

## Analysis of Dominant Factors And Financial Performance of BPD: Mediated Model of Non-Performing Credit

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### ABSTRACT

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This study aims to find out and obtain the results of an analysis of the dominant factors both internal and external factors in the Financial Performance of Bank BPD with a non-performing loan mediated model. The method used in this research is descriptive and verification method. The sampling technique used saturated or census sampling to obtain a sample of 26 Regional Development Banks (BPD) from 2014 to 2018. The analytical method used is panel data regression with the pooled least squares approach. The results of the study show that the Capital Adequacy Ratio (CAR), Loan Asset Ratio (LAR), Loan to Deposit Ratio (LDR), SBI Interest Rate, Gross Domestic Product (GDP) have an effect on non-performing loans (NPL), while Bank Size (Size) and Exchange Rate (Exchange Rate) have no effect. Furthermore, non-performing loans have no effect on financial performance as proxied by Return on Assets (ROA).

**Keywords:** Capital Adequacy Ratio, Bank Size, Loan Asset Ratio, Loan to Deposit Ratio, Gross Domestic Product.

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### 1. INTRODUCTION

Based on PWC's annual report for the Indonesian economy for 2019, the banking sector in Indonesia is still attractive, because it has the highest net interest margin compared to banks in other ASEAN countries, so it is still attractive to foreign investors. This fact also shows that the Indonesian banking industry is still able to compete in the ASEAN economic community. One of the companies whose ownership is dominated by the government is the Regional Development Bank (BPD). The placement of BPDs in terms of assets in Bank Indonesia Certificates (SBI) has increased from year to year, reaching 24.35% of the total banking SBI in 2018 (Amir, 2018). In 2018, Bank Indonesia noted that BPD's financial performance was considered good. According to Iqbal Firdausy (2015), bank performance has two indicators and two important dimensions. Bank performance indicators are quality indicators and quantity indicators. While the dimensions of bank performance are the dimensions of profitability and risk dimensions. Bank profitability measurements that are commonly used are ROA (return on assets) and ROE (return on equity) and bank risk measurements that are commonly used are LDR (Loan to Deposit Ratio) and CAR (capital adequacy ratio) and NPL (Non-Performing Loan). . Meanwhile, the performance measurement of bank management can be seen and analyzed using BOPO (operating expenses compared to operating income). Currently, most BPDs fall into the category of BUKU 2 and BUKU 3 banks, whose core capital is Rp. 10 trillion to Rp. 30 trillion. However, there are still BPDs that have a core capital of under IDR 10 trillion. Core capital is important in encouraging bank performance improvement, including BPD.

The placement of BPDs in terms of assets in Bank Indonesia Certificates (SBI) has increased from year to year, reaching 24.35% of the total banking SBI in 2018 (Amir, 2018). Furthermore, it was also stated that BPD third party funds were dominated by local government funds which were short term in nature and could not be channeled in the form of credit. On the other hand, BPD assets have experienced growth and there is even one BPD, namely bank bjb, which has conducted an initial public offering on the Indonesia Stock Exchange. In 2018, Bank Indonesia noted that BPD's financial performance was considered good. According to Iqbal Firdausi (2016), bank performance has two indicators and two important dimensions. Bank performance indicators are quality indicators and quantity indicators. While the dimensions of bank performance are the dimensions of profitability and risk dimensions. Bank profitability measurements that are commonly used are ROA (return on assets) and ROE (return on equity) and bank risk measurements that

are commonly used are LDR (Loan to Deposit Ratio) and CAR (capital adequacy ratio) and NPL (Non-Performing Loan). . Meanwhile, the performance measurement of bank management can be seen and analyzed using BOPO (operating expenses compared to operating income). Currently, most BPDs fall into the category of BUKU 2 and BUKU 3 banks, whose core capital is Rp. 10 trillion to Rp. 30 trillion. However, there are still BPDs that have a core capital of under IDR 10 trillion. Core capital is important in encouraging bank performance improvement, including BPD.

