Assessment of bank financial performance and its impact on profit of national private banks

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Abstract : The purpose of this study is to determine the effect of financial performance of banks ; Non Performing Loan (NPL), Loan To Deposit Ratio (LDR), Capital Adequacy Ratio (CAR), and Net Interest Margin (NIM) on Return On Assets (ROA). This study was conducted using secondary data. The sampling technique uses purposive sampling with 7 companies. The method used is multiple linear regression. The result of analysis shows that partially Non Performing Loan (NPL) has significant effect to ROA, while Loan To Deposit Ratio (LDR), Capital Adequacy Ratio (CAR) and Net Interest Margin (NIM) have no significant effect on ROA. Simultaneously that Non Performing Loan (NPL), Loan To Deposit Ratio (LDR), Capital Adequacy Ratio (CAR), and Net Interest Margin (NIM) have significant effect to ROA.

Introduction

The growth of national private banks in encouraging the development of the Indonesian economy through the mobilization of public funds is increasing. The banking sector is changing because not only as a facilitator of government and big companies but has turned into a very influential sector for the economy. This change is due to the internal development of the banking world that is not free from the influence of macro economic development. Capital requirement constraints can be met by the banking sector. To overcome this capital problem, the bank becomes an option to finance the business through credit services offered by the bank. According to Law No. 10/1998 on Banking (Kasmir, 2012) Bank is a business entity that collects funds from the public in the form of savings and distributes it to the community in the form of credit and / or other forms in order to improve the standard of living of many people .

The object of this study is a national private bank which is a bank incorporated Indonesian law and part or all of its capital owned by citizens of Indonesia and or legal entity Indonesia. Banks need to obtain sufficient resources to support operational activities. The source of funds can come from own funds, loans, and third parties. Fund disbursement activities to third parties can be done in the form of credit to the debtor, placed in the form of securities, liquid instruments to show the liquidity of the bank, and other fund disbursements.

Profitability is one indicator that can be used to measure financial performance. Sartono (2001) said that profitability ratios can be used to measure how much a company's ability to earn profits associated with sales, assets, and profit for own capital. Performance measurement is represented by Return On Equity (ROE) and Return On Assets (ROA). In the banking industry

Return On Equity (ROE) is a ratio that shows the company's ability to generate net income by using its own capital and generate net income available to owners or investors. Return On Assets (ROA) is the ratio between net retained earnings after tax and total assets of the company. This research uses ROA because Indonesian banks prefer the profitability value of a bank is measured using assets. Therefore, ROA is more representative in measuring bank profitability.

The financial performance of banks in this study is measured by 4 aspects, namely capital, assets, earnings, and liquidity. Capital aspect uses Capital Adequacy Ratio (CAR) indicator, asset aspect using Non Performing Loan (NPL) indicator, earning aspect includes Net Interest Margin (NIM), while liquidity aspect uses Loan to Deposit Ratio (LDR) indicator, while profit in this research measured by Return On Assets (ROA). Based on the above description, this study makes a comprehensive analysis of the bank's financial performance and its impact on earnings at the National Private Bank in the Indonesia Stock Exchange Period 2011-2016.

Profitability

Profitability is a company's ability to earn profits related to sales, total assets, and own capital (Sartono, 2001). In this study Profitability used is Return On Assets (ROA). According Lukman Dendawijaya (2005) is the ratio used to measure the ability to gain overall profit. ROA indicates a company's ability to generate return on assets used (Margaretha, 2005). Bank Indonesia as the monetary authority sets the ROA of 1.5% for the bank to be said to be in good health.

