

ANALYZING THE CREDIT RISK MANAGEMENT AND ITS ROLE IN ALLEVIATING NON-PERFORMING LOANS AT PT BANK BANTEN

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Abstract: *This study aims to study and understand the implementation of risk management that can minimize Bank Banten's credit problems. The research is also intended to find out what steps can be taken to overcome troubled credit. The methods used in this research are descriptive research methods as well as a quantitative approach. This study obtained results that indicate that the implementation of credit risk management at Bank Banten, which includes the entire analysis that has been done, has been exceptionally well realized. Based on research conducted using non-performing loans and NPL data for the 2020-2022 period sourced from the Financial Statements of PT Bank Banten. PT Bank Banten has reached a maximum NPL level over the standard set by Bank Indonesia, which is at the 5% level. Although 2022 Bank Banten's NPL percentage rate has decreased, the figure is still said to be high and is still above the maximum limit set. The high number of NPLs is because the credit given to customers cannot be collected in part or whole. Problematic credit settlement can be achieved by holding a security auction submitted by the debtor when the debtor applies for credit, payment directly by the debtor, utilizing GMW instruments, and establishing bilateral cooperation with other banks.*

Keywords: *Bank Banten, Credit Risk Management, Implementation of Risk Management, Non-Performing Loan*

INTRODUCTION

The rapid development of the banking sector in Indonesia, coupled with the complexity of banking and increasing credit risk, directly causes the emergence of risks in the banking sector. Banks in Indonesia can facilitate funding activities or the collection of funds from all audiences, such as savings, deposits, current accounts, or credit. Funds collected by banks can circulate money to the public to carry out regional development and development.

Bank Banten is a regional development bank established on July 29, 2016, in Serang, Banten (BANK BANTEN, 2023). Bank Banten was previously known as Bank Eksekutif from 1992 to 2010 and Bank Pundi from 2010 to 2016. The Financial Services Authority has approved this name change through the Decree of the Financial Services Authority Number 2.12/KDK.03/2016. Bank Banten currently serves deposit customers, loans (MSMEs, consumer credit, commercial credit), and other services and has been appointed as a partner of the Banten provincial government in managing regional cash in Banten (BANK BANTEN, 2023).

Since its establishment, PT Bank Banten has experienced a lack of capital and a high number of non-performing loans (Khadafi, 2023). Bank Banten's non-performing loans amounted to 22% in 2020, 14% in 2021, and 9% in 2022 (Khadafi, 2023). Although the number of non-performing loans of Bank Banten decreased in 2022, the ratio of non-performing loans still exceeds the standard set by Bank Indonesia. Therefore, Bank Banten was chosen as the research subject.

Bank Banten cannot avoid credit risk. According to the opinion (Andrianto, 2019), credit risk is a risk caused by customers, debtors, or counterparties not being able to return borrowed funds following the agreement that has been made. When lending, one of the risks that can occur is the creation of non-performing loans caused by various customer problems, external circumstances, and creditors. Bank Banten is one of the banks that plays a crucial role in regional development. Since its establishment, Bank Banten has had a mission to support the development agenda of Banten's infrastructure development, which correlates with economic growth and excellence of life for the people of Banten.

Thus, credit provided by banks can be organized appropriately to reduce the percentage of losses and positively influence the circulation of the economy of Serang, Banten. In its implementation, Bank Banten has risks that must be managed to provide credit properly. In its implementation, Bank Banten has risks that must be managed to provide credit properly.

Increasing non-performing loans can cause adverse effects on banking activities. According to (Widianingsih, 2022), the main risk of non-performing loans will impact the losses of economic actors and financial institutions, ultimately impacting their financial performance.

Minimizing the occurrence of non-performing loans is the goal of effective risk management. Non-performing loan arrangements are managed so that the bank does not experience losses because one of the bank's main revenues comes from credit distribution. The objectives of this study are (1) The level of Non-Performing Loans at Bank Banten in 2020-2022, (2) an Analysis of Bank Banten's credit using the calculation of Non-Performing Loans, (3) Realization of risk management that Bank Banten has implemented to reduce the percentage of bad debts.

