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Effect of Productive Asset Quality and Problem Credits on Banking Profitability

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Abstract: This study aims to partially analyze and examine the effect of the quality of earning assets and non-performing loans on bank profitability. This study uses secondary data obtained from the financial statements of PT Bank Negara Indonesia Tbk. Makassar Regional Office for the period 2011 - 2019 using the cross-sectional technique. This study used 36 samples. Furthermore, it will be tested with several testing stages, such as the classic assumption test in normality, multicollinearity, and autocorrelation—methods of data analysis using multiple linear regression analysis techniques. This study indicates that partially the quality of earning assets has a positive and significant effect on profitability. In contrast, non-performing loans have no positive and significant effect on profitability. Simultaneously, productive asset quality and non-performing loans affect profitability.

Keywords: Earning Asset Quality; Profitability; Non-Performing Loans

INTRODUCTION

The bank is a business entity whose main activity is to collect funds from the public and distribute them to the public in credit or other forms. In principle, banks are intermediary institutions for people with excess funds who 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 assessing the quality of earning assets and non-performing loans. This is by what Siswanto Sutojo (2008:25) said, a bank driven by a large number of 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 decrease. 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 be used to measure the level of effectiveness and efficiency of a bank's management. Profitability measurement results can be used as a management performance evaluation tool—the better the profitability ratio, the better the ability to describe the company's high profitability.

LITERATURE REVIEW

Earning Asset Quality

I am earning Asset Quality as 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. The quality of Earning Assets that are good or current will guarantee the debtor's return of credit, 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 not receiving back part or all of the earning assets. Thus, 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.

Non-Performing Loans

According to Siswanto Sutojo, (2007), non-performing loans are loans whose principal and or interest installment payments have passed 90 (ninety) days after maturity or loans whose timely payments are highly doubtful. Meanwhile, according to Dendawijaya (2006), 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. 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 this study, in measuring non-performing loans, researchers chose the Non-Performing-Loan approach.

Profitability

According to Riyanto, (2011), 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 to generate profits, indicated by the profit generated from sales and investment income. It can be concluded that profitability is the ratio used to measure how much the company can generate profits. 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 overall assets to generate profits or, in other words, to describe bank productivity.

Hipotesis

Earning asset quality has a proxy for Earning Assets Quality (KAP), and non-performing loans have a Non-Performing Loan (NPL) as an Independent Variable and Profitability with a Return On Assets (ROA) proxy as a Dependent Variable.

H1: Earning Asset Quality has a positive and significant impact on profitability at PT Bank Negara Indonesia (Persero) Tbk.
H2: Non-performing loans have a negative effect on profitability at PT Bank Negara Indonesia (Persero) Tbk.
H3: Earning Assets Quality and Non-performing Loans have a simultaneous effect on Profitability at PT Bank Negara Indonesia (Persero) Tbk

RESEARCH METHOD

The research approach used in this research is quantitative descriptive analysis to process secondary data obtained from financial statements and analysis using statistics. The research approach used in this research is quantitative descriptive 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 sampling technique used in this study is to use a non-random sampling method, namely the purposive sampling method.

The data collection technique in this study is a document data collection technique. The data was obtained in a literature study through books and journals related to the subject matter in this study and from the internet through the website www.bni.co.id and to obtain financial reports required by the research. Descriptive statistical analysis is a statistic used to analyze data by describing or describing the data that has been collected as it is without the intention of making generally accepted conclusions or generalizations (Sugiyono, 2014:147). This study's descriptive statistical analysis explains each analyzed variable's minimum, maximum, mean, and standard deviation values. Inferential statistical analysis is a statistical technique used to analyze sample data. The results are applied to the population; this statistic will be suitable if the sample is taken from a clear population and the sampling technique from the population is done randomly (Sugiyono 2014:148).

$$Y=a+b_1 X_1+b_2 X_2+e$$

Information :

Y	: Profitability
a	: Constant
b1,b2	: Coefficient of Independent Variable
X1	: Earning Asset Quality
X2	: Non-performing loans
e	: Error Term

RESULTS AND DISCUSSION

Table 1. Descriptive Statistical Analysis

Descriptive Statistics

	Mean	Std. Deviation
Earning Asset Quality	1,3376	,24793
Non-performing loans	,8505	,19282
Profitability	,6053	,12240
Valid N (listwise)		

