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The Effect Of Non-Performing Loans And Debt Policy On Banking Financial Performance

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Abstract

The purpose of this study is to analyze how non-performing loans and debt policy affect financial performance in the banking sector. This research is quantitative, where all data will be analyzed using descriptive statistics. The data collection technique used was documentation with a library approach. To determine the sample size, a purposive sampling technique was applied, by taking samples from banking companies listed on the IDX. IBM SPSS 25 software was used in this analysis. Several tests were conducted to process the data, including classical assumption tests, linear regression analysis, and hypothesis testing. The results show: 1. Non-performing loans (X1) have a positive and significant effect on financial performance (Y) in the banking sector when analyzed separately. 2. Debt policy (X2) does not have a significant impact on financial performance (Y) in banking companies when viewed separately. 3. Overall, both bad debts (X1) and debt policy (X2) have a positive and significant impact on financial performance (Y).

Keywords: Non-performing Loans, Debt Policy, Financial Performance

INTRODUCTION

Banks in Indonesia operate their businesses based on prudent principles. The primary task of banking in this country is to collect and distribute funds from the public, aiming to support national development, improve equity, economic growth, and national stability for the welfare of the wider community. Banking financial institutions are entities authorized to accept deposits from the public, provide loans, and issue financial instruments such as checks and demand deposits.

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Furthermore, banks are also capable of creating demand deposits through their credit mechanisms. Banks function as businesses that collect funds from the public in the form of deposits and distribute them to the public in the form of credit or other financing to improve public welfare. When banks are well-managed, public trust in them increases. This high level of trust can drive bank performance, increasing profits without ignoring potential risks (Aji & Manda, 2021).

One way to assess a bank's financial performance is by examining its Non-Performing Loans (NPLs). NPLs relate to problematic or non-performing loans, which banks frequently experience and are constantly monitored through this ratio. The NPL serves as a measure for banks to assess their ability to reduce non-performing loans, allowing them to make decisions and take preventative measures when granting credit. According to Bank Indonesia Regulation No. 23/2/PBI/2021, the NPL must not exceed 5%. If the NPL exceeds this figure, the bank is required to conduct an in-depth analysis of the issue and identify the problem.

A bank's financial performance can be assessed through its debt policy. Debt policy is a decision regarding external funding. The goal is to increase the company's funds to meet operational needs. Debt is a crucial external source of funding for companies to finance operations, raw materials, and development (business growth). Effective debt management, both short-term and long-term, can improve the financial use of debt, optimize investment returns, and reduce tax liabilities because interest payable can be deducted from tax liabilities. In this case, debt policy will involve the variable Total Debt. Total Debt is the accumulation of short-term and long-term debt, which can be identified from financial statements, namely the company's balance sheet.

Financial condition can be described through an analysis of an organization's financial performance using appropriate financial analysis tools. This will reflect how good or bad the company's financial condition is during a given period (Destiani and Hendriyani, 2021). Financial performance itself describes a company's financial status, which is evaluated using financial analysis tools, thus providing information on whether the financial situation is good or bad, reflecting its performance.

Besides liquidity and solvency, the most vital and relevant factor in analyzing bank performance is profitability. To measure profitability, we can use the Return on Assets (ROA) ratio. This ratio is useful for assessing how efficiently a bank generates profit using its total assets. The standard for ROA that banks must achieve is 5.98%. If the bank's ROA is 5.98% or higher, the results indicate a good and high return. Conversely, if the ROA is below 5.98%, the bank's return is considered low.

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Previous research, such as that presented by (Tani, Amtiran, and Makatita, 2019) indicated that non-performing loans (NPLs) individually had a negative and significant impact on profitability (ROE) at Bank NTT. Research conducted by Sukarno et al. in 2022 showed that non-performing loans have a positive and significant impact on the financial position, particularly of banks.