Non Performing Loan (NPL)

Lukman Dendawijaya (2001) states that the Non Performing Loan is a credit that the loan principal repayments and interest payments have been delayed more than 1 (one) year since the due date according to the agreed schedule. Non Performing Loans can also be interpreted as loans that have difficulty repayment due to intentional factors and / or due to external factors beyond the ability of the debtor that can be measured from the collectibility. The higher the NPL resulted in higher loan interest arrears that could potentially lower revenues and interest and lower profits. Bank Indonesia sets the gross NPL ratio less than 5%. According to Jumiang (2011) Non Performing Loan can be calculated using the formula:

Loan to Deposit Ratio (LDR)

Loan to Deposit Ratio (LDR) ratio of the total amount of loans granted by banks with funds received by banks. This ratio indicates one of the bank's liquidity rating (Lukman Dendawijaya, 2005). According to Lukman Dendawijaya (2001) the Loan to Deposit Ratio represents the extent of the bank's ability to repay the withdrawal of funds by the depositor by relying on the credit given as a source of liquidity. According to Bank Indonesia regulation the LDR is 77-100%.

Capital Adequacy Ratio (CAR)

Capital Adequacy shows the bank's ability to maintain sufficient capital and bank management capability in identifying, monitoring and controlling risks that may affect the size of bank capital (Lukman Dendawijaya, 2009). Capital is also a major determinant of a bank's loan capacity. A bank's balance sheet can not be extended beyond the rate determined by its capital adequacy ratio. As a result, the availability of capital determines the maximum level of assets (Greuning & Bratanovic, 2011). Bank Indonesia requires every commercial bank to require minimum CAR for Indonesia's commercial banks to be 8% (Lukman Dendawijaya, 2009).

Net Interest Margin (NIM)

Net Interest Margin is the ratio of interest income (interest earned bank interest) less expenses (interest expense of bank to burden) divided by average interest earning assets (average earning assets used). The standard set by the Indonesian bank for the NIM ratio is 6% and above. The greater this ratio, the higher the interest income on productive bank managed so that the possibility of banks in the troubled condition is getting smaller.

Method

The population in this study is the national private banking listed on the Indonesia Stock Exchange of 23 Banks. Sources of data in this study are primary and secondary data. While data collection method is done through data documentation and collecting related data through representative office of Indonesia Stock Exchange in Surabaya and various other data source. Variable in this research is data ratio. Measurements of research variables are the financial performance of the national private banks and their impact on the profit earned in the National Private Banks listed on the Indonesia Stock Exchange period 2011-2016. The analysis model used in this research is multiple regression analysis model.

Table 1. Sample Research

Kode Bank	Bank
AGRO	Bank Agro Niaga Tbk
BNII	Bank Internasional Indonesia Tbk
BBNP	Bank Nusantara Parahyangan Tbk
NISP	Bank OCBC NISP Tbk
PNBN	Bank Pan Indonesia Tbk
BNLI	Bank Permata Tbk
BSIM	Bank Sinarmas Tbk

Source: Indonesia Stock Exchange, 2016

The sample used in this research is 7 companies. Techniques in sampling in this research is Purposive sampling technique is the determination of the sample based on the criteria set. The criteria are: a) National Private Banks listed on the Indonesia Stock Exchange during the period 2011-2016. b) The National Private Bank publishes the complete annual annual report for 2011-2016. c) Reveals and presents a complete data required in research related to research variables in the period 2011-2016. d) The financial statements should have a book year ending 31 December.
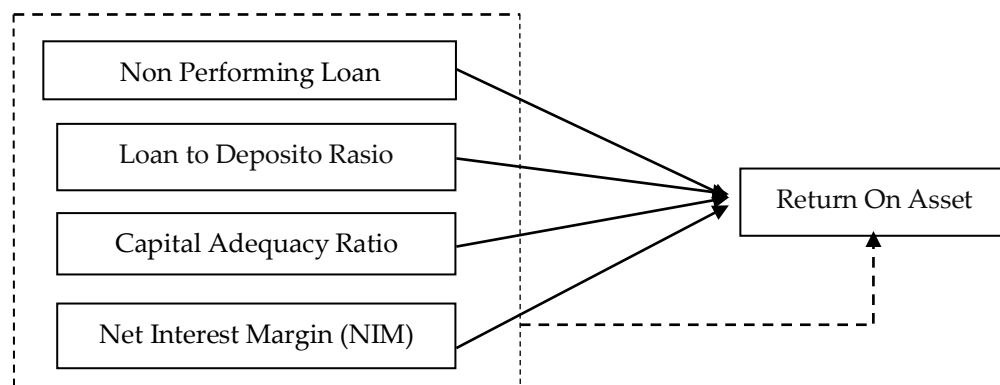

Figure 1. Design Research

Results of processing and testing data by using multiple regression obtained regression equation as follows:

ROA= 2,045 – 0,347 NPL – 0,001 LDR – 0,02 CAR + 0,00 NIM + e

Based on the above regression model, the result of multiple regression can be explained as follows.

