

IMPACT ANALYSIS OF THE IMPLEMENTATION OF SUSTAINABLE CREDIT GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY (CSR) DURING THE COVID-19 PANDEMIC AT BANK X AND BANK Y

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ABSTRACT

The increasing occurrence of non-performing loans can cause *non-performing* loans (NPL) loans to rise and have an impact on the Bank. *Non-Performing Loan* is the main parameter or ratio to measure the level of credit health in the banking sector, NPL consists of non-performing loans, so banks, especially the credit department, must be careful when realizing credit so that the credit is not problematic. This study aims to analyze the relationship between Bank X and Bank Y related to the implementation of credit governance and sustainable Corporate Social Responsibility (CSR) during the COVID-19 Pandemic at Bank X and Bank Y. Implementation of credit governance at Bank X and Bank Y is used as three pillars that are interconnected with Corporate Social Responsibility (CSR) related to credit loans during the COVID-19 era by developing the MSE Funding TJSL program. This is in line with the contribution of Bank X and Bank Y to Sustainable Economic Development (SDGs), namely in goal number 8 of Decent Work and Economic Growth. The implementation of ISO 26000 in organizational governance, fair operating practices, and consumer issues in both banks is well implemented. Sample the study by interviewing 14 respondents and using Content Analysis. The results showed that Bank X and Bank Y have implemented three ESG pillars as sustainable business efforts in Sustainable Banking, Sustainable Operation, and Sustainable Corporate Social Responsibility (CSR) during the COVID-19 pandemic. The two banks, namely Bank X and Bank Y have implemented sustainable business practices (*Good*) *Corporate Governance & Sustainability Business in Banking*). The existence of market risk, liquidity, legal risk and reputational risk, the strategic risk to both Banks does not affect the Bank in implementing sustainability practices.

Keywords: *Non-Performing Loans, Consumer Governance & Issues, CSR, SDG 8, ISO 26000, (SDGs).*

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INTRODUCTION

The increasing occurrence of non-performing loans can cause *non-performing* loans (NPL) loans to rise and have an impact on the Bank. *Non-Performing Loan* is the main parameter or ratio to measure the level of credit health in the banking sector, NPL consists of non-performing loans, so banks, especially the credit department, must be careful when realizing credit so that the credit is not problematic.

Research from Katarina Valaskova (2021) noted that the COVID-19 pandemic had a bad impact on financial factors for debtors. According to Wong & Lynn (2020), the existence of debt and credit card interest affects consumer spending and the ability to pay debtors.

Previous research from K. Majamaa (2019), related to the problem of credit card debt has increased since before the pandemic in Finland. The sample was conducted on 4,962 respondents from 2014 to 2016. Performed with random samples. Aspects of research in the age range of 20 to 29 years with different socioeconomic characteristics (age, gender, status, and education). Another aspect of the research related to credit cards is linked to the financial position of the average consumer who is 30 years old and has a high education. Furthermore,

in credit card management, guidance is needed to strengthen financial capabilities for the younger generation in order to get a good understanding of financial literacy and strategies for managing debt problems in the future.

Anoma Srisukkasem (2017) discusses rising personal debt and expenses associated with the increasing use of credit cards. About 50% of household spending in Bangkok has credit card debt (The Nation, 2017). Along with the increase in the amount of credit card spending, unpaid balances, and down payments derived from credit cards, there is an increase in the use of credit card facilities and the willingness to pay off credit card interest bills. Credit card lending increases profitability in financial institutions, also giving rise to new risks (Effie Yao, 2008).

Nattawat Saengmanee (2009) suggests that credit card holders are required to pay the balance of debt on credit cards and make new loans from other credit cards. This will create an accumulated increase in credit card interest. Data collection was carried out at the *Maboonkrong (MBK) Shopping Center*, which took place from 04 January 2010 and ended 30 January 2010 for two weeks. The study was conducted on 329 respondents from the backgrounds of private employees, employees of state-owned enterprises, civil servants, and entrepreneurs. As a result, the Bank of Thailand carried out a deregulation policy related to banking credit.