A study by (Yanti and Sisdianto, 2024) showed that debt policy significantly impacted a company's financial performance. (Ramadhani, Munandar, and Muthiah, 2025) stated that debt policy, as measured by the Debt to Equity Ratio (DER), did not significantly impact financial performance, as measured by Return on Investment (ROI), at PT Indofood Tbk from 2014 to 2023. By referring to various previous research findings, this study aims to understand the impact of non-performing loans and debt policy on the financial condition of the banking sector.

LITERATURE REVIEW

Problem Loans

Problem loans refer to situations in which a debtor is unable to fulfill some or all of their agreed-upon obligations with the bank (Kuncoro and Suhadjono, 2016). One method for assessing the extent of a bank's credit problems is the Non-Performing Loan ratio.H. According to (Darmawi, 2018) defines Non-Performing Loans (NPL) as an indicator of a bank's risk ratio, reflecting the level of non-performing loan risk experienced by the bank. Non-performing loans arise from late payments of principal and interest, which in turn can degrade bank performance and lead to inefficiency.

According to (Kasmir, 2021), Non-Performing Loans (NPL) are loans that experience problems due to two factors: poor analysis by the bank and negligence by the debtor, resulting in non-payment. According to (Darmawi, 2018), the calculation of Non-Performing Loans (NPL) can be presented with the following formula:

$$\text{NPL} = \frac{\text{Non-Performing Loans}}{\text{Total Loan Disbursed}} \times 100\%$$

Debt Policy

Kasmir explains that debt policy is a decision made by a company to carry out its operations by utilizing financial loans to measure how much of the company's assets are financed by debt (Primita & Rolanda, 2024). This policy, also known as debt policy, refers

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to a company's decision to obtain external capital for investment. In this policy, the debt-to-equity ratio (DER) is used.

The debt-to-equity ratio is the comparison between a company's total debt and its total equity. DER is a form of leverage ratio used to assess how much of a company's capital comes from debt. A higher DER indicates that the company is using more debt as capital. Conversely, a lower DER indicates that the company is using less debt.

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Financial Performance

According to (Hutabarat, 2020), financial performance analysis is an evaluation conducted to assess the extent to which a company has implemented financial practices correctly and in accordance with existing regulations. Performance assessment can be conducted by reviewing past performance, then predicting possible future developments, and then reassessing past events to serve as a basis for improving the company's financial performance in the future. Understanding financial performance is crucial for assessing the sustainability of a bank's fund management. Banks, as financial institutions, play a vital role in the national economy, but still face the risk of non-performing loans, as the credit process does not always result in returns.

According to the Indonesian Institute of Accountants (IAI), financial performance demonstrates a company's ability to manage and control existing resources (Fidaus, 2023). Assessing a company's financial performance is about how well the company has developed in accordance with accurate and appropriate financial management principles. Financial performance refers to the assessment and evaluation of an organization's financial health, including the analysis of financial statements (Putri et al, 2023). Return on Assets (ROA) is a ratio that indicates the role of assets in generating net profit (Hery, 2020).

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100\%$$

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Hypothesis Development

H1: Non-performing loans (NPLs) (X1) affect ROA (Y) in banking companies.
H2: DER (X2) affects ROA (Y) in banking companies.
H3: NPL (X1) and DER (X2) affect ROA (Y) in banking companies.

Research Framework

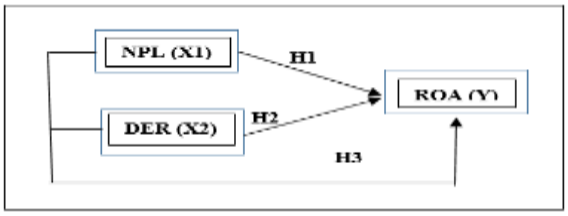


Figure 1. Research Framework
Source: Researcher (2025)

RESEARCH METHODOLOGY

The research conducted falls into the quantitative category, where all data will be analyzed using descriptive statistics. The purpose of this type of research is to test a hypothesis, and through analysis, conclusions will be drawn (Sugiyono, 2019). The data collection technique used was documentation using library methods. The data used were secondary data that showed activities or conditions within the company, and also used quantitative data.

