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The Role of Loan Quality In the Relationship of Financial Performance, Business Volume and Profitability of Village Credit Institution in Denpasar Regency.

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ABSTRACT : village credit institutions performance varies in terms of the profitability and assets, this indicates a difference in capital structure, the use of third party funds in loan financing and the ability to maintain loan quality have an impact on the profitability of village credit institution sassets. This research was conducted on 34 LPDs operating in the Denpasar city area for the 2017-2018 period. The sample determination method is used saturated sample, and data collection is done by collecting financial statements owned by the village credit institutions and analyzed using the Moderated Regression Analysis (MRA) method. The results show that capital structure, loan to deposit ratio, and loan volume have a positive and significant effect on the profitability of village credit institutions assets, while credit quality (NPL) plays a role in improving the relationship of financial performance variables to asset rentability. The results of the study suggest that LPDs improve management competence in managing the source of funds entrusted by pakraman villagers and ensuring the validity and accuracy of the reported financial statements and improving the performance of the village credit institutions so that they are able to serve the community well.

KEYWORDS *:Capital Structure, Loan to Deposit Ratio, Business Volume, Non-performing loans, Assets Rentability, Financial Performance.*

I. INTRODUCTION

One of the government's efforts to improve the welfare of the community is by providing financial institutions that can help the community in raising funds, both in the form of deposits and loans. The existence of financial institutions for the community is very important, especially for those who want to build a business because businesses built by the community in the form of micro, small and medium enterprises have an important role in providing access to funds to those in need. In 2017 in Bali especially in Denpasar there were 467 microfinance institutions operating which consisted of Commercial Banks, Rural Credit Banks (BPR), Cooperatives and village credit institutions. The large number and variance of existing financial institutions makes the community in the Denpasar area have several choices in entrusting their funds both in the form of loans and deposits to financial institutions. This condition causes the emergence of competition between financial institutions in gaining public trust so it is necessary to consider how the development of LPDs in the midst of competition of microfinance institutions operating in 2017 - 2018 by looking at village credit institutions performance using its financial statements.

Village credit institutions performance assessment can be done by analyzing financial data presented in village credit institutions financial statements in a certain period in order to understand the financial condition of the entity. Earnings are influenced by the size of the Loan Volume, the value of the solvency of operating costs, productivity of resources and economic growth in the region. (Yao, *et al* 2018) . A preliminary study conducted an assessment of the financial performance of five LPDs operating in the areas of West Denpasar, East Denpasar, North Denpasar and South Denpasar using a 2017 financial report obtained from the Denpasar City Government's economic section to determine the initial conditions of the LPD. Financial Statements are analyzed by calculating, classifying, and comparing, and interpreting data and information presented in the financial statements, including *earnings ratio* , *liquidity ratio* and *solvency ratio* .

Table 1 Financial Ratio of village credit institutions in Renon, Yangbatu, Kesiman, Sanur and Sidakarya

No	Ket	NPL	Volume Loan	Structure Capital	LDR	ROA
1	Renon	14.40%	0.73%	580.00%	96.80%	3.10%

2	Yangbatu	17.20%	0.60%	380.00%	77.80%	2.10%
3	Kesiman	12.60%	0.68%	602.00%	90.20%	4.20%
4	Sanur	9.10%	0.64%	596.00%	91.80%	3.40%
5	Sidakarya	23.40%	7.80%	559.10%	97.50%	3.10%

Source: Performance Reports and Monitoring of Village Credit Institutions in 2017 (*Data processed*)

Table 1 reports the financial ratios of village credit institutions which operated in Renon, Yangbatu, Kesiman, Sanur, and Sidakarya which show the financial performance of the five varying LPDs measured by the ratio of loan volume, capital structure, loan to deposit ratio, non-performing loans and village credit institutions profitability is measured by asset profitability. The results of preliminary studies indicate that not all village credit institution that have a high capital structure have high asset profitability, for example, like the Renon and the Sidakarya ones, which when compared, it appears that the two institutions have the same asset rentability value with different capital structures. The data shows a similarity if the five village financial institution s in carrying out their operational activities tend to be funded by third party funds from indigenous Pakraman villagers in the form of savings, or deposits. The capital structure reflects the amount of village credit institutions funding sources both own capital and third party funds used in carrying out operational activities when the village credit institutions is able to manage their funds productively to generate profits and show good performance, the value of the company in the eyes of the public and the government increases, according to Khwawish and Ali (2010) the value of the company is very important because in addition to showing the condition of the company, the high value of the company shows the professionalism of management in managing its business entities in accordance with the statement of production theory.

Loan to Deposit Ratio is a ratio that shows the amount of the entire volume of credit extended by financial entities which in this study are village financial institutions and the amount of funds received, this ratio is related to the liquidity aspect. One of village financial institution's operational activities is lending which indirectly generates profits in the form of interest. This ratio also illustrates the ability of banks to repay withdrawals made by customers by relying on loans provided as a source of liquidity because it reflects the extent of the financial institutions 's ability to carry out its operations. Table 1 shows if the magnitude of the LDR ratio in the five village financial institutions varies from around 77% to 97%, meaning that the high LDR ratio is not always followed by a high growth in profitability. A high LDR ratio indicates if an village credit institutions allocates all of its funds to loans that cause it to be illiquid, while a low ratio shows the condition of a liquid bank because it has excess funds to lend so that the village credit institution Scan calculate the amount of profit to be obtained from credit payments / repayments made by the public Pakraman village assuming payment is in a timely and exact condition.

