



**STUDY ON INFLUENCE FACTORS OF INTERNAL CONTROL
OF CREDIT BUSINESS IN COMMERCIAL BANKS IN CHINA
— — TAKE FUDIAN BANK AS AN EXAMPLE**

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**AN INDEPENDENT STUDY SUBMITTED IN PARTIAL FULFILLMENT
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Abstract

The management of commercial banks paid particular attention to the management of loan risks in their credit business, identified and analyzed the background of internal control issues in enterprise loan risks, and improved them based on internal control.

The main goal of this study is to deeply study the risk management of the credit business of commercial banks in China, starting from two levels, including: 1) To analyze the current situation of internal control of the credit business of commercial banks; 2) To explore the influence factors of study on internal control of credit business in commercial banks in China.

This paper takes the Fudian Bank as an example to explore the internal control issues of credit policies in commercial banks. This paper adopted a qualitative research method to develop an interview outline. Conduct face-to-face interviews with employees and leaders of the credit business line and related departments of Fudian Bank.

The conclusion of this study is: 1) There are internal control issues in the credit business of commercial banks, especially personnel-related issues, including insufficient qualifications of credit policy formulation and implementation personnel, weak supervision and management mechanisms, and inadequate professional ethics and

incentive mechanisms. 2) The influencing factors of internal control of credit policies in commercial banks mainly include the risk preference of management, risk management systems and regulations, organizational structure, and control system.

Keywords: bank credit business, internal control management, personnel management



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Yang Kexiran

Declaration

I, Yang Ke Xiran, hereby certify that the work embodied in this independent study entitled “Study on internal control of credit business in commercial banks in China—take Fudian Bank as example” is result of original research and has not been submitted for a higher degree to any other university or institution.

YANG KE XIRAN



(Yang Kexiran)

Nov, 17, 2023

Contents

Abstract.....	I
Acknowledgments.....	III
Contents	V
Table contents	VIII
Chapter1 Introduction	1
1.1 Research background	1
1.2 Research Problem	3
1.3 Objectives of the Study.....	3
1.4 Research Significant	4
1.5 Scope of the study.....	4
1.6 Limitation of the Study	4
Chapter 2 Literature Review.....	6
2.1 Research on Influencing Factors of Internal Control of Credit Policy of Commercial Banks.....	6
2.2 The risk preference of management	7
2.3 Risk management system and regulations	8
2.4 Organizational structure	9
2.5 Control system	10
2.6 Conceptual Framework.....	10
2.7 Terms and Definition Used in This Study	11
2.8 Introduction to Fudian Bank	11
Chapter 3 Research Methodology.....	13
3.1 Introduction.....	13
3.1.1 Literature study method.....	13
3.1.2 Case study method.....	13
3.2 Sampling	13
3.3 Research design.....	14
3.4 Data Collection.....	15
3.5 Data Analysis	15
Chapter 4 Finding and Conclusion	16

4.1 Current situation of internal control of credit business of commercial banks ...	16
4.1.1 Lack of Qualifications in Credit Policy Formulation and Implementation Personnel.....	16
4.1.2 Ineffective Supervision and Management	16
4.1.3 Lack of Professional Ethics and Imbalanced Incentive Mechanisms.....	17
4.1.4 Lack of a good internal control environment	17
4.2 Influence factors of internal control of credit business in commercial banks in China.....	18
4.3 Conclusion	18
Chapter 5 Recommendation.....	20
5.1 Recommendation	20
5.1.1 Qualifications of Personnel.....	20
5.1.2 Supervision and Management.....	20
5.1.3 Incentive Mechanisms	20
5.2 Further Study	21
References.....	22

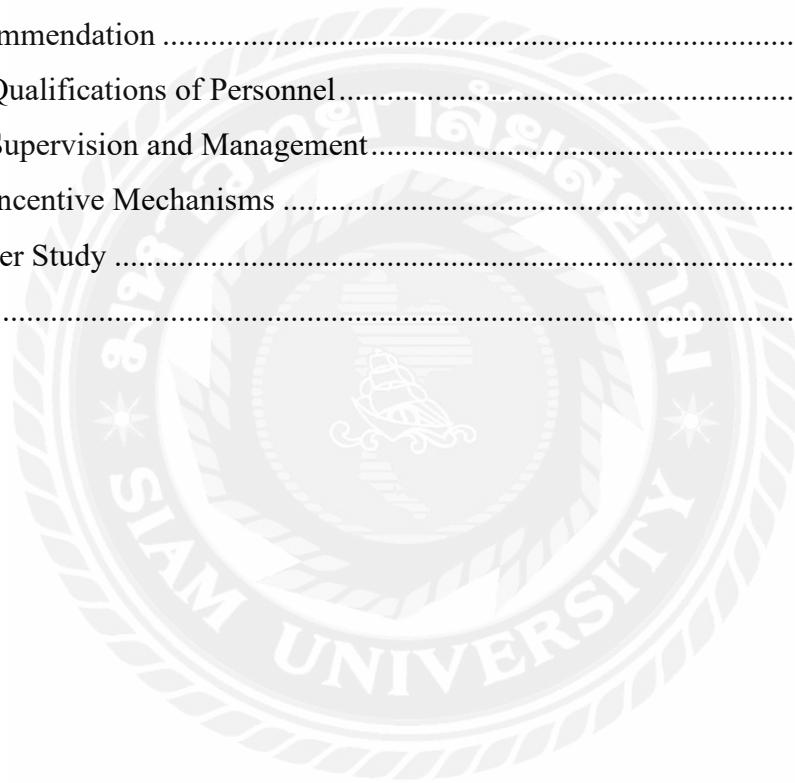


Figure contents

Figure 2-1 Technical circuit diagram..... 11



Table contents

Table 3.1 Interview questionnaire composition	14
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Chapter1 Introduction

1.1 Research background

Since the mid-20th century, various businesses of commercial banks have developed rapidly, but credit business remains the main business of commercial banks. Credit risk remains the most important risk faced by commercial banks in their business management process (Omollo & Oloko, 2015). However, the analysis of Bank failure and crisis formation was very important at that time. It can be found that the occurrence of these banking events is almost always related to the imperfect internal control of banks or the failure to implement the system. From the crises and events of domestic and foreign commercial banks in recent years, it can be seen that inadequate or flawed internal controls are the main reasons for banks falling into difficulties or even collapsing (Kim et al., 2011). Most bank crises are caused by credit operations. The common characteristic is that the internal control of credit management is not strict, resulting in a large number of non-performing assets, serious deterioration of loan quality, and ultimately leading to a liquidity crisis. This fully warns us that it is not only necessary but also urgent for commercial banks to strengthen their internal control over credit business.

