JOURNAL OF APPLIED MANAGERIAL ACCOUNTING
Vol. {8}, No. {2}, {2024}, {188-196}
ISSN: {2548-9917} (online version)

Article History
Received {September, 2024}
Accepted {October, 2024}

EVALUATION OF BANK NAGARI'S FINANCIAL HEALTH: RISK-BASED BANK RATING (RBBR) ANALYSIS DURING THE 2020-2023 PERIOD

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ABSTRACT

This research aims to evaluate the health level of Bank Nagari using the Risk-Based Bank Rating (RBBR) method during the 2020-2023 period. The RBBR method evaluates bank performance based on four main components: Risk Profile, Good Corporate Governance (GCG), Earnings, and Capital (RGEC). This research uses a quantitative descriptive method by collecting data from the annual financial reports and GCG reports of Bank Nagari for the last four years. This analysis includes measuring various risk indicators such as credit risk, market risk and liquidity risk, as well as evaluating financial performance based on profitability and capital adequacy. The research results show that Bank Nagari's overall health level is very healthy. In 2020, Bank Nagari obtained a composite score of 86%, increasing to 90% in 2021 and returning to stability at 86% in 2022 and 2023. Factors such as Return on Assets (ROA) and Capital Adequacy Ratio (CAR) show consistent improvement, reflecting solid financial performance and good risk management. This research concludes that effective risk management and good GCG practices have contributed to the stability and health of Bank Nagari during the analyzed period.

Keywords: Bank Health Level; Risk-Based Bank Rating; Bank Nagari

1. INTRODUCTION

Financial institutions, especially banks, have a strategic role in driving the wheels of a country's economy. Banks facilitate the public in saving funds and obtaining funding, with three main functions: collecting funds from the public through savings, distributing funds in the form of credit, and providing other services to improve people's living standards (Budisantoso & Nuritomo, 2017). Banks act as intermediaries between parties who have excess funds and those who need funds, so a healthy bank is very important.

Bank health is the main indicator of financial system stability. Unhealthy banks can trigger a financial crisis that has a broad impact, both on the banking sector itself and the economy as a whole. Based on Bank Indonesia Regulation No.13/1/PBI/2011, bank health reflects the condition and performance of the bank, which is used by the supervisory authority to determine supervisory strategies (Bank Indonesia, 2011). Bank health assessment aims to determine whether the bank is in a very healthy, healthy, quite healthy, unhealthy or unhealthy condition. This assessment determines the continuation of the bank's operations.

The Risk-Based Bank Rating (RBBR) method has been established as the standard for assessing bank performance and risk. This method evaluates four main components: Risk Profile, Good Corporate Governance (GCG), Earnings, and Capital (RGEC) (Permana, 2012).

The risk profile includes inherent risk analysis and the quality of risk management implementation in the bank's operational activities. The main indicators to assess the risk profile are the Non-Performing Loan (NPL) ratio and the Loan to Deposit Ratio (LDR). NPL measures the percentage of loans that fail to pay against the total loans the bank provides. In

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contrast, LDR measures bank liquidity by comparing the total loans provided with the total funds received from depositors (Iradianty, 2021). Research shows that a high NPL ratio can indicate poor credit quality and increase credit risk (Rotinsulu et al., 2015).

GCG is assessed qualitatively because it involves sensitive primary data. GCG refers to a collection of laws, regulations and rules that a company must comply with to ensure good and transparent governance. Good GCG encourages company performance to function efficiently and produce long-term, sustainable economic value for shareholders and society (Effendi, 2016).

Two main ratios measure profitability: Return On Assets (ROA) and Net Interest Margin (NIM). ROA measures a bank's ability to generate profits using its assets, while NIM measures the percentage difference between interest income received and interest costs paid, divided by productive assets. High ROA and NIM indicate operational efficiency and the bank's ability to generate profits (Sulhan, 2008).

Capital is assessed using the Capital Adequacy Ratio (CAR), which measures a bank's capital adequacy to support assets that contain risk. A high CAR indicates that the bank has sufficient capital to cover potential losses and continue its operations (Kasmir, 2016).

Many previous studies have studied bank health using the CAMELS method, but research specifically using the RBBR method for regional banks such as Bank Nagari still needs to be completed. This study fills the literature gap by applying the RBBR method to regional banks with unique characteristics and challenges. The existence of Bank Nagari as a government bank with an important role in local economic development in West Sumatra adds unique value to this research. In the literature, not many studies have been conducted on evaluating the health of regional banks in Indonesia using the RBBR method, so this research makes a significant contribution (Khoiriyyah, 2018).

This research is important to provide a comprehensive picture of Bank Nagari's financial stability and performance during 2020-2023. In addition, the results of this research can become a reference for bank management in improving performance and risk management. This research also contributes to the development of literature on bank health using the RBBR approach and offers practical recommendations for the management of other regional banks. This research also adds insight into how regional banks can apply best practices in risk management and corporate governance to achieve optimal financial performance (Ulfha, 2018).

Quantitative descriptive methods were used to achieve the objectives of this research. The data used comes from the annual financial reports and GCG reports of Bank Nagari for the last four years. The data obtained will be analyzed using the RBBR method to understand Bank Nagari's financial health comprehensively. The analysis results are expected to provide recommendations for improving risk management and sustainable management strategies (Wiarta, 2022).

2. LITERATURE REVIEW

2.1. Risk Based Bank Rating (RBBR)

The Risk-Based Bank Rating (RBBR) method is a policy issued by the Government to assess the level of soundness. The RBBR method assesses four factors based on Bank Indonesia Circular Letter Number 13/24/DPNP 2013, covering Risk Profile, Good Corporate Governance, Earnings, and Capital. The following is an explanation and method for calculating several assessment factors using the RBBR method:

2.1.1. Risk Profile

The risk profile aspect in this research is measured only by two ratios: credit risk and liquidity risk.

a. Credit Risk

Net Performing Loans (NPL) is a ratio used to calculate the percentage of problematic loans faced by banks. To calculate the NPL at a bank, you can use the following formula:

$$\mathrm{NPL} = \frac{\text{Non-Performing Loans}}{\text{Total Loans}} \times 100\%$$

Table 1. Bank Net Performing Loan Ratings

No	Criteria	Rating
1	0% < NPL < 2%	Very Healthy
2	2% ≤ NPL < 5%	Healthy
3	5% ≤ NPL < 8%	Fairly Healthy
4	8% ≤ NPL < 11%	Less Healthy
5	NPL > 11%	Unhealthy

Source: Bank Indonesia Circular Letter Number: 13/24/DPNP year 2011

b. Liquidity Risk

Loan Deposit Ratio (LDR) is a ratio used to assess a bank'sank's liquidity levulinate LDR at a bank; you can use the following formula:

$$\mathrm{LDR} = \frac{\text{Total Loans}}{\text{Funds Received}} \times 100\%$$

Table 2. Bank Loan to Deposit Ratio Ratings

No	Criteria	Rating
1	LDR ≤ 75%	Very Healthy
2	75% ≤ LDR ≤ 85%	Healthy
3	85% ≤ LDR ≤ 100%	Fairly Healthy
4	100% < LDR ≤ 120%	Less Healthy
5	LDR > 120%	Unhealthy

Source: Bank Indonesia Circular Letter Number: 13/24/DPNP year 2011

2.1.2. Good Corporate Governance

Good Corporate Governance (GCG) is an assessment of bank management regarding implementing GCG principles. The bank's Good Corporate Governance predicate can be seen in the table below:

Table 3. Bank Good Corporate Governance Ratings

No	Criteria	Rating
1	Composite Score < 1.5	Very Good
2	1.5 < Composite Score < 2.5	Good
3	2.5 < Composite Score < 3.5	Fairly Good
4	3.5 < Composite Score < 4.5	Less Good
5	Composite Score > 4.5	Not Good

Source: SEOJK Number 13/SEOJK. 03/2017

2.1.3. Earnings

Profitability is a ratio that analyzes a company's competency in generating profits at the transaction, asset or ownership fund level. This research uses two profitability ratios: the Return on Assets (ROA) and the Net Interest Margin (NIM).

a. Return on Asset (ROA)

The ROA ratio is used to see the ability of bank management to manage its assets to increase profit before tax. The following is the formula for finding the ROA value:

$$\mathrm{ROA} = \frac{\text{Earnings Before Tax}}{\text{Total Assets}} \times 100\%$$

Table 4. Bank Return on Assets Ratings

No	Criteria	Rating
1	ROA > 2%	Very Healthy
2	1.25% < ROA ≤ 2%	Healthy
3	0.5% < ROA ≤ 1.25%	Fairly Healthy
4	0% < ROA ≤ 0.5%	Less Healthy
5	ROA ≤ 0% (or negative)	Unhealthy

Source: Bank Indonesia Circular Letter Number: 13/24/DPNP year 2011

b. NIM (Net Interest Margin)

The NIM ratio is used to see the ability of bank management to manage its productive assets to generate net interest income. The following is the formula for finding the Net Interest Margin (NIM) value:

$$\text{NIM} = \frac{\text{Net Interest Income}}{\text{Total Productive Assets}} \times 100\%$$

Table 5. Bank Net Interest Margin Ratings

No	Criteria	Rating
1	NIM > 3%	Very Healthy
2	2% < NIM ≤ 3%	Healthy
3	1.5% < NIM ≤ 2%	Fairly Healthy
4	1% < NIM ≤ 1.5%	Less Healthy
5	NIM ≤ 1% (or negative)	Unhealthy

Source: Bank Indonesia Circular Letter Number: 6/23/DPNP year 2011

2.1.4. Capital

The assessment of Capital factors can be measured using the Capital Adequacy Ratio (CAR), which is a ratio used to measure a bank's ability to provide the minimum capital owned by the bank in managing bank assets that contain risks, such as credit risk, market risk and operational risk.

$$\text{CAR} = \frac{\text{Bank Capital}}{\text{Risk-Weighted Assets (RWA)}} \times 100\%$$

Table 6. Bank Net Interest Margin Ratings

No	Criteria	Rating
1	CAR > 12%	Very Healthy
2	9% ≤ CAR < 12%	Healthy
3	8% ≤ CAR < 9%	Fairly Healthy
4	6% < CAR < 8%	Less Healthy
5	CAR ≤ 6%	Unhealthy

Source: Bank Indonesia Circular Letter Number: 13/24/DPNP year 2011

3. RESEARCH METHODS

This research uses quantitative descriptive methods to analyze the health level of Bank Nagari during the 2020-2023 period. The research population and sample include all annual financial reports and Good Corporate Governance (GCG) reports of Bank Nagari from 2020 to 2023.

The selection of 2020-2023 is based on the impact of the COVID-19 pandemic and economic recovery, as well as utilizing the latest data to analyze Bank Nagari's health trends in the short and medium term. The operational definition of variables in this research refers to the four main components of the Risk-Based Bank Rating (RBBR) method: Risk Profile, Good Corporate Governance (GCG), Earnings, and Capital. Risk Profile is measured through the Non-Performing Loan (NPL) ratio and loan-to-deposit ratio (LDR), which reflect the bank's credit quality and liquidity. GCG is assessed based on implementing good and transparent corporate governance. Earnings are measured using Return On Assets (ROA) and Net Interest Margin (NIM), which show the bank's ability to generate profits from its assets. Capital is assessed through the Capital Adequacy Ratio (CAR), which measures the adequacy of bank capital to cover risks. Data analysis was carried out using the following steps:

1) Calculate Financial Ratios: NPL, LDR, ROA, NIM, CAR, and GCG values.
2) Determining Component Ranking: Assigning a ranking based on specified criteria for each financial ratio.
3) Determine the Total Bank Health Level Assessment:
   a. The ranking value for the financial ratios of each component will be as follows:
      1. Composite Rank 1 is worth 5
      2. Composite Rank 2 is worth 4
      3. Composite Rank 3 is worth 3
      4. Composite Rank 4 is worth 2
      5. Composite Rank 5 is worth 1
   b. After determining the total rating value, we can determine the weight by percentage in the following way:

$$\text{Composite Rating} = \frac{\text{Sum of composite values}}{\text{Total overall composite values}} \times 100\%$$

c. The final step is to determine the total health level using the following weight assessment criteria:

Table 7. Composite Rating Criteria for Bank Health Assessment

Weight (%)	Composite Rank	Health Description
86 - 100	CR 1	Very Healthy
71 - 85	CR 2	Healthy
61 - 70	CR 3	Fairly Healthy
41 - 60	CR 4	Less Healthy
< 40	CR 5	Unhealthy

4. RESULTS AND DISCUSSION

4.1. Risk Profile Analysis

Table 8. Bank Nagari's NPL ratio in 2020-2023

Period	NPL	Rating	Predicate
2020	3%	2	Healthy
2021	2%	1	Very Healthy
2022	2%	1	Very Healthy
2023	2%	1	Very Healthy

Table 9. Bank Nagari's LDR ratio in 2020-2023

Period	LDR	Rating	Predicate
2020	96%	3	Fairly Healthy
2021	99%	3	Fairly Healthy
2022	101%	4	Less Healthy
2023	105%	4	Less Healthy

Table 8 shows Bank Nagari's NPL ratio from 2020 to 2023. In 2020 the NPL ratio was 3%, categorized as "Healthy." This ratio then decreased to 2% in 2021 and remained stable at the same level until 2023, which is categorized as "Very Healthy." The decrease in the NPL ratio from 3% to 2% shows an increase in the quality of credit provided by Bank Nagari. A low NPL ratio reflects that most loans the bank provides have a low risk of default, thus indicating the bank's ability to manage credit effectively.

The decrease in NPLs from 2020 to 2021 can be interpreted as the result of effective risk management policies, such as improving credit selection and evaluation processes and implementing better collection strategies. The stable NPL ratio at 2% over the next three years shows that Bank Nagari has succeeded in maintaining the quality of its credit portfolio. This is important because a low and stable NPL ratio indicates good financial health and reflects effective credit risk management.

Table 9 shows Bank Nagari's LDR ratio from 2020 to 2023. In 2020 the LDR ratio was 96%, categorized as "Fairly healthy." This ratio increases to 99% in 2021 with the same category. However, in 2022 and 2023, the LDR ratio increased significantly to 101% and 105%, categorized as "Less Healthy." A high LDR ratio indicates that the bank has more loans than funds raised from deposits, which can indicate potential liquidity risk.

Although a high LDR ratio can indicate that the bank is active in disbursing loans, a value that is too high (above 100%) indicates that the bank uses external funds or interbank loans to disburse credit, which can increase liquidity risk. The increase in LDR from 96% in 2020 to 105% in 2023 indicates an increase in credit distribution, which needs to be balanced by a proportional increase in third-party funds. This could pose a liquidity risk for Bank Nagari because the bank may need help meeting its short-term obligations if depositors withdraw large funds. This increase in LDR needs special attention from bank management to avoid a potential liquidity crisis in the future.

The analysis results show that Bank Nagari has very good credit quality with a low and stable NPL ratio. This reflects the effectiveness of credit risk management implemented by the bank. However, a significant increase in the LDR ratio indicates potential liquidity risks that must be managed carefully. Bank Nagari must consider a strategy to balance lending and collecting funds from third parties to maintain liquidity stability.

Bank management can increase the depositor base, offer more attractive savings products, or manage credit distribution selectively to reduce the LDR ratio. In addition, banks can also consider strengthening liquidity through other financial instruments, such as securities or interbank loans.

By maintaining a low NPL ratio and better managing the LDR ratio, Bank Nagari can maintain its overall health and ensure the sustainability of its operations in the future. Continuous evaluation and adjustment of appropriate risk management strategies are vital to maintain bank stability and health.

4.2. Good Corporate Governance

Table 10.
Bank Nagari GCG Ratio Ranking in 2020 – 2023

Period	GCG	Rank/Rating	Predicate
2020	2	2	Healthy
2021	2	2	Healthy
2022	2	2	Healthy
2023	2	2	Healthy

The analysis results show that Bank Nagari has good corporate governance with a consistent GCG value of 2 during 2020-2023. This reflects that the bank has implemented the principles of good governance and succeeded in maintaining these practices consistently. Implementing good GCG not only helps in risk management but also increases the reputation and trust of stakeholders in the bank. With consistent GCG values, Bank Nagari is expected to continue to improve corporate governance practices to face increasingly complex challenges in the future. Bank management must continue to update and strengthen GCG policies to ensure they remain relevant to the latest developments in the banking industry and regulations. Banks must also ensure that all employees understand and apply GCG principles in their daily activities. Overall, good GCG implementation provides a strong foundation for Bank Nagari to achieve better performance and maintain the stability and sustainability of its operations. Continuous evaluation and appropriate adjustments to GCG strategies are very important to maintain the bank's health in the future.

4.3. Earnings

Table 11.
Bank Nagari ROA Ratio Ranking in 2020 – 2023

Period	ROA	Rank	Predicate
2020	1.76%	1	Very Healthy
2021	1.83%	1	Very Healthy
2022	1.86%	1	Very Healthy
2023	2%	1	Very Healthy

Table 12.
Bank Nagari NIM Ratio Ranking in 2020 – 2023

Period	NIM	Rank	Predicate
2020	7.21%	1	Very Healthy
2021	7.95%	1	Very Healthy
2022	8.28%	1	Very Healthy
2023	8%	1	Very Healthy

Tables 11 and 12 show the Return On Assets (ROA) and Net Interest Margin (NIM) ratios of Bank Nagari from 2020 to 2023, the main indicators for measuring bank financial performance or earnings. Table 11 shows that Bank Nagari's ROA ratio experienced a consistent increase during this period. 2020, the ROA ratio was 1.76%, which is categorized as "Very Healthy." This ratio increases to 1.83% in 2021, 1.86% in 2022, and 2% in 2023, remaining in the "Very Healthy" category. ROA measures a bank's ability to generate profits from its assets. The increase in the ROA ratio from year to year shows that Bank Nagari has succeeded in increasing operational efficiency and the ability to generate profits from the assets owned.

The increase in ROA from 1.76% in 2020 to 2% in 2023 reflects effective management and optimal use of assets by Bank Nagari.

A high ROA shows that the bank can manage its assets well to generate profits, an important indicator of its financial health. Increased operational efficiency and consistent profits reflect effective business strategies and strong management. Table 12 shows that Bank Nagari's NIM ratio increased during 2020-2023. In 2020, the NIM ratio was 7.21%, categorized as "Very Healthy." This ratio increases to 7.95% in 2021, 8.28% in 2022, and decreases slightly to 8% in 2023, remaining in the "Very Healthy" category. NIM measures the percentage difference between interest income received and interest costs paid, divided by productive assets. A high NIM ratio shows that the bank efficiently manages interest income and costs.

The increase in NIM from 7.21% in 2020 to 8% in 2023 shows that Bank Nagari has succeeded in increasing the efficiency of its income from net interest. This reflects the bank's ability to manage resources to maximize net interest income. A high NIM indicates that a bank can keep interest costs low while interest income remains high, an important indicator of profitability and healthy operational performance.

Overall, the ROA and NIM ratio analysis results show that Bank Nagari has very good financial performance during the 2020-2023 period. The consistent increase in these two ratios reflects effective management and sound business strategy. A high ROA shows that the bank can efficiently generate profits from its assets, while a high NIM shows that it can manage income and interest costs well. Increasing these two ratios is important to ensure that Bank Nagari can generate healthy profits and maintain its financial stability. Bank management needs to continue to monitor and improve financial performance with adaptive and innovative strategies to face future challenges. By maintaining and increasing the ROA and NIM ratios, Bank Nagari can ensure the sustainability of its operations and provide added value for shareholders and other stakeholders.

4.4. Capital

Table 13.
Bank Nagari CAR Ratio Ranking in 2020 – 2023

Period	CAR	Rank	Predicate
2020	20.75%	1	Very Healthy
2021	21.73%	1	Very Healthy
2022	21.11%	1	Very Healthy
2023	21.68%	1	Very Healthy

Table 13 shows Bank Nagari's Capital Adequacy Ratio (CAR) ratio from 2020 to 2023. CAR is a ratio that measures the adequacy of a bank's capital to cover the risks of the assets it owns. In 2020, Bank Nagari's CAR ratio was 20.75%, categorized as "Very Healthy." This ratio increased to 21.73% in 2021, decreased slightly to 21.11% in 2022, and increased again to 21.68% in 2023, remaining in the "Very Healthy" category. A high CAR ratio indicates that Bank Nagari has sufficient capital to cover risks that may arise from the assets it owns. A stable and high CAR reflects good risk management and the bank's readiness to face potential losses. The increase in CAR from 20.75% in 2020 to 21.68% in 2023 shows that Bank Nagari has succeeded in maintaining high capital adequacy during this period.

The stability of a high CAR ratio is important for a bank's financial health because it shows that it has sufficient capital cushion to cover credit, market, and operational risks. A high CAR ratio also increases stakeholder confidence in the bank's ability to maintain financial and operational stability, including that of depositors, investors, and regulators. Overall, the CAR ratio analysis results show that Bank Nagari has very good capital adequacy during the 2020-2023 period. A stable and high CAR ratio reflects effective capital management and the bank's readiness to face various risks that may arise. A high CAR shows that Bank Nagari can maintain its financial stability by providing sufficient capital cushion to cover potential losses.

Bank management needs to continue monitoring and managing the CAR ratio well to ensure that the bank has adequate capital. Management can consider strategies such as increasing equity, managing the risk portfolio carefully, and maintaining operational efficiency to maintain and increase the CAR ratio. By maintaining a high CAR ratio, Bank Nagari can ensure the sustainability of its operations and increase stakeholder trust. Continuous evaluation and adjustment of appropriate capital management strategies are essential to maintain bank stability and health in the future.

4.5. Determining the Health Level Ranking of Bank Nagari for 2020 – 2023

After the ratios have been calculated, the next step is to determine Bank Nagari's ranking for 2020 to 2023. The following is the ranking of Bank Nagari's health level from the ratios that researchers have calculated:

Table 14.
Nagari Bank Health Level 2020-2023

No	Item	Ratio	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5
2020							
1	NPL	3%		v			
2	LDR	96%			v		
3	GCG	2		v			
4	ROA	1.76%	v				
5	NIM	7.21%	v				
6	CAR	20.75%	v				
Composite Value		**30**	**15**	**8**	**3**		
2021							
1	NPL	2%	v				
2	LDR	99%			v		
3	GCG	2		v			
4	ROA	1.83%	v				
5	NIM	7.95%	v				
6	CAR	21.73%	v				
Composite Value		**30**	**20**	**4**	**3**		
2022							
	NPL	2%	v				
	LDR	101%				v	
	GCG	2		v			
	ROA	1.86%	v				
	NIM	8.28%	v				
	CAR	21.11%	v				
Composite Value		**30**	**20**	**4**		**2**	
2023							
	NPL	2%	v				
	LDR	105%				v	
	GCG	2		v			
	ROA	2%	v				
	NIM	8%	v				
	CAR	21.68%	v				
Composite Value		**30**	**20**	**4**		**2**	

After the researcher has compiled a bank health ranking table, the next step is that the researcher will assess Bank Nagari's health from 2020 to 2023 using the following formula:

2020 Period = 26/30 x 100% = 86%
2021 Period = 27/30 x 100% = 90%
2022 Period = 26/30 x 100% = 86%
2023 Period = 26/30 x 100% = 86%

Table 15.
Assessment of the Health Level of Bank Nagari for The Period 2020 – 2023

No	Period	CR	Rank	Predicate
1	2020	86%	1	Very Healthy
2	2021	90%	1	Very Healthy
3	2022	86%	1	Very Healthy
4	2023	86%	1	Very Healthy

It can be seen in the table above that Bank Nagari's health is rated as Very Healthy. In 2020, it obtained a score of 86%; in 2021, 90%; in 2022, 86%; and in 2023, 86%. This shows that Bank Nagari has successfully managed its finances in the last four years.

5. CONCLUSIONS AND DISCUSSION

This research concludes that Bank Nagari showed a very good level of health during the 2020-2023 period based on Risk-Based Bank Rating (RBBR) analysis. Factors such as Return on Assets (ROA) and Capital Adequacy Ratio (CAR) consistently show an increase, reflecting solid financial performance and good risk management. The results of this research provide practical implications that effective risk management and good Good Corporate Governance (GCG) practices have contributed significantly to the stability and health of Bank Nagari. However, this research also identified several limitations, such as a significant increase in the Loan to Deposit Ratio (LDR), which indicates potential liquidity risks that must be watched out for. Suggestions for further research include the need for more in-depth research regarding liquidity management strategies that Bank Nagari can use to maintain financial and operational stability. In addition, further studies on the implementation of GCG practices that are more innovative and adaptive to developments in the banking industry are also recommended to strengthen the foundations of bank health in the future.

6. ACKNOWLEDGMENTS

Many thanks to Ms. Sanda Patrisia Komalasari S.E., M.Si, as my Final Assignment Supervisor, who has transformed my Final Assignment into an article for publication in a journal.

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