Based on the analysis results of the Infobank Magazine Research Bureau (2017), the performance of BPDs in 2017 can be seen, among others, that 17 BPDs (65 percent) won the very good title, while the remaining 9 BPDs (35 percent) performed less well. Infobank Magazine also concluded that Central Java BPD in 2017 scored the highest score (90.50) in the group of assets of IDR 25 trillion and above, surpassing other BPDs in its class, namely Bank DKI (84.48). BPD in the asset group of IDR 10 trillion to IDR 25 trillion, the highest score was occupied by BPD Bali (93.39), surpassing other BPDs in its class, including Bank BPD South Kalimantan (91.05). Meanwhile, for the asset group below IDR 10 trillion, the highest score was achieved by BPD East Nusa Tenggara (92.31), which has a very good rating. Several BPDs in the BUKU 1 category of banks with assets of more than IDR 5 trillion in 2015 recorded the highest scores, namely BPD DIY (93.25), beating other BPDs in their class, including BPD Lampung (91.56). BPD BUKU 1 bank category with assets of IDR 2.5 trillion to below IDR 5 trillion, the highest score was achieved by BPD Bengkulu (89.74), which beat other BPDs in its class, namely BPD Central Sulawesi (88.29); and BPD Central Kalimantan (86.69) (Infobank Magazine, 2017).

Many studies have been carried out on the internal influence of banks on non-performing loans and their impact on bank performance, but there are still inconsistencies in research results. Limpaphayom and Polwitoon (2010), Puspitasari (2009), Anbar and Alper (2011), Ahmad, et al. (2012), and Febriyono (2015). Anbar and Alper (2011) and Ahmad, et al. (2012) found that NPL has a negative effect on profitability, and Puspitasari (2009) found that NPL has a negative effect on ROA. From these findings it can be concluded that increasing NPL will reduce bank profitability or ROA. In addition, Limpaphayom and Polwitoon (2010) found that NPL had a significant positive effect on profitability, while Febriyono (2015) found that NPL had no significant effect on profitability. Research conducted by Dash & Kabra (2010) regarding bank internal factors is proven through the size of a large bank, does not prove that the bank has a better performance in filtering debtors compared to banks that have a smaller size. Because according to Dash & Kabra (2010) bank size does not have a significant effect on NPL. Different results were found in the research by Das & Ghosh (2010), banks that have a larger size are proven to have high NPL levels as well. Although larger banks generally have better resources and performance in evaluating credit approvals, compared to smaller banks.

Based on the phenomena that occurred and the inconsistency of previous research results, to answer this gap the researcher will include other indicators of bank internal factors such as: capital adequacy ratio (CAR), loans to asset ratio (LAR) and loan to deposit ratio (LDR), as well as To obtain a complete empirical model and a better causality relationship, bank external factors such as SBI interest rates (IRATE), exchange rates, and gross domestic product (GDP) will be included in this study. So the research objectives were to find out (1) how are the conditions of internal and external factors, non-performing credit conditions, and financial performance at BPD banks; (2) how much influence internal and external factors have on non-performing loans at BPD banks; (3) how big is the influence of non-performing loans on the financial performance of BPD banks.

## **2. LITERATUR REVIEW**

The ability of banks to extend credit is certainly inseparable from the financial ratios of the bank itself, as stated by Christopher and Bamidele M (2010) that bank ratios such as the bank's deposit to capital ratio, loan to capital ratio, natural log of the bank's own assets have a significant effect on granting credit. The same finding was also found by Jose M. Berrospide and Rochelle M. Edge (2010) who argued that loan growth, securities/assets, lending standards have an effect on lending. The results of research by Ahmad and Bashir (2013) found that there was an influence between the loan to assets ratio, good performance of management and credit growth on non-performing loans.

Podpiera and Weill (2010) said that the amount of fees allocated for credit assessment can affect non-performing loans. Banks that choose low cost inefficiency provide minimal effort in ensuring a quality credit, so that such banks will experience an increase in non-performing loans (Berger and De Young, 2011). Banks that have low capital (financial capital) tend to increase their income by choosing the most risky strategy (Clair, 2010). Banks with a high level of loan to asset ratio indicate that the bank is not worried about the costs that will arise from taking high risks and prioritizes the level of profit that will be obtained by adding credit through funding from bank assets which will cause NPLs to increase (Khemraj and Pasha, 2011). Keeton (2011) shows that credit growth has a significant effect on high credit failure. Davis and

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Karim (2010) say that high economic growth (expansion) can increase domestic credit levels (credit growth) because banks are tempted by the high value of credit guarantees at that time and ignore the possibility of high bad loans (NPL) during a depression. . The existence of these factors at least affects the level of soundness ratios of LPDs such as CAR and LDR and affects the total assets owned by LPDs which are reflected in the bank size ratio. Internal factors of the company (LPD customers), such as mismanagement in the customer's company, financial difficulties, errors in production, errors in marketing strategy.

