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Determinants of Bank Performance: Evidence from Non-Performing Loans (NPL), Net Interest Margin (NIM), Allowance for Impairment Losses (AIL), and Deferred Tax Expense

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ABSTRACT
This study investigates the impact of Non-Performing Loans (NPL), Net Interest Margin (NIM), Allowance for Impairment Losses (AIL), and Deferred Tax Expense on the financial performance of conventional commercial banks listed on the Indonesia Stock Exchange (IDX) over the period 2021–2023. Employing a quantitative approach with panel data regression and purposive sampling, 24 banks yielding 72 observations were estimated via the Random Effect Model (REM). Results reveal that NPL exerts a significant negative effect on financial performance, whereas AIL and Deferred Tax Expense demonstrate significant positive effects. NIM, however, shows no significant influence. The model accounts for 24% of the variance in financial performance, suggesting that credit risk management and tax-related accounting components are critical determinants of bank profitability in emerging markets.

Keywords : *Non-Performing Loans (NPL), Net Interest Margin (NIM), Allowance for Impairment Losses (AIL), Deferred Tax Expense*

1. Introduction

The banking sector constitutes the backbone of the national economy, fulfilling a strategic role in mobilizing public funds and channeling them back in the form of credit facilities. As a financial intermediation institution, banks are required to consistently maintain and enhance their financial performance in order to sustain the confidence of the public, investors, and regulatory authorities. Optimal financial performance reflects a company's ability to achieve its operational and strategic targets effectively and efficiently. Conversely, a decline in financial performance may result in diminished investor interest, reduced creditor confidence in extending financing, and a weakening of public trust toward the company. Therefore, financial performance in the banking industry holds a critical role as an indicator in assessing the overall soundness, quality, and operational success of a bank.

According to (Liow, 2023), financial performance represents the financial condition and achievement of a company, reflecting the level of effectiveness and operational success within a given period. The evaluation of financial performance is conducted through an analysis of the company's financial condition to assess the quality of resource management and the company's capacity to attain its financial objectives, extending to the smallest unit of analysis.

The following presents the development of financial performance through ROE, NPL, NIM, and AIL as illustrated in Table 1.

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Tablel 1 - The Development of ROE, NPL, NIM, and AIL

YEAR	Financial Performance (%)	NPL (%)	NIM (%)	AIL (In Billions)
2021	15.77	3,00	4,63	Rp. 354.825
2022	15,39	2,44	4,80	RP. 367.929
2023	9,47	2,35	4,64	RP. 353.469

Source: Indonesian Banking Statistics 2021–2023.

Based on Table 1, the decline in the financial performance from 2021 to 2023 indicates a weakening of the institution's capacity to generate earnings from its equity base, consequently exerting an adverse impact on the overall financial performance of the bank. Furthermore, the increase in the NPL ratio in 2023 signifies a rise in non-performing credit, which may erode income and amplify the bank's risk of financial loss, thereby further affecting financial performance. The deterioration in the NIM ratio in 2023 additionally suggests that the bank's ability to generate net interest income from productive assets has yet to reach an optimal level, which may contribute to a decline in institutional profitability. On the other hand, the reduction in AIL in 2023 denotes a diminished capacity of the bank to maintain adequate reserves for covering potential impairment losses on financial assets. Collectively, these conditions may substantially undermine the stability and financial performance of banking institutions.

Bank financial performance is generally measured using profitability ratios, one of which is Return on Equity (ROE), which indicates a company's ability to generate profit relative to the equity held by its shareholders. This ratio serves as a critical indicator for evaluating management effectiveness in utilizing equity to achieve optimal returns. A higher ROE value signifies a greater capacity of the bank to generate profitability, thereby enhancing the confidence of investors, creditors, and the public toward banking performance. Consequently, ROE is frequently employed as a primary analytical tool in evaluating the overall soundness and financial performance of banks.

(Afifah dan Deni, 2023), explain that Return on Asset (ROA) and Return on Equity (ROE) represents a company's ability to generate profit after tax through the utilization of its own equity capital. This ratio serves as a significant indicator for shareholders, as it can be employed to assess the level of effectiveness and efficiency of management in administering the company's equity in order to yield returns.

One of the factors influencing banking financial performance is Non-Performing Loan (NPL). The NPL ratio reflects the level of problematic credit arising from the inability of debtors to fulfill their loan repayment obligations. An increase in the NPL ratio may amplify the bank's risk of financial loss and reduce its level of profitability, as it disrupts the interest income that the bank would otherwise receive.