In the 21st century, with the implementation of the "One Belt, One Road" strategy, China's foreign trade scale has continued to expand (Korzeb & Niedziółka, 2020). Commercial banks are an indispensable part of China's economic system. They are also the pillars of the national economic system and play a decisive role in the overall development of China's economy. In 2022, the balance of non-performing loans of commercial banks reached 2.79 trillion yuan, which was 1.86 times the balance of non-performing loans of 1.5 trillion yuan in 2016, and the non-performing loan ratio also climbed directly to 1.76% (Yusuf & Ichsan, 2021). See Table 1-1 for details. The growing balance of non-performing loans has put tremendous operating pressure on central banks. It has also impacted the safety of national assets and the stable development of the national economy. However, the credit operating status of China's Fudian Banks is closely related to their non-performing loan ratio. Therefore, to effectively reduce China's credit risks, the key is strengthening the credit management of China's Fudian Banks.

Table 1-1 Table of Main Regulatory Indicators of Commercial Banks (Unit: RMB 100 million Yuan)

	2021. 1- 3Mon.	2021. 4- 6Mo.	2021. 7- 9Mon.	2021 10- 12Mon.	2022. 1- 3Mon.	2022. 4- 6Mon.
Normal class loan	1299930	1343949	1378413	1403720	1480791	1524160
Pay attention to the loan	40545	38841	38380	37763	37396	37556
Non-performing loan balance	26121	27364	28350	27015	27883	27908

Among them: subprime loans	11469	12918	13617	12786	13122	12801
Suspicious loan	10638	10653	10648	10520	10679	11209
Losses	4014	3793	4085	3708	4082	3897
The proportion of the normal class of loans	95.12%	95.31%	95.38%	95.59%	95.78%	95.88%
The proportion of concerned loans	2.97%	2.75%	2.66%	2.57%	2.42%	2.36%
Non-performing loan ratio	1.91%	1.94%	1.96%	1.84%	1.80%	1.76%

As a professional enterprise in managing and operating currency, commercial banks have traditionally been management oriented enterprises. However, with the development of society, commercial banks have become emerging financial institutions with their own operational risks. Especially in recent years, with the rapid development of the global financial industry and the strong integration of economic integration, domestic commercial banks are facing increasing operational pressure and credit business risks (Tunowski, 2020).

Commercial banks are important financial institutions and their main business. Credit personnel management is an important component of personnel management in commercial banks. Therefore, the importance of the internal control system for credit business risks is self-evident (Vencataya et al., 2019). Through the research of this topic, the problems in the internal control system of credit risk in commercial banks were analyzed, and corresponding improvement measures were proposed, which is conducive to the optimization and improvement of the internal control system of credit business risk in Chinese banks.

At present, compared to foreign financial institutions, the non-performing asset ratio of domestic commercial banks is still at a relatively high level (Frank & Binaebi, 2019). Therefore, effective business risk prevention and control has become one of the most urgent issues for commercial banks. This article will discuss in detail the internal control of credit business risks through examples. Based on the analysis of the current situation and existing problems, corresponding solutions and measures are proposed to help commercial banks improve their risk control system, reduce credit business risks, and improve profitability.

The loan business of Fudian Bank covers a wide range of areas and has great particularity. It also pays great attention to the establishment of its internal control system. However, the non-performing loan ratio of the credit business of the head office of Fudian Bank increased from 1.43% in 2019 to 1.68% in 2022, forcing the managers of Fudian Bank to reflect on the internal control of their bank credit business. Therefore, how to discuss internal control issues in credit management has attracted more and more attention from Fudian Bank.

1.2 Research Problem

Fudian bank has an incomplete credit rating system for loans, without setting admission standards based on regional or industry characteristics. Instead, it adopts a unified credit reporting model across the bank, often relying on the subjective judgment of customer managers to assess the credit situation of the enterprise, which affects the accuracy of pre loan credit plans.

Fudian bank lacks credit professionals. Due to differences in education environment, knowledge latitude, risk awareness, and life experience, business personnel, reviewers, and identification personnel have different analyses and understandings of non-performing loans that occur. Therefore, it is necessary to rely on the subjective judgment of responsibility identification personnel to achieve objective and fair judgment.

Fudian bank inadequate management of post loan operations, insufficient attention paid by customer managers to post loan management work, mainly manifested in the failure to fully understand changes in important information such as customer operations and assets and liabilities during post loan risk investigation, failure to anticipate risks in advance, and loss of bank principal after overdue.

The collection system of Fudian bank is not perfect, and the branch does not have a collection specialist. Therefore, the overdue business managed by the business oriented customer manager is responsible for collecting the overdue business, which results in the overdue business not being able to recover the overdue principal during the golden period of collection, greatly affecting the collection results and not conducive to the development of banking business.

This article mainly studies Fudian Bank's control of loan risks, identifies and analyzes the management issues of internal control of enterprise loan risks, and ultimately proposes solutions and solutions based on domestic and foreign theories and practical experience.

The research problems for this study concerned factors affecting the relevant commercial bank theories of domestic and foreign experts, combine the actual cases of credit business of Fudian Bank and put forward their own constructive suggestions on the optimization of internal control of credit business of Fudian Bank.