The business volume in this study is proxied by the quality of village credit institutions earning assets, namely the ratio of loan volumes calculated by comparing the volume of loans granted from the total assets owned in accordance with Ministerial Decree of Cooperatives and SMEs No.20. This ratio shows the productivity of the village credit institutions as an entity as it is known that the main product managed by the village credit institutions is public funds so that to be productive, the village credit institutions must channel funds owned in the form of loans to the public assuming a small loan risk so as to earn a profit. In line with the theory of production, it talks about how an entity or an entrepreneur can use resources owned productively, one of which is changing inputs into outputs, processing resources owned to be profitable. John and State (2014) . Table 1 shows if the highest loan volume was reported by the Sidakarya village credit institutions and the profitability was quite high , while Renon village credit institutions with the same ROA size of 3.10% reported a smaller loan volume ratio , this indicates that if the large village credit institutions volume was not always followed by growth in asset rentability.

The results of preliminary studies on the five financial institutions in Denpasar shown by table 1 show inconsistencies regarding the effect of lending activities on village credit institutions profitability so that there is a moderating variable that is low credit quality, proxied by the ratio of Non Performing Loans . The NPL ratio is a measure of the good or poor quality of an village credit institutions credit, and shows the financial institution 's ability to recover all loans extended to debtors. If credit quality is considered bad, it is indicated by the high Non-Performing Loan (NPL) ratio. The high NPL ratio requires that financial institution's form doubtful loan write-off reserves and impose operational income while increasing village credit institutions operating expenses and decreasing Profit (Sari and Budiasih, 2014) The *cash conversion cycle* model states that the amount of credit distribution can be seen from the credit rotation that occurs and the length of the credit collection period. If the cycle of the cash-credit-cash-cash cycle period is short, the capacity of funds to be channeled as loans that can be channeled by the village credit institutions is higher because of the smooth return of funds from debtors. This condition will have an impact on profitability growth because the loan interest income generated will increase.

This research is based on *stewardship theory* that discusses the interests of corporate interests to do things from a psychological and sociological perspective. This theory illustrates the condition of managers in acting in managing an entity based on shared interests, if there are differences in interests between the principal and the steward, the steward will try to work together in order to adjust the common interests. Stewarship theory explains if management can gain trust if it is able to align its interests with the main objectives of the company so that all actions are based on responsibility. (Sari & Budiasih, 2014) . The Stewardship Theory put forward by Donaldson and Davis (1991) in Keay (2017) regarding managers' considerations and motivations in managing an entity in this research is the background of why village credit institutions managers must make financial reports and report village credit institutions performance every period as a form of responsibility management and motivation of taking action and making decisions related to work plans prepared at the beginning of the period. Financial statements that include balance sheets, income statements, statements of changes in equity, and statements of cash flows are the responsibility of village credit institutions management.

Research conducted by Hartina, Mardani, & Wahomo (2015) , Sari & Budiasih (2014) , Efendi and Wibowo (2017) states if capital structure has a positive influence on asset rentability , meaning that high capital structure ratios indicate if financial institutions / village credit institutions has sufficient sources of funds to finance its operational activities, namely lending, from loans disbursed by financial institutions will receive repayments from the Pakraman villagers accompanied by interest expense that becomes profit for the village credit institutions with the assumption that the cost burden is not large so that the profitability of village credit institutions assets increases. This supports the statement of the theory of maximizing corporate value where the increase in asset rentability shows the financial institution's performance is in good condition because it is able to manage the source of funds productively, this indirectly increases the value of the company in the eyes of the public and the government. Based on the explanation above, this research formulates the hypothesis as follows:

H_1 : How does the structure of capital affect the profitability of assets?

The findings in table 1 are in line with research by Dewi & Ramantha (2015) , Suputra & Ratnadi (2017) , Setyawati & Suartana (2014) regarding the positive effect of the LDR ratio on ROA. Loan to Deposit ratio shows the amount of credit given by the village credit institutions financed from third party funds (savings and deposits) with the aim of obtaining interest from repayment of the credit channeled so that the village credit institutions earns a profit. These findings are in line with the theory of income anticipation that supports the phenomenon of low credit applications causing LPDs to have excess liquidity and do not have the means to earn profits, so this theory encourages LPDs to be more aggressive in providing credit so that there is repayment activity from the public which causes regular village credit institutions cash flow and smoothly to carry out other operational activities, such as the provision of savings interest. Based on the explanation above, this research formulates the hypothesis as follows:

H_2 : How does the loan to deposit ratio affect asset profitability?

The phenomena shown in table 1 support the study of Mangindaan, et al (2019) , Widiartin, et al. (2016) and belongs to the Goddess (2014) which states increase the amount of volume pinj secure then rentab iitas assets will also increase. The volume of business of a financial institution can be reflected by the volume of loans because financial institutions' products are loans and savings. The village credit institutions when disbursing funds in the form of credit means that the village credit institutions has receivables. The relationship between credit sales and trade receivables is stated as a receivable turnover. The higher the level of cash turnover means the faster the return of incoming cash to the company, the smooth cash will increase the company's good financial. (Sugathadasa, 2018) . This supports the theory of production that talks about how an entity manages its resources productively and effectively to generate profits.

