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The Analysis of the Effect Allowance for Impairment Losses and Profitability on Bank Capital After the Adoption of PSAK 71

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Abstract:

The purpose of this research is to determine the influence of the implementation of PSAK 71 on the conventional commercial bank capital. This study aims to understand how the Expected Credit Loss calculation method on CKPN affect to CAR. Additionally, this research aims to investigate the ROA on the increase in bank capital that is influenced by the rise in CKPN due to earning asset formation, following the adoption of PSAK 71. The research use the purposive sampling method to select 55 samples of conventional commercial banks registered with the OJK. The findings of this research indicate that the increase of CKPN due to the changes brought by PSAK 71 in the bank's CAR is not statistically significant. Furthermore, the results also demonstrate that the ROA of the bank doesn't have a significant influence on the increase in the CAR of the bank. The outcomes of this research provide insights to the bank management, allowing them to more caution in extending bank credit to mitigate non-performing loans and maintain CKPN stability. Consequently, banks can maximize the profitability. The results of this study is to contribute to understanding of PSAK 71, particularly CKPN implementation's impact on bank capital through statistical tests.

Keywords: *CAR, CKPN, PSAK 71, ROA*

1. Introduction

The banking sector holds a vital role in a country's economic cycle. It functions as the authority overseeing monetary stability, and its involvement in economic development across the nation is integral. The health of the banking industry can also be a reference for assessing the economic health of a country (Kartika, et al., 2022). to Fulfill these roles and responsibilities, banks need to assess their operational status by measuring their performance regularly (Devi et al., 2021). This practice is undertaken to appraise the banks' performance in fulfilling their operations while adhering to the principles of prudence, compliance with relevant regulations and standards, and risk management. (Kurniawan & Lestari, 2014).

One element used to assess the financial condition of a bank in order to enhance public confidence is capital. Bank capital can be used as an indicator to assess the health of a bank because bank capital is considered an important aspect in bank operational

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flows so that banks can compete in global competition (Salim & Rianto, 2020). Also, Bank Capital have a crucial role in developing the bank's operations and absorbing potential losses from its earning assets. Based on Bank Indonesia regulation Number 13/1/PBI/2011 which came into effect on 27 December 2016 at the same time replaced Bank Indonesia regulation Number 6/10/PBI 2004 regarding the system assessment of the soundness level of the bank in a commercial bank determined that adequacy bank capital can protect some risks such as liquidity risk in the future will come. One of the capital ratios that can be used is Capital Adequacy Ratio (CAR). as a company that obtains business benefits from the distribution of earning assets, in its distribution the bank faces the risk of decreasing the value of its earning Assets. Therefore, in order to be able to deal with these risks, the company is necessary prepare reserves for risk of loss. In a banking context, reserves that is Allowance for Impairment Losses (CKPN – Cadangan Kerugian Penurunan Nilai) (Indramawan, 2019). In the Calculations, CKPN was regulated by PSAK 71 which replaces PSAK 55.

PSAK 71 is an accounting standard that adopts IFRS 9 concerning Financial Instrument issued on January 1, 2016 and became effective on January 1, 2018. Implementation of PSAK 71 which replaces PSAK 55 regulates in three ways, namely (1) classification and measurement, (2) impairment financial assets, (3) and hedge accounting (Sibarani, 2021). The differences between PSAK 55 and PSAK 71 is the methode to calculate to form CKPN, in PSAK 71 is called as *Expected Credit Loss* method which is using a Forward looking which means this calculation method has a very different method that used in PSAK 55 that using *Incurred Credit Loss* method (Brilianto, 2021). With this calculating method, the bank will calculate CKPN when there is a declining in the value of earning asset.

Based on PSAK 71, credit in CKPN will always be renewed and recognized from initial recognition until maturity without waiting for it to exist objective evidence (Pujiningtyas, 2023). Also the *Forward Looking* principles takes the external indicators to form CKPN, such as economic growth, inflation, and other company external indicators (Roni & Oktaviani, 2023). Because the different method to calculating earning assets losses, the total of amount CKPN in PSAK 71 has increase about 48,35% in the first month adaptations.

In the banking industry sector, the implementation of PSAK 71 has an impact on the formation of CKPN will affect bank capital and profits. The formation of a large CKPN will cause the funds provided for allowance for losses to become larger thereby reducing profit (Yusdika & Purwanti, 2021). The result study by Suroso (2017), the bigger CKPN form by banking sector have an impact to their own Capital, the result from the study shown by the decreasing on Capital Adequacy Ratio. The decreasing of Bank Capital has an impact to the decrease ability of banks to give a credit and loan to bank customer and other earning assets and have an effect to bank profitability. Also, in SPI OJK CKPN statistic between 2017 – 2021, CKPN that form by bank is keep increased 40,16% since the first adaptation on January 2020. Based on SPI OJK 2017 – 2019 the Allowances for Impairment Losses (CKPN – Cadangan Kerugian Penurunan Nilai) increased about 8% when using PSAK 55. It’s because the Incurred

Credit Losses method, the bank will calculate when there is objective evidence of default as well as delays in repayment or declining in the value of earning asset. But in the 2020 – 2021, just 2 years after the adaptation of PSAK 71, the Allowances for Impairment Losses (CKPN – Cadangan Kerugian Penurunan Nilai) has increased about 40,16%. Even the result study from Suroso show the CKPN have a negative impact on bank capital, but the other study shown have a different result, like study from (Husni et al., 2022), the result of study show that the increased CKPN didn't have a significant impact. The different result is cause by the different sample between the study and the time adoption, Suroso (2017) study used an early adoption and the sample is Book 2 Bank category, while the study from (Husni et al., 2022) used a bigger company like BUMN bank (Bank Usaha Milik Negara).

Based on the phenomenon to find out the impact of PSAK 71 implementation on Bank Capital, researchers decided to conduct research on the impacts of the increased allowance for impairment losses (CKPN – *Cadangan Kerugian Penurunan Nilai*) on Bank Capital, also adding Bank Profitability to shown how profitability can cover the losses of Bank Capital with Size bank as control variable.

2. Theoretical Background

A Good financial performance is an obligation that must be achieved by banking management in order to become an aspect of the assessment of the bank in managing as well allocation of resources owned by the bank. To increase the Capital, the banking sector should gain a high profitability from the distribution of the earning assets they have. So that, Banking capital would increase increased and can cover the bank's operating expenses. In this study a good financial performance will measured by profitability ratio (ROA – Return on Asset).

The result of Suroso (2017) study confirmed the fears of the impact of Increasing CKPN by PSAK 71 to bank capital. Even the increased CKPN have an impact to bank Capital, the bank must be obeyed to the regulation. This is explained in *Compliance Theory* by Milgram (1974). *Compliance Theo*ry has two basic legal compliance perspectives in the literature sociology. The two perspectives are the Instrumental perspective and perspective normative (Secarian, 2012). On an instrumental perspective shows to get a positive response from investors, the company needs to comply with applicable accounting standards. But the normative perspective shows that it follows the applicable regulations and accounting standards is an obligation that must be met by the company.

According to Bank Indonesia Regulations No.14/15/PBI/2012, Allowance for Impairment Losses (CKPN) is an allowance created if the initial carrying value of a financial asset after impairment is less than the initial carrying value to avoid the potential for business failure that could be experienced by the bank if the debtor (borrower) is truly unable to fulfill its obligations to pay (Taqwiim, et al., 2023).

although the implementation of PSAK 71 is predicted to have an effect on decreasing on bank capital but comply with applicable regulations and standards be a good value creator for the company, because the company can report and disclose quality financial reports so that can meet the characteristics of reliable, relevant, comparable, and can understood (Secarian, 2012). This theory can be used to find out how the influence on the obligation to comply Regulations or standards that apply to company performance. In this research will examine how the impact after the implementation of PSAK 71 on banking capital which is calculated using the *Capital Adequacy Ratio*.

Even though the implementation of PSAK 71 has been running for 3 years, the impact of increased CKPN on bank Capital is grow positively, not same as the result of simulation by Suroso (2017). Because of The phenomenon, in this study is to test how significant impact the increase in banking CKPN on banking capital after applying PSAK 71, the impact of increased of Allowances for Impairment Losses (*CKPN – Cadangan Kerugian Penurunan Nilai*) interpreted in black and white, the bank must be prepared for all risk increased CKPN. The size of the impact of the implementation PSAK 71 on bank capital really depend on Profitability, Credit Quality, and ATMR (*risk-weighted assets*) Suroso (2017).

This study will examine Capital Adequacy Ratio when there is an increased of Allowances for Impairment Losses (CKPN – Cadangan Kerugian Penurunan Nilai). to Increase the knowledge about the effect of PSAK 71 implementation, this study has a quantitative approach which is still understudied and deserves more analysis. This study will answer the different result of previous research by Suroso (2017) and (Husni et al., 2022) supported by (Sundari, et al, 2023) show that in the implementation PSAK 71, CAR bank have a positive impact because the increased of CKPN. Therefore, CKPN will be one the main focus in this research when applying PSAK 71 to bank equity that measured with Capital Adequacy Ratio (CAR). Also, this study contributes to the literature by quantitatively by analyze the impact of PSAK 71 to bank equity amidst the Covid – 19 Pandemic. Based on the description described, the first hypothesis will be examined is:
H1: *Allowances for Impairment Losses have a negative significant effect to Capital Adequacy Ratio*

One of source of bank capital comes from income or profitability from bank business activities. An increase in CKPN due to a change in method from PSAK 71 previously received affect the bank's capital requirements. The phenomenon in the change PSAK 71 from PSAK 55 is a Larger CKPN causing a decrease in bank capital (Isma & Sixpria, 2022). To cover the declining, one of the factors that can cover the decline bank capital is the profitability/profit from the bank's business activities. One ratio profitability that can be used is ROA. An increase in the ROA ratio at a bank indicates the success of the bank in obtaining profits that continue to grow so that it can replenish cash from the bank. An increase in the ROA ratio of a bank can be an attraction for investors to invest in the bank, thus enabling the bank's CAR to be (Sulistianingsih, et, 2016). Other study show a positive relationship between ROA and

CAR is Sakinah (2013) study and (Wulansari & Safira, 2020) study. Based on the description described, the Second hypothesis will be examined is:
H2: *Return of Asset (ROA) have a positive significant effect to Capital Adequacy Ratio*

3. Methodology

The type of data used in this study is a type of secondary data in the form of a Time Series with time intervals being annual in the form of panel data from all Variables, including Allowance for Impairment Losses (CKPN), Return on Assets (ROA), and Capital Adequacy Ratio (CAR) in the sector banks registered with the Financial Services Authority (OJK) in 2020 - 2021. The approach used in this research is a quantitative approach. The quantitative approach is an approach based on philosophy positivism is useful for researching populations and samples, research data in the form of numbers and using statistical data analysis with the aim test the hypothesis that has been set. The population in this study are all Commercial Conventional Banks registered with the Authority Financial Services (OJK) in 2018 to 2021. After carrying out data collection, then sampling will be carried out from the population. The sample selection technique will use a purposive sampling technique with established criteria (Sugiyono, 2014).

In this study will consist of 3 types of variables, namely independent variables (Independent), Control Variable, and dependent variables (Dependent). Dependent Variable (Y) is a variable that has characteristics that can be affected by change independent variable and Control Variabel (X). while the independent variable is a variable that included in order to explain the research phenomenon. Variables on This research will be explained as follows:

Allowances for Impairment Losess (CKPN)
Allowances for Impairment Losses (CKPN) is a reserve formed in anticipation non collection of the allocation of earning assets owned by the Bank (Afrizal, 2017). Changes in Accounting Standards from PSAK 55 to PSAK 71 caused Changing the method of calculating CKPN to Expected Credit Loss (ECL) with always takes into account the amount of CKPN with the Forward-looking principle. in order to find out the amount of CKPN on earning assets formed by the bank. CKPN Ratio governed in SEBI No.13/24/DPNP- 25 Oktober 2011 as follows:

$$\text{CKPN Ratio} = \frac{Earning\ Asset\ CKPN}{Earning\ Asset}\ x\ 100\%$$

Profitability (ROA)
Return On Assets is a ratio that measures a company's ability to generate profits from all the assets owned by the company. ROA ratio can assess the efficiency and effectiveness of the company in generating profits from management of assets/ assets

owned. the total assets used to obtain the Bank's profitability consist of earning assets which consists of the placement of securities and placement in the form of credit (Sakinah, 2013), beside Bank Indonesia as a supervisor and banking supervisor prioritizes the value of profitability as an assessment of the soundness level of a bank using ROA. Profitability ratio Return on Assets (ROA) is formulated as follows:

$$\text{Return on Asset} = \frac{Laba\ Sebelum\ Pajak}{Total\ Aset}\ x\ 100\%$$

Bank Size (Control Variabel)

