

# FINANCIAL INDICATORS ANALYSIS AS A FUNCTION OF THE EFFICIENCY OF USING BANK LOANS

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## Abstract

The goal of this paper is to present the results of analyzes from various research studies on the effects of the use of bank loans in the financing of business entities, credit risk assessments and analysis of financial variables of legal entities as bank clients. The key role (Wali, 2018) of the value of financial ratios is emphasized, both in predicting the business quality and in assessing the credit risk. The research (Alqam, 2021) concludes that financial indicators contribute 53% to the investor's decision. Financial analysis using current financial statements can be used to better predict the future state of financial positions (Baharee, 2021). The methods used in the empirical part of the research include the use of statistical techniques, including regression and correlation analysis, in order to examine the interaction between independent variables (financial indicators of the company) and dependent variables (financial stability and efficiency of the company's operations). The comparative presentation of the data obtained through the statistical analysis of the financial indicators of the sampled business entities should provide an overview of performance in areas such as profit margins, Return on Assets (ROA) and Return on Capital Employed (ROCE). Adequate analysis presupposes credible financial reports created in accordance with the international accounting standards which reflect the real performance of the company. The aforementioned analyzes are also of great use to regulatory authorities, shareholders and investors, creating an important basis for making the most complex decisions.

**Keywords:** financial indicators, liquidity, profitability, credit risk, creditworthiness

**JEL:** G21

## 1. INTRODUCTION

Financial institutions are crucial in any economy. They provide financial resources and information for economic growth. Weakness in credit risk management is a big part of the reason for banks' difficulties, especially when there is a worse classification of approved loans. Often the problem starts at the stage of applying for a loan and then increases in the stages of loan approval, monitoring and control (Richard, 2008). Before investing, the bank must assess the risk and decide whether it is appropriate. Risk management helps in risk detection, analysis and resolution. (S. Chen, 2023).

"A business process is an agile, complex organizational unit with a logical and time-bound sequence of actions" (Stravinskiene & Serafinas, 2020). It is important to manage and update the processes that would perform their function, i.e. improve the company's performance. Moreover, processes are complex because they are not just a set of actions, but also include roles, resources, and rules. According to Reijers (2021), a process has steps, people who perform these steps, information that is exchanged and processed during these steps, and technologies that are used. Another process concept is a horizontal sequence of sequential actions, operations, or activities during which inputs (raw materials) produce outputs (results) that satisfy client needs. According to Gribovskis (2021), the organization process consists of five parts: Source of input (can be a previous process), input (materials, energy, information, raw materials, resources, requirements), activity, output/result, and receiver of results.

All concepts show that a process is defined as a complex series of actions and that there are people who perform these actions. Also, a process has input, information and output. Processes in the organization are constantly taking place and are essential for the execution of organizational functions (Gribovskis, 2021). Considering that the processes are essential for the functioning of the organization, it can be said that the processes have a positive influence on the success of the company. In every organization there are many different processes that depend on the organization's activities, size, structure or type of management (Gribovskis, 2021). Different processes have different effects on the success of the organization. However, professional process management can help achieve better results. In short, every organization has many different processes that depend on organizational activity, culture, and other metrics, but they are all critical to the enterprise in order to reduce disruption, confusion, and improve efficiency.

Good and thoughtful approval of loans to companies is becoming an increasingly important part of the business process in all banks. The Basel Accord set guidelines for banks to apply risk management practices and ensure a strict credit approval process (Basel Committee on Banking Supervision, 2018). Global crises such as Covid-19, the war in Ukraine and massive inflation lead to an increase in all kinds of risks. Therefore, banks must control and mitigate all risks with reliable and efficient risk management processes that lead to positive results in the performance of banks. The loan approval process is just as important as the risk management

process. "Risk can be a business loss by not approving a suitable candidate or a financial loss by approving a candidate who is a poor risk" (Smith, 2017). Given that these two processes are vital for the banking sector, it is