Based on the explanation above, this research formulates the hypothesis as follows:

H_3 : How does the volume of loans affect the profitability of assets

Statements regarding non-performing loans are supported by the results of research by Farida, (2015) , Sudarmawanti and Pramono (2017) , Utami and Putra (2016) , regarding the effect of NPL on profitability which has a significant and negative effect. Non-performing loans (NPLs) are ratios to measure the ability of bank management to deal with bad loans provided by financial institutions. NPL can be influenced by several supporting aspects, both internal and external. A high NPL ratio causes asset rentability to decrease because the large amount of risky / problematic loans causes the village credit institutions to make a reserve of funds to cover losses to be high compared to interest income from loans received, this means that bank income that should be able to be used as additional capital is reduced. The effect of NPLs is in line with the concept of a *cash conversion cycle* that explains the length of time a company uses cash that is owned or controlled to pay operational expenses and loan realization until the company / village credit institutions receives money back from the loan disbursement. Based on the explanation above, this research formulates the hypothesis as follows:

H_4 : How the influence of non-performing loans to asset profitability?

Interaction of Non-Performing Loans to the relationship of capital structure with profitability according to research by Farida (2015) , Dewi and Budiasih (2016) , Widiasari and Mimba (2015) stated that if non-performing loans weaken the relationship between the two variables because the magnitude of credit risk

requires making reserve funds to cover losses caused by non-performing loans, reserve funds used are obtained from a reduction in budgeted capital, this causes the capital structure of the village credit institutions to change and operational expenses increase. Based on the explanation above, this research formulates the hypothesis as follows:

$H_{5:}$ What is the effect of non-performing loans in moderating the relationship between capital structure and asset profitability?

Non-performing loans are said to have a negative effect and weaken the relationship of loan to deposit ratio with the profitability of assets because the high percentage of NPLs causes the village credit institutions to consider the funds to be channeled as credit. If the credit risk is too large, the village credit institutions must be aware of the amount of the loan to be provided and tighten the credit analysis of potential creditors to minimize the credit risk that may occur. An LDR ratio that is too high indicates that almost all third party funds managed by financial institutions are used for credit while a low LDR ratio shows that most of the funds owned by village financial institutions settle and are not channeled as credit, causing the LPD's performance to decline because it does not generate profits. This statement is supported by the results of research by Apriyantari and Ramantha (2018) , Nguyen, et al (2018) , Widiasari and Mimba (2015) . Based on the explanation above, this research formulates the hypothesis as follows:

H_6: What is the effect of the non perfoming loan interaction on the relationship between loan to deposit ratio and asset profitability?

The village credit institutions in carrying out lending activities takes into account the volume of loans that affect the decisions of financial institutions. Business volume can be seen from the total assets owned by financial institutions, the intended assets in the form of cash, accounts, loans from third parties and fixed assets. The greater the assets owned by financial institutions, the higher the volume of credit that can be distributed. When the credit volume of a financial institution is large, the opportunity for financial institutions to reduce the distribution of credit distribution, which results in a decrease in the interest rate so that financial institutions become more competitive in providing services. Research Putra and Juliarsa (2018) , Apriyantari and Ramantha (2018) , John & State (2014) support the above statement. Based on the explanation above, this research formulates the hypothesis as follows:

H_7: What is the effect of the interaction of non-performing loans on the relationship between loan volume and asset profitability?

II. LITERATUR REVIEW

1. Stewardship Theory

This research is based on stewardship theory that discusses the interests of corporate interests to do things from a psychological and sociological perspective. This theory illustrates the condition of managers in acting in managing an entity based on shared interests, if there are differences in interests between the principal and the steward, the steward will try to work together in order to adjust the common interests. Stewarship theory explains if management can gain trust if it is able to align its interests with the main objectives of the company so that all actions are based on responsibility. (Sari & Budiasih, 2014). Stewardship Theory put forward by Donaldson and Davis (1991) in Keay (2017) regarding the considerations and motivations of managers in managing an entity in this research is the background of why LPD managers must make financial reports and report LPD performance every period as a form of responsibility management and motivation of taking action and making decisions related to work plans prepared at the beginning of the period. Financial statements that include balance sheets, income statements, statements of changes in equity, and statements of cash flows are the responsibility of LPD management.

2. Value of The Firm

Khrawish and Ali (2010) estimate the value of the company is very important related to the company, calculating the value of the company which shows the professionalism of the management of the entity in managing its business entities. The value of the company that is issued shows the result of capital / fund management needed by the company where the main objective is to maximize the value of the company. Companies in maximizing the value of the company, assessing flows and flows, calculating before deciding ,, calculating, allocating, calculating, calculating time, and calculating time.

Value maximization also determines how to avoid quality problems in the flow of funds, greater profit figures that depend on the accounting problem used and in accordance with cash flow or funds. (Danarwati, 2010). For companies that use funds or for funds for company owners by increasing the level of leverage this will increase the uncertainty of the results to be obtained will be higher, but at the same time this will increase the amount of returns obtained. The level of leverage that can be used increases the risk faced also the greater the return or expected. The ratio used in this study to measure LPD solvency is the capital structure, while the capital structure is measured by comparing feelings with equity. In other words, this ratio is used to calculate every rupiah of equity capital used as collateral for payments. High capital structure ratio makes the company /

entity has sufficient funds to finance operational activities to make a profit, capital structure has an important role in determining profitability.

3. Anticipated Income Theory

Theory of Anticipation of Revenue is based on the low application for credit to financial institutions resulting in high liquidity of financial institutions while the profitability of financial institutions is low especially during economic depreciation. This theory encourages financial institutions to provide credit to the public where the repayment or receipt of loan installments and interest in accordance with the schedule / period that has been set. Installments made will make regular cash flow and can be used to meet the liquidity needs of financial institutions so that the LPD is able to anticipate its obligations as soon as possible and predict its operational activities in the future.

4. Production Theory

Production theory talks about how an entity or an entrepreneur can use resources owned productively, one of which is changing inputs into outputs, processing the resources owned to be profitable. John and State (2014) state that the greater the volume of loans of financial institutions, the sale of services will tend to increase so that it can also increase profits, which means the greater the volume of loans granted, the greater the profit received assuming no problem loans and management can channel can channel credit assuming a large credit risk so they are careful in conducting credit financing and do not target large loan volumes.

The size of the loan volume for an LPD can be seen from the specified loan / credit volume, because lending is one of the main activities of the LPD in operating for-profit. The large loan volume shows that the LPD has enough funds to be distributed assuming that the activities of the funds are channeled smoothly so that it can generate profits. Financial institutions in the process of lending are carried out carefully because when banks determine lending decisions, financial institutions must be able to predict the ability the debtor returns the funds when due.

5. **Cash Conversion Cycle (CCC)**

Cash Conversion Cycle (CCC) is a cycle of the length of time for a company to use cash owned or controlled to pay operational expenses and credit realization until the company / LPD receives cash back from the sale of finished goods. The cash conversion cycle model describes the cycle of obtaining cash from manners of deposits and third party loans and capital deposits into funds for the realization of loans and reserves for payment of due bills, receipts of loan installment payments, receipts of interest income and receiving fees and operating expenses to produce corporate profitability, the shorter the cash cycle has an impact on increasing the profitability of the company, while the long cash cycle has an impact on decreasing profitability due to the additional burden of loan reserves which is doubtful. Manyop research (2013) previously stated that there was a negative relationship between profitability and the Cash Conversion Cycle, so it was very possible for companies to generate profits by reducing the term of the Cash Conversion Cycle, which is an asset component that has the largest share among other asset components. which is controlled by LPD.

III. RESEARCH METHODS

This study uses a quantitative and associative approach that aims to determine the relationship of two or more variables (Sugiyono, 2016) . This study aims to test the hypothesis of the influence of independent variables, namely capital structure, loan to deposit ratio, and loan volume to the dependent variable, namely the level of profitability of village credit institutions assets, while non-performing loans as a moderating variable to test the effect of their interactions on the relationship of independent variables with the dependent variable. The conceptual framework in this study is shown in Figure 1.

Population is a generalization area that consists of objects or subjects that have certain qualities and characteristics determined by researchers to be studied and then drawn conclusions. (Sugiyono, 2016) The population used in this study are all Village Credit Institutions (LPD) located in the Denpasar area. The sampling method in this study uses a saturated sample, which is a sampling technique in which all members of the population are used as samples (Sugiyono, 2016) . The data collection method used in this study is a non-participant observation method, which is a data collection method with observation and the researcher is not directly involved and only acts as an independent observer. (Sugiyono, 2016) The data collection method in this study was carried out by observing, recording and studying documents obtained from one source, namely the government office.

The unit of analysis used in this study amounted to 70 data with a comparison period of two years, namely 2017 and 2018, but in the data analysis process it was found that the analysis unit has extreme values so that the results do not pass the classic assumption test, so that data and outlier transformations are carried out meet the test / analysis requirements. The number of LPDs in Denpasar City was 34 LPDs with a total of 68 data observations. The data in this study were analyzed using several methods, the first is a descriptive statistical test, then moderating regression analysis to examine the effect of the interaction of moderating variables on the

relationship of the independent variable with the dependent variable, after the test results are obtained then it is tested again using the classic assumption test to see whether the analysis results to use

IV. RESULTS AND DISCUSSION

Descriptive statistics are presented in order to obtain information regarding the characteristics of the research variables used, such as the magnitude of the average, maximum and minimum values as well as the standard deviation of the variables. Table 1 shows the descriptive statistical results of this study:

Table 1 Results of Descriptive Statistics Analysis

	N	Minimum	Maximum	The mean	Std. Deviation
Capital Structure	64	8.00	89.00	53344	21,23246
LDR	64	33.00	164.00	93.9219	26,60010
Loan Volume	64	33.00	107.00	68.5625	13.14374
NPL	64	1.00	45.00	15.8594	11,05523
ROA	64	2.00	100.00	19.0469	19,15056
Valid N (listwise)	64				

Source: data processed, 2019.

Table 1 shows the statistical results of each variable with 64 units of analysis which are the results of extreme data outliers. The Capital Structure variable has a value between 8.00 to 89.00. The mean value indicates the average value of the capital structure in the sample used in the study amounted to 53.2344 with a standard deviation of 21.23246. Variable of Loan to Deposit ratio has a value of between 33.00 to 164.00 , The mean value shows the average value of the capital structure in the sample used in the study amounted to 93.9219 with a standard deviation of 26.60010.Variable of Loan Volume has a value between 33.00 to 107.00. The mean value indicates the average value of the capital structure in the sample used in the study amounted to 68.5625 with a standard deviation of 13.14374

Variable of non performing loan (NPL) has a value between 1.00 to 45.00. The mean value shows the average value of the capital structure in the sample used in the study amounted to 15.8594 with a standard deviation of 11.05523.

Asset Rentability has a value between 2.00 to 100.00, the analysis shows that among LPDs registered in the Denpasar City village credit institutions in 2017-2018 the lowest ROA value is owned by Renon LPDs in 2018 of 2.00 and LPDs that obtain the highest capital structure value are owned by Panjer LPDs at in 2018 of 100, meaning that Renon village credit institutions has a poor performance so that it is unable to generate asset profitability in accordance with the available average of 19.0469, while the Panjer village credit institutions is able to manage its funding sources and lending well because it produces high ROA values. The standard deviation value of the asset profitability variable (ROA) is 19.15056.

The classic assumption test consists of 4 tests, the first is the normality test. The purpose of conducting a normality test is to find out if the data that has been tested has a normal distribution using the komogrow-smirnov method. Data is said to have a normal distribution if the Asymp value. Sig. (2-tailed) more than 0.005. Normality Test Results from this study are shown in table 2

Table 2 Normality Test Results :One-Sample Kolmogorov-Smirnov Test

	N	Kolmogorov-Smirnov Z	Asymp.Sig (2-tailed)
Unstd. Resid	64	0,953	0,324

Based on Table 2 it can be seen that the value of *Kolmogorov Sminarnov* (KS) is 0.953 while the *Asymp* value . *Sig. (2-tailed)* of 0.324. These results indicate that the regression equation model is normally distributed.The second classic assumption test is the multicollinearity test with the aim of knowing whether there is a correlation between the independent variables. The test results are shown in table 3:

Table 3 Multicollinearity Test Results

	Capital Structure	LDR	Loan Volume	NPL
Tolerance	0,703	0,863	0,721	0,880
VIF	1,423	1,158	1,387	1,137

Table 3 shows the tolerance value of the variable capital structure, third party funds or *Loan to Deposit Ratio* (LDR), Loan Volume of more than 0.10 or 10% and the value of VIF *(Variance Inflation Factor)* less than 10 so that it was concluded that there was no multicollinearity in data testing.The third classic assumption test is the Heterokedasticity Test with the aim of knowing whether in the regression model there is an inequality of variance from the residuals of one observation to another made by the glacier test.

Table 4 Heterokedasticity Test Results

	Capital Structure	LDR	Loan Volume	NPL	Cap.Struc_ NPL	LDR_NPL	Loan Vol_NPL
sig	0,994	0,101	0,535	0,608	0,415	0,134	0,601

Based on the heterokedasticity test in table 4.5, the significance value of the capital structure, LDR, Loan Volume and NPL variables exceeds the significance value of 0.05, while the significance value for the interaction between the independent variable and the Moderation structure variable also shows a significance value greater than 0.05 so that it can be concluded if the data used in this study there is no heterokedasticity problem. The fourth classic assumption test is the autocorrelation test to detect the presence of autocorrelation or the influence of data from previous observations in the regression model. This study uses the Durbin-Watson test method (Dw test). Test results are shown in Table 5: Autocorrelation Test Results:

Table 5 Durbin-Watson Autocorrelation Test

Std. error of Estimate	Durbin Watson
0,509027778	1,991

Table 5 shows the results of the autocorrelation test with a Durbin Watson (DW) value of 1,991. This study has 64 data rows (N) and the number of independent variables (K) 3. Based on the table, the dL value is 1.52 and the dU value is 1.70. It can be concluded that the durbin watson value is between dU = 1.70 with a limit (4-dU) of 2.30 so that the data do not have autocorrelation symptoms.

Table 6 Results of Moderation Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.005	.100		-051	.960
	Capital Structure	.272	109	.303	2,504	.015
	LDR	.558	.131	.595	4,266	.000
	Loan Volume	.254	.126	257	2,026	.048
	NPL	.178	.118	.174	1,508	.137
	modal structure_NPL	-243	.110	-.246	-2,206	.032
	LDR_NPL	-617	.153	-642	-4,039	.000
	VOL PIN_NPL	-.226	.111	-.261	-2,039	.046
	Adjusted R^2	.289583333				
	R Square	0.334027778				
	F_{count}	7,428				
	Sig. F	0,000				

a. Dependent Variable: ROA

Based on the results of the regression coefficient, the Moderated Regression Analysis (MRA) equation model can be made as follows:

V. Y = 0.005 + 0.272 Str. Capital + 0.558 LDR + 0.254 Vol . Pin + 0.178 NPL - 0.243 Str. Capital * NPL - 0.617 LDR * NPL - 0.226 Vol. Pin * NPL + ε

Table 6 shows if the influence of independent variables with the dependent variable is influenced by moderation variables, namely capital structure, loan to deposit ratio, loan volume, and non-performing loans. The results of the statistical F test in table 4.7 can be seen that the p-value of 0.000 which is smaller than the value of α = 0.05 indicates that the study is feasible to be used as an analytical tool to test the effect of the independent variables namely; capital structure, loan to deposit ratio, loan volume, and non-performing loans (NPL) as a moderating variable as well as the interaction effect between the independent variable and moderation with asset profitability (ROA) as the dependent variable. The p-value value concludes if the independent and moderation variables influence the dependent variable. The result of the coefficient of determination or adjusted R^2 in Table 6 shows the value of R^2 of 0481 this means that 48.1% of assets VILLAGE CREDIT INSTITUTIONSprofitability variation can be explained by variations in capital structure of the independent variable, the loan to deposit ratio, loan volume while the rest of 51 , 9% is explained by other factors outside the regression model used.

The interpretation of the results of the moderation regression analysis test for each variable is as follows:

1) Effect of Capital Structure on the Profitability of village credit institutions Assets

The first hypothesis of this study is to look at the effect of capital structure on the profitability of village credit institutions assets. Based on the results of testing the effect of capital structure (X_1) on asset profitability (ROA) (Y) shown in table 6 , it is known that the t-test significance level of 0.015 is smaller than the real level in this study, namely $\alpha = 0.05$ with a value of capital structure regression coefficient of 0.272. This shows that the capital structure has a positive and significant effect on the profitability of village credit institutions assets in line with the first hypothesis.The effect of capital structure on the profitability of assets is positive and significant, this shows that the greater the proportion of external capital used by the village credit institutions to finance operational activities, the higher the capital structure level of the village credit institutions rentability. This is based on the theory of corporate value maximization developed by Modligiani and Miller stating that the use of external funding sources to finance the company's operational activities enables the company to increase operational income and be able to increase the profitability of assets from its operational activities.This finding is similar to previous research proposed by Hartina et al. (2015), Sari and Budasih (2014), Efendi and Wibowo (2017) and existing data on financial institutions.

2) Effects of Loan to Deposit Ratio on Asset Profitability

The second hypothesis of this study is to look at the effect of loan to deposit ratio on the profitability of village credit institutions assets. Based on the results of testing the effect of loan to deposit ratio (LDR) (X_2) on asset profitability (ROA) (Y) shown in table 4.7, it is known that the significance level of t test is 0,000 which is smaller than the real level in this study, namely $\alpha = 0.05$ with a capital structure regression coefficient of 0.558. This shows that the loan to deposit ratio has a positive and significant effect on the profitability of village credit institutions assets in line with the first hypothesis.

The results of the data analysis show that the higher the ratio of loan to deposit ratio / loans provided with third party funds used in perational activities tends to increase the profitability of village credit institutions assets. This is because third party funds obtained from the community are used to finance loan realization activities which are productive activities and generate income as long as interest income financed from third party funds is higher than the cost of the funds used to realize these loans, the asset profitability tends to increase. Referring to the theory of anticipation of income which states that the source of funds owned by the village credit institutions is used for productive activities, namely providing income that is able to cover the costs incurred. The findings of this study are not much different from the findings of previous studies proposed by Meitasari and Budiasih (2016) where the variable loan to deposit ratio (LDR) has a positive and significant effect, this is similar to the previous research reported by Saputra and Cipta, (2014) , Febriani and Suardikha, (2019) and Bagiada, (2017) .

3) Effects of Loan Volume on the profitability of village credit institutions assets

The third hypothesis of this study is to look at the effect of loan volume on the profitability of village credit institutions assets. Based on the results of testing the effect of loan volume (X_3) on asset profitability (ROA) (Y) shown in table 4.7, it is known that the significance level of t test is 0.048 which is smaller than the real level in this study that is $\alpha = 0.05$ with a value of capital structure regression coefficient of 0.254. This shows that the capital structure has a positive and significant effect on the profitability of village credit institutions assets in line with the third hypothesis of the study. From the perspective of production theory expressed by David Ricardo in (Herberrt V, 2017) states that production is the optimization of production factors controlled by the village credit institutions in the form of labor, capital, equipment to produce products / services in this case is financial services in the form of loans distributed to the traditional manners of the Pakraman village. Findings This study is in line with research conducted by Manik, et al. (2018) , Ayuk and Utama, (2011) , Dewi and Budiasih, (2016) and Dewi and Ariyanto, (2018)

4) Effects of Non-Performing Loans on profitability of village credit institutions assets

The third hypothesis of this study is to look at the effect of Non-Performing Loans on the profitability of village credit institutions assets. Based on the results of testing the effect of Non-performing Loan (X_4) on the profitability of assets (ROA) (Y) shown in table 4.7 above, the level of 0,137 t significance test that is greater than the level of significance in this study is $\alpha = 0.05$ The value of the capital structure regression coefficient is 0.178. This shows that non-performing loans have a positive but not significant effect on the profitability of village credit institutions assets so it is not in line with the third hypothesis of the study.The results of data analysis show that the effect of NPL is not significant on asset rentability. Referring to the perspective of the Cash Conversion Cycle, the seamless length of time required to repay loans provided by LPDs to customary village manners has an impact on the loss of village credit institutions opportunities to use as a source of funds for the realization of new loans, in addition to the impact of the loss of opportunity to obtain provisioned income from new loans given at times. doubtful accounts have an impact on the increase in bookkeeping allowance for write-offs on doubtful accounts (CPRR). The findings of this study which reveal that the effect of NPL on asset rentability explains that the majority of LPDs who experience pressure to increase NPL do not all have an

impact on the reduction in ROA that they report.The findings of this study are in line with research conducted by (Lucky & Nwosi, 2015) , Young & Rice (2004) , Saba, et al. (2012) .

5) Effects of Non-Performing Loan Moderation on Capital Structure Relationshipswith Asset Profitability.

The data analysis findings reveal that the Non Performing Loan (NPL) moderates and the relationship of Capital Structure and village credit institutions Asset Profitability. The perspective of Company Value Maximization Theory expressed by Modligiani-Miller (1988) in stating that the increase in company value can be done by using external capital as a source of funds to finance the operational activities of a productive company, which allows companies to obtain higher revenues from the burden of funds used . village credit institutions rentability can be increased by expanding loans to Krama Desa by using funds from third parties to increase village credit institutions operating income. The increase in village credit institutions income will not be maximized if the village credit institutions management is unable to maintain credit quality. The decrease in the quality of the current loan balance is shown by an increase in the Non-performing Loan (NPL) ratio which increases the LPD's national burden through bookkeeping reserve costs for write off loan principal receivables and loss of opportunity to obtain interest income on loans channeled by the LPD. This condition causes the positive effect of increasing capital structure on the profitability of village credit institutions assets that is not optimal, or in other words, the growth of Non-Performing Loans on LPDs weakens the positive influence of Capital Structure on village credit institutions Asset Rentability.This finding is in accordance with research by Anggreni and Suardhika (2014) , Chinaemerem and Anthony (2012) , Febriani and Suardikha (2019) .

6) Effects of Non-Performing Loan Moderation on Loan to Deposit Relationships Ratio to Asset Profitability.

The data analysis findings reveal that the Non Performing Loan (NPL) moderates and the relationship between Loan To Deposit Ratio and village credit institutions Asset Rentability. The Anticipated Income Theory perspective developed by HV Prochanow (1944) states that 1) maintaining excessive cash assets to maintain liquidity results in a loss of opportunity to earn income from the use of these assets; 2) Financial institutions must channel their funds in the form of loans that provide interest income by repaying the principal of the loan in stages in a timely and appropriate amount; 3) The flow of interest income on loans and principal loans can be a source of funds to maintain the liquidity of financial institutions in the future.

Sources of third party funds in the form of deposits and community time deposits have inexpensive costs, so LPDs must use it to finance loan activities that generate higher income than the cost of obtaining third party funds to increase the efficiency of asset utilization managed by the company. *Loan to Deposit Rasto* discloses the percentage of village credit institutions operating assets used or invested in productive assets that provide village credit institutions operating income. The higher the *Loan to Deposit* ratio means the lower the percentage of assets invested in unproductive assets such as office buildings or vehicles that cause a depreciation burden for the LPD. The higher the *Loan to deposit* ratio, the higher the potential for village credit institutions operating income that is ready to be used to cover the operational expenses of the village credit institutions and obtain a positive Operating Profit.

Loans disbursed by village credit institutions Management must be of good quality as evidenced by the cash inflow of loan interest payments and loan principal installments on time and in the right amount. The Non Performing Loan Ratio shows the quality of loans provided by the LPD. The higher the ratio of Non Performing Loans , the cost of eliminating indecent loans tends to increase so that the impact on the village credit institutions Asset Rentability decreases. With such a ratio *of* Non Performing Loan role of moderating influence of the ratio of loan to deposit on Assets Profitability LPD.This statement is supported by the findings of Akter and Roy (2017) , Sudarmawanti and Pramono (2017) , Mangindaan et al., (2019).

7) The Non-Performing Loan Moderation Effect on the Relationship between Loan Volume and Asset Profitability.

The findings of the data analysis revealed that the *Non Performing Loan* ratio moderates and the relationship between the Loan Volume channeled and the village credit institutions asset Profitability. The Production Theory perspective developed by David Ricardo (1817) states that the production process is an effort to create valuable products / services by combining a number of factors of production owned by the company. The production factors owned by the LP include funds entrusted by Krama Desa, Technology, Work Procedures and Human Resources that carry out the operational activities of the LPD. village credit institutions management who have the ability to carry out more efficient savings service activities will be able to channel competitive loans to Krama Desa because they provide lower loan interest rates compared to other financial institutions to achieve greater loan volumes. The efficiency of village credit institutions activities is determined by the high volume of loans channeled because the village credit institutions operational expenses can be distributed to larger loans. The loan expansion at Krama Desa is intended to increase village credit institutions operating income. The increase in village credit institutions income will not be maximized if the village credit institutions management is unable to maintain credit quality.

The decrease in the quality of the current loan balance is shown by an increase in the Non-performing Loan (NPL) ratio which increases the LPD's national burden through bookkeeping reserve costs for write off loan principal receivables as well as the loss of opportunities to obtain loan interest income channeled by the LPD. This condition causes the positive effect of increasing capital structure on the profitability of village credit institutions assets is not optimal or in other words the growth of Non-Performing Loans in LPDs weakens the positive influence of village credit institutions Loan Volume Increase on village credit institutions Asset Rentability.Based on the results of capital structure testing, a positive and significant effect on the profitability of village credit institutions assets. The government can provide a Revolving Fund program to the village credit institutions as an external capital component used by the village credit institutions to finance operational activities and enable the village credit institutions to increase operational income and be able to increase the profitability of assets from its operational activities. Loan to deposit ratio based on test results has a positive and significant effect on the profitability of village credit institutions assets. The findings of this study mandate that the percentage of the maximum fixed assets of LPDs be formally determined by the Government to control investment allocation decisions originating from Third Parties so that they are prioritized on productive asset investments that provide operational income. Likewise, in line with the findings of the loan volume has a positive and significant effect on the profitability of village credit institutions assets.

