



UDC 332

## THE EFFECT OF CAPITAL ADEQUACY AND CREDIT RISK ON PROFITABILITY WITH LIQUIDITY AS A MEDIATION IN RURAL BANKS IN BADUNG REGENCY

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### ABSTRACT

Profitability is an important indicator for banks to assess banking performance in earning profits. It is also a reflection of the management's effectiveness in managing the company. To increase profitability, rural banks need to focus on capital adequacy ratios, credit risk, and liquidity. Capital adequacy plays a role in maintaining financial stability and supporting business growth. At the same time, credit risk reflects the extent to which banks can manage loans disbursed so as not to cause non-performing loans. Liquidity plays a role in keeping the balance between assets and short-term liabilities. This study aims to analyze the effect of capital adequacy and credit risk on profitability, as well as the role of liquidity as a mediating variable. The research was conducted at Rural Banks in Badung Regency for the period 2021-2024 by taking a sample of 45 Rural Banks and then analyzing using the PLS-SEM method. Findings provide practical implications for Rural Banks in Badung Regency to focus more on CAR by increasing retained earnings, reducing credit risk by selecting quality credit, thereby reducing NPL, increasing LDR, and finally increasing the profitability of Rural Banks.

### KEY WORDS

Profitability, capital adequacy, credit risk, liquidity.

Economic growth is an important indicator that reflects the health and dynamics of a country's economy. Economic growth describes how quickly a country's economic output is growing in a given period, usually measured as a percentage change in Gross Domestic Product (GDP). High economic growth indicates an increase in the production of goods and services, investment, and public consumption, which ultimately creates jobs, increases public income and reduces poverty levels. Economic growth in Indonesia in 2022 was 5.31%, then decreased by 0.26% in 2023 to 5.05% (Central Statistics Agency, 2023). This was triggered by the sluggish global economy, which weakened the economic growth of many countries, including the Indonesian economy. External factors, such as the macro and financial conditions of a country, can affect the Indonesian economy in general. The banking sector holds a strategic role in increasing economic growth and creating a stable economy in Indonesia (Dewanti et al., 2022). The banking sector has a primary function as a financial intermediary between economic units with excess funds (surplus) and economic units with a lack of funds (deficit). Banks can collect funds from the public in the form of deposits, which will then be distributed back to the public in the form of credit. A bank is an institution that functions as a financial intermediary between parties who have excess funds and parties who lack funds (Karo & Pakpahan, 2024).

Based on Law of the Republic of Indonesia No. 10 of 1998 (Article 1 paragraph 3), banks can be divided into two, namely commercial banks and rural banks. Commercial banks are banks that carry out business activities conventionally and/or based on Sharia principles, which provide services in payment transactions. In contrast, rural banks are banks that carry out business activities conventionally or based on Sharia principles, which do not provide services in payment transactions. Banking is required to have good performance in order to be able to compete in order to maintain the survival of the company. Banking performance can be seen from the profitability of a bank, which is the most appropriate indicator for measuring its performance (Ningsih & Ilhami, 2023).

Based on POJK No.62/POJK.03/2020, People's Credit Banks, hereinafter abbreviated as BPR, are financial institutions that play an important role in supporting the economy,



especially in the micro and small sectors. BPR provides access to financing for people who have not been reached by commercial banks, especially small business actors in rural areas or remote areas (Purnama et al., 2024). The smaller operational scale and special focus make BPR compensate for higher credit risks by providing higher interest rates to maintain profitability and cover operational costs (Rusydia et al., 2023). The interest rate given by BPR is 6.75%, while that given by commercial banks is 4.25%, with an interest difference of 2.50% (POJK No.25/POJK.03/2019).

Table 1 – List of Number of Rural Banks in Bali Province Year 2025

No.	Regency/ City	Unit	%
1	Buleleng	8	6,2
2	Tabanan	19	14,29
3	Jembrana	1	0,75
4	Badung	45	33,83
5	Gianyar	24	18,05
6	Klungkung	5	3,76
7	Bangli	3	2,16
8	Karangasem	3	2,16
9	Denpasar	25	18,80
Total		133	

Source: OJK Data.

