

## Determinants of Financial Performance in People's Credit Banks in Bali Province

Putu Mas MARTINIASIH<sup>1</sup>, Christimulia Purnama TRIMURTI<sup>2</sup>, Yeyen KOMALASARI<sup>3</sup>,  
Gusti Ngurah Joko ADINEGARA<sup>4</sup>

<sup>1,2,3,4</sup>Dhyana Pura University, Bali

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#### Corresponding Author:

Putu Mas Martiniasih

Email:

[putumasmartiniasih@gmail.com](mailto:putumasmartiniasih@gmail.com)

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### Abstract:

#### Purpose:

This research aims to determine and analyze the influence of the Loan Deposit Ratio, operating costs, operating income, Non-Performing Loans, Capital Adequacy Ratio and Net Interest Margin on the financial performance of BPRs in Bali Province in 2019-2022.

#### Methodology:

This research is quantitative descriptive. This research was conducted at all Rural Banks in Bali Province by analyzing the Determinants of Financial Performance at Rural Banks in Bali Province from November 2023 to January 2024. The scope of the research is to determine the factors that influence Financial Performance at Rural Banks in Bali Province. The population in this research is all Rural Banks in Bali Province in 2019-2022, totaling 135 Rural Banks. Sampling in this research used the purposive sampling method.

#### Findings:

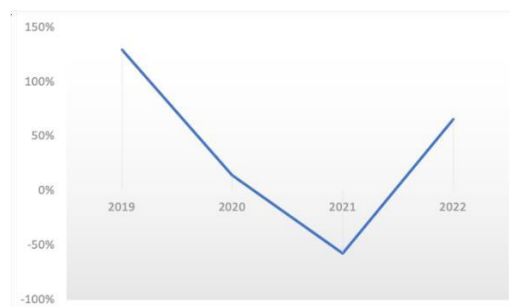
The calculations show that the total research sample was 133 Rural Banks in Bali Province, with four years of observation totaling 532 data. The analysis technique used is multiple linear regression analysis. The research results show that the Loan to Deposit Ratio (LDR) positively affects Return on Assets (ROA).

#### Implication:

Operating Costs Operating Income (BOPO) has a negative effect on Return on Assets (ROA). Non-Performing Loans (NPL) have a negative effect on Return on Assets (ROA). Capital Adequacy Ratio (CAR) positively affects Return on Assets (ROA). Net Interest Margin (NIM) has a negative effect on Return on Assets (ROA).

## INTRODUCTION

The banking sector is considered crucial for national economic growth; however, the global pandemic has affected the credit and operations of Rural Banks (BPR). Despite increased fund accumulation, credit distribution needed to be improved, impacting profitability and financial performance. Financial Services Authority (OJK) data shows a decline in banking credit growth and Return on Assets (ROA), emphasizing the importance of profitability ratio analysis. ROA is considered the leading indicator, reflecting the efficiency of asset use and the bank's ability to achieve profits. Several BPRs in Bali Province experienced fluctuations and declines in ROA in 2020, highlighting the challenges in supporting the community's economy.



Source: Processed Data, 2023

**Figure 1.** Development of Profitability Value (ROA) of all BPRs in Bali Province (133 BPRs) 2019-2022

Figure 1. shows that in 2019, the level of profitability was high at 129%. However, in 2020, when the COVID-19 pandemic began, the average profitability of BPRs in Bali decreased by 14%, and in 2021, profitability became negative at -58%. This decline in profitability can largely be attributed to the initial impact of the COVID- 19 pandemic, which resulted in a decline in average BPR revenues across the province of Bali.

ROA achievement is measured as an indicator of financial performance and can be influenced by several factors, one of which is liquidity. This concept is based on the resource-based theory explained by Saputra (2019), where. The theory states that companies can achieve competitive advantage and good financial performance by managing resources, including the distribution of quality credit, which produces profits through credit interest. It, in turn, increases profits, automatically increasing the company's profitability. So, this theory links achieving profitability with the quality of credit distribution.