Problematic credit risk is generally attributable to the inability of debtors to meet their loan repayment obligations, including the associated interest payments, in accordance with the amortization schedule stipulated by the banking institution (Wenno dan Anna, 2019).

(Vebriana, 2020), contend that Non-Performing Loans arise as a consequence of credit default or payment failure on the part of debtors with respect to loans extended by banking institutions. Such conditions contribute to an escalation in loss risk exposure and may substantially undermine overall banking performance.

Within the banking sector, Net Interest Margin (NIM) constitutes one of the primary indicators employed to assess bank soundness, given its strong association with the institution's capacity to generate profit. Optimal NIM management reflects the effectiveness of a bank in utilizing its productive assets, thereby enabling an enhancement of the institution's overall financial performance.

NIM represents the spread between income generated from interest-bearing assets, such as loans, and the interest paid on liabilities, such as deposits. A healthy NIM serves as a

primary driver of shareholder value and strategic growth within banking institutions, whereas a deteriorating NIM constitutes a clear signal that management must undertake immediate corrective measures (https://visbanking.com , 2025).

(Lestari, 2021), state that NIM constitutes a primary indicator in evaluating the soundness and sustainability of the banking system. Banks with a comparatively higher NIM ratio possess a greater probability of attaining profitability, enhancing resilience against financial risk exposure, as well as maintaining operational stability of the institution.

The third factor influencing financial performance is the Allowance for Impairment Losses (AIL), defined as a reserve established by banks to anticipate potential losses arising from deterioration in the quality of productive assets or non-performing credit. AIL plays a pivotal role in credit risk management in order to preserve the stability and sustainability of the institution. The more effectively AIL is managed, the greater the institution's capacity to withstand prospective financial loss exposure in the future.

(Pongilatan, 2021), explain that Allowance for Impairment Losses represents a critical account in a bank's financial statements, established upon the existence of objective evidence of impairment in the value of financial assets, which may consequently affect the estimation of future cash flows.

Within the banking industry, the Allowance for Impairment Losses (AIL) constitutes a mandatory reserve that banking institutions are obligated to maintain in anticipation of potential deterioration in the value of financial assets, encompassing instruments such as loans and securities (Nisa, 2025).

Deferred tax expense is a tax expense arising from timing differences in recognition between accounting profit and taxable income. These differences, commonly referred to as temporary differences, require companies to recognize deferred tax liabilities or deferred tax assets in specific periods. In financial statements, deferred tax expense can affect a company's net income, thereby directly impacting financial performance, particularly profitability ratios such as Return on Assets (ROA) and Return on Equity (ROE).

PSAK 46 (Revised 212) on Accounting for Income Taxes governs deferred tax, which refers to tax that is deferred for future payment. The recognition of deferred tax can have a significant impact on a company's financial statements.

Deferred tax expense (DTE) has no significant effect on financial performance, This can be explained by the fact that deferred taxes arise from timing differences in recognition between commercial accounting and fiscal reporting, which are fundamentally technical, long-term in nature, and do not directly involve cash flows. Consequently, changes in deferred tax expense do not provide a strong signal (Aliawinata, 2025). The study conducted by (Nailufaroh, 2021), found that deferred tax partially has a significant negative effect on financial performance. This implies that if tax savings are achieved through earnings management practices, they are likely to have a negative impact on firm performance.

This finding is further supported by (Fadila, 2025), who similarly demonstrated that AIL exerts a significant effect on financial performance. The results of the study (Maulidha & Kusumah, 2023), indicate that CKPN does not affect financial performance. This may be due to the fact that the implementation of PSAK 71 does not fully influence ROE, however, changes in ROE may be attributable to other factors.

Prior empirical findings conducted by (Efriani dan Ardian, 2025), that the Allowance for Impairment Losses (AIL) variable exerts a positive and significant effect on financial performance, whereas credit risk as measured by the Non-Performing Loan (NPL) ratio does not yield a statistically significant impact on financial performance. In contrast, the findings of (Sugiyono, 2026), reveal that the Allowance for Impairment Losses (AIL) does not exert a statistically significant impact on financial performance, whereas the Non-Performing Loan (NPL) ratio demonstrates a significant negative effect on financial performance.

