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EFFECT OF CREDIT RISK AND LIQUIDITY RISK ON PROFITABILITY PEOPLE'S CREDIT BANK IN KUPANG CITY

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ABSTRACT

The banking sector has a very large role in improving the country's economy. Public trust in banking is also getting higher along with the number of BPRs that are mushrooming and the level of competition is also getting more competitive. Therefore, every person's credit institution must also be able to demonstrate its existence with a bank's financial soundness level that can be trusted by the wider community. Realizing this, this study aims to determine the level of credit risk and liquidity risk by looking at the value of Non-Performing Loans and the value of the Loan to Deposit Ratio. The results of financial analysis carried out further calculations to determine the effect of credit risk and liquidity risk variables both partially and simultaneously at the level of BPR profitability in Kupang City. The method of determining the sample used purposive sampling so that the samples in this study were six BPRs. In an effort to answer the research objectives, the analytical tools used are financial analysis and also multiple linear regression analysis. The independent variables in this study are credit risk which is proxied by Non Performing Loans (NPL) and liquidity risk which is proxied by Loan to Deposit Ratio (LDR), as well as the dependent variable which is the Bank's financial performance which is estimated by Return on Assets (ROA). The results showed that partially the Non Performing Loan (NPL) and Loan to Deposit Ratio (LDR) variables had a positive but not significant effect on Return On Assets (ROA).

1. INTRODUCTION

The role of the Bank is very important for the people's economy and can support the economy in a country. The banking industry is an industry that is subject to risk, especially because it involves managing public money and playing it in the form of various investments, such as extending credit, buying securities and investing, and so on.[1]. Many banks are competing to collect funds from the public and channel them through credit, so that the flow of money at the bank can run smoothly.[2]. Because if you don't circulate money, the bank will experience problems in existing management and can result in the bank being unable to carry out its duties and functions [3].

The financial institution that is close to the small and medium class of people is the People's Credit Bank (BPR). According to article 1 paragraph 4 of Law Number 10 of 1998 Rural Banks are banks that carry out business activities conventionally or based on sharia principles whose activities do not provide services in payment traffic to the public, while financial institutions that are closely related to the small and medium class community or Also known as MSMEs are Rural Credit Banks (BPR) (Government of Indonesia, 1998).

The existence of Rural Credit Banks is expected to become partners for MSMEs because MSMEs are the type of business or company that is the most numerous among business actors in Indonesia [5]. One of the goals of the bank is to obtain maximum profitability to optimize operational activities [6]. Banks also have a role that is good trust in terms of placing funds or channeling funds to the public (Agent of trust). With this role, the bank has become an institution that also influences the economic development of a country [7].

Seeing the importance of BPR in supporting the people's economy, the existence of BPR needs to get better attention. According to Harmono (2017), People's Credit Banks (BPR) are financial institutions established to serve the community, especially owners of Medium, Small and Micro Enterprises (MSMEs).

Rural Banks have the function of providing banking services to the community, participating in development in their area, creating equal distribution of business opportunities for the community and accelerating the understanding of low-income communities about the use of services offered by financial institutions. Rural Bank business activities consist of providing funds based on profit sharing and allocating funds in the form of Bank Indonesia Certificates (SBI), deposits and or savings at other banks [9].

Based on these advantages, BPR has become one of the financial institutions that are of interest to people from all walks of life. This also happened in Kupang City, East Nusa Tenggara Province. With a population increasing every year, it certainly has implications for the development of the business world in Kupang City. Therefore the presence of Rural Credit Banks (BPR) is the best solution for business actors in finding the right funding sources to support their businesses [10].

Public trust in various Rural Banks is marked by the increasing number of BPRs operating in the City of Kupang. It was noted that from 2012 to 2018, there was a significant increase in the number of Rural Banks, where in 2012 there were 12 BPRs, increasing to 18 BPR Institutions in 2018. It can be said that from 2012 to 2018 there was an increase in the number of Rural Banks in City of Kupang by 50 percent. However, on the other hand, the banking sector also needs to be careful in extending credit to customers. A series of analyzes and procedures need to be implemented so that the funds that have been rolled out do not become bad credit problems which in the end have implications for losses to the Bank itself [11].

Bank Indonesia Circular Letter No.13/24/DPNP/2011 states that credit risk is the risk resulting from the failure of the debtor and/or other parties to fulfill their obligations to the bank. Credit risk is a natural risk, considering that one of the core businesses of the bank itself is the provision of credit [12]. Before extending credit, banks must collect sufficient information about potential customers to minimize credit risk encountered in the future. This information is usually collected during credit documentation[13].