Badung Regency has the highest number of BPR units, which is 45 units or around 33.83% of the total BPRs in Bali, with a total savings of Rp.883,540,692,327. Meanwhile, Bangli Regency recorded the lowest number of BPR units, which is only 1 unit or equivalent to 0.75%, with a total savings of Rp.3,613,949,352. Other regencies, such as Gianyar and Denpasar, each have a fairly high number of BPRs, with a percentage of 18.05% and 18.80%. The dominance of Badung Regency in the number of BPR units shows the importance of this region as the center of BPR activities in Bali. Based on the data presented above can provide a more comprehensive picture of the performance of BPRs in Bali Province.

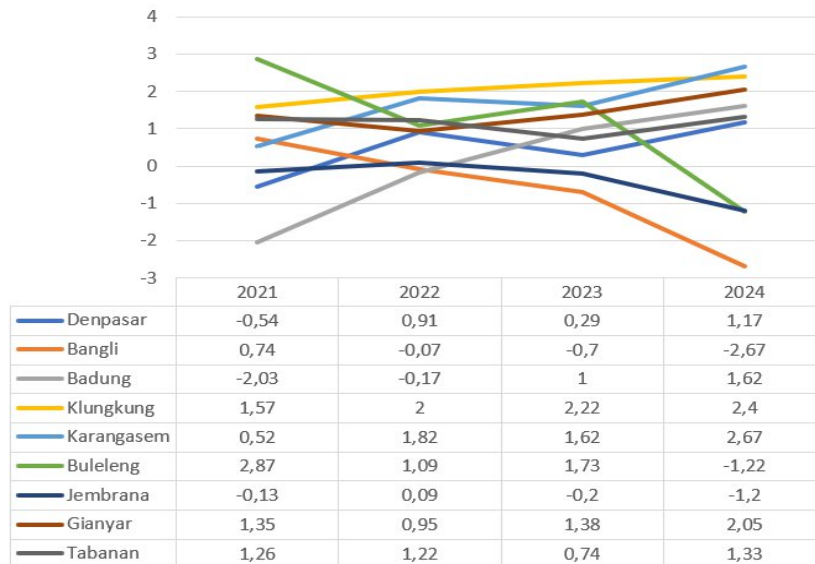


Figure 1 – Profitability on Rural Banks in Regencies of Bali Province (Source: OJK Data)

Figure 1 illustrates the fluctuations in BPR profitability in various regencies/cities in Bali in the period 2021 to 2024. Overall, Badung Regency experienced quite extreme dynamics. In 2021, BPR profitability in Badung was at a negative figure of -2.03, indicating very low performance compared to other regions. Although in 2022, there was an increase to -0.17,



this figure was still below the neutral point, indicating that profitability had not fully recovered. In 2023, BPR profitability in Badung reached a positive value of 1, and in 2024, it reached 1.62, indicating improvement, but sharp fluctuations from year to year indicate instability in BPR financial management in this region. Looking at other areas, such as Klungkung Regency, which showed a consistently increasing trend in profitability, the situation in Badung reflects the challenges that must be faced. This is important to note, considering that Badung has the highest number of BPR units in Bali. Hence, the stability of its profitability is a key indicator in assessing the success of the local financial sector.

Table 2 – Financial Ratios on Rural Banks in Badung Regency for the Period 2021-2024

Information	Year			
	2021	2022	2023	2024
Capital Adequacy (%)	43,81	43,90	41,59	45,21
Credit Risk (%)	13,10	10,68	9,08	7,48
Liquidity (%)	107,15	70,03	93,63	65,82
Profitability (%)	(2,03)	(0,17)	1,00	1,62

Source: OJK Data.

