www.bircu-journal.com/index.php/birci
Budapest International Research and Critics Institute-Journal (BIRCI-Journal)
Humanities and Social Sciences
ISSN 2615-3076 Online)
ISSN 2615-1715 (Print)
Budapest Institute

Financial Performance Effect on Credit Distribution in Banking Sector

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Abstract

The purpose of this research is to evaluate the relationship of_LDR, ROA, NPL, CAR towards credit supply of BEI-listed banking sector within the period of 4 years, which is during 2016-2019. The method utilized for this research is descriptive quantitative. There are 45 companies at the banking sector listed by BEI, however only 26 companies fulfill the criteria according to the sampling purposive technique; in which we will consider as the sample of this research.The data processing involves the usage of Structural Equation Model (SEM) with Partial Least Square (PLS) approach. PLS analysis is conducted by using the software SmartPLS 3.0. The result of data processing shows partially that variable LDR, ROA and NPL has positive relationship towards credit supply of the banking sector. On the other hand, variable CAR shows a partial negative relationship towards credit supply of the banking sector. Simultaneously, all four variables has a significant relationship towards the credit supply. It is signified by the amount of R2 which is 13,5%, and the rest of 86,5% is influenced by other factors.

Keywords
LDR; ROA; NPL; CAR, credit supply

I. Introduction

The banking sector is a sector that has the most important role in the economy of a country, especially in terms of economic financing. So it can be concluded if the bank serves as a financial intermediary and to improve people's livelihoods, to raise funds from the community in the form of a deposit and then distributed again to the community with the form of a financing or other (Ichsan, 2021). A country will be successful in achieving its economic development goals, if the financial sector can develop properly. On the other hand, the financial sector that cannot develop properly will cause the economy to experience liquidity constraints in achieving high economic growth. The development of this financial sector can be seen from its ability to provide sufficient savings for investment and development purposes in overcoming problems such as financing inflation and the effect of financial deficits (Dornbusch and Reynoso, 1989:204). In the financial statements there is information needed by the parties with an interest in the company (Yannizar, 2020).

If we look at the bank's balance sheet, it will show that the majority of assets are filled by the amount of credit disbursed and if we look at the bank's income statement, we can show that on the income side it is controlled by the amount of income from costs and credit interest. This can happen because most activities in banks are closely related either indirectly or directly to credit activities. The bank's business concentrates its activities on lending due to the nature of its business as an intermediary institution between deficit and surplus units, and the bank's main funds are sourced from the community. The main activity of the most

profitable bank is providing credit, but as the saying goes, high risk high return, the biggest risk in bank activities also comes from providing credit.

The Loan Deposit Ratio (LDR) is an indicator to see whether a bank can still expand its loans or is required to limit it. However, if the LDR ratio is too low, it means that the amount of credit provided is also minimal, this can result in banks having difficulty in covering their customers' deposits. The high return on assets shows that the profit earned by the bank is high, thus the bank's ability to provide credit will also increase. Non-Performing Loans (NPL) have an influence on bank policies in providing credit.

The higher the NPL ratio, banks will be more careful in providing credit. Capital Adequacy Ratio (CAR) is an indicator used to see how much financial resources can be used for business development purposes and to prevent the risk of losses caused by lending. The higher the CAR, the greater the financial resources that can be used. To be clearer, the researcher presents an overview of the data on 3 banks.

Table 1. Phenomena Data (in million rupiah)

Code	Year	Third-Party Funds	Net Profit	Troubled Credit	Bank Capital	Total Credit Supply
AGRO	2016	9.223.779	103.003	234.368	6.350.683	8.139.613
	2017	12.421.933	140.495	284.434	3.930.490	10.971.855
	2018	18.064.536	204.212	447.654	4.595.278	15.670.732
	2019	21.144.601	51.061	1.482.507	3.195.803	19.366.245
BBNI	2016	425.206.000	11.410.196	5.796	84.278.075	64.809.933
	2017	504.430.000	13.770.592	12.306	95.306.890	71.098.849
	2018	566.046.000	15.091.763	74.317	104.254.095	74.222.975
	2019	594.125.000	15.508.583	33.063	118.095.752	67.029.619
BBRI	2016	754.526.000	26.227.991	12.882.913	142.910.432	635.291.221
	2017	841.656.000	29.044.334	14.862.646	161.751.939	708.001.045
	2018	944.269.000	32.418.486	19.025.801	182.387.311	838.141.014
	2019	1.021.197.000	34.413.825	25.406.855	207.379.430	733.730.018