The COVID-19 pandemic has caused reduced banking liquidity and limited the ability for banks to lend funding to debtors (George Cheney, 2020). In a pandemic situation, debtors will default and increase credit risk to the Bank (Marco Barrel, 2020).

According to Lindsay Banin (2014), the loan restructuring function is used as a recovery strategy, efficiency-oriented strategy, and credit distribution. Bank Mandiri restructured loans such as lowering interest rates and extending the credit loan period and late payments.

Credit policies are used to minimize costs associated with increased profits. According to Marcel Claude Bessis (2012) said that credit policy includes credit assessment and analysis, loan disbursement, credit monitoring, and evaluation.

According to Zhao et al, 2020 Banks with higher CSR performance will invest more efficiently, where each CSR dimension produces different outputs and has an effect on investment efficiency.

According to Abdelmoneim & Elghazaly (2021), this study shows that CSR is not a factor that can increase the Bank's profits which allows for a negative reaction for *stockholders* for CSR budget expenditures. This is important to raise awareness for social and economic sustainability. Governance plays a role in improving the relationship between CSR and profitability. It was found that governance affects both profitability and CSR positively. Governance helps CEOs to work strategically and gain social benefits for the company. Studies show that there is an organization's concern on issues related to sustainability, and there is a supervisory process and system for managers. There are improvements in the surrounding environment and better company performance.

4 results were identified that affect financial performance, reputation, stakeholders, and cultural change.

The conditions that occur in Indonesia, in general can be applied with similar research methods considering that there are still many credit card management and policies related to credit cards that have not been supported and others.

This research provides benefits for better credit card management, which can have an economic effect on debtors who use credit cards to comply with banking rules related to credit cards.

Furthermore, this study is a modification of the two articles conducted by Majamaa Turkaa (2017) related to the problem of credit card debt in Finland and Anoma Srisukkasem (2007) related to personal debt and the increasing use of credit cards in Thailand.

This study took samples at Bank X and Bank Y in Indonesia, Bank X Head Office, and Bank Y Head Office, by interviewing 7 respondents at Bank X Head office and 7 respondents at Bank Y in Jabodetabek, Indonesia. In analyzing using descriptive analysis content analysis.

Table 1. NPL of Bank X and Bank Y in 2020-2022

| NPL BMRI 2020 | NPL 2021 | BMRI NPL BMRI 2022 | NPL BNII 2020 | NPL BNII 2021 | NPL 2022 | BNIII |
|------------------|-------------|-----------------------------|------------------|------------------|-------------|-------|
| 2.81% | 2.72% | 2.26% | 3,2% | 2.91% | 2.6% | |

Source: Annual Report 2020- 2022 Bank X and Bank Y.

METHOD

This study took samples from Bank X and Bank Y with 14 respondents. This research applies a descriptive qualitative research model through interviews to find facts with a clear interpretation. Referring to Hani Morgan (2021), qualitative research includes analyzing texts from scratch, conducting analytical documents, and understanding concepts, opinions, and experiences. The method used using the content analysis method on the results of interviews from respondents with 2 research objects at Bank X Graha Mandiri, Gatot Subroto, South Jakarta, and Bank Y, Sentral Senayan, Central Jakarta.

This method allows researchers to understand contextual conditions with in-depth analysis and identify high credit card NPLs in Bank X and Bank Y, analyze credit governance and consumer issues at both banks, analyze Corporate Social Responsibility activities, especially related to credit card loans at Bank X and Bank Y during COVID-19 and analyze the relationship between CSR programs related to credit card loans and SDG 8.

Data Collection Methods

Methods are the most important part of obtaining data to be researched and obtaining comprehensive results. The study collected primary and secondary data. Primary data are obtained through:

- 1). Direct observation in the field;
- 2). Structured interviews, directly to the source. The primary data collection will be carried out in the period from November to December 2022 directly at the head office of Bank X and Bank Y.

Primary Data

Conducted by *in-depth interviews*, documentation, and observation.

1. These interviews are called semi-structured interviews starting with some questions that are specific to the subject matter (Cooper & Schindler, 2014).
2. Documentation contains important notes in the form of writings and photos (Sugiyono, 2007).