Data collection was conducted through financial reports of banking companies for the period 2022-2024 published by the Indonesia Stock Exchange (IDX). To determine the sample size, a purposive sampling technique was used, where samples were taken from banking companies from 2022 to 2024 listed on the IDX. The data analysis used in this study utilized descriptive analysis. Descriptive statistics analyze data by describing it according to the collected data, without intending to draw general conclusions (Sugiyono, 2019). In this study, IBM SPSS 25 software was used to facilitate the calculation and data processing. Several tests carried out to process data include classical assumption tests, linear regression analysis, and hypothesis testing techniques.

RESULTS AND DISCUSSION

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Multiple Linear Regression Analysis

Table 1. Results of Multiple Linear Regression Analysis Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3,212	3,286		,977	,333
X1_NPL	,381	,168	,341	2,264	,028
X2_DER	,334	,175	,288	1,909	,062

A. DEPENDENT VARIABLE: Y_ROA

Source: SPSS Data Processing, 2025

Y = 3,212 + 0.381 NPL + 0.334 DER

Based on the formula above, the following explanations can be found:

1. α = 3.212 indicates that when all independent variables have a value of zero, the ROA (Y) variable will have a value of 3.212.
2. β1 = 0.381 indicates that if the NPL variable (X1) increases by 1%, the ROA variable (Y) will increase by 381%, if the other variables in the study remain the same.This relationship is considered positive, indicating a positive relationship between NPL and ROA.
3. β2 = 0.334 indicates that if the DER variable (X2) increases by 1%, the ROA variable (Y) will increase by 334%, if the other variables in the study remain constant. A positive coefficient value indicates a possible positive relationship between DER and ROA, meaning DER has a positive impact on ROA.

Coefficient of Determination (R2)

Table 2. Results of the Determination Coefficient

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,563[a]	,317	,288	3,670

a. Pedictors: (Constant), X2_DER, X1_NPL

b. Dependent Variable: Y_ROA

Source: SPSS Data Processing (2025)

Based on the available data, the R-squared (R2) value was recorded at 0.317. This means that the three independent variables, namely NPL (X1) and DER (X2),

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simultaneously contribute 31.7% to the dependent variable, ROA (Y). The remaining 68.3% is influenced by factors outside this study.

T-Test Results

Table 3. Results of Partial Hypothesis Coefficient Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3,212	3,286		,977	,333
X1_NPL	,381	,168	,341	2,264	,028
X2_DER	,334	,175	,288	1,909	,062

A. DEPENDENT VARIABLE: Y_ROA

Source: SPSS Data Processing, 2025

The t-value calculations for the non-performing loans (X1) and debt policy (X2) variables on banking performance (Y) yield the following results:

1. The t-test yielded a significance value of 0.028 for the NPL (X1). Since 0.028 is less than 0.05, the hypothesis is accepted. Furthermore, the calculated t-value for NPL (X1) is 2.264. The t-test shows that 2.264 is greater than the t-table value of 1.988. So the hypothesis obtained from this research can be used. Therefore, it can be concluded that NPL (X1) has a separate effect on ROA (Y).
2. The t-test yielded a significance value of 0.062 for DER (X2). This value indicates that 0.062 is less than 0.05, so the hypothesis is also accepted. The calculated t-value for DER is 1.909. Considering that 1.909 is greater than the t-table of 1.988, this hypothesis is accepted. Therefore, partially, DER (X2) has an effect on ROA.