Source : Bank Financial Performance

Table 1 shows an increase in third party funds at AGRO from 2016 to 2017 followed by a decrease in lending. Meanwhile, the increase in net profit at BNI in 2018-2019 was followed by a decrease in credit distribution. The increase in non-performing loans at BRI that occurred in 2017-2018 was followed by an increase in lending which was very high-risk. Likewise, the addition of capital in 2019 at BRI was not followed by an increase in total loans disbursed. This research replicates from previous researchers and we take the title Financial Performance Effect on Credit Distribution in Banking Sector.

This study aims to study and analyze the influence of LDR, ROA, CAR, NPL on lending to the banking sector.

II. Review of Literature

Putri and Akmalia (2016) from they journal with tittle “The impact of Return On Assets (ROA), Non Performing Loan (NPL), Current Aquedacy Ratio (CAR), Loan to Deposit Ratio (LDR) on credit distribution in banking sector from 2011 to 2015” conclude that ROA and CAR have positive impact, LDR hasn’t the impact on bank credit distribution, and NPL has the negative impact. Amelia and Murtiasih (2017) from they journal with tittle Analysis the impact of Non Performing Loan (NPL), Current Aquedacy Ratio (CAR), Loan to Deposit

Ratio, Third Part Fund on The Amount of Credit Distribution of PT. BankQNB Indonesia, Tbk from 2005 to 2014" conclude that CAR, LDR, and Third Party Fund have positive impact, NPL has the negative impact on credit distribution. The problem that occurs in non-financial service sector companies listed on the Indonesia Stock Exchange (IDX) is their inconsistency in paying cash dividends to shareholders (Mauris, 2021). Haryanto and Widyarti (2017) from they journal with the tittle "Analysis the impact of Bank Indonesia Rate, Net Interest Margin (NIM), Current Aquedacy Ratio (BOPO), Non Performing Loan (NPL) on Go Public General Bank Credit Distribution from 2012 to 2016" conclude that CAR, BI Rate, NPL haven't the impact, NIM has positive impact, while BOPO has negative impact on general bank credit distribution. Ramadhani and Indriani (2016) from they journal with tittle "Analysis the Impact of Inflation, Non Perorming Loan (NPL), Current Aquedacy Ratio (CAR), Return On Assets (ROA) and Size on LDR" conclude that ROA, CAR, and Size haven't the impact on LDR, NPl has negative impact on LDR, while Inflation has positive impact on LDR. Stevani and Sudirgo (2019) from they journal with tittle "Analysis of LDR, NPL, BOPO, CAR, of ROA Banking Company" conclude that CAR and BOPO have negative impact on ROA, while LDR and NPL gross haven ' t the impact on ROA.

III. Research Methods

The object of this research is go public banking sector. The data is secondary data that can be accessed through the website www.idx.co.id. In this study, quantitative descriptive method is used where the data includes numbers and numbers we use to find out how the relationship and influence between variables is either stimulant or partial. The number of banking sectors in this population is 45 companies and the number of samples that fulfill the criteria is 26 companies. So that the amount of data used in this study is 104 data from a sample of 26 companies for a 4 years period.

3.1 Data Analysis Technique

The analyzing technique used in this research is Partial Least Square (PLS). PLS is an equation model of Structural Equation Modeling (SEM) with approach based by variance or component based structural equation modelling.

3.2 Measurement Model Analysis or Outer Model

Measurement model or outer model analysis is conducted to ensure that the utilized measurements are feasible to be the measuring indicators (valid and reliable). The model analysis portrays the relationship between the latent variable with the existing indicators. This analysis can be seen as the outer model scheme.