Empirical evidence from studies conducted by (Rahayu, 2024), (Sholika dan Achmad, 2022), demonstrates that Non-Performing Loans (NPL) exert a measurable impact on the financial performance of banking institutions.

Furthermore, a study conducted by (Hossain dan Faruque, 2021), indicates that NIM exerts a significant influence on banking profitability. These findings stand in contrast to the results of a study conducted by (Ardiyanti & Rahmanto, 2022), which indicate that Net Interest Margin (NIM) does not exert a statistically significant effect on financial performance. (Nguyen, 2023), assert in their study that NIM exerts a positive influence on financial performance, whereas NPL demonstrates a significant negative effect on financial performance. (Hilmy et al., 2022), demonstrated that neither NIM nor NPL exerts a significant effect on financial performance.

Based on the aforementioned phenomena, an investigation into the influence of Non-Performing Loan (NPL), Net Interest Margin (NIM), Allowance for Impairment Losses (AIL), and deferred tax expense on financial performance becomes critically important to undertake. This study is expected to provide a more comprehensive understanding of the determinants affecting banking financial performance, particularly in relation to maintaining institutional stability and profitability. Furthermore, the findings of this study are anticipated to serve as a substantive reference for management, investors, and other relevant stakeholders in formulating informed and strategic decisions aimed at enhancing institutional financial performance in an effective and sustainable manner.

2. Literature Review

Financial Performance

Financial performance refers to the results achieved by a company during a specific period and reflects its level of financial soundness based on established standards and applicable regulations (Kasmir, 2019). According to Hery (2020), financial performance represents a depiction of a company's financial condition that is evaluated through financial analysis techniques to determine whether the company's financial position is favorable or unfavorable. Furthermore, financial performance reflects a company's ability to achieve its financial objectives through the efficient and effective utilization of available resources, which can be assessed through an analysis of financial statements (Kertorahardjo & Liana, 2021).

Non-Performing Loan (NPL)

Non-Performing Loan (NPL) is a ratio used to measure the proportion of problematic loans relative to the total loans extended by a bank. According to the Financial Services Authority (Otoritas Jasa Keuangan [OJK], 2024), a higher NPL ratio indicates a greater level of credit risk faced by the bank. Yahya and Devirosawati (2024) explain that NPL reflects the level of non-performing loans resulting from borrowers' inability to fulfill their repayment obligations in a timely manner. Similarly, Dewi and Purwono (2020) state that NPL serves as an indicator of credit risk within banking institutions, reflecting conditions in which debtors fail to meet their loan obligations, thereby potentially affecting a bank's financial stability and overall performance.

Net Interest Margin (NIM)

Net Interest Margin (NIM) represents a bank's ability to generate net interest income from its intermediation activities. According to Soeharjoto et al. (2023), NIM reflects the spread between interest income and interest expenses generated through fund mobilization and lending activities and is influenced by various internal and external factors, including operational efficiency, interest rates, inflation, and macroeconomic conditions. Artha et al. (2022) define NIM as the difference between interest income and interest expense relative to

productive assets, making it an important indicator of banking efficiency and profitability. Furthermore, Setiawan et al. (2021) emphasize that NIM serves as a key indicator of a bank's intermediation performance and contributes significantly to maintaining financial system stability. A higher NIM indicates a stronger capacity of the bank to generate earnings from its interest-based operations.

Allowance for Impairment Losses (AIL)

Allowance for Impairment Losses (AIL) refers to reserves established by banks to cover potential losses arising from the deterioration of financial asset quality, particularly loans and other productive assets. According to Nisa (2025), AIL is regulated under the provisions concerning impairment of financial instruments as stipulated in POJK Number 40/POJK.03/2019. Given that every credit facility carries the possibility of default, AIL serves as a prudential mechanism to mitigate potential losses associated with impaired financial assets. Sinaga et al. (2023) explain that AIL reflects the estimated losses associated with non-performing productive assets, where a higher AIL value indicates a greater level of problematic credit risk faced by a bank. Likewise, Lestari et al. (2021) state that AIL functions as a safeguard against default risk and helps banking institutions absorb potential financial losses arising from credit deterioration.

