ABSTRACT

Capital for the bank serves as a buffer against potential losses, and serves to maintain confidence in the banking activity in its function as an intermediary institution. Fundamentally banking risk is the possibility of financial loss and the variability of returns associated with the assets owned. While profitability is one indicator of the success of the bank's performance.

This research examine the simultaneous impactbetween capital and profitability, capital and risk, and profitability and risk of banks in Indonesia. Capital is measured by Capital Adequacy Ratio (CAR), profitability by Return on Assets (ROA), and risk by Cadangan Kerugian Penurunan Nilai (CKPN).

The research includes 25 conventional banks in Indonesia and covers the period between 2009 and 2015. Regression methods used in the study is three-stage least squares (3SLS) with fixed effect.

The obtained results have revealed that risk has negative impact to profitability, capital has negative impact to risk, and profitability has positive impact on capital.

Keywords: Simultaneous, Capital, Risk, Profitability, 3SLS

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