## 2. CONCEPTUALIZATION OF THE LOAN APPROVAL PROCESS

The profitability and stability of the bank mainly depend on the success of the work of the credit sector, which carries out verification of the client's financial background. In general, credit decisions are key determinants of a bank's success. The credit approval subsystem should help reduce losses and provide loans only to eligible and solvent clients (M.K.Jayanthi Kannan, 2023). The loan approval process is one of the most complex processes in banks due to the wide range of factors that are taken into account. Banks collect data on the purpose of the loan, type of account, balance, guarantor, monthly income, collateral, credit history and other information in order to compare them with the loan conditions set by the bank (Takyi, 2020). In order to get a loan, clients must meet the conditions of the bank's credit policy, the amount of the loan, the purpose of the loan and the ability to repay. Furthermore, according to (Kannan, 2023), the following are taken into account during the loan approval process:

- analysis of financial statements,
- business results,
- liquidity,
- previous business results
- current and future business plans.

Many attributes are taken into account, but the most important attributes for deciding on loan approval are the client's income history, years of business, credit score (based on previous credit history) and data on previous outstanding obligations.

Banks must have a credit scoring model to avoid subjectivity in decision-making that can cause losses (Bekhet & Eletter, 2014). This model helps in assigning clients to different groups and deciding whether the client is likely to repay the loan or default.

The EBA (European Banking Authority) specifies the following necessary information and data for loan approval:

1. Information on the purpose of the loan
2. Where relevant, proof of the purpose of the loan
3. Financial statements and accompanying notes at the individual entity level and consolidated level (balance

## 3. FINANCIAL ANALYSIS AS A BASIC TOOL FOR ASSESSING THE ECONOMIC SITUATION OF A COMPANY

Financial analysis is the basic tool for assessing the economic situation of the company. She can not only retrospectively assess past performance, but above all formulate conclusions important for the future management of the company and its strategic decision-making. The importance of financial analysis lies primarily in its ability to provide an objective view of the company's financial health and to timely detect potential problems that threaten its stability (Růčková, 2021).

necessary to understand how the interplay of key banking processes, i.e. the risk management process and the loan approval process, affects the performance of banks.

sheet, income statement, cash flow) covering a reasonable period and audited or professionally verified, where applicable

4. Reports/excerpts on receivables from debtors
5. The debtor's business plan and in connection with the purpose of the loan
6. Financial forecasts (balance sheet, income statement, cash flow)
7. Proof of tax status and tax obligations
8. Data from credit reference registers or credit information bureaus, which include at least data on financial obligations and outstanding claims
9. Information on external credit ratings, where applicable
10. Information on existing contractual provisions and whether the debtor respects them, where applicable
11. Information on major litigation in which the debtor is involved at the time of submitting the request
12. Security information, if any
13. Proof of ownership of security, where applicable
14. Evidence of the security value
15. Proof of collateral insurance
16. Information on the enforceability of collateral (in the case of specialized lending, a description of the structure and security package of the transaction)
17. Information on guarantees, other credit risk reduction factors and guarantees, if any
18. Information on the debtor's ownership structure for the purpose of preventing money laundering and terrorist financing.

Of the 18 necessary information and data for loan approval specified by the EBA (European Banking Authority), the analysis of financial statements is listed under serial number 3, while the next 4 items refer to data from financial statements. This highlights the importance of financial statements in credit analysis, within which a whole series of data related to the company's operations is obtained. Another significant group of data refers to data related to collateral, which also includes a large number of items related to necessary information during loan approval.

According to Knápková (2017), financial analysis enables managers, investors and creditors to better understand the company's financial performance, its capital structure, liquidity and ability to generate profits. Financial analysis thus becomes not only a means of internal management, but also an important tool for communication with interested parties outside the company. The importance of financial analysis is growing, especially in a turbulent business environment, where

changes in the economic climate, competitive pressures or changes in legislation can have a significant impact on the financial situation of companies.

Financial analysis serves as an important tool for various stakeholders who use its results to make informed decisions. It provides key information about the financial health, performance and stability of the company, which enables an efficient assessment of the current state of the company and its future prospects. Thanks to this data, users can analyze the company's strengths and weaknesses, identify potential risks and opportunities, and plan steps to improve or maintain its financial position.

The main users of financial analysis besides banks are:

- Investors
- Managers
- Employees
- Business partners (suppliers, customers)
- Competitors
- The state and its authorities

When deciding on future investments, investors primarily emphasize risk assessment and the expected return on invested capital. As part of the control, they focus on the stability, liquidity of the company, the amount of available profit, the market value of the company and its ability to maintain its long-term existence and development. For this reason, they require regular reports on the financial situation of the company (Konečný, 2006).

Managers for effective strategic and operational financial management must have an overview of business profitability, resource utilization efficiency and company liquidity. Financial analysis, as a key part of performance evaluation, provides them with a basis for improving management and optimizing processes. The results achieved by the company also serve as an important motivation for their decision-making (Konečný, 2006).

The company's employees naturally strive for its prosperity and ensuring economic and financial stability. Like managers, they are often motivated by the company's economic results. Their interest is focused on job security and future opportunities for wage growth and social benefits (Grünwald, 2007).

Business partners and suppliers primarily focus on the company's financial stability, its ability to meet payment obligations and maintain liquidity. Customers choose their suppliers based on their reliability and ability to fulfill agreed obligations (Konečný, 2006).

Banks and other creditors require as much information as possible about the financial situation of a potential borrower in order to make a responsible decision about the possibility of granting a loan, its amount and conditions. Banks often include provisions in credit contracts that link the stability of credit conditions with the achievement of certain values of selected financial indicators. For example, they may retain the right to adjust the terms of the loan if the company exceeds a certain level of debt (Grünwald, 2007).

Competitors use financial analysis mainly for those companies that do well in the given market. This is to gain inspiration and the possibility to apply the given practices to their company (Knápková, Pavelková, 2017).

The state and its institutions apply financial analysis for the purpose of statistical monitoring, control of tax obligations, supervision of state-owned enterprises, distribution of financial aid to companies and obtaining an overview of the financial health of enterprises that have state contracts (Konečný, 2006).

The history of financial analysis is closely related to the development of modern business and the capital market. The first systematic approaches to assessing the financial situation of companies can be traced back to the transition from the 19th to the 20th century in the USA, especially in connection with the development of banking and the need to assess the creditworthiness of borrowers. During the Great Depression of the 1930s, it became clear that financial reports alone are not informative enough to detect financial problems of companies in a timely manner.

In the last decades, financial analysis is increasingly connected with modern information technologies. Automated systems of financial reporting, data analytics and business intelligence enable the analysis of huge amounts of data in real time (Damodaran, 2012). The development of financial analysis today also reflects a shift from the simple measurement of accounting variables to a comprehensive assessment of economic added value (EVA) or the sustainability of a company's financial performance in the long term. The importance of financial analysis lies in its contribution to strategic management, performance assessment and early risk identification.

Historical development shows that financial analysis is constantly evolving in response to the changing needs of the business environment and the development of evaluation methods. Modern financial analysis today combines traditional indicators with advanced analytical tools and technologies.

High-quality and relevant data are a basic prerequisite for a successful financial analysis. It can be said that the correct choice of information sources, their completeness, accuracy and appropriate interpretation significantly influence the informativeness of the analysis and thus the correctness of the decisions made on its basis (Růčková, 2021). On the other hand, inaccurate or incomplete data can lead to wrong conclusions and consequently to risky strategic steps.

The basic and most common source of information are financial reports, which offer a standardized and legally based picture of the company's financial condition and performance. In combination with other sources, such as annual reports, control results, statistical data and external databases, they form the basis for a comprehensive analysis of the company's financial performance (Skálová, 2023).

In any case, it is necessary to state that sufficient resources and information are only part of a quality financial analysis, but also that a successful financial analysis does not depend only on the availability of data, but above all on the ability to adequately interpret this information and place it in the wider context of the business environment.

The EBA (European Banking Authority) has created a detailed set of criteria for granting loans to small, medium and large companies:

1. Specifications of the geographic market and economic sector
2. Client acceptance criteria, i.e. specific probabilities of default, external rating systems, types of clients, record of results, etc.
3. Minimum requirements for income, cash flow and financial projections
4. Minimum collateral requirements
5. Minimum collateral requirements and credit rating improvement
6. Minimum acceptable contractual provisions
7. Requests for withdrawal of borrower's funds
8. Maximum loan amounts
9. Appropriate limits for loans with partial or no right of assignment
10. Maximum loan maturity dates
11. Repayment plans and eligibility standards and limits for non-amortizing loans and use of interest reserves and cash payout structure.
12. Risk-based restrictions (by concentration, type of product, etc.)
13. Acceptable limits of loan-to-value ratio (for secured loans)
14. Acceptable debt coverage ratio limits
15. Acceptable interest coverage ratio limits

16. Acceptable limits on the ratio of total debt to earnings before interest, taxes, depreciation and amortization

17. Acceptable limitations of indebtedness

18. Acceptable debt-to-equity ratio limits

19. Acceptable limits on the ratio of loans and expenses

20. Acceptable limits on cash flow and debt servicing;

21. Acceptable limits on the return on equity ratio

22. Acceptable limits of capitalization rates (net operating income / market value)

23. Standards for solving and mitigating risks related to environmental risk

24. Policy for compliance with macroprudential requirements, where is relevant.

From the set of criteria indicated by the EBA (European Banking Authority), from order number 13 to 22, a whole series of ratios whose relations must be fulfilled and whose data for calculation is obtained from financial statements is indicated.

Of particular importance are the criteria numbered 3 and 11, which contain elements of future projections in business and financial planning. Financial planning is a key tool in the strategic management of the company, the goal of which is to ensure the efficient distribution of resources, sustainability and the achievement of set goals. It includes analysis of the current financial situation, forecasting of future income, expenses, investment and cash flow planning.

A well-prepared financial plan helps the company react to changes in the environment, minimize risks and optimize returns. Its success depends on realistic assumptions and continuous updating in accordance with the current market situation (Landa, 2007).

If financial planning wants to work, it is necessary to respect the basic principles and principles in its process (Landa, 2007).

**Table 1:** Basic principles of financial planning

Principle	Description
Cash flow preference principle	This principle focuses on ensuring that total monetary income prevails over total monetary expenditure. This principle is applied in practice in liquidity management and is an essential factor in making investment decisions.
The principle of respecting the time factor	The main essence of this principle is the preference of earlier income over later income. If their nominal value of income is the same. In practice, this principle is mainly applied to the assessment of investments using the net present value.
The principle of respect and risk minimization	The principle of respect and minimization of risk focuses on the fact that in financial management the same amount of money obtained with a lower risk should be preferable to the same income with a higher risk. However, in practice, it is not always the case that the least risky option is the most advantageous.
Principle of capital structure optimization	This principle encourages the company's financial management to properly monitor the optimal composition of corporate capital, which should be reflected in the company's strategic goals. The main essence of optimizing the capital structure is finding financial stability and reducing the cost of capital in the company.

Source: Landa, M. (2007). Financial planning and liquidity. Brno: Computer Press.

In addition to these four principles, it is recommended to take into account some specific principles in financial planning (Landa, 2007):

**Table 2:** Specific principles of financial planning

Principle	Description
The principle of long-term financial planning	The main essence of this principle is that the company's long-term strategic goals should be superior to short-term financial goals.
The principle of hierarchical organization of corporate financial goals	This principle builds on the previous principle and states that one selected goal must be defined among the goals, which has the position of the main goal for the given planned period.
The principle of realistic achievement of corporate financial goals	The application of this principle is based on basic knowledge of financial planning obtained from analyzes of the internal and external environment. The main significance of this principle is that the realistic achievement of the main goals has a great influence on the motivation of employees.
The principle of programmatic profit orientation of the company	Despite the fact that maximizing the market value of the company is the main priority, the importance of the company's profit orientation cannot be ignored. Profit represents the second highest goal in the hierarchy of financial priorities and serves as a key indicator for the external assessment of the economic performance of the company and affects the market value of the company.
The principle of periodic updating of the company's financial plans	This principle is based on the reality of a changing environment and the fact that financial plans should be constantly updated. For strategic financial plans, it is generally recommended to update them annually.
The principle of essential compliance of the structure and form of the main planning documents with the structure and form of the company's financial statements	This principle takes into account that the structure, form and methods of compiling the financial plan directly follow the structure, form and methods of internal economic reporting.
The principle of simplicity and transparency of planning budgets	This principle is preferred for planning procedures and calculations that are not too complicated and enable quick orientation. The main essence of the problem is that not only experts work on financial plans, but also managers, who may not have a high degree of financial or economic knowledge.
The principle of relative autonomy of the financial plan	The principle of relative autonomy of the financial plan tries to oppose attempts to dilute or abandon given intentions on the basis of acceptable strategic goals and financial policies.