THEORETICAL FRAMEWORK AND HYPOTHESES

Conventionally, banks can be interpreted as financial institutions that carry out the main actions of collecting all funds from the public, distributing funds to the public, and providing services for other banks (Kasmir, 2018b). Meanwhile, according to Hasibuan (Irawan & Muarifah, 2020), a bank is also a financial institution with financial assets with profit motives and social motives.

To increase national income and community income, banks will channel funds to businesses with a high level of productivity in various sectors. The funds channeled are generated from bank activities channeling and collecting public funds (Fahrial, 2018). The existence of these bank activities causes banks to have a very crucial role in Indonesia's economy.

In Law No. 10 of 1998 concerning Banking, it can be concluded that a commercial bank is a type of bank that conducts its business activities using conventional principles or sharia principles, and providing services in financial traffic is its main activity (Ministry of Finance, n.d.).

September 11, 1992, began the establishment of "PT Executive International Bank," which was the initial name of Bank Banten when it was first established. PT Executive International Bank began its operations as a commercial bank on August 9, 1993, based on the Decree of the Minister of Finance of the Republic of Indonesia Number 673/KMK.017/1993 dated June 23, 1993 (BANK BANTEN, 2023).

According to (OJK, 2017), Activities realized by commercial banks themselves include:

1. To accept and collect budget sourced from the public in the form of deposits such as demand deposits, certificates of deposit, time deposits, savings, or other forms equivalent to these deposits.
2. Lending.
3. Publish a debt acknowledgment letter.
4. Conduct factoring activities.
5. Conducting financing and foreign exchange activities that meet Bank Indonesia's criteria.
6. Realizing capital holdings under Bank Indonesia standards

Before a bank provides credit to a customer, knowing that the bank will get the credit back is essential. Before making a credit decision, the bank must analyze the customer's creditworthiness to overcome the credit given later, including the category not. The criteria that must be met in conducting a credit assessment include: (1)

Safety, credit must be repaid (2) Suitability, the use of credit must follow the interests and needs of the community (3) Profitable, credit provided can provide profit for debtors and creditors (Desda & Yurasti, 2019).

When conducting credit analysis, a step must be taken, namely qualitative analysis. According to (Kasmir, 2019), the methods used in conducting quality analysis include credit analysis based on the 5C principle, namely: (1) The character of the creditor (2) The ability of the creditor to pay credit; (3) The capital owned by the creditor to pay credit; (4) The current and future economic situation of the customer (5) Collateral, the guarantee that the customer provides to finance the intended credit (digibank, n.d.).

Then credit analysis based on the 7P principle (digibank, n.d.) includes (1) Personality or called the personality of the customer; (2) Purpose, the customer's purpose in receiving a credit; (3) Party, class, or classification determined by the bank in providing credit; (4) Payment, the customer's ability to pay his credit; (5) Prospect, future expectations, especially concerning the object of credit being financed; (6) Profitability, the profit in credit financing obtained from the debtor and creditor; (7) Protection, protection, defense and guarantee for the credit object.

Bad debts can generally be defined as loans that tend to have high consequences or risks. Bad credit can be determined through the things that cause bad credit and the process of overcoming lousy credit.

According to (Ratih Prihatina, 2021) The classification of credit collectibility by the central bank set by the Ministry of Finance is divided into five categories, namely: Col-1 (FRESH), Col-2 (IN SPECIAL ATTENTION), Col-3 (LACK OF FRESH), Col-4 (FAILED), and Col-5 (MACET). The Kol-1 to Kol-2 category is a Performing Loan (PL), while Kol-3 to Kol-5 is included in the Non-Performing Loan (NPL) category. Then, based on the Financial Services Authority Regulation Number 40/POJK.03/2019 concerning Asset Quality Assessment of Commercial Banks, the categories of banking credit collectibility can be described as follows:

1. Col 1 (Current) is when the credit paid by the debtor is always on time. The development of the account is in an excellent position, and there are no arrears. It is also under the credit requirements.
2. Col 2 (Under Special Attention) involves delinquent principal and interest payments for 1-90 days.
3. Col 3 (Substandard) is when there are delinquent principal and interest payments for 91-120 days.
4. Col 4 (Doubtful) is when delinquent principal and interest payments for 121-180 days.
5. Col 5 (Bad Debt) occurs when the debtor has arrears in principal and interest payments for over 180 days.

According to (Ismail, 2018), non-performing loans can be interpreted as loans from financial institutions to customers. However, these customers cannot pay off / pay loan installments based on the agreed agreement between the creditor and the debtor. (Kasmir, 2018a) states that the stages of overcoming credit are carried out with several steps, namely: (1) Rescheduling, rescheduling, (2) Reconditioning re-qualifying, (3) Restructuring re-improvement, (4) Combination, (5) collateral seizure.

Rescheduling is a payment schedule that changes, which is applied so that customers in a state of bankruptcy installments are due according to schedule. So that by rescheduling, customers can pay off installments. *Reconditioning* is the bank's way of revising the terms to make it easier for customers to pay off credit. *Restructuring* is providing additional capital from the bank to customers who deserve to be given additional capital. *Combination* is the combination of re-conditions and restructuring or vice versa. Confiscation of collateral is the last alternative that can be taken if the customer does not have the desire and good intentions to repay the debt.

Risk can be defined as a loss that can occur due to a particular event or action. Risk management is a series of activities and stages carried out to identify, assess, and monitor how the control process is due to business activities' risks (Financial Services Authority, 2016).

Credit risk is when business entities, institutions, and individuals experience obstacles in carrying out their obligations on the due date previously agreed upon by the debtor and the creditor (Utami & Silaen, 2018). Meanwhile, (Drobot et al., 2017) explain that risk management can be a systematic way to develop and apply measures to prevent and reduce the possibility of risk occurrence.

Financial institutions that provide credit services, especially banks, must carry out credit risk management on an ongoing basis, along with an increase in the possibility of credit default risk. Banks must conduct a review before providing credit to those likely to experience future arrears so that it can be anticipated from the start. The

realization of risk management in the internal side of the bank itself, according to (Financial Services Authority, 2016) the policy set by the Financial Services Authority Number 18 / POJK.03 / 2016, has a relationship to the Implementation of Risk Management for Commercial Banks must at least include:

1. Examination of the board of directors and the board of commissioners;
2. Completeness of risk management rules and procedures and establishment of risk limitations;
3. Adequacy in the steps of identification, calculation, observation, and risk mitigation, as well as risk management information systems; and
4. Overall internal management system.

The types of risks that should be monitored and anticipated by commercial banks quoted from (Financial Services Authority, 2016) based on Financial Services Authority Regulation Number 18/POJK.03/2016 of 2016 include: a. Credit Risk; b. Market Risk; c. Liquidity Risk; d. Operational Risk; e. Legal Risk; f. Legal Risk; f. Operational Risk; e. Legal Risk; f. Legal Risk. Operational Risk; e. Legal Risk; f. Reputation Risk; g. Strategic Risk; and h. Compliance Risk. All commercial banks are required to apply Risk Management to all Risks.

Based on the results of research (Then & Defrizal, 2023) in the study "Analysis of the Implementation of Credit Risk Management in Minimizing Non-Performing Loans at Bank Lampung", it is concluded that the implementation of risk management following the 2016 OJK Regulation relating to the implementation of risk management has been carried out effectively. The total NPL in 2021 is 6.5%. According to the predetermined limit, the number has passed, but the number of NPLs has decreased from the previous year, which amounted to 7.8%.