Fluctuations in financial ratios experienced by BPRs in Badung Regency, especially in terms of profitability, which was in the negative zone in 2021 and started to become positive in 2024, which is a challenge for each BPR to improve its performance. This is also reflected in the decrease in capital adequacy and liquidity, but on the other hand, the credit risk that has decreased and is followed by increasing profitability must be maintained in the future. The average capital adequacy value in 2021 to 2022, increasing by 0.09%, decreasing by 2.31% in 2023, and increasing by 3.62% in 2024. Credit risk decreased in 2021 to 2022, and credit risk decreased by 2.42%, decreased again in 2023 by 1.6%, and decreased by 1.6% in 2024. Liquidity decreased from 2021 to 2022 by 37.12%, increased by 23.6% in 2023, and decreased by 27.81% in 2024. Profitability increased from 2021 to 2022 by 1.86%, increased again in 2023 by 1.17%, and increased by 0.62% in 2024. The decline in the financial ratio of capital adequacy, credit risk, and liquidity, as well as the increase in profitability, reflect the increasing competition in the financial industry. BPRs in Badung Regency are still fiercely competing to get customers from other financial institutions such as cooperatives, village credit institutions, financial technology, and general banks (Supriatna et al., 2022). Badung Regency is one of the hearts of the tourism economy in Bali, with iconic destinations such as Kuta, Nusa Dua, and Uluwatu, which are world-class tourist destinations. The high number of tourists has increased the financial needs of the community, including the demand for credit for micro, small, and medium enterprises (MSMEs) engaged in various business sectors, especially the tourism sector. In addition, the number of BPRs in Badung Regency is ranked number 1 in Bali Province, where there are 45 BPR units, or equivalent to 33.81% of the total BPRs in Bali, resulting in tighter competition in getting customers. This condition presents a challenge for BPRs to meet funding needs in the tourism sector (Rondonuwu et al., 2024). This research was conducted at 45 BPRs in Badung Regency by examining financial ratios such as capital adequacy, credit risk, liquidity, and profitability.

Profitability is closely related to stakeholder theory; based on stakeholder theory, information about a company's profitability is not only relevant for shareholders as capital owners, but also for other stakeholders, such as employees, customers, government, local communities, and business partners. This theory emphasizes that the success of a company cannot be measured only by the interests of shareholders but also by how well the company meets the needs and expectations of all stakeholders involved in its operations (Tran et al., 2021). Information related to profitability provides a key picture of the company's financial health, which directly affects stakeholders. High profitability can be a guarantee for employees regarding the sustainability of their jobs and opportunities to get incentives or salary increases. For the government, information related to profitability is relevant to ensure that the company is able to meet its tax obligations. In addition, from the customer's perspective, profitability reflects the company's ability to maintain the quality and



sustainability of the products or services offered (Buallay et al., 2020). Research conducted by Damayanthi et al. (2023) explains that the stakeholder theory approach is considered appropriate in explaining how transparency of information related to profitability can build trust and positive relationships that influence the decisions and interests of various stakeholders. This approach also encourages companies to not only focus on financial profit alone but also on creating sustainable value for all parties involved in their operations (Freudenreich et al., 2020).

Profitability is an important aspect for banks because it functions as an indicator of the company's ability to generate profits and reflects the effectiveness of management in managing the company so that the company can evaluate the amount of profit obtained in a certain period (Brealey et al., 2020, p. 100). According to Brigham & Joel (2018: 107), profitability can be understood as the result of various policies and decisions made by the company. Berk & Dermazo (2017: 200) explain that profitability reflects the company's ability to generate profits, as measured by sales, total assets, and equity. High bank profitability reflects that the bank has a good system of risk management, credit checks, and risk monitoring, which is expected to reduce bank risk (Hawaldar et al., 2022). Profitability can be used to measure the level of a company's ability to generate profits through the use of its assets. Profitability is a ratio that shows the return on the amount of assets used in the company (Berk & Dermazo, 2017, p. 200).

