The Influence of Internal and External Factors with Risk Factors as Mediation Variable to Financial Performance of Regional Development Bank in Indonesia

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Abstract:
Regional Development Bank (BPD) in addition to running activities as a commercial bank, also serves as a promoting agent of development in the region through cooperation with local government as shareholders. Bank Indonesia and the Association of Regional Development Banks have agreed on a BPD transformation program with a vision to realize BPD as a highly competitive and powerful bank and contribute significantly to the growth and equitable regional economy. To achieve these goals, BPD is required to have good financial performance. There are several factors that can affect the financial performance of banks, namely internal factors, external factors and bank risk factors. This study aims to analyze the influence of internal factors and external factors on the financial performance of BPD in Indonesia, analyze the influence of internal factors and external factors on BPD risk factors in Indonesia, analyze the influence of risk factors on financial performance of BPD in Indonesia, analyze the influence of internal factors and external factors to the financial performance of BPD in Indonesia through the mediation of risk factors. This research was conducted in Indonesia by taking the research object of 26 BPD’s financial performance during 2009 until 2016. Indicators used for internal factor variables are asset growth, credit growth and fund growth. External factor variable indicator is inflation, BI rate and exchange rate. Indicators for risk factor variables are NPL, LDR, BOPO, CAR. Indicators of financial performance variables are ROA, ROE, NIM. The analysis technique used is SEM structural equation analysis with PLS alternative. The result of the research shows that the internal factor of the bank has a significant positive effect on the financial performance; the internal factor of the bank has a significant negative effect on the risk factor; the external factor of the bank has a significant negative effect on the financial performance; the external factor of the bank has a significant positive effect on the risk factor; the bank risk factors have a significant negative effect on financial performance; the internal factor of bank significantly have positive effect to financial performance which is mediated by bank risk factor; the external factor of bank significantly negatively affect to financial performance which is mediated by bank risk factor.

I. Introduction:

Regional Development Bank (BPD) is a financial institution which is a regional government in supporting the regional economy. The existence of BPD in provincial based on law UU No.13/1962 has close relationship with local government. In addition to running activities as a commercial bank, BPD also serves as a cashier of local governments in the realization of the budget of regional income and expenditure (APBD). So, BPD has different characteristics with other banks (BUMN, private, foreign and mixed).

However, the financial performance of BPD consisting of ROA, ROE and NIM from 2009 to 2016 is still fluctuating and not always increasing. The fluctuations of these ratios indicate that the implementation in order to realize the ideals of the BRC program as a Regional Champion, is still not maximized. This can not be separated from factors faced by BPD both internal factors related to operational activities as an intermediary institution, as well as external factors in the form of macroeconomic conditions.

The growth of the three indicators of ROA, ROE and NIM becomes crucial for all banks. As stated by Pandia (2012), ROA is an indicator of the bank's ability to earn a profit on a number of assets owned. According to Lestari and Sugiharto (2007), ROA is the ratio used to measure net profit derived from the use of assets. In other words, the higher this ratio the better the asset productivity in obtaining net profit. According to Hanafi and Halim (2016: 157) ROA measures the ability of firms to generate profits by using the total assets (property) owned by the company after adjusted to the costs to fund the asset. ROE according to Pandia (2012) is an indicator of the bank's ability to manage available capital to obtain net profit. While NIM is used to measure the ability of bank management in managing its productive assets to generate net interest income (Pandia, 2012). By considering the definition and function of the three ratios, it can be concluded that monitoring the growth of ROA, ROE and NIM in banking operational activities is a must note considering its role as an indicator of financial performance appraisal in order to realize the company's goals through earning income level desired.

In addition to paying attention to internal factors, the bank management is also required to monitor external factors through monitoring macroeconomic conditions. The Bank in carrying out its operational activities is inseparable from the macroeconomic conditions, the condition is illustrated by the flow of goods and cash flows. If the money circulating in the community is greater than the flow of goods then there will be inflation, which if constantly volatile, will affect the national economic condition that led to the weakening of the exchange rate of the currency (Harmono, 2012). Bank Indonesia as the monetary authority will issue a policy of raising or lowering the interest rate of Bank Indonesia Certificates (SBI) to control inflation which indirectly can stabilize the exchange rate of domestic currency.