Secondary Data

It is referred to as literature research to collect information relevant to research in obtaining secondary data by analyzing documents such as Annual Reports, Sustainability Reports, and other documents.

Data Analysis Methods

To analyze the results of research findings related to NPL criteria, CSR related to loans, CSR programs related to loans during COVID-19, SDG 8, and ISO 26000 related to credit governance and handling consumer issues, this study uses *content analysis*.

Presentation of Research Result Data.

The resource persons in this study were 14 speakers from 7 internal employees of Bank X and 7 internal employees of Bank Y.

In obtaining data according to the variables in each study, researchers use the main data sourced from observations in the field which are strengthened by the results of structured interviews with relevant sources. Researchers also obtained secondary data from relevant documents, such as internal reports of Bank X and Bank Y, websites of both banks, print media, and electronic media.

Bank X and Bank Y Sustainability Report 2021 that Bank X and Bank Y provide a variety of sustainable products and services in the form of products with social and environmental benefits.

Head of Portfolio & Risk Bank X

A). What does the bank do if the debtor cannot pay on time? Debtors cannot pay on time because the debtor's ability to pay off credit card loans in a timely manner experiences financial problems, debtors experience a decrease in sources of income, a decrease in debtor business, and a decrease in economic business activities.

b). What is the percentage of NPL of banking Kredit Cards during the 2020 – 2022 pandemic at Bank X? During 2020 to 2022, the NPL of banking credit cards at Bank X reached 1.08%- 5.03%.

c). How much is the arrears of banking credit card customers during the pandemic? In the 2020-2022 period, the collectibility code of 2 credit card segments ranges from IDR 387 billion

to IDR 1090 billion while the credit card segment ranges from IDR 140 billion to IDR 566 billion.

d). What are the factors of high NPL during the pandemic? limited ability of debtors during the COVID-19 pandemic, where there is a decrease in the debtor's business, debtors lose their jobs, there are termination of employment (layoffs), decreased economic activities, and limited collectors to come to visit the debtor's place of business (home) to collect due to PSBB / PPKM. In addition, the existence of *work from home* and or the implementation of *shifting* has caused the effectiveness of billing to decrease due to the reduction in the number of working hours during the COVID-19 pandemic.

CSR Manager of Bank X and Bank Y

a). What programs are implemented by Bank X and Bank Y related to *consumer loans*?

Bank X with the Livin' application provides a Power Cash feature for selected customers to disburse cash from credit cards owned by customers. Credit card customers using Mandiri Online can apply for Power Cash loans ranging from IDR 1 million to IDR 100 million (maximum 50% of the remaining credit card limit).

Bank X customers can borrow capital or funds without using collateral/guarantees which is usually one of the conditions if they want to borrow at conventional banks, but the loans applied are only limited to individual loans and for household purposes only.

At Bank X, unsecured loans for up to a limit of up to Rp.100 million for micro-entrepreneurs can be accessed through Bank Mandiri's KUR program. Bank Mandiri is an institution that provides loans to the community. There is one type of Bank X online loan that is interesting, namely unsecured. KTA products or money loan loans through bank X that do not use collateral can be your solution.

Micro and Small KUR

Credit limit of at least IDR 2 million maximum IDR 50 million per debtor. For the loan period, Working Capital Credit is a maximum of 3 years and Investment Credit 5 years.

What is Mandiri KSM product? Mandiri KSM is an unsecured loan given to Bank X customers to finance various needs.

It should also be noted that Bank X credit card holders can make cash withdrawals through Automated Teller Machines (ATMs) owned by Bank X. In simple terms, credit card cash withdrawal is an activity of disbursing the credit card limit or limit into cash carried out at the ATM machine.

Bank X with a pay later system (pay later) provides convenience in lending through digital platforms through a strategy of collaborating with partners with the pay later system (pay later), including with e-commerce with a financing value of up to RP 5 million.

b). What programs does Bank Y implement related to *consumer loans*?

