Measuring Banking Profitability Based on Quality Earning Assets and Net Performing Loan

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Abstract: This study aims to determine whether Earning Asset Quality affects Profitability, whether Non-Performing Credit affects Profitability, and to determine whether Earning Asset Quality and Non-Performing Credit have a simultaneous effect on Profitability. Collecting data using secondary data obtained from the financial statements using the cross-sectional technique. The population in this study is the financial statements PT Bank Negara Indonesia Tbk. Branch Makassar Period 2011 – 2019 taken while the sample amounted to 36 pieces. The results of such financial statements have been tested with the classical assumption in the form of normality assumptions, assumptions, and assumptions multicollinearity autocorrelation. Methods of data analysis using multiple linear regression analysis. "The first results showed that The Quality Of Productive Assets significant positive effect on The Profitability. Both Problem Loan does not affect a positive and significant impact on Profitability. Third, The Quality Of Productive Assets and Problem Loan influence simultaneously the value of The Profitability:

Keywords: The Quality of Productive Assets, Problem Loan, The Profitability, Banking

PRELIMINARY

A bank is a business entity whose main activity is to collect funds from the public and distribute them to the people in credit or other forms. In principle, banks are intermediary institutions for people with excess funds who then entrust these funds to be deposited with banks by running their business; banks use funds mainly sourced from the community.

PT. Bank Negara Indonesia Tbk. is one of the state-owned banks, in this case, is a state-owned company engaged in financial services in Indonesia that provides banking services.

In this case, it is necessary to know the financial condition of the bank's profitability level by knowing or assessing the quality of earning assets and non-performing loans. This is following what Siswanto Sutojo (2008:25) said, a bank driven by many non-performing loans tends to decrease its Profitability. Return on Assets (ROA) is one of the benchmarks for Profitability, which if the ROA value decreases, the soundness of operations in the banking sector will drop. The quality of productive assets and non-performing loans will impact the level of the bank's ability to gain Profitability.

The profitability aspect can measure the company's ability to generate profits and can also be used to measure the level of effectiveness and efficiency of a bank's management. Profitability measurement results can used as a management performance evaluation tool. The better the profitability ratio, the better it describes the ability of the company to earn high profits.

Earning Asset Quality

Quality of Earning Assets is the value of the probability of receiving back funds invested in earning assets (principal including interest). Earning assets are bank investments in rupiah and foreign currencies in the financing, receivables, securities, placements, and equity
participation. As a source of income, Earning Asset Quality has a high level of risk, so reserves are needed to cover potential losses that arise. The quality of Earning Assets that are good or current will guarantee the return of credit from the debtor, thereby protecting the bank's income. Potential losses from these risks can be anticipated by establishing an Allowance for Earning Assets (PPAP) which is an anticipation of losses formed by the bank for the possibility of uncollectible earning assets or can be interpreted as a reserve formed by burdening the current year's profit and loss calculation to accommodate possible losses. Arise as a result of the non-receipt of part or all of the earning assets.

So, Earning Asset Quality is the value of the probability of receiving back invested funds such as loans, securities, placements of funds with other banks, and equity participation that causes the bank to earn income to earn profits.

Troubled Credit

According to Kasmir (2018), non-performing loans are loans whose principal and or interest installment payments have passed 90 (ninety) more days after maturity or loans whose timely payments are highly doubtful". "Meanwhile, according to Dendawijaya (2006:85) non-performing loans are loans whose principal repayments and interest payments have been delayed for more than 1 (one) year from maturity according to the agreed schedule.

Based on the above understanding, it can be concluded that non-performing loans are a condition where the debtor breaks his promise to pay interest or credit that has matured, resulting in late payments or no payments at all. In measuring non-performing loans, researchers chose the Non-Performing Loan approach in this study.

Profitability

According to Riyanto (2014) profitability is the company's ability to earn profits through the overall capabilities and existing sources such as sales, cash, capital, number of employees, number of branches, and so on. Meanwhile, Kasmir (196: 2013) states that the profitability ratio is the ability of a company in generating profits, indicated by the profit generated from sales and investment income.

