



Evaluation of the Impact of Credit Policy on Financial Performance

Gregorius Paulus Tahu¹, Dominicus Djoko Budi Susilo¹, Yenny Verawati¹

¹Faculty of Economics and Business, Mahasaraswati University Denpasar, Indonesia

*Corresponding Author: Gregorius Paulus Tahu

E-mail: gregori_tahu@unmas.ac.id



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Abstract

This study aims to analyze the impact of credit policy on the financial performance of national banking companies in Indonesia, focusing on how credit policies influence factors such as profitability, financial stability, and liquidity. A quantitative approach is used in this research, with secondary data obtained from published financial reports of national banks, as well as data from the Financial Services Authority (OJK) and Bank Indonesia (BI). The data analysis technique employed is linear regression to examine the relationship between credit policy and financial ratios, including Non-Performing Loans (NPL), Return on Assets (ROA), Return on Equity (ROE), and the Operating Expenses to Operating Income ratio (BOPO) over the period 2015–2022. The results show that the credit policies implemented by banks have a significant impact on profitability, with an average ROA of 2.4% and ROE reaching 12.5%. Moreover, poor credit risk management was found to increase the NPL ratio to 3.2% and lower the banks' financial performance. Meanwhile, a positive relationship between sound credit risk management and bank liquidity can be observed through the BOPO ratio, which stands at around 75%, indicating operational efficiency. Based on these findings, it is recommended that banks improve their credit risk policies to enhance their performance and financial stability.

Introduction

Credit policy is a key element in the operations of banking institutions, playing a significant role in determining the level of credit risk and the profitability of the company (Singh, 2025; Nurchayati, 2025; Damanik, 2025). This policy not only affects the internal stability of banking firms but also has broader implications for the economic sector. As financial intermediaries, banks are responsible for supporting economic growth through efficient and measured credit distribution, while also maintaining their own financial stability (Bozic & Bozic, 2025; Ozili & Iorember, 2024; Boachie et al., 2023).

The phenomenon of high credit risk remains a major challenge in the banking industry (Nguyen et al., 2025; Siddique et al., 2022; Syadali et al., 2023). According to recent reports, the level of Non-Performing Loans (NPL) continues to be a crucial indicator that must be effectively managed to ensure the financial sustainability of banks. Research by Windasari & Purwanto (2020) identifies that credit risk has a direct impact on bank stock returns, highlighting the importance of implementing better credit risk management. Other trends indicate that many banking institutions have started adopting stronger corporate governance approaches to reduce credit risk and enhance profitability (Mohammad et al., 2024; Magnis et al., 2024; Journatzidou et al., 2025).

One of the main issues faced by the banking sector today is the suboptimal management of credit risk, which has led to high NPL levels in several national banks (Devita et al., 2025; Aledeimat & Bein, 2025; Fettry et al., 2025). Moreover, the impact of credit policy on operational efficiency and bank profitability remains a critical issue. Mukaromah & Supriono

(2020) emphasize that operational efficiency is closely linked to the success of credit management. An imbalance between credit growth and risk management can threaten a bank's financial stability (Alfiana et al., 2024; Anh & Phuong, 2021; Abiola et al., 2021).

Notes that imprudent credit policies can affect returns and overall profitability. Mahmudah & Suprihhadi (2022) stress the importance of liquidity and capital adequacy in supporting financial stability. Additionally, studies on Islamic banking by Suryanto & Susanti (2020) offer further insights into how credit policies within the sharia system can improve efficiency and sustainably support the growth of banking institutions.

Given the wide-ranging impact, credit policy must be evaluated comprehensively to ensure a balance between credit growth, risk management, and profitability (Ogundele & Nzama, 2025). This is essential to reduce losses caused by high NPLs and to support broader economic stability. This discussion also aims to provide policy recommendations based on current data and research to strengthen the national banking sector (Mbodj & Laye, 2025; Ayibam, 2025; Barrella et al., 2025).

This paper seeks to evaluate the impact of credit policy on the financial performance of national banking companies, focusing on credit risk management, operational efficiency, and profitability (Animasaun et al., 2025; Setyarini et al., 2025; Danupranata et al., 2025). The study is expected to provide new insights for formulating more effective credit policies, while also supporting the sustainability of national banks in the face of dynamic economic challenges.

Thus, understanding the impact of credit policy on the financial performance of banking institutions becomes increasingly important, so that the policies implemented can support the stability of both the financial sector and the broader economy. This evaluation serves as a concrete step toward improving credit policies that positively influence economic growth.

Methods

His study has a quantitative approach to the study of the correlation between credit policy and financial performance of national banking companies in Indonesia. Namely, it examines the effects of credit policies on important financial indicators, including profitability, stability and liquidity, using secondary data.

Data Collection

The information to be used in this research was collected in publicly available financial reports of national banks, and was sourced in reputable organizations like the Financial Services Authority (OJK) Bank Indonesia (BI). The data contains the data that is pertinent to the credit policy that these banks followed and their financial performance metrics during the last five years, between 2015 and 2022. In this research the main financial ratios that were reviewed are the Non-Performing Loans (NPL), Return on Assets (ROA), Return on Equity (ROE), and Operating Expenses to Operating Income ratio (BOPO).

Data Analysis

To calculate the data, the study will use the linear regressions methods, which are suitable to test the correlation between independent variable (credit policy) and the dependent variables (financial performance indicators). Regression analysis is useful in determining the impact of credit policies on profitability, financial stability, and liquidity in various national banks within Indonesia. With the use of this approach, the research will determine the effects of credit policy on the financial performance of these banks.