Source: Landa, M. (2007). Financial planning and liquidity. Brno: Computer Press.

Financial planning methods represent different approaches to creating financial plans that help companies to efficiently allocate resources and achieve their goals. These methods are based on the analysis of historical data, estimates of future development and relationships between individual financial items. The key to success is choosing the appropriate method according to the specifics of the company and the market situation. A properly chosen approach enables the company to respond to changing conditions, minimize risks and improve decisions on future investments and financing (Koráb, 2007).

- Linear regression

The linear regression method is based on a static assessment of the relationship between the values of selected items from the income statement, balance sheet or sales volume. This relationship is then used to forecast and plan these items for the future.

- Percentage of sales method

The percentage of sales method is one of the most widely used methods of financial planning in practice. This method works on the principle of the same relationship of some balance sheet and income statement items to sales. The most important step in this method

is the accurate estimation of future sales, because other items are based on them. Sales are usually carried out based on sales plans.

- Turnover period indicator method

The turnover period indicator method is based on financial-analytical relationships between sales and individual items of current assets and short-term liabilities, using activity indicators.

Financial analysis is an important part of corporate management, which is closely related to financial accounting and financial management of the company. Financial analysis connects these two areas, which highlights its key role in the conditions of the market economy. The relationship between accounting and financial management can be described as follows (Grünwald, 2007): accounting serves as the "language of finance" because it provides data and information necessary for making financial decisions. This information is conveyed through the main financial statements, which include the balance sheet, income statement, and cash flow statement.

Financial statements are the result of the financial accounting process, which includes the collection, recording, sorting and documenting of company management

data (Grünwald, 2007). The main goal of financial analysis is to describe the company's financial situation as comprehensively as possible, including all its aspects. In the case of a more detailed analysis, one can focus on the assessment of specific components, such as the level

of indebtedness, the risk of insolvency, etc. Financial analysis thus provides an overview of the past, present and expected future financial management of the company (Grünwald, 2007).

#### 4. THE QUALITY OF FINANCIAL INDICATORS AND THE EFFICIENCY OF THE USE OF BANKS' LOAN FUNDS

According to (Wali, 2018), the key role of the value of financial ratios, which include liquidity, capital adequacy, profitability and asset quality, is emphasized, both in predicting the business of clients and in assessing the credit risk of banks. The research (Ahmad Alqam, 2021) concludes that the investor's decision is largely influenced by the analysis of financial indicators, and that financial indicators contribute 53% when making a decision. Financial analysis using current financial statements can be used to better predict the future state of financial positions (Baharee, 2021). The aim of this paper is to present the results of analyzes and conclusions from various research studies on the effects of the use of bank loans in the financing of business entities, credit risk assessments and analysis of financial variables of legal entities as banking clients.

The methodologies used in the empirical part of the research include the use of statistical techniques, including regression and correlation analysis, in order to examine the interaction between independent variables (financial indicators of the company) and dependent variables (financial stability and efficiency of the company's

operations). The comparative presentation of the data obtained through the statistical analysis of the financial indicators of the sampled business entities should provide an overview of performance in areas such as profit margins, profitability of assets and profitability of capital. Overall, the goal of this research is to emphasize the importance of analyzing the company's financial statements in assessing business performance and defining the creditworthiness of banks.

Adequate analysis presupposes credible financial statements prepared with the application of international accounting standards with positions that reflect the real state of the business entity's operations to the greatest extent possible.

A statistical sample of 235 large companies out of a total of 601 participates in the empirical part of the research. The classification of large companies was made according to the Law on Accounting and Auditing of the Republic of Srpska ("Official Gazette of RS", no. 94/2015 and 78/2020).

A ratio analysis of the company's financial indicators was created, where the following results were obtained:

**Table 3:** Results of the analysis of financial indicators

The name of the indicator	Number of companies	
	Acceptable	Not satisfactory
Liquidity ratios		
Current ratio	105	130
Quick (Acid-Test) Ratio	95	140
Cash Ratio	108	127
Coef. financial stability	197	38
Leverage Ratios		
Debt ratio	137	98
Debt to asset ratio	126	109
Debt to equity ratio	133	102
Interest coverage ratio	235	0
Level of coverage I	154	81
Level of coverage II	193	42
Activity ratios		
Total Asset Turnover Ratio	128	107
Working Capital Turnover Ratio	206	29
Fixed Asset Turnover Ratio	197	38
Receivables turnover ratio	52	183
Duration of receivables collection in days	52	183
Economic indicators		
Economy of the overall business	225	10

Economy of business (sales)	219	16
Economy of financing	69	166
Economy of extraordinary business	115	120
Profitability Ratios		
Operating margin ratio	74	161
Gross margin ratio	34	201
Return on assets ratio (ROA)	172	63
Return on equity ratio (ROE)	129	106

Source: Author's data processing

It is evident from the previous table that:

- most companies do not have satisfactory liquidity, that is, the coefficients of current liquidity, accelerated liquidity and current liquidity are unsatisfactory for most companies,
- a significant number of companies (41.70%) have increased indebtedness and an insufficient coefficient of own financing (46.39%),
- a significant majority of companies have unsatisfactory collection of receivables and excessive duration of collection of receivables in days (77.87%),

- a significant number of companies do not have satisfactory profit margins and Return on equity ratio (ROE) (45.11%).

The efficiency of the use of banks' loan funds was determined using a statistical correlation between the extent of the company's borrowing from the banks and the quality of the financial indicators of the mentioned companies:

**Table 4:** Results of correlation analysis of financial indicators

Independent variable	Dependent variable	Correlation coefficient
Participation of total loans in total liabilities	Net profit margin	-0.062
Participation of total loans in total liabilities	Return on Total Assets (ROA)	-0.224
Participation of total loans in total liabilities	Return on total equity (ROE)	-0.009
Participation of short-term loans in short-term liabilities	Current liquidity ratio	-0.195
Participation of short-term loans in short-term liabilities	Coefficient of accelerated liquidity	-0.193
Participation of short-term loans in short-term liabilities	Current liquidity ratio	-0.188
Participation of long-term loans in long-term liabilities	Coefficient of financial stability	0.057
Participation of total loans in total liabilities	Turnover ratio of total assets	-0.191
Participation of total loans in total liabilities	Short-term asset turnover ratio	0.083
Participation of total loans in total liabilities	Long-term asset turnover ratio	0.061
Participation of total loans in total liabilities	Receivables turnover ratio	0.116
Participation of total loans in total liabilities	Duration of receivables collection in days	-0.121
Participation of total loans in total liabilities	Economy of the overall business	-0.096

Source: Author's data processing

When analyzing the financial indicators from the previous table, we separately observed three independent variables, that is, in addition to the share of total loans in total liabilities, we separated the share of short-term loans in short-term liabilities and the share of long-term loans in long-term liabilities. We then analyzed the values of each of the independent variables together with the corresponding financial indicators. In this part, the important role of the analysis of financial statements is highlighted, the fundamental task of which is to ensure the information base necessary for making decisions that ensure more successful and safer operations. As in the case of independent variables, we also separated the dependent variables depending on their sensitivity to

certain types of sources of funds, that is, to the maturity of the secured sources of financing. Thus, we analyzed the use of short-term loans with indicators of liquidity, the use of long-term loans with indicators of financial stability, while the total debt of the company was analyzed with indicators of economy and profitability. In each of the three cases mentioned, very low values of correlation coefficients were obtained, which amount to approximately 0. Based on this, it was determined that the results of the correlation analysis of financial indicators did not indicate a mutual connection and conditionality of the use of bank loans, on the one hand, and the quality of business operations of companies from the representative sample, on the other hand.