Deferred Tax Expense

Deferred tax expense arises from temporary differences between accounting profit and taxable income, resulting in tax obligations that are recognized in different accounting periods. According to Setyaningsih et al. (2024), deferred tax represents the accumulation of tax obligations expected to be settled in future periods and may affect a company's net income through the recognition of deferred tax expenses or deferred tax benefits. The Indonesian Institute of Accountants further stipulates that the carrying amount of deferred tax assets must be reviewed at each reporting date and reduced when future taxable profits are insufficient to realize part or all of the deferred tax assets recognized (Fadillah et al., 2024). Additionally, Nailufaroh et al. (2021) explain that deferred tax refers to tax obligations whose settlement is postponed to future periods in accordance with prevailing tax regulations. The amount of deferred tax can generally be identified from information disclosed in a company's financial statements.

3. Research Methods

This study employs a quantitative research approach to examine the influence of Non-Performing Loans (NPL), Net Interest Margin (NIM), Allowance for Impairment Losses (AIL), and Deferred Tax Expense on bank financial performance. Quantitative research is utilized because the variables investigated can be measured numerically and analyzed statistically to determine the relationships among variables. The study relies on secondary data obtained from published financial statements, annual reports, and sustainability reports of banking institutions.

The population of this study consists of all Conventional Commercial Banks continuously listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period, totaling 43 banks. The sample was selected using a purposive sampling technique based on predetermined criteria to ensure that the selected banks were relevant to the objectives of the study. The criteria included: (1) Conventional Commercial Banks continuously listed on the Indonesia Stock Exchange during the 2021–2023 period; (2) banks that published complete financial statements, sustainability reports, and annual reports throughout the observation period; (3) banks that reported positive earnings during the study period; and (4) banks whose data did not contain outliers. Based on these criteria, 24 banks were selected as the final

research sample. With a three-year observation period, the study generated a total of 72 panel data observations.

The data employed in this study were analyzed using panel data regression techniques. Data tabulation was performed using Microsoft Excel, while statistical analysis was conducted using EViews Version 12. The use of panel data analysis is appropriate because the dataset combines cross-sectional data, representing multiple banking institutions, and time-series data, representing observations over several years. This approach enables the estimation of more comprehensive regression models and provides greater analytical efficiency compared to pure cross-sectional or time-series methods.

To examine the relationship between the independent and dependent variables, the following panel regression model was estimated:

$$\mathbf{Y = \alpha + \beta_1 X_1 it + \beta_2 X_2 it + \beta_3 X_3 it + \beta_4 X_4 it + \varepsilon it}$$

where Y represents Financial Performance, α denotes the constant term, β_1–β_4 represent the regression coefficients, X_1 is Non-Performing Loan (NPL), X_2 is Net Interest Margin (NIM), X_3 is Allowance for Impairment Losses (AIL), X_4 is Deferred Tax Expense, and εit represents the error term.

Hypothesis testing was subsequently conducted to determine whether each independent variable significantly affects financial performance. The analysis employed a partial significance test (t-test) at a significance level of 5 percent. A variable is considered to have a significant effect on financial performance when its probability value is less than or equal to 0.05. Conversely, a probability value greater than 0.05 indicates that the variable does not have a statistically significant effect on the dependent variable.

In addition, the coefficient of determination (R^2) was utilized to evaluate the explanatory power of the regression model. The R^2 value indicates the proportion of variation in financial performance that can be explained collectively by the independent variables included in the model. A higher R^2 value suggests that the model has a stronger ability to explain variations in the dependent variable, whereas a lower value indicates limited explanatory capability.

4. Results and Discussions

Panel Data Regression Analysis Results

Panel data possesses complex characteristics as it constitutes a combination of cross-sectional and time-series data. Panel data analysis aims to examine the influence of multiple independent variables on the dependent variable utilizing a panel data framework. Within EViews, three panel data regression methods are available, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Based on the results of the model selection tests, this study employs the Random Effect Model (REM) as the most appropriate and optimal estimation model.

Table 2. Panel Data Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.083409	0.023007	3.625336	0.0006
X1	-1.519712	0.479166	-3.171575	0.0023
X2	0.274637	0.406500	0.675612	0.5016
X3	1.106753	0.466557	2.372172	0.0206
X4	9.098717	3.945384	2.306168	0.0242

Source: EViews 12 Processed Output, 2026.