(Ritonga & Inayah, 2022) They studied implementing Risk Management in Minimizing Bad Credit Risk at PT Bank Sumut Syariah Branch Office Medan. With this research, it can be concluded that the realization of credit risk management, which correlates with supervision and control from inside and outside the bank, has gone well. In 2018-2021, the number of NPLs at PT Bank SUMUT Medan Katamso Syariah Branch was still below the specified value, confirming that credit risk management to prevent non-performing loans at PT Bank SUMUT Syariah Branch Medan Katamso has been implemented quite well.

RESEARCH METHODS

This research uses descriptive research with a qualitative approach method. Researchers chose PT Bank Banten as the object of our research. The data used in this research is secondary data sourced from the Financial Statement data of PT Bank Banten for 2020-2022.

The next stage is if the necessary data has been collected, after which an analysis will be carried out related to the application of credit risk management and efforts to handle non-performing loans at PT Bank Banten. Credit risk management analysis quoted from (BANK BANTEN, 2021) includes (1) Active supervision of commissioners and directors; (2) Policies, procedures, and credit limit setting; (3) Identification process, measurement, monitoring, and risk management information system and (4) Internal control system.

In addition, this study also analyzes non-performing loans according to (Darmawi, 2014). Non-performing loans can be calculated in the following way:

$$NPL = \frac{\text{Total Non-Performing Credit}}{\text{Total Credit}} \times 100\% \quad (1)$$

After analyzing non-performing loans at PT Bank Banten, the next step is to analyze the efforts to handle non-performing loans. According to the provisions of Bank Indonesia, efforts to handle non-performing loans include, among others:

1. Rescheduling
2. Reconditioning
3. Restructuring
4. Combination
5. Non-performing loan handling

RESULTS AND DISCUSSION

Credit risk is a risk inherent in lending and lending activities in banking. This risk can cause losses for the bank as a lender because the loans provided experience obstacles in repayment; some even cannot repay the loan.

Bank Banten has additional criteria to determine objective evidence of loan impairment, namely loans with substandard, doubtful, or loss collectibility. These criteria are under Bank Indonesia Regulation (PBI) No. 14/15/PBI/2012, dated October 24, 2012, concerning Asset Quality Assessment of Commercial Banks.

Table 1. Data on non-performing loans and NPLs of PT Bank Banten for the period 2020-2022 (In millions of rupiah)

Year	Number of Non-Performing Loans			Total Loans Outstanding	NPL
	Substandard Loans	Doubtful Loans	Bad Debt		
2020	33.067	59.656	751.110	3.789.819	22%
2021	7.298	13.325	413.768	3.084.002	14%
2022	5.675	40.326	303.508	3.698.388	9%

Source: Bank Banten Annual Financial Report 2020-2022

It can be seen from the data that the NPL ratio of PT Bank Banten has exceeded the standard set by Bank Indonesia; namely, the maximum NPL is at the 5% level. In 2022, the percentage level of Bank Banten's NPL decreased, but the figure is still said to be high and exceeds the maximum limit set. According to Bank Indonesia Regulation No. 15/2/PBI/2013, a bank is considered to have potential difficulties that endanger its business continuity if it has a net non-performing loan (NPL) ratio of more than 5% of total loans. Bank Banten has the potential to experience financial difficulties that can disrupt the company's operations.

The NPL ratio can measure bank credit quality. A high NPL ratio indicates poor credit quality because more and more debtors are unaware of paying their debts (Firmansyah & Sari Sam, 2022). The cause of high NPLs comes not only from debtors but also from banking policies and applying prudential principles in lending that are not good enough. Banks that do not adjust lending rates to economic conditions can make it difficult for debtors to repay their debts. In addition, poor application of the precautionary principle can also increase the risk of non-performing loans (Firmansyah & Sari Sam, 2022).

