

## THE EFFECT OF NON-PERFORMING LOANS ON RETURN ON ASSETS AT BANK CIJ BOJONGGAMBIR TASIKMALAYA

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**ABSTRACT** (*Times New Roman 11, ditebalkan, miring*)

*The purpose of this study was to determine the effect of non-performing loans on return on assets. The type of research used is associative / relationship, namely research that aims to determine the relationship between two or more variables. The sample used in this study is the financial statements of non-performing loans of Bank CIJ Bojonggambir Branch in 2016-2020. The statistical method used is simple linear regression analysis. Based on the results of this study, non-performing loans have a significant negative effect on return on assets. This means that the higher the level of non-performing loans, the lower the return on assets.*

**Keyword:** *Non-Performing Loans, Return On Assets*

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## **INTRODUCTION**

Banks according to Law Number 10 of 1998 Article 5 paragraph 1 consist of Commercial Banks and Rural Banks (BPR). Article 1 points (2) and (3) explain that commercial banks are banks that can provide services in payment traffic, while rural banks are banks that accept deposits only in the form of savings, time deposits and others. This shows the difference in function between commercial banks and BPRs where commercial banks can conduct chiral transactions while BPRs cannot conduct chiral transactions. Bank Perkreditan Rakyat (BPR) according to the decision letter of the board of directors of Bank Indonesia Number: 6/17 / PBI / 2004 that banks are needed in the face of economic development in Indonesia, namely with the need for a national banking system that can serve all levels of society, be it small communities to the upper middle class, especially for business people.

The presence of Rural Banks (BPR) in the community is oriented to serve the needs and develop small and medium enterprises for people who have not been reached by commercial banks. Rural Banks (BPR) are expected to be able to provide maximum banking services to all levels of society. In addition, Rural Banks (BPRs) are expected to professionally position themselves as banking companies that have the ability to manage risks effectively and have high integrity in conducting their business. This includes complying with applicable regulations and standards, and maintaining the confidentiality of customer information and privacy. BPRs are also expected to provide good and transparent services to the community.

Bank Perkreditan Rakyat (BPR) has the task of collecting funds from the public and channeling them back to the public in the form of credit. In lending, banks place most of their assets in productive assets. According to Lukman Dendawijaya (2009) productive assets are a type of asset that is expected to generate more profit from customers in the form of interest income or profit margins from the sale of products or services. This is in line with the bank's goal of maximizing profits in carrying out its business activities. The profitability of a company can be assessed in various ways depending on the profits and assets or capital that will be compared with one another.

Profitability can be known by using Return On Asset as a measure of increasing profitability, which means that the increase in Return On Asset is in line with the increase in profitability. According to Kasmir(2016) Return On assets is a profitability ratio used in measuring the efficiency of a company in generating profits through the use of its total assets. An increase in Return On Asset indicates that the company can survive and be able to develop itself in increasing profits. Therefore, the company must maintain or increase Return On Asset by considering the *non-performing loan* factor. Non-performing loans are a condition where debtors cannot pay bank loans on time (Kasmir, 2016jusu).

Previous research conducted by Aditya (2010) showed that there was a negative and significant effect of non-performing loans on profitability. This research is in line with the research of Nurkhofifah, Rozak and Apip (2019) which shows that high non-performing credit risk has a significant effect on profitability, which means that non-performing loans affect the level of profitability of a company. Meanwhile, the results of Setyarini (2020) show that NPL has no effect on ROA. The results of some of the above studies show differences, so further research is needed with different subjects and phenomena.

Non-performing loans are very much a phenomenon in the banking world because usually too much lending without being balanced in controlling risks can result in companies experiencing non-performing loans. The following is the total amount of non-performing loans, total loans disbursed, earnings before interest and taxes and total assets at Bank CIJ Bojunggambir.

Table 1. Total Loans and Total Assets Report  
(in thousands rupiah)

Year	Total non-performing loans	Total Loans Outstanding	Profit After Tax	Total assets
2017	1.495.875	173.548.890	9.622.456	210.664.380
2018	3.736.248	194.772.046	10.068.791	240.940.801
2019	6.977.591	214.486.699	10.592.646	275.013.357
2020	13.977.174	210.587.718	11.135.955	283.011.391
2021	18.538.953	210.818.115	7.053.220	294.352.973

(Source: Bank CIJ Bojunggambir)

Based on the background above, lending has increased from year to year and is also accompanied by an increase in non-performing loans, for example in 2020 amounting to IDR 13,977,174 and in 2021 amounting to IDR 18,538,953. This problem has increased because in that year there was a crisis due to the covid case and the global recession which has an impact on the economy and the level of bank profitability. On the basis of previous phenomena and research, the author underlies this matter which is contained in the research title "The Effect of Non-Performing Loans on *Return On Assets* at Bank CIJ Bojongsambir".

## LITERATURE REVIEW

### Non-performing Loans

Non-performing loans are the risk contained in every bank loan as measured by the Non Performing Loan (NPL) ratio, namely if the credit quality is classified at the collectability level as substandard, doubtful, and loss. Non Performing Loan (NPL) is an indicator in measuring a bank's non-performing credit risk ratio. According to Darmawi (2011) the calculation of Non Performing Loan (NPL) is presented in the following formula:

$$\text{NPL} = \frac{\text{Non-performing Loans}}{\text{Total Loans Outstanding}} \times 100\%$$

### Return On Asset (ROA)

*Return On Asset (ROA)* is one indicator to measure the profitability of a company. According to (2014) profitability is the company's ability to generate profits during a certain period. Profitability is used to measure the level of business efficiency and profit achieved by the company. Profitability can be known by using the *Return On Assets (ROA)* indicator. *Return On Assets (ROA)* is one form of profitability ratio used to determine the company's ability to invest funds in assets used for company operations to generate profits (Dendawijaya, 2009). Systematically *Return On Assets (ROA)* can be calculated using the formula:

$$\text{ROA} = \frac{\text{Profit after tax}}{\text{Total Assets}} \times 100\%$$

The greater the ROA of a company, the greater the level of profit achieved by the company and the better the position of the company in terms of asset utilization.