The results of research (Das & Ghosh, 2010) regarding external factors, an increase in GDP has an effect on a decrease in the level of NPL. On the contrary, when the economy experiences a recession, it will cause various credit problems. The same thing was also found in Dash & Kabra's (2010) research, so that in this case banks are advised to pay more attention to macroeconomic indicators, because this factor is one of the determinants of an increase in NPLs. According to Djiwandono (2012), external factors that influence the provision of a credit are the economic environment, natural factors, and competition between banks or other financial institutions. If the condition of external factors is getting better, it can be said that the community's economy is also improving. Kosmidou (2011) argues that if the level of community prosperity increases, it is hoped that there will be a higher demand and supply of loans and savings from the public to banks. The high level of supply and demand for loans and savings has a positive effect on lending. The results of this study contradict the research conducted by Voordeckers and Steijvers (2010) with the continuation-ratio logit model analysis method, which shows that in small and medium enterprises in Belgium, environmental conditions outside the company have a negative effect on the formation of strategies in the credit department. This is also supported by research conducted by Achou and Tenguh (2011). Meanwhile, according to Keeton (2010) and Weiss (2010) several factors influence MSME lending, including: Inflation, economic growth rate, third party funds, debt, equity, profit, access to information, collateral value.

Hermawan (2011) states, there are three general factors that cause Non Performing Loans (NPL) in the banking sector, namely debtor internal factors, bank internal factors, and non-bank and debtor external factors. The debtor's internal factors include age, the good and bad character of the debtor, or the decline in the debtor's business. Bank internal factors include Loan to Deposit Ratio (LDR), Earning Asset Quality (KAP), Capital Adequacy Ratio (CAR), loan interest rates, collateral assessment, location, bank officers, and loan size. Meanwhile, external non-bank and debtor factors include inflation, exchange rates, real GDP per capita, natural disasters, a decline in the country's monetary condition, GDP levels, businesses, and government regulations. The research results of Artini, Djinar Setiawina, and Djayastra (2015) stated that the effect of external condition variables on lending indicated that external conditions proved to have a significant positive effect on granting credit.

The non-performing loan ratio (NPL) is a very serious concern for banks because if this ratio is allowed to continue to increase it will have an impact on declining profits, which in turn will reduce financial performance (Keeton & Morris, 2010; Kasmir, 2011; Margaretha, 2011; Gelos, 2011). NPL is an important parameter in measuring the soundness of a bank (Panggabean, 2012; Berger & DeYoung, 2010). Sutojo (2011) explains that a bank that is undermined by a large number of non-performing loans tends to decrease its profitability, Return on assets (ROA) as a measure of profitability will decrease, so that the value of the soundness of operations in society and in the banking world will also decrease. . From the explanation of Sutojo (2011) it can be concluded that a high NPL will lead to a decrease in profitability, especially bank ROA. The results of another study conducted by Mawardi, (2011), concluded that NPL has a significant negative effect on ROA. So that if the non-performing loan (NPL) gets bigger, it will result in a decrease in return on assets, which also means that the bank's financial performance decreases. And vice versa, if non-performing loans (NPL) decrease, the return on assets (ROA) will increase, so that the bank's financial performance can be said to be getting better.

