PROCEEDINGS
IHTIFAZ: Islamic Economics, Finance, and Banking
28th June 2021

Lending, Interest Income, and Return on Equity at PT Bank SUMUT

Rahmat Hidayat[1*] and Ayu Mustika Pratiwi[2]
[1,2]Faculty of Economics and Business
Muhammadiyah University of North Sumatra
*rahmathidayat@umsu.ac.id

ABSTRACT

The purpose of this study is to find out and analyze the distribution of credit and interest income to Return On Assets (ROA) at PT. Bank Sumut Medan Head Office period 2013-2017.

After identifying the problems, the formulation of the issues in this study is how the distribution of credit and interest income to Return On Assets (ROA) in PT. Sumut Bank?

This research is descriptive approach research conducted by calculating the documentation data in the form of financial statements. The financial statements are secondary data obtained from PT. Bank Sumut Medan Head Office.

The results showed that lending does not affect Return On Assets (ROA) because the amount of credit distribution does not necessarily increase the profit earned. Interest income also does not affect Return On Assets (ROA). Because the amount of interest income also does not necessarily increase the amount of income or income earned.

Keywords: Return On Assets (ROA), Lending, Interest Income

INTRODUCTION

Banks are generally known as financial institutions whose main activities are accepting current deposits, savings, and deposits. Then banks are also known as a place to borrow money (credit) for people in need. A bank is a company engaged in finance, meaning that the banking business is always related to financial issues. So it can be concluded that the banking business includes three main activities, namely raising funds, channeling funds, and providing other bank services (Cashmere, 2012 p. 13).

The Bank needs to obtain sufficient funds to support the Bank's operational activities in the disbursement of funds. The source of bank funds is funds owned by banks, both from their funds, loans, and third parties (Ismail. 2010 p. 40).

The operational activities of banks that use sources of funds from the public or third parties are lending. Lending influences the amount of Bank operating income. The following statement is reinforced in the Law of the Republic of Indonesia Number 10 dated November 10, 1998, concerning Banking, where it is explained that the Bank is a business entity that collects funds from the public in the form of deposits and distributes them to the people in the form of credit and or other documents to improve the standard of living of the people.

Cashmere (2010 p.71) also states that "The role of banking as a financial institution is inseparable from credit problems, even the activities of banks as financial institutions are the main activities, the amount of credit disbursed will determine the amount of profit." Because lending will generate interest income.

If the Bank cannot channel credit, while the funds collected from deposits are many, it will cause the Bank to lose money. In fact, according to Cashmere (2010). P. 1) obtaining profit is the primary purpose of the establishment of a business entity. The profits earned are used to finance the company's operations, such as paying salaries and other costs, and used for the expansion of the company through various activities in the future.

According to Cashmere (2014 p.112), the word credit comes from the Greek word "Credere," meaning belief, or derived from the Latin "Creditum," which implies faith and truth. In general, credit is the provision of money or bills based on the approval or loan agreement between the Bank and other parties that requires the borrower to pay off his obligations after a certain period. Lending is a business activity that dominates the allocation of funds to banks.

Ismail (2010. Page 5) states that lending activities to the community and being activities that can generate profits also utilize funds and idle because the Bank has paid a certain amount of funds that have been collected.

Along with the development of credit distribution that continues to increase, this will impact the capital development of commercial banks. In reality, economic conditions are not always good. They even tend to go up and down. At a time when economic conditions are falling, banks prefer to channel working capital loans. Semankin many banks that channel this credit then as much interest income will be obtained. When the revenue received increases which can later affect the amount of profit, both dividends and retained earnings, increase capital growth and eventually increase the source of funds to channel its credit. The most significant income in a bank that can affect capital profitability is interest income from lending. Because of the increase in lending, interest income increases to overcome all expenses, including bad loans.

According to Cashmere (2012 p. 80), the amount of credit disbursed will determine the Bank's profit. As significant as the amount of credit expended, the company will obtain as much interest income. This increase in revenue will also affect the amount of profit that will be earned by the company. Every form of business is constantly faced with risks, as well as the world of banking

One of the risks faced by banks is the risk of due credit given to debtors, or called credit risk. This risk is a condition and situation that will be encountered in the future that will undoubtedly result in a credit problem.

