H2 is rejected**). The probability value for the GCG variable is $0.4479 > 0.05$, meaning GCG does not affect profit growth (**H3 is rejected**). The probability value for the ROA variable is $0.0104 < 0.05$, meaning ROA negatively affects profit growth (**H4 is accepted**). The probability value for the BOPO variable is $0.0129 < 0.05$, so BOPO affects profit growth (**H5 is accepted**). The probability value for the CAR variable is $0.1279 > 0.05$, thus CAR does not affect profit growth (**H6 is rejected**).

5. Model Conformance Test Results

The results of the model conformity test are shown in the following table 5..

Table 5 Model Conformance Test Results

R-squared	0.549106
Adjusted R-squared	0.098213
S.E. of regression	101.1882
Sum squared resid	163824.9
Log likelihood	-187.2407
F-statistic	5.217818
Prob(F-statistic)	.034911

Source : *Output Eviews 12, 2024*

Table 5 shows the results of the coefficient of determination test, with an adjusted R-square value of 0.098213 or 9.82%. This indicates that the variables NPF, FDR, GCG, ROA, BOPO, and CAR explain 9.82% of the variation in profit growth at Islamic Commercial Banks in Indonesia for the period 2020 – 2022. Consequently, the remaining 90.18% of the variation is explained by other variables not included in the study. The F-test using FEM shows that the calculated F-value > F-table and the significance value is $0.034911 < 0.05$, concluding that NPF, FDR, GCG, ROA, BOPO, and CAR at Islamic Commercial Banks in Indonesia have an effect on profit growth.

6. Discussion

The results indicate that NPF does not affect profit growth (H1 is rejected). This suggests that the reserve for potential losses formed by the bank is insufficient to cover problematic financing, making it difficult to minimize the impact of high NPF on profits. This finding aligns with Fauziana and Fidyah (2023), who argue that the ratio of NPF does not necessarily affect profit growth. However, banks are required to maintain NPF ratios to be classified as healthy and to monitor other factors affecting profit growth. This finding contrasts with Arifin and Canggih (2022), who found a significant effect of NPF on profit growth.

The results show that FDR does not affect profit growth (H2 is rejected). This situation suggests that operational efficiency issues may arise from various factors, such as high employee costs, inefficient infrastructure, and significant administrative costs. It is important to consider the specific context and conditions of the bank and external factors affecting it, such as government policies that influence interest rates, which can also impact financing revenue. This finding is consistent with Nugraha et al. (2021), who found no effect of FDR on profit growth. A high FDR, resulting from a large volume of credit, can adversely impact the company (Nafi'ah, 2022). However, this finding contradicts Fitriana et al. (2021).

The results show that GCG does not affect profit growth (H3 is rejected). This indicates that the implementation of GCG principles is not comprehensive and is merely formal, resulting in minimal impact on the company's performance, including profit growth. Effective GCG implementation requires investment in training, monitoring systems, and adjustments to operational processes. These costs can reduce short-term profits, especially if the company has not yet balanced the costs and benefits of GCG in the long term. Given the three-year study duration, the positive impact of GCG on profits may not yet be apparent in the short term. Additionally, macroeconomic conditions, regulatory changes, and industry competition may have a more significant impact on profit growth compared to GCG implementation. If these external factors are influential, the impact of GCG on profits may be obscured. This finding aligns with Sirait

et al. (2020), who found no effect of GCG on profit growth. However, it contradicts Susfayetti and Safelia (2020).

The results show that ROA affects profit growth (H4 is accepted). This indicates that a high ROA reflects the efficiency and effectiveness of a bank in using assets to generate profits. This demonstrates good operational performance, effective investment management, strong cash flow generation, and high competitiveness, which can enhance investor confidence. This confidence can increase stock value and access to capital, which can be used for profitable projects and profit growth. This finding aligns with Fadilah Yusuf et al. (2022), who found a negative effect of ROA on profit growth. However, it contradicts Susfayetti and Safelia (2020), who stated that ROA does not affect profit growth.