In general, NPL is influenced by bank external and internal factors (Keeton & Morris, 2010). Economic conditions and business cycles (Keeton & Morris, 2010; De Lis, Pages, Saurina, 2010; Salas & Saurina, 2012; Jimenez & Saurina, 2011), GDP growth rate (Jimenez & Saurina, 2010; Das & Ghosh, 2010) , real interest rates (Jimenez & Saurina, 2011; Aver, 2008; Fofack, 2010), inflation rates and real effective exchange rates (REER) (Fofack, 2010) are external factors that have been extensively researched and proven to have a significant influence on NPL level. There are also many studies that study the influence of bank internal factors on the level of NPLs. Data shows that bank internal factors that have an influence on the NPL level include the level of credit growth (Keeton, 2011), the level of risk taking (Keeton & Morris, 2010), size (Ranjan & Dhal, 2010; Hu, 2010; Das & Ghosh, 2012; Barrel et al., 2010), ownership structure (Salas & Saurina, 2012; Micco et al., 2010; Hu et al., 2011), and level of efficiency (Berger & DeYoung, 2010; Kwan & Eisenbeis , 2012). Based on theoretical and empirical foundations, the following hypotheses can be formulated:

H.1. There are internal and external factors which include Capital Adequacy Ratio (CAR), Bank Size, Loans to Asset Ratio (LA), Loan To Deposit Ratio (LDR), SBI interest rate (IRATE), Exchange Rate (Exchange Rate) and Gross Domestic Product (GDP) to non-performing loans (NPL)

H.2. There is an effect of non-performing loans (NPL) on financial performance (ROA)

### 3. RESEARCH METHOD

The method developed in this research is descriptive method and verification method. The variables used in this study include internal factors including: capital adequacy ratio (CAR), bank size (SIZE), loans to asset ratio (LAR), loan to deposit ratio (LDR), external factors include: SBI interest rates (IRATE), exchange rates, gross domestic product (GDP) and problem loans proxied by non-performing loans (NPL) and financial performance proxied by return on assets (ROA). The data was obtained from the BPD bank's financial reports, the internal factor data was obtained from the Bank Indonesia website (www.bi.go.id). The population in this study is profit/loss report data issued from BPD banks from 2014 to 2018 which includes twenty six (26) banks. The technique of determining the sample in research is saturated or census sampling, where all members of the population are sampled. The data analysis method that the researchers used in this study was to use panel data regression analysis with the pooled least squares approach. The panel data regression model in this study is as follows:

Model 1

$$NPL = \beta_1 + \beta_2 CAR + \beta_3 SIZE_{it} + \beta_4 LAR_{it} + \beta_5 LDR_{it} + \beta_6 IRATE_{it} + \beta_7 Exchange Rate_{it} + \beta_8 GDP_{it} + u_{it}$$

Model 2

$$ROA = \beta_1 + \beta_2 NPL + u_{it}$$

### 4. RESULTS AND ANALYSIS

The condition of the bank's internal factors, namely the capital adequacy ratio (CAR), bank size, loans to asset ratio (LAR), loan to deposit ratio (LDR) and external factor conditions, namely the SBI interest rate, exchange rate, gross domestic product (GDP) and conditions others, namely problem loans proxied by non-performing loans (NPL) and financial performance proxied by return on assets (ROA) at BPD banks can be seen in table 1 below:

**Table 1. The Conditions of the Variables Being Researched**

Variable	Average	criteria
<i>Capital Adequacy Ratio (CAR)</i>	21.87%	Very healthy
<i>Bank Size (Size)</i>	16.48%	Currently
<i>Loan Asset Ratio (LAR)</i>	67.48%	High
<i>Loan to Deposit Ratio (LDR)</i>	94.55%	Healthy Enough
<i>SBI Interest Rate</i>	6.30%	High
<i>Kurs (Exchange Rate)</i>	Rp 13.168	High
<i>Gross Domestic Product (GDP)</i>	5.03%	Currently
<i>Non Performing Loan (NPL)</i>	2.52%	Healthy
<i>Return on Assets (ROA)</i>	2.74%	Healthy

Source : processed data 2022

Bank health affects all parties related to it, such as the public who use bank services, bank owners and management, and the government. Bank health is used to find out whether all this time the bank's activities have complied with existing regulations. Based on Bank Indonesia Regulation Number: 13/1/PBI/2011 concerning Assessment of Commercial Bank Soundness Level, bank soundness is a tool for supervisors in determining or establishing strategies and their focus for supervising banks. The soundness level of a bank is the result of a qualitative assessment of various aspects that affect the condition or performance of a bank. The assessment was carried out on various aspects, such as the factors shown in table 1. So from these data it can be explained first that in general BPD banks are in very good condition when viewed from internal and internal factors.

