The Moderation Effect of Allowance for Impairment of Credit Losses Toward Credit Growth and Profitability

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Abstract:
This study aims to examine the Allowance for Impairment of Credit Losses in moderating the relationship between credit growth and non-performing loans to profitability. The population in this study are all commercial banks listed on the Indonesia Stock Exchange in 2019-2022. purposive sampling is the sampling method used in this study. data were analysed by PLS-SEM. The test results show that credit influences ROA while NPL does not. Allowance For Impairment of Credit Losses moderates the relationship between NPL and ROA.

Introduction

Banking as one of the financial institutions has strategic value in the economic life of a country. This statement line with the formulation of law number 10 of 1998 concerning banking (hereinafter referred to as the banking law), that a bank is a business entity that collects funds from the public in the form of deposits and distributes them to the public in the form of credit and or other forms to improve the living standards of many people.

Credit disbursed to the public as part of the core business of the bank can contribute income from the interest it receives, because with the success of the company making a profit is part of the reflection of the bank's performance in conducting its business activities. However, on the other hand, the credit distributed to these communities carries risks. As this is stated in the explanation of banking law no. 10 of 1998 article 1 that, "the credit provided by the bank contains risks, so in its implementation the bank must be able to pay attention to the principles of sound credit". The risk in question is the emergence of bad debts because of the debtor not being able to return the funds provided by the bank in accordance with the agreement or in other words, the debtor fails in fulfilling its debt obligations which may result in losses for the bank itself due to the loss of income that should have been received for the bank concerned. Based on the Indonesian banking booklet in 2012, credit risk is a risk that arises because of the counterparty's failure to fulfill its obligations.

The failure of debtors in fulfilling their obligations to banks has the potential to become non-performing loans which have implications for health for banks. Sudirman (2013) stated that the assessment of the health of a bank can be carried out with a qualitative approach through an assessment of various components that affect the condition and development of a bank, such as an assessment of capital factors, an assessment of the quality of productive assets, an assessment of bank management, an assessment of bank rentability, and an assessment of bank liquidity, all of which lead to the condition of financial performance at the bank itself.

According to Ismail (2011), non-performing loans hereinafter referred to as npls are loans that are in arrears exceeding 90 days which are divided into several groups, namely 1) non-current loans, 2) doubtful, 3) bad. The smaller the npl, the smaller the credit risk borne by the bank. Banking practitioners agree that the safe limit of a bank's npl should not exceed 5%.

To anticipate the occurrence of credit risk, one of which is that banks are required to form and set aside funds to cover the risk of loss to credit given to debtors, namely by forming an allowance for (allowance for impairment of credit losses). In the indonesian banking accounting guidelines, allowance for impairment of credit losses is a reserve that is required to be formed by a bank if there is objective evidence of impairment of financial assets because of one or more events that occur after the initial recognition of these assets (adverse events) and are affected by future cash flow estimates (papi, 2012). The amount of loss reserves is measured as the difference between the carrying value of financial assets and the current value of estimated future cash flows discounted using the initial effective interest rate of the financial asset.

The establishment of allowance for impairment of credit losses refers to the provisions made referring to psak 50 and 55 which are one of the regulatory compliance requirements of bank Indonesia and the indonesian accounting association, indicated through bank Indonesia circular letter number 11/4/dpnp concerning the implementation of Indonesian banking accounting guidelines (papi) and number 15/26/dpbs concerning the implementation of the Indonesian sharia banking accounting guidelines (papsi). One of the scopes of psak 50/55 is loan-loss provisioning or / loan impairment or known as the calculation of allowance for impairment of credit losses (allowance for impairment of credit losses). The purpose of the allowance for credit losses is to cover losses arising in connection with the allocation of funds into the form of crediting.

One of the things that deserves attention in conducting the formation of allowance for impairment of credit losses is the readiness of banks to meet the requirements of regulatory compliance from regulators in preparing reports on the formation of allowance for impairment of credit losses in a timely and accurate manner in accordance with the required calculation methods. Another issue that is no less important related to the establishment of allowance for impairment of credit losses in accordance with psak 50/55 is that it will affect the level of profitability and potential loss of credit risk for the bank itself, because if the allowance is too large, it will have an impact on the bank's profitability, while if the allowance is too small, it can increase the bank's credit risk, especially if the non-performing loans increase which ultimately has an impact on credit growth itself.