"Based on the above understanding, it can be concluded that Profitability is a ratio used to measure how much the company's ability to generate profits is. One of the indicators to measure the level of bank profit (Profitability) in terms of asset use is the analysis of Return On Assets (ROA)". "Return On Assets (ROA) is a ratio that shows the ability of the capital invested in all assets to generate profits or in other words to describe bank productivity.

Based on the description of the background above, the formulation of the problem is

1. Does the quality of earning assets affect the Profitability of PT Bank Negara Indonesia Tbk
2. Does non-performing loans affect Profitability at PT Bank Negara Indonesia Tbk
3. Does the quality of earning assets and non-performing loans have a simultaneous effect on Profitability at PT Bank Negara Indonesia Tbk

METHOD

The research approach used in this study is descriptive quantitative analysis to process secondary data obtained from financial reports and analysis using statistics. The research approach used in this research is descriptive quantitative analysis to process secondary data obtained from financial statements and analysis using statistics.

This research was conducted at PT Bank Negara Indonesia Tbk. Makassar Regional Office, which is located on Jalan Let. Gen. Sudirman No. 1 Makassar.

The population in this study is the financial statements of PT Bank Negara Indonesia Tbk. Makassar Regional Office. "The sample that will be used for this research is the data for the first quarter to the fourth quarter of the observation period from 2011-2019, which was obtained on the Indonesian stock exchange website.
RESULTS AND DISCUSSION

Table 1 Descriptive Statistical Analysis

| Descriptive Statistics | Mean     | Std. Deviation |
|-------------------------|----------|----------------|
| Earning Asset Quality   | 1.3376   | .24793         |
| Non-Performing Loan     | .8505    | .19282         |
| Profitability           | .6053    | .12240         |
| Valid N (listwise)      |          |                |

Table 1 shows that each variable has a mean > standard deviation.

Table 2 Multiple Regression Analysis

| Model          | Unstandardized Coefficients | Standardized Coefficients |
|----------------|----------------------------|---------------------------|
|                | B  | Std. Error | Beta     |                |              |
| (Constant)     | .056 | .028     |         |                |              |
| Earning Asset Quality | .460 | .013     | .933     |                |              |
| Non-Performing Loan | -.078 | .017     | -.123    |                |              |

a. Dependent Variable: Profitabilitas

\[ Y = 0.056 + 0.460 + 0.078 \]

1) If the value of the quality of productive assets (X1) and non-performing loans is 0, then the Profitability is 0.056

2) The productive activation quality variable (X1) is 0.460. Stating that every 1 percent increase in the SBI Interest Rate will increase the composite stock price index by 0.460.

3) Non-performing loan variable regression coefficient (X2) is 0.460. Stating that every 1 percent increase in inflation will result in a Profitability of 0.460.

Uji Hipotesis

| Table 3 Uji Parsial Coefficients |
|----------------------------------|
| Model          | t    | Sig. |
| (Constant)     |      |      |
| 1 Earning Asset Quality | 34,112 | .000    |
| Non-Performing Loan | -4,513 | .000    |

a. Dependent Variable: Profitabilitas

1) Effect of Earning Asset Quality on Profitability

Based on table 5.3, it can be seen that the magnitude of the t-count is 34.122 while the magnitude of the t-tab is at the 95% confidence level and the degrees of freedom (36-1-1 = 34) then the value of t-tab = 2.032 is obtained. Because the value of t-count is greater than t-tab with a significance of t of 0.000, which is more significant (\( \alpha = 0.05 \)), Ho is accepted, and Ha is rejected. This means that the Quality of Earning Assets significantly affects Profitability at PT Bank Negara Indonesia (Persero) Tbk. 2011-2019 period.
2) The Effect of Non-performing Loans on Profitability

Based on table 5.3, it can be seen that the magnitude of t-count is -4.513 while the importance of the t-tab is at the 95% confidence level and degrees of freedom (36-1-1 = 34), so the value of t-tab = 2.032 is obtained. Because the value of t-hit is greater than t-tab with a significance of t of 0.000 < (α) = 0.05, Ha is accepted, and Ho is rejected. This means that non-performing loans have a negative and significant effect on Profitability for the 2011-2019 period.