The condition of bad credit is a condition where debtors, both individuals and business entities, are unable to pay their installments or debts to lenders in a timely manner. This condition can be caused by many things, such as the debtor losing his main income, being absent in a planned manner in making payments, and others. For financial institutions such as banks, bad credit will also have a negative effect on company performance. In the financial industry, bad loans are also known as Non-Performing Loans (NPL). If the NPL percentage is not maintained and is outside the recommended limits, it will have an effect on the company's reputation when it will make funding to external parties and increase the Allowance for Write-off of Receivables. Based on these data it shows that the BPD bank is in good health.

The bank's financial performance is an illustration of the level of success achieved by the bank in its operational activities. Banking financial performance is a major factor and is very important to assess the overall performance of the banking itself. Starting from the assessment of assets, debt, liquidity and so forth. Return on assets is a profitability ratio that is able to assess a company's ability to earn profits from the assets used. ROA will assess the company's ability based on past profit earnings so that it can be utilized in the next period or period. In this case, assets are all of the company's assets obtained from its own capital or capital from outside parties that have been converted by the company into various company assets so that the company can survive. ROA from BPD which is used to be able to evaluate whether management has received appropriate compensation based on the assets it already has has shown a healthy condition.

The results of the analysis regarding the influence of internal and external factors on non-performing loans and their implications for financial performance at BPD Banks are presented in table 2 below:

**Table 2. Panel Data Regression Results**

<b>Variabel</b>	<b>Model 1 (NPL)</b>	<b>Model 2 (ROA)</b>
<b>Constant</b>	11.121561*** (0.032074)	-
<i>Capital Adequacy Ratio (CAR)</i>	0.342140*** (0.042102)	-
<i>Bank Size (Size)</i>	-0.361240 (0.026024)	-
<i>Loan Asset Ratio (LAR)</i>	0.410500** (0.040210)	-
<i>Loan to Deposit Ratio (LDR)</i>	0.532140*** (0.065406)	-
<i>Interest Rates SBI (IRATE)</i>	0.491420** (0.039520)	-
<i>Kurs (Exchange Rate)</i>	-0.324021 (0.049512)	-
<i>Gross Domestic Product (GDP)</i>	0.520404*** (0.039541)	-
<b>Constant</b>	-	86.98763** (86.98763)
<i>Non Performing Loan (NPL)</i>	-	-0.488390 (0.094480)
<b>R<sup>2</sup></b>	0.610210	0.812907
<b>Adjusted R<sup>2</sup></b>	0.702402	0.771331
<b>F – Test</b>	19.24106***	19.55222***

Notes: \*\*\*, \*\*, \* showed a significance level of 1%, 5%, and 10%, respectively. The numbers stated represent the variable coefficient values. On the other hand, the values in brackets represent standard error values. The results of panel data regression calculations with the pooled least squares approach.

Based on table 2, the Capital Adequacy Ratio (CAR) has an effect on non-performing loans (NPL) ( $b = 0.342140$ ;  $p\text{-value} = 0.0000 < 0.05$ ) with a positive influence direction. This is because CAR is a bank's capital capability in overcoming risks that will arise from operational activities of a bank, such as credit. For this reason, the higher the CAR ratio, the higher the bank's capital capacity. ownership influence. These results support the research conducted by Jasmansyah and Sriyanto (2013) and Yusuf and Fakhruddin (2016) which state that CAR has an effect on NPLs. However, the results of this study are not in line with research conducted by Andreani and Errick (2016) which states that CAR has no effect on NPL.

Bank Size (SIZE) has no effect on non-performing loans (NPL) ( $b = -0.361240$ ;  $p\text{-value} = 0.4514 > 0.05$ ). The results of this study support the existing theory that the higher the total assets as reflected in the Size ratio of a bank, the smaller the chance of non-performing loans. The greater the total assets will increase the volume of credit which can reduce the spread rate which can reduce the bank's lending rate. These findings support the research results of Rajiv Ranjan and Sarat Chandra Dahl (in Anin Diyanti, 2012) who concluded that the variable Size has a negative and significant effect on Non-Performing Loans. Thus, these results indicate that Size is a factor that influences the size of the opportunity for Non-Performing Loans to occur. Hu et al. (2014) found that the bigger a bank, the more resources it has to evaluate and process loans which can improve the quality of these loans so as to reduce the level of NPLs. This is also supported by the findings of Ranjan and Dhal (2013), namely the larger the size of the bank, the lower the NPL.