Non-Performing Loans (NPL) is a financial ratio that shows the ability of bank management to manage non-performing loans provided by banks, so that the higher the NPL, the worse the quality of bank credit. This is in accordance with Bank Indonesia regulation Number 6/10/PBI/2004 dated April 12, 2004 concerning Conventional Bank Rating System, the higher the NPL value (above 5%), the bank is unhealthy.[14]. There are 6 BPRs in Kupang City that are currently developing, these BPRs include: 1) PT. BPR Central Pitoby, 2) PT. BPR Sinar Dinar Kencana, 3) PT. BPR Tanaoba Lais Manekat, 4) PT. BPR Timor Raya Makmur, 5) PT. BPR Christa Jaya Makmur, 6) PT. BPR Nusantara Abdi Mulia.

According toDarmawi (2011), liquidity is a term used to denote the supply of cash and other assets that can be easily turned into cash. The measuring instrument for assessing the soundness of a bank in terms of the liquidity factor that is often used is the LDR ratio. Loan to Deposit Ratio (LDR) is a ratio that measures a Bank's ability to meet its obligations. So that the higher the LDR, the bank's profit will increase (assuming the bank is able to extend its credit effectively), with increasing bank profits, the bank's performance will also increase, thus the size of the LDR ratio of a bank will affect the bank's performance.

Profitability is the most appropriate indicator to measure the performance of a bank. Bank performance is a picture of the condition of the bank in a certain period which includes the bank's financial condition. To measure the level of profitability, Return on Assets (ROA) is used. ROA is used to measure bank profitability because Bank Indonesia as a banking supervisor and supervisor prioritizes the value of a bank's profitability as measured by assets whose funds come from the majority of public savings funds.[16].

According to Dendawijaya (2010)The greater the ROA, the better the company's performance, because the rate of return obtained is greater. If ROA increases, it means that the company's profitability increases, so that the final impact is an increase in the profitability enjoyed by shareholders. The higher the level of profitability and continually obtaining profitability, the better the performance of the banking or company and the viability of the banking or company will be guaranteed. Banks that are known for their good performance will also have an impact on public trust.

Based on the description above, the aim of this study is to determine the soundness of a bank through the measurement of Non-Performing Loans (NPL) and Return On Assets (ROA), as well as to examine the direct effect, both partially and simultaneously, between the variables Non-Performing Loans and Return. on Assets to the profitability level of Rural Banks in the City of Kupang for the 2017-2021 period.

2. METHOD

This research was conducted in Kupang City, East Nusa Tenggara Province. This location was chosen because there is an increase in the number of Rural Credit Banks (BPR) every year. The population in this study were all BPRs operating in Kupang City, totaling 12 BPRs. Of the total population, using a purposive sampling technique according to Sugionao in Nalle et al., (2022) The sample size was determined as 6 Rural

Banks with the specified criteria having a fairly high level of credibility. Determination of the number of samples can be seen in the following table:

Table 1 Name of Company as Sample

No	Name of the People's Credit Bank	
	Population	**Sample**
1.	BPR Sari Dinar Kencana	BPR Sari Dinar Kencana
2.	BPR Christa Jaya Perdana	BPR Christa Jaya Perdana
3.	BPR Central Pitoby	BPR Central Pitoby
4.	BPR Nusantara Abdi Mulia	BPR Nusantara Abdi Mulia
5.	BPR Timor Raya Makmur	BPR Timor Raya Makmur
6.	BPR Tanaoba Lais Manekat	BPR Tanaoba Lais Manekat
7.	BPR Danamas Belu	
8.	BPR Tanjung Pratama	
9.	Lugasganda BPR	
10.	BPR Talenta Raya	
11.	BPR Business Development Fund	
12.	BPR Modern Express	

Source: Financial Services Authority of NTT Province in 2022

In an effort to achieve the research objectives, there are two stages of analysis carried out, namely descriptive analysis and also inferential analysis.

First; Included in the descriptive analysis in this study is an analysis of the soundness of Rural Banks with a number of indicators, namely: Analysis of Credit Risk Levels (Non Performing Loans), Analysis of Liquidity Levels (Loan to Deposit Ratio) and Analysis of Profitability Levels (Return On Assets). The type of data in this study is secondary data in the form of published documents from the Financial Services Authority (OJK) of East Nusa Tenggara Province which are closely related to research variables where these publication documents are counted from 2017-2021.

Second; After obtaining the results of financial analysis using the three methods above, the next step is to perform multiple linear regression analysis to find out the effect of both partial and simultaneous variables.*Non Performing Loans* (NPLs) and*Loan to Deposit Ratio* (LDR) against *Return on Assets*(ROA) in the form of a statistical equation as follows:

$$\mathbf{Y= + 1X1 +2X2+}\boldsymbol{\alpha\beta\beta}+\in$$

Information:

Y =Profitability (ROA)
α =Constant
$\beta 1, \beta 2$ =Regression Coefficient
X1 = Credit Risk (NPL)
X2 = Liquidity Risk (LDR)
$\in$ =Error value

3. RELUST AND DISCUSSION

3.1 Credit Risk Analysis

Non Performing Loans (NPL) is a ratio used to measure the ability to cover the risk of failure of credit repayments by debtors. So, this ratio describes the ability of bank management to manage non-performing loans provided by banks. Credit risk, namely the risk that arises if the loan cannot repay the borrowed funds and the interest that must be paid. The following shows Non-Performing Loans (NPL) in banking companies registered with the Financial Services Authority for the 2017-2021 period. The assessment of the health criteria of the Bank is assessed based on the calculation given based on the results of the calculation of the Composite Rating Weight [19].