Profitability is a variable that is often used to measure the impact of capital adequacy in supporting operational stability and sustainability, especially in the banking sector. The measurement of profitability in this study refers to the concept developed by Sala-Ríos (2024) and Astarani & Desyana (2024). Profitability can be increased by having strong capital adequacy, but the inability of banks to manage capital adequacy is a challenge that has an impact on decreasing the company's profitability (Wanigasuriya, 2022). Capital adequacy is one of the internal factors that measure whether a bank's capital is sufficient to support the company's profitability. Capital adequacy is a ratio that shows how a bank finances its operational activities with its capital holdings by comparing it to risk-weighted assets (Tripermata et al., 2023). This capital adequacy plays a role in maintaining the health of the bank because adequate capital is the main foundation for absorbing the risk of losses that may arise from operational, credit, or investment activities (O'Connell, 2023). From the perspective of stakeholder theory, capital adequacy not only plays a role in maintaining the stability of bank operations but also contributes to profitability through healthy capital management (Rahman et al., 2023).

The role of capital adequacy is very important when bank operational activities can run smoothly if they have sufficient capital so that during critical times the bank remains safe because it has capital reserves (Berk & Dermazo, 2017, p. 255). The greater the capital owned, the stronger the bank is in facing unexpected risks so that the bank can increase public trust (Amin, 2024). Banks that have too high capital adequacy, on the other hand, can result in idle funds, namely, there are many idle funds that cannot be utilized by bank management (Biswas & Mondal, 2023). Several research results on capital adequacy are closely related to increasing the profitability of a bank. Research conducted by Hawaldar et al. (2022) and Tripermata et al. (2023) explains that capital adequacy has a positive effect on profitability. Capital adequacy is one of the factors affecting bank profitability, showing that banks with good capital adequacy can better face economic challenges and have the potential to increase their profitability (Haris et al., 2020; Kumar et al., 2020).

Several studies showed inconsistent results, which is also one of the research gaps. Research conducted by Fachri & Mahfudz (2021) and Sekarsari & Yuningsih (2023) stated that capital adequacy has a negative and insignificant effect on profitability. High capital adequacy can result in a decrease in company profitability due to capital that is not invested productively, thereby reducing the potential returns that can be generated (Ogunode et al., 2022; Shuibin Gu et al., 2020). Capital in banking activities is also used for credit distribution. Credit distribution is one of the highest profits obtained by banks and is estimated to reach 90 percent of banking profits obtained from credit (Fahmi, 2014, p. 57). From the perspective of stakeholder theory, banks have a responsibility to manage credit risk transparently so that



stakeholders can understand the potential impact of problematic loans on profitability (Damayanthi et al., 2023). Banks need to be selective in assessing the eligibility of prospective credit recipients to minimize the risk of bad debts. Bad debts that occur on loans will have an impact on decreasing bank profits; if this condition continues, it will cause the bank to be unable to pay interest obligations to its customers (Puspitasari et al., 2021). Credit risk functions to measure the bank's ability to cover the risk of failure to repay credit by debtors. The higher the level of credit risk, the greater the credit risk borne by the bank; in other words, the higher the credit risk, the more it will disrupt the bank's performance (Siddique et al., 2022).