Banks have channeled Non-performing loans, and customers cannot make payments or make installments according to the agreements signed by banks and customers (Ismail, 2010 p.123). The result is the loss of opportunities to earn revenue from disbursed credit, thus reducing profitability and adversely affecting profitability.

So, the problem is how banks can maximize interest income even with significant risk to increase interest income to increase profits. Pt. Bank Sumut is a regional bank oriented towards small community services. Until now, it is still consistent in providing credit distribution services. The following is a table of credit distribution developments and Return On Assets PT. Bank Sumut in 2013-2017.

THEORETICAL FOUNDATION

Return On Assets

Hery (2016 p. 104) said that the profitability ratio is a ratio used to measure its ability to generate profit from its normal business activities. And Return On Assets is part of the profitability ratio analysis. Return On Assets is a ratio between net profit and the overall assets to generate profit. This ratio shows how the value of its assets measures much net profit the company earns.

The definition of Return On Assets (ROA), according to Harahap (2010.p. 304), is "Describing the ability of the company to make a profit through all capabilities, and existing sources such as sales activities, cash, capital, number of employees, number of branches, and so on."

The definition of Return On Assets (ROA), according to I made Sudana (2011, p. 22), states that "Return On Assets (ROA) demonstrates the company's ability to use all assets owned to generate profit after tax." The definition of Return On Assets (ROA), according to Rivai Dkk (2013.p. 480), is "ROA describes the turnover of assets as measured by sales volume."

The calculation of Return On Assets (ROA) in financial analysis has an essential meaning as one of the techniques of financial analysis that is comprehensive. This analysis technique is a technique used to measure the effectiveness of the company's operations. According to Maryanto (2018), the factors that affect Return On Assets are as follows: 1) Profit Margin, 2)Turnover of operating assets

According to Mahmud and Abdul (2016, p. 159), Return On Assets (ROA) consists of two components, namely: 1) Profit Margin, namely the ability of the company to generate profit in a certain level of sales profit margin biased as the level of efficiency of the company, namely the extent to which the company's ability to reduce existing costs in the company. 2) Total Asset Turnover reflects the company's ability to generate sales from a specific total investment. This ratio is also defined as the ability of the company to manage assets.

Based on the description above, it can be concluded that the amount of Return On Assets will change if there is a change in profit margin or asset turnover, either each or both.

Efforts to increase Return On Assets with turnover is investing funds in various assets, both lancer assets, and fixed assets.

The purpose of Return On Assets (ROA), according to Cashmere (2016.p. 197-198), is: 1)To measure or calculate the profit earned by the company in a certain period. 2)To assess the company's profit position in the previous year with the current year. 3)To assess the progress of profit over time. 4) To assess the amount of net profit after tax with its capital. 5) To measure the productivity of all company funds used both loan capital and own capital. 6)To measure the productivity of all the company's funds used both own capitals. 7)And other purposes.

Credit Disbursement

Etymologically, the word credit comes from the Greek "Cradle," which means belief. A person who earns credit means gaining trust; therefore, the basis of crediting is trust.

According to Cashmere (2011), credit is obtaining goods by paying installments or installments or getting a loan of money made in the future in installments or installments following the agreement.

According to Rivai et al. (2013.p. 198), credit is "the delivery of goods, services or money from one party (creditor/lender) based on trust to the other party (debtor or debtor/ borrower) with the promise of paying from the credit recipient to the creditor on the date agreed by both parties."

According to Kasmir (2014.p. 14), lending is "throwing back funds obtained through current deposits, savings, and deposits to the public in the form of loans (loans) for banks based on conventional principles or financing for banks based on sharia principles."

According to Banking Law No. 10 of 1998: "credit is the provision of money or bills that can be equated with it based on the approval or agreement of interbank borrowing with other parties that oblige the bank with other parties that require the borrower to pay off his debt after a certain period with the provision of interest."

According to Rivai et al. (2013, p.3), credit is the delivery of goods, services, or money from one party (creditor/lender) based on trust to the other party (debtor or debtor/borrower) with the promise of paying from the credit recipient to the creditor on the date agreed by both parties.