This high NPL rate creates a credit risk that can cause a high loss level for PT Bank Banten. In addition, this risk can also cause delays in bank operations, so it is necessary to carry out risk management to minimize losses. The bank will always apply the precautionary principle when providing funds to needy parties. A rigorous scan will be carried out before credit is granted to ensure the need for funds and the ability to pay from prospective customers. For customers who experience obstacles to fulfilling their obligations, the Bank will take persuasive actions by communicating and assisting customers to continue to fulfill their obligations. In 2022, the level of customers in the doubtful loan classification decreased by 23%, and bad loans significantly by 166%. Furthermore, for risks that could provide considerable losses, a risk control process will be carried out to minimize the possibility of occurrence.

Implementation of Risk Management at PT Bank Banten

This analysis of risk management implementation is applied to minimize potential risks at PT Bank Banten (Dina Lathifa, 2022).

1. Active supervision of the board of commissioners and directors

The Bank's Board of Directors and Board of Commissioners will meet regularly to discuss the Bank's policies and strategic decisions. The established committees serve as a forum for the Board of Commissioners, Board of Directors, and senior officers to discuss and deliberate on specific issues. The Board of Commissioners, Credit Policy Committee, and Risk Management Committee will meet following the company's internal requirements.

Specific committees such as the Risk Management Committee, Risk Monitoring Committee, Audit Committee, Asset-Liability Committee (ALCO), Credit Committee, and Information Technology Committee play an important role in risk management. However, the risk management organizational structure, policies, and procedures must also be implemented thoroughly. These committees will instruct the Bank to recognize, assess, address, and mitigate risks.

2. Adequacy of Policies, Procedures, and Limit Setting

Bank Banten has strengthened its credit risk management by updating policies and procedures and setting credit limits.

- a. Credit granting criteria
According to Bank Banten's lending policy, they will only provide funds to companies with clear prospects and promising large profits. In addition, the bank also limits lending to companies whose activities are highly dependent on natural resources. Based on the AMDAL principle, it avoids lending to companies that may harm the environment.
Companies related to projects where payments come from the Regional Budget (APBD) and the State Budget (APBN) are prioritized by Bank Banten in lending. Financing of projects whose payments come from the APBD is carried out so that lending can be more directed to sectors that positively impact economic growth and regional development.
 - b. Credit transaction selection
Credit risk transactions are selected at Bank Banten by reviewing the company's ability to generate profits on transactions based on credit analysis as a reference.
Credit limits are determined by calculating the level of transaction risk, including the borrower's circumstances and the ease of collateral settlement based on credit analysis.
 - c. Analysis, approval, and recording of loans.
PT Bank Banten has implemented the division of responsibilities and powers at several steps during the credit granting process. Banking officers are authorized at the time of credit granting to approve and know the specific terms of reference for credit granting. Since 2011, the Account Officer has been required to make a presentation on the credit proposal before the Branch Credit Committee in the pre-approval process. The addition of this presentation method is expected to assist the committee in monitoring debtors so that non-performing loans can be minimized.
 - d. Limit Setting
In channeling credit, Bank Banten always complies with applicable regulations. Bank Banten's compliance with the Maximum Lending Limit (LLL) during the 2020-2022 period shows that Bank Banten has good governance, as reflected in the absence of violations of the LLL by the Bank's management during this period.
3. Identification process, measurement, monitoring, and risk management information system.
- a. Risk identification process
Identifying and evaluating risks is carried out to achieve a goal using risk assessment, a dynamic and interactive process. Risk assessment is an essential step in risk management. This assessment is carried out to compare the risks that have been identified with a predetermined risk acceptance level. The results of this risk assessment will determine the risk mitigation steps that need to be taken.
Bank Banten identifies risks by analyzing customer groups based on the portfolio of loans and parties participating in money market activities.
 - b. Credit risk measurement
The characteristics of the transactions identified as credit risk, the economic conditions of the borrower, the credit period associated with market shifts, security considerations, and the company's ability to withstand failure can be considered when measuring credit risk at Bank Banten.
 - c. Credit risk monitoring
Credit risk is monitored by various organizations, including the Risk Taking Unit, Risk Management Committee, and Risk Management Work Unit (SKMR). This monitoring is carried out periodically and continuously. The company has developed a Dashboard System to monitor the effectiveness of credit activities and the quality of loans granted.
 - d. Management Information System
Bank Banten implements risk control through various means, including risk mitigation, active management of position and portfolio risk, setting targets for concentration risk limits, setting the level of authority to approve loans, and conducting concentration risk analysis regularly, namely once a year, to keep concentration risk under control.
4. Internal Control System
The presentation below is the stages of internal handling that have been realized by the Company, which has a relationship with credit risk:
- a. Mitigate the adverse impact of credit risk by realizing and practicing proactive risk management.
 - b. Enforce the limit of authority to give credit (BWMK), which is efficient.
 - c. Establish and structure the Head Office Credit Committee for Commercial Loans
 - d. Escalation of the role of the Head Office Credit Administration division