According to the Decree of the Director of Bank Indonesia of 1999, to assess the financial performance of banks, five aspects of valuation are used: CAMEL (Capital, Assets, Management, Earning, Liquidity). Capital aspect is assessed using Capital Adequacy Ratio (CAR), asset aspect is evaluated by taking into account Non Performing Loan (NPL), earning aspect is assessed using Operational Cost calculation result compared to Operating Income (BOPO), while liquidity aspect is assessed by considering Loan to Deposit Ratio (LDR).

The purpose of this study are: (1) To analyze the influence of internal factors on the financial performance of BPD in Indonesia; (2) To analyze the influence of internal factors on BPD risk factors in Indonesia; (3) Analyzing the influence of external factors on the financial performance of BPD in Indonesia; (4) Analyzing the influence of external factors on BPD risk factors in Indonesia; (5) Analyzing the influence of risk factors on the financial performance of BPD in Indonesia; (6) Analyzing the influence of internal factors on the financial performance of BPD in Indonesia through the mediation of risk factors; (7) Analyzing the influence of external factors on the financial performance of BPD in Indonesia through the mediation of risk factors.

The benefits of this research are: (1) Theoretically, this research is expected to contribute as a basis for
planning operational management in order to improve bank financial performance through increasing ROA, Return On Equity (ROE) and Net Interest Margin (NIM) as well as by minimizing the potential for possible risks through monitoring of risk indicators by BPD management ranks by taking into account the factors potentially affecting the performance of BPD in Indonesia; (2) Practically, the results of this study are expected to be useful to give consideration to investors in assessing the company's financial performance and things that affect financial performance so as to be able to take the right decision in the investment that will be done.

II. Literature:

**Banking and Banking Performance:**

Banking can be defined as anything that concerns the bank, including institutions, business activities, and ways and processes in carrying out its business activities. While the bank is a business entity that collects funds from the public in the form of savings and channeled to the community in the form of credit and / or other forms in order to improve the standard of living of many people.

Bank Financial Performance The bank's financial performance is a description of the bank's financial condition for a certain period that can be measured by analyzing and evaluating the financial statements. Based on the financial statements, can be calculated a number of financial ratios. Financial ratios are a measuring tool used by companies to analyze financial statements. The following components are used:

Return On Assets (ROA), as the ratio to measure the success of management in generating profit. ROA is an indicator of the ability of banks to earn a profit on a number of assets owned by banks. ROA can be obtained by calculating the ratio between profit after tax with total assets (Pandia, 2012). Return On Equity (ROE), as an observed ratio to measure the capital's ability to generate profits. ROE is an indicator of the ability of banks to manage available capital to obtain net income. ROE can be obtained by calculating the ratio between profit after tax with total equity (Pandia, 2012). Net Interest Margin (NIM), as the ratio used to measure the bank's management capability in managing its earning assets to generate net interest income. The greater this ratio signifies the greater the interest income on earning assets managed (Pandia, 2012).

**Internal Factors of Commercial Banks:**

A. Assets:

Investment in a company is the management of sources in the long term to generate profits in the future. According to Martono and Agus (2005), investment is an investment of funds made by a company into an asset in the hope of obtaining income in the future. Increased assets followed by increased operating results will further increase the confidence of outsiders of the company.

B. Credit:

Credit under the Banking Act Number 10 of 1998 is the provision of money or claims that may be equalized, on the basis of an agreement or agreement between the bank and another party requiring the party financed to refund the money or invoice after a certain period of time in return or a profit share.

C. Third Party Funds:

Third Party Funds (DPK) as described in the Banking Act no. 10 year 1998 concerning banking is fund entrusted by society to bank based on depository agreement in the form of demand deposit, time deposit, certificate of deposit, saving, and or other similar form.

**External Factors of Commercial Banks:**

A. Inflation:

Inflation is an increase in the general price level, thus lowering the value of a country's currency (Serfianto, 2013). Thus, a condition can be identified as inflation is if the price of goods in general increases.

B. Interest Rate of Bank Indonesia (BI Rate):

According Suhendi in Situmeang (2006), the interest rate is the cost to be borrowed by the borrower received and is a reward for the lender and investasinya. According to Puspopranoto (2004) the interest rate is the cost of the borrower or property paid to borrow some funds. From the above definition can be concluded that the interest rate is the cost to be paid by the borrower and the reward received by the lender. The interest rate is the prevailing interest rate in a country that fluctuates from one level to another. Since
September 2005 Bank Indonesia has used the BI rate as the benchmark interest rate applicable in Indonesia. Interest rates have become very important for Indonesia since no longer use of floating exchange rate system is controlled and replaced with free floating exchange rate system.

C. Exchange Rate:

The exchange rate is the ratio of the price of a country's currency to another country's currency (Musdholifah & Tony, 2007). For example, the Rupiah exchange rate against the US Dollar shows the amount of Rupiah needed to be exchanged for one US Dollar. The exchange rate is an exchange between two currencies that differ by the ratio of the value or the price between the two currencies (Triyono, 2008). Thus, it can be concluded that the exchange rate is a comparison of the currency value of a country with other countries. The strengthening of the exchange rate due to the market mechanism is called appreciation while the weakening of the currency exchange rate due to market forces is called depreciation. The exchange rate will pose a risk to the bank especially transactions related to foreign currency, either the asset side or from the liabilities side. The instability of the exchange rate will cause the bank to have difficulty in managing its assets and liabilities.

Risk Factors of Commercial Banks:

Risk is a threat or possibility of an action or event that has an adverse effect on the objective to be achieved (Pandia, 2012). Risk is a deviation of the results obtained from the expected outcome plan. The risk occurs because the future situation is full of uncertainties. Banks have taken various risks and evaluated them daily as part of the core business process. According to Brigham & Houston (2004) that risk is differentiated into business risk and financial risk. Business risk describes the level of risk of fixed assets when not using debt, while financial risks involve additional risk to ordinary shareholders due to additional debt. Risk management is a logical and systematic method of identifying, quantifying, determining attitudes, establishing solutions, and monitoring and reporting risks that take place in any activity or process (Pandia, 2012). All bank activities ranging from absorption of funds to disbursement of funds in the form of credit are very vulnerable to risk. The greater the expected profit of a business, the greater the risk to be faced (Pandia, 2012). Events affecting one area of risk can impact other risks.

III. Method:

Conceptual framework in this research is based on theoretical basis to the concept of research. The following is a conceptual framework as presented in the following figure.

Research design:

This research is based on the purpose of his research including the type of associative research, namely research that examines the relationship between variables, two or more. Based on the level of explanation, this research is explanatory research that is the research which is intended to explain the position of the variables studied and the relationship between one variable with another through the modeling of Structural Equation Modeling - Partial Least Squared (SEM-PLS).

Location, Scope and Time of Study:

This research was conducted in Indonesia by taking the research object of BPD financial performance in Indonesia. BPD was chosen to know the extent to which the financial performance of BPD in Indonesia period of 2009 until 2016. This is because BPD in addition to running activities as a commercial bank, also serves as a cashier Local Government (Pemda), among others related to the realization of budget funds so that BPD has characteristics which is different from other bank groups (SOEs, private, foreign and mixed) that most of the Third Party Fund (DPK) is a fund owned by local government.
Population, Sample and Method of Sample Determination:

According Sugiyono (2013: 80), the population is a generalization region consisting of objects or subjects that will be the quantity and certain characteristics set by the study to be studied and then drawn conclusions. The population in this study is all BPD in Indonesia as much as 26 BPD.

Types and Data Sources:

The type of data used in this study is quantitative data, i.e., data in the form of numbers that can be calculated by unit count. In this study, the quantitative data used are ROA, ROE, NIM, Total Assets, Total Distribution of Credit, Total Deposits, Exchange Rate, Inflation, SBI Rate, CAR, LDR, NPL, BOPO from 2009 to 2016.

The data source in this research is completely secondary data. According Sugiyono (2013: 137), secondary data is data needed to support the results of research derived from literature, articles and various other sources related to the research. Secondary data used in this research were obtained from second source in the form of macroeconomic condition data published by BPS, data of BPD financial report in Indonesia published by Financial Services Authority (OJK) during 2009 until 2016.

Data Analysis Technique:

In this research, structural equation model (SEM) with Partial Least Square (PLS) or SEM based component is used. The Structural Equation Model or SEM is a statistical technique that allows the testing of a relatively complex series of relationships simultaneously and gradually. Complex relationships can be built between one or more independent variables. In SEM the possibility of a construct variable or latent variable is formed by several indicators, and there may also be a variable that doubles as an independent variable in a relationship, but becomes a dependent variable on another relationship, given the existence of a tiered causality relationship.