In addition to the above, a correlation model was formed in which the coefficient of participation of total loans in the total liabilities of the company was used as an independent variable, while the number of financial indicators of the company that are within acceptable reference values was used as a dependent variable. Similar to the

previous model, in this way we also tried to establish a connection between the extent of the use of bank loans and the financial performance of the company. The results of the correlation analysis are presented in the following table.

**Table 5:** Results of the correlation analysis of companies from the sample (235 companies)

Independent variable	Dependent variable	Correlation coefficient
Participation of total loans in total liabilities	Number of all financial indicators that meet the benchmark values	-0.251

Source: Author's data processing

The results obtained in this case indicate a weak negative conditionality between the volume of use of bank loans and the number of financial indicators that have values within satisfactory reference frames. The negative value of the coefficient, which is -0.251, points to the conclusion that companies that are more indebted to banks have, in all aspects of the analysis of financial indicators, less quality and successful operations than companies that have less credit debt.

Analyzing the financial indicators of companies from a representative sample, we did not find that the company's credit liabilities have a positive effect on their growth, development and profitability, but only on meeting the requirements for current liquidity, working capital and maintenance of fixed assets. Directing the credit indebtedness of companies in the direction of a greater share of investment loans approved on the basis of quality project documentation would create the conditions for a higher degree of justification of the use of bank loans, i.e. more indebted companies would have greater assumptions that they have better financial indicators than companies that do not use bank loans.

## 5. CONCLUDING REMARKS

Credit appears today as one of the most important instruments for the development of the overall economic activities of each country. It is precisely the banking sector that plays an important role in the process of providing sources of financing for the purpose of economic growth and social development. The analysis of financial statements of companies from a representative sample indicates that a large part of companies do not have satisfactory financial indicators. Liquidity indicators are not satisfactory for most large companies, including coefficients of current liquidity, accelerated liquidity and current liquidity. A significant number of companies have increased indebtedness and an insufficient coefficient of own financing. In addition, a significant majority of companies have unsatisfactory collection of receivables and excessive duration of collection of receivables in days, as well as insufficient profitability. The results of the correlation analysis of financial indicators did not indicate a mutual connection and conditionality of the use of bank loans, on the one hand, and the quality of business operations of companies from the

The conducted research indicates a significant volume of loans placed with the aim of ensuring current liquidity and maintenance of fixed assets and equipment. Such placements do not enable the growth and development of the company and do not lead to an improvement in the business performance of the company. If we take into account the connection between the financial and real sectors within the national economy, we can conclude that the development and volume of investments in the real sector is an important factor for the functioning of banks and the basis for the placement of their credit potential. With a quality selection of development projects and favorable sources of financing, banks can direct economic flows in areas of the economy in which it is the most competitive. In this way, prerequisites would be created for the efficient use of credit funds, which, in addition to increasing the competitiveness of the economy, would also increase the income and profitability of the companies to which the said loans were placed.

representative sample, on the other hand. In other words, the borrowing of companies and the use of short-term and long-term loans does not contribute to the improvement of the financial indicators of companies from the representative sample. This indicates that most companies use bank loans only when they fall into financial difficulties, that is, when they do not have a sufficient level of liquidity and solvency to settle current business obligations. A significant number of companies have increased indebtedness and an insufficient coefficient of own financing, which, along with unsatisfactory profitability, indicates inefficient use of bank loans.

The conducted research indicates a significant volume of loans placed with the aim of ensuring current liquidity and maintenance of fixed assets and equipment. If we look at the company's operations from a long-term perspective, the results obtained indicate a lack of dedicated loans approved by banks whose purpose is to finance projects that enable more successful operations of the company. Borrowing is an important element in the operations of large companies and their financing,

especially if one takes into account demanding development projects where the emphasis is on ensuring market justification and sustainability. On the other hand, it is necessary for banks to make a greater effort to manage

credit risk through a more detailed analysis of project documentation and the company's overall operations, as well as macroeconomic research of the economic branch in which the company operates.

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