Several research results on credit risk are closely related to the decline in a bank's profitability. Research conducted by Saleh & Paz (2023) and Damayanthi et al. (2023) explains that credit risk has a negative and significant effect on profitability. Credit risk will have a significant impact when associated with bank profitability; this reflects the number of loans that cannot be repaid by debtors, which causes banks to allocate more funds for loan loss reserves, potentially reducing bank profitability (Saleh & Abu Afifa, 2020; Siddique et al., 2022). Several studies showed inconsistent results, and this is also one of the research gaps. Research conducted by Anindiansyah et al. (2020), Dewanti et al. (2022), and Annisa et al. (2022) stated that credit risk has a positive and insignificant effect on profitability. Increased credit risk in companies can be accompanied by a management strategy of setting higher interest rates to compensate for the risk, thereby increasing the company's income and profitability (Desda & Gustika, 2021; Ogunode et al., 2022). Several researchers have revealed that the relationship between capital adequacy and profitability can be negative or insignificant, and the relationship between credit risk and profitability can be positive or insignificant for several reasons. The reasons revealed are that capital adequacy is not optimal because the funds owned are mostly stored as reserves rather than used productively for more profitable investments or credit distribution, and credit risk is due to ineffective mitigation strategies in ensuring the quality of credit distributed in managing strategies to increase profitability. Bank profitability also depends on liquidity factors. Liquidity plays an important role in increasing BPR profitability, with effective liquidity management allowing BPR to meet financial obligations, maintain capital reserves, and distribute credit optimally. In a position like this, banks need a liquidity mediation role to understand further the complex relationship between capital adequacy and credit risk with profitability (Arini, 2023). Liquidity is the right mediation to support capital adequacy and credit risk with the potential for increasing profitability.

Liquidity support for capital adequacy and credit risk is very important to increase profitability amidst the tight competition in the banking industry. Liquidity reflects the bank's ability to meet short-term obligations and run operations efficiently, which are key factors in maintaining stability and customer trust. Liquidity can also be understood as a ratio that facilitates the allocation and management of assets that support efficient bank operations. Capital adequacy and credit risk will achieve maximum profitability through optimal liquidity management (Muhammed et al., 2024; Rakshit & Bardhan, 2022). Theoretical studies emphasize that liquidity is a key element that influences increased profitability (Freeman, 1984). Good liquidity management must consider the interests of various parties, such as customers, shareholders, and regulators. Effective liquidity allows banks to meet financial obligations on time, maintain trust, and comply with regulations, which will ultimately improve the bank's profitability performance in the long term (Fitrifatun & Meirini, 2024). Empirical evidence emphasizes that liquidity is the factor that has the most significant effect on profitability when compared to other ratios (Ben Abdallah & Bahloul, 2024; Febiyanni & Hermanto, 2023; Muhammed et al., 2024). The role of liquidity for banks is an important element for smooth payments. Liquidity must be positively related to profitability. The positive impact that arises can increase profitability. It is empirically determined that profitability will have a negative impact when liquidity is not optimal or vice versa (Dewi & Badjra, 2020).

Several studies have also proven the relationship between capital adequacy and credit risk with liquidity and the relationship between liquidity and profitability. Research by Sulastrini et al. (2023) found that capital adequacy has a positive and significant effect on



liquidity. Research conducted by Rakshit and Bardhan (2022) found that credit risk has a significant negative effect on liquidity. Research conducted by Devy and Fazaalloh (2022) found that liquidity has a positive and significant effect on profitability.

### METHODS OF RESEARCH

This study was conducted to determine the effect of capital adequacy and credit risk on profitability and liquidity as a mediator in Rural Credit Banks in Badung Regency. The design of this study was prepared based on each financial report from BPR in Badung Regency for the period 2021-2024. This study takes data from BPR financial reports published through the website [www.ojk.go.id](http://www.ojk.go.id). This study uses a saturated sample by examining all BPRs in Badung Regency, with a total sample of 45 BPRs, because all BPRs are required to report complete financial reports to the OJK. The reason for taking the location at BPR Badung is because the number of BPRs in 2024 is in first place out of eight regencies. The dominance of Badung Regency in the number of BPR units shows the importance of this area as the centre of BPR activities in Bali. The data collection method used in this report is non-participant observation. The analysis technique used in this study is path analysis.