1. The multiple linear regression equation above, is known to have a constant of 2.045 with a positive sign. The magnitude of the constants shows that if the independent variables (NPL, LDR, CAR, and NIM) are assumed to be constant, then the dependent variable of ROA will rise by 2.045%.
2. The variable coefficient of NPL has a value of -0.347 means that each NPL increase of 1% aakan cause the decrease of ROA value of 0.347%.
3. LDR variable coefficient of -0.001 indicates that every increase of LDR by 1% then ROA will rise also 0.001%.
4. Based on the CAR variable has a value of -0.02 every 1% CAR increase will cause a decrease in ROA value of 0.02%.
5. Variable NIM has a coefficient value of 0.00 means any increase of 1% will cause a ROA increase of 0.00%.

Table 2. Testing Result

Variabel	t test	Probability	
Non performing loan toward return on assets	-4,752	0,000	Significant
Loan to deposit ratio on return on assets	-0,508	0,615	Not Significant
Capital adequacy ratio on return on assets	-0,071	0,944	Not Significant
Net interest margin on return on assets	0,000	0,201	Not Significant

Source : Primary data, 2016

From the model can be interpreted from 4 independent variables in the show that is X1 (NPL), X2 (LDR), X3 (CAR) and X4 (NIM), there is one variable significant influence with negative direction ie variable NPL to intermediate profit three variables free others have no significant effect on ROA.

Result and Discussion

The effect of non performing loan toward return on assets

Theoretically Non Performing Loan (NPL) is a condition in which the customer is unable to pay part or all of its obligations to the bank as it was promised. From the results of research using t test obtained the value of regression coefficient for the variable Non-Performing Loan (NPL) -0.347 with a significance value of 0.00 negatively and significantly affect the Return On Assets (ROA). Because the variable Non Performing Loan (NPL) of 0.00 is smaller than the significant level of 5% (significant level α = 0.05).

Based on data during the 2011-2016 study period, the overall research has an average Non Performing Loan (NPL) below the maximum standard set by Bank Indonesia of 5%, namely Bank Agro Tbk with an average value of 2.687%, International Bank Indonesia Tbk with an average value of 2.521%, Bank Nusantara Parayangan Tbk with an average value of 3.720%, Bank OCBC NISP Tbk with an average value of 1.234%, Bank Pan Indonesia Tbk with an average value of 2.409% Bank Permata Tbk with an average value of 2.893%, and Bank Sinarmas Tbk with an average value of 2.553%. The bank can be said to be healthy because it has a value Non-Performing Loan (NPL) is not too high. The bank may be the cause of the significant Non Performing Loan

(NPL) variable to Return On Assets (ROA) in this study, because the bank has no financial constraints.

If Non Performing Loan (NPL) increases, the worse the credit quality of the bank will be the higher the number of non performing loans, and therefore the bank must bear the losses in its operational activities so that it affects the profit decrease of Return On Assets (ROA). In addition, the high Non Performing Loan (NPL) is due to non-compliance with the implementation of policies that lead to a decrease in credit collectibility and the inability of credit or debtor payments based on agreed time. This research supports from research conducted by Putri (2013) which states Non Performing Loan (NPL) has a negative effect on Return On Assets (ROA).

The effect of loan to deposit ratio toward return on assets

Loan To Deposit Ratio (LDR) represents the ratio between the total amount of credit given by the bank with funds received by the bank. The result of the research using the t test is the value of regression coefficient for the Loan To Deposit Ratio (LDR) variable of -0.01 with the significance value of 0.615 has a negative and not significant effect on Return On Assets (ROA). Because the variable Loan To Deposit Ratio (LDR) of 0.615 is greater than the significant level of 5% (significant level α = 0.05). This shows that the difference of Loan To Deposit Ratio (LDR) has a value difference that is much different from the Return On Asset (ROA).