1.3 Objectives of the Study

The purpose of this study is to comprehensively analyze the status of credit business of commercial banks in China, The study investigates the qualifications of personnel involved in credit policy formulation and implementation, the effectiveness of supervision and management mechanisms, and the impact of professional ethics and incentive structures. Specifically, the study objectives were to:

The main goal of this study is to deeply study the risk management of credit business of commercial banks in China, starting from two levels, including:

- 1) To analyze the current situation of internal control of credit business of commercial banks;
- 2) To explore the influence factors of study on internal control of credit business in commercial banks in China.

1.4 Research Significant

Credit business brings most of the profits to commercial banks. Only with the steady development of credit business can the profits of commercial banks gradually increase. However, the frequent occurrence of bizarre cases and illegal and irregular credit business within China has also raised public doubts about the internal control and self-discipline of commercial banks. The public is also increasingly concerned about the processing procedures and credit management of commercial bank credit business (Lu, 2022). Therefore, this article aims to study the optimization of internal control in credit business. On the basis of extensive research on the internal control theory and development trends of commercial banks, the problems in loan risk internal control management have been pointed out. This article takes Fudian Bank as the research object, mainly through qualitative research methods, literature research methods, and case analysis methods. The combination of theory and practice truly reflects the deficiencies and reasons of internal control over credit business of China Fudian Bank and proposes improvement suggestions based on this. The research on internal control of credit business in other branches of Fudian Bank has specific reference value and practical significance.

1.5 Scope of the study

This article takes Fudian Bank as the research object and conducts qualitative analysis. In order to gain a deeper understanding of the current situation and problems of Fudian Bank, interviews were conducted with employees and leaders of Fudian Bank's credit line, and an interview outline was prepared. The interview will be conducted from June to August 2023. On the basis of analyzing the current situation of Fudian Bank, this article explores the influencing factors of Fudian Bank's credit business internal control policies, aiming to provide guidance and suggestions for the formulation of Fudian Bank's credit business internal control policies.

This article reviews over 100 literature related to commercial banks, credit business, and internal control policies, and delves into the research results of internal control policies in commercial banks' credit business over the past three years. Studying, analyzing, and summarizing existing research results can help clarify the research direction of this article, form basic research ideas, and provide theoretical basis for subsequent research.

1.6 Limitation of the Study

The discussion of credit management is a topic closely related to practical work. We need to understand the specific operating procedures of commercial banks' credit business, how to deal with related problems, and the credit operating system. At the same time, the optimization plan for the internal control of Fudian Bank's own credit business should also be formulated to correspond to the problems one by one so that if there are problems, there are countermeasures. The countermeasures must also be practical and feasible to form an optimal plan with practical value(Lu, 2022). Due to

the author's knowledge level and actual work experience, this article's research on the internal control issues of the credit business of Fudian Bank may have some imperfections. At the same time, optimization measures for the internal control issues of the credit business. It is also possible that it will not land ultimately. There are still many problems in the credit business of Fudian Bank. Moreover, implementing these improvement plans is also a big challenge for senior managers. During implementation, they may be hindered by many factors.



Chapter 2 Literature Review

2.1 Research on Influencing Factors of Internal Control of Credit Policy of Commercial Banks

Foreign countries have made some progress in the research on the influencing factors of internal control of commercial banks' credit policies. Sada (2020) thinks that the influencing factors of internal control of commercial banks' credit policy mainly include the risk preference of management, risk management system and regulations, organizational structure, and control system. In contrast, the risk management system and regulations, organizational structure, and control system are intermediary in internal control. Hidayat (2021) pointed out that commercial banks' credit policies' internal control factors include external supervision, market competition, and information technology. Their research found that stricter external supervision can urge commercial banks to strengthen the internal control mechanism of credit policy. Then, fierce market competition and advanced information technology can help improve the effectiveness of internal control. Chibi (2018) found that the internal control factors of commercial banks' credit policies include corporate governance structure and risk management culture. Their research results show that a better corporate governance structure and a sound risk management culture can significantly improve the internal control level of commercial banks' credit policies.

Domestic research on the influencing factors of internal control of commercial banks' credit policy has accumulated considerable achievements. These studies mainly focus on different factors, including internal control mechanisms, corporate governance, environmental factors, and financial market factors. Mars (2022) pointed out that the core internal control factors of commercial banks' credit policies mainly include business scale control, credit risk control, and regulatory compliance. The research holds that commercial banks must strictly control the business scale, conduct reasonable credit risk assessment and control, and abide by regulatory provisions to ensure compliance in formulating and implementing credit policies. Xiong Wanjing (2022) pointed out that the key factors affecting the internal control of commercial banks' credit policies include the bank's risk management ability, the perfection of internal audit and internal control system, employee incentive mechanism, and information technology support. The research holds that commercial banks should strengthen the management ability of credit risk, improve the internal audit and internal control system, and introduce advanced information technology to improve the internal control effect. Xin Kehu (2021) pointed out that the influencing factors of commercial banks' credit internal control effect mainly include corporate governance, external supervision, and market environment. The research holds that a good corporate governance structure can promote the effective operation of credit internal control, and external supervision can provide adequate supervision and guidance. A stable market environment is conducive to the stability and effectiveness of credit internal control of commercial banks. Wang Yijia (2020) pointed out that the influencing factors of credit internal control of commercial banks mainly include three aspects: bank scale, business

strategy, and risk management level. The research holds that the change of bank scale and the adjustment of business strategy will impact credit internal control, and the improvement of risk management level is an important guarantee to realize credit internal control.

Wang Lei (2019) believes that human resources factors have a significant impact on the internal control of credit policies of commercial banks, by rationally allocating and cultivating human resources, banks can ensure that they have a staff with professional skills and good moral quality, thus improving the accuracy and reliability of credit decisions and reducing credit risks. The research of Guan Kao (2021) shows that human resource factors have a direct and indirect influence on the internal control of the credit policy of commercial banks. He believes that the effectiveness of human resource management and the improvement of employees' quality can enhance employees' understanding and implementation of credit policies, improve work efficiency and sense of responsibility, and thus promote the standardization and effectiveness of internal control. Song Wang Lei (2019) research shows that human resource factors have a significant influence on the internal control of credit policy of commercial banks and puts forward two main aspects of influence. First of all, the scientificity and flexibility of human resource management can ensure that employees always maintain high attention and sensitivity in their work to better cope with risks and challenges. Secondly, good human resource management can establish and maintain an effective internal control mechanism and improve the consistency and standardization of credit decision-making.

2.2 The risk preference of management

Risk preference is the type and level of risk that commercial banks are willing to accept to pursue value. It reflects the bank's strategy from a risk perspective and affects the bank's business management activities. Commercial banks will adopt different forms of risk preference based on their actual needs, some adopting limit methods, while others adopting volatility and probability forms.

The Senior Financial Supervisory Group (SSG) released a report in 2009 titled 'Lessons Learned from the 2008 Global Banking Crisis on Risk Management', emphasizing the importance of board and senior management involvement in risk appetite development and execution; In December 2010, SSG and 12 regulatory agencies jointly released a report titled "Observations on Risk Appetite Framework and IT Infrastructure Construction", describing the phased achievements made by international financial institutions in the construction of risk preference frameworks and providing prospects for future construction directions.

Tsuyoshi Oyama from Deloitte (2012) pointed that Global Japan delivered a speech on the risk appetite system in January 2012. He gave a comprehensive introduction to the risk preference system, provided a framework for the risk preference system, pointed out the unprecedented challenges brought by the financial crisis to the risk preference system, and elaborated on the methods and precautions for building a comprehensive risk preference management system.

Feng Xiegang and Yang Wenhua (2005) used this as a starting point to explain basic concepts related to risk management, such as unexpected losses and risk preference. Their article "Risk, Risk Capital, and Risk Appetite" combined RAROC technology commonly used in the international banking industry to provide a risk management framework for commercial banks with economic capital as the core. They conducted preliminary exploration and discussion on the technical process for determining risk preference and allocating economic capital, as well as risk measurement techniques.

Li Yiran and Wang Gang (2013) pointed out in their article "Research on Risk Appetite Management in Commercial Banks" that after the 2008 global financial crisis, building a comprehensive risk management system centered on risk appetite has become the development direction of global banking risk management. They started with the connotation and setting method of risk preference, and proposed feasible suggestions for Chinese commercial banks to learn from the risk preference management experience of mature international banks, to build a comprehensive risk management system in the context of international regulatory reform.

2.3 Risk management system and regulations

Ye et al.(2023) think that risk is a product that accompanies commercial banks, and banks survive and thrive by taking on risks. Risk management is one of the most decisive management practices in modern commercial banks, and it is also one of the most critical considerations for measuring the core competitiveness and market value of commercial banks. Through the lessons learned from the operation and management of domestic and foreign commercial banks in recent years, it is crucial to strengthen risk management and build a comprehensive risk management system to promote the sustainable development of commercial banks.

Li Shaohua (2012) pointed out in the research on risk management of commercial banks in China during the financial crisis that risk management refers to minimizing the potential adverse effects of risks in a high-risk environment of a project or enterprise. The ideal risk management is a series of prioritized processes, prioritizing the things that can cause the most significant loss and the most likely to occur while delaying the relatively low-risk things.

Zhang Yujing (2013) pointed out that the core idea of risk management is for enterprises to identify, measure, and analyze risks and use the most effective methods to manage and resolve risks. The level of risk management is a key factor that restricts the operational development of commercial banks and even affects their survival. Therefore, risk management ability is the core competitiveness of commercial banks and the foundation for the financial market's stable and orderly operation and development progress. Commercial banks must continuously improve their risk management mechanisms and improve their risk prevention and control levels in order to meet the needs of social and economic development.

2.4 Organizational structure

The organizational structure of credit business operation and management in commercial banks includes the board of directors and its specialized committees, the supervisory board, senior management, and the credit business's front, middle, and back office departments.

Organizational structure refers to the structural system formed by all members of an organization in terms of job scope, responsibilities, and rights through division of labor and collaboration in management work to achieve organizational goals. Organizational structure is a dynamic structural system in terms of on-the-job, responsibility, and power, which is a division of labor and collaboration system adopted to achieve organizational strategic goals. The organizational structure must be adjusted with major strategic adjustments of the organization. There are three core meanings in this: firstly, the organization must have its own development goals; Secondly, the organization must have division of labor and collaboration; Thirdly, organizations should have different levels of rights and responsibility systems.

Enterprises generally regard the pursuit of profit maximization as a fundamental goal, and credit institutions are no exception. Around the goal of profit maximization, there are also many secondary and secondary goals. The direction of these secondary and secondary goals should be consistent with the basic goals. Only when all goals are aligned with the basic goals can enterprises achieve maximum directional synergy; only then can it be most conducive to achieving basic goals. Under the guidance of basic goals, the organization will form different levels of organizational structure for the group of people who achieve secondary or secondary goals. This structure can be continuously divided according to needs until everyone understands the tasks they should complete to achieve the overall goal. Such an organizational system is an organic whole that can assure achieving the basic goals of the enterprise.

The organizational structure of credit institutions serves the business process and should follow the principle of "process first, department later" to set up relevant departments. In order to improve operational and decision-making efficiency, the organizational design should be flat and specialized positions should be designed according to the needs of the business process. It is necessary to ensure that each business link has corresponding positions and clear work basis Job responsibilities, job responsibilities, and work efficiency.