### RESULTS AND DISCUSSION

The profitability variable has a minimum value of -13.570 and a maximum value of 7.020, with an average value of 0.599 and a standard deviation value of 2.586. In the sample company, the minimum profitability value is -13.570, namely at PT. BPR Gisawa in 2022, while the maximum profitability value is 7.020, namely at PT. BPR Jaya Kerti in 2024. The capital adequacy variable has a minimum value of 11.340 and a maximum value of 132.700, with an average value of 43.631 and a standard deviation value of 24.539. In the sample company, the minimum capital adequacy value is 11.340, namely at PT. BPR Tulus in 2013, while the maximum capital adequacy value was 132,700, namely at PT. BPR Mambal in 2023. The credit risk variable has a minimum value of 0.050 and a maximum value of 64,130, with an average value of 10,092 and a standard deviation of 8,694. In the sample company, the minimum credit risk value is 0.050, namely at PT. BPR Prima Dewata in 2024, while the maximum credit risk value is 64,130, namely at PT. BPR Gisawa in 2021. The liquidity variable has a minimum value of 35,300 and a maximum value of 299,210, with an average value of 84,163 and a standard deviation of 27,820. In the sample company, the minimum liquidity value is 35,300, namely at PT. BPR Cahaya Binawerdi in 2024, while the maximum value is at PT. BPR Tulus in 2021.

Table 3 – Results of Descriptive Statistical Analysis

	N	Min	Max	Mean	Std. Deviation
Profitability	180	-13,570	7,020	0,599	2,586
Capital Adequacy	180	11,340	132,700	43,631	24,539
Credit Risk	180	0,050	64,130	10,092	8,694
Liquidity	180	35,300	299,210	84,163	27,820

Source: Data processed by researchers, 2025.

Table 4 – R<sup>2</sup> Value of Variable Construct

Construct	R <sup>2</sup>
Profitability	0,450
Liquidity	0,127

Source: Data processed by researchers, 2025.

The R<sup>2</sup> value of the profitability variable construct is 0.450. Therefore, the value is more than 0.19, meaning that the influence of the capital adequacy and credit risk model is moderate. The R<sup>2</sup> value of the liquidity variable construct is 0.127. Therefore, the value is less than 0.19, meaning that the influence of the capital adequacy and credit risk model is



weak. The Q2 value of 0.5199 has predictive relevance, so the resulting model is suitable for use in predicting. The Q2 figure of 0.5199 means that 51.99 percent of the variation in profitability and liquidity is influenced by capital adequacy and credit risk.

Table 5 – Direct Influence between Construct Variables

Relationship between variables	Original Sample	Std. Dev	T Statistic	P Values	Description
Capital Adequacy -> Profitability	0,250	0,052	4,591	0,000	Significant
Credit Risk -> Profitability	-0,282	0,060	4,732	0,000	Significant
Capital Adequacy -> Liquidity	-0,239	0,052	5,317	0,000	Significant
Credit Risk -> Liquidity	0,299	0,085	2,692	0,007	Significant
Liquidity -> Profitability	-0,409	0,104	3,920	0,000	Significant

Source: Data processed by researchers, 2025.

The first hypothesis (H1): Capital adequacy has a positive effect on profitability. The results of the analysis show a p-value of 0.000. This means that at a 95 percent confidence level, capital adequacy has a significant effect on profitability. The original sample value with a coefficient of 0.250 indicates a positive relationship between capital adequacy and profitability, with a t-statistic value of 4.591 indicating that capital adequacy has a positive and significant effect on profitability at BPR in Badung Regency for the period 2021-2024. Thus, the hypothesis (H1) is accepted. This study supports the research conducted by Hawaldar et al. (2022), Kumar et al. (2020), and Tripermata et al. (2023), which found positive and significant results between capital adequacy and profitability.

The second hypothesis (H2): Credit risk has a negative effect on profitability. The results of the analysis show a p-value of 0.000. This means that at a 95 percent confidence level, credit risk has a significant effect on profitability. The original sample value, with a coefficient of -0.282, indicates a negative relationship between credit risk and profitability, with a t-statistic value of 4.732 indicating that credit risk has a negative and significant effect on profitability at BPR in Badung Regency for the period 2021-2024. Thus, the hypothesis (H2) is accepted. The results of this study are also in line with several previous studies conducted by Saleh & Paz (2023) and Damayanthi et al. (2023), which found that credit risk has a negative and significant effect on profitability; banks are considered to have to be careful enough in maintaining the quality of their productive assets. The results of this study are also in line with research conducted by Hasibuan et al. (2020) and Yitayaw (2021), which found that capital adequacy has a negative and significant effect on liquidity.