Based on the calculation data of Loan To Deposit Ratio (LDR) obtained from Indonesia Stock Exchange, the inconsistency of Loan To Deposit Ratio (LDR) variable to Return On Asset (ROA) is depicted in the calculation of the average of every variable from year to year. In 2011-2012 LDR has a negative average value of -5.975% while ROA has a negative average value of 0.199%. In 2012-2013 LDR has a negative average value of -3.672% while ROA has a positive average value of 0.236%. In 2013-2014 the LDR has a negative average of -123.03% while ROA only has an average value of 0.148%. Furthermore, in 2014-2015 LDR has a negative average value of -123.845% while ROA has an average value of 0.159%. And in 2015-2016 LDR has an average value of 4.311% while ROA has only average value of 0.659%.

In this research, Loan To Deposit Ratio (LDR) has no significant effect on Return On Asset (ROA) due to imbalance between the amount of fund sources that come with the amount of credit placed to the public. Then the higher funding from third parties collected in the bank but not offset by the credit distribution, then the possibility of the bank suffered a loss or decrease in Return On Assets (ROA), because interest income from lending to the debtor is not sufficient to cover the interest costs to be paid to the depositor.

This resulted in the credit disbursed by the bank did not contribute much profit to the National Private Bank. This study supports the results of research conducted by Mubarok (2010) which states Loan To Deposit Ratio (LDR) has no positive effect on Return On Assets (ROA).

The effect of capital adequacy ratio toward return on assets

Capital Adequacy Ratio (CAR) represents the amount of capital required to cover the risk of loss arising from the planting of risk-bearing assets and financing all fixed and inventory items. The result of research using t test is obtained by regression coefficient value for Capital Adequacy Ratio (CAR) variable equal to -0.01 with significance equal to 0,944 negataif and not significant to Return On Asset (ROA). Because the variable Capital Adequacy Ratio (CAR) of 0.994 is greater than the significant level of 5% (significant level α = 0.05). This shows the mismatch between the rise and fall of the Capital Adequacy Ratio (CAR) variable value with the Return On Asset (ROA) variable.

Based on the calculation data of Capital Adequacy Ratio (CAR) obtained from Indonesia stock exchange, CAR is not significant to ROA because there are some mismatch between up and

down value of CAR variable with ROA variable during research period, from calculation result of difference from year to year. In 2011-2012, the CAR has a negative average value of -10.095% while ROA has a negative average value equal to -0.199%, in 2012-2013 CAR has an average value of 7.282% while ROA only has an average value at a rate of 0.236%. And in 2013-2014 CAR has an average value of 2.621% while ROA only has an average value of 0.148%. Furthermore, in 2014-2015 CAR has a negative average value of -2.617% while ROA has an average value of 0.159%. In 2015-2016 CAR has a negative average value of -1.429% while ROA has an average value of 0.659%. If the higher the CAR ratio then the better the bank in fulfilling its capital which will have a positive effect on ROA.

Banking companies during the study period have met the minimum standard of CAR determined by Bank Indonesia at a minimum of 8%. In 2010-2012 Bank Pan Indonesia Tbk has a CAR value of 19.24%, and in 2012 amounted to 82.27%, and in 2013-2015 Bank Agro Tbk has a CAR value of 25.91% in 2014 of 19 , 6%, and by 2015 by 22.11%. In 2016 Nusantara Parayangan Tbk bank has CAR value of 182,83%. High CAR can reduce the ability of banks in expanding their business because the greater the capital reserves used to cover the risk of loss. Inhibition of expansion due to high CAR that will ultimately affect the financial performance of banks. This results in a decrease (ROA). The results of this study support the results of research conducted by Sasongko (2014) which states CAR has a negative and insignificant effect.