With the understanding of credit, if it is connected with credit channeled by banks, then the main task of banks to hold loans is actually to increase the Bank's profit and income.

Before giving the decision to provide credit, the Bank, as the capital owner, collects information about the loan data. Data collection or credit survey measures are conducted to avoid the misuse of credit given. According to Cashmere (2014.p. 101-104), the principle used by banks in conducting credit analysis is to pay attention to 5C and 7P.

The 5C that must be considered by the Bank in conducting credit analysis are: 1) Character (character), 2) Capacity (Capability), 3) Capital, 4) Collateral, 5) Condition

Interest Income

Interest income earned from the investment of bank funds in productive assets. And it can be inferred from the understanding that interest income is income obtained from the planting of funds by other parties.

According to Cashmere (2014, p.48), Interest Income is income derived from interest charged by the Bank to the borrower, or interest income is interpreted as money received from a claim obtained from the Bank to the borrower or vice versa.

According to Cashmere (2016:7), credit interest is the price that must be paid by the debtor to the Bank. And it can be concluded that credit interest is an accepted advantage over borrowers' money to customers and vice versa.

According to Ismail (2010 p.132), credit interest is a specific price paid by the customer to the Bank for the loan obtained.

According to Santoso (2009 p.340), income is income from the company's usual activities (regular activity) and is known by different designations. For example, sales, fes revenues, interest revenue, dividend revenue, royalty revenue, and rent revenue.

For the interest income obtained by the Bank to be maximized, the bank manager must be good at determining the minor component of interest rates. This is because if it is wrong in determining the size of the interest rate component, it will harm the Bank itself.

According to Abdullah (2014, p. 97), interest income is influenced by several factors, namely as follows: 1)Products, 2)Price, 3)Distribution, 4)Promotion.

According to Ismail (2010. P. 133), includes several factors that affect interest rates, including 1)Fund requirements, 2)Competition, 3)Government discretion, 4)Desired profit target, 5)Term, 6)Guarantee quality, 7)Company reputation, 8)Competitive products, 9)Good relations, 10)Third-party guarantees.

RESEARCH METHODS

The type of research conducted is research using descriptive methods that clarify and analyze a research result based on data by presenting and interpreting but not used in drawing broader conclusions.

The type of data used in this study is a type of quantitative data, namely in the form of financial statements of PT companies. Bank Sumut Head Office, balance sheet report and profit and loss report in 2013-2017. In this research, secondary data type. Secondary data is data obtained indirectly through intermediary media in the form of ready-made financial statements that have been published. In this study, researchers used secondary data in financial reports from PT. Bank Sumut Head Office.

Data collection techniques used are documentation methods that are carried out by retrieving data and collecting secondary data in the form of financial statement records in the form of balance sheet statements and profit and loss statements at PT. Bank Sumut Head Office, Then study and analyze the descriptions that are scientific literature related to the problem that becomes secondary data.

The data analysis technique used in this study is descriptive analysis. Descriptive analysis is a method of analysis in which the data collected and grouped is then analyzed so that an actual picture of the company's state is obtained.

In this case, researchers collected secondary research data in financial statements, namely financial position statements and profit and loss from 2013-2017 at PT. Sumut Bank. The data analysis techniques used by the authors use an approach using financial banking ratios.

RESULTS OF RESEARCH AND DISCUSSION

Research Results

Bank Sumut is one of the Banks in Indonesia with the company name PT. North Sumatra Regional Development Bank (BPDSU), headquartered at Jl. Imam Bonjol No. 18, Medan, North Sumatra. Bank Sumut was established on November 4, 1961, in Medan. Bank Sumut was formed with a limited liability company.

Credit Distribution

Credit distribution is the provision of money or claims based on an agreement or loan agreement between a bank and another party that requires the borrower to pay off obligations after a certain period.

Credit Distribution at PT. Bank Sumut in 2013-2016 always experienced a significant increase and decreased in 2017 from 18,677,821 to 17,921,308. The amount of credit disbursed will determine the Bank's profit if the Bank cannot channel credit, while the funds collected from large deposits will cause the Bank to lose.