F-Test Results

Table 4. Results of F-Test

Model	Sum of Squares	f	Mean Square	F	Sig.
Regression	293,871	2	146,936	10,910	,000b
Residual	633,009	47	13,468		
Total	926,880	49			

A. DEPENDENT VARIABLE: Y_ROA

b. Predictors: (Constant), X2_DER, X1_NPL

Source: SPSS Data Processing, 2025

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The F-test (interval) in this study is useful for determining the simultaneous effect of independent variables on the dependent variable. The calculation using the F-test yielded a significance level of 0.000, indicating that 0.000 is less than 0.05. This means that NPL (X1) and DER (X2) simultaneously influence ROA (Y). The results of this study can be used because they align with the hypothesis. With the calculated F-test result of 10.910, which is greater than the F-table of 2.48, it can be concluded that this hypothesis is accepted, considering that NPL (X1) and DER (X2) simultaneously influence ROA (Y).

DISCUSSION

The Effect of Non-Performing Loans (X1) on Bank Financial Performance (Y)

Based on the results of the first hypothesis, there is evidence that non-performing loans (NPL) significantly impacts ROA. This means that non-performing loans significantly impact bank financial performance. This indicates that companies are able to effectively manage non-performing loans, thereby increasing profits. Companies can also maximize efficiency in credit management through strict oversight. Effective credit management increases shareholder confidence in the company. In the long term, the company's growth and financial stability can be achieved.

Previous research supports this finding, (Safitra & Kusno, 2023) state that credit risk and non-performing loans simultaneously affect profitability, but individually, non-performing loans do not contribute to the profitability of conventional banks listed on the IDX. Furthermore, (Putri, 2023) revealed that non-performing loans separately impacted the financial performance of the banking industry listed on the Indonesia Stock Exchange. However, other findings differ from this study (Gosal et al., 2025), which reported a significant negative effect between non-performing loans and corporate financial performance.

This indicates that the higher the non-performing loans, the greater the impact on the company's financial performance in terms of profitability and operational efficiency. Non-performing loans are an important indicator of imbalances in credit management, which can reduce corporate revenue due to increased loss allowance costs or the loss of potential revenue from non-performing loans. According to (Nurkhofifah, Rozak, and Mohamad, 2019), non-performing loans have a significant and negative impact on bank profitability.

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The Effect of Debt Policy (X2) on Banking Financial Performance (Y)

The results of the second hypothesis test indicate that DER has a negative impact on ROA. This means that debt policy has no effect on the financial performance of the banking sector. Banks with high debt levels are at risk of bankruptcy, which in turn can reduce their financial performance. When companies have large amounts of debt, they must pay high interest rates. High interest payments can reduce company profits. To increase profitability, companies need to consider reducing their total debt. Previous research that aligns with these findings, (Firdaus & Yustika, 2023) showed that debt policy has a negative and significant effect on the financial performance of companies listed on the Indonesia Stock Exchange. Meanwhile, a study by (Suprayogi and Yoya, 2025) revealed that DER had no impact on a company's ROA. This indicates that debt-related decisions do not affect the financial performance of telecommunications companies listed on the Indonesia Stock Exchange.

The results of previous studies align with ours, including research by (Yoda, Syahputra, and Novelita, 2022), which confirmed that, partially, the debt-to-equity ratio has a significant effect on ROA. This indicates that debt policy plays a role in influencing a company's financial performance. Furthermore, research by (Hammad, Nuraini, and Ahmadun, 2019) also shows that overall, short-term debt, long-term debt, and total debt significantly influence ROE. This indicates that corporate debt policy has a significant impact on corporate financial performance, particularly for companies listed in the LQ45.

CONCLUSION AND SUGGESTION

The conclusions provided address the results of the discussion above. 1. Non-performing loans (X1) have a positive and significant impact on financial performance (Y) in banking companies when viewed partially. 2. Debt policy (X2) does not show a significant impact on financial performance (Y) in banking companies when analyzed partially. 3. Overall, non-performing loans (X1) and debt policy (X2) have a positive and significant effect on financial performance (Y) in banking companies.

Recommendations for further research: 1. Future research needs to improve the quality of this study, particularly in terms of sampling. Increasing the sample size is recommended. 2. Further research should focus on improving the quality of this study, particularly regarding sampling. The sample size should be increased by adding other research variables.

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