The development of the bank's financial performance is strongly influenced by its ability to raise public funds both in small and large scale. As a financial institution, funds are the most important problem of banks. Without sufficient funds, the bank cannot do anything about it, or in other words the bank does not function at all (ghozali, 2010).

The provision of bank loans that are in great demand by the public continues to grow every time. The provision of bank credit has a significant risk when the debit or cannot return the funds lent so that it can become a loss to the bank. From the data obtained by credit growth,

to maximize the level of profitability, the bank needs to know the factors that have a considerable influence on profitability. Factors that can affect profitability according to cashmere (2014) can be influenced by internal and external factors. Internal bank factors affecting profitability can be seen from the growth of third-party funds, credit growth, credit risk and liquidity (sudiyatno, 2010). Meanwhile, from the external side, banks are influenced by economic conditions that can be measured by gross domestic product (GDP) growth.

Credit growth plays a key role in increasing profitability. This is because credit activities can be the main and largest source of income for banks. Credit growth describes the level of development in the volume of credit disbursed to third parties in a certain period (saputra, 2014). The higher the credit growth, the better the quality and quantity of credit, the higher the opportunity for banks to channel the funds back to the public so that the opportunity to obtain profits is greater (prawira, 2014).

The failure of the debtor in fulfilling his obligations to the bank has the potential to become a non-performing loan which has implications for health for the bank. To anticipate the

occurrence of credit risk, one of them is that banks are required to form and set aside funds to cover the risk of loss to credit given to debtors, namely by forming an allowance for (allowance for impairment of credit losses).

Banks in their lending have credit risks. Se bi no.13/24/dpnp/2011 states that credit risk is a risk due to the failure of the debtor or other party in fulfilling obligations to the bank. As a result of the debtor failing to fulfill its obligations, the credit gives rise to a net performing loan (npl)

Npl is a ratio used to measure how banks' ability to minimize the risk of non-performing loans faced (puspitasari, 2009). The higher the npl level indicates that the risk of bad debts will also be higher, thereby reducing banking profitability.

As a manifestation of risk management, every bank that will conduct transactions with debtors (counterparties) must conduct a process to identify, measure and classify risks and take acceptable credit risk management measures, so that banks can have a portfolio composition with risk and return which is balanced through the formation of allowance for impairment of credit losses (Brigham and Houston, 2015). Allowance for impairment of credit losses has a significant value in the annual report (Halim, 2015). The proportion on allowance for impairment of credit losses must be made in such a way that it is not too big and too small because it will have an impact on the profitability of banks.

Allowance for impairment of credit losses is a reserve formed by the bank to face the risk of loss due to the investment of funds in earning assets. The amount of allowance for impairment of credit losses is formed by the bank periodically based on a certain percentage of the nominal classification of earning asset quality and is presented as a deduction from each of these earning assets, so that the results will have an impact on the profitability of the bank concerned. The existence of this condition makes allowance for impairment of credit losses a moderator between credit and credit risk (npl) faced by banks in terms of growth and profitability.

Literature Review and Hypothesis Development
Signal Theory

Signal theory puts forward about how companies should give signals to users of financial statements. The financial statements of a company must be presented Andreev ably by providing complete, accurate and timely information, because the report is presented as a consideration for investors in decision making (Maulidyah, 2017).

Signal theory is an information signal needed by investors to determine whether the investor will invest his shares in the company in question or not. Before and after in making an investment, there are many things that must be considered by investors. This theory serves to make it easier for investors to develop their shares that are needed by the company's management in determining the direction or prospects of the company in the future.

According to Hartono (2015), signal theory states that a superior quality company will deliberately give a signal to the market, thus the market is expected to be able to distinguish

between good and inferior quality companies. For the signal to be effective, it must be able to be captured and perceived well, and not easily imitated by companies of inferior quality.

Signal theory puts forward about how companies should give signals to users of financial statements. This signal is in the form of information about what has been done by the management to realize the wishes of the company owner. The signal can be a promotion or other information stating that the company is better than other companies.

The relationship between signal theory and this research is that it is used as a decision-making for investors and creditors and how a company provides positive and negative signals to users of financial statements. Companies that give positive signals can attract outside parties and investors in deciding to invest in companies that can provide information about the company's financial situation, so from this explanation it is concluded that a company must be able to provide positive signals for investors.