The results show that BOPO has a negative effect on profit growth (H5 is accepted). This indicates that high operational costs reduce the company's profit margin because most of the revenue is used to cover these costs. When operational costs are high, the remaining income available for profit becomes small, directly hindering profit growth. Additionally, banks with low operational efficiency tend to have higher costs for each unit of revenue generated. Low operational efficiency indicates that the bank is unable to manage its resources well, thereby reducing its ability to increase profits. Low operational efficiency, reduced competitiveness, limited investment capability, cash flow pressure, and higher financial risk are factors explaining why BOPO negatively affects profit growth. This finding aligns with Fitriana et al. (2021), who reported a negative effect of BOPO on profit growth. However, it contradicts Susfayetti and Safelia (2020), who found no effect of BOPO on profit growth.

The results show that CAR does not affect profit growth (H6 is rejected). This indicates that when a bank's capital significantly exceeds the minimum requirement, it suggests that the bank is not using its capital efficiently. Excess capital may be held without significantly contributing to the increase in operational revenue and profit, as large capital is not invested productively. A high CAR is often aimed at meeting regulatory requirements and ensuring bank stability. While this is important for the overall health of the bank, excessive focus on maintaining a high CAR may reduce attention to strategies aimed at enhancing profitability. Banks with high CAR, if the capital is not used for profitable loans or investments, will not positively impact profit. Idle or unallocated capital does not contribute significantly to profit growth. Additionally, other banks may have more aggressive strategies for attracting customers and increasing revenue, even with lower CAR. This finding aligns with Putri and Yulianhari (2020), who found no effect of CAR on profit growth. However, it contradicts Fadilah Yusuf et al. (2022), who found a positive effect of CAR on profit growth.

5. CONCLUSION

This study examines the health level of Islamic banks in Indonesia during the period of 2020–2022 using the RGEC method. The findings provide several key insights: (1) NPF does not significantly affect profit growth. This suggests that the reserves for covering non-performing financing were insufficient to minimize its impact on profitability. This result indicates that banks must enhance their risk management strategies to ensure better financial outcomes. (2) Financing to Deposit Ratio (FDR) also does not have a

significant effect on profit growth. This finding implies that factors beyond fund utilization efficiency, such as operational costs and external conditions like interest rate policies, may play a more dominant role. (3) Good Corporate Governance (GCG) does not significantly influence profit growth.

The study suggests that the implementation of GCG is likely not yet optimal and is primarily formal. Long-term studies are needed to observe the potential positive impacts of GCG on profitability. (4) Return on Assets (ROA) positively affects profit growth. This indicates that efficient management of assets directly contributes to increased profitability, highlighting the importance of operational efficiency in achieving financial growth. (5) Operating Expenses to Operating Income (BOPO) has a negative impact on profit growth. High operational costs reduce profitability, underscoring the need for Islamic banks to optimize their cost structures to remain competitive. (6) Capital Adequacy Ratio (CAR) does not significantly influence profit growth. Excessive focus on capital adequacy without efficient utilization may hinder profitability, as unused capital does not contribute to revenue generation.

However, there are several limitations in this study, including (1) The adjusted R-squared value is relatively low (9.82%), indicating that the model explains only a small portion of the variation in profit growth. (2) The interaction effects between variables were not examined. (3) Generalization of the findings is limited due to the specific context of the study period and sample. (4) The measurement of GCG was restricted to a single component.

Several recommendations for future research are: (1) Extend the observation period to assess the long-term impact of the RGEC method on profit growth. (2) Use comprehensive measurements for GCG, such as factor scores or indices. (3) Include additional variables, such as bank size, macroeconomic indicators, and industry-specific factors. (4) Explore the interaction effects between variables to uncover potential moderating or mediating relationships. While recommendations for practitioners are (1) Islamic banks should focus on improving asset management and cost efficiency to enhance profitability. (2) A more robust implementation of GCG principles is needed to drive sustainable growth. (3) Banks should leverage their capital effectively to optimize returns.

This study highlights the significance of the RGEC method as a comprehensive framework for assessing the health of Islamic banks and its potential to guide strategic decisions for improving financial performance.

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