- e. Conducting counseling on credit risk
- f. Centralizing the resolution of Non-Performing Loan (NPL)

Analysis of Efforts to Handle Non-Performing Loans at PT. Bank Banten

Based on data from PT Bank Banten's annual financial statements, efforts to handle non-performing loans at the bank are as follows:

1. Rescheduling

Rescheduling attempts to change the credit payment schedule and other credit terms. Management will continue to monitor restructured loans to ensure that borrowers meet the requirements and can make future payments. Rescheduling is given to borrowers who have difficulty paying principal or interest but still have the potential to develop their business.

2. Reconditioning

To overcome the non-performing loan problem, the company changed credit terms. The company changed credit terms from 2020 to 2022 in the form of waivers, namely the reduction of payment arrears, penalties, or credit fines. Banks relieve borrowers with interest payment obligations before their loans are restructured.

3. Restructuring

Bank Banten provides convenience for debtors by extending credit payments (restructuring) and new credit terms. This restructuring changes the structure of the agreement over a long period. In this effort, the company did not change the structure of the agreement either during the COVID-19 Pandemic or after the Pandemic.

4. Combination

Banks provide another way to rescue non-performing loans on the borrower's side, namely by combining reconditioning with restructuring or vice versa.

5. Non-performing loan handling

- a. The bank will auction the collateral provided by the debtor as a condition of credit application.
- b. Debtors repay their credit loans because they can no longer pay the interest that will be charged.
- c. The bank will utilize the *average* reserve requirement instrument and macroprudential liquidity buffer reserve requirement that can be repoed to Bank Indonesia can be another step for the bank's income source. In addition, Bank Banten also builds collaboration with other banks to obtain term loans that are used for standby funds to maintain the amount of liquidity.

CONCLUSION

From the results and discussion above, it can be concluded that credit risk management has been successfully implemented at PT Bank Banten based on data analysis and discussion of the use of credit risk management in reducing non-performing loans is reflected in the decline in NPLs from 22% in 2020 to 9% in 2022. Implementation that has been carried out well, including (1) PT. Bank Banten has implemented a division of responsibilities and powers at several stages during the lending process; (2) Account Officers add credit proposal presentation procedures to the Branch Credit Committee in the approval process before granting credit; (3) Bank Banten itself has a lending policy where their Bank will only provide funds to companies that have evident business continuity and promise large profits, provide restrictions in providing credit to companies whose activities are highly dependent on natural resources, and as much as possible avoid providing credit to types of businesses that can harm the environment based on the AMDAL principle; (4) Credit risk monitoring is carried out periodically and continuously by various organizations, including the management unit or Risk Taking Unit, the Risk Management Committee, and the Risk Management Work Unit (SKMR); (5) Companies related to projects where payments are sourced from the Regional Budget (APBD) and the State Budget (APBN) become Bank Banten's priority in lending; (6) PT. Bank Banten manages relationships with debtors and extends the payment period given to borrowers who have good business continuity. Meanwhile, non-performing loans are settled by conducting collateral auctions, direct repayment, utilizing GMW instruments, and establishing bilateral cooperation with other banks.

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