From the calculation results, it is found that the Composite Rating Weight (PK) of the Non Performing Loan (NPL) Component of the six Rural Banks can be seen that PT. BPR Tanaoba Lais Manekat and PT. BPR Christa Jaya Makmur has the title of the healthiest bank of the four BPRs from the 2017-2021 period.

Table 2. PK Weight of the NPL Component at Rural Banks in Kupang City for the 2017-2021 Period

No	RB Name	Year	NPLs	Predicate	PK
1.	PT. BPR Central Pitoby	2017	14.3%	Not healthy	5
		2018	11.2%	Not healthy	5
		2019	8.9%	Not healthy	5
		2020	10.7%	Not healthy	5
		2021	6.82%	Unwell	4
2.	PT. BPR Sinar Dinar Kencana	2017	4.3%	Healthy Enough	3
		2018	5%	Unwell	4
		2019	5.2%	Unwell	4
		2020	9.6%	Not healthy	5
		2021	8.15%	Not healthy	5
3.	PT. BPR Tanoba Lais Manekat	2017	3.6%	Healthy Enough	3
		2018	3.4%	Healthy	2
		2019	3.3%	Healthy	2
		2020	4.8%	Healthy Enough	3
		2021	4.11%	Healthy Enough	3
4.	PT. BPR Timor Raya Makmur	2017	39%	Not healthy	5
		2018	26.8%	Not healthy	5
		2019	9.3%	Not healthy	5
		2020	12.9%	Not healthy	5
		2021	3.58%	Healthy Enough	3
5.	PT. BPR Christa Jaya Makmur	2017	4.2%	Healthy Enough	3
		2018	3.2%	Healthy	2
		2019	4%	Healthy Enough	3
		2020	7.4%	Unwell	4
		2021	4.32%	Healthy Enough	3
6.	PT. BPR Nusantara Abdi Mulia	2017	25.7%	Not healthy	5
		2018	43.6%	Not healthy	5
		2019	25.3%	Not healthy	5
		2020	9.1%	Not healthy	5
		2021	4.88%	Healthy enough	3

Table 3. Development of Non Performing Loans (NPL) People's Credit Bank in Kupang City for the 2017-2021 Period

No.	RB Name	2017	2018	2019	2020	2021
1.	PT Bank BPR Central Pitoby	14.3	11.2	8.9	10.7	6.82
2.	PT Bank BPR Sinar Dinar Kencana	4.3	5	5.2	9.6	8.15
3.	PT Bank BPR Tanaoba Lais Manekat	3.6	3.4	3.3	4.8	4.11
4.	PT Bank BPR Timor Raya Makmur	39	26.8	9.3	12.9	3.58
5.	PT Bank BPR Christa Jaya Perdana	4.2	3.2	4	7.4	4.32
6.	PT Bank BPR Nusantara Abdi Mulia	25.7	43.6	25.3	9.1	4.88
Average		**15,183**	**15.53**	**9.33**	**9,083**	**5.31**

From the data in table 3 it is known that the average NPL has fluctuated for 5 years, which in 2017 obtained an average of 15,183, in 2018 it has increased from the previous year of 15.53, decreased in 2019 with an average of 9.33 , decreased again in 2020 with an average of 9,083 and 2021 continued to experience a decrease of 5.31. To see the average NPL results can be seen in the following figure:

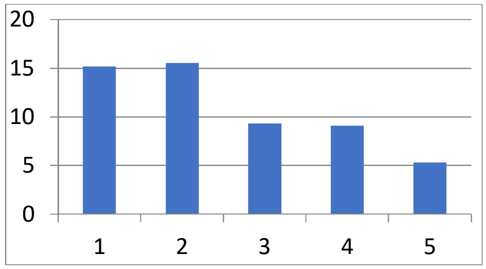

Figure 1. Average Non Performing Loan (NPL) of Rural Banks Kupang City Period 2017-2021

3.2. Liquidity Risk Analysis

Third Party Funds are funds originating from the public, both individuals and business entities, which are obtained by banks using various deposit product instruments owned by banks. Third Party Funds have the largest contribution from these several sources of funds so that the amount of third party funds that a bank manages to collect will affect its ability to extend credit. Credit is given to debtors who have fulfilled the conditions stated in the agreement entered into between the debtor and the bank. Funds entrusted by the public to banks can be in the form of demand deposits, savings and time deposits. Third party funds collected from the public are the largest source of funds that banks rely on the most. Usually DPK will greatly affect the financing made by banks..

Table 4 shows the PK weight of the Loan to Deposit Ratio (LDR) component below, from the six Rural Banks (BPR) it can be seen that PT. BPR Sinar Dinar Kencana has the title of an unhealthy bank out of the five from the 2017-2021 period.