Bank Y also launched the Sustainable Products Framework (KPB) to encourage the development of green, social and sustainable products by disbursing RM50 billion by 2025.

The Sustainable Products Framework (FGM) will be implemented across the Group including sharia and conventional products as of September 1, 2022, which will include lending products, debt and equity capital markets, trade finance, retail financing, insurance, asset and wealth management, derivatives, and deposits. Bank Y has mobilized over RM13.6 billion in sustainable finance in Fiscal Year 2021 and RM10.3 billion on December 30, 2022.

Strategic Improvement Manager Bank X

a). What are the implementations of SDG 8 on Bank X and Bank Y?

PT Bank X Tbk will continue its strategy to boost its profitability. To encourage profit, Bank X will keep the cost of funds at a low level. To keep the cost of funds low, the company will increase the role of Livin and Kopra to encourage low-cost funds.

Financial products and services for the public carried out by Bank X are financing products for micro-enterprises and small and medium enterprises. Financial products and services for macro enterprises, financial products for small and medium scale.

Profit growth increased due to improved profitability performance. This is reflected in the consolidated net interest margin (NIM) which reached 5.37% in the second quarter of 2022, growing 32 basis points (bps) compared to the second quarter of 2021. Thanks to improved profitability, Bank X managed to book a net profit of IDR 20.2 trillion, growing 61.7% yoy in 2022.

Then, the realization of Bank X's credit growth on a consolidated basis as of the second quarter of 2022 reached IDR 1,138.31 trillion or grew 12.22% (yoy). Through this achievement, Bank X also became the bank with the largest national credit distribution.

Bank X's loan growth was mainly supported by corporate loans which grew 10.6% (yoy), from Rp369 trillion to Rp409 trillion at the end of June 2022.

This credit growth also contributed to the growth of Bank X's total assets on a consolidated basis which reached IDR 1,786 trillion or grew 13% (yoy) until the second quarter of 2022.

In the reporting year, the sustainable portfolio (according to the KKUB in POJK 51/2017) reached Rp205.4 trillion or 25% of the total bank loan portfolio (bank only), of which non-MSME contributed Rp101.9 trillion and MSMEs amounted to Rp103.5 trillion. Non-MSME Sustainable Finance Financing contributes to the increase in the sustainable finance portfolio in 2021, especially renewable energy financing in the form of hydropower plant and geothermal power plant projects and friendly transportation financing. Bank X and Bank Y also developed Sustainability Product Assets in the retail segment such as the distribution of IDR 1.17 trillion in FLPP loans to support 10,902 low-income people with affordable housing, retail financing of battery-based electric motor vehicle loans reaching IDR 22.1 billion, as well as launching a micro-multipurpose credit and credit card program for the installation of solar panels in collaboration with LEN Agra, SunTerra.

Sustainable CSR And Financial Inclusion

a. Community empowerment through entrepreneurship training, especially for migrant workers and WMM (Independent Young Entrepreneurs), in addition to developing Rice Milling Units and BUMN Houses.

b. Financial inclusion in priority sectors of the government (agriculture and fisheries) and the development of Mandiri Agen, or *branchless banking agents*. & ATW Solar.

Strategic Improvement Manager Bank X

a). What are the implementations of Bank Y in SDG 8?



Financing products for micro, small and medium enterprises, in addition to financing financial products for macro businesses, small and medium enterprises.

Increasing Bank Y's profitability in 2022, such as:

- *Fee-based* revenues excluding *fees* related to Global Market, rose 5.2% to Rp818 billion with *fee* income from loans and retail businesses and subsidiaries;
- *Global Market* fees fell 69.2% due to global interest rate dynamics and market volatility;
- Total loans grew 8.1% to Rp106.81 trillion, supported by:
 - Global Banking credit segment growth of 16.7%;
 - The Retail Community Financial Services (CFS) credit segment grew by 9.0%.

PT Bank Y (BNII) announced that it had achieved a net profit of IDR 1.06 trillion for the 2022 period. This profit is in line with BNII's ability to increase its Net Interest Margin (NIM) which strengthened by 2 basis points to 4.8 percent in December 2022. