

# THE EFFECT OF CREDIT RISK AND BANK-SPECIFIC FACTORS ON FINANCIAL PERFORMANCE OF BANKS LISTED IN INDONESIA STOCK EXCHANGE (IDX)

Aderiana Rosalia Felle<sup>1</sup>, Linda Santioso<sup>2\*</sup>

<sup>1</sup> Faculty of Economics and Business, Universitas Tarumanagara, Jakarta, Indonesia  
Email: Aderiana.125204011@untar.ac.id

<sup>2</sup> Faculty of Economics and Business, Universitas Tarumanagara, Jakarta, Indonesia\*  
Email: lindas@fe.untar.ac.id

\*Corresponding Author

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## ABSTRACT

*The banking industry plays an essential role in national and global economy. It is caused by the intermediation function attached to bank as financial institution. Banks run the intermediation role by pooling funds from depositors and distribute them through credit loan. As business entity, banks have business goal, to enhance their financial performance. Banks gain most of their revenue from their main activity, delivering loan to the debtors. In order to give credit, banks have to deal with the inevitable risk coming along that the debtors might not be able to restore the fund. This risk is known as credit risk. The good credit risk management doesn't assure the good financial performance. Banks have to fulfill another specific-factors in order to achieve good financial performance. Those factors are effectivity and efficiency of the day- to- day operation and interest pricing strategy. This research is conducted to discover how Non-Performing Loan (NPL), Capital Adequacy Ratio (CAR), Operational Costs on Operating Income (BOPO), Net Interest Margin (NIM), and Loan to Deposit Ratio (LDR) influence the financial performance of Banks Listed in Indonesia Stock Exchange (IDX). The result found that Non-Performing Loan (NPL) and Loan to Deposit Ratio (LDR) have no effect on Banks Financial Performance, Capital Adequacy Ratio (CAR) and Operational Costs on Operating Income (BOPO) have negative effect on Banks Financial Performance, Net Interest Margin (NIM) has positive effect on Banks Financial Performance. From these findings, it can be concluded that to elevate the profitability, banks have to focus on managing the risk management, efficiency, and pricing decision strategy.*

**Keywords:** Credit Risks, Banks-specific Factors, Financial Performance.

## 1. INTRODUCTION

Banks act as a bridge connecting people who have a lot of money and those who need money by lending capital. This role is called the intermediary role. With credit funds, manufacturers can produce more goods or services, expand their business, and even hire more workers. As national production levels increase, the national economy also improves. Not only providing financial support for businesses, banks also provide other financial services, such as transactions between units throughout the supply chain. Banks provide credit and non-credit services to generate income and achieve their financial goals as a business entity, to improve their financial performance. Providing more credit appears to increase the volume of interest income. But banks must also take into account credit risk, the risk that debtors cannot replenish their capital. The inability to manage credit risk increases systemic risk for the national economy. The collapse of Silicon Valley Bank in 2023 and Lehman Brothers in 2008 are concrete examples of how a country's banking industry can cause a major shock to a country's economy. While facing credit risk, banks must also protect corporate profits against inefficiencies and inefficiencies. Since the banking sector is classified as a monopoly market, banks also try to win price competition by offering the best interest rates. All these conditions turn the banking industry into a highly

regulated industry, where banks are subject to financial regulation, prudential principles and risk management regulations.

In addition to acting as an intermediary and ensuring transactions take place according to the prescribed roadmap, banks also have their own commercial goals as a business. There are many perspectives to recognize a successful business, one of which is the ability to improve its financial performance over time. Financial performance can be measured by profit margin, the degree to which a company can convert acquired assets into earnings over a given period of time [1]. A bank's asset portfolio includes not only deposits collected from depositors but also shareholders who invest in the bank's capital. Return on assets provides a complete calculation of a company's profitability because it takes into account total invested assets [2]. These assets are converted into banking profits through diverse banking activities, both financial and non-financial. Furthermore, in the digital banking era, each bank is competing to invent financial technology innovations that require more investment for the research and development phase. In short, banks, as asset-intensive businesses, need more capital to maintain productivity. Therefore, profitability ratio is a suitable indicator to measure the financial performance of a bank.

The banking industry appears to adhere strictly to regulations while maintaining tight competition during economic ups and downs. The level of bad debt seems to fluctuate over the years within regulatory limits. Although the economic situation seems difficult, banks still try to comply with the Risk Management Ordinance. Competition between banking industries is reflected in slightly different net interest margins. This shows how similar the interest rates offered by each company in the industry are. Trying to win in an imperfectly competitive market is the logical reason for this phenomenon. The economic recession during the Covid-19 pandemic from 2020 to 2021 is shown by the decrease in ROA, even negative ROA achieved by PT Bank Bumi Arta Tbk. This phenomenon confirms that the banking industry is not affected by the economic recession.

From previous study by [3], [4], [5], and [6], it can be proven that Non-Performing Loan (NPL) has negative and significant effect on Banks Financial Performance. On the other side, research from [7] dan [8] proven that Non-Performing Loan (NPL) has negative and insignificant effect on Banks Financial Performance. Meanwhile, study done by [9] shows that Non-Performing Loan (NPL) has positive and significant effect on Banks Financial Performance.

Based on study conducted by [10], [11], and [12], Capital Adequacy Ratio (CAR) has negative and significant effect on Banks Financial Performance. but there are other studies done by [7] and [13] contradictory shows that Capital Adequacy Ratio (CAR) has positive effect on Banks Financial Performance. these two findings differ from research done by [5] that states that Capital Adequacy Ratio (CAR) has no effect on Banks Financial Performance.

The research from [10], [11], and [14] shows that Operational Costs on Operating Income (BOPO) has negative and significant effect on Banks Financial Performance. those findings contrast with the research done by [15] that found Cost Efficiency Ratio (BOPO) has positive and significant effect on Banks Financial Performance.

In the study done by [11], [13], and [16], it can be proven that Net Interest Margin (NIM) has positive and significant effect on Banks Financial Performance. At the same time, research from

[17] dan [18] shows different result that Net Interest Margin (NIM) has positive and insignificant effect on Banks Financial Performance.

Based on research done by [19], [16], and [20], it can be concluded that Loan to Deposit Ratio (LDR) has no effect on Banks Financial Performance. Those researchs differs from research done by [21] and [22] that have proven Loan to Deposit Ratio (LDR) has positive and significant effect on Banks Financial Performance. The study done by [10], [11], and [13] disagree with those findings where Loan to Deposit Ratio (LDR) has negative and significant effect on Banks Financial Performance.

The results of this research are expected to be valuable to banks, investors and academics. The analyzed independent variables show that banks see the importance of implementing risk management to improve their financial performance. It also helps investors analyze the bank's financial performance before investing. The study also contributes to academics by enriching research on banking industry management. Hopefully this study can improve the understanding of banking management among investors and scholars. The uniqueness of this study is that it analyzes bank management from three perspectives: credit risk management, operational efficiency and effectiveness, and pricing strategy. This broadens the horizon of what banks should manage to improve their financial performance.

## **2. RESEARCH METHOD**

### The Financial Intermediation Theory

According to this theory, banks are considered financial intermediaries individually and collectively. This theory holds that individual banks can make money unexpectedly through the accounting process as well as by lending [24]. The intermediary function aims to strengthen the national economy by distributing capital to ensure the welfare of the public. The intermediary function gives banks an important role in the country's economy, including ensuring the payment process, maintaining financial stability and implementing monetary policy. This is why banks must remain stable and healthy. According to agency theory, the agency relationship between principal and agent is defined. The principal is the party that grants authority to the agent, and the agent is the party responsible for performing the authorized obligations. In banking business, customers act as principals and bank management acts as agents [22]. Banks are responsible for managing and distributing the proceeds according to predetermined arrangements to generate profits. On the other hand, customers expect that money deposited in the bank can always be withdrawn at any time. Because the bank and the customer have different goals and want to use the same capital, a conflict of interest will arise between the customer as the principal and the bank as the agent.

### Agency Theory

According to Agency Theory, the agency relationship between the principal and the agent is defined. The principal is the party who gives authority to the agent, while the agent is the party who is responsible for carrying out the obligations that have been delegated. In the banking company, customers act as principals and bank management act as agents [22]. Banks are responsible for managing and distributing the funds obtained in accordance with predetermined provisions in order to gain profits. On the other hand, customers expect that funds deposited in the bank can always be withdrawn at any time. Since banks and customers have different purpose and willing upon the same funds, a conflict of interest arises between the customer as principal and the bank as agent.

### The Asymmetric Information Theory

This theory was caused by the difference of the ability to interpret the information obtained versus information produced. Conditions of information asymmetry occurs when one party has more comprehensive information than the other party. Information asymmetry generally occurs between information providers and information users [25]. Providers tend to have more information and this can create moral hazard where providers can exploit their informational advantage to harm the information users. Asymmetric information consists of two types, adverse selection and moral hazard. In relation to banking, Adverse Selection Theory is a situation where the information provider knows the condition and prospects of the company better than the information user. Meanwhile, Capital Hazard Theory occurs when management makes decision and left shareholders unbeknownst.

### Monti-Klein Banking Firm Theory

This theory states that banks generate profits from positive interest margins that come from the difference between interest revenue from risk assets and interest expense for deposits [26]. The risk assets are loans given after the bank obtains deposits as a source of loan funding [27]. This theory also considers the monopoly ability of banks in providing credit and saving services as the factors affecting company operations. In fulfilling credit requests and collecting deposits, banks must pay intermediation fees which are directly proportional to the amount of deposits and the amount of loans.

### The Theory of Bank Capital

Based on this theory, the optimal bank capital structure involves a trade-off between liquidity creation, cost of bank distress, and ability to force borrower repayment [28]. Optimal liquidity formation occurs when fixed assets are converted into current liabilities. The cost of financial distress is the main factor considered in determining the optimal capital ratio because the nature of debt interest as a liability cost can take part as tax deduction, while dividends as an equity cost cannot reduce tax. The ability to force borrower repayment is the bank's ability to encourage debtors to pay back and fulfill their liability.

### Non-Performing Loan (NPL)

Non-Performing Loan (NPL) is a ratio that compares the unlikely paid loans to total loans. This ratio reflects the condition where the debtor is unable to partially or completely fulfil its obligations agreed in the credit agreement [02]. Non-Performing Loans (NPL) according to [30] can be defined as credit whose collection is obstructed by two elements, including the bank who analyzes and approves the credit and the debtor who intentionally or unintentionally fail to meet its obligation to pay. Smaller NPL value reflects lower credit risk faced by the bank, and vice versa [31]. Based on Peraturan Bank Indonesia No. 15/2/PBI/2013, the maximum value of NPL is 5%. When the NPL exceeds 5%, the bank can be categorized as unhealthy. According to Surat Edaran Bank Indonesia No. 3/30/DPNP 2011, NPL consist of bad loan with collectability status of “Kurang Lancar”, “Diragukan”, and “Macet”. In other words, credit will be classified as NPL when it has been arrears for more than 90 days.

### Capital Adequacy Ratio (CAR)

According to Peraturan Bank Indonesia No. 23/17/PBI/2021, Capital Adequacy Ratio (CAR) is a ratio that compares bank capital with risk-weighted assets to total assets. Risk-weighted assets calculated in the CAR include all bank assets that contain an element of risk, including securities, credit, claims on other banks, and investments [32]. If the amount of capital a bank has is sufficient to absorb unexpected losses, it can be said that the bank can manage its activities

efficiently. The CAR level is an essential aspect to be considered for banks in providing credit. When there is demand for credit, banks with adequate CAR levels can take advantage of this business opportunity because they have reserve funds that are able to bear credit risk.

#### Operational Costs on Operating Income (BOPO)

Based on Surat Edaran Bank Indonesia Nomor 15/29/DKBU, Operational Costs on Operating Income (BOPO) is defined as a ratio that compares operational expenses to operational income in order to measure the efficiency and capacity of bank management in carrying out operational activities. This ratio reflects the bank's ability to manage the operational costs used with the operational income obtained [33]. The ideal BOPO level according to Surat Edaran Bank Indonesia No. 15/15/PBI/2013 is around 50% to 75%. If a bank's BOPO falls outside the predetermined limits, it can be concluded that the bank is inefficient and unhealthy.

#### Net Interest Margin (NIM)

Surat Edaran Bank Indonesia No. 6/23/DPNP interprets Net Interest Margin (NIM) as ratio of net interest revenue compared to banks average productive asset. In Peraturan Bank Indonesia No 14/15/PBI/2012, productive assets are funds provided by the bank to generate income in the form of securities, credit, interbank fund placements, derivative bills, acceptance bills, bills on securities with resale promises, account administration transactions and the provision of funds in other comparable forms. An ideal NIM falls above 6%. If not, the bank tends to have no ability in generating excellence interest income.

#### Loan to Deposit Ratio (LDR)

Peraturan Bank Indonesia No. 15/7/PBI/2013 describes loan-to-deposit ratio (LDR) as a ratio representing the amount of loans extended by a bank to third parties in rupiah or foreign currency, excluding loans to other banks. Compare with the amount of third-party funds in the form of current accounts, savings accounts and deposits in rupiah or foreign currency, excluding interbank funds. LDR is usually considered as upper and lower bounds for measuring Giro Wajib Minimum (GWM). GWM represents the minimum level of funds that a bank must hold. LDR measures the loan-to-savings ratio of depositors and determines the sustainability of individual banks, including both branches and subsidiaries [34]. According to Bank Indonesia, the ideal LDR value is between 80% and 92%. If a bank's LDR exceeds a predetermined limit, there is an indication of funding stress [34].

NPL indicates a bank's performance by comparing at the ratio of bad debt to total credit granted by the bank. The high level of bad debt reflects a high number of bad debts. Bad credit is an asset that doesn't yield results and tends to burden banks. When credit becomes bad debt, banks lose income from interest [3]. At the same time, banks still have to pay interest as compensation to depositors who deposited money with the bank in the form of third-party funds. When revenue and fixed costs decrease, bank profits will decrease. Interest income in future periods will disappear when the credit becomes uncollectible. As the number of bad debts increases, bank profits decrease. According to research by [3], [4], [5], and [6], Non-Performing Loan (NPL) has negative and significant effect on Banks Financial Performance. Banks with lower NPL tends to have less bad loans and gains more profit from productive loans. The hypotheses constructed based on this argument are:

**H1:** Non-Performing Loan (NPL) has negative and significant effect on Banks Financial Performance

### *The Effect of Capital Adequacy Ratio on Financial Performance*

CAR reflects a bank's performance from the risk buffer that the bank has in the form of capital reserves. The low CAR indicates a bank's low capital reserves. If a bank does not have enough reserve capital, it cannot compensate for risks. When bank funds are held in reserve, they cannot generate interest income. Even though the bank does not receive interest, it still has to pay interest to the savings reserve fund. Capital reserves cause banks to lose some of the funds that could potentially bring them profits. Deliver from study done by [10], [11], and [12], Capital Adequacy Ratio (CAR) has negative and significant effect on Banks Financial Performance. With higher CAR allowance, banks have to bear with interest expense from depositor savings without the advantage of interest revenue. The funds pooled as CAR become unproductive. The hypotheses constructed based on this argument are:

**H2:** Capital Adequacy Ratio (CAR) has negative and significant effect on Banks Financial Performance

BOPO measures how efficient a bank in using its resource. High BOPO indicates bank management's inability to manage operating costs. Increasing operating costs without increasing operating revenue can reduce profits. The operational activities carried out become ineffective and can threaten the sustainability of the bank's operations. On the contrary, a low BOPO value shows that the company has conducted its business operations efficiently. The efficient activity occurs when the level of operating expenses does not exceed operating revenue. Thus, the bank earns profits from business activities and the company's financial performance can be considered good. Based on research by [10], [11], and [14], Cost Efficiency Ratio (BOPO) has negative and significant effect on Banks Financial Performance. Higher BOPO indicated inefficiency in banks operation and may cause a setback in financial performance. The hypotheses constructed based on this argument are:

**H3:** Operational Costs on Operating Income (BOPO) has negative and significant effect on Banks Financial Performance.

NIM includes a portion of net interest income derived from the difference between lending interest rates and savings interest rates. High NIM is formed thanks to high net interest margin. When bank loan interest rates increase, assuming fixed deposit interest rates, the interest margin will be larger. Similarly, when banks maintain lending interest rates and reduce deposit interest rates, they will enjoy larger interest margins. Because it arises from the bank's core business as an intermediary institution, the difference in loan and deposit interest rates largely determines the bank's operating profit. Good financial performance will translate into increased profits. From study by [11], [13], and [16], Net Interest Margin (NIM) has positive and significant effect on Banks Financial Performance. Establishing adequate spread between interest revenue and interest expense enable bank to gain more earnings caused by rising interest margin. The hypotheses constructed based on this argument are:

**H4:** Net Interest Margin (NIM) has positive and significant effect on Banks Financial Performance.

### *The Effect of Loan to Deposit Ratio on Financial Performance*

LDR reflects the credit risk a bank faces by comparing loan amounts and deposit amounts. The high LDR indicates that the portion of credit granted is larger than the amount of third-party capital financing it. Loans are the source of interest income for banks. When banks grant more credit, the potential for interest income will be greater and interest income will increase as well. But if the bank does not distribute the fund, it will not receive interest income and profits will decrease. Falling profits reflect poor financial performance. In accordance with research by [21]

and [22], Loan to Deposit Ratio (LDR) positive and significant effect on Banks Financial Performance. The greater credit given by banks, the greater chance banks have to earn credit incentive in forms of interest revenue. The hypotheses constructed based on this argument are:

**H5:** Loan to Deposit Ratio (LDR) positive and significant effect on Banks Financial Performance.

According to the theories, interrelationships, and hypotheses between the variables described before, the research model of this study can be formed as follows:

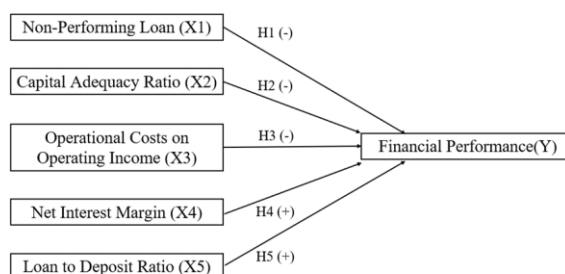


Figure 1. Research Model

### 3. RESULTS AND DISCUSSION

This research studies banking companies in Indonesia and that are included in the Financials sector Banks subsector of Indonesia Stock Exchange (IDX) in the 2018 - 2022 period. The data explored is secondary data collected from the financial statements and annual reports of banking companies. The research done by testing cross section data chosen from the population gathered with Nonprobability Sampling technique as sampling technique and purposive sampling as a sampling design. Below is a table of variable operations to get the results of the variables that used from the sample population.

Table 1. Variables Operationalization of Research Variables

Variabel	Ukuran
Non-Performing Loan	$NPL = \frac{Bad\ Debt}{Total\ Debt}$
Capital Adequacy Ratio	$CAR = \frac{(Tier\ 1\ Capital + Tier\ 2\ Capital)}{Risk\ Weighted\ Assets}$
Cost Efficiency Ratio	$BOPO = \frac{Operating\ Cost}{Gross\ Income}$
Net Interest Margin	$NIM = \frac{Net\ Interest\ Margin}{Average\ Productive\ Assets}$
Loan to Deposit Ratio	$LDR = \frac{Total\ Debt}{Total\ Deposit}$
Financial Performance	$ROA = \frac{Earnings\ Available\ for\ Common\ Stockholders}{Total\ Assets}$

According to the hypothesis above, the multiple linear regression equations can be formed as follows:

$$ROA = \alpha + \beta_1NPL + \beta_2CAR + \beta_3CER + \beta_4NIM + \beta_5LDR + \varepsilon$$

Description:

ROA : Return on Asset

$\alpha$  : Constant

$\beta_1$ -  $\beta_5$  : Multiple Linear Regression

NPL : Non- Performing Loan

CAR : Capital Adequacy Ratio

CER : Cost Efficiency Ratio

NIM : Net Interest Margin

LDR : Loan to Deposit Ratio

$\varepsilon$  : Error

Descriptive statistical test result shows that Non-Performing Loan (NPL) has the maximum value on 0.0599 and minimum value on 0.0080. The mean value of NPL is 0.027015 and the standard deviation is 0.0116576. The maximum value of Capital Adequacy Ratio (CAR) is 0.5927 and the minimum value is 0.0080. The mean value of CAR is 0.276884 and the standard deviation is 0.1107330. The maximum value of Operational Cost on Operating Income (BOPO) is 1.1109 and the minimum value is 0.5170. The mean value of BOPO is 0.829020 and the standard deviation is 0.1124379. The maximum value of Operational Cost on Operating Income (BOPO) is 1.1109 and the minimum value is 0.5170. The mean value of BOPO is 0.829020 and the standard deviation is 0.1124379. The maximum value of Net Interest Margin (NIM) is 0.1130 and the minimum value is 0.0225. The mean value of NIM is 0.050668 and the standard deviation is 0.0134010. The maximum value of Loan to Deposit Ratio (LDR) is 1.6300 and the minimum value is 0.2967. The mean value of LDR is 0.892713 and the standard deviation is 0.27752594. The maximum value of Return on Asset (ROA) is 0.0325 and the minimum value is -0.0064. The mean value of ROA is 0.011308 and the standard deviation is 0.0077685.

Table 3. Descriptive Statistical Test Results  
 Source: Data Processed Using SPSS Statistics

Descriptive Statistics							
	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
x1=NPL	75	.0519	.0080	.0599	.027015	.0116576	.000
x2=CAR	75	.4290	.1637	.5927	.276884	.1107330	.012
x3=BOPO	75	.5939	.5170	11.109	.829020	.1124379	.013
x4=NIM	75	.0905	.0225	.1130	.050668	.0134010	.000
x5=LDR	75	13.333	.2967	16.300	.892713	.2752594	.076
ROA	75	.0389	-.0064	.0325	.011308	.0077685	.000

The following table describes the result of regression done in this study with t-test result showing the relationship between variables.

The result presented on the table shows that NPL significance value is 0.590, which is greater than 0.05. Therefore, it can be concluded that H0 is accepted which means NPL has no significant influence against ROA. The coefficient of NPL is -0.010 which reflects negative influence NPL has upon ROA. These findings indicate that NPL partially has negative and insignificant influence towards ROA.



Table 3. t-Test Results  
 Source: Output from SPSS Statistics

Model		Coefficients <sup>a</sup>						
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.051	.002		26.542	.000		
	NPL	-.010	.019	-.015	-.542	.590	.629	1.589
	CAR	-.004	.002	-.055	-2.383	.020	.966	1.035
	CER	-.056	.002	-.814	-28.684	.000	.634	1.577
	NIM	.170	.015	.294	11.697	.000	.809	1.236
	LDR	.000	.001	-.005	-.220	.827	.827	1.209

a. Dependent Variable: Return on Assets

From result of t-Test, CAR significance value is 0.020, which is smaller than 0.05. According to this finding, H<sub>0</sub> is denied and CAR has significant influence towards ROA. The coefficient of CAR is -0.004 which means CAR has negative influence towards ROA. These findings have proven that CAR partially has negative and significant influence towards ROA.

The result presented on the table shows that BOPO significance value is 0.000, which is smaller than 0.05. Therefore, it can be concluded that H<sub>0</sub> is denied which means BOPO has significant influence against ROA. The coefficient of BOPO is -0.056 which reflects negative influence BOPO has upon ROA. These findings indicate that BOPO partially has negative and significant influence towards ROA.

Based on result of t-Test, NIM significance value is 0.000, which is smaller than 0.05. According to this finding, H<sub>0</sub> is denied and NIM has significant influence towards ROA. The coefficient of CAR is 0.170 which means NIM has positive influence towards ROA. These findings have proven that NIM partially has positive and significant influence towards ROA.

From result of t-Test, LDR significance value is 0.827, which is greater than 0.05. According to this finding, H<sub>0</sub> is accepted and LDR has no significant influence towards ROA. The coefficient of LDR is 0.000 which means CAR has positive influence towards ROA. These findings have proven that LDR partially has positive and insignificant influence towards ROA.

This study demonstrates that NPL has a negative and insignificant impact on determining a company's financial performance. When a bank can keep NPL at a healthy level, it will have a minimum margin to operate and make a profit. But it takes more than that to make a profit. On the other hand, both CAR and BOPO negatively and significantly affect the company's financial performance. This means that the higher the CAR and BOPO, the lower the company's financial performance will be. A higher CAR consumes a larger portion of capital and remains inefficient and leads to a reduced ability to generate more profits. A higher BOPO is a sign of higher costs reducing revenue. The conducted tests show that NIM has a positive and significant influence on the company's financial performance. Interest margin accounts for the majority of banks' profits. A higher interest margin means a larger gap between interest income and interest expense, leading to higher financial performance. LDR has a positive and insignificant impact on ROA. Most extended credit cannot bring much profit if the credit is ineffective. Credit is only considered effective if it is healthy, as measured by on-time payments. Each article ends with a conclusion summarizing the results of the article as well as suggestions and recommendations drawn from the research.

#### 4. CONCLUSIONS AND SUGGESTIONS

Based on research conducted, it can be concluded that: (1) Non-Performing Loan (NPL) has negative and insignificant effect on financial performance, which means that the higher NPL value, the lower the financial performance; (2) Capital Adequacy Ratio (CAR) has negative and significant effect on financial performance, which means that the higher the CAR value, the lower the financial performance; (3) Operational Cost on Operating Income (BOPO) has negative and significant effect on financial performance, which means the greater the BOPO, the lower the financial performance; (4) Net Interest Margin (NIM) has positive and significant effect on financial performance, which means that the greater the NIM, the higher the financial performance; (5) Loan to Deposit Ratio (LDR) has positive and insignificant effect on financial performance, which means the greater the LDR, the lower the financial performance.

The research has several limitations. First, this study occupies only two among other risk credit ratio and three representative ratios of bank-specific factors. The time span observed is also needs to be extended to gain more accurate result. And the last, the company sampled only from conventional banks in Indonesia Stock Exchange.

As a closing statement, banking company management is highly recommended to maintain its credit risk aligns with the risk management regulation. Not just to obey the rule, but also to achieve higher company financial performance. Another specific factors such as operational effectivity and efficiency should be intensively observed to make sure banks do not spend too much that the profit will be diminished or even too less that banks service will be unsatisfying. Banks also have to decide the proper interest margin so the banks can win the competition from another banks. It is also hoped that the result of this study can be considered by investors and potential investors in financial industry. For further research, it can be suggested to broaden the research variable and period.

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