Table 4. The PK weight of the LDR component Kupang City People's Credit Bank for the 2017-2021 period

No.	RB Name	Year	LDR	Predicate	PK
1.	PT. BPR Central Pitoby	2017	67.1%	Very healthy	1
		2018	63.7%	Very healthy	1
		2019	61.1%	Very healthy	1
		2020	81%	Healthy	2
		2021	78.02%	Healthy	2
2.	PT. BPR Sinar Dinar Kencana	2017	102%	Unwell	4
		2018	93.7%	Healthy Enough	3
		2019	85.9%	Healthy Enough	3
		2020	89.7%	Healthy Enough	3
		2021	76.21%	Healthy	2
3.	PT. BPR Tanoba Lais Manekat	2017	87%	Healthy Enough	3
		2018	86.6%	Healthy Enough	3
		2019	89%	Healthy Enough	3
		2020	88.6%	Healthy Enough	3
		2021	79.21%	Healthy	2
4.	PT. BPR Timor Raya Makmur	2017	80%	Healthy	2
		2018	74%	Very healthy	1
		2019	95.1%	Healthy Enough	3
		2020	74.7%	Very healthy	1
		2021	73.53%	Very healthy	1
5.	PT. BPR Christa Jaya Perdana	2017	91.5%	Healthy Enough	3
		2018	83%	Healthy Enough	3
		2019	92.5%	Healthy Enough	3
		2020	87%	Healthy Enough	3
		2021	78.73%	Healthy	2
6.	PT. RB	2017	68.4%	Very healthy	1

	Archipelago Servant of Honor	2018	70.8%	Very healthy	1
		2019	81%	Healthy	2
		2020	79%	Healthy	2
		2021	97.10%	Healthy Enough	3

Table 5. Development of Loan to Deposit Ratio (LDR) of Rural Banks Kupang City Period 2017-2021

No.	RB name	2017	2018	2019	2020	2021
1.	PT Bank BPR Central Pitoby	67.1	63.7	61.1	81	78.02
2.	PT Bank BPR Sinar Dinar Kencana	102	93.7	85.9	89.7	76.21
3.	PT Bank BPR Tanaoba Lais Manekat	87	86.6	89	88.6	79.71
4.	PT Bank BPR Timor Raya Makmur	80	74	95.1	74.7	73.53
5.	PT Bank BPR Christa Jaya Perdana	91.5	83	92.5	87	78.73
6.	PT Bank BPR Nusantara Abdi Mulia	68.4	70.8	81	79	97.10
Average		**82.66**	**78.63**	**84.1**	**83.33**	**80.55**

From the data in table 5 it is known that the average liquidity risk has fluctuated over 5 years, which in 2017 obtained an average of 82.66, in 2018 it has decreased from the previous year of 78.63, experienced an increase in 2019 with an average of 84.1, decreased Again in 2020 with an average of 83.33 and 2021 it continued to decrease by 80.55. To see the results of the average DPK can be seen in the following figure:

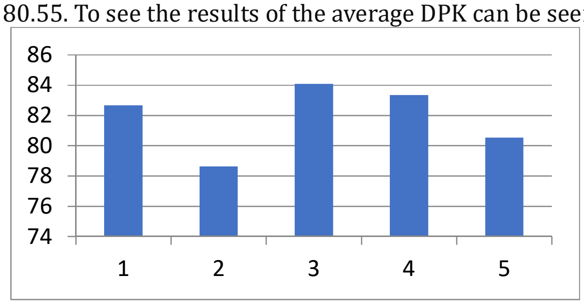

Figure 2. Results of the Average Loan to Deposit Ratio (LDR) of Rural Banks Kupang City Period 2017-2021

3.3. Profitability Analysis

Profitability is the level of success in carrying out certain tasks in realizing the goals, objectives, mission and vision of a company. By knowing the performance achieved, the bank can assess the level of success in implementing its activities so that the bank can determine a strategy for the future. This performance appraisal can assist the company in optimizing existing resources within the company and can suppress inappropriate employee behavior [19].

In this study, performance is measured by profitability indicators. The ratio that can be used as an indicator of a bank's profitability is Return on Assets (ROA). ROA is a ratio to measure the ability of bank management to earn profits. The higher the ROA indicates the higher the bank's ability to generate profits and the better the use of Bank Assets. The greater the ROA, the better the performance of a bank. The following shows the development of Return on Assets (ROA) for BPR companies registered with the NTT Financial Services Authority for the 2017-2021 period:

Table 6. PK weight of Rural Bank ROA component Kupang City Period 2017-2021

No	RB name	Year	ROA	Predicate	PK
1.	PT. BPR Central Pitoby	2017	0.78%	Healthy enough	3
		2018	0.48%	Unwell	4
		2019	0.09%	Unwell	4
		2020	0.6%	Healthy enough	3
		2021	1.65%	Healthy	2
2.	PT. BPR Sinar Dinar Kencana	2017	2%	Very healthy	1
		2018	0.86%	Healthy Enough	3
		2019	0.77%	Healthy Enough	3