The size of a bank can be measured by the total assets owned by bank. Bank size can be an important factor that can influence the amount of capital in the bank. In this study, Size is calculated by the formula as follows:

$$\text{Size} = \text{Ln (Total Credit)}$$

Capital Adequacy Ratio (CAR)

Capital Adequacy Ratio (CAR) is a ratio that shows ability bank in maintaining sufficient capital and bank management capabilities in identifying, measuring, monitoring, and controlling risks that arise and can affect changes in bank capital (Wulansari & Safira, 2020). According to the SBI Standard (Bank for International Settlement) the risk level of the CAR ratio at the bank is equal to 8% (Fauzi et al., 2020). According Salking (2018), The CAR ratio of a bank can be calculated using the formula as follows:

$$\text{CAR} = \frac{Modal\ Bank}{Total\ ATMR}\ \text{x}\ 100\%$$

The observation periode was 2 years, with a total 110 observation. Before conducting hypothesis testing research model will undergo a Classic Assumption Test and Descriptive Test. The linear regression model used was as follow:

$$Y = a + bX_1 + bX_2 + bX_3 + e$$

Y = *Capital Adequacy Ratio*
a = Constanta
X_1 = CKPN
X_2 = *ROA*
X_3 = *Size*
E = *Error Term*

4. Empirical Findings/Result

Statistic Descriptive

Descriptive statistical analysis was used to describe and analyze the variable to be studied. Dependent variable used in this study is the CAR (Y), and the independent variable which used in this study are CKPN (X1), ROA (X2), and Size (X3) as a control variable. The results of the variable descriptive statistical analysis are presented as following:

Table 2. Descriptive Statistic

Variabel	N	Min.	Max.	Mean	Std. Dev.
CKPN	110	0,0006	0,1172	0,0258	0,0180
ROA	110	-0,1806	0,0516	0,0054	0,0252
Size	110	6,3456	13,8152	9,8851	1,7504
CAR	110	0,1095	2,0157	0,3233	0,2632
Valid N (listwise)	110				

Source : Data Processed SPSS (2023)

The Result of descriptive statistics in PSAK 71 showed that Allowances for Impairment Losses (CKPN) in PSAK 71 have an average of 2,58% per earning assets. The other independent variable which is Bank profitability measured with ROA in PSAK 71 have an average of 0,54. Also, when using PSAK 71 the average bank Size is 9,8851. and last is CAR as dependent variable have average 32,33% per bank Risk-weighted assets

Classic Assumption Test

The normality test in this research used Kolmogorov - Smirnov Normality test. Based on Asymp. Sig (2-tailed) result, the data has value 0,200 or more than 0,05 (0,200 > 0,05) the normality test showed that the data was normally distributed. Furthermore, the multicollinearity test in this research using Variance Inflation Factor (VIF) and tolerance. The result multicollinearity test using VIF have a result each independent variable has value under 1,0. furthermore in tolerance test have a result every independent variable have value under 10,0. From the multicollinearity test showed that the data didn't have multicollinearity problem. The next Classic assumption test is heteroscedasticity using Spearman-rho's test. The result is every independent variable have Sig. (2-tailed) value above 0,05. And the last is autocorrelation test, in this research using Durbin-Wattson Autocorrelation test. The result Durbin-Wattson Autocorrelation value in this research is 1,842, while the DU value obtained was 1,6515. The figure is based on indicators 1,6515 < 1,842 < (4 - 1,6515) so the data is free from autocorrelation problem.

Multiple Regression Analysis

The following is the result of multiple linear regression analysis on the regression model application of PSAK 71.

Table 3. Variable Linear Regression

Coefficients[a]						
Model		Unstandardized Coef.		Standardized Coef.	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,043	0,086		0,505	0,615
	CKPN	-1,951	1,298	-0,162	-1,503	0,136
	ROA	0,455	0,986	0,048	0,461	0,646
	Size	-0,059	0,014	-0,386	-4,188	0,000

a. Dependent Variable: CAR

Source : Data Processed SPSS (2023)

Based on the test results above, the linear regression model is in the application model PSAK 71 is as follows.

$$Y = 0{,}043 - 1{,}951X_1 + 0{,}455X_2 – 0{,}059X_3 + e$$

Based on the results of multiple regression analysis in the equation above, it can be interpreted as follows. The constant value of the equation model is 0.043 which indicates that if all independent variable values are 0 or considered constant, then CAR value (Y) will increase by 0.043. The CKPN value of the equation model is -1.951 which indicates, CAR will decrease of 1.951 if there is an increase in CKPN in PSAK 71 (X1). assuming other variables do not change or are constant. The ROA value of the equation model is 0.455 which indicates, CAR will increase of 0.455 if there is an increase in ROA in PSAK 71 (X2). assuming other variables do not change or are constant. The Size value of the equation model is -0.059 which indicates, CAR will decrease of 0.059 if there is an increase in Size in PSAK 71 (X1). assuming other variables do not change or are constant.

