
The Effect of Third-party Funds, Non-performing Loans, and Capital Adequacy Ratio on Credit Disbursement with Credit Risk as a Moderating Variable

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Abstract

This study aims to analyze the effect of Third-Party Funds, Non-Performing Loans, and Capital Adequacy Ratio on credit disbursement with credit risk as a moderating variable in state-owned banks listed on the Indonesia Stock Exchange during the period 2019-2023. The research method used is explanatory research with a purposive sampling technique. Data analysis is conducted using panel data regression with the Fixed Effect Model (FEM). The results of the study indicate that Capital Adequacy Ratio has a negative and significant effect on credit disbursement, Non-Performing Loans does not have a significant effect on credit disbursement, Third-Party Fund does not have a significant effect on credit disbursement, while credit risk as a moderating variable has a positive and significant effect on the relationship between independent variables and credit disbursement. This demonstrates that credit risk strengthens the effect of these variables on credit disbursement, with a coefficient of determination of 53.5%. The implications of this research suggest that in determining credit disbursement policies, state-owned banks need to specifically consider factors like Capital Adequacy Ratio and credit risk.

Keywords: Credit Risk, Non-Performing Loans, and Capital Adequacy Ratio

1. Introduction

Financial health is a critical factor for the overall stability of the financial system. Third-party funds, Non-Performing Loans, and the Capital Adequacy Ratio are indicators that reflect key aspects of a bank's financial health. Economic development in Indonesia increased by 3.69 percent in 2023, a figure higher than the decline of 2.07% in 2020 (OJK, 2023). The GDP structure in the fourth quarter of 2022 was dominated by the Industrial, Trade, Agriculture, Construction, and Mining sectors (Nur Pratiwi et al, 2023). The industrial sector ranked highest in the GDP structure at 18.80%, followed by the trade sector at 12.71%. The rise in the industrial, trade, and other sectors cannot be separated from the role of the monetary sector (Musdholifah et al., 2019). As one of the institutions in the monetary sector, banks play an important role in economic development, one of which is by providing funding channels to growing industrial sectors that need funds to expand their businesses. In this context, (Financial Bisnis,2022) ct as financial intermediaries or mediators between communities with surplus funds and those with funding shortages (Musdholifah et al., 2019). Therefore, the funds collected will

be channeled through credit. According to finansial.bisnis.com, banking credit growth, and credit disbursement were recorded at (5,755.7 trillion IDR) Compared to the previous period, credit growth showed a positive increase of 4.9 percent. Differentiated by type, an increase in credit distribution occurred in working capital credit and consumer credit, while on the other hand, investment credit was recorded as slowing. The Credit disbursement activities require banks to have substantial capital that maintains the continuity of the bank's business and the provision of loan funds. Because, in disbursing credit, banks will have credit risks. Thus, in resisting potential risks faced, a bank's capital capability becomes a determinant of whether the bank can withstand the risks caused by credit provision. Therefore, banks are obliged to maintain their capital adequacy to ensure the availability of funds for the sustainability of the bank's business (Kieso et al., 2019). In this regard, Bank Indonesia has set a minimum capital adequacy ratio of 8% projected through the Capital Adequacy Ratio. That depicts a bank's presence in the capital aspect to withstand potential credit risks that could cause losses (Sudarmanto et al., 2021). If a bank can maintain a Capital Adequacy Ratio ratio of around 8%, it is considered capable of avoiding a decrease in its assets as a consequence of bank losses caused by risky assets. A bank is a business, and therefore, it is also required to be able to generate maximum profit for the sustainability of its business. By generating high profits, banks can gain public trust to gather funds, so that these funds can be re-lent by the bank to the community in the form of credit. High-profit attainment gives the public confidence that the bank has been effective and efficient in managing its business. Banking and financial regulations implemented by the supervisory authorities can influence the credit strategy and policy of state-owned banks. Changes in policy or regulatory requirements can affect how state-owned banks disburse credit.

