

ABSTRACT

Rural Bank (BPR) is a financial institution that focuses on empowering the economy of local communities through providing credit, collecting savings and other financial services. As part of the national banking system, BPR has an important role in supporting financial inclusion, especially in remote areas. This research examines the influence of core capital and the quality of governance implementation on profitability with credit risk as a mediating variable at Rural Banks (BPR) on Kalimantan Island during the 2016–2023 financial reporting period.

The method used in this research is quantitative with secondary data. The population was 57 BPRs, then the sample determination was carried out using the purposive sampling method, resulting in 51 BPRs with 8 years of observation as a sample, resulting in a total of 408 observations and after outliers were carried out because the data was found to be abnormal, the final data processed was 326. The research analysis tool used SPSS 26 software. .00 with the path analysis method (path analysis) twice regression.

The results of the study show that the first regression of core capital has a significant negative effect on credit risk (sig. 0.002; coefficient -0.172), the quality of governance implementation as measured by the decrease in the composite value of governance has a significant positive effect on increasing credit risk (sig. 0.086; coefficient 0.094). With a determination value of R^2 of 0.142, it shows that 14.2% of the variation in credit risk can be explained by core capital and the quality of governance implementation. The second regression shows that core capital has a significant positive effect on profitability (ROA) (sig. 0.023; coefficient 0.112), while the quality of governance implementation as indicated by the decrease in the composite value of governance is not significant (sig. 0.338; coefficient 0.115). Credit risk was found to have a significant negative effect on profitability (sig. 0.000; coefficient -0.368). In this model, R^2 of 0.255 indicates that core capital, quality of governance implementation, and credit risk together explain 25.5% of the variation in profitability.

The Sobel test shows that credit risk is able to mediate the relationship between core capital and profitability (sig. 0.00380 < 0.10; Coef 0.063), and credit risk can also mediate the relationship between the quality of governance implementation on profitability (sig. 0.0933 < 0.10; Coef -0.034). The results of this study prove the importance of strengthening capital and good credit risk mitigation in increasing BPR profitability. This study provides a practical contribution for BPR managers to strengthen capital, implement risk management strategies and good governance in order to be more competitive and grow sustainably in the banking sector.

Keywords: Core Capital, Quality of Governance, Credit Risk, Profitability, Rural Banks (BPR).