

Analysis of the Factors on the Performance of Regional Development Banks in Indonesia

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Abstract: *This study aims to analyse the impact of external factors and internal factors on the risk factors of regional development bank. Sample used in this study is regional development banks in Indonesia in the period of 2015 – 2019. The sampling technique in this study uses a purposive sampling technique, where the sampling is based on the criteria that have been determined by the researcher. Sources of data used in this study were taken from the website of the regional development bank, Central Bank of Indonesia, and Central Statistics Agency (BPS). The data analysis technique in this study used multiple linear regression, where the stages were carried out through two stages, namely, descriptive analysis and inferential analysis. External factors in this research are BI Rate, inflation, exchange rate and GDP (Gross Domestic Product). Internal factors in this study are credit growth, asset growth and third party funds. Credit risk in this study uses the value of Reserve for Impairment Losses. The results show that internal factors that significantly influence bank risk factors are the BI rate and GDP (Gross Domestic Product). Internal factors that significantly influence credit risk factors are credit growth, asset growth and third party funds, while the most influential factor on credit risk is asset growth.*

Keywords: *Internal Factors, External Factors, Bank Credit Risk, regional development bank.*

I. INTRODUCTION

The Era of Regional Autonomy has provided the widest opportunity for regions to optimize the management of existing potential in the region. Quite fundamental changes occurred in the mechanism of government administration in accordance with the concept of regional autonomy as stated in Law Number 22 of 1999, Law Number 32 of 2004 concerning Regional Government and Law Number 25 of 1999, Law Number 33 of 2004 concerning the Financial Balance between the Central and Regional Governments.

This situation, of course, directly affects all aspects of life in areas that have Regional Original Income. Through this Regional Autonomy, all regional apparatus including financial managers have a role in supporting existing activities, in order to improve the regional economy.

Regional Development Banks (RDB) are an integral part of the regional economy. This relationship can be seen from the name of the area of origin which is always attached to the place where the Regional Development Banks was established.

This relationship is related to its function as a "cashier" to disburse the Regional Revenue and Expenditure Budget. Thus, Regional Development Banks has a special characteristic that distinguishes it from other bank groups, where most of the third party funds are funds belonging to the regional government in the form of government demand deposits.

Birth of Regional Development Banks functioned as an agent driving development in the area (*regional agent of development*). Regional Development Banks is directed to support infrastructure development, MSMEs, agriculture, and other economic activities through its activities as an intermediary institution in the context of regional development. Regional Development Banks is required to continue to play a role in providing regional development fund facilities, both investment projects and working capital. However, on the other hand, as part of the national banking policy, Regional Development Banks are also required to comply with regulations determined by Central Bank of Indonesia.

Table 1. List of Regional Development Banks

| NO | Bank Name | No | Bank Name |
|----|-----------------------------|----|---------------------------|
| 1 | RDB West Java & Banten | 14 | RDB South Kalimantan |
| 2 | RDB Central Java | 15 | RDB North Sulawesi |
| 3 | RDB East Java | 16 | RDB South & West Sulawesi |
| 4 | DKI Bank | 17 | RDB DIY |
| 5 | RDB East Kalimantan | 18 | RDB East Nusa Tenggara |
| 6 | RDB North Sumatra | 19 | RDB Central Kalimantan |
| 7 | RDB Nagari (West Sumatra) | 20 | RDB Maluku |
| 8 | RDB Papua | 21 | RDB West Nusa Tenggara |
| 9 | RDB Bali | 22 | RDB Jambi |
| 10 | RDB South Sumatra & Babylon | 23 | RDB Southeast Sulawesi |
| 11 | Aceh Bank | 24 | RDB Bengkulu |
| 12 | RDB Riau & Riau Islands | 25 | RDB Lampung |
| 13 | RDB West Kalimantan | 26 | RDB Central Sulawesi |

Source: Central Bank of Indonesia, 2019

To increase the role of RDB in regional development, Central Bank of Indonesia and the Association of Regional Development Banks agreed to establish a blueprint for the RDB vision called the RDB *Regional Champion* (RRC). RRC is a program that is expected to be able to encourage RDBs to be more effective and efficient in carrying out their functions as development agents in the regions, including its implementation strategy (Indonesian Banking Booklet, 2017). The stages for RDB to become winners in their own regions can be done through the application of three pillars, including strengthening institutions, becoming a *regional agent of development*, and increasing the ability to serve the needs of the community.