The third hypothesis (H3): Capital adequacy has a positive effect on liquidity. The results of the analysis show a p-value of 0.000. This means that at a 95 percent confidence level, capital adequacy has a significant effect on liquidity. The original sample value with a coefficient of -0.239 indicates a negative relationship between capital adequacy and liquidity, with a t-statistic value of 5.317 indicating that capital adequacy has a negative and significant effect on profitability at BPR in Badung Regency for the period 2021-2024, thus the hypothesis (H3) is rejected. This is in line with research conducted by Hamdi & Herianingrum (2022) and Agustuty et al. (2020), which found that credit risk has a positive and significant effect on liquidity.

The fourth hypothesis (H4): Credit risk has a negative effect on liquidity. The results of the analysis show a p-value of 0.000. This means that at a 95 percent confidence level, credit risk has a significant effect on liquidity. The original sample value with a coefficient of 0.299 indicates a positive relationship between credit risk and liquidity, with a t-statistic value of 2.692 indicating that credit risk has a positive and significant effect on profitability at BPR in Badung Regency for the period 2021-2024. Thus, the hypothesis (H4) is rejected. These findings are in line with research conducted by Budhathoki et al. (2020), Nuryanto et al. (2020), and Alaziz (2020), which found that liquidity has a negative and significant effect on profitability.

The fifth hypothesis (H5): Liquidity has a positive effect on profitability. The results of the analysis show a p-value of 0.000. This means that at a 95 percent confidence level, liquidity has a significant effect on profitability. The original sample value, with a coefficient of



-0.409, indicates a positive relationship between credit risk and liquidity, with a t-statistic value of 3.920 indicating that liquidity has a negative and significant effect on profitability at BPR in Badung Regency for the period 2021-2024. Thus, the hypothesis (H5) is rejected. The results of this study are in line with the findings of Ghosh & Saima (2021) and Meliza et al. (2024), who found a positive and significant relationship between capital adequacy and liquidity and Devy & Fazaalloh (2022), and Muhammed et al. (2024) who found a positive and significant relationship between liquidity and profitability.

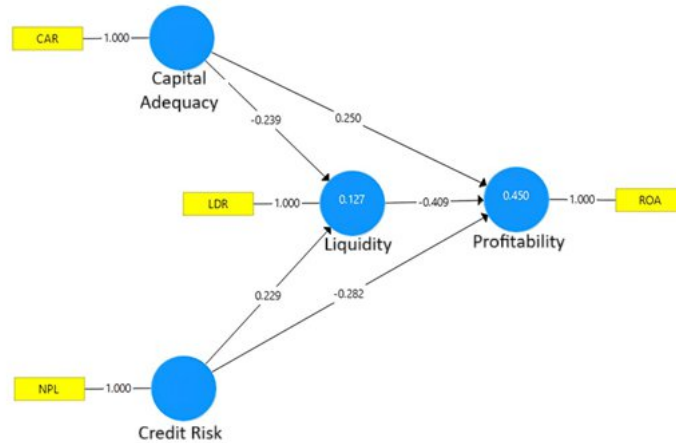


Figure 2 – Path Coefficient of Relationships between Research Variables

Table 6 – Indirect Influence between Construct Variables

Relationship between variables	Original Sample	Std. Error	T Statistic	P Values	Description
Capital Adequacy -> Liquidity -> Profitability	0,098	0,035	2,830	0,005	Significant
Credit Risk -> Liquidity -> Profitability	-0,094	0,043	2,178	0,030	Significant

Source: Data processed by researchers, 2025.