Hypothesis Test

Based on the results of the T-Test in the table above, it can be seen that the variable independent CKPN which is measured using a nominal scale a significance value of 0.259 (0.136 > 0.05) and has a coefficient which has a negative value of -1.503. The value indicates that CKPN has a negative and not Significance influence on the CAR of Commercial Conventional Bank registered in OJK (**H1 Rejected)**.

Based on the results of the T-Test in the table above, it can be seen that the variable independent ROA which is measured using a nominal scale a significance value of 0.646 (0.646 > 0.05) and has a coefficient which has a positive value of 0.461. The

value indicates that ROA has a positive and not significant effect on CAR of Commercial Conventional Banks registered with OJK (**H2 Rejected**).

Table 4. F – Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0,525	3,000	0,175	14,460	,000b
	Residual	1,271	105,000	0,012		
	Total	1,796	108,000			

a. Dependent Variable: CAR

b. Predictors: (Constant), CKPN, ROA, Size

Source : Data Processed SPSS (2023)

On the results of the F test of the regression equation in table 5 above, the F value is in the regression model PSAK 71 has a value of 9.073 with a significance value of 0.00. These results indicate the significance of the regression model <0.05, results it explains that the CKPN and ROA variables and Size as a control variable simultaneously positive and significantly to the banking CAR when implementing PSAK 71.

The last hypothesis used for measure and explain the ability of independent variables to variables dependent is Determination Coefficient Test (R Square). As for the test results the coefficient of determination (R2) in the research model is as follows.

Table 5. Coefficient of Determination

PSAK 71

Model Summary[b]

Model	R	R Square	Adj. R Square	Std. Error	Durbin-Watson
1	,454[a]	0,206	0,183	0,17951	1,842

Source : Data Processed SPSS (2023)

According to table 4.11 The test results for the coefficient of determination (R2) in the table above shows that the R square in the PSAK 71 regression model is equal to 0.206 or 20.6%. This value explains that the ability of CKPN, ROA, and Size as a control variable in explaining current CAR implementing PSAK 71 is 20.6%, while the other 79.4%. explained by external variables from the regression equation. variable that it is assumed that 79.4% is the variable contained in previous research that can affect the CAR value Commercial Conventional Banks registered in OJK.

5. Discussion

The Impact of CKPN on CAR After the Implementation of PSAK 71
Based on the results of this study, CKPN in PSAK 71 has a negative direction and has no influence on the conventional commercial Bank's CAR registered with OJK. Consequently, the first hypothesis was rejected. The results of this research has a contradict with previous studies such as in research findings (Achmad & Kristijadi, 2021) and (Suroso, 2017). Which have a result that CKPN in PSAK 71 had a negative effect on CAR banking. However, this research is supported by research results by (Husni et al., 2022) and (Groff & Mörec, 2021) which have a result that PSAK 71 CKPN does not have a major influence on changes in Bank Capital Adequacy Ratio.

The application of PSAK 71 is effective from January 1, 2020, (Suroso, 2017) implied the effect of transition from PSAK 55 is the different method to calculating CKPN, from Incurred Credit Loss into Expected Credit Loss. differences result with previous studies is because the differences using sample. The differences with (Suroso, 2017) result are lies in technique sampling, where in this study only took samples Book 2 Banks or banks that only have a core capital of 1-5 Trillion Rupiah. In addition, the simulation carried out does not involve a decrease in assets disbursed resulting in a decrease in RWA (ATMR – Aset Tertimbang Menurut Resiko).