The effect of net interest margins toward return on assets

Net Interest Margin (NIM) is a bank's ability to generate net interest income earned by using earning assets. Based on the data analysis conducted From the results of research using t test found that the ratio of Net Interest Margin has a value of 0.00 with a significance value of 0.201 have a positive and insignificant effect on Return On Assets (ROA). Because the NIM variable of 0.201 is greater than the significant level of 0.05. the influence of non-significant NIM Because in this study there is a discrepancy between the increase or decrease in the value of NIM variables with the value of ROA variables, due to increased interest costs due to the increase in BI rate and inflationary pressures cause banks to lose the opportunity to earn profits and productive assets. The bank does not raise the interest on credit because it causes problem loans to increase. This is evidenced from the difference in 2011-2012 NIM has an average value of -616.89o% while ROA has a negative average value of -0.199%. In 2012-2013 NIM has an average of 3.262% while ROA has an average value of 0.236%. Next In 2013-2014 NIM has an average of 31.367% while ROA has an average value of 0.148%. In 2014-2015 NIM has a negative average of -12.501% while ROA has an average value of 0.159%. And in 2015-2016 NIM has a negative average of -57.734% while ROA has an average value of 0.659%.

Effect of NPL, LDR, CAR and NIM Variables on Profitability (ROA)

Based on the results of F test obtained value of 6.415 with a significance value smaller than 0.05 is 0.001, it shows that the independent variables simultaneously affect the dependent variable so that the proposed hypothesis is NPL, LDR, CAR and NIM effect simultaneously to Return On Asset (ROA) is accepted. That is, any changes that occur in the independent variables of NPL, LDR, CAR, and NIM simultaneously or together will affect the ROA of the National Private Bank.

Kasmir (2012) stated that the higher the NPL ratio, the worse the quality of bank credit, the higher the number of non performing loans, and therefore the bank must bear the losses in its operational activities so that it affects the profit decline (ROA). And LDR according to Kasmir (2012) the higher the ratio gives an indication of the lower ability of the bank's liquidity, because the amount of funds needed to finance the credit becomes greater. At higher CAR Ratio CAR ratio, the better the bank in fulfilling its capital which will have a positive effect on ROA (Lukman

Dendawijaya, 2009). In the NIM ratio the greater the NIM change of a bank then, the greater the profitability (ROA) of the bank, which means the financial performance is greater the change, (Arimi, 2012)

Conslusion

The purpose of this research is to know the effect of Non Performing Loan (NPL), Capital Adequacy Ratio (CAR), and Net Interest Margin (NIM) to profitability proxy with Return On Assets (ROA). Based on the results of data analysis and pembahasaan research results, then the conclusion of this study as follows:

Non Performing Loan (NPL) variable has a negative and significant effect on Return On Assets (ROA) at National Private Banks listed on Indonesia Stock Exchange. It is evident that the Non Performing Loan (NPL) has negative value coefficient of -0.347 and a significance value of 0.000 where the value of 0.0000.05 which means no significant effect.

The Loan To Deposit Ratio (LDR) variable has a negative and insignificant effect on Return On Assets (ROA) at National Private Banks listed on Indonesia Stock Exchange. It is proven that Loan To Deposit Ratio (LDR) has negative coefficient equal to -0,001 and signification value equal to 0,615 where 0,615> 0,05 meaning not significant.

Capital Adequacy Ratio (CAR) variables have a negative and insignificant effect on Return On Assets (ROA) at National Private Banks listed on Indonesia Stock Exchange. It is proven that Capital Adequacy Ratio (CAR) has negative coefficient equal to -0,001 and significance value equal to 0,944 where 0,944> 0,05 meaning significant influence not significant. Variable Net Interest Margin (NIM) has positive and insignificant effect on Return On Assets (ROA) at National Private Banks listed on Indonesia Stock Exchange. It is proven that Net Interest Margin (NIM) has a positive coefficient of 0.00 and a significance value of 0.201 where 0.201> 0.05 meaning no significant effect.

The independent variables of Non Performing Loan (NPL), Loan To Deposit Ratio (LDR), Capital Adequacy Ratio (CAR), and Net Interest Ratio (NIM) together significantly influence the dependent variable Return On Asset (ROA) National Private Company listed on the Indonesia Stock Exchange. This is evident from the results of the F test shows the value of F of 6.415 with a signification value of 0.001 where 0.001

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