Based on the coefficients presented in Table 2, the following regression equation is derived:

$$\mathbf{Y = a + \beta_1 X_1 it + \beta_2 X_2 it + \beta_3 X_3 it + \beta_4 X_4 it + €it}$$

$Y = 0.083409 - 1.519712NPL + 0.274637NIM + 1.106753AIL + 9.098717DTE + e$

Where:

Y = Financial Performance

a = Constant

β_1 and β_2 = Regression coefficient magnitude of each respective variable

X_1it = Non Performing Loan (NPL)

X_2it = Net Interest Margin (NIM)

X_3it = Allowance for Impairment Losses (AIL)

X_4it = Deferred Tax Expense (DTE)

€it = Error Term

Based on the derived regression equation, the following interpretations can be drawn:

1. The constant value (α) of 0.083409 indicates that if all independent variables are held constant, the financial performance value amounts to 0.083409.
2. The regression coefficient of the Non-Performing Loan (NPL) variable of -1.519712 indicates that every 1% increase in NPL will decrease financial performance by 1.519712, assuming all other variables remain constant. The negative sign denotes an inverse relationship between NPL and financial performance.
3. The regression coefficient of the Net Interest Margin (NIM) variable of 0.274637 indicates that every 1% increase in NIM will increase financial performance by 0.274637, assuming all other variables remain constant. The positive sign denotes a unidirectional relationship between NIM and financial performance.
4. The regression coefficient of the Allowance for Impairment Losses (AIL) variable of 1.106753 indicates that every 1% increase in AIL will increase financial performance by 1.106753, assuming all other variables remain constant. The positive sign denotes a unidirectional relationship between AIL and financial performance.
5. The regression coefficient of the Deferred Tax Expense variable of 9.098717 indicates that every 1% increase in deferred tax expense will increase financial performance by 9.098717, assuming all other variables remain constant. The positive sign denotes a unidirectional relationship between deferred tax expense and financial performance.

Partial Test Results (t-Test)

The t-test is employed to determine whether or not each independent variable exerts a partial influence on the dependent variable. If the probability value ≥ 0.05, the independent variable does not exert a statistically significant individual effect on the dependent variable. Conversely, if the probability value ≤ 0.05, the independent variable exerts a statistically significant individual effect on the dependent variable. The results of the t-test are presented in Table 3.

Based on the results of the t-statistical test presented in Table 3, the Non-Performing Loan (NPL) variable yields a probability value of 0.0023 with a negative regression coefficient of –1.519712. These results indicate that NPL exerts a significant influence on financial performance, as the probability value is less than 0.05. The Net Interest Margin (NIM) variable exhibits a probability value of 0.5016 with a positive regression coefficient of 0.274637. A probability value exceeding 0.05 indicates that NIM does not exert a statistically significant influence on financial performance.

Furthermore, the Allowance for Impairment Losses (AIL) variable yields a probability value of 0.0206 with a positive regression coefficient of 1.106753. These results indicate that AIL exerts a significant influence on financial performance, as the probability value is less than 0.05. Meanwhile, the Deferred Tax Expense variable exhibits a probability value of 0.0242 with a positive regression coefficient of 9.098717. However, a probability value exceeding 0.05 indicates that Deferred Tax Expense does not exert a statistically significant influence on financial performance.

Coefficient of Determination Test Results (R^2)

The Coefficient of Determination (R^2) is employed to measure the extent to which the research model is capable of explaining the variation in the dependent variable. An R^2 value approaching 1 indicates that the independent variables are capable of providing nearly all of the information required to explain the changes occurring in the dependent variable.

Table 3. Coefficient of Determination Test Results (R^2)

Weighted Statistics			
R-squared	0.240181	Mean dependent var	0.020051
Adjusted R-squared	0.194818	S.D. dependent var	0.021796
S.E. of regression	0.019558	Sum squared resid	0.025627
F – statistic	5.294713	Durbin-Watson stat	1.580703
Prob(F-statistic)	0.000913		

Source: EViews 12 Processed Output, 2026.

Based on Table 3 under the weighted statistic, the R-Square value is obtained at 0.240181 or 24%. These results indicate that the independent variables, namely Non-Performing Loan (NPL), Net Interest Margin (NIM), Allowance for Impairment Losses (AIL), and Deferred Tax Expense, are collectively capable of explaining the financial performance variable by 24%. Meanwhile, the remaining 76% is influenced by other variables outside the scope of this research model.

Discussions

The Effect of Non-Performing Loans on Financial Performance

The findings indicate that Non-Performing Loans (NPLs) negatively affect bank financial performance. This result suggests that an increase in problematic loans weakens profitability and reduces the overall efficiency of banking operations. High levels of non-performing loans increase credit risk exposure and force banks to allocate additional resources for risk mitigation, thereby reducing their ability to generate sustainable earnings. These findings support the argument of Kasmir (2019), who emphasized that deteriorating loan quality adversely affects a bank's financial condition and profitability.

The results are also consistent with previous studies conducted by Berliani et al. (2026), Imronudin et al. (2026), and Syahwildan et al. (2025), which reported a negative relationship between NPLs and financial performance. However, the findings differ from those of Efriani and Ardian (2025), Amirudin (2022), and Imelda and Nurhamdi (2025), who found no significant relationship between credit risk and financial performance. These differences may be attributed to variations in research periods, sample characteristics, and economic conditions faced by the banking sector.

The Effect of Net Interest Margin on Financial Performance

The findings reveal that Net Interest Margin (NIM) does not significantly influence financial performance. Although NIM is commonly regarded as an important indicator of banking profitability, the results suggest that the ability to generate net interest income alone is insufficient to improve overall financial performance. This condition may occur because banks face various operational costs, regulatory requirements, and credit risk pressures that offset the benefits derived from higher interest margins.

The findings are consistent with those reported by Kurnia et al. (2025), Septiyani and Santosa (2022), Ardiyanti and Rahmanto (2022), and Hilmy et al. (2022), who similarly found that NIM does not significantly affect financial performance. In contrast, previous studies by Hossain and Faruque (2021), Sari and Riharjo (2021), and Wibowo et al. (2020) demonstrated a significant relationship between NIM and financial performance. Such discrepancies may reflect differences in banking structures, market competition, and macroeconomic environments across research settings.

The Effect of Allowance for Impairment Losses on Financial Performance

The results demonstrate that Allowance for Impairment Losses (AIL) positively affects financial performance. This finding suggests that adequate provisioning for potential credit losses reflects prudent risk management practices and enhances the resilience of banking institutions. By maintaining sufficient reserves against possible defaults, banks are better positioned to absorb future losses and preserve financial stability.

The findings support the view that effective credit risk management contributes to stronger financial performance. This result is consistent with studies conducted by Efriani and Ardian (2025), Fadila (2025), and Rahmawati et al. (2024), which also reported a positive relationship between impairment loss provisions and financial performance. However, the findings differ from those of Maulidha and Kusumah (2023), Al-Nsour and Abuaddous (2022), and Eramina and Muliasari (2023), who found no significant relationship. These differences may be explained by variations in accounting standards implementation, risk management policies, and institutional characteristics among banks.

The Effect of Deferred Tax Expense on Financial Performance

The findings indicate that Deferred Tax Expense positively influences financial performance. This result suggests that deferred tax recognition may reflect effective tax planning and the management of temporary differences between accounting income and taxable income. Appropriate tax management enables banks to optimize their financial resources while maintaining compliance with prevailing tax regulations.

The findings are in line with those reported by Zai and Hisar (2024), Artaningrum (2020), and Astari et al. (2019), who concluded that deferred tax expense contributes positively to financial performance. Nevertheless, the results differ from those of Aliawinata (2025), Setyaningsih et al. (2024), and Fadillah et al. (2024), who found no significant effect. These inconsistencies may stem from differences in tax strategies, accounting practices, and regulatory environments across firms and research periods.

5. Conclusion

This study investigates the influence of Non-Performing Loans (NPLs), Net Interest Margin (NIM), Allowance for Impairment Losses (AIL), and Deferred Tax Expense on the financial performance of conventional commercial banks listed on the Indonesia Stock Exchange. The findings demonstrate that NPLs negatively affect financial performance, indicating that higher levels of problematic loans weaken profitability and increase credit risk exposure. In contrast, NIM does not significantly contribute to financial performance, suggesting that interest income alone is insufficient to improve profitability in the presence of operational and risk-related challenges.

The study further reveals that AIL positively affects financial performance, highlighting the importance of prudent credit risk management and adequate provisioning policies in maintaining financial stability. Similarly, Deferred Tax Expense exhibits a positive influence on financial performance, indicating that effective tax planning and the management of temporary differences can contribute to improved financial outcomes.

Overall, the findings emphasize that credit risk management and financial prudence play a more substantial role in enhancing banking performance than income-generation measures alone. Therefore, banking institutions should strengthen loan quality monitoring, maintain adequate impairment reserves, and implement effective tax management strategies to support long-term financial sustainability and performance improvement.

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