ABSTRACT

According to banking industry in Indonesia, the most occurring risk that may deliver a big impact to bank is credit risk. Credit risk is a risk that rises from counterparty’s default in paying his or her obligation. Since the potential of SMEs and rural bank development will continue to rise next few years, rural bank’s financial health surveillance is needed to keep the economy stable. Rural bank (BPR) needs to implement credit risk management to minimize and manage credit risk that may occur. This research was conducted at PT BPR Gunung Arjuna as commercial rural bank in Malang, East Java. PT BPR Gunung Arjuna runs their primary operation in lending activities as other banks in general.

This research used a qualitative approach by using case study method. Primary data is drawn from interview with CEO, risk manager, and other division’s personnel. Meanwhile, secondary data is obtained from standard operating procedures, audited financial statement, and some related literatures.

The results of this research imply the practice of banking control system including the implementation of credit risk management and company’s internal control. Overall, management has implemented adequate risk management procedures. Risk management procedures have been set according to Bank Indonesia regulation that is used in national banking practice. Behind the adequate risk management procedures, there are some weaknesses that need to be overcome. Hence, the recommendations of this research are obviously intended to improve the control system of PT BPR Gunung Arjuna.

Keyword: rural bank, non-performing loan, credit risk, risk management