Loan Deposit Ratio (LDR) is an essential indicator in measuring credit distribution by banks, describing the ratio between the amount of credit given and the funds received. Previous research has provided mixed results regarding the relationship between LDR and Return on Assets (ROA). Hidayat (2022) and Khoiriyah (2022) found a significant effect, while research by Ramadanti (2022) stated the opposite.

Other factors influencing bank performance include capital adequacy, wise credit distribution policies, balanced liquidity, Capital Adequacy Ratio (CAR), and the ratio of operational costs to operating income (BOPO). These factors contribute to profitability and public trust in banks (Ramadanti, 2022). Suppose a bank's low BOPO ratio indicates that it can optimize its operating income margin about operational costs. It indicates that the bank efficiently uses resources, including capital and labor. Apart from operational efficiency, another factor influencing bank financial performance is the level of non-performing loans, which can reduce bank income from the credit side. Therefore, BOPO is an important indicator when analyzing a bank's financial performance (Wijaya, 2018).

Various studies regarding the factors influencing banks' Return on Assets (ROA) provide mixed results. Prasanjaya and Ramantha (2018) found that the ratio of operational costs to operating income (BOPO) had a positive and significant influence on ROA, while Pinasti (2018) got the opposite result, namely BOPO had a negative effect on ROA.

The Non-Performing Loan (NPL) ratio is also a critical factor. Research by Korompis (2020) and Khamisah (2020) shows that NPL has a significant effect on ROA, while Aprillia (2018) did not find a significant effect. The capital adequacy level, measured by the Capital Adequacy Ratio (CAR), is also an important consideration. This ratio indicates how much bank capital supports risky assets, such as credit. Dao (2020) found a relationship between the Capital Adequacy Ratio and bank performance, where high CAR tends to increase ROA. However, Istinfarani (2020) stated that high CAR can reduce bank efficiency.

The uncertainty in the results of this research shows the complexity of the factors that influence banks' financial performance, and further analysis needs to be carried out to understand the dynamics involved. Research conducted by Kusmayadi (2018) and Yulianti (2018) states that the Capital Adequacy Ratio (CAR) influences ROA. According to Sabir et al. (2022), apart from NPL and Capital Adequacy Ratio, another variable that influences bank profitability is Net Interest Margin (NIM), which reflects the difference between interest income obtained from providing credit and interest costs paid on funds received by the bank.

Net Interest Margin (NIM) is a ratio that reflects bank management's ability to manage productive assets to generate net interest income. The higher the NIM, the greater the interest income earned, showing a positive relationship with changes in profit. Sabir et al.'s research (2022) shows a positive and significant relationship between NIM and Return on Assets (ROA), while Hidayat (2022) finds different results, namely that there is no significant influence between NIM and ROA. Therefore, this research focuses on "Determinants of Financial Performance in Rural Banks in Bali Province."

**Bank.** According to Sumartik and Hariasih (2018), banks are financial institutions that function as intermediaries between parties who have excess funds (customers or depositors) and parties who need funds (borrowers). Banks' primary function is to collect public funds in the form of savings and distribute these funds as loans to individuals, businesses, or other parties who need capital for various purposes, such as investment, house buying, or education.

Meanwhile, Siringoringo (2017) explains that banks are intermediary institutions that do not have the same differences as other companies to seek profits in providing credit to individuals and business entities. This

commercial loan is designed to help improve the Indonesian economy. The presence of banking must be helpful and can be experienced directly by anyone, including depositors, debtors, traders and employees.

**Understanding Financial Performance.** According to Zarkasyi (2018), financial performance is produced or the work results achieved by a company. Meanwhile, according to Fahmi (2018), financial performance is carried out to analyze the extent to which the company has implemented financial implementation rules properly and correctly, such as by making a financial report that complies with the standards and provisions in SAK (Financial Accounting Standards) or GAAP (General Accepted Accounting Principle). Performance in the dictionary of accounting terms quantifies effectiveness in business operations during a specific period (Joel & Shim, 2016). Financial performance describes the economic results that a company or bank can achieve in a certain period through the company's activities to generate profits efficiently and effectively, whose progress can be measured by analyzing the financial data in the financial report (Putri & Dharma, 2016).