**Simultan Test**

|        | Sum of Squares | Df | Mean Square | F     | Sig.  |
|--------|----------------|----|-------------|-------|-------|
| Regression | .514           | 2  | .257        | 788.009 | .000b |
| Residual | .011           | 33 | .000        |       |       |
| Total   | .524           | 35 |             |       |       |

The table above shows the F test results in F-count of (788.009). At the same time, for Ftable with the formula (df1) = k-1 and (df2) = nk, where n is the number of samples and k is the number of variables (free + bound) then obtained the value (df1)=(3-1)= 2 and the value (df2)=(36-3)=33, then the value of F-table is (3.285) at the significance level of (α)= 0.05 or 5%. Because F-count 788.009 > F-table 3.285 with a significance level of 0.000 <0.05, Ho is rejected and Ha is accepted, which means that Earning Assets Quality and Non-performing Loans on Profitability conform with the model with theoretical expectation values based on a normal distribution.

**Interpretation of Research Results**

1. *Quality of Earning Assets has a Positive and Significant Effect on Profitability.*
   This condition is due to the highest value of earning asset quality of 1.72 in March 2013, resulting in an increase in Profitability of 0.75 in March 2013. Based on the results of the t-test for the earning asset quality variable, a significance value of 0.000 < 0, 05, the variable quality of productive assets has a significant effect on Profitability.
   This is because the quality of earning assets can maximize the profits earned by the bank and the receipt of interest on the activities of channeling funds or providing credit to the public is high, so the smooth distribution of credit to the public and the income from receiving funds on these productive assets will contribute to the acquisition of income for the bank.

2. *Non-performing loans have a significant and negative impact on Profitability*
   This condition is due to the lowest score of non-performing loans of 0.51 in June 2012, increasing Profitability of 0.72 in December 2013. Based on the results of the t-test for the non-performing loan variable, a significance value of 0.000 <0.05 was obtained; the non-performing loan variable had a significant effect on Profitability.
   Non-performing loans have dire consequences for bank liquidity and increase losses for banks. Non-performing loans are loans that in practice have not reached or met the target desired by the bank and then have the possibility of future risks arising for the bank in a broad sense, also experiencing difficulties in settling obligations in the form of repayment of principal and or interest payments, late penalties. As well as bank fees are borne by the debtor concerned.

3. *Earning Assets Quality Variable (X1) and Non-performing Loans Variable (X2) Have a Positive and Significant Effect on Profitability (Y)*
   This condition is due to the Quality of Earning Assets and Non-performing Loans on Profitability; there is a conformity of the model with the theoretically expected value based on a standard distribution so that this study shows that the criteria of the Goodness of Fit model have been met (Kock, 2011).

This research aligns with a study conducted by Moch Andi Chaeryon (2017). The results of his research, together with the quality of productive assets and non-performing loans, have a positive and significant effect on Profitability.
CONCLUSIONS AND SUGGESTIONS

Based on the results of testing and discussion, it can be concluded that

1. Earning Asset Quality Variables have a positive and significant influence on Profitability at PT. Bank Negara Indonesia (Persero) Tbk Makassar Regional Office for the 2011-2019 period so that the proposed hypothesis is accepted. The results of this study indicate that an increase in productive assets suggests an increase in Profitability.

2. Non-performing loans have a negative and significant effect on Profitability at PT. Bank Negara Indonesia (Persero) Tbk Makassar Regional Office for the 2011-2019 period so that the proposed hypothesis is accepted. This means that any decrease in the value of non-performing loans affects the company's profitability/profit will decrease.

3. By the model, the quality of productive assets and non-performing loans simultaneously affect the Profitability of PT. Bank Negara Indonesia (Persero) Tbk Makassar Regional Office for the 2011-2019 period so that the proposed hypothesis is accepted. This means that productive assets are still balanced with non-performing loans that occur so that Profitability becomes high; high Profitability will make customers believe not only in the company's current performance but also in the company's prospects in the future.

Suggestions

Further researchers should analyze the factors that affect Profitability not only from the inner side of the company but also to analyze the elements from the outer side of the company itself so that the resulting analysis can be more comprehensive. Explain the dependent variables are more significant than previous studies to get more accurate results.

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