		2020	(0.1%)	Not healthy	5
		2021	7.96%	Very healthy	1
3.	PT. BPR Tanoba Lais Manekat	2017	0.5%	Unwell	4
		2018	0.4%	Unwell	4
		2019	0.6%	Healthy Enough	3
		2020	0.42%	Unwell	4
		2021	2.07%	Very healthy	1
4.	PT. BPR Timor Raya Makmur	2017	0.4%	Unwell	4
		2018	0.1%	Unwell	4
		2019	(0.2%)	Not healthy	5
		2020	1.6%	Healthy	1
		2021	3.59%	Very healthy	1
5.	PT. BPR Christa Jaya Perdana	2017	1.17%	Healthy Enough	3
		2018	1%	Healthy Enough	3
		2019	1.13%	Healthy Enough	3
		2020	0.82%	Healthy Enough	3
		2021	2.13%	Very healthy	1
6.	PT. RB Archipelago Servant of Honor	2017	1.2%	Healthy Enough	3
		2018	(1.3%)	Not healthy	5
		2019	0.3%	Unwell	4
		2020	1.4%	Healthy	2
		2021	3.25%	Very healthy	1

Table 6 shows that from the results of calculating the Return On Assets (ROA) Component PK Weights, it is clear that from the six Rural Banks (BPR) it can be seen that PT. BPR Christa Jaya Perdana has the title of the healthiest bank out of the five BPRs from the 2017-2021 period.

Table 7. Development of Return on Assets (ROA) Kupang City People's Credit Bank for the 2017-2021 period

No	RB name	2017	2018	2019	2020	2021
1.	PT Bank BPR Central Pitoby	0.78	0.48	0.09	0.6	1.65
2.	PT Bank BPR Sinar Dinar Kencana	2	0.86	0.77	(-0.1)	7.96
3.	PT Bank BPR Tanaoba Lais Manekat	0.5	0.4	0.6	0.42	2.07
4.	PT Bank BPR Timor Raya Makmur	0.4	0.1	(-0.2)	1.6	3.59
5.	PT Bank BPR Christa Jaya Perdana	1.17	1	1.13	0.82	2.13
6.	PT Bank BPR Nusantara Abdi Mulia	1.2	(-1.3)	0.3	1.4	3.25
Average		**0.98**	**0.66**	**0.55**	**0.81**	**3.39**

From the data table 7 it is known that the average ROA has fluctuated for 5 years, which in 2017 obtained an average of 0.98, in 2018 it has decreased from the previous year of 0.66, it has decreased again in 2019 with an average of 0.55 , 2020 experienced an increase of 0.81 and experienced an increase again in 2021 of 3.39. To see the average ROA results can be seen in the following image:

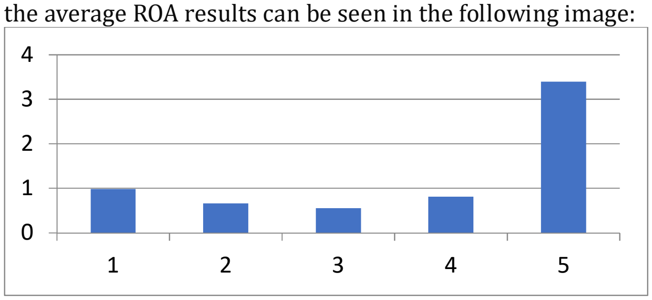

Figure 3. Results Average Return on Assets (ROA) Kupang City People's Credit Bank for the 2017-2021 period

3.4. Classic Assumption Test

Normality test

The data normality test aims to test whether in the regression model, the independent and dependent variables have a normal distribution or not. A good regression model is the data distribution is normal or close to normal[20].

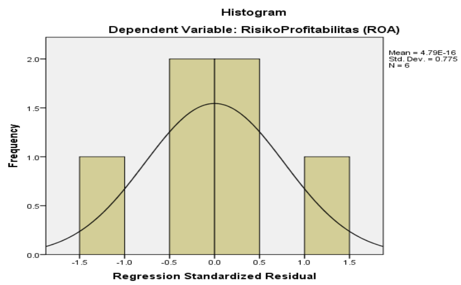

Figure 4. Histogram

Looking at the straight histogram graph, it can be concluded that the histogram graph gives a normal distribution pattern. Meanwhile, on the normal plot graph, it can be seen that the dot pattern spreads close around the diagonal line. These two graphs show that the regression model is feasible to use because it meets the assumption of normality [21].

Multicollinearity Test

Multicollinearity testaims to test whether the regression model found a correlation between independent (independent) variables (Ghozali, 2009:95). A good regression model should not have a correlation between independent (independent) variables. Testing for the presence of multicollinearity can be done by looking at the VIF (variance inflation factor) value for each independent variable. If the tolerance value is <0.10 or VIF > 10, it indicates the occurrence of Ghozali multicollinearity in Nalle, (2022).