Interest income

Interest income is income earned from interest charged by the Bank to the borrower. Interest Income at PT. Bank of North Sumatra has increased every year, with an average of 2,753,505. The size of the interest income is strongly influenced by the size of the deposit interest, the larger or more expensive the deposit interest, the greater the loan interest, and vice versa.

Return On Assets (ROA)

Return On Assets (ROA) is a ratio to measure the success of management in generating profits. The smaller the percentage of this ratio indicates the lack of ability of bank management in terms of managing assets to increase revenue and reduce costs. According to Bank Indonesia, a good Return On Assets (ROA) value (rank 1) at a bank that meets the standard above 1.5% Return On Assets (ROA) can be calculated by the following: formula:

$$Return\ On\ Assets = \frac{\text{Profit Before Tax}}{\text{Total Assets}} \times 100\%$$

Discussion

Based on the results of the research that has been explained, a discussion will be carried out to answer the formulation of the problem regarding the relationship between the variables of Credit Distribution and Interest Income with Return On Assets (ROA) at PT. Bank Sumut Head Office in carrying out banking activities that have been determined by the company every year, namely in 2013-2017.

Analysis of Credit Distribution on Return On Assets (ROA)

Credit distribution owned by PT. Bank Sumut Head Office for 2013 to 2016 has increased every year but not followed by Return On Assets (ROA) in 2014 and 2015, which decreased. Therefore, from this study, it can be said that credit distribution does not affect profitability because the amount of credit disbursement does not necessarily increase the amount of profit earned. The greater the number of funds disbursed, the greater the risk faced by the Bank. Whereas conceptually, of course, credit distribution should be in line with Return On Assets (ROA), because the more significant the disbursement of credit, the greater the profit that will be generated from the distribution and it will improve, which will lead to an increase in the value of Return On Assets (ROA).

The causes of the discrepancy between Credit Distribution and Return On Assets (ROA) are caused by several factors, one of which is bad credit which is the leading cause.

The results of this study are in line with research by Rizal Kurniawan (2012), which states that Credit Distribution has an insignificant effect on Return On Assets (ROA).

Based on the research results conducted by the author and previous research stated above regarding Credit Distribution to Return On Assets, it can be concluded that Credit Distribution does not affect Return On Assets (ROA).

Analysis of Interest Income on Return On Assets (ROA)

Interest income owned by PT. Bank Sumut Head Office from 2013 to 2017 consistently increased. However, this was not followed by Return On Assets (ROA) in 2014 and 2015, which decreased.

So, the research results obtained regarding the analysis of Interest Income on Return On Assets (ROA) at the company PT. Bank Sumut Head Office that Interest Income does not affect Return On Assets (ROA). Because the amount of interest income does not necessarily increase the amount of income or income earned, conceptually, of course, interest income on profitability is positive because the more significant the interest income, the greater the profit generated on the interest income and will improve, which will lead to an increase in Return On Assets (ROA).

And if in one situation the Bank records a decrease in credit demand, which will impact interest income, then, of course, it will also affect the decline in net profit earned by the Bank. In other words, the net profit recorded by the Bank every year is strongly influenced by credit activities such as interest income by the Bank, which will automatically reflect the Bank's performance through Return On Assets (ROA).

The results of this study are in line with the research of Komang Tri Yantini et al. (2015), which shows that the Interest Income hypothesis does not affect profitability.

Based on the results of research conducted by the author and the previous research stated above regarding Interest Income on Return On Assets (ROA), it can be concluded that Interest Income partially does not affect Return On Assets (ROA).

CONCLUSIONS AND SUGGESTIONS

Conclusion

Based on the results of research and data analysis that has been done previously and based on the data obtained in connection with research activities conducted at PT. Bank Sumut Head Office from 2013 to 2017, the research can draw the following conclusions: 1) Assessment of Credit Distribution at PT. Bank Sumut Head Office can be said to be excellent and maximum, because the amount of lending is not far from the number of third party funds. Even in 2013, disbursement of credit exceeds third-party funds, so banks must use funds from other funding sources. However, this is inversely proportional to profit income, and non-performing loans cause this. 2) Assessment of Interest Income at PT. Bank Sumut Head Office can be said to be good because even though the risk of lending is unstable credit, interest income continues to increase. However, this still does not make Return On Assets (ROA) experience the same thing. 3) Achievement of Return On Assets (ROA) at PT. Bank Sumut Head Office can be said to be good because it has exceeded the maximum limit set by Bank Indonesia, namely 1.5% for banks in general. Profit income is generated by the Bank in the form of higher interest every year.