Signal theory is a concept where signals, in the form of information about a company's condition, are sent by the owner (information holder) to the receiver (investor or other external parties). Signal theory asserts that information is a crucial element for investors and businessmen because it provides details that reflect the state of the company in the past, present, and future. Information required by investors must be complete, accurate, relevant, and timely so that investors can make appropriate decisions when investing. The relevance of signal theory to this research is that banks with good performance and financial ratios are viewed as positive signals that will increase public trust in gathering funds and redistributing them in the form of credit. Additionally, some investors interpret a company's financial ratios as a basis for decision-making, whereas in this study, investors can review the financial performance of banks. Jensen & Meckling (1976) define agency theory as an agreement between one or more individuals (principals) as owners of economic resources involving others (agents) as management to handle the resources of the principal. In this context, the principal entrusts the agent with tasks and responsibilities to fulfill the principal's interests, namely generating profits commensurate with the invested capital. Internal and external parties are involved in this theory because both have concerns about the company. Internal parties, such as management, along with external parties, such as investors, share a common goal: to maximize company performance and thus increase profits to enhance shareholder welfare. However, differences in perspective between management and shareholders in managing the company give rise to agency problems or agency

issues. The relevance of agency theory to this study refers to the community, in this case, customers, who act as principals, and the bank which acts as the agent.

2. Literature Review

Signalling Theory

According to Brigham and Houston (Sofiatin, 2020), a signal is an action taken by a company to provide an indication to investors about how management views the company's prospects. This signal comes in the form of information about what management has done to realize the owner's wishes. By ensuring transparency and regular updates, management helps the owners understand the progress being made towards achieving their objectives. According to Scott (Oktariko, 2018), signalling theory explains that company managers who have better information about their company will be motivated to convey this information to potential investors with the aim of increasing the company's value through reporting by sending signals through good financial reports regarding working capital information and financial ratios. The announcement of information in the form of financial statements and financial condition analysis can signal that the company is stating good prospects in the future, so that investors and potential investors are interested in investing in the company.

Credit Disbursement

Credit distribution is the main activity of banks as financial institutions. However, in carrying out its function as a financial intermediary institution between parties who have funds or surplus funds and parties who need funds or deficit funds, it is inseparable from risks, especially credit risk, which is the risk arising from the distribution of funds to the public in the form of credit (Jayanti and Farahiyah, 2021)

Credit disbursement is a primary activity of banks in channeling collected funds to the public. According to (Kasmir,2014), credit involves the provision of money or claims equivalent to it, based on a borrowing agreement between the bank and another party, obliging the borrower to repay the debt after a certain period with interest.

Capital Adequacy Ratio

Capital is an important basic element that must be owned by a bank. Banking if a bank's capital is described by the use of Capital Adequacy Ratio. The ratio is used in measuring the adequacy of equity owned and stored in the bank to cover any risk or loss that may arise due to the investment of assets that can result in risk. The equity in question is the total capital owned by the bank, namely core equity plus complementary equity (Primasari, 2015).

Capital Adequacy Ratio is a comparison of the ratio between capital and risk-weighted assets and in accordance with government regulations (Puji Astuti et al., 2023). Meanwhile, according to Setiyoso & Suardana (2022), the Capital Adequacy Ratio is a capital ratio that shows the bank's ability to provide funds for business development needs and accommodate the risk of loss of funds caused by bank operational activities, such as in providing credit. CAR is a capital adequacy ratio that indicates a bank's ability to provide funds for business development and to

absorb the risk of financial loss due to bank operations (Kuncoro and Suhardjono, 2011) and shows that Capital Adequacy Ratio significantly affects credit disbursement (Pratiwi et al., 2023) Non-Performing Loan The level of credit collectibility that is considered to have problems and can disrupt operational activities, namely the occurrence of bad credit or known as Non-Performing Loan is the percentage of problematic credit with the criteria of substandard, doubtful and bad credit to the total credit distributed. Non-Performing Loan is a ratio used to measure a bank's ability to cover the risk of credit repayment failure by debtors (Darmawan, 2017).

Third Party Funds

Third party funds are funds that come from the wider community. This source of funds is the most important source of funds for a bank's operational activities and is a measure of a bank's success if it is able to finance its operations from this source of funds. The importance of sources of funds from the community is because sources of funds from the community are the most important source of funds for banks. Basically, sources from the community can be: Demand deposits, Savings, Time deposits that come from individual customers or an agency Third Party Funds are funds collected by banks from the public, which play a crucial role in the banking sector's ability to distribute credit (Kasmir, 2014). These funds are a primary source of capital for banks to conduct their intermediary function (Kuncoro & Suhardjono, 2011)

Credit Risk

Credit risk is the risk arising from the failure of debtors and/or other parties to meet their obligations to the bank (Bank Indonesia, 2009). As a moderating variable, credit risk can strengthen or weaken the relationship between independent variables and credit disbursement on how these were derived from theory or are logically connected to previous data and argumentation. This shows that there is a clarity of developing such rationale from the used previous data and argumentation from Bank Sectors in Indonesia. Also, if you have some hypotheses or questions that are central to your purpose and others that are secondary or exploratory, state this prioritization. Explain how the research design permits the inferences needed to examine the hypothesis (H) or provide estimates in answer to there following hypothesis in questions. They are:

H1: Third Party Funds have a positive and significant effect on Credit Distribution.

H2: Non-Performing Loan has a positive and significant effect on Credit Distribution.

H3: Capital Adequacy Ratio has a positive and significant effect on Credit Distribution.

3. Method

3.1 Identify Subsections

The research object is the target for obtaining data. According to Sugiyono (2019), a research object is anything of any form that is determined by researchers to be studied in order to obtain information about it, and then draw conclusions. The objects of this research are third party funds, non-performing loans, capital adequacy ratio, and credit distribution.

3.2 Sampling Procedures

Population Characteristics

The population for this study consists of companies that meet the following criteria:

- (a) Companies in the conventional banking sub-sector listed on the Indonesia Stock Exchange.
- (b) Companies that have published audited financial statements annually during the 2019-2023 period.

3.3 Sample Size, Power, and Precision

According to (Budi Zulfachri,2017), a sample represents a portion of the population's size and characteristics. This study employs purposive sampling, a technique where samples are selected based on specific objectives and criteria. In this case, the sample consists of 36 companies chosen based on the aforementioned population characteristics.

3.4 Measures and Covariates

This research utilizes secondary data. As defined by (Sugiyono,2019), secondary data is information not directly collected by the researcher but obtained from existing sources that support the research. The secondary data for this study includes annual financial statements and historical financial ratio reports for each conventional banking company from 2019 to 2023. These data are sourced from the official websites of the Indonesia Stock Exchange (IDX) at www.idx.co.id and the Financial Services Authority (OJK) at www.ojk.go.id.

3.5 Research Design

The data used in this study is pooled data, which combines time series and cross-sectional data. This approach allows for an expansion of the sample size and increases the statistical power of empirical testing. All data is secondary in nature, as it is indirectly collected from the companies that serve as the units of analysis in this study.

4. Result

4.1. Descriptive Statistics

Descriptive analysis aims to provide an overview of each variable used in the study. The variables include Capital Adequacy Ratio, Non-Performing Loan, and Credit Disbursement with Credit Risk as a moderating variable. The descriptive statistics used in this study encompass minimum, maximum, mean, standard deviation, skewness, and kurtosis. Based on the results of the descriptive statistical analysis, the following data was obtained:

Table 1. Descriptive Statistics

	Third Party Funds	Non-Performing Loan	Capital Adequacy Ratio	Credit
Mean	3.235136	4.395067	-0,152446	17.26633
Maximum	5.135328	6.635225	1.460938	20.75263
Minimum	2.409644	2.513656	-3.912023	12.55952
Std. Dev.	0.420557	0.370401	1.079713	1.864536
Skewness	1.523684	0.107296	-0.710793	0.025645
Kurtosis	6.492164	15.11028	2.982666	2.197938
N	161	161	161	161

Source: Eviews 12 Output Results (Processed data)

Based on the table above, the results of the descriptive statistical analysis can be described as follows:

Third-Party Fund shows a mean value of 3.235136, a maximum value of 5.135328 at PT Bank Jago Tbk in 2021, and a minimum value of 2.409644 at PT Bank Mayapada Internasional Tbk in 2022. The standard deviation is 0.420557, indicating less variability in data distribution as the standard deviation is lower compared to its mean.

Non Performing Loan displays a mean value of 4.395067, a maximum value of 6.635225 at PT Bank OKE Indonesia in 2018, and a minimum value of 2.513656 at Bank Capital Indonesia in 2021. The standard deviation is 0.370401, indicating less variability in data distribution as the standard deviation is lower compared to its mean.

Capital Adequacy Ratio shows a mean value of -0.152446, a maximum value of 1.460938 at PT Bank Mestika Dharma Tbk in 2021, and a minimum value of -3.912023 at PT Bank QNB Indonesia Tbk in 2019. The standard deviation is 1.079713, indicating more variability in data distribution as the standard deviation is higher compared to its mean.

Credit Disbursement indicates a mean value of 17.26633, a maximum value of 20.75263 at PT Bank Rakyat Indonesia Tbk in 2022, and a minimum value of 12.55952 at PT Bank Jago Tbk in 2019. The standard deviation is 1.864536, suggesting less variability in data distribution as the standard deviation is lower compared to its mean.

4.2. Panel Data Regression Analysis

The regression analysis was conducted to determine the effects of the independent variables, Third-Party Fund, Non Performing Loan, and Capital Adequacy Ratio, on the dependent variable, Credit Disbursement, with Credit Risk as the moderating variable. The following results were obtained from the panel data regression model:

The partial test primarily aims to demonstrate the individual impact of independent variables on the dependent variable. The results of the hypothesis testing on a partial basis are as follows:

Table 2. Panel Data

Dependent Variable: Y				
Method: Panel Least Square				
Date: 08/18/24 Time: 04:12				
Sample: 2019 2023				
Periods included: 5				
Cross-sections included: 36				
Total panel (unbalanced) observations: 161				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	42.64936	4.796419	8.891917	0.0000
TFP	-1.730689	0.245414	-7.052113	0.0000
CAR	0.509968	0.281555	1.811255	0.0720
NPL	0.271928	0.162138	1.677138	0.0955
MODERATING	0.842481	0.121381	2.614912	0.0421

Source: Eviews 12 Output Results (Processed data)

$$Y = 42.6493 - 1.7306(TPF) + 0.5099(NPL) + 0.2719(CAR) + 0.842481 (XM_1) + \epsilon_1$$

Third-Party Fund has a significant negative impact on Credit Disbursement, with a coefficient of -1.7306 and a p-value of $0.0000 < 0.05$. This indicates that each one unit increase in TPF will decrease Credit Disbursement by -1.7306. This contradicts the initial statement suggesting a positive influence, reflecting that higher capital adequacy may restrict the bank's ability to disburse more credit due to regulatory capital constraints. Non Performing Loan does not significantly influence Credit Disbursement, with a coefficient of 0.509968 and a p-value of $0.0720 > 0.05$. This suggests that increases in Non Performing Loan contribute positively but not significantly to Credit Disbursement. Although Non Performing Loan typically indicate risk, the positive coefficient might suggest that banks with higher NPLs are still disbursing credit, potentially in efforts to restructure or recover loans. Capital Adequacy Ratio also does not have a significant effect on Credit Disbursement, with a coefficient of 0.509968 and a p-value of $0.0955 > 0.05$. This indicates that improvements in TPF contribute positively but not significantly to Credit Disbursement. The positive direction implies that more profitable banks might extend more credit, although the effect is not statistically significant in this model. The moderating factor, represented by Credit Risk, has a significant positive impact on Credit Disbursement, with a coefficient of 0.842481 and a p-value of $0.0421 < 0.05$. This shows that Credit Risk positively moderates the relationship between Third-Party Fund, Non Performing Loan, and Capital Adequacy Ratio with Credit Disbursement. The presence of Credit Risk as a moderating variable indicates that its management can enhance the positive effects of the independent variables on Credit Disbursement.

4.3. F-Test Analysis

Table 3. F-Test Analysis

R-Squared	0.535476	Mean dependent variable	17.26633
Adjusted R-squared	0.523565	S.D. Deviation of dependent variable	1.864536
S.E. of regression	1.286982	Akaike information criterion	3.373040
Log Likelihood	-266.5298	Schwartz criterion	3.468736
F-Statistic	44.95696	Hannan-Quinn criterion	3.411897
Prob (F-Statistic)	0.000000	Durbin-Watson statistic	1.979594

Source: Eviews 12 Output Results (Processed data)

Based on the simultaneous testing results (F-test) provided, the significance value obtained is 0.000, which is less than the threshold of 0.05. Furthermore, a comparison between the F-count and F-table reveals that F-count is 44.95696, while F-table is 2.43. Given that F-count significantly exceeds F-table ($44.95696 > 2.43$), it can be concluded that the independent variables— Third-Party Fund, Non Performing Loan, and Capital Adequacy Ratio, along with Credit Risk as a moderating variable, have a significant collective or simultaneous impact on Credit Disbursement.

4.4. Determination Coefficient Test

Based on the table 3, the coefficient of determination test indicates that the R-squared (R^2) value is 0.535476, meaning that 53.5% of the variability in the dependent variable, Credit Disbursement, can be explained by the independent variables: Third-Party Fund, Non Performing Loan, and Capital Adequacy Ratio, with Credit Risk as the moderating variable in this study. The remaining 46.5% is explained by other variables outside the model.