Table 8. Multicollinearity Test

Model		Collinearity Statistics tolerance	VIF
1	(Constant)		
	Credit risk (NPL)	.421	2,373
	Liquidity Risk (LDR)	.421	2,373
a. Dependent Variable: Profitability Risk (ROA)			

Based on the multicollinearity test table in table 8 it can be said that the tolerance value for Credit Risk (NPL) is 0.421 with a VIF value of 2.373 and a tolerance value for liquidity risk (LDR) of 0.421 and a VIF value of 2.373.

Heteroscedasticity Test

The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residual of one observation to another observation, if the variance of the observation from the residual to another observation remains constant then it is called homoscedasticity and if it is different it is called heteroscedasticity. Homoscedasticity regression model or no heteroscedasticity [23].

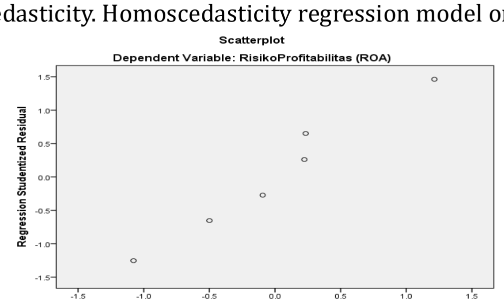

Figure 6. Heteroscedasticity Test

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In Figure 6 it can be seen that the points spread well above and below the number 0 on the axis. It can be concluded that there is heteroscedasticity in the regression model. Analysis using graphic plots has a significant weakness due to the number of observations of plotting results.

Autocorrelation Test

Autocorrelation is a condition where interfering errors are correlated (related). Autocorrelation occurs when the sample members are sorted by time [24]. The test that is commonly used to see the existence of autocorrelation is to use Durbin Watson (DW). The results of these calculations can be seen in the following table:

Table 9. Autocorrelation Test
Summary model b

Model	R	R Square	Adjusted R Square	std. Error of the Estimate	Durbin-Watson
1	.977a	.955	.925	24.06142	2,237

a. Predictors: (Constant), Credit Risk (NPL), Liquidity Risk (LDR)
b. Dependent Variable: Profitability Risk (ROA)

Based on table 9 it can be seen that with a significant level of 0.05 as many as 6 samples with 2 independent variables and 1 dependent variable, then dw lies between du and 3-du. The du data is 1,928 so that the 3-du is 2,286 and the results are 1,928 < 2,237 < 2,286. thus, that the regression model is good because dw lies between du and 3-du so there is no autocorrelation.

3.5. Multiple Linear Regression

Data analysis used in this study is multiple regression analysis. Multiple regression is useful for predicting the effect of two or more predictor variables on one criterion variable or to prove whether or not there is a functional relationship between two independent variables (X) or more with a dependent variable (Y) Akoit;Babulu, (2021).

Table 10. Multiple Linear Regression Analysis

Coefficientsa

		Unstandardized Coefficients		Standardized Coefficients		
	Model	B	std. Error	Betas	Q	Sig.
1	(Constant)	.737	14,908		.049	.964
	NPLs	.480	.184	.492	2,610	080
	LDR	.283	.097	.549	2,912	062

a. Dependent Variable: Profitability Risk (ROA)

In principle, the linear regression model is a model whose parameters are linear and quantitatively can be used to analyze the effect of an independent variable on the dependent variable. Data analysis used in this study is multiple regression analysis. Multiple regression is useful for predicting the effect of two or more predictor variables on one criterion variable or for proving whether there is a functional relationship between two independent variables (X) or more with a dependent variable (Y). In accordance with the results of the regression analysis in table 5.7, the resulting regression equation is:

$Y=0.737 + 0.480X1 + 0.283X2.+\in$

So in other words the regression equation above can be defined as follows:

1. Constant (a)
   Based on the calculation above, the estimation results of multiple linear regression show that the value of the constant (a) is equal to0.737, this constant value states that if all the independent variables of Non-Performing Loans (NPL), Loan to Deposit Ratio (LDR) are equal to zero, then the Return on Assets (ROA) is 0.737
2. *Non Performing Loans* (NPL)
   X1 = 0.480 means if it is a non-performing loan(NPL) increased by 1%, then Return on Assets (ROA) increased by 0.480. It is thus seen that the regression of Non Performing Loans (NPL) is positive.
3. *Loan to Deposit Ratio* (LDR)
   X2 = 0.283 means if the Loan to Deposit Ratio(LDR) increased by 1%, then the Return on Assets (ROA) increased by 0.280. it can be seen that the Loan to Deposit Ratio (LDR) regression is positive.

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From the explanation above, it can be concluded that*Non Performing Loans* (NPLs) and *Loan to Deposit Ratio* (LDR) has a positive and significant effect on*Return on Assets* (ROA) People's Credit Bank in Kupang City.

