Analysis of Earning Asset Quality Relation to Profitability at PT. Regional Development Bank (BPD) Central Sulawesi

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ABSTRACT

PT. The Regional Development BANK (BPD) of Central Sulawesi is a regionally-owned enterprise. The existence of PT. The Regional Development BANK (BPD) of Central Sulawesi as a regional company has become a Trusted bank in Indonesia, Healthy, Developing, Developing Competitive, Appropriate Technology and Contributing to the Economic Growth of Central Sulawesi. This study reveals that the allowance for possible losses on earning assets is the part prepared to cover the risk of default from classified earning assets. With PPAP, the Company is able to minimize losses that are greater than losses caused by uncollectible productive assets. And the company's profitability is strongly influenced by the quality of its productive assets (because the company's main source of income comes from productive assets), quality productive assets are assets with a small default rate and the existing failure to pay can be covered by the level of prepared reserve funds (PPAP).

Keywords – Earning Asset Quality; Profitability

INTRODUCTION

One of the things that contribute to the success of economic development is the stability of the banking sector. Based on its basic function as a collector and distributor of funds, the bank will always have an interest in parties who have excess funds and also parties who lack or need funds, which are often referred to as creditors. This is called the intermediation function which can be said that the bank is a distributor of funds from economic units that have excess funds from units that lack funds (1).

With this intermediation process, banks as intermediary institutions play an important role in mobilizing public funds to be played as one of the main sources of financing for the business world, both for investment and production, in order to encourage economic growth (2). In addition, as a profit-oriented institution, the bank will also try to find out how the funds raised earlier can provide benefits for the banking sector. In its activities, banks will be faced with various problems regarding the basic functions of banking.

Banks in Indonesia in carrying out their business activities, namely in fulfilling their basic functions, are still experiencing various basic problems which are still present. Many banks have not been able to optimally manage their resources, for example, on the one hand, banks that are under-liquid will find it difficult to carry out their business activities optimally due to lack of capital as the basis for their activities. On the other hand, banks that experience over-liquid will also experience problems, they will find it difficult to channel these funds and are at risk of uncollectible loans.

The number of banking problems as described above, indicates that the level of public trust as the source and destination for the flow of funds collected by banks undergoes an unstable and changing process. Public trust in banking is actually greatly influenced by the performance achieved by the banking world itself, and how banking management efforts anticipate any changes that occur in the environment, both nationally and globally. These changes involve issues of information technology, government policies or regulations and monetary authorities, as well as increasingly varied consumer demands.

One way that can be used to measure the financial performance of a bank is by analyzing profitability (3). The performance of a company is often measured by how the company's ability to generate profits (4). From a management point of view, the Return on Assets (ROA) ratio is seen as a useful measuring tool because it indicates how well the management utilizes the company's total resources to generate profits. According to Malayu Hasibuan (2002:100) bank profitability is the ability of a bank to earn profits expressed in percentages. Profitability is basically profit (rupiah) which is expressed in profit percentage (5).

Earning Asset is an asset in rupiah and foreign currency owned by a bank with the intention of earning income according to its function (6). Earning assets are assets owned by banks whose use is carried out by investing funds in economic actors and the community. Productive assets are often also referred to as earning assets or assets that generate, because the investment of these funds is to achieve the expected level of income (profit). Earning Assets consist of credit, marketable securities, placements and investments (7).

With the increase in Earning Assets Quality (KAP), it is expected that bank performance will also increase (especially profit achievement). If the quality of earning assets increases, the bank's profit will also increase, because the bank's profit is highly dependent on the placement of funds on the (earning) side of the asset.

METHOD

This research was conducted at PT. Regional Development Bank (BPD) Central Sulawesi, which is located on Jl. Sultan Hasanuddin No. 20, North Lolu, East Palu, Palu City, Central Sulawesi zip code 94111. The overall data used in this study is secondary data, namely data obtained through company documents and other reports that are relevant to this research which include : Financial report data for the last four years from 2014 to 2017, books, company literature, and other data related to the object of research. To test

the proposed hypothesis, quantitative testing is conducted to calculate whether there is a relationship between Earning Asset Quality and Bank Profitability. The hypothesis testing was carried out using statistical calculations as a means of calculation, including: Regression Analysis and Correlation Analysis.

RESULTS AND DISCUSSION
Classic Assumption Test Results
Classical assumption test to evaluate the multiple linear regression model used in this study. Multiple linear regression model with Ordinary Least Square (OLS) approach can be a good estimation tool if it can produce an ideal value (BLUE, Best Linear Unbias Estimator). The classical assumption test consists of data normality test, multicollinearity test, and heteroscedasticity test using the SPPS For Windows Release 16.0 program, each of which has the following test results:

Normality Test Results
Testing the normality of the data to find out whether the data has a normal distribution of variables or not, which is one of the conditions for using parametric statistics. If the data for each variable is not normal, then the hypothesis testing cannot use parametric statistics.