The famous American management scientist Peter Drucker once said in "Management Challenges in the 21st Century": "There is no single correct organizational structure, only universally applicable organizational principles." The essence of organizational structure is the division of labor and collaboration to achieve corporate strategic goals. Organizational structure design is influenced by corporate strategy, internal and external environment, personnel quality, and corporate life cycle. Different organizational structure models will exist in different strategies, environments, periods, and missions. Therefore, as long as the enterprise's strategic goals can be achieved, the external competitiveness of the enterprise can be increased, and the

enterprise's operational efficiency can be improved, it is the appropriate organizational structure. Credit institutions should not be superstitious about so-called advanced organizational structure models, nor should they copy the organizational structure of excellent enterprises when designing their own organizational structure. Remember, what suits them is the best.

2.5 Control system

The control system of commercial banks is a set of mechanisms established to ensure banks' healthy operation and risk control. The main content of the control system of commercial banks includes internal control systems, policies and systems, internal control processes, internal control supervision, and evaluation. These contents constitute a complete control system, ensuring commercial banks' regular operation and risk control. While establishing and improving control systems, commercial banks also need to constantly adapt to and respond to changes in the external environment and regulatory requirements to ensure the sustainable development of their banking business.

Zhong Chen and Xia Ying (2016) advocate that a sound governance structure of commercial banks can rationalize their internal structure and predict potential risks, which is conducive to establishing a sound risk management system. Shen Zhihuan (2017) believes that there are specific differences between the internal control mechanisms of commercial banks and their business objectives. Compared to the operational development of banks, the rationality of their risk management and internal control needs to be given more attention.

Song Nianjun (2018) pointed out through a series of research that credit risk is the most critical risk for commercial banks, and based on the five elements of internal control, pointed out the deficiencies of modern commercial banks' credit business internal control one by one. Hu Su (2018) regards control activities and information exchange as key points and believes that a risk-oriented internal control system for commercial bank credit should be established to address the shortcomings of its internal control. Therefore, it is necessary to vigorously strengthen the construction of an internal control culture, establish a sound internal control evaluation system, and innovate incentive mechanisms under the risk management framework.

2.6 Conceptual Framework

The relationship among the final determined factors is shown in Figure 2-1:

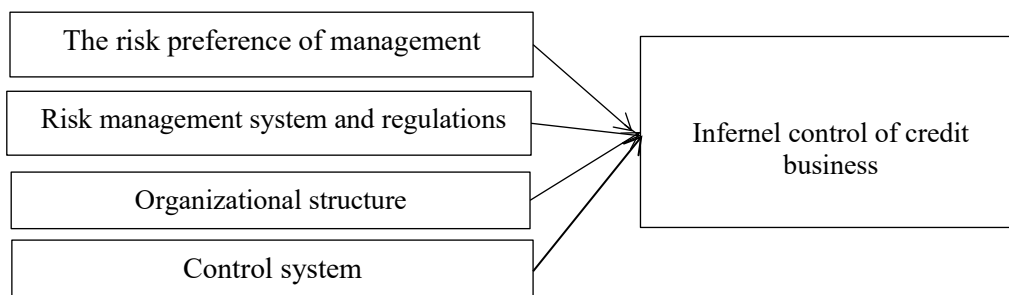


Figure 2-1 Technical circuit diagram

The dependent variable: The rationality of employee structure in internal credit control. This paper takes Fudian Bank 'staff as the object to study the internal control of credit business.

2.7 Terms and Definition Used in This Study

Commercial bank: The modern commercial banking model is developing rapidly in China, and the rapidly changing economic environment in China makes them seek transformation, and the definition of internal control of commercial banks is also updated with the times (Ahmad et al., 2020). Presents a citation-based systematic literature review on banking sector performance, particularly in terms of profitability, productivity, and efficiency.

Credit business: Credit business is the biggest profit of commercial banks (Uddin, 2022). The profit model of the credit business is to issue the loan funds first, and then recover the loan principal and interest. Credit granting business, loan business and guarantee business are all an integral part of credit business. As we all know, the profits of commercial banks mainly come from the interest income generated by loans (AlAli, 2019). Generally speaking, the credit business is a way to establish the connection between the Fudian subject and the borrower subject, and the relationship between the Fudian bank subject and the loan subject is a pure creditor's right and debt.

Internal controls: The internal control of commercial banks can be summarized into three aspects: first, the basic system of internal control of commercial banks is established, clearly dividing the internal rights and responsibilities of commercial banks, restricting each other, preventing the financial risks of commercial banks, and ensuring the effectiveness of internal control. Second, strictly abide by relevant national laws and regulations and implement the internal rules and regulations of commercial banks to ensure that the main business operation of commercial banks and the disclosure of accounting information is compliant and legal (Soeharjoto et al., 2023). Third, on the basis of minimizing operational risks, safeguard the ultimate rights and interests of relevant stakeholders of commercial banks, and finally achieve the long-term development goal of commercial banks.

Control activity: Control activity is the core link of internal control. Control activities include policies and mechanisms that facilitate the smooth implementation of management-level decisions in the process of enterprise operation (Shrestha, 2022). Enterprises can evaluate the size of the risk of matters and choose the corresponding control activity mechanism to control the enterprise risks within the tolerable range. Control activities are embodied in the process of handling various affairs of the enterprise, including the process setting of application, review, review, authorization processing and processing completion.

2.8 Introduction to Fudian Bank

Fudian Bank was established in 2007, adhering to the mission of "serving three rural areas, serving urban and rural areas, giving back to shareholders, and achieving

employee development." Fudian Bank has mainly engaged in loan financing, deposits, settlement, exchange, investment, and wealth management in recent years. At the same time, various businesses such as collecting phone bills and paying salaries, have been developed, gradually meeting customers' growing financial service needs.

At the end of 2018, Fudian Bank had a total group asset of 60000 billion yuan, an increase of nearly 15 percentage points compared to the end of 2017, ranking among the top joint-stock banks of its kind. In 2018, Fudian Bank achieved a total operating revenue of 160 billion yuan and a net profit of over 50 billion yuan, a year-on-year increase of 7 percentage points. Its total asset return rate was 0.95%, and the weighted net asset return rate was 17.28%, consistently at a reasonable level among similar banks (Sang & Linh, 2019). In July 2016, Fudian Bank was listed on the Fortune Global 500 "Top 50 Most Profitable Companies" list, with its cost-income ratio index ranking second among the top 50 banks worldwide. In 2018, Fudian Bank experienced rapid growth in business scale while maintaining a relatively stable internal asset quality. At the end of 2018, S's non-performing loan ratio was 1.65%, a decrease compared to the end of the third quarter.

As of the end of 2018, Fudian Bank's total assets reached 60000 billion yuan, an increase of 15 percentage points compared to the beginning of 2018. The efficiency of banks is steadily increasing, with a cumulative operating revenue of 160 billion yuan in 2018, an increase of nearly two percentage points year-on-year. Intermediary business income accounts for one-fourth of all business income, an increase of nearly five percentage points year-on-year; Accumulated noninterest net income of 44.741 billion yuan, an increase of nearly 30 percentage points; The net profit attributable to the parent company reached 53.85 billion yuan, a year-on-year increase of 7 percentage points. Overall, in 2018, the asset management quality of banks was good, with a non-performing loan ratio of 1.65% and a provision coverage rate of 210.51% at the end of 2018 (Judy et al., 2022). Both indicators maintained an excellent level among similar banks in the industry. In this year, Fudian Bank also successfully issued secondary capital bonds of 30 billion yuan, reaching a net capital of 460 billion yuan at the end of the period, an increase of nearly 20 percentage points compared with the beginning of the period, and its Capital adequacy ratio was 12.02%, an increase compared with the beginning of the period.

Chapter 3 Research Methodology

3.1 Introduction

This article adopts a qualitative research method, summarizes relevant issues through theories, writes an interview outline, and conducts interviews to analyze the current situation of internal control in Fudian Bank's credit business from employees and leaders related to Fudian Bank's credit business, and explores the influencing factors of internal control policies.

3.1.1 Literature study method

By extensively reading and researching literature, we aim to understand the internal control policies of commercial banks' loan business, and investigate the relevant impacts and suggestions of personnel involved in the formulation and implementation of credit policies. By reading and summarizing the literature, combined with the internal control measures of Fudian Bank, a theoretical framework has been provided for the research and analysis of this article.

3.1.2 Case study method

This paper explores the internal control aspects of credit policy within commercial banks, focusing on Fudian Bank as a case study. The study investigates the qualifications of personnel involved in credit policy formulation and implementation, the effectiveness of supervision and management mechanisms, and the impact of professional ethics and incentive structures. Analyzing these factors, the study offers recommendations to address the identified challenges, emphasizing the need to enhance staff qualifications through training, establish a robust auditing system, and refine performance evaluation processes. Looking ahead, Fudian Bank aims to further strengthen its internal control framework, emphasizing professionalism and ethical standards among its staff, while remaining vigilant in adapting to evolving market dynamics and regulatory requirements. By continuously improving its internal control measures, Fudian Bank seeks to sustain its strong performance and provide increased value to customers and shareholders.

3.2 Sampling

Based on credit practitioners, there are the vanguard of developing credit business for Fudian Bank, and also the people who know the credit business situation of Fudian Bank best. To establish the credit business of Fudian Bank, by analyzing the effectiveness of internal control, we can also fully understand the issues that need to be solved in the internal control of Fudian Bank's credit business. This article takes Fudian Bank as the research object and uses a comprehensive survey method to conduct qualitative interviews with personnel and leaders in its credit business line. Interviewees 25 people, the success rate of the interviews is 100%.

3.3 Research design

The purpose of the interview is to understand the opinions of employees and leaders of the credit business line of Fudian Bank on the internal control system. Integrating theory with practice, comprehensively analyzing the current situation of internal control in the bank credit business, and exploring the influencing factors of internal control in the bank credit business. By improving internal control measures, Fudian Bank seeks to maintain its strong performance without providing more value to customers and shareholders.

The interview questionnaire is designed for the internal control policies of Fudian Bank's credit business. The interview outline comprises four aspects: management's risk preference, risk management systems and regulations, organizational structure, and control system, and consists of 12 questions. The interviewees are personnel and leaders related to the credit business of Fudian Bank. The interview questions are as follows:

Table 3.1 Interview questionnaire composition

Risk preference of management	<ol style="list-style-type: none"> 1. Can Fudian Bank accurately assess the level of expected risk taking in advance? 2. Is the post event risk taking level of Fudian Bank consistent with the expected pre event risk taking level? 3. Does Fudian Bank's post event risk taking level exceed the acceptable risk taking range?
Risk management system and regulations	<ol style="list-style-type: none"> 1. Can the risk identification system of our bank identify the risk of credit business effectively? 2. Can the risk evaluation system of our country's bank effectively evaluate the credit risk? 3. The risk early warning mechanism of our bank is effective?
Organizational structure	<ol style="list-style-type: none"> 1. Our credit internal control culture has been in place, whether the staff has been highly recognized? 2. Whether our bank has established good promotion channels for credit officers? 3. Whether the relevant credit departments of our bank operate independently and do not interfere with each other?

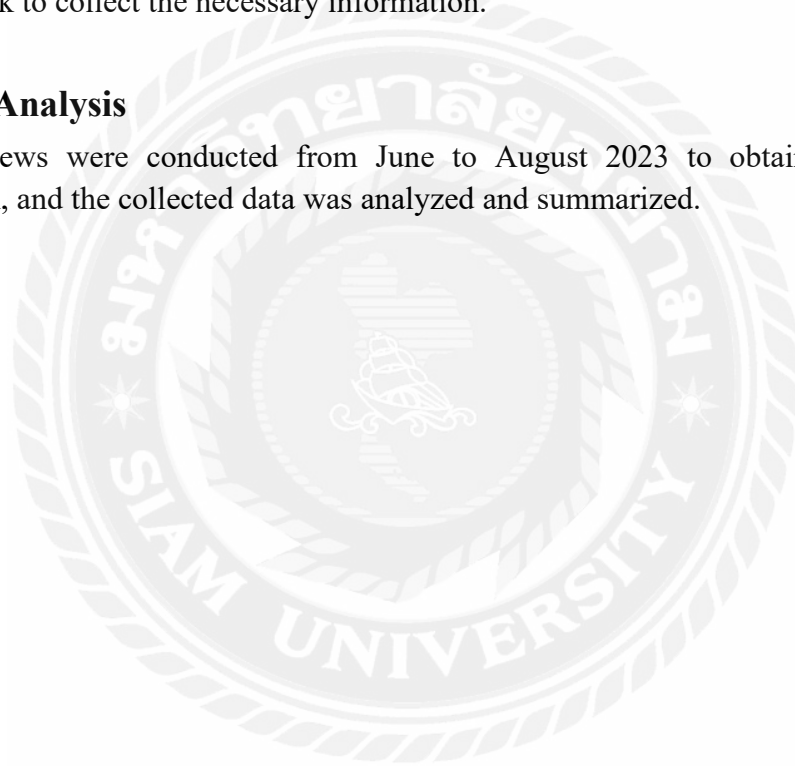
Control system	<p>1. The approval mechanism of our bank loan is reasonable and effective?</p> <p>2. Does our banks credit account manager follow up and investigate the utilization and financial status of the post-loan funds in a timely manner?</p> <p>3. Does our bank have a complete and effective loan approval process?</p>
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3.4 Data Collection

This article designs an interview questionnaire to conduct face-to-face interviews with employees and management of the credit business related lines of Fudian Bank to collect the necessary information.

3.5 Data Analysis

Interviews were conducted from June to August 2023 to obtain relevant information, and the collected data was analyzed and summarized.



Chapter 4 Finding and Conclusion

4.1 Current situation of internal control of credit business of commercial banks

4.1.1 Lack of Qualifications in Credit Policy Formulation and Implementation Personnel

During the process of formulating and executing credit policies in commercial banks, personnel often need more professional knowledge, which hinders their comprehensive understanding of the objectives and principles of credit policies. This leads to errors or deviations from policy directions in both policy formulation and implementation. Such deviations make it challenging to assess and control credit risks accurately. In the credit decision-making process, the insufficient qualifications of personnel result in inadequate information gathering. They fail to understand the true circumstances and credit status of borrowing customers, leading to an incomplete assessment of the customers' actual repayment capacity. Inadequate information gathering easily leads to erroneous risk judgments, consequently increasing the credit risk for commercial banks. The issue of personnel qualifications in credit policy formulation and implementation is further manifested in the need for proper policy enforcement. Personnel needs an adequate understanding of the requirements and specifics of credit policies, which results in non-compliance with policy mandates and may lead to non-compliant operations. This situation can generate non-performing loans, thereby increasing credit losses for commercial banks.

4.1.2 Ineffective Supervision and Management

The lack of an adequate supervision mechanism in commercial banks for personnel involved in credit policy formulation and implementation results in a relatively weak oversight system. It needs more effective means and measures for supervision. This leads to personnel becoming complacent in their work, which, in turn, gives rise to violations of policies, such as setting irregular interest rates. Another aspect where a supervision mechanism is absent is the need for timely monitoring and feedback. Commercial banks do not conduct timely supervisory checks on the performance of personnel involved in credit policy formulation and implementation. As a result, issues and errors still need to be corrected and corrected, leading to the continuous accumulation of credit risks without timely resolution. Furthermore, regulatory authorities need more oversight over personnel involved in commercial banks' credit policy formulation and implementation, creating a lax regulatory environment. Personnel involved in credit policy formulation and implementation may need to emphasize regulatory measures adequately, and some may even attempt to evade supervision. In such a scenario, effective control of credit risks within commercial banks becomes elusive.

4.1.3 Lack of Professional Ethics and Imbalanced Incentive Mechanisms

A deficiency in professional ethics among personnel responsible for credit policy formulation and implementation in commercial banks can lead to self-interest taking precedence in credit decisions. This may result in collusion between personnel, borrowers, and other stakeholders, compromising the objectivity of credit decisions and risk management subsequently increasing the credit risks for the commercial bank.

Additionally, imbalanced incentive mechanisms within commercial banks for personnel engaged in credit policy formulation and implementation present a problem. Incentive structures overly focused on short-term performance and profit often encourage individuals to engage in non-compliant behavior. They prioritize loan quantity as the primary performance metric in performance evaluations, neglecting loan quality and risk control. Such incentive mechanisms contribute to generating and amplifying credit risks within commercial banks. Conflicting personal and corporate interests among personnel responsible for credit policy formulation and implementation can lead to decisions that prioritize individual gains over the overall interests of the bank. This situation can lead to emphasizing profit maximization over risk control in executing credit policies within commercial banks.

4.1.4 Lack of a good internal control environment

Now, the internal control system of Fudian Bank is relatively complete. However, credit personnel could have achieved the expected results when implementing the system. Some branches or grassroots leaders only know about internal control systems. If there is a system, the loan business indicators must be completed. Even some credit employees abuse their power to pursue performance during the credit process, further increasing Fudian Bank's credit risk. In recent years, Fudian Bank has been punished multiple times. On June 20, 2017, Fudian Bank Branch seriously violated the prudent business rules and was fined 8 million yuan by the Banking Regulatory Bureau. The relevant leaders have been canceled. Qualifications for the position cannot be severely punished in banking work.

It can be seen that the quality of employees at Fudian Bank needs to be improved. The employees of Fudian Bank need help to analyze and respond to loan risks correctly, need more ability to identify false loan information, and cannot respond. When credit risk arises, it cannot be executed (Lu, 2022). Timely control and response. Secondly, due to the lack of a scientific and reasonable incentive and assessment system, the enthusiasm of some employees has dramatically decreased, resulting in a lack of professional ethics. Its manifestation is a lack of positive views on power, status, and money, which leads to the work of certain bank employees. As a behavior, the preliminary investigation work of the credit business could be better, and the later loan review is not strict, greatly increasing the possibility of credit risk and affecting the overall rapid development of Fudian Bank.