One of the reasons for the decrease in the amount of bank asset distribution is the increase non-performing loans, so that the decrease affected the decrease in bank RWA (ATMR). the size of the change in CAR as a result the increase in CKPN impact depends on the level of profitability, and RWA (ATMR) bank. This is shown in the CAR value of 2 state-owned banks out of 4 banks BUMN (Husni et al., 2022). This statement is supported by research results by (Isma & Sixpria, 2022), movements in the banking CAR ratio can be accompanied by a decrease in the RWA (ATMR) which was due to a decrease in the distribution of total credit as earning asset as a result increasing CKPN that must be formed. The results of this study are in line with the research results (Sinaga, et al., 2022). Overall, the CAR ratio will have fluctuations, so it can be interpreted that the implementation of PSAK 71 will increase the CKPN value but will not necessarily reduce banking CAR.

As an example, PT Bank Central Asia Tbk, has a CKPN on assets productive by 1.9% when implementing PSAK 55. and in 2020 CKPN on productive assets increased to 2.8%. Even though the CKPN has experienced increased but bank CAR increased from 24.64% to 26.89%. When viewed from the bank's capital structure, Bank BCA's RWA showed a declining from Rp721,917 in 2019 to Rp695,143 (in billion rupiah) in 2020. However, in the following year, the bank's CAR has decreased to 26.85%. This was due to the increase from RWA of Rp758,289 (in billion rupiah).

The Impact of ROA on CAR After the Implementation of PSAK 71
The Second research hypothesis is profitability when applying PSAK 71 has a positive influence on the measured bank capital using the ROA ratio. The result between ROA after implementing PSAK 71 to CAR has a significance value of 0.646. The figure

has a value greater than 0.05. These results indicate that the increase in ROA When applying PSAK 71 it has no effect on increase Banking capital especially when measured with CAR. The regression coefficient for ROA when applying PSAK 71 is 0.461. Based on the results of this study, ROA on PSAK 71 has a positive direction and has no influence on the CAR of conventional commercial banks registered in OJK.

The results of the PSAK 71 regression model test have results that are contrary to the research result by (Kurniawan & Lestari, 2014) and (Subroto & Purwanti, 2023) where partially ROA has a positive impact and can increased the CAR partially. but this study is in line with research result by (Afrizal, 2017). which shows that ROA has a positive effect but not significant to the bank's CAR. furthermore, other research in line with the results of this study is research by (Jonardy & Hasanuh, 2022) which indicates that the measured profitability banking ROA ratio in PSAK 71 does not necessarily increase capital through profitability, this can be due to the growth of the bank's productive assets which is not good so that the profitability achieved is lower than when implementing PSAK 55 causing an increase in the CAR ratio are not significant. This is in accordance with the results of the study (Prena & Nareswari, 2022) increasing the CKPN ratio will be able to resulting in a decline in bank profitability.

The phenomenon of increasing CKPN is that there is a decrease in bank lending which resulted in a decrease in bank profitability This phenomenon is also supported by the results study by (Putri, 2022) that changes in the formation of CKPN in PSAK 71 can reduce the profits of Conventional Commercial Banks. So the source of volatility The movement in the CAR ratio could have been caused by a reduction in credit risk calculated based on RWA (ATMR) due to a decrease in the distribution of earning assets such as bank credit because the impact of increased non – performing loans particularly due to the Covid – 19 Pandemic. Based on the research conducted on Conventional Commercial Banks registered with the Financial Services Authority (OJK), it is indicated that the bank's profitability after implementing PSAK 71 does not affect the Capital Adequacy Ratio (CAR) following the application of PSAK 71.

6. Conclusions

The implementation of PSAK 71, which adopts IFRS 9, has been in effect since 2020. Since the adoption of this revised accounting standard, it has led to significant impacts on the performance of the banking sector, particularly during the COVID-19 pandemic. The preparation of this research aims to explain the information regarding the influence of CKPN, ROA, and Size as control variables on Commercial Conventional Banks CAR after adopting PSAK 71. This research is conducted to enhance the source of information regarding the impact of implementing PSAK 71 on bank capital by utilizing linear regression analysis. Based on the hypothesis testing results, it is indicated that CKPN do not have a significant impact on the capital bank measured with CAR of conventional commercial banks registered with the OJK after the implementation of PSAK 71. However, due to the high CKPN that result in the reduction of the distribution of earning assets such as loans, it causes a decrease in the

ROA ratio. Because the decrease of profitability, causing ROA don't have a significance impact to bank capital measured by ROA. For the size variable, it has a negative after the implementation of PSAK 71.

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