Testing the normality of the research data was carried out by observing the normal distribution graph and the probability plot. The normality graph of the data generated by the SPPS For Windows Release 16.0 program is as follows:
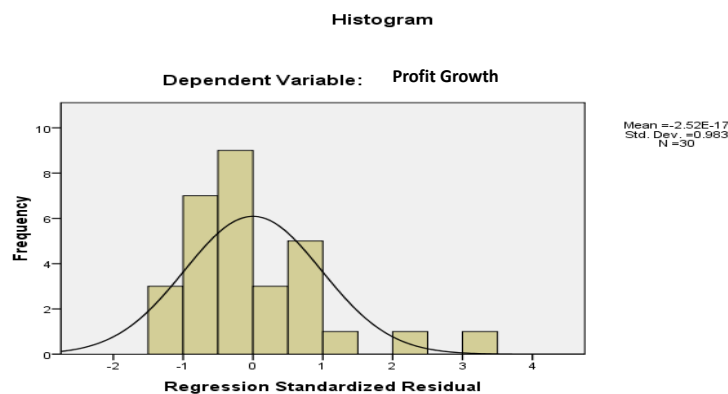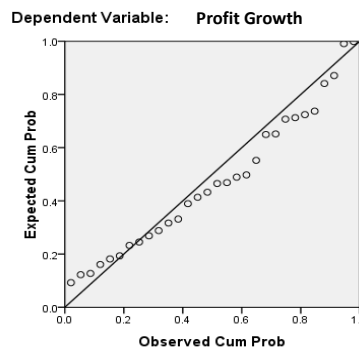

Figure 1. Histogram Graph of Data Normality

The graph above shows that the research data is in normal form because it follows the form of a normal distribution, so it can be concluded that the distribution of this research data has met the assumption of normality.

The probability plot graph (p-plot) generated by the SPPS For Windows Release 16.0 program is as follows:

Source: Data reprocessed, 2018.
Figure 2. P-Plot Normal Graph of Regression Standardized Residual

The graph above shows that the points spread around the diagonal line and the distribution follows the diagonal line, it can be concluded that the regression model meets the assumption of normality.

Simple Regression Analysis Results

In this study, the proof of the hypothesis is done by using a simple linear regression analysis tool. Where simple linear regression analysis is used to find out how the dependent variable can be predicted through one independent variable as a predictor factor. The results of data processing with the help of the SPSS for Windows 16.0 program are as follows:

Table 1. Results of Simple Regression Analysis

		Coefficients[a]				
		Unstandardized Coefficients		Standardized Coefficients		
	Model	B	Std. Error	Beta	t	Sig.
1	(Constant)	041	158		2.259	.000
	X	1.282	874	267	2.467	.004

a. Dependent Variable: Y

Based on the results of data processing, the simple linear regression equation model that can be formed is:

$$Y = 0{,}041 + 1{,}282X$$

From the above equation shows that the Earning Asset Quality (KAP) shows a positive and significant effect on the remaining operating results of PT. Regional Development Bank (BPD) Central Sulawesi.

The constant value of 0.041 means that if the Earning Asset Quality (KAP) (variable X) does not change / constant then the remaining operating results (variable Y) is 0.041. While the regression coefficient value of Earning Assets Quality (KAP) is 1.282, it means that if the Earning Assets Quality (KAP) (variable X) is increased by 1, the remaining operating results (variable Y) will increase by 128.2%. The value of the correlation coefficient and the coefficient of determination can be seen in the table below.

Table 2. Correlation and Determination Coefficient Values

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
					Change Statistics				
1	.762[a]	.581	.539	2.22564E7	.581	13.885	1	10	.004

a. Predictors: (Constant), X

b. Dependent Variable: Y

From the table above, it can be seen that the correlation coefficient value is 0.762. If this value is confirmed with the correlation coefficient interpretation guideline, it appears that this value indicates that Earning Asset Quality (KAP) has a strong positive relationship with the remaining operating results. Thus, if the Quality of Earning Assets (KAP) increases, it will cause a large increase in the remaining operating results.

Furthermore, to see how much variance occurs in the dependent variable (Y) which is determined by the independent variable (X) it can be seen from the value of the coefficient of determination (R Square) which is 0.581. Thus, the contribution of X to Y is 58.1% or in other words 58.1% of the variance that occurs in the Y variable is determined by the variance that occurs in the X variable. While the remaining 41.9% is determined by other variables that are not included in this study such as income. The results of hypothesis testing in this study are as follows:

Table 3. Hypothesis testing results

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations		
	B	Std. Error	Beta			Zero-order	Partial	Part
1 (Constant)	.041	.158		2.259	.000			
X	1.282	.874	.267	2.467	.004	.267	.267	.267

a. Dependent Variable: Y

The hypothesis proposed in this study is Earning Asset Quality (KAP) has a significant effect on the remaining operating results of PT. Regional Development Bank (BPD) Central Sulawesi.

From the results of the t-test, the t-test value is 2.467 while the t-test table shows the t-table value of 1.69726. Thus it appears that the value of tcount > ttable which means that the hypothesis which states that the level of Earning Assets Quality (KAP) has a significant effect on the remaining operating results of PT. Regional Development Bank (BPD) Central Sulawesi.

CONCLUSION

This study concludes that there is a strong positive relationship between Earning Asset Quality (KAP) and profitability (ROA). Based on the results of hypothesis testing, it was found that Earning Asset Quality (KAP) has a significant influence on the profitability (ROA) of PT. Regional Development Bank (BPD) of Central Sulawesi with the contribution value of Earning Asset Quality (KAP) on the profitability (ROA) of PT. Central Sulawesi Regional Development Bank (BPD) is 58.1%.

SARAN

Recommended suggestions for PT. The Regional Development Bank (BPD) of Central Sulawesi provides strict sanctions against customers who have receivables.

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