Non-performing loans have a positive but not significant effect on the profitability of village credit institutions assets. The findings of this study revealed that not all LPDs that experienced an increase in NPL reported a decrease in Asset Rentability. This condition is possible because the write-off of uncollected loans can be covered by non-operational income from the transfer of assets guaranteed by the Debtor. This finding has implications for the need for policies related to the maximum loan value that can be given by village credit institutions management to Krama Desa without having to submit guarantees and Establish a Loan Guarantee Policy that is rational and meets legal requirements in an effort to manage the risk of creditors channeled by the LPD. so it is not in line with the third hypothesis of the study. TO Strengthening village credit institutions values can be done using external capital coming from the Revolving Fund provided by the local government as a source of funds to finance the company's operations are produkti, which allows the company to earn higher than load funds used.

Village credit institutions rentability can be increased by expanding loans to Krama Desa by using funds from third parties from the Government and to increase village credit institutions operating income. An increase in the ratio of Non-performing Loans (NPLs) tends to increase the burden of village credit institutions through bookkeeping reserve costs for write off loan principal receivables or loss of opportunity to obtain loan interest income channeled by the LPD. The research findings have implications for the need to increase the competence of village credit institutions Management Human Resources in order to be able to apply Credit Risk Management Principles adequately so that the *Non Performing Loan* ratio can be reduced and / or the impact of losses from non-collection loans can be minimized so that the village credit institutions Asset Rentability is maintained and has a positive value.Based on the research results and conclusions that have been presented, the authors suggest several things: 1) Enhancing institutional management competencies for village credit institutions management to ensure the validity and accuracy of village credit institutions financial statements. 2) Future studies are expected to replicate this research model using village credit institutions performance data in Badung Regency, Gianyar Regency, etc. and include regional competency variables as additional variables to find out the consistency of findings in this study and the role of regional economic potential on village credit institutions performance.This statement is supported by the findings of R. Dewi (2014) , John & State (2014) , Widiartin et al., (2016).

V. CONCLUSION

Non-performing loans have a positive but not significant effect on the profitability of LPD assets. The findings of this study revealed that not all LPDs that experienced an increase in NPL reported a decrease in Asset Rentability. This condition is possible because the write-off of uncollected loans can be covered by non-operating income from the transfer of assets guaranteed by the Debtor. This finding has implications for the need for policies related to the maximum loan value that can be given by LPD management to Krama Desa without having to submit guarantees and Establish a Loan Guarantee Policy that is rational and meets legal requirements in an effort to manage the risk of creditors channeled by the LPD. so it is not in line with the third hypothesis of the study.

The increase in LPD value can be done by using external capital from the Revolving Fund provided by the Regional Government as a source of funds to finance the operational activities of the productive company, which allows the company to obtain higher revenues from the burden of funds used. LPD rentability can be increased by expanding loans to Krama Desa by using funds from third parties from the Government and to increase LPD operating income. An increase in the ratio of Non-performing Loans (NPLs) tends to increase the burden of LPD through bookkeeping reserve costs for write off loan principal receivables or loss of opportunity to obtain loan interest income channeled by the LPD. The research findings have the implication of the need to

increase the competence of LPD Management Human Resources in order to be able to apply Credit Risk Management Principles adequately so that the Non Performing Loan ratio can be reduced and or the impact of losses from uncollectible loans can be minimized so that the LPD Asset Rentability is maintained and has a positive value.

Based on the research results and conclusions that have been presented, the authors suggest several things: 1) Enhancing institutional management competencies for LPD management to ensure the validity and accuracy of LPD financial statements. 2) Future studies are expected to replicate this research model using LPD performance data in Badung Regency, Gianyar Regency, etc. and include regional competency variables as additional variables to determine the consistency of findings in this study and the role of regional economic potential on LPD performance.This statement is supported by the findings of R. Dewi (2014), John & State (2014), Widiartin et al., (2016).

This study uses a quantitative and associative approach that aims to determine the relationship of two or more variables (Sugiyono, 2016). This study aims to test the hypothesis of the influence of independent variables, namely capital structure, loan to deposit ratio, and loan volume to the dependent variable, namely the level of profitability of LPD assets, while non-performing loans as a moderating variable to test the effect of their interactions on the relationship of independent variables with the dependent variable. The population used in this study are all Village Credit Institutions (LPD) in the Denpasar area. The sampling method in this study uses a saturated sample, which is a sampling technique where all members of the population are used as samples (Sugiyono, 2016). The data collection method used in this study is a non-participant observation method, which is a data collection method with observation and the researcher is not directly involved and only acts as an independent observer. (Sugiyono, 2016) The number of LPDs in Denpasar City was 34 LPDs with a total of 68 observations. The data in this study were analyzed using several methods, the first is a descriptive statistical test, then moderating regression analysis to examine the effect of the interaction of moderating variables on the relationship of the independent variable with the dependent variable, after the test results are obtained then it is tested again using the classic assumption test to see whether the analysis results are feasible to use.

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