**The Effect of Loan Deposit Ratio on Return on Assets.** Setiadi (2020) stated that the higher the Loan Deposit Ratio, the higher the company's profit level because the placement of funds in the form of credit provided increases, so interest income will also increase, which makes the bank's liquidity conditions more-risky. Likewise vice versa, the lower the Loan Deposit Ratio, the lower the company's profit level because the placement of funds in the form of disbursed credit decreases, so interest income also decreases. This condition illustrates the need for banks to be more effective in distributing credit. It shows that the higher the Loan Deposit Ratio, the more the company's Return on Assets will increase.

In contrast, when the Loan Deposit Ratio decreases, the Return on Assets will tend to decrease. This opinion is confirmed by the results of previous research conducted by Rengasamy (2018), Shidieq (2019), Ogi (2017), Kurniawati (2017), Wijaya and Trisna (2017), Hantono (2017), Artini (2018), Ambarawati and Abundanti (2018) explained that the LDR variable has a positive and significant effect on profitability (ROA). In contrast to the results of research conducted by Sudaryo and Susanty (2016), Hariemufti et al. (2016) and Bonita (2017) explain that the LDR variable does not affect ROA. Based on the explanation that the higher the Loan Deposit Ratio, the company's Return on Assets will increase, the hypothesis proposed in this research is as follows:

H1. Loan Deposit Ratio Has a Positive Influence on Return on Assets

**The Effect of Operating Costs on Operating Income on Return on Assets.** Operational efficiency can be measured by the ratio of operational expenses to operating income (BOPO). BOPO is a ratio used to measure bank management's ability to control operational costs towards operational income (Hariyani, 2010). Bank Indonesia Circular No.15/7/DPNP, dated March 8, 2013, explains that the BOPO ratio that commercial banks must maintain is at most 85%. A large BOPO will reduce the CAR, and a low BOPO will increase the CAR (Winda, 2016). The BOPO ratio shows the bank's efficiency in carrying out its primary business, especially credit, based on the amount of funds collected. In collecting funds, especially public funds (third-party funds), costs other than interest costs (including advertising costs) are required. Until now, bank revenues in Indonesia have still been dominated by credit interest income. The greater the BOPO indicates the bank's lack of efficiency in carrying out its operational activities because the operational costs that must be borne will be greater than the operational income obtained, so there is a possibility that capital will be used to cover operational costs that are not covered by operational income (Winda, 2016). Operating expenses to operating income (BOPO) is a ratio used to measure bank management's ability to control operational costs to operational income (Hariyani, 2010). According to Joliana (2013), "the more significant the BOPO ratio indicates that the bank is less efficient in controlling its operational costs.

Meanwhile, the smaller the BOPO ratio, the more efficient the bank controls its operational costs. A large BOPO means that the operational costs borne are greater than operational income, so capital will likely be used to cover these operational costs. Kadek's (2015) research shows that BOPO has a negative effect on ROA. The negative relationship obtained in this research means that BOPO is inversely proportional to ROA. If BOPO increases, ROA will decrease, and vice versa; if BOPO decreases, ROA will increase. The test results show an influence between the BOPO ratio and ROA, considering that BOPO is used to measure operational risk. Suppose the bank is less efficient in controlling operational costs than its operational income. So this condition will cause the bank's operating profit to be low, and of course, one of the aspects that can increase the ROA value will be low. With low operating profit, the ROA value will also be low. Likewise, vice versa, with a high level of cost efficiency carried out by the bank, the profits will be greater. So this will cause the profits obtained to be high, and this condition will also cause the ROA value to increase. Therefore, increasing BOPO will reduce the bank's ROA

value and vice versa. Based on the theory and previous research above, where BOPO decreases, ROA will increase, so the hypothesis is:

H2: Operating Costs Operating Revenues Have a Negative Influence on ROA.