3.3 Structural Model Analysis (Inner Model)

a. R-Square

R-square is a test to determine the variance proportion of endogenous variable (affected variable) that can be explained by the exogenous variable (influencing variable). R square can also be utilized to predict if the model is good or bad with the given terms: R2 = 0,75 being substantial model (strong), R2 = 0,50 being moderate model , R2 = 0,25 being weak model (bad).

b. F- Square

F-square is a test to determine the effect of F-squareexogenous variable (influencing variable) towards the endogenous variable (affected variable). Below are the criterias of F-square test:

- If F2 = 0,02 then exogenous variable has weak influence towards endogenous variable.
- If F2 = 0,15 then exogenous variable has moderate influence towards endogenous variable.
- If F2 = 0,35 then exogenous variable has strong influence towards endogenous variable.

c. Hypothesis Test

Hypothesis test is obtained by measuring with the bootstrapping procedure that generates path coefficient values which can be seen from the original sample table. If the original sample has positive value then the relationship between exogenous variable and endogenous variable is positive, on the other hand if it has negative value then the relationship is negative. Then p values for every relationship path is utilized to measure the significance between endogenous variable and exogenous variable. The criteria of p values are:

- If p value < 0,05 it is significant
- If p value > 0,05 it is not significant

3.4 Identification and Operational Definition of Research Variables

This study has four independent variables and 1 dependent variable, namely: Independent Variables:

Loan to Deposit Ratio (LDR) is a third Party Funds are bank obligations to residents and non-residents in rupiah or foreign currency (Budisantoso and Nuritomo, 2017:141).

LDR = Loans granted / Third party savings (Harahap, 2016)

Return on Assets (ROA) is a measure of the ability of bank management, which measures how far the management carries out bank operations efficiently and effectively in using resources to develop business in order to realize maximum bank income. (Subagyo, 2015:13).

ROA = Net Income after tax/ Average amount of assets (Subagyo, 2015:13)

Non Performing Loan (NPL) is a loans granted by commercial banks that meet the collectibility criteria (Subagyo, 2015:85)

NPL = Troubled Credit /Total credit (Taswan, 2015:59)

Current Aquedacy Ratio (CAR), this ratio shows the availability of capital determined by regulatory agencies that are especially applicable to industries that are under government supervision such as insurance and banks (Harahap, 2016:307)

CAR = Capital / ATMR (Taswan, 2015:59) Variable Dependent: Credit Supply

Variable Dependent: Credit Supply

Credit is the provision of money or bills according to an agreement or loan agreement between the bank and other parties which requires the borrower to pay his obligations after a certain period of time. (Budisantoso dan Nuritomo, 2017:133).

Ln Credit Supply

IV. Discussion

Table 2. Statistic Descriptive

	No.	Missing	Mean	Median	Min	Max	Standard Deviation	Excess Kurtosis	Skewness
CAR	1	0	0.224	0.216	0.105	0.664	0.074	14.541	3.039
LDR	2	0	0.926	0.883	0.506	2.371	0.286	10.608	2.676
NPL	3	0	0.025	0.025	0.000	0.085	0.016	1.917	0.925
ROA	4	0	0.014	0.013	0.000	0.141	0.015	54.011	6.319
Penyaluran Kredit	5	0	109069995377931.840	63586749000000.000	1378153000000.000	838141014000000.000	164125644993520.000	7.299	2.675

The Lowest LDR is 0.506 from PT. Bank Capital Indonesia Tbk. (2017) and the highest is 2,371 from PT. Bank Mandiri (Persero) Tbk (2018) is 0.506 from PT. Bank Capital Indonesia Tbk. (2017) and the highest is 2,371 from PT. Bank Mandiri (Persero) Tbk (2018)

The lowest ROA is 0.000 from PT. Bank Sinarmas Tbk. (2019) and the highest 0.141 from PT. Bank Mandiri (Persero) Tbk. (2016). The lowest NPL is 0.000 from PT. Bank National Nobu Tbk. (2016) and the highest is 0.085 from PT. Bank Sinarmas Tbk (2019). The lowest disbursement of credit is 1,378,153,000,000 from PT. Bank Ina Perdana Tbk. (2016) and the highest was 838,141,014,000,000 from PT. Bank Rakyat Indonesia (Persero) (2018)

4.1 Test Measurement or Outer Model

The loading factor for each latent variable is > 0.50 for the target variable. The following is a schematic image of the outer model obtained from the calculation results of the PLS Algorithm

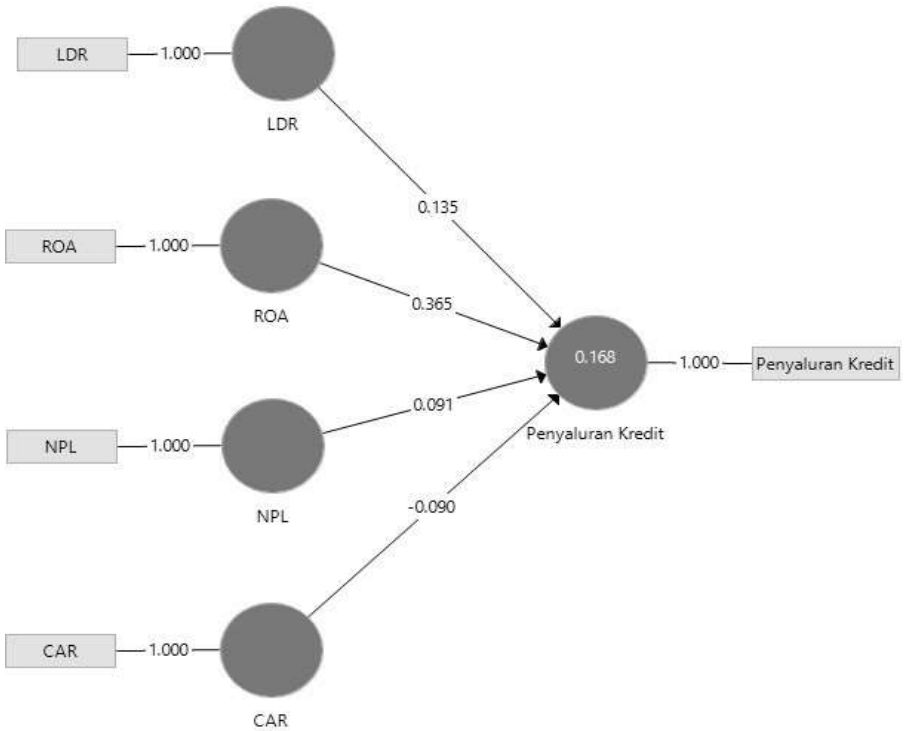

Figure 1. *Outer Model Schematic*

4.2 Structural Model Test (Inner Model)

a. *R- Square*

Testing with R-Square to understand whether there is a substantive effect between certain exogenous latent variables (influenced variables) on endogenous latent variables (influenced variables).

Table 3. R- Square

	R Square	R Square Adjusted
Penyaluran Kredit_	0.168	0.135

The table shows R-square is 0.135, the value can be interpreted as the ability of CAR, LDR, ROA, NPL in explaining credit distribution is 13.5%, it can be concluded that the model is classified as weak because R-Square is <0.25.

b. *F- Square*

Testing with F-Square to find out how the effect of exogenous variables (influenced variables) on endogenous variables (influenced variables).

Table 4. F- Square

	CAR_	LDR	NPL_	Penyaluran Kredit_	ROA_
CAR_				0.009	
LDR				0.020	
NPL_				0.009	
Penyaluran Kredit_					
ROA_				0.136	

From the results of the F-Square calculation, it shows that CAR is < 0.02 (small effect), LDR = 0.02 (small effect), NPL < 0.02 (small effect), and 0.02 < ROA < 0.15 (small effect).

c. Hypothesis Test

This test is carried out by observing the results of the Bootstrapping calculation. Test the hypothesis to see whether the hypothesis is accepted or not by looking at the P Values, with the P Values criteria < 0.05 so that it can be said to be significant.

Table 5. *Bootstrapping* (Path Analysis)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
CAR_ -> Penyaluran Kredit_	-0.090	-0.116	0.067	1.344	0.180
LDR -> Penyaluran Kredit_	0.135	0.115	0.095	1.416	0.157
NPL_ -> Penyaluran Kredit_	0.091	0.143	0.108	0.841	0.401
ROA_ -> Penyaluran Kredit_	0.365	0.459	0.185	1.977	0.049

Based on the results of hypotesis testing using Bootstrapping calculation, it can be seen the results of the CAR test have a path coefficient value of -0.090 and P Values 0.180> 0.05. This indicates that CAR has not significant negative effect on credit distribution. The results

of the LDR test have a path coefficient value of 0.135 and P Values of 0.157 > 0.05. This indicates that the LDR has not significant positive effect on credit distribution. The results of the NPL test have a path coefficient value of 0.091 and P Values of 0.401 > 0.05. This indicates that NPL has not significant positive effect on credit distrbution. But in the other side ROA test results have a path coefficient value of 0.365 and P Values of 0.049 <0.05. This indicates that ROA has a significant positive effect on lending.

4.3 Effect of Capital Adequacy Ratio (CAR) on Credit Distribution

This result proves that CAR has a negative effect on lending to the banking sector on the IDX in 2016-2019. This result is also similar to Amalia and Musdholifah (2018), namely CAR has a negative effect on lending. Banks that have sufficient capital will reduce their lending because they are worried that the consequences of poor credit distribution will lead to reduced bank capital and of course this is not desired by the owners and shareholders.

4.4 Effect of Loan to Deposit Ratio (LDR) on Credit Distribution

This result proves that LDR has a positive effect on lending to the banking sector on the IDX in 2016-2019. This result is similar to Suryawati's (2018) research, namely that LDR has a positive effect on lending. The higher the customer deposit funds, the higher the credit that can be redistributed to customers, but credit distribution must be carried out carefully by credit analysts so as not to cause a bad impact for the company.

4.5 The Effect of Non-Performing Loans (NPL) on Credit Distribution

This result proves that NPL has a positive influence on credit distribution to sectors on the IDX in 2016-2019. This result is similar to the research of Khasanah and Meiranto (2015) where NPL has a positive influence on credit distribution. The higher the amount of credit disbursement will be in line with the increase in non-performing loans (NPL) because not all loans are current loans, but if non-performing loans are still below 5% it is still considered reasonable.

4.6 Effect of Return on Assets (ROA) on Credit Distribution

These results prove that ROA has a positive influence on lending to the banking sector on the IDX in 2016-2019. This result is similar to the research of Putri and Akmalia (2016), ROA has a positive influence on bank lending. The increase in ROA shows that credit distribution has been channeled properly so that banks will increase the loan limit of customers who have very good current credit levels.

V. Conclusion

The results of the Current Aquedacy Ratio (CAR) test have a path coefficient value of 0.090 and P Values 0.180> 0.05. This shows that CAR has a negative and insignificant effect on lending. This shows that the higher CAR value will cause bank to lower the credit supply to prevent the unwanted bad debt. The results of the Loan to Deposit Ratio (LDR) test have a path coefficient of 0.135 and P Values of 0.157 > 0.05. This shows that LDR has a positive and insignificant effect on lending. This shows that if the banking sector is able to fulfill their short term liabilities, the credit supply will also be improved. The results of the Non Performing Loan (NPL) test have path coefficient values of 0.091 and P Values of 0.401 > 0.05. This shows that NPL has a positive and insignificant effect on lending. A rise in bad debts will result in lower credit supply because the return does not meet the expectation, thus bank will avoid increasing bad debts. The Return on Assets (ROA) test results have a path

coefficient value of 0.365 and P Values of 0.049 < 0.05. So that it shows that ROA has a significant positive effect on lending. This shows that if the banking sector manages the assets effectively, it will improve the probability of credit granting as banks are capable to generate returns from the credit supply.

From these conclusions, suggestions can be given, namely: For the next researcher, it is recommended to add an observation period of 5 years and add other factors. For investors, it is advisable to pay attention to the amount of NPL in a bank because if the ratio of non-performing loans is high it will have an impact on the ROA and CAR of a company which results in the company not being able to return customer deposits because many credit distributions are bad or problematic. The banking sector should not only be concerned with the amount of credit disbursement, but also must pay attention to and filter credit criteria strictly, because as we know that quite a lot of banks are losing money, one of which is caused by the large number of bad loans.

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