Suggestion

Based on the conclusions above, in this case, the author can suggest the following: 1)PT. Bank of North Sumatra should maintain the stability of credit distribution so that it continues to increase without compromising the prudential principles applied to every banking company. Because lending is the main business activity of banks, at least banks are more selective in choosing customers who will receive credit. To minimize the increased risk of bad credit as optimally as possible. 2)PT. Bank of North Sumatra should maintain the stability of interest income so that it continues to increase and make all types of loans more effective that must be repaid along with interest. 3) We recommend PT. Bank of North Sumatra is more active in promoting lending activities by utilizing the current interest to increase the net profit obtained. 4)PT. Bank of North Sumatra should further improve the Bank's performance in generating corporate profits. The company's performance is measured by how much the Bank can create profits from the total assets owned.

References

Abdullah Thamrin, Tantri Francis, (2014). *Bank dan Lembaga Keuangan.* Jakarta: Rajawali pers

Hanafi Mamduh, Halim Abdul. (2016). *Analisis Laporan Keuangan*. Yogyakarta: UPP AMP YKPN

Hani, S. (2015). *Teknik Analisa Laporan Keuangan*. UMSU Press.

Harahap,Sofyan,Syafri. (2010). *Analisis Kritis atas Laporan Keuangan.* Jakarta: PT Rajawali Pers

Hasibuan, Melayu S.P (2009). *Dasar-dasar Perbankan.* Jakarta: PT Bumi Aksara

Hery (2013). *Financial Ratio For Business*. Jakarta: PT. Grasindo

Ismail (2013). *Perbankan Syariah* (edisi pertama). Jakarta: Kencana Prenada Media Group

Juliandi, A, Irfan dan Manurung, S, (2015). *Metodologi Penelitian Bisnis*. Medan: UMSU press

Kasmir (2016). *Analisis Laporan Keuangan*. Jakarta: PT Rajawali Pers

______(2014). *Dasar-Dasar Perbankan* (edisi revisi). Jakarta: Rajagrafindo Persada

______(2014). *Manajemen Perbankan* (edisi revisi). Jakarat: PT Rajagrafindo Persada.

Martono (2012). *Manajemen keuangan* (edisi kedua). Jakarta : Salemba

Noor, Henry Faizal. (2014). *Investasi, Pengelolaan Keuangan, dan Pengembangan Ekonomi Masyarakat*. Jakarta: Mitra Wacana Media

Pandia, Frianto. (2012). *Manajemen Dana dan Kesehatan Bank* (edisi pertama). Jakarta: Rineka Cipta

PT. Bank SUMUT (2018). *"Annual Report"*. http://banksumut.com. Diakses 2 Desember 2018

Rivai, Veithzal., dkk (2013). *Manajemen Perbankan* (edisi pertama). Jakarta: PT. Raja Grafindo Persada

Santoso, Iman. (2018). *Akuntansi Keuangan Menengah*. Jakarta: Refika Aditama

Sari, M dan Monica, D. (2016). " Pengaruh Non Performing Loan (NPL), Loan To Deposit Ratio (LDR) Dan Biaya Operasional Terhadap Pendapatan Operasional (BOPO) Terhadap Capital Adequacy (CAR) Pada Perusahaan Perbankan Yang Terdaftar Di Bursa Efek Indonesia 2010-2015". *Jurnal Akuntasi Dan Bisnis*, 16 (1), 71-93

Sudana, I Made. (2011). *Manajemen Keuangan Perusahaan*. Jakarta: Erlangga

Supriyono Maryanto (2011). *Buku Pintar Perbankan*. Yogyakarta: Andi

UMSU, TIM. (2018). *Panduan Skripsi FEB UMSU*. Medan: Universitas Muhammadiyah Sumatera Utara

Undang-Undang RI No. 21 Tahun 2008, Undang-Undang RI No. 10 Tahun 1998