**The Effect of Non-Performing Loans on Return on Assets.** Ambarawati (2018) shows that a higher NPL ratio indicates an increase in non-performing loans, which impacts losses faced by banks, thereby causing the quality of bank credit to worsen. "Conversely, a lower NPL ratio indicates lower problem loans faced by the bank so that it can increase the profitability obtained by the bank." High non-performing Loans indicate that the quality of the bank's credit could be better. It shows the result of the bank management's inability to carry out credit management, giving rise to a broader risk of problematic credit and causing the bank to suffer losses due to a decrease in Return on Assets. Obtained by the bank. The higher the Non-Performing Loan obtained, the more profit will tend to decrease.

Conversely, if Non-Performing Loans decrease, the profit generated will increase. This opinion is confirmed by the results of previous research conducted by Research conducted by Wityasari and Pangestuti (2014), Azee and Amara (2014), Hantono (2017), Kossoh et al (2017), Sudarmawanti and Pramono (2017), Bonita (2017), Kurniawati (2017), Cristina and Artini (2018), Ambarawati and Abundanti (2018) explain that the NPL variable has a negative and significant effect on profitability (ROA). In contrast to the results of research conducted by Shidieq (2015) and Setiawan (2017), Wijaya et al. (2017) explain that the NPL variable does not affect ROA. Based on the explanation of Non-Performing Loans, a high level indicates that the bank's credit quality is not good, so the hypothesis proposed in this research is:

H3. Non-Performing Loans Have a Negative Influence on Return on Assets.

**The Influence of Capital Adequacy Ratio on Return on Assets.** The capital adequacy ratio (CAR) is a capital adequacy ratio that is useful for accommodating the risk of loss that a bank may face. Capital Adequacy Ratio (CAR) shows the extent to which a bank contains risks that public funds finance. The higher the CAR, the better the bank can bear the risk of risky credit/productive assets. If the CAR value is high, the bank can finance operational activities and contribute to profitability (Kasmir, 2019), in line with research by Putri & Dewi (2017) and Andrianto & Sadikin (2017) which states that the Capital Adequacy Ratio (CAR) has a significant positive effect on profitability (ROA).

Meanwhile, research conducted by Pinasti and Mustikawati (2018) states that the Capital Adequacy Ratio (CAR) has a negative effect on profitability (ROA). Research conducted by Cahyono (2018), Harun (2016), and Fajari and Sunarto (2017) shows that CAR does not affect profitability (ROA). Based on theoretical explanations and previous research where the higher the CAR, the better the bank's ability to bear the risk of risky credit/productive assets, the temporary answer in this research is that the Capital Adequacy Ratio (CAR) affects profitability.

H4. Capital Adequacy Ratio Has a Positive Influence on Return on Assets.

**The Effect of Net Interest Margin on Return on Assets.** Net Interest Margin (NIM) is a ratio that compares net interest income to average productive assets. A larger NIM ratio indicates better bank performance in earning interest income. The profitability obtained will be even greater if the difference between interest income and interest costs is significant (Taswan, 2019). Net Interest Margin (NIM) measures bank management's ability to manage productive assets to generate net interest income. This net interest income is obtained from interest income minus interest expenses. Productive assets generate interest (Financial Services Authority (OJK) Circular Letter No. 43/SEOJK.03/2016). The amount of NIM is measured by comparing net interest income with average productive assets. This ratio shows the bank's ability to generate income from interest by looking at the bank's performance in disbursing credit, considering that the bank's operational income is very dependent on the interest difference (spread) on the credit disbursed. The higher the NIM, the more influential the bank is in placing productive assets in credit, and the greater the profits obtained from interest income. According to research conducted by Fanny et al. (2020), Suryani et al. (2016), and Pinasti & Mustikawati (2018) stated that NIM has a positive and significant effect on profitability (ROA). Based on the explanation above, the higher the NIM, the more influential the bank is in placing productive assets in credit, and the greater the profits obtained from interest income. The hypothesis proposed in this research is:

H5. Net Interest Margin has a positive influence on return on assets

## METHODS

This research is quantitative descriptive. This research was conducted at all Rural Banks in Bali Province by analyzing the Determinants of Financial Performance at Rural Banks in Bali Province from November 2023 to January 2024. The scope of the research is to determine the factors that influence Financial Performance at Rural Banks in Bali Province. The population in this research is all Rural Banks in Bali Province in 2019-2022, totaling 135 Rural Banks. Sampling in this research used the purposive sampling method. The calculations show that the total research sample was 133 Rural Banks in Bali Province, with four years of observation totaling 532 data. The analysis technique used is multiple linear regression analysis.

## RESULTS AND DISCUSSION

**Descriptive Statistics.** Descriptive statistics describe data and transform it into information that is clearer and easier to understand (Ghozali, 2016). In this research, descriptive statistics are presented to provide an overview of each variable's minimum value, maximum value, average value (mean) and standard deviation. Descriptive statistical results are shown in Table 1.

**Table 1.** Descriptive Analysis

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Deviation
LONG	532	-27.42	8.82	.4736	3.12179
LDR	532	.00	121.42	73.7505	13.26660
BOPO	532	-300.12	299.21	96.8034	30.64516
NPL	532	.00	64.41	11.3922	8.56865
CAR	532	-90.86	397.31	44.6498	31.13289
NIM	532	.56	49.96	24.9652	13.77131
Valid N (listwise)	532				

Based on data from Table 1, it can be explained that The ROA variable has a minimum value of -27.42 and a maximum value of 8.82 with an average value of 0.4736 and a standard deviation value of 3.12179. The mean value is lower than the standard deviation, indicating the research variable has high data variance. The LDR variable has a minimum value of 0.00 and a maximum value of 121.42, with an average value of 73.7505 and a standard deviation of 13.26660. The mean value is greater than the standard deviation value, so data deviations are low, and the value distribution can be even. The BOPO variable has a minimum value of -300.12 and a maximum value of 299.21, with an average value of 96.8034 and a standard deviation value of 30.64516. The mean value is greater than the standard deviation value, so data deviations are low, and the variables' distribution can be even. The NPL variable has a minimum value of 0.00 and a maximum value of 64.41, with an average value of 11.3922 and a standard deviation of 8.56865. The mean value is greater than the standard deviation value, so data deviations are low, and the variables' distribution can be even. The CAR variable has a minimum value of -90.86 and a maximum value of 397.31, with an average value of 44.6498 and a standard deviation value of 31.13289. The mean value is greater than the standard deviation value, so data deviations are low, and the variables' distribution can be even.

The NIM variable has a minimum value of 0.56 and a maximum value of 49.96, with an average value of 24.9652 and a standard deviation of 13.77131. The mean value is greater than the standard deviation value, so data deviations are low, and the variables' distribution can be even.

**Table 2.** Hypothesis Test Results

Model	Coefficients <sup>a</sup>			t	Sig.
	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta		
1 (Constant)	5.501	.715		7.690	.000

LDR	.024	.007	.100	3.211	.001
BOPO	-.062	.003	-.610	-20.045	.000
NPL	-.089	.011	-.245	-8.036	.000
CAR	.014	.003	.137	4.358	.000
NIM	-.014	.007	.061	-2.059	.040

a. Dependent Variable: ROA

Based on the multiple linear regression analysis results in Table 4.10, the t-test results can be interpreted.

**The Effect of Loan to Deposit Ratio (LDR) to Return on Asset (ROA).** The research results show that the regression coefficient value shows a positive direction of 0.024 with a significance of 0.000, which is smaller than 0.05. The Loan Deposit Ratio (LDR) positively affects the Return on Assets (ROA). From the test results in this research, it can be concluded that H1 is accepted.