### **Hypothesis Development**

The sustainability of the bank is strongly influenced by the amount of loans or credit distributed to the public, where the more credit is distributed, the greater the opportunity for profit. However, the potential for high profits will be accompanied by credit risk and non-performing loans that can affect the profit margin of the company or bank (Nurkhofifah, Rozak and Apip (2019). If there are large arrears on loans made by banks, it will certainly affect the bank's ability to fulfill its obligations to depositors. The bank's ability to repay public money depends a lot on the bank's ability to return the loans it has given to its borrowers. If the distribution of credit is experiencing a lot of congestion, it will have an impact on the bank's ability to carry out its obligations to customers. The bank's ability to repay deposits of public funds is closely related to the bank's ability to recover credit funds channeled or given to customers who borrow from the bank. The hypothesis in this study is as follows:

Ha: There is a significant influence between non-performing loans on *Return On Asset*.

Ho: There is no significant influence between non-performing loans on *Return On Asset*.

### **METHOD**

This research is quantitative research using secondary data sources. The population in this study is the non-performing loan report at Bank CIJ Tasikmalaya. For the sample, the authors used the financial statements of non-performing loans taken from 2017-2021 from the financial statements of Bank CIJ Bojongsambir Branch. The type of research used is associative / relationship which is related to cause and effect. The statistical method used in this study is simple linear regression analysis. Simple linear regression is based on a functional or causal relationship between non-performing loans (independent) and return on assets (dependent). In general, the simple linear regression equation is as follows:

$$Y = a + bX$$

Description:

$Y = \text{Return On Asset}$

$a = \text{Number of Non-Performing Loans}$

$b = \text{The trend of changes in profitability due to non-performing loans}$

$X = \text{Non-performing loans}$

## RESULTS AND DISCUSSION

### Statistical Test Results

Simple linear regression serves to determine whether there is an influence between the variables of non-performing loans (X) and return on assets (Y). By using the *SPSS version 25 for windows* program, the simple linear regression calculation can be seen in the table as follows:

**Table 2. Simple Linear Regression Calculation Results**

		Coefficients <sup>a</sup>				Sig.
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	4.766	.343		13.893	.001
	NPL	-.225	.066	-.892	-3.418	.042

a. Dependent Variable: ROA

*Source: Processed results of SPSS version 25*

Based on table 3 above, a simple linear regression equation can be obtained as follows:

$$Y = 4.766 - 0.225X + e$$

The results of the significance test of the two variables from 2016-2022 obtained a figure of 0.042, which is smaller than  $\alpha = 0.05$ . This shows that non-performing loans have a significant effect on *return on assets*. The simple linear regression table shows a negative linear relationship, which means that the greater the non-performing loans, the lower the profitability. This is because lending has a contribution to the acquisition of profitability at Bank CIJ Bojongsambir Branch. Therefore, if non-performing loans

increase, it will decrease *return on assets* and likewise if non-performing loans decrease, it will increase *return on assets*.

To find out how much influence the independent variable (variable X) has on the dependent variable (variable Y), the coefficient of determination is used.

**Table 3. Calculation Results of the Coefficient of Determination**

Model Summary										
Model	R	Adjusted R Square	Std. Error of the Estimate	Change Statistics						
				R Square Change	F	Sig. F Change	df1	df2	Sig. F Change	
1	.892 <sup>a</sup>	.796	.728	.43509	.796	11.686		1	3	.042

a. Predictors: (Constant), NPL

Source: SPSS 25 processed results

From table 4 above, the coefficient of determination *R square* is 0.796, meaning that variable X (non-performing loans) has an influence on Y (*return on assets*) of 79.6%. The high influence or contribution of non-performing loans to *return on assets* reflects that the high and low *return on assets* of Bank CIJ Bojongsambir Branch is largely determined by non-performing loans. While the remaining only 20.4% is explained by other variables outside the research model.

### Discussion

Non-performing loans have a negative and significant effect on ROA. It can be concluded that high non-performing loans will reduce *return on asset* profitability and low non-performing loans will increase *return on asset* profitability at Bank CIJ Bojongsambir Branch. Non-performing loans are one of the most feared risks in the banking world, the causes of which can be external such as the global crisis or from within the bank itself, but more by external factors. For the bank's own internal factors, for example, the quality of management in analyzing credit is not good. While the bank's external factors, for example, the debtor does not pay or pay off the debt within a certain

period of time, especially during a pandemic, many debtors' businesses are experiencing problems because they are restricted in their activities.

This research is in line with research conducted by Aditya (2010) and Nurkhozifah, Rozak and Apip (2019) that non-performing loans have a significant negative effect on *return on asset* profitability. This shows that the existence of non-performing loans will greatly impact on reducing the bank's operating income from the aspect of margin or interest. The occurrence of non-performing loans can affect the bank's operating results because interest is not received in accordance with the agreed contract or agreement.

## CONCLUSION

Based on the results of the analysis, the conclusion obtained in this study is that non-performing loans have a significant negative effect on return on *assets* at Bank CIJ Bojongsambir Branch. High non-performing loans will reduce return on *asset* profitability and low non-performing loans will increase *return on asset* profitability at Bank CIJ Bojongsambir.

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