The implementation of the three pillars in the framework of RDB towards *Regional Champion* can be monitored through RDB's financial performance. Financial performance can show the effectiveness and efficiency of a company in order to achieve the expected goals. The bank's financial performance is a description of the bank's financial condition as a collector and distributor of funds in a certain period. Performance results can show the advantages and disadvantages of a company that has been running in each period. The performance of companies including RDB in Indonesia can be evaluated through financial reports by calculating several financial ratios. Financial ratios are an analytical tool to analyze financial performance, that one of the ratios is the profitability ratio. The profitability ratio is a business profit, which is often used to assess the level of efficiency and the achievement of bank profits (Kasmir, 2012). To calculate the profitability ratio, several indicators are used, including *Return On Assets* (ROA), *Return On Equity* (ROE) and *Net Interest Margin* (NIM).

RDB's financial performance according to data and statistics obtained from 2017 to 2019 mostly decreased. The decrease in this ratio indicates that the implementation of the three pillars of the RDB as a *Regional Champion* is still not optimal. The implementation that is still not optimal is inseparable from the factors faced by the RDB, both from the bank's internal factors related to its operational activities as an intermediary institution, and the bank's external factors in the form of macroeconomic conditions. Internal factors (operational activities) are carried out through the management of owned assets where monitoring is seen from the growth of RDB assets and carrying out its function as an intermediary institution, namely collecting funds and distributing credit to the community. Internal banking which is reflected through third party funds has a significant effect on the bank's financial performance in the form of ROA (Yuliani, 2007). Resende and Perevalov (2010) in their research also found that internal banks in the form of *Bank Loans* and *Investments* in relation to assets have a moderate impact in the long term, while in the short term they have a strong influence.

In addition to internal factors, macroeconomic conditions as external factors also have an influence on RDB performance. Bank external factors are factors beyond the bank's control that can affect its operational activities. In real conditions, internal banks in carrying out their operational activities cannot be separated from macroeconomic conditions, these conditions include inflation, interest rates, and exchange rates. Macroeconomic conditions are reflected in the flow of goods and the flow of money. If the money circulating in the community is greater than the flow of goods, inflation will occur, if it is volatile continuously, it is not impossible that it will affect the condition of the national economy which leads to a weakening of the currency exchange rate (Harmono, 2012). During these conditions, Central Bank of Indonesia (BI) through its policies will increase or decrease the BI interest rate until macroeconomic conditions can return to stability. Macroeconomic characteristics have a significant influence on bank profitability (Dietrich

and Wanzenried, 2011). Harmono (2012) in his research found that macro fundamental factors consisting of inflation, BI rate and exchange rate have a significant effect on bank performance.

In addition to these factors, the lack of monitoring of bank risk can also trigger a decline in RDB's financial performance. Risk is the discrepancy between the results obtained and the planned results. In realizing its activities for profit, banks are always faced with positive and negative impacts such as bank risk. Bank risk may be a *systematic risk* means to influence economic macro of a State or non-systematic risk means the risk that can be eliminated because it only occurs in the course of internal bank (Pandia, 2012). The greater the expected profit from a business, the greater the risk that will be faced (Pandia, 2012).

The quality of non-performing assets reflects credit risk. Credit risk that is not managed properly can reduce banking performance. Allowance for Impairment Losses is to measure an asset quality. Based on Bank Indonesia Circular Letter No.15 / 28 / DPNP were issued on the date of 31 July 2013 Allowance for Impairment Losses is the allowance that was established when the carrying value of financial assets after impairment are less than the carrying value of the start. Banks are required to establish Allowance for Impairment Losses in accordance with applicable financial accounting standards.

II. Literature Review

Financial Performance

The bank's financial performance is a description of the bank's financial condition as a collector and distributor of funds in a certain period. Performance results can show the advantages and disadvantages of a company that has been running in each period. The performance of companies including RDB in Indonesia can be evaluated through financial report by calculating several financial ratios. Financial ratios are an analytical tool to analyze financial performance, where one of the ratios is the profitability ratio. Kasmir (2012) profitability ratio is a business profit, which is often used to assess the level of efficiency and the achievement of bank profits. To calculate the ratio of profitability to use multiple indicators amongst others return on asset (ROA), return on equity (ROE) and net interest margin (NIM).

Return on Assets (ROA), as a supporting ratio to measure the success of management in generating profits. ROA is an indicator of the ability of banks to earn a return on a number of assets owned by the bank. ROA can be obtained by calculating the ratio between profit after tax and total assets (Pandia, 2012). *Return On Equity* (ROE), as the ratio observed to measure the ability of capital to generate profits. ROE is an indicator of the ability of banks to manage the capital that is available to get net profit. ROE can be obtained by calculating the ratio between profit after tax and total equity (Pandia, 2012). *Net Interest Margin* (NIM), as a ratio used to measure the ability of bank management in managing its productive assets to generate net interest income. The greater this ratio, the higher the interest income on productive assets managed by the bank so that the possibility of a bank in troubled conditions is getting smaller (Pandia, 2012).

Bank Internal Factors

Bank internal factors is a factor that happening in the bank and could affect the bank's management decisions related to policy and operational strategy of the bank. These internal factors include bank operational activities (Fadjar, 2013). In Indonesia, the operational activities of banks as intermediary institutions are collecting funds and distributing credit which can later create assets for the company. The monitoring can be seen through the growth rate of bank assets, the growth rate of lending, and the growth of third party fund collection (Yulianita, 2011).

Bank External Factors

Bank external factors are factors beyond the bank's control that can affect its operational activities. In real conditions, internal banks in carrying out their operational activities cannot be separated from macroeconomic conditions, these conditions include inflation, interest rates, and exchange rates. Macroeconomic conditions are illustrated by the flow of goods and the flow of money. If the money circulating in the community is greater than the flow of goods, there will be inflation, when it churned continuously, is not likely to affect national economic conditions that led to the weakening of the exchange rate of currency (Harmono, 2012). At the moment the conditions that occur, BI through its policies will raise or lower the BI rate to macroeconomic conditions can be restabilized.

Bank Risk Factors

Risk is the discrepancy between the results obtained and the planned results. In realizing its activities for profit, banks are always faced with positive and negative impacts such as bank risk. The greater the expected profit from a business, the greater the risk that will be faced (Pandia, 2012). Risks are often faced by banks include Credit Risk, Liquidity Risk, Efficiency Risk and Capital Risk (Verawati, 2017).

Based on the previous discussion on the background of the problem, and literature review, the hypotheses in this study are: 1) Internal factors have a positive and significant effect on the financial performance of RDB in Indonesia, 2) Internal factors have a negative and significant effect on RDB risk factors in Indonesia, 3) External factors have a negative and significant effect on the financial performance of RDB in Indonesia, 4) External factors have a positive and significant effect on the risk factors of RDB in Indonesia, 5) Risk factors have a negative and significant effect on the financial performance of RDB in Indonesia., 6) Internal factors have an effect indirectly to the financial performance of RDB in Indonesia through Risk Factors and 7) External factors have an indirect effect on the financial performance of RDB in Indonesia through Risk Factors.

III. Research Methodology

This research is a type of quantitative research. The purpose of this study was to analyze the influence of the bank external factors against the bank's risk factors, the influence of bank internal factors on the risk factors of the bank, the influence of external factors to the bank's performance of RDB, the effect of the bank's internal factors on the performance of RDB, the effect of the bank's risk factors on the performance of RDB. The sample in this study was Indonesian local government banks in the period of 2015 – 2019. The sampling technique in this study used a purposive sampling technique, where the sampling was based on the criteria that had been determined by the researcher. Sources of data used in this study were taken from the website of the regional development bank, the website of the Central Bank of Indonesia, and the website of the Central Statistics Agency (BPS). Variables in the study is comprised of five variables latent, namely, external bank factors as measured using (inflation, BI interest rate, exchange rate and GDP), internal bank factors as measured using (growth of assets, credit growth and deposit growth). Bank risk factor is measured using Allowance for Impairment Losses and RDB performance is measured using (ROA). The method used in this research is descriptive analysis and inferential analysis. The stages of analysis in this study include descriptive analysis of each variable and analysis of inferential data using multiple linear regression methods.

IV. ANALYSIS AND DISCUSSION

In this study, samples were taken from Indonesian local government banks in the period of the 2015 – 2019. The sampling technique in this study used a purposive sampling technique, where the sampling was based on the criteria set by the researcher. Sources of data used in this study were taken from the website of the regional development bank, the website of the Central Bank of Indonesia, and the website of the Central Statistics Agency (BPS). The results of the descriptive analysis of this study are as follows:

Table 2. Descriptive Analysis

| | N | Minimum | Maximum | Mean | Std. Deviation |
|--|----------|----------------|----------------|-------------|-----------------------|
| Inflation | 150 | .0272 | .0836 | .040317 | .0196 |
| BI Rate | 150 | 0.0456 | .07541 | .06059 | .01135 |
| BI Exchange Rate | 150 | 12440 | 14481 | 13600.17 | 618,505 |
| GDP | 150 | .04876 | .05170 | .0503017 | .0008 |
| Asset Growth | 150 | -.69576 | 1.15160 | .13592 | .1630 |
| Credit Growth | 150 | -.1629 | 2.11087 | .16282 | .2077 |
| TPF | 150 | -.49077 | 2.11920 | .1207 | .2656 |
| Allowance for Impairment Losses (AIL) | 150 | 2.0800 | 12.8870 | 5.0454 | 1.9583 |

| | | | | | |
|---------------------------|-----|---------|--------|-------|--------|
| ROA | 150 | -.08060 | .38990 | .2214 | .07924 |
| Valid N (listwise) | 150 | | | | |

Source: Processed data with SPSS

Based on the statistical descriptive table, it can be seen that the inflation data has a homogeneous data range, this can be seen from the mean value = 0.0403 which is greater than the standard deviation value = 0.0196. The homogeneity of the data can also be seen in the BI rate variable where the mean value = 0.0605 is greater than the standard deviation value = 0.011. Variable of other data that have homogeneity BI exchange rate with a mean = 13600.17 greater than the standard deviation = 618 505 and GDP variable with mean value = 0.0503 is greater than the value of the standard deviation = 0.0008. Descriptive statistics table shortly inform that credit growth data has a variety of heterogeneous data, it can be seen from the mean value = 0.1359 less than the standard deviation = 0.1630. All internal factor variables have heterogeneous data, this can be seen from credit growth data, there are also asset growth variables and third party funds. Asset growth data has a mean value = 0.1628 which is smaller than the standard deviation value = 0.2077. Third party funds data has a mean value = 0.1207 which is smaller than the standard deviation value = 0.2656. Credit risk data as measured by Allowance for Impairment Losses (AIL) and RDB performance as measured by ROA show the homogeneity of the data, this is indicated by the mean value being greater than the standard deviation value. The Allowance for Impairment Losses data has a mean value = 5.0454 which is greater than the standard deviation value = 1.9558 and the ROA data has a mean value = 0.2214 which is greater than the standard deviation value = 0.0792.

Table 3. Credit Risk Regression Analysis

| Initial Model | | |
|----------------------------------|-----------------------------|--------------------|
| | Statistical Value | Information |
| Classic Assumption Test | | |
| Normality | 0.200 | fulfilled |
| Heteroscedasticity | All sign value >0.05 | fulfilled |
| Autocorrelation | Sig = 0.543 | fulfilled |
| Multicollinearity | All VIF values >10 | fulfilled |
| Regression Model Analysis | | |
| Fit model test | Sig = 0.00 | Fit Model |
| R-square | 0.625 | Strong Enough |
| Hypotheses test | | |
| Inflation --> AIL | Sig = 0.066 ; b1 = -49,108 | Not Affected |
| BI Rate --> AIL | Sig = 0.023 ; b2 = 79,477 | Affected |
| Exchange Rate --> AIL | Sig = 0.595 ; b3 = -0.001 | Not Affected |
| GDP --> AIL | Sig = 0.04 5 ; b4 = 837,739 | Affected |
| ASSET GROWTH--> AIL | Sig = 0.0 44 ; b5 = -0.667 | Affected |
| Credit Growth --> AIL | Sig = 0.006 ; b6 = 2.722 | Affected |
| TPF--> AIL | Sig = 0.023 ; b7 = 1.486 | Affected |

Source: Processed data with SPSS

Based on table 3, all classical assumption tests were met, namely, normality, autocorrelation, heteroscedasticity and multicollinearity. The Kolmogorov - Smirnov test shows a significance value greater than 0.05, this informs that the residuals are normally distributed. The run test shows a significance value greater than 0.05, this informs that the autocorrelation assumption is fulfilled (no autocorrelation case). The multicollinearity test shows that all VIF values are less than 10, this indicates that the multicollinearity assumption is met (there is no case of multicollinearity). The glejser test shows that all t test values are absolute residual regression results with independent variables more than 0.05, this informs that the assumption of heteroscedasticity (no case of heteroscedasticity occurs).

Table shows that the fit model has a coefficient of determination of 62.5%. The model suitability test shows that the significance value of the F test is less than 0.05, this indicates that the fit model means that the model is able to explain the relationship between the influence of the independent variable on the dependent variable. The value of the coefficient of determination is 62.5%, this indicates that the variability of the independent variable to the dependent variable is 62.5%, meaning that there are other factors of 100% – 62.5% that are not included in the model.

Hypothesis testing based on table 2, shows that 5 hypotheses are accepted from 7 hypotheses tested, including the BI Rate has an effect on AIL, GDP has an effect on AIL, asset growth has an effect on AIL, credit growth has an effect on AIL, TPF has an effect on AIL. The rejected hypotheses included inflation affecting AIL and the BI exchange rate affecting AIL. Table 3 informs that credit growth has the most influence on AIL.

Table 4. Performance Regression Analysis

| Initial Model | | |
|----------------------------------|----------------------------|--------------------|
| | Statistical Value | Information |
| Classic Assumption Test | | |
| Normality | 0.126 | fulfilled |
| Heteroscedasticity | All sign value >0.05 | fulfilled |
| Autocorrelation | Sig = 0.001 | fulfilled |
| Multicollinearity | All VIF values >10 | fulfilled |
| Regression Model Analysis | | |
| Fit model test | Sig = 0.02 | Fit Model |
| R-square | 0.734 | Strong Enough |
| Hypotheses test | | |
| Inflation --> ROA | Sig = 0.156 ; b1 = 0.543 | Not Affected |
| BI Rate --> ROA | Sig = 0.002 ; b2 = 1.016 | Affected |
| Exchange Rate --> ROA | Sig = 0.034 ; b3 = 0.0123 | Affected |
| GDP --> ROA | Sig = 0.345 ; b4 = -11,401 | Not Affected |
| Asset Growth--> ROA | Sig = 0.002 ; b5 = -0.376 | Affected |
| Credit Growth--> ROA | Sig = 0.012 ; b6 = 0.070 | Affected |
| TPF --> ROA | Sig = 0.001 ; b7 = 0.014 | Affected |
| AIL --> ROA | Sig = 0.000; B8 = 0.087 | Affected |

Source Processed with SPSS

Based on table 4, all classical assumption tests were met, namely, normality, autocorrelation, heteroscedasticity and multicollinearity. The Kolmogorov - Smirnov test shows a significance value greater than 0.05, this informs that the residuals are normally distributed. The run test test shows a significance value greater than 0.05, this informs that the autocorrelation assumption is fulfilled (no autocorrelation case). The multicollinearity test shows that all VIF values are less than 10, this indicates that the multicollinearity assumption is met (there is no case of multicollinearity). The glejser test shows that all t-test values are absolute residual regression results with independent variables more than 0.05, this informs that the assumption of heteroscedasticity (no cases of heteroscedasticity occur).

Table 4 shows that the fit model has a coefficient of determination of 73.4 %. The model suitability test shows that the significance value of the F test is less than 0.05, this indicates that the fit model means that the model is able to explain the relationship between the influence of the independent variable on the dependent variable. The value of the coefficient of determination is 73.4 %, this shows that the variability of the independent variable to the dependent variable is 73.4 %, meaning that there are other factors of (100% – 73.4 %) that are not included in the model.

Hypothesis testing based on table 4, shows that the 6 hypotheses received from the 8 hypotheses tested, include the BI Rate has an effect on ROA, the BI exchange rate has an effect on ROA, asset growth has an effect on ROA, credit growth has an effect on ROA, and TPF has an effect on ROA. The rejected hypothesis is that inflation has an effect on ROA and GDP has an effect on ROA. Table 4 informs that credit growth has an effect on AIL.

V. Discussion

Credit Growth to Credit Risk

Hypothesis test results showed that the significant value of credit growth against AIL of 0.144 with regression coefficient value of -0.667, it means that affect credit growth negatively against AIL that would mean any increase in credit growth will follow the decline in the value of AIL. Banks in the operations are always required to continue to grow, especially on the side of the credit that is distributed, because those who later would become a major revenue source for banks. Bank employees are always given targets so that their loans can always grow and contribute to the bank. However, if the growth in terms of credit disbursed is too aggressive and uncontrolled, it can have a negative impact on banks. Credit growth means that there is a high credit disbursement, thus if the disbursement of the loan is channeled to the wrong borrower, the bank will be exposed to a higher risk of non-performing loans (Anjom and Karim, 2016).

Viewpoint of rapid growth in credit will lead to credit problems cannot be ignored, but neither can be directly accepted without any question. If the growth of credit that quickly occurs because the bank wants to extend credit by lowering the standards, then the problem loans will increase. However, if high credit growth occurs due to a change in the perspective of business people with promising businesses where they prefer to borrow from banks compared to obtaining additional funds from the capital market, growth in non-performing loans should not occur (Keeton, 1999).

Asset growth to credit risk

The results of the hypothesis test show that the significant value of asset growth to AIL is 0.006 with a regression coefficient of 2.722, this informs that credit growth has a positive effect on AIL which means that every increase in asset growth will be followed by an increase in the value of AIL. Asset growth tend to have positive impact on capital (Kaaro, 2002) because the investment in the asset requires time before it is ready to operate, so that the activities carried out are not directly related to the reception. The increase in assets is carried out by the bank if there are good prospects. In terms of the need for internal funds to increase assets, if it is not sufficient, it will encourage companies to use capital. Therefore, capital must be sufficient to increase assets (Wahidahwati, 2002). The results of research from Kaaro (2002) and Mayangsari (2001) which show that asset growth is proven to have an effect on credit risk.

Third Party Funds to Credit Risk

The results of the hypothesis test show that the significance value of third party funds on AIL is 0.023 with a regression coefficient of 1.486, this informs that third party funds have a positive effect on AIL, which means that every increase in third party funds will be followed by an increase in the value of AIL. Third Party Funds (TPF) are funds collected by banks from the public. The importance of the source of funds from the general public are the source of funds that most primary for banks (Ismail, 2010: 43). The higher the amount of TPF collected by the bank, the bank tends to channel high credit. The greater the TPF collected by banks will lead to increasingly large also the source of funds (loanable funds). It has an impact on an increase in supply of funds to the public so that even the high amount of disbursement of credit by banks (Panggalih, 2015). This is in line with several previous researchers, namely Hasyim (2014), Yoga (2013), Trimulyanti (2014), which gave the results that third party funds (TPF) had a positive and significant effect on credit distribution.

BI Rate to Credit Risk

The results of the hypothesis test show that the significance value of the BI Rate on AIL is 0.023 with a regression coefficient of 79,477, this informs that the BI rate has a positive effect on AIL, which means that every increase in BI rate funds will be followed by an increase in the value of AIL. BI Rate is defined as the interest rate policies that reflect the attitude or stance of monetary policy set by Central Bank of Indonesia. According to the theory of Loanable Funds interest rate, when the interest rate rises then the people's desire to save money also will go up, when the bank has a fund that is more will increase the supply of credit or financing. If credit or financing increases, it will cause the risk of non-performing loans or financing to increase. According to Siamat (2005:360) an increase in interest rates will burden them to pay off the loans they have borrowed (especially those that use a floating rate), so that it can cause non-performing loans to increase.

Inflation to Credit Risk

Hypothesis test results showed that the significant value of inflation against AIL of 0066 with a value of regression coefficient of -49108, it is informed that the inflation influence negatively to AIL which means that any increase in the fund will be followed by inflation AIL impairment. Inflation is an increase in the price level that occurs continuously, affecting individuals, entrepreneurs, and governments (Mishkin 2010:13). When cost push inflation occurs, the cost of raw materials usually rises so that production costs also increase and are followed by an increase in the price of goods sold by producers. Because of this increase in selling prices, people limit their consumption so that producer sales will experience a decline followed by a decrease in profits. Thus, producers as debtors will experience difficulties in repaying credit, so that the risk of non-performing loans will increase. Meanwhile, in terms of demand pull inflation, inflation occurs due to high demand while the availability of goods is limited so that the price will rise. With a fixed income, rising prices will further burden people's lives so that the ability to repay loans or financing will decrease and cause a high risk of credit or non-performing loans.

Exchange Rate to Credit Risk

Hypothesis test results showed that the significant value exchange rate against AIL of 0.595 with regression coefficient value of - 0001, it is informed that the exchange rate does not affect to AIL. The effect of the exchange rate on credit risk is that when the value of the domestic currency depreciates. It can cause capital outflows or people's capital flight abroad because when compared to other countries' currencies, the Rupiah exchange rate is too low. The increasing exchange rate of the Dollar will increase the demand for Dollars. For large bank debtors whose business activities are in dire need of the dollar exchange rate, they will experience pressure from the depreciation of the exchange rate so that it will increase the risk of default or bad credit. So that the increase in the Dollar exchange rate or the weakening of the Rupiah will increase the risk of non-performing loans.

GDP to Credit Risk

The results of the hypothesis test show that the significance value of GDP on AIL is 0.045 with a regression coefficient of 837,739, this informs that GDP has a positive effect on AIL, which means that every increase in GDP will be followed by an increase in the value of AIL. Gross Domestic Product (GDP) or commonly referred to as Gross Domestic Product (GDP) is an indicator that measures the value of the output of goods and services produced by a country, without considering the nationality of the company that produces the goods or services. An increase in economic growth indicates an increase in output as described in the theory of economic growth. Where the output in question can mean an increase in the productivity of the producer's business activities. When the producer's sales increase it will increase the profits it receives. So that both producers as debtors or people who become workers as debtors can both return or pay off credit in accordance with the agreement at the bank so that the risk of credit or non-performing financing is low. According to Wulandari (2015) economic growth seen from GDP shows the growth of a company's income. The ability of the debtor to pay its debts also will be increased so that the risk of credit that was shown to be decreased.

Asset growth to RDB Performance

The results of the hypothesis test show that the significance value of asset growth on RDB (Regional Development Banks) performance is 0.012 with a regression coefficient of 0.070, this informs that asset growth has a positive effect on RDB performance, which means any increase in asset growth will be followed by an increase in RDB performance value. Assets owned by the company generally consist of fixed assets and current assets. Fixed assets are often referred to as "the earning assets" which are assets that actually generate income for the company, therefore it is through these fixed assets that provide the basis for the "Earning Power" of the company. This means that the size of the profit is strongly influenced by how big the assets which are the earning power of the company (Helfert, 1997). Gibson (1998) states that the greater the total assets, the greater the size of the company. This has implications for the profitability of a financial institution, the larger the size of the company will be able to increase the profits of the financial institution. From the description above can be concluded that the growth of the asset that is owned by the bank will have a positive impact on bank profitability. This phenomenon is also in accordance with the results of Pradnyawati's research (2012), which concludes that the greater the position of the company's assets, the greater the profit earned.

Credit Growth on RDB Performance

The results of the hypothesis test show that the significant value of credit growth on RDB performance is 0.002 with a regression coefficient of -0.376, this informs that credit growth has a negative effect on RDB performance, which means any increase in credit growth will be followed by a decrease in RDB performance. Determination of credit quality refers to Central Bank of Indonesia regulations, namely PBI No.14/15/PBI/2012 concerning Asset Quality Assessment for Commercial Banks and SEBI No.7/3/DPN dated January 31, 2005 regarding Asset Quality Assessment for Commercial Banks. The SEBI are as follows: 1). Current (Collectibility1), if there are no arrears in payment of principal and/or interest; 2). In Special Mention (Collectibility2), if there are arrears in payment of principal and/or interest up to 90 days; 3). Substandard (Collectibility3), if there are arrears in payment of principal and/or interest up to 120 days; 4). Doubtful (Collectibility4), if there are arrears in payment of principal and or interest up to 180 days; 5). Loss (collectibility5), if there are arrears in payment of principal and/or interest of more than 180 days. Based on these five groups, loans can be classified into two, namely current loans which are also known as performing loans and bad loans which are also known as non-performing loans (NPL). The purpose of this classification, among others, is to determine the level of reserves for potential losses due to non-performing loans. As the main service product, LPD must increase its productivity in order to be able to generate profit or profit in improving credit services. With the convenience provided by LPD in the high distribution of credit to the community for investment, it can help increase small-scale businesses in rural areas. Demand for consumption and investment credit will remain or increase indicating that the acquisition or income from credit interest will be greater and increase profitability (Daryanti and Idah, 2010). Credit growth describes the level of development of the volume of credit disbursed to third parties that are able to provide increased profitability and improve performance banking (Pradnyawati, 2012). With the high lending to the public will show higher sales in the form of credits that benefit or profit can be automatically increased.

TPF to RDB Performance

The results of the hypothesis test show that the significance value of third party funds on RDB performance is 0.001 with a regression coefficient of 0.014, this informs that the growth of third party funds has a positive effect on RDB performance, which means any increase in third party funds will be followed by a decrease in RDB performance. Relationship of TPF with profitability Third party funds (TPF) are funds sourced from the wider community, which are an important source for bank operational activities and are a measure of the success of a bank if the bank can bear its operating costs from this source of funds (Kasmir, 2012). If TPF increases then the bank has the opportunity and the chance that more substantial to earn income that is higher. Therefore, TPF is assumed to have a positive relationship to profitability. It is indicated that a growing number of customer deposits collected by state-owned banks will increase the bank's business activities to obtain profitability. So that banks are expected to be able to encourage customers to increase their savings in order to maximize their profitability by maintaining the spread between deposit interest and loan interest and keeping funds from being idle. With more funds that can be raised through third party funds, banks can add credit or other business activities that can bring greater profitability to the bank. Therefore, banks are required to creatively develop products that are attractive and appropriate to the needs of customers in order to add funds the party that collected by the bank. In line with that, Sudiyanto (2010) who examined TPF using time series data on a sample of banks listed on the IDX and concluded that Third Party Funds had a significant effect on bank profitability. Meanwhile, Nasution (2011), Anggreni and Suardika (2014), and Permatasari (2017) who conducted research on state-owned banks in Indonesia also produced findings that Third Party Funds had a positive and significant effect on profitability.

BI Rate to RDB Performance

The results of the hypothesis test show that the significance value of the BI rate on RDB performance is 0.002 with a regression coefficient of 1,016, this informs that the BI rate has a positive effect on RDB performance, which means that every increase in the BI rate will be followed by an increase in RDB performance value. According to Karim (2006), the BI Rate also participate affect the profitability of banks. When the BI interest rate rises, it will be followed by an increase in deposit interest rates which have a direct impact on the decline in third party bank sources of funds. This decrease in third party funds was a result of the transfer of public funds to conventional banks to obtain higher interest rates. If TPF decreases, the profitability of Islamic banks will also decrease.

Inflation to RDB Performance

The results of the hypothesis test show that the significance value of inflation on RDB performance is 0.156 with a regression coefficient value of 0.543, this informs that inflation has no effect

on RDB performance. According to Reksoprayitno (125: 2011), by using the assumption that the velocity of money circulation in society does not change, an increase (decrease) in the amount of money in circulation will result in a shift of the aggregate demand curve to the right/up (to the left/down) which is then followed by an aggregate supply curve that is vertically parallel to the axis of the price level. , will result in an increase (decrease) in the price level with a high percentage equal to the percentage (increase/decrease) in the money supply. From the description above, it can be seen that inflation has a positive relationship with the money supply. The higher the inflation, the more money circulating in the community. Vice versa, if there is deflation then the money circulating in the community will decrease. This large amount of money in circulation will affect profitability. From the company's point of view, inflation tends to increase the market value of assets. The replacement value of assets will increase from the profit point of view, an increase in inflation will increase accounting profit. It is happening in companies that have pricing flexibility (SIH, 2008).

Exchange Rate to RDB Performance

The results of the hypothesis test show that the significance value of the exchange rate on RDB performance is 0.034 with a regression coefficient of 1,0123, this informs that the exchange rate has a positive effect on RDB performance, which means that every increase in the exchange rate will be followed by an increase in RDB performance value. The foreign currency exchange rate is one of the factors of banking profitability because in its activities, banks provide foreign exchange buying and selling services . Under normal circumstances, trading foreign exchange is basically very profitable because transactions generate profits in the form of foreign exchange differences. This happens because foreign exchange traders always offer two exchange rates (Leon & Ericson, 2008). In this transaction activity, the foreign currency exchange rate becomes the attention of the bank because it can affect the level of bank profitability. With fluctuations in foreign currency exchange rates, banks can earn income in the form of fees and foreign exchange differences, with income in the form of fees and foreign exchange differences. Bank's profitability will increase.

GDP to RDB Performance

The results of the hypothesis test show that the significance value of the GDP on RDB performance is 0.345 with a regression coefficient of -11.401, this informs that the GDP has a negative effect on RDB performance, which means that every increase in the GDP will be followed by an lower in RDB performance value. One of the important indicators to determine economic conditions in a country in a certain period is Gross Domestic Product (GDP) data. If GDP increases, it will be followed by an increase in people's income so that the ability to save will also increase. According to Sukirno (2003), with the increase in terms of saving, it will affect the profitability of Islamic banks. Results of the study were conducted by Sahara (2013) states that the gross domestic product (GDP) affect bank profitability.

Credit Risk to RDB Performance

The results of the hypothesis test show that the significance value of the credit risk on RDB performance is 0.000 with a regression coefficient of 0.087, this informs that the credit risk has a positive effect on RDB performance, which means that every increase in the credit risk will be followed by an increase in RDB performance value. Based on Bank Indonesia Regulation No.14/15/PBI/2012, Allowance for Impairment Losses (AIL) is a provision based on impairment in the carrying value of financial assets which is less than the initial carrying amount. AIL was formed to anticipate the existence of non-performing assets in banks. However, the higher provisioning on losses created by the bank, is getting smaller also the capacity of banks to extend credit. Lower lending capacity will eliminate the opportunity for banks to earn higher profits. The statements that lead to influence negatively AIL to the profitability of the bank in accordance with the study by Mokni and RachDi (2014).

VI. Conclusions And Suggestions

The sample used in this study is regional development banks in Indonesia in the period of 2015 – 2019. The sampling technique in this study uses a purposive sampling technique, where the sampling is based on the criteria that have been determined by the researcher. Sources of data used in this study were taken from the website of the regional development bank, the website of the Central Bank of Indonesia, and the website of the Central Statistics Agency (BPS). The data analysis technique in this study used multiple linear regression, where the stages were carried out through two stages, namely, descriptive analysis and inferential analysis. External factors in this research are BI Rate, inflation, exchange rate and GDP (Gross Domestic Product). Internal factors

in this study are credit growth, asset growth and third party funds. Credit risk in this study uses the value of AIL (Reserve for Impairment Losses). The results show that internal factors that significantly influence bank risk factors are the BI rate and GDP (Gross Domestic Product). Internal factors that significantly influence credit risk factors are credit growth, asset growth and third party funds, while the most influential factor on credit risk is asset growth.

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