**The Effect of Operating Costs on Operating Income (BOPO) on Return on Assets (ROA).** The research results show that the regression coefficient value shows a negative direction of -0.062 with a significance of 0.000, which is smaller than 0.05. It means that Operating Costs and operating Income (BOPO) have a negative effect on Return on Assets (ROA). From the test results in this study, it can be concluded that H2 is accepted.

**The Effect of Non-Performing Loans (NPL) on Return on Assets (ROA).** The research results show that the regression coefficient value shows a negative direction of -0.089 with a significance of 0.000, which is smaller than 0.05. It means that Non-Performing Loans (NPL) have a negative effect on Return on Assets (ROA). From the test results in this research, it can be concluded that H3 is accepted.

**The influence of Capital Adequacy Ratio (CAR) on Return on Assets (ROA).** The research results show that the regression coefficient value shows a positive direction of 0.014 with a significance of 0.000, which is smaller than 0.05. It means that the Capital Adequacy Ratio (CAR) positively affects Return on Assets (ROA). From the test results in this research, it can be concluded that H4 is accepted.

**Effect of Net Interest Margin (NIM) on Return on Assets (ROA).** The research results show that the regression coefficient value shows a negative direction of -0.014 with a significance of 0.040, which is smaller than 0.05. It means that Net Interest Margin (NIM) has a negative effect on Return on Assets (ROA). From the test results in this research, it can be concluded that H5 is rejected.

The research results show that the agency conflict in this research is related to financial performance. In this research, agency theory states that interest differences between owners and managers can influence company performance. In BPR, ownership structures such as shareholders and the board of directors can influence decision-making and financial performance. In BPR, there is a need for effective management control to reduce conflicts of interest between owners and managers. Using appropriate incentive and monitoring systems can help improve BPR's financial performance. Signal theory emphasizes the importance of the quality of information conveyed to stakeholders. BPRs must convey accurate and relevant financial information to investors, customers and related parties to provide positive signals about their financial performance. Signal theory in BPR is the importance of transparency in financial reporting and building a good reputation. By providing positive signals about financial performance and good reputation, BPR can increase the trust and interest of stakeholders.

## CONCLUSION

Based on the research results in the previous chapters, the conclusions drawn in this research are as follows: Loan to Deposit Ratio (LDR) positively affects Return on Assets (ROA). From the test results in this research, it can be concluded that H1 is accepted. Operating Costs and operating Income (BOPO) have a negative effect on Return on Assets (ROA). From the test results in this research, it can be concluded that H2 accepts Non-Performing Loans (NPL) as having a negative effect on Return on Assets (ROA). From the test results in this research, H3 is accepted as Capital Adequacy Ratio (CAR) positively affects Return on Assets (ROA). From the test results in this research, it can be concluded that H4 is accepted as Net Interest Margin (NIM) has a negative effect on Return on Assets (ROA). From the test results in this study, it can be concluded that H5 is rejected.

Based on the research results, the suggestions put forward in this research are: BPRs in the province of Bali must be able to maintain a Loan Deposit Ratio (LDR) of no less than the minimum LDR limit, namely 78% and

no more than the maximum LDR limit, namely 92%, by optimizing the public funds that have been collected and channeling them in the form of credit. In this way, the level of BPR liquidity will remain within the safe limits of the Loan Deposit Ratio (LDR). Maintaining the BPR's Net Interest Margin (NIM) level is done by increasing the number and quality of credit. So that the credit provided does not cause problems so that income from credit interest will increase and ultimately increase profitability, BPRs in Bali Province must continue to increase Return on Assets (ROA) by reducing various operational costs so that they can be channeled to other more valuable activities, for example through credit expansion with careful risk management so that management can be more optimal so that it can reflect good banking.

For future researchers, it is recommended to add other factors that influence the level of Return on Assets (ROA) apart from those presented by the author in this research. For example, factors such as: inflation, interest rates, and productive assets can be used as other alternatives that influence the level of Return on Assets (ROA). In addition, it is better to reduce/increase the observation period so that it will be possible to draw better conclusions.

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