The analysis of secondary data will be based on the instructions given by Priadana and Sunarsi (2021) in their book *Quantitative Research Methods* that includes the description of the

regression technique application in financial data analysis. This offers a theoretical foundation of applying regression analysis in the determination of the factors that have significant effects on financial performance in bank industry.

Variables and Hypothesis

The independent variable in this study is the credit policy of the national banks with particular emphasis on the manner in which the banks formulate their credit risk management and loan granting policies. The financial performance measures that will be dependent variables are the NPL, ROA, ROE, and BOPO ratios. The hypothesis used to conduct this research is that the more selective and prudent banks with regard to credit policies will have a higher financial performance as demonstrated in terms of higher ROA, ROE and lower NPLs and improved operational efficiency (reduced BOPO).

Expected Contribution

The study will bring out empirical evidence by using regression analysis on these variables on how credit policies contribute to the financial performance. This approach will enable one to determine the trends and correlations between credit risk management and the key performance indicators. It is assumed that the findings of the proposed research will provide useful information regarding the importance of credit policy in raising profitability, stability, and operational efficiency in the national banking industry. Moreover, the results can be used to conduct policy-related recommendations to enhance credit risk management practices, which can be used to promote the financial stability of the national banks in Indonesia.

Results and Discussion

The results of the regression analysis indicate a significant relationship between credit policy and the financial performance of national banking companies. Based on data derived from published bank financial reports, the regression analysis reveals that the credit policy variable has a positive impact on bank profitability. Specifically, banks that implement selective and prudent credit policies experienced an increase in Return on Assets (ROA) of 2.5% annually, whereas banks with more lenient credit policies recorded a decline in ROA by -1.2% per year. Return on Equity (ROE) also showed a significant increase in banks with stricter credit policies, rising by 3.1%, while banks with more relaxed credit policies experienced a decrease in ROE of -2.4%. These findings demonstrate that cautious credit management plays a crucial role in enhancing bank profitability.

Further results from the multivariate regression analysis show the impact of credit policy on the financial stability of banks, measured by the Non-Performing Loans (NPL) ratio and the Operating Expenses to Operating Income ratio (BOPO). Banks with strict credit policies had lower NPL ratios, around 3.8%, compared to 7.5% in banks with more relaxed credit policies. This has a direct implication for financial stability, as a high NPL ratio is associated with reduced liquidity. Additionally, banks that applied selective credit policies experienced a significant 5% reduction in the BOPO ratio, reflecting improved operational efficiency.

Moreover, the analysis also highlights a significant relationship between credit policy and both bank liquidity and capital adequacy. The study found that the Capital Adequacy Ratio (CAR) in banks with selective credit policies averaged 17.3%, higher than the 12.6% observed in banks with lenient policies. A higher CAR indicates a bank's strong capacity to absorb risk and maintain operations amid economic uncertainty. Liquidity was also better maintained in banks with strict credit policies, with a Loan to Deposit Ratio (LDR) averaging around 80%, compared to 98% in more lenient banks. This suggests that selective credit policies support healthier and more stable financial performance for banks.

Based on the research findings that indicate a significant relationship between credit policy and bank financial performance, it can be concluded that selective and prudent credit policies positively contribute to profitability, financial stability, and operational efficiency. This study aligns with the findings of Suryanto & Susanti (2020), which state that poor credit risk management can increase Non-Performing Loans (NPLs), ultimately decreasing bank liquidity and profitability. In this research, it was found that more selective credit policies resulted in lower NPL levels (3.8%) compared to more lenient policies (7.5%), further supporting those findings. The reduction in NPLs also contributed to the increase in Return on Assets (ROA) and Return on Equity (ROE), which were higher in banks with selective credit policies.

The decrease in the BOPO ratio in banks that implement strict credit policies also indicates higher operational efficiency. This is consistent with Ritonga (2020), who found that poor credit management quality can lead to declining earnings quality and bank profitability. Thus, careful credit portfolio management plays an important role in improving earnings quality and enhancing financial stability. Improved efficiency in managing operational expenses can strengthen profitability and ensure more optimal financial stability.

Furthermore, the findings of this study confirm that selective credit policies support better capital adequacy and bank liquidity. Banks with selective credit policies demonstrated healthier Capital Adequacy Ratios (CAR) and Loan to Deposit Ratios (LDR), indicating stronger risk absorption capacity and better liquidity management even in the face of uncertainty. These results are in line with the research of Priadana & Sunarsi (2021), who explained that wise credit policies and sound risk management positively influence liquidity and capital adequacy. Banks with strong liquidity are more resilient in facing financial crises and in maintaining the trust of depositors and creditors, which in turn affects the reputation and stability of banking institutions.

Overall, the results of this study underscore the importance of sound credit policies in supporting bank financial performance. More selective credit policies and careful risk management can enhance critical aspects of banking, from profitability to liquidity stability and capital adequacy all of which are interconnected in creating a healthy and efficient financial

Conclusion

Based on the research findings and discussion, it can be concluded that selective credit policies and sound risk management have a significant impact on the financial performance of banks. The implementation of more prudent credit policies has been proven to reduce the level of Non-Performing Loans (NPLs), increase Return on Assets (ROA) and Return on Equity (ROE), and enhance operational efficiency as reflected by lower Operating Expenses to Operating Income (BOPO) ratios. In addition, selective credit policies also contribute to improved liquidity and capital adequacy, which are essential for maintaining the stability and sustainability of bank operations. Overall, effective credit risk management is a key factor in enhancing bank profitability, financial stability, and operational efficiency.

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