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

$$Y = 0.056+ 0.460+ 0.078$$

α = 0.056 means that if the value of the quality of productive assets (X1) and non-performing loans is 0, then the profitability is 0.056. The regression coefficient of the productive activation quality variable (X1) is 0.460. They state that every 1 percent increase in the SBI Interest Rate will increase the composite stock price index by 0.460. The non-performing loan variable regression coefficient (X2) is 0.460. Stating that every 1 percent increase in inflation will result in profitability of 0.460

Table 2. Partial Test

Coefficientsa

Model	t	Sig.
(Constant)	2,020	,052
Earning Asset Quality	34,112	,000
Non-performing loans	-4,513	,000

a. Dependent Variable: Profitability

Effect of Earning Asset Quality on Profitability

Based on table 2, it can be seen that the magnitude of this is 34,122 while the magnitude of ttab is at the 95% confidence level and degrees of freedom (36-1-1 = 34), so the value of t-table = 2.032 is obtained. Because the value of that is greater than t-table with a significance of t of 0.000, which is more significant (α) = 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.

The Effect of Non-performing Loans on Profitability

Based on table 2, it can be seen that the magnitude of this is -4.513 while the magnitude of the t-table is at the 95% confidence level and the degrees of freedom (36-1-1=34) so that the t-table value = 2.032. Because the value of t-count is greater than ttab 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 impact on profitability for the 2011-2019 period.

Table 3. Simultaneous Test

ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	,514	2	,257	788,009	,000[b]
Residual	,011	33	,000		
Total	,524	35			

a. Dependent Variable: Profitability

b. Predictors: (Constant), Non-performing Loans, Quality of Earning Assets

In table 3, the results of the F test produce an F-count of (788.009). At the same time, for the F-table with the formula (df1) = k-1 and (df2) = nk, where n is the number of samples and k is the number of variables (independent + bound) then the value (df1)=(3-1)= 2 and the value (df2)=(36-3)=33, then the value of the 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 expectations based on a normal distribution.

Discussion

Earning Asset Quality 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 productive asset quality variable, a significance value of 0.000 < 0.05 was obtained. Then 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.

Non-Performing Loans Have Negative And Significant Influence on Profitability

This condition is caused by the lowest score of non-performing loans of 0.51 in June 2012, increasing profitability of 0.72 in December 2013. 05, the non-performing loan variable has a significant effect on profitability. Non-performing loans have dire consequences for bank liquidity and increase losses for banks. Non-performing loans are loans which in practice have not reached or met the target desired by the bank and then have the possibility of risk arising later for the bank in a broad sense, also experiencing difficulties in settling obligations in the form of repayment of principal and or payment of interest, fines. Delays and bank fees are borne by the debtor concerned.

Earning Assets Quality and Non-performing Loans have a positive and significant

impact on profitability this condition is due to the quality of Earning Assets and Non-performing Loans on Profitability. The goodness of Fit model has been fulfilled (Kock, 2011). This study is in line with research conducted by Moch Andi Chaerony (2017), where the results of his research, together with the quality of earning assets and non-performing loans, have a positive and significant effect on profitability.

CONCLUSIONS AND SUGGESTIONS

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 the increase in productive assets indicates an increase in profitability. 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 every decrease in the value of non-performing loans affects the company's profitability, or profit will decrease. 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 offset by non-performing loans that occur so that profitability is high; high profitability will make customers believe and not only in the current performance of the company but also in the company's prospects in the future.

There are suggestions from researchers related to this research; among others, financial management is expected to maintain its consistency as a driver of the national economy in managing all elements and financial aspects; this is mandatory because it is one of the essential functions in achieving company goals. Financial management is also expected to maintain the quality of productive assets as high as possible and non-performing loans as low as possible to overcome all risks that may arise in the future, including the risk of declining company profitability.

Further researchers should analyze the factors that affect profitability from the inner side of the company and analyze the factors from the external side of the company itself so that the resulting analysis can be more comprehensive. Future researchers are expected to add several other independent variables so that the independent variable can explain that the dependent variable is greater than the previous research to get more accurate results.

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