According to Immaculatta (2012) the quality of investors' decisions is influenced by the quality of the information disclosed by the company in the financial statements. The quality of information aims to reduce information asymmetry that arises when managers are more aware of the company's internal information and prospects in the future than external parties of the company. Information in the form of a published rating of corporate bonds is expected to be a signal of the financial condition of a particular company and describe the possibilities that occur related to the debt owned.

The effect of credit growth on profitability

Credit is the main source of income for a bank and is expected to have a positive impact on bank profitability. Crediting is one of the bank's activities in its business as an institution that is trusted to play a role in encouraging people's economic growth. The bank provides capital assistance to the community to meet their needs, especially working capital needs through credit facilities (kurniawan, 2012).

Credit growth describes the level of development in the volume of loans disbursed to third parties that can provide an increase in profitability and improve banking performance (pradnyawati, 2012). Credit growth is summed up as a growth from the provision of money based on an agreement or loan agreement between the creditor and the debtor that requires the other party to pay off the debt after a certain period with the provision of interest (sastrawan, 2014).

The increasing demand for credit, the profit that will be obtained by the bank will also increase, this is because the bank gets the result of the interest on the credit loan disbursed. Saputra et al (2014) and septiani and ramantha (2014) stated that lending had a significant positive effect on profitability. Rastiniyati and ulupi (2015); mukarromah and badjra (2015) also found credit growth had a significant positive effect on profitability.

H1: credit growth has a significant positive effect on the profitability

The effect of *non-performing loans* on profitability

The assessment of the company's performance is important, both by the management, shareholders, the government, and other interested parties and is related to the distribution of welfare among them, including the banking industry. In the banking industry, financial ratios are used to assess the performance of companies, in general, the assessment aspect uses motto camels. One of the financial performance ratios is the profitability ratio as measured by *return on asset* (hanafi, 2011). Bank ratios that affect *return on assets* include *non-performing loans*.

Bank Indonesia circular letter no13/24/dpnp/2011 states that credit risk is a risk due to the failure of debtors and or other parties in fulfilling obligations to banks. In this study, npls were used as proxies to measure the level of credit risk. Npls, which are often called non-performing loans, can be interpreted as loans that have trouble repayment due to gaps or external factors beyond the ability to control debtors (Putri, 2010).

Dendawijaya (2012) stated that the impact of the unreasonable npl ratio is one of which is the loss of the opportunity to obtain income (income) from the credit provided, thereby reducing profit generation, and adversely affecting the profitability of banks. The higher the npl level indicates that the risk of bad debts faced is also high, thereby reducing the profitability that will be achieved by the bank. Conversely, if the npl level is low, it indicates that the bank's credit quality is in good condition so that the profitability to be achieved is also high.

Research by saputra et al (2014) and widowati (2015) found npls had a significant negative effect on profitability. Adiyanto (2016); choerudin et al (2016); sukmawati and purbawangsa (2016) obtained the same results where npls had a significant negative effect on profitability. This shows that the greater the non-performing loans that occur in a bank, the worse the profitability of the bank.

H2: *non-performing loans* have a significant negative effect on the profitability

Allowance for impairment of credit losses moderation on the effect of credit growth on profitability

Lending is the backbone of banking activities; the bank's largest income is from interest income and credit proposition. Credit proportion is an amount of money that must be paid by the borrower to the bank as collateral in the credit. The most bank activities are directly or indirectly related to credit activities. Through the provision of credit, there will be many customer payment businesses through accounts, as well as customer deposits (sarita and putera, 2011).

The amount of credit given influences the allowance for impairment of credit losses allowance. The results of the research of prihatini and pramesti (2013) stated that the amount of credit had a positive effect on allowance for impairment of credit losses. Fitriana and arfianto (2015); maulidyah (2017) found the same thing where increasing credit growth will make allowance for impairment of credit losses increase.

H3: allowance for impairment of credit losses positively moderates credit growth to the profitability

Allowance for impairment of credit losses moderation on the effect of *non-performing loans* on profitability

Npl is where the customer is no longer able to pay all or part of the customer's obligations to the bank. Another word for npls is non-performing loans with one of the indicators of a key to assessing performance in the functioning of a bank. The increase in npls will reduce the amount of bank capital because the income that has been received by the bank is used to cover high npls. Bank Indonesia has set the size of a npl for banks at five percent so that banks that have npls of more than 5% are not good or unhealthy.