The results show that among the variables studied, Capital Adequacy Ratio has the most significant impact on credit disbursement, albeit in a negative direction. This indicates that state-owned banks tend to be more conservative in disbursing credit when their capital adequacy ratio increases. Non Performing Loan and Capital Adequacy Ratio do not have a significant impact, which may suggest that during the study period, other factors were more dominant in influencing the credit disbursement decisions of state-owned banks. Credit Risk, as a moderating variable, plays a crucial role in strengthening the relationship between the independent variables and credit disbursement. This shows that state-owned banks consider credit risk in their credit disbursement decisions.

5. Discussion

Influence of Third-Party Funds on Credit Distribution

Third-Party Funds have been found to have a positive influence on credit distribution in banks. This relationship can be explained by the following points, Increased Lending Capacity As TPF

increases, banks have more funds available to lend, directly impacting their ability to distribute credit (Murdiyanto, 2012).

Primary Source of Third-Party Fund serves as the primary source of funds for banks to conduct their intermediary function, including credit distribution, Operational Support: Higher TPF levels provide banks with more operational flexibility, allowing them to expand their credit offerings. Third party funds are one of the indicators to determine the amount of credit disbursement made by banks. The more third party funds collected by a bank, the more funds the bank will have. These funds will then be distributed to the community again in the form of credit. The more funds that can be collected by the bank, the greater the credit that can be distributed by the bank. That way, the number of people who borrow from the bank will increase and the funds collected by the bank will circulate back into the economy and the bank will get more income from interest on credit loans given to the community. The availability of Third Party Funds in the short term will directly affect the decision-making on Credit Distribution in that time period to debtors.

Influence of Non-Performing Loans on Credit Distribution

Contrary to what might be expected, Non-Performing Loans have been found not to significantly influence credit distribution in some studies. This can be attributed to: Risk Management Strategies Banks may have effective risk management strategies in place that mitigate the impact of Non Performing Loan on their lending decisions. Regulatory Pressure: Despite high Non Performing Loan, banks may continue lending due to regulatory pressure or to maintain market share. Economic Conditions: In certain economic conditions, the relationship between Non Performing Loan and credit growth may weaken (Barus & Lu, 2013).

This is because the increase in Non Performing Loans may not necessarily affect credit distribution in banks. According to (Riyadi, 2006), the higher the Non Performing Loan level, the more the bank is not professional in managing its credit. The insignificant effect indicates that the high Non Performing Loan is still within reasonable limits, does not exceed the specified limit and can be controlled by the bank, so that the increase in Non Performing Loans does not affect the distribution of credit that is distributed.

Influence of Capital Adequacy Ratio on Credit Distribution

Capital Adequacy Ratio has been found to not significantly influence credit distribution in some research. This can be explained by As long as banks meet the minimum requirements, they may not consider it a limiting factor in credit distribution (Oktaviani & Pangestuti, 2012). Banks with high Capital Adequacy Ratio may prioritize other investments or activities over credit distribution and A bank's risk appetite and strategic decisions may have a more significant impact on credit distribution than Capital Adequacy Ratio (Yulhasnita, 2013).

This is because cannot necessarily increase credit distribution in banks. The insignificant effect is possible because banks prefer to strengthen the capital structure in maintaining the level of capital adequacy owned and not fully allocate it to credit distribution that has a high risk. In accordance with the theory of All banks are required to meet the level of capital adequacy which is adequate to maintain their liquidity.

6. Conclusion

Third-Party Fund has a significant negative effect on credit disbursement in state-owned banks listed on the Indonesia Stock Exchange for the period 2019-2023. This indicates that a higher Third-Party Fund tends to decrease the amount of credit disbursed. This phenomenon may be attributed to banks focusing more on using their capital to anticipate risks and meet minimum capital requirements, rather than on disbursing credit. Non-performing loans do not have a significant impact on credit disbursement. This indicates that the level of problematic loans does not significantly influence the banks' decisions to disburse credit during the study period. Similarly, Capital Adequacy Ratio does not significantly affect credit disbursement, suggesting that the banks' profitability levels do not directly influence their credit disbursement policies during this period. Credit risk, as a moderating variable, has a positive and significant impact on the relationship between the independent variables and credit disbursement. This demonstrates that credit risk strengthens the effect of these variables on credit disbursement, with a coefficient of determination of 53.5%. The implications of this research suggest that in determining credit disbursement policies, state-owned banks need to specifically consider factors like Third-Party Fund and credit risk. Meanwhile, Non Performing Loans and Capital Adequacy Ratio may not be the primary considerations in credit disbursement decisions during the study period. This study also indicates that there are other significant factors affecting credit disbursement that are not covered in this research model.

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