

LITERATURE REVIEW : THE IMPACT OF CREDIT RISK, MARKET RISK, OPERATIONAL RISK, AND LIQUIDITY ON FINANCIAL PERFORMANCE AT PT BANK TABUNGAN NEGARA TBK FOR THE PERIOD 2018-2023

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ABSTRACT

This study aims to analyze the financial performance of PT Bank Tabungan Negara during the 2018-2023 using the ratio non-performing loans, market risk, operational risk, and liquidity. This study uses data analysis techniques and the data studied are annual financial reports. The population used in this study is PT Bank Tabungan Negara Tbk for the period 2018-2023. The sample used for testing is limited to the quarterly financial statements of PT. Bank Tabungan Negara for the period 2018-2023. The data was collected using a time series where the data collected is based on the chronological order taken over the past 5 years.

INTRODUCTION

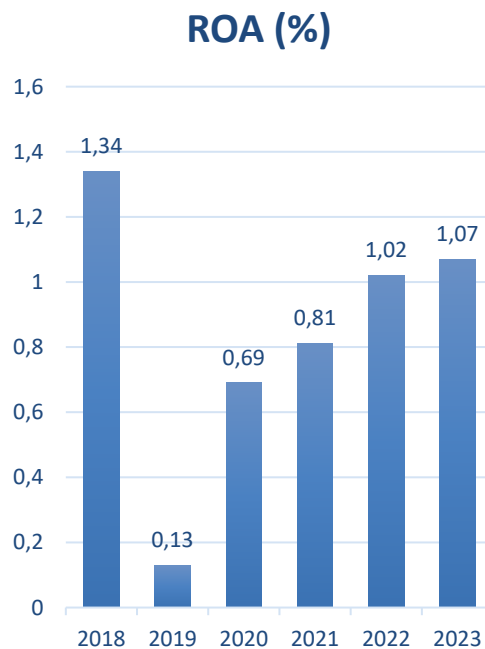
Banking performance is referred to as the success of a bank in terms of finance, marketing, fundraising, and fund distribution over a certain period. Businesses and financial institutions require financial statements that use financial ratios to assess their financial performance. Essentially, financial statements are products of the accounting process and can be used as tools to communicate between financial data and company activities with parties interested in that data or activities (Supit et al., 2019).

BUMN Bank recorded higher profits than private banks throughout the first semester of 2018. The net profit of state-owned banks reached Rp 86.6 trillion by June 2018, an increase of 17.26% year on year (YOY) compared to the same period the previous year, which amounted to 73.9 trillion, according to data from the Financial Services Authority.

However, the COVID-19 pandemic in 2020 halted the progress of Indonesia's government bank. Business operators and the corporate sector collapsed one by one, and millions of workers lost their jobs. Because most of the customers of state-owned banks are corporations, both as depositors and debtors, the decline in the corporate sector has a significant impact on them.

Because this research observes the financial performance of PT Bank Tabungan Negara Tbk during the period 2018-2023, it can be measured through various indicators to determine how good the financial condition of a bank is. Return On Assets (ROA) is a ratio used to assess the financial performance of PT Bank Tabungan Negara Tbk. The higher the ROA generated, the more effective the financial performance.

Figure 1. Performance of Return on Assets (ROA) of PT Bank Tabungan Negara Tbk for the period 2018-2023



Registered on the annual report BTN

Based on Figure 1, the ROA development above tends to show that during the period of 2018-2023, PT Bank Tabungan Negara Tbk experienced a decline in ROA in 2019-2020, which was caused by a decline in 2019. The level of banking welfare was also affected by the Corona virus in 2020. This further exacerbates the problems caused by the financial downturn in Indonesia. And from 2021 to 2023, there was a significant increase from 0.81% to 1.07% in 2023.

One of the main tasks of a bank is to provide credit, so it is natural that credit risk is a problem often faced by the banking industry. There is a phenomenon in the state-owned banking company PT Bank Tabungan Negara Tbk (BTN) where problematic loans amount to Rp. 29.51 trillion. Consisting of Rp. 9.37 trillion from subsidized housing loans, Rp. 10.8 trillion from non-subsidized housing loans, Rp. 1.9 trillion from commercial loans, Rp. 5.8 trillion from cooperative loans, and Rp. 1.65 trillion from sharia financing.

Risk is something that must be avoided in order to achieve profit. The cause of risk is uncertainty, and this uncertainty must be addressed in such a way that its consequences can be eliminated or at least minimized.

THEORETICAL REVIEW

Financial Performance

One of the company's goals is to achieve financial performance, which is a reflection of the company's ability to increase profits and earnings (Zalukhu et al., 2022). Good financial performance will provide a positive assessment of the company's quality, whereas poor financial performance will also lead to a negative assessment of the company's quality (Purwanti, 2021).

The company's financial statements are the best way to see how the company's finances are doing. In the financial statements, financial information includes *Balance Sheet*, *Profit and Loss*, *Cashflow*, and other additional matters to support the assessment of financial performance. Profitability ratio, Return on Assets (ROA), shows the bank's ability to generate profit from the overall management of its assets. In determining the level of a bank's health, which ultimately reflects the bank's financial performance (Eko Sudarmanto, 2021).

$$ROA = \frac{Net\ Income}{Average\ Total\ Assets}$$

Credit Risk

Based on the regulations of the Financial Services Authority, credit risk includes the risk due to the failure of other parties to fulfill their obligations to the bank, such as credit risk due to debtor failure, credit concentration risk, other party credit risk, and settlement risk.

Credit risk causes banking assets to encounter problems, and the more credit issues that arise, the more reserves banks must provide. The measurement of credit risk can facilitate the measurement of capital management and assist in making credit distribution decisions as well as better portfolio allocation (Eko Sudarmanto, 2021).

The level of credit risk in this study is proxied by NPL (Non-Performing Loan), Non-Performing Loans (NPLs) are loans that have matured but have not been paid back by the borrower, typically for more than 90 days. NPLs show poor asset quality on a bank's balance sheet and can suggest a significant credit risk (Putra, 2024).

$$NPL = \frac{Non-Performing\ Loan}{Credit}$$

Market Risk

Based on the regulations of the Financial Services Authority, market risk is the risk that occurs in the balance sheet and administrative accounts, including derivative transactions, as a result of changes in overall market conditions, including the risk of option price changes.

Divided into four categories, past risks are also known general market risk, Interest Rate Risiko, Foreign Exchange Risk, Equity Risk, Commodity Risk. Market risk is a systematic risk that cannot be mitigated solely through portfolio diversification; instead, it can be reduced through various strategies such as hedging, especially in activities that use options or futures contracts(Eko Sudarmanto, 2021).

One way to measure market risk is by using *Net Interest Margin* (NIM).

$$NIM = \frac{Net\ Operating\ Income}{Average\ Productive\ Assets}$$

Operational Risk

Based on the Financial Services Authority Regulation Number, operational risk is the risk that arises from internal processes that do not function properly, human error, system failures, and/or external events that affect the bank's operations.

To balance operational costs with operational income, the BOPO ratio (Operational Costs to Operational Income) is used in this research to explain how a bank operates. With a lower BOPO, the business operates better. This shows that the bank is using its resources more effectively (Fadriyaturohmah & Manda, 2022).

With the BOPO ratio formula as follows:

$$BOPO = \frac{Operating\ Costs}{Operating\ Income}$$

Liquidity

Based on the regulations of the Financial Services Authority, liquidity is when a bank cannot meet its maturing obligations using cash flow funding sources and high-quality liquid assets that can be pledged without disrupting the bank's activities and financial condition.

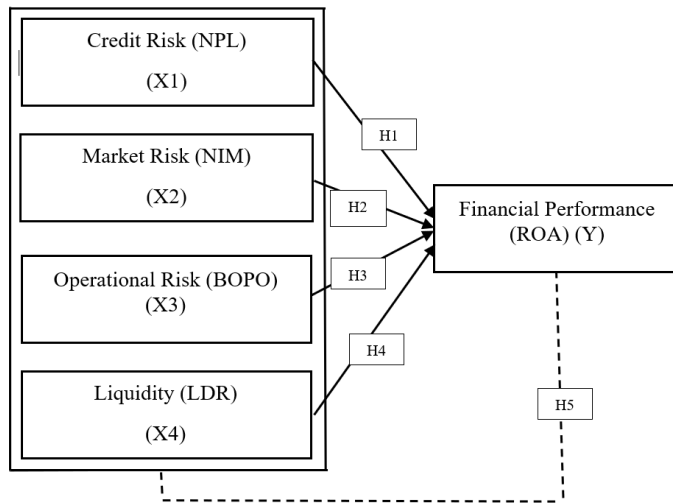
Loan to Deposit Ratio (LDR) is a calculation that compares the total value of loans issued by a bank with the funds received from third parties. Funds from third parties include deposits in the form of savings, time deposits, and current accounts obtained from customers or the general public (Maula et al., 2024).

With the LDR ratio formula as follows:

$$LDR = \frac{Credit}{Third-Party\ Funds}$$

CONTEXTUAL FRAMEWORK

Figure 2. Conceptual Framework



HYPOTHESIS

The Influence of Credit Risk on Financial Performance

Credit risk is the risk caused by the failure of a debtor or another party to fulfill their obligations to the bank (Horo et al., 2023). In this study (Korompis et al., 2020) the research findings indicate that Credit Risk has a significant impact on Financial Performance. Based on previous theories and research, the author formulates the following hypothesis:

H₁ : It is suspected that Credit Risk affects financial performance.

The Influence of Market Risk on Financial Performance

Market risk is a condition experienced by a company as a result of changes in external market conditions and situations beyond the company's control. This risk includes changes in overall market conditions, including changes in option prices opsi (Mambu et al., 2022). In the study (Desiko, 2024), the research results indicate that Market Risk has a significant impact on Financial Performance. Based on previous theories and research, the author formulates the following hypothesis:

H₂ : It is suspected that Market Risk affects financial performance.

The Impact of Operational Risk on Financial Performance

Operational risk is the risk caused by internal problems within a company that lead to a weak management control system. Operational risk can cause direct and indirect financial losses as well as eliminate profit opportunities (Fadriyaturohmah & Manda, 2022). In the research (Sunaryo et al., 2021), the results indicate that the Operational Risk variable affects Financial Performance. Based on previous theories and research, the author formulates the following hypothesis:

H₃ : It is suspected that Operational Risk affects financial performance.

The Influence of Liquidity on Financial Performance

Profitability decreases along with the reduction in liquidity risk (Loan to Deposit Ratio) (Sante et al., 2021). On the other hand, an increase in liquidity risk (Loan to Deposit Ratio) results in greater profits. This is due to the fact that banks use all the funds they have to conduct their business activities through credit distribution, which results in increased profits. In the research (Lalon et al., 2023), the results indicate that liquidity has a significant positive effect on financial performance. Based on previous theories and research, the authors formulate the following hypothesis:

H₄ : It is suspected that liquidity affects financial performance.

The Influence of Credit Risk, Market Risk, Operational Risk, and Liquidity on Financial Performance

In the study (Fadriyaturrohmah & Manda, 2022), the research results indicate that Credit Risk, Liquidity Risk, and Operational Risk significantly affect financial performance. Based on previous theories and research, the author formulates the following hypothesis:

H₅ : It is suspected that Credit Risk, Market Risk, Operational Risk, and Liquidity affects financial performance.

METHODOLOGY

This literature review uses a quantitative approach. multiple linear regression analysis is used to test hypotheses. Using a computer program in the form of the Eviews (Econometric Views) version 12 statistical analysis tool. The quantitative approach is a type of systematic scientific research that involves the analysis of collected numerical data. The purpose of quantitative research is to create and use mathematical models, theories, or hypotheses related to the phenomena being studied. In this study, the population is based on the financial annual report data of PT. Bank Tabungan Negara (Persero), Tbk. during the period 2018-2023. The sample serves as a representative of the population to be studied. According to the research objectives, the aim is to determine the impact of credit risk (NPL), market risk (NIM), operational risk (BOPO), and liquidity on financial performance (ROA). The sample used for testing is limited to the quarterly financial statements of PT. Bank Tabungan Negara for the period 2018-2023. The data was collected using a time series where the data collected is based on the chronological order taken over the past 5 years.

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