Loans to Asset Ratio (LAR) has an effect on non-performing loans (NPL) ( $b = 0.410500$ ;  $p\text{-value} = 0.0061 < 0.05$ ) with a positive influence. According to Festic and Kavkler (2012) the loan to asset ratio is positively related to problems in banking which can increase non-performing loans and insolvency caused by continuous banking mismanagement in the long term. Klein (2013) found a positive relationship between loan to asset ratio and NPL due to excessive credit. Excessive lending raises the possibility of unpaid credit. Khemraj and Pasha (2009) said that a bank with a high level of loan to asset ratio indicates that the bank is not worried about the costs that will arise from taking risks by providing excess credit and is concerned with the level of profit to be obtained so that it adds credit through funding from bank assets that will be causing NPLs when economic conditions are declining.

The Loan To Deposit Ratio (LDR) has an effect on non-performing loans (NPL) ( $b = 0.532140$ ;  $p\text{-value} = 0.0000 < 0.05$ ) with a positive influence. This indicates that the higher the LDR ratio will cause an increase in the NPL ratio that occurs in banks, conversely the lower the LDR ratio will cause a decrease in the NPL ratio. The results of this study are in line with the theory expressed by Dendawijaya (2015) which says that the full LDR will increase and the risk of NPLs at these banks will also be higher. So the higher the LDR of a bank, the higher the chance for the emergence of NPLs. This is because if a bank has a high LDR, the bank will have a high risk of uncollectible loans which will result in problem loans and the bank will suffer losses. The results of this study support the empirical findings of Kurniasari (2016) which concluded that LDR has a significant effect on NPL. The results of this study are in line with research conducted by B.M. Misra and Sarat Dahl (in Anin Diyanti, 2012) stated that there is a positive influence between the Loan Deposit Ratio on Non-Performing Loans. The results of this study do not support the research conducted by Wimboh (2014) which suggests that LDR has no significant effect on NPL. The results of this study are different from the research conducted by Wimboh, because the size of the LDR in this study uses the average LDR of all BPD banks, while Wimboh's research only uses the total LDR in one bank. This will have an effect so that LDR does not have a significant effect on NPL.

The SBI Interest Rate (IRATE) has an effect on non-performing loans (NPL) ( $b = 0.491420$ ;  $p\text{-value} = 0.0012 < 0.05$ ) with a positive influence. The results of this study are in line with the theory explained by Dhendawidjaya (2014) that the interest rate is a number of benefits obtained by the bank or customer. For banks, the level of lending rates will certainly determine profit obtained by a bank, for customers the higher the interest rate of commercial banks will certainly encourage the amount of profit that customers receive. However, when interest rates are high, the risk of non-performing loans increases. Increasing interest rates will push the amount of credit payments that must be paid immediately to be even higher.

The Exchange Rate has no effect on non-performing loans (NPL) ( $b = -0.324021$ ;  $p\text{-value} = 0.6500 > 0.05$ ). The results obtained indicate that exchange rate changes do not affect the value of Non-Performing Loans owned by BPD banks. The results obtained at the hypothesis testing stage are not in line with the theory or hypothesis as expressed by Dhendawidjaya (2012) which states that the exchange rate is the exchange rate of a country's currency. If this happens, the value of the debt that must be paid to the bank for the debtor will increase, this situation will certainly encourage an increase in the possibility of bad loans as seen by the NPL of a bank.