4.2 Influence factors of internal control of credit business in commercial banks in China

The influencing factors of internal control of credit policies in commercial banks mainly include the risk preference of management, risk management systems and regulations, organizational structure and control system. The risk preference of management is positively correlated with the level of internal control. The risk management system, organizational structure, and control system play an intermediary role in internal control. The internal control factors of commercial bank credit policies also include corporate governance structure and risk management culture. A better corporate governance structure and a sound risk management culture can significantly improve the internal control level of commercial banks' credit policies.

Risk preference is the type and level of risk that commercial banks are willing to accept in the pursuit of value. It reflects the bank's strategy from a risk perspective and affects the bank's business management activities.

Banks survive and develop by taking on risks. Risk management is one of the most decisive management practices in modern commercial banks, and it is also one of the most important considerations for measuring the core competitiveness and market value of commercial banks. Strengthening risk management and building a comprehensive risk management system through the experience and lessons learned from the operation and management of domestic and foreign commercial banks in recent years is crucial for promoting the sustainable development of commercial banks.

The organizational structure of credit institutions serves the business process and should follow the principle of "process first, department later" to set up relevant departments. In order to improve operational and decision-making efficiency, the organizational design should be flat and specialized positions should be designed according to the needs of the business process. It is necessary to ensure that each link of the business has corresponding positions and clear work basis Job responsibilities, job responsibilities, and work efficiency.

The control system of commercial banks is a set of mechanisms established to ensure the healthy operation and risk control of banks. The main content of the control system of commercial banks includes internal control systems, policies and systems, internal control processes, internal control supervision and evaluation. These contents together constitute a complete control system, ensuring the normal operation and risk control of commercial banks.

4.3 Conclusion

Nowadays, China is increasingly paying attention to the refined research of various aspects and businesses of commercial banks. At present, most commercial banks in China have established relatively complete internal control systems, but research on the credit business, the bank's largest profitable business, is still very limited, and there is still much to be improved. This article points out that the internal environment of state-owned banks' credit business is weak, the classification standards for credit assets need

to be improved, commercial banks are an important source of financing for businesses, especially ones at the initial stage of their business operations and the pre loan and post loan non-performing control activities have not been fully implemented. The audit work of credit business needs to be further strengthened. Through analysis, the main reason for the internal control defects of Fudian Bank's credit is internal reasons.

In recent years, Fudian Bank has achieved significant growth and notable performance in its credit business. However, our research has also revealed some internal control issues in credit operations, particularly related to personnel, including insufficient qualifications of credit policy formulation and implementation personnel, weak supervision and management mechanisms, as well as shortcomings in professional ethics and incentive mechanisms. To address these challenges, it is recommended that Fudian Bank take a series of measures, including improving staff qualifications through training, establishing a robust auditing system, and enhancing performance evaluation mechanisms. These steps will help elevate the internal control standards of Fudian Bank's credit business, reduce credit risks, and ensure sustainable growth.

Looking ahead, Fudian Bank will continue to work on optimizing its internal control framework and enhancing the professionalism and ethical standards of its staff. This will further solidify its competitive position in the credit market while maintaining sound risk management practices. Additionally, Fudian Bank should remain proactive in monitoring market dynamics and evolving regulatory requirements to ensure alignment between its credit policies and the market environment. Through continuous efforts and improvements, Fudian Bank will continue to deliver strong performance, creating greater value for its customers and shareholders.

Chapter 5 Recommendation

5.1 Recommendation

5.1.1 Qualifications of Personnel

To enhance the professional qualifications of staff and ensure effective internal control of credit policies, priority should be given to recruiting individuals with relevant expertise and experience during the hiring process. Furthermore, banks should establish a continuous training system to ensure that employees can promptly understand and grasp the latest requirements of credit policies.

Strengthening risk awareness and a sense of responsibility is essential. Executing personnel should possess a heightened level of risk awareness and responsibility to ensure the strict implementation of credit policies (Korzeb & Niedziółka, 2020). Alongside employee training, banks should bolster their staff's risk education and responsibility education, cultivating sensitivity to credit business risks and a strong sense of duty. This will enhance their self-awareness and diligence in adhering to credit policies.

5.1.2 Supervision and Management

This can improve the time efficiency of the risk identification system in identifying risk anomalies, to make better decisions on it. For example, a variety of borrower information can be obtained from network channel browsing records, such as standard contacts of borrowers and loan information browsed online, to understand the real-time debt status of borrowers and improve the intelligence of the risk identification system. and real-time performance. Taking Fudian Bank Co., Ltd. as the object, from the perspective of big data, we build the business information cloud computing platform of Fudian Bank Co., Ltd. The enterprise information cloud covers all kinds of company-related information. Using this information platform.

5.1.3 Incentive Mechanisms

Banks should establish a performance evaluation system closely related to internal credit policy controls, incorporating the execution of credit policies as a critical component of performance assessments. Employees who excel in implementing credit policies should be rewarded appropriately and provided with opportunities for career advancement to incentivize them to maintain a high level of performance. Improve communication and feedback: Banks should strengthen communication and feedback channels with personnel responsible for policy execution. This will enable timely identification of challenges and difficulties they encounter while implementing credit policies. Banks should also offer support and assistance to employees in resolving these issues, ensuring the smooth execution of credit policies.

5.2 Further Study

This paper studies the influence of traditional commercial banks should continue to pay attention to their ability to prevent risks and use modern big data technology to dominate the lead today with the development of the changeable financial market. Finally, we hope that the research conclusion of this paper can provide some reference value for the internal control of the credit business of commercial banks in China. It is hoped that China 'Fudian bank industry can pay more attention to the internal control of credit business, optimize the internal control of commercial banks, reduce the non-performing loan ratio of commercial banks, and become the mainstay of the financial industry in China's economic development.



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