Allowance for impairment of credit losses is one of the solutions in dealing with its important level. The high proportion of allowance for impairment of credit losses means that banks are more prepared to face risks in credit. Previous research stated that npls had a positive effect on allowance for impairment of credit losses (kusumaranny, 2012). Prihatini and pramesti (2013); fitriana and arfianto (2015); martyrdom (2016); and maulidyah (2017) also supported him because he found a significant positive influence of npl with allowance for impairment of credit losses.

H4: allowance for impairment of credit losses *positively moderates non-performing* loans to the profitability of conventional commercial banks listed on the idx in 2019-2021

The effect of allowance for impairment of credit losses on profitability

Roa measures the ability of bank management to use company assets effectively. In other words, roa indicates the efficiency of using the company's resources used to generate revenue. Based on bank Indonesia regulation no.14/15/pbi/2012, allowance for impairment of credit losses (allowance for impairment of credit losses) are allowances formed based on a decrease in the carrying value of financial assets that are less than the initial recorded value. Allowance for impairment of credit losses was formed to anticipate the presence of non-performing assets in banks. However, the higher the reserve for losses formed by the bank, the smaller the bank's capacity to disburse credit. Lower lending capacity will eliminate the opportunity for banks to earn higher profits.

Such statements lead to a positive influence between allowance for impairment of credit losses and profitability. Ash Siddiq research (2011); fitriana and arfianto (2015); arindi and mawardi (2016) found allowance for impairment of credit losses could make a decline in banking profitability.

H5: allowance for impairment of credit losses has a significant positive effect on the profitability of conventional commercial banks listed on the idx in 2019-2021

Research Methods

This research is quantitative research, namely research that emphasizes testing theories and hypotheses through measuring research variables in the form of numbers and

conducting data analysis with statistical and mathematical procedures (Sugiyono, 2013). the population used in this study is conventional commercial banks listed on the IDX in 2019-2021 which amounted to forty-three companies.

The sample is part of the number and characteristics possessed by the population (Sugiyono, 2013). In this study, the sampling technique was taken by purposive sampling based on banks that do not have Sharia shares with the following criteria:

Conventional commercial banks listed on the IDX in 2019-2021 (Population) Which include non-performing loans in the financial statements That include the value of ALLOWANCE FOR IMPAIRMENT OF CREDIT LOSSES (Sample)

In this study, there were two exogenous variables, one endoge variable and one moderating variable. Exogenous variables consist of credit growth and *Non-Performing Loans (NPLs)*. The endogenous variable in this study is Profitability which is proxied by *Return on Asset*. The moderation variable is a loss of impairment. All variables are measured by a ratio scale.

Table 1. Variable Operationsoanal

Variables	Definition	Indicators	Scale
Credit Growth	The growth of the provision of money for borrowing purposes between banks and other parties.	$[(OSt - OSt\text{-}1) / MSt\text{-}1]$ * one hundred	Ratio
Non-Performing Loan	Management's ability to manage non-performing loans provided by banks.	Non-performing loans x 100% Total credits	Ratio
Allowance For Impairment of Credit Losses	Allowance formed if the initial carrying value of a financial asset after a decrease in value is less than the initial carrying value	ALLOWANCE FOR IMPAIRMENT OF CREDIT LOSSES x100% Total productive assets	Ratio
Return On Assets	the small level of profit obtained in relation to sales and investments	*Earning after tax* x 100% Total assets	Ratio

Source: Researcher, 2022

The data required in this study is secondary data. The data collection method can be done with a literature study, namely reviewing secondary data in the form of financial

statements from conventional commercial banks published by the Indonesia Stock Exchange through the Indonesian Stock Exchange (idx). The data in this study were analyzed with *structural equation modeling (SEM)* technique which is a

Results and Discussion
Research Data Statistics

Descriptive statistics provide an overview or description of a data seen from the average value (mean), standard deviation, variance, maximum, minimum, sum, range, kurtosis, and skewness (distribution density) (Ghozali, 2015). Based on the results of data processing, the results of research data statistics are obtained, namely:

Table 2. Research Data Statistics

Variable	Min	Max	Mean	Std
Credit	- 0,360	0,340	0,035	0,122
Non-Performing Loan	0,030	9,470	2,798	2,665
Allowance For Impairment of Credit Losses	0,180	7,160	1,613	1,128
Return on Asset	- 5,320	4,830	0,973	6,958

Source: processed research data, 2022

From the results of the data processing in table 2 above, it is known that the amount of data observed is sixty-nine data (number of samples x years of research) with four indicators, namely credit, npl, allowance for impairment of credit losses and roa which are proxies of each research variable. From the table, Credit has a minimum value of -0.360 and a maximum of 0.340, which means that the number of loans owned by conventional commercial banks in 2017-2021 was the lowest down by 0.36% from the previous year's credit amount, and the highest increased to 0.34% of the total loans in the previous year. The mean value of credit of 0.035 and the standard deviation of 0.122 indicate that the average credit growth that occurs in conventional commercial banks is constant at 0.03%.

Npls are seen to have a minimum value of 0.030 and a maximum of 9.470 with a standard deviation of 2.665 which means that the npl levels owned by conventional commercial banks are diverse. Some banks have npls of only 0.03% of the amount of loans disbursed, and others reach 9.47% of the amount of loans disbursed. The mean value shows that the average conventional commercial bank has a npl of 2.79% of the existing credit amount.

Allowance for impairment of credit losses has a mean value of 1,613 which means that the allowance for impairment of credit losses allocated by conventional commercial banks is 1.61% of the total productive assets owned. The minimum value of allowance for impairment of credit losses 0.180 and a maximum of 7.160 with a standard deviation of 1.128 indicates that the formation of allowance for impairment of credit losses taken by conventional commercial banks varies. Some banks allocate allowance for impairment of credit losses of

0.18% of their product assets and others allocate allowance for impairment of credit losses to reach 7.16% of their product assets.

The profitability proxied by roa is seen to have a minimum value of -5,320 and a maximum of 4,830, which means that the lowest conventional commercial banks have experienced losses of up to 5.32% of their total assets and the highest have ever made a profit reaching 4.83% of the total assets owned. The average profitability owned by conventional commercial banks is 0.973 with a standard deviation of 6.958 which shows that the ability of conventional commercial banks to create profits from their total assets is diverse.

Hypothesis Testing

PLS-SEM

In this study, model testing was carried out in three stages, namely data quality testing, outer model, and inner model (hypothesis testing). Data quality testing is performed to see if the indicators used to measure the construct are valid and dependable. Evaluating the validity of the data in this study is to use pls software with outer model, namely convergent validity which is seen with the average variance extracted (Ave) value of each construct where the value must be greater than 0.5. Based on table 1, it is known that all constructs have an Ave value above 0.5 so that they meet the convergent validity criteria.

Table 3. *Outer Model*

Variable	Composite Reliability	Cronbach Alpha	AVE	R Square
CREDIT	1,000	1,000	1,000	
NPL	1,000	1,000	1,000	
Allowance For Impairment of Credit Losses	1,000	1,000	1,000	
ROA	1,000	1,000	1,000	

Source: processed research data, 2022

Table 3 explains that all research variables have *composite reliability, Cronbach alpha* and AVE values of 1,000. According to Fornell and Lacker (1981) in Ghozali (2015) measurements *of outer model* recommend indigoi *composite reliability, Cronbach alpha* and AVE >value 0.50. Thus, all research variables are stated to have met the assumption of *discriminant validity*. The *R Value of Square* ROA is 0.083. The results of the calculation show the ability of independent variables, namely credit growth and *non-performing loans*, in explaining the dependent variables of profitability moderated by ALLOWANCE FOR IMPAIRMENT OF CREDIT LOSSES is 8.3% (0.083 x 100%). Thus, it can be concluded that profitability is influenced by other variables not described in this study by 91.7%.

Inner *model* testing was performed to predict causality relationships between latent variables. From the results of the data processing conducted, the results of the *inner model* test were obtained as follows:

Table 4 Hypothesis Testing

Hypothesis	Coefficient	T Statistic	Decision
Credit → ROA	0,201	2,424	Accepted
NPL → ROA	0,31	1,46	Rejected
Credit → Allowance For Impairment Of Cerita Losse → Roa	-0,059	0,393	Rejected
NPL → Allowance For Impairment Of Credit Losses → Roa	0,463	2,453	Accepted
Allowance For Impairment Of Credit Losses → ROA	0,054	0,358	Rejected

*Sig. 10%; T table 1,294

Source: processed research data, 2022

Based on hypothesis testing, it is known that from the five hypotheses proposed, there are only two hypotheses accepted. The hypothesis is h1 and h3. While the other 3 hypotheses are were declared rejected because they had statistical t values < t tables and path coefficient values that were opposite to the research hypothesis.

From this conclusion, it can be analyzed that the credit growth that occurred in conventional commercial banks during 2017-2021 will be able to increase the company's profitability. Meanwhile, the existence of non-current credit that occurs is likely to increase the company's profitability. The allowance for impairment of credit losses formed by the bank will weaken the position of credit growth in profitability but not significantly.

The formation of allowance for impairment of credit losses on the contrary will strengthen the position of *non-performing loans* in the bank's profitability. The establishment of allowance for impairment of credit losses, which aims to anticipate the credit provided, has not been shown to be able to increase the profitability of the bank because the proportion formed depends on the situation and credit conditions experienced by the bank.

Discussion

The fundamental goal of the banking business is to obtain optimal profits by providing financial services to the public. Crediting is one of the bank's activities in its business as an institution that is trusted to play a role in encouraging people's economic growth. The credit growth that occurs in banks will provide benefits to bank profitability, especially from the net interest income that the bank manages to obtain from the established credit interest rate.

The results of the hypothesis test one obtained a statistical indicates that the effect of credit growth on profitability is significantly positive, which means that any increase in credit growth will affect the increase in profitability. On the contrary, the decline that occurs in the growth of credit disbursed by banks will also cause bank profitability to fall. The results of the

study are in accordance with the hypothesis proposed and are in line with the theory used, namely the signal theory where credit growth describes the level of development of the volume of credit channeled which can provide an increase in profitability and increase banking performance (Pradnyawati, 2012).

The results of the study also support previous research, namely Saputra et al (2014) and Septiani and Ramantha (2014) which reported that credit distribution had a significant positive effect on profitability. Rastiniyati and Ulupi (2015); Mukarromah and Badjra (2015) also found credit growth had a significant positive effect on profitability.

Bank income is if the amount of income received is greater than the amount of expenses (costs) incurred. The bank's income comes from the operational results of interest on lending, agio shares and others. *Non-performing loan is* defined as a loan that has difficulty repaying due to gaps or external factors beyond the ability to controldebitur (Putri, 2010). A credit is said to be non-performing if it meets the criteria for credit collectability of 2% to 4% (Taswan, 2012).

The results of the hypothesis test 2 Is rejected because of the different between hypothesis path and statistical result testing. The results of the study are not in accordance with the hypothesis proposed and are not in line with the theory used, namely the signal theory where the higher NPL level indicates that the risk of bad debts faced is also high so that it reduces the profitability that will be achieved by the bank. The phenomenon that occurred, the increase in the NPL rate of banks in 2017-2021 was also followed by an increase in ROA. This is likely because the bank was able to create net profit from other operational activities in addition to profitability continued to increase even though NPLs also increased.

The results of the study differed from previous studies conducted by Saputra et al (2014); Widowati (2015); Adiyanto (2016); Choerudin et al (2016); and Sukmawati and Purbawangsa (2016) who found NPLs had a significant negative effect on profitability. This research supports the results of Tan's research (2011); Octaviantari and Wiagustini (2014); Fajari and Sunarto (2017) who stated that NPLs have a positive effect on profitability.

The implications of the above are possible due to the decline in insurance claims against bad loans in the previous year as well as an increase in third-party funds to increase profit opinions at banks.

The most bank activities are directly or indirectly related to credit activities. Through the provision of credit, there will be many customer payment businesses through accounts, as well as customer deposits (Sarita and Putera, 2011). The establishment of ALLOWANCE FOR IMPAIRMENT OF CREDIT LOSSES by banks is expected to strengthen bank profitability derived from credit growth.

The path coefficient of -0.059 indicates that ALLOWANCE FOR IMPAIRMENT OF CREDIT LOSSES tends to negatively moderate the effect of credit growth on profitability which means that hypothesis three is rejected. The results of the study are inconsistent with the hypothesis proposed and are not in line with the signal theory used. The results of the study are also contrary to the results of previous studies conducted by Prihatini and Pramesti (2013); Fitriana and Arfianto (2015); Maulidyah (2017) who stated that ALLOWANCE FOR

IMPAIRMENT OF CREDIT LOSSES moderates the relationship of credit growth to profitability because increasing credit growth will make the reserves of impairment losses increase.

The establishment of ALLOWANCE FOR IMPAIRMENT OF CREDIT LOSSES to anticipate the risks from bank credit growth that occurs every year, if not calculated carefully and carefully, will make profitability decrease because the funds allocated are more to ALLOWANCE FOR IMPAIRMENT OF CREDIT LOSSES while the risks that are worried about do not necessarily occur.

The increase in *Non-Performing Loans* will reduce the amount of bank capital because the income that has been received by the bank is used to cover high NPLs. ALLOWANCE FOR IMPAIRMENT OF CREDIT LOSSES is one of the solutions in dealing with its elevated level. The high proportion of ALLOWANCE FOR IMPAIRMENT OF CREDIT LOSSES means that banks are more prepared to face risks in credit.

The results of the hypothesis test four is accepted. A positive sign on the line coefficient of 0.463 indicates that ALLOWANCE FOR IMPAIRMENT OF CREDIT LOSSES has been shown to positively moderate the effect of *non-performing* loans on the profitability of conventional commercial banks listed on the IDX in 2017-2021. The results of the study are in accordance with the hypothesis proposed and are in line with the theory used. The high proportion of ALLOWANCE FOR IMPAIRMENT OF CREDIT LOSSES means that banks are more prepared to face risks in credit. The results of the study also support previous research, namely Kusumaranny (2012); Prihatini and Pramesti (2013); Fitriana and Arfianto (2015); Martyrdom (2016); and Maulidyah (2017) who found a significant positive influence of NPLs with ALLOWANCE FOR IMPAIRMENT OF CREDIT LOSSES means that ALLOWANCE FOR IMPAIRMENT OF CREDIT LOSSES positively moderates the relationship between NPLs and ROAs.

Bank Indonesia Regulation No.14/15/PBI/2012, Allowance for (ALLOWANCE FOR IMPAIRMENT OF CREDIT LOSSES) is an allowance formed based on a decrease in the carrying value of financial assets that are less than the initial rated value. ALLOWANCE FOR IMPAIRMENT OF CREDIT LOSSES was formed to anticipate the presence of non-performing assets in banks. However, the higher the reserve for losses formed by the bank, the smaller the bank's capacity to disburse credit. Lower lending capacity will eliminate the opportunity for banks to earn higher profits.

The results showed that ALLOWANCE FOR IMPAIRMENT OF CREDIT LOSSES did not have a positive effect on the profitability of the bank. Thus, hypothesis five which states that Allowance for Impairment of Credit Losses have a positive effect on profitability in conventional commercial banks listed on the IDX in 2017-2021 is rejected.

The results of the study do not correspond to the hypothesis proposed and are not in line with the theory used. The results of the study are also different from previous studies which stated a positive influence between ALLOWANCE FOR IMPAIRMENT OF CREDIT LOSSES, and profitability as mentioned in the research of Ash Siddieq (2011); Fitriana and Arfianto (2015); Arindi and Mawardi (2016).

Conclusion

Value formation loss reserves (allowance for impairment of credit losses) formed by banks to overcome the risk of losses due to credit activities conducted, in this study proved to be a variable that has the potential to moderate the effect of credit growth on profitability and *non-performing loans* on profitability. The existence of allowance for impairment of credit losses formed from the results of this study has not been proven to affect the profitability of conventional commercial banks in 2017-2021.

further research should calculate the proportion of allowance for impairment of credit losses formation in accordance with psak provisions, this can be seen from the high npl that occurs and banks must consider various other factors such as credit interest rates and economic conditions in each region so that the funds allocated to anticipate credit risks do not have a significant impact on bank profits.

Looking at the results of the hypothesis test related to the effect of npls on roa, banks need to claim customers who include bad loans (npls) to the insurer so that they can be claimed. Falling claims can increase a bank's profitability and lower npls. Banks also need to consider other aspects of income obtained such as third-party funds, as well as make various efforts to realize receivables in the form of principal debt, interest, and fines from the high npl level so that the allowance for impairment of credit losses formed remains proportional and can strengthen the bank's profitability. The research that will be dated is suggested to use profitability ratios other than roa which better reflects the bank's ability to profit from credit activities conducted, such as *net interest margin* (nim). It is recommended that subsequent researchers use other independent variables that can influence the formation of allowance for impairment of credit losses e.g., car, roa and ldr.

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