Gross Domestic Product (GDP) has an effect on non-performing loans (NPL) ( $b = 0.520404$ ;  $p\text{-value} = 0.0312 < 0.05$ ) with a positive influence. The results of this study are in line with empirical research conducted by previous research by Salas & Saurina (2010). Salas & Saurina conducted a combined study of macroeconomic and microeconomic variables on Spanish banking for the period 1985-1997. They found a positive and significant effect of GDP growth on NPL, also concluding that positive macroeconomic developments provide the ability of economic agents to repay their debts. Regarding NPLs, based on research conducted using data from 16 banks from Tunisia for the 2003-2012 period, it was concluded that the NPLs that occur in banks are heavily influenced by macroeconomic variables, these macroeconomic variables consist of GDP, inflation, and interest rates. (Abid, et al., 2014).

Non-performing loans (NPL) have no effect on Return on Assets (ROA) ( $b = -0.488390$ ;  $p\text{-value} = 0.5206 > 0.05$ ) with a negative influence. The results of this study which show a negative effect mean that if there is an increase in NPL, the profitability (ROA) will decrease. The results of this study are in line with the theory which states that non-performing loans will result in bank losses due to non-return of funds that have been disbursed along with interest income which results in a decrease in total income (Ismail, 2014). When there is a debtor's failure to pay, it will reduce bank profitability (Kristianti, 2016). Therefore, banks are required to always maintain credit not in a high NPL position

Furthermore, in table 2, the results of the estimated R-squared in model 1 are 0.610210, this shows that internal and external factors have an influence on non-performing loans of 61.0210% and the remaining 38.979 are other variable factors outside those studied, while in model 2 the R-squared value shows 0.812907, this means that non-performing loans have an influence on performance of 81.2907% and the remaining 18.7093% are other variables not examined.

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## 5. CONCLUSION

Based on the discussion, it can be concluded that the following conclusions can be drawn: (1) Capital Adequacy Ratio (CAR) at BPD banks in 2014 – 2018 is included in the very healthy criteria; (2) Bank size (size) at BPD banks during 2014-2018 has a medium size; (3) Loan Asset Ratio (LAR) at BPD banks in 2014-2018 was in the high category; (4) Loan to Deposit Ratio (LDR) at BPD banks in 2014-2018 in the criteria of being quite healthy; (5) The 2014 – 2018 SBI interest rate is included in the high criteria; (6) The 2014 – 2018 exchange rate is included in the high criteria. (7) Gross Domestic Product (GDP) in 2014 – 2018 is included in the medium criteria; (8) Non-performing loans (NPL) at BPD banks during the period 2014 to 2018 were in the healthy category. (9) The financial performance of BPD banks as measured by the Return on Assets (ROA) ratio during the period 2014 to 2018 is included in the healthy criteria; (10) The magnitude of the influence of internal and external factors which include Capital Adequacy Ratio (CAR), Bank Size (SIZE), Loans to Asset Ratio (LAR), Loan To Deposit Ratio (LDR), IRATE (SBI Interest Rate), Exchange Rate (Exchange Rate) and Gross Domestic Product (GDP) for non-performing loans at BPD banks of 61.02%; (11) Non-performing loans (NPL) have an effect on Return on Assets (ROA) at BPD banks by 71.04% with a negative relationship.

The implication of this study is that (1) BPD banks must pay attention to lending by diversifying credit placements to various sectors to reduce the risk of debtor default when the sector fails. Managers should also provide looser credit approvals, such as lower loan interest rates and ease of credit terms, allowing more loans to be disbursed, which increases bank profits and reduces risk; (2) it is hoped that the credit provided by BPD banks will increase, especially to business actors in the productive sector. It is estimated that by increasing the company's liquidity ratio (LDR), the bottom line will also increase. Furthermore, BPD banks need to increase Market Risk (NIM) to address credit problems in particular, and they must maintain ratios that can be minimized to improve operational efficiency and bank financial performance. (3) Bank performance can be improved through careful management of capital policies. Likewise, liquidity policy needs to be considered, because a higher LDR can improve performance but also increase bank liquidity risk. The efficiency of bank management greatly determines the success of the bank as a whole.

Finally, we realize the limitations of this research, because only BPD banks were used in this study, future studies can expand to other types of banks, namely commercial banks. Other factors not included in the model, which also affect non-performing loans (NPL), namely Operational Expenses Operating Income (BOPO), Equity to Asset Ratio (EAR), and external factors such as inflation, natural disasters, decline in the country's monetary conditions, business, and government regulations can be included in further research studies..

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