3.6. Hypothesis test

To test the hypothesis, two tests were carried out, namely the partial test (t) and the simultaneous test (f). partial test (t) was conducted to test the first and second hypotheses, namely to test each independent variable on the dependent variable. While the simultaneous test (f) was conducted to test the third hypothesis, namely to test the effect of the independent variables on the dependent variable together [26].

3.7. Partial Test Results (t test)

Table 11 t Test (Partial Test)

Coefficients

Model		Unstandardized Coefficients B	std. Error	Standardized Coefficients Betas	Q	Sig.
1	(Constant)	.737	14,908		.049	.964
	NPLs	.480	.184	.492	2,610	080
	LDR	.283	.097	.549	2,912	062

a. Dependent Variable: Profitability Risk (ROA

The effect of credit risk on the profitability variable by looking at a significant t price of 0.080 and greater than 0.05 then H0 is rejected, meaning that credit risk (NPL) has no significant effect on the profitability variable (ROA). The effect of liquidity risk (LDR) on the profitability variable (ROA) by looking at a significant price t of 0.062 and a magnitude of 0.05 then H0 is rejected, meaning that liquidity risk (LDR) has no significant effect on the profitability variable (ROA). So in other words the t test (Partial Test) above can be defined as follows:

Dependent variable: profitability (ROA) = Y

1) X1 = tcount value for Non Performing Loans (NPL) of 2,610, while the significant value of Non Performing Loans (NPL) of 0.80 is greater than 0.05, so H0 is rejected, meaning that the variable Non Performing Loans (NPL) has a positive but not significant effect on Return on Assets (ROA).
2) X2 = tcount value for the Loan to Deposit Ratio (LDR) of 2,912, while the significant value of the Loan to Deposit Ratio (LDR) of 0.062 is greater than 0.05, so H0 is rejected, meaning that the Loan to Deposit Ratio (LDR) variable has a positive effect but not significant to Return on Assets (ROA).
3) Based on the results of the t test conducted on both variables, it can be concluded that separately Non Performing Loans (NPL) have a positive but not significant effect on Return on Assets (ROA) and Loan to Deposit Ratio (LDR) have a positive but not significant effect on Return on Assets (ROAs).

3.8. Simultaneous Test Results (Test F)

Table 12. F Test (Significant Test Results)

ANOVAa

	Model	Sum of Squares	Df	MeanSquare	F	Sig.
1	Regression	36888.478	2	18444.239	31,858	.010b
	residual	1736855	3	578,952		
	Total	38625.333	5			

a. Dependent Variable: Profitability Risk (ROA)
b. Predictors: (Constant), Credit Risk (NPL), Liquidity Risk (LDR)

Anova test or F test in SPSS obtained Fcount 31,858 with a significant 0.01 <0.05, it can be concluded that the independent variables Credit Risk (NPL) and Liquidity Risk (LDR) simultaneously have a positive and significant effect on the dependent variable on profitability (ROA) .

3.9. Coefficient of Determination (R^2)

Table 13. R^2 Test Results

Summary model b

Model	R	R Square	Adjusted R Square	std. Error of the Estimate
1	.977a	.955	.925	24.06142

a. Predictors: (Constant), NPL, LDR
b. Dependent Variable: Profitability Risk (ROA)

In table 13, the output of the statical Package For the Social Sciences (SPSS) model summary shows the Adjusted R^2 Square (coefficient of determination) R^2 of 0.925 (92.5%). Thus the magnitude of the influence of credit risk and liquidity risk variables on profitability is 92.5% and the other 7.5% is influenced by other variables not used by researchers. To find out the independent variables that have a dominant influence on profitability can be seen from the coefficient of the regression equation of each variable or from its level of significance.

3.10. Discussion

The Effect of Credit Risk on Profitability at Rural Banks in Kupang City

Credit risk is defined as the risk of loss in connection with a borrower who is unable or unwilling to fulfill the obligation to repay the loaned funds in full at maturity or thereafter. In other words, this risk arises due to uncertainty about repaying the loan by the debtor [27]. Credit risk in this study is represented by non-performing loans. NPL is used to measure the extent to which a bank's ability to manage its non-performing loans. The higher the NPL ratio, the worse the credit quality, which results in greater non-performing loans, which can lead to a decrease in the rate of return (ROA).

The opinion regarding the effect of credit risk on profitability is that BPR liquidity risk can increase with increased credit risk which is caused, among other things, by growth in assets or financing that has not been tested or the BPR has not had sufficient experience so that asset quality deteriorates and increases the potential for financing failure. If credit risk increases, liquidity risk will also increase because the BPR must increase the cost of funds to maintain the BPR's funding sources needed to anticipate potential losses due to problematic financing.