The sixth hypothesis (H6): Liquidity is able to mediate the relationship between capital adequacy and profitability. The results of the analysis show a p-value of 0.005. This means that at a 95 percent confidence level, capital adequacy has a significant effect on profitability through liquidity. The original sample value with a coefficient of 0.098 shows a positive relationship between capital adequacy and profitability through liquidity, with a t-statistic value of 2.830, indicating that liquidity is able to mediate the effect of capital adequacy on profitability at BPR in Badung Regency for the period 2021-2024. Thus, the hypothesis (H6) is accepted and classified as half mediation. The results of this study are in line with the findings of Bouslimi et al. (2024) and Rakshit & Bardhan (2022), who found a negative and significant relationship between credit risk and liquidity and Devy & Fazaalloh (2022), and Muhammed et al. (2024) who found a positive and significant relationship between liquidity and profitability. Seventh hypothesis (H7): Liquidity is able to mediate the relationship between credit risk and profitability. The results of the analysis show a p-value of 0.030. This means that at a 95 percent confidence level, credit risk has a significant effect on profitability through liquidity. The original sample value, with a coefficient of -0.094, shows a negative relationship between credit risk and profitability through liquidity, with a t-statistic value of 2.830, indicating that liquidity is able to mediate the effect of credit risk on profitability at BPR in Badung Regency for the period 2021-2024. Thus, the hypothesis (H7) is accepted and classified as half mediation. Based on the results of the analysis, the liquidity variable mediates the effect of capital adequacy and credit risk on profitability with a significance value of less than five percent. The liquidity variable mediates the effect of capital adequacy on profitability with an original sample value of 0.098 and p-values of 0.005, so it is classified as half mediation. The liquidity variable mediates the effect of credit risk on profitability with an original sample value of -0.094 and p-values of 0.030, so it is classified as half mediation.

The practical implications of this study suggest that BPRs in Badung Regency must



prioritize capital adequacy, manage credit risk effectively, and monitor liquidity levels to enhance profitability. Maintaining sufficient capital adequacy ensures the bank's stability, while managing credit risk and liquidity are essential for optimizing performance. BPRs should focus on minimizing non-performing loans to increase profitability, which underscores the need for caution in lending practices. From a theoretical perspective, this study reinforces the importance of liquidity as a mediating variable in the relationship between capital adequacy, credit risk, and profitability. It also contributes to the understanding of how these financial variables interact to shape bank performance. Future research could build on these findings by incorporating additional variables such as operational efficiency or macroeconomic factors, and by expanding the sample to include all BPRs in Bali for more generalizable insights.

## **CONCLUSION**

This study aims to test and obtain empirical evidence of the effect of capital adequacy and credit risk on profitability with liquidity as a mediating variable. This study used 45 BPRs as samples obtained using saturated sampling techniques. Based on data analysis and wetting of the research results that have been carried out, capital adequacy has a positive and significant effect on profitability at BPRs in Badung Regency for the 2021-2024 period. Credit risk has a negative and significant effect on profitability at BPRs in Badung Regency for the 2021-2024 period. Capital adequacy has a negative and significant effect on liquidity at BPRs in Badung Regency for the 2021-2024 period. Credit risk has a positive and significant effect on liquidity. This means that the higher the credit risk, the higher the level of liquidity. Liquidity has a negative and significant effect on profitability. The role of liquidity as a mediator of the effect of capital adequacy on profitability shows significant results. The role of liquidity as a mediator of the effect of credit risk on profitability shows significant results. Based on theoretical and empirical studies and the results of data analysis that have been carried out, the researcher provides suggestions to BPR to pay attention to capital adequacy, credit risk, and liquidity. Banks must be able to maintain capital adequacy; credit risk and liquidity are important factors in determining BPR performance, so caution is needed in carrying out banking activities. Banks must be more careful in providing credit to customers because if non-performing loans decrease, it will have an impact on increasing profits that BPR will generate. Further researchers are advised to develop this study by adding other variables that can affect BPR profitability, such as operational efficiency and macroeconomic factors. In addition, further researchers can also expand the study by using samples of all BPRs in Bali in order to obtain more comprehensive results that can be generalized more widely.

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