PLS is a powerful analytical method because it does not assume the data must be on a certain scale of measurement because it is based on nonparametric statistics and can also be used for relatively small number of samples (minimum recommended ranges from 30 to 100). The PLS approach is distribution free, i.e., it does not assume that data must be distributed, for example, to be normally distributed.

The data to be processed can be nominal, ordinal, interval and ratio. As shown in the framework of the concept of relationship between variables in this study, it can be presented structural model in the following figure:

IV. Result Search:

The result of hypothesis testing shows that internal factors have positive and significant influence to the financial performance of BPD in Indonesia. These results indicate that in the period of 2009 to 2016, changes in internal factors through BPD operational activities in the form of asset growth, credit and third party funds, significantly positively affect the financial performance of BPD in Indonesia. The results of this study support the research of Spong et al (1996) which shows that the internal variable of banking finance will greatly affect the level of operational efficiency. The results of this study also supports research Yuliani (2007) which concluded that internal factors represented DPK have a positive and significant impact on the financial performance of banks represented by ROA. Likewise, research by Dietrich and Wanzenried (2011) found that profitability was demonstrated by operational efficiency, credit growth, funding costs and business models. Efficient banks are more profitable than less efficient banks.

The result of hypothesis test shows that internal factors have negative and significant influence to BPD risk factor in Indonesia. These results indicate that internal factors through its operational activities in the form of asset growth, credit growth and growth of third party funds affect the risk factors of...
BPD in Indonesia with the direction of a negative relationship. Where the higher or better internal factors BPD will reduce risk factors in BPD. These results support the Nandadipa (2010) study finding that internal factors represented by DPK negatively affect the risk factors represented by LDR. Similarly, research by Yuliani (2014) found that bank operational activities represented by growth of deposits and credit growth have a significant and negative impact on risk factors such as ROA, ROE and NIM.

The result of hypothesis testing shows that external factor has negative and significant influence to financial performance of BPD in Indonesia. These results are in accordance with the proposed hypothesis, which indicates that external factors have a significant influence on the BPD Financial Performance in Indonesia with the direction of a negative relationship. The results of this study support the research of Dietrich and Wanzenried (2011) entitled Determinants of Bank Profitability Before and During the Crisis: Evidence from Switzerland, which found that macroeconomic characteristics have a significant negative effect on profitability. The results of this study also supports research Harmono (2012) which revealed that macro fundamental factors consisting of inflation rate, BI Rate, and exchange rate significantly negatively affect the bank's performance. However, in this study, the external factor indicator ie inflation rate, BI Rate, is not included in the model because in the first stage of the outer loading analysis, it was found that the inflation rate, BI Rate in the period 2019 to 2016 has a loading value below 0, 5. However, seen as a variable, the external factors have a significant negative effect on bank performance. The results of this study also supports research Octaviyanty (2013) which shows that internal factors and external factors have a significant negative impact on the Performance of Commercial Banks in Indonesia. The result of Fadjar (2013) study found that together the internal factors of banks and external factors of banks have a significant influence on the profitability of banks.

The result of hypothesis testing shows that External Factor has positive and significant influence to BPD risk factor in Indonesia. These results indicate that external factors in the form of macroeconomic conditions consisting of inflation, BI interest rates and exchange rates affect the Risk Factors Regional Development Bank in Indonesia with a positive relationship direction. Where the higher or turbulent external factors BPD will increasingly increase risk factors in BPD. The results of this study support the research Sudiyatno (2010) which states that external factors directly positive impact on risk. This finding also supports research by Khusna (2009) which states that external factors simultaneously have a significant positive effect on corporate risk. Similarly, the results of research Nandadipa (2010) which shows external factors have a significant positive effect on risk factors represented by LDR. This result is in accordance with the research of Poetry and Sanrego (2011) which states that variables that positively significantly influence the risk factors represented by NPLs are macroeconomic factors ie exchange rate, inflation, SBI rate. This is supported by Sri Mey Yanti (2012) which revealed that macroeconomic variables show a positive relationship and have a significant effect on the NPL.