BPRs also face problems in the form of relatively high average NPLs. This shows that the credit channeled is less effective due to the large number of bad loans. This high NPL ratio can reduce the level of BPR profitability in general, which can be seen from the ROA (Return on Assets). However, even though the average NPL ratio owned by BPRs in the city of Kupang is relatively high, this will not lead to bankruptcy on the part of the bank. The results of this study are the same as those found by Herlina et al., (2016) which reveals that Non-Performing Loans have a negative influence on profitability as measured by Return On Assets (ROA), meaning that if credit risk increases, the level of profitability will decrease. In addition, research found by Prasetyo & Darmayanti, (2015)also found that credit risk has a significant negative effect on profitability.

The Effect of Liquidity Risk on Profitability at Rural Banks in Kupang City.

Liquidity risk is a risk that arises due to the lack of availability of liquid assets so that the bank is unable to fulfill its obligations both to fulfill deposit withdrawals by depositors and to provide loans to prospective debtors [30]. Liquidity risk in this study is represented by *Loan to Deposit Ratio*. LDR is a ratio that measures a bank's ability to meet short-term obligations (liquidity) by dividing total credit to total third party funds.*Loan to Deposit Ratio* (LDR) reflects the bank's ability to channel third party funds on credit to generate income [31]. The higher the LDR, the bank's profit will increase with the assumption that the bank is able to extend credit effectively. The greater the credit disbursed, the greater the income received by the bank.Opinion regarding the effect of liquidity on profitability is that the management of financing in general greatly influences the condition of BPR liquidity. Credit risk due to low quality of financing so that funds disbursed cannot be returned at the initial value which can cause BPRs to experience liquidity risk when third party fund customers withdraw funds [3].

The results of research conducted by Trisnawati Dewi & Srihandoko, (2018) found that the Loan to Deposit Ratio (LDR) had no significant effect on Return On Assets (ROA). In line with the research conducted by Capriani & Dana, (2016) found that Credit Risk (NPL) partially has a simultaneous effect on profitability.

The Influence of Credit Risk and Liquidity Risk on Profitability at Rural Banks in Kupang City.

The NPL ratio assesses the ability of a bank to cover the credit risk it faces, if this risk is low, the risk borne by the bank will be smaller. And vice versa, if it is bigger, it means that the credit risk faced by the bank is also bigger and this will have an impact on the bank's profit level. Meanwhile, liquidity risk is the risk faced by a bank if it fails to fulfill its obligations to its depositors with its liquid assets [16].

This risk occurs because the disbursement of funds in the form of credit is greater than deposits or public deposits at a bank, thus creating risks that must be faced by banks. ROA is the ratio used to show the results of the total assets used in the company (Sinaga & L. Tobing, 2020).

This ratio is a benchmark for the rate of return on investment that has been made by the company by using all of its assets simultaneously. in research namely operational risk and capital risk. Based on the results of simultaneous testing, NPL and LDR have a significant effect on ROA, shown from the results of the F test, from the results of the F test it can be seen that the Fcount value is 31,858 with a significant 0.01 <0.05 so it can be concluded that the credit risk independent variable (NPL) and Liquidity Risk (LDR) simultaneously have a positive and jointly significant effect on the dependent variable on profitability (ROA).

Opinion for banking seeks to increase and maintain BPR profitability through the best management of credit risk and liquidity risk. In the Financial Services Authority Regulation No. 4/PJOK.03/2015 concerning the implementation of Governance for Rural Banks, it is stated that BPRs that already have websites are required to submit their governance reports no later than 4 months after 31 December. For this reason, BPRs are required to pay attention to the requirements for publication of reports on the implementation of governance that have been regulated by the OJK. This is actually beneficial for BPRs because the aim of all of this is to protect stakeholders such as the government, the creditor community, debtors and investors from credit risk and banking liquidity risk that may arise in the future [35].

4. CONCLUSION

The results of the study show that using financial analysis it was found that during the observation period 2017-2021 when viewed from the Non-Performing Loan (NPL) Components of the six Rural Banks it can be seen that PT. BPR Tanaoba Lais Manekat and PT. BPR Christa Jaya Makmur has the title of the healthiest bank. Furthermore, the results of the calculation of the Loan to Deposit Ratio Weight show that PT. BPR Sinar Dinar Kencana has the title of an unhealthy bank. Then the Profitability calculation shows thatPT. BPR Christa Jaya Perdana has the title of the healthiest bank.Furthermore, it is known that from the results of inferential analysis it is known that partially each variable, namely Non Performing Loans (NPL) and Loan to Deposit Ratio (LDR) has a positive but not significant effect on Return on Assets (ROA). Simultaneous test results show that Non-Performing Loans (NPL) and Loan to Deposit Ratio (LDR) have a positive and jointly significant effect on the dependent variable Return on Assets (ROA).

Realizing this, the Rural Banks in Kupang City are expected to pay attention to the assessment of credit risk and liquidity risk because the results of this study show that credit risk and liquidity risk have a significant effect on profitability. Furthermore, it is hoped that the Financial Services Authority will be more intensive in carrying out strict supervision so that Rural Banks have a level of bankruptcy risk aimed at a smaller Return on Assets (ROA) value.

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