The result of hypothesis testing shows that the Risk Factor has a negative and significant effect on the Financial Performance of BPD in Indonesia. These results indicate that risk factors such as credit risk (NPL), liquidity risk (LDR), operational risk (BOPO) and capital risk (CAR) have an effect on the financial performance of BPD in Indonesia with negative relationship direction. If the level of risk is higher, then the impact on the financial performance of BPD will be inversely related, with the lower the financial performance of BPD. The results of this study support the research of Yuliani (2014) which states that the risk factor, namely NPL has a negative and significant impact on financial performance of ROA. The results of this study also supports research Sudiyatno (2013) which states that risk factors represented by BOPO have a negative and significant impact on bank profitability (ROA). These results also support the Mahardian (2008) study which found that risk factors of BOPO and NPL had a significant negative effect on the financial performance of ROA. The Christianto (2014) study also found similar results. The results obtained by Nursatayani (2011) found that the risk factors of operating efficiency (BOPO) and credit risk (NPL) have a negative and significant effect on the financial performance (ROA) of domestic banks and foreign banks. Research Saputri (2016) found that risk factors that BOPO and NPL have a significant negative effect on financial performance (ROE). This research is different from Mahardian

(International Journal of Contemporary Research and Review, Vol. 9, Issue. 02, Page no: ME 20533-20543)
(2008), where the research finds the risk factor has negative but not significant effect to the financial performance represented by ROA.

The result of hypothesis testing shows that internal factors have a positive and significant influence to the financial performance of BPD in Indonesia through the mediation of risk factors. These results indicate that internal factors affect the financial performance of BPD in Indonesia through risk factors with a positive relationship direction. BPD in carrying out operational activities should always pay attention to bank risk factors, controlling and management of risk factors that will both increase the chances of improved financial performance. The results of this study support the research of Yuliani (2014), entitled Bank Operational Activities and Its Implications on Financial Performance with Risk Factors as a Mediator (Study on the Banking Sector Go Public in Indonesia Stock Exchange), which states that the bank's operational activities can improve financial performance, bank operations have an effect on risk factor, low risk factor can improve financial performance and risk factor become partial mediation of bank operational activity to bank financial performance. Likewise, the relevance of Resende and Perevalov (2010) Nandadipa (2010), Octaviyanty (2013) and Fadjar (2013) findings on the influence of internal factors on risk factors with the findings of Puspitari research (2015), Mahardian (2008) Christiano (2014 ), Sudiyanto (2010 and 2013), Nursatyani (2011), Saputri (2016) on the influence of risk factors on financial performance, indicating risk factors capable of mediating internal factors with financial performance.

The result of hypothesis testing shows that external factor has negative and significant effect to financial performance of BPD in Indonesia through the mediation of risk factor. These results indicate that external factors significantly affect the financial performance of BPD in Indonesia through risk factors with negative relationship direction. The results of this study support the research of Sudiyatno (2010) entitled The Role of Corporate Performance in Determining the Influence of Macroeconomic Fundamental Factors, Systematic Risk and Corporate Policy on Corporate Value, which states that risk acts as intervening variable of interest rate in influencing company performance. From the relevance of the findings of Khusna (2009) research, Nandadipa (2010), Poetry and Sanrego (2011), Sri Mey Yanti (2012) on the influence of external factors on risk factors, with the findings of Puspitari (2015), Mahardian (2008) Christiano (2014), Sudiyanto (2013), Nursatyani (2011), Saputri (2016) on the influence of risk factors on financial performance, indicating risk factors capable of mediating external factors with financial performance.

**Conclusion & Suggestion:**

Based on the previous discussion, it can be formulated as follows:

Internal factors of banks have a positive and significant impact on the financial performance of BPD in Indonesia. This means that achievement of BPD financial performance during the period 2009 to 2016 is strongly influenced by the growth of assets, credit and third party funds. Thus, a good financial performance one of which is reflected in the success of internal factor management and supervision.

Internal factors of the bank have a negative and significant impact on BPD risk factors in Indonesia. This means there is a strong influence with the negative direction between the ability of BPD in Indonesia in managing risks related to operational activities.

External factors of banks have a negative and significant impact on the financial performance of BPD in Indonesia. This means that changes in external conditions must always be monitored by BPD in Indonesia as a material consideration in setting a more sensitive strategy to macroeconomic conditions in order to improve financial performance.

External factors of banks have a positive and significant impact on BPD risk factors in Indonesia. This means that BPD in Indonesia is required to have adequate sensitivity to changes in macroeconomic conditions, so as to identify the risks that will arise as a result, to manage them through the establishment and implementation of anticipatory strategies.

Bank risk factors have a negative and significant impact on the financial performance of BPD in Indonesia. This means that the financial performance of BPD in Indonesia will be severely disadvantaged by the various risks that occur. Thus, monitoring and supervision measures are needed in...
order to minimize risks to prevent weakening of BPD financial performance.

Internal factors of the bank during the period of 2009 to 2016 significantly positively affect the financial performance of BPD in Indonesia are mediated by bank risk factors.

External factors of banks during the period 2009 to 2016 significantly negatively affect the financial performance of BPD in Indonesia are mediated by bank risk factors.

In terms of attention to internal factors, the authorities in the management of BPD are expected to establish policies that support the accelerated increase in asset growth, credit and third party funds in order to achieve better BPD financial performance. This is because the internal factor of the bank proved to be a variable that has a significant influence on the financial performance of BPD. Credit growth became the manifest of the bank's most dominant internal factors, followed by asset growth indicators, and finally growth in third party funds. The largest composition of BPD assets in general is credit distribution. That means, an increase in assets can be done by accelerating the pace of credit growth. For its balance on the liabilities side of the balance sheet, the collection of DPK is also duly upgraded. For this purpose, it may be suggested to the BPD as a regional bank, to optimize and utilize its understanding of the characteristics of the community in their respective areas so as to understand and follow up on the customers' needs and wants. As a bank belonging to the local community, BPD is also superior in terms of emotional closeness making it easier to establish relationships with potential customers. Optimizing the implementation of cross-selling strategies is also recommended, where in cross-selling, employees not only market their service products into their fields, but also other products outside their fields, eg, savings products with working capital loans. Thus, although its nature as a complement in carrying out the main functions according to the task unit of the employee concerned, but the implementation of this strategy is quite effective. Suggestion of application of the combination of the above advantages and strategies is expected to assist BPD in increasing the collection of deposits and circulation of credit, which will also increase the assets.

The management of BPD should pay great attention to the external factor of the bank, especially related to the movement of currency exchange rate, which will affect the economic sectors, in addition to affect the change of inflation rate and the policy of Bank Indonesia through the determination of the SBI interest rate, all of which will affect the financial performance of BPD. Exchange Rate becomes the most dominant manifest of external facto, followed by BI Rate, and inflation rate. One of the steps that can be suggested is by digging information regularly on economic developments and changes in market behavior, both from customer information, print and electronic media, local communities, other financial institutions, and local governments. The existence of good relations and support from local government as partners and shareholders will greatly assist the updating of information, especially on regulations and policies of central and local government that can affect the macroeconomic factors. The information collected is very useful in the formulation of strategies aimed at improving the financial performance of BPD.

All components of BPD should monitor the risk factors, whether occurring, in addition to anticipating risks that may occur, to be considered in determining the strategy, because the risk factor is a variable that either directly or indirectly affect the financial performance BPD. NPL becomes the most dominant manifest of bank risk factor, next is LDR, followed by BOPO, and last CAR. Weakness monitoring risk factors will adversely affect the financial performance of BPD. It can be advised that, in monitoring the NPL, risk mitigation has been done since the credit is processed, realized and managed until the credit is paid off. The series should be in accordance with the SOP of each BPD. The handling of nonperforming loans should be solved through an approach to the debtor to explore information about the main causes of the problem, so that later the credit unit of BPD can determine the settlement step. In the management of BOPO, BPD management should evaluate operational cost items so they can be more efficient without disrupting or slowing down operations. From the LDR side, BPD management phak is advised to monitor and make efforts to encourage acceleration of fund raising if it is not yet comparable with the circulation of credit, which causes the LDR to be high. The high LDR is caused by the collection of DPK not able to offset the level of credit.
disbursement. This will affect liquidity. In controlling the CAR, risks in weighted assets should be minimized. Assets with high risk are low quality credits, which are in arrears. These credits will also increase NPLs. Thus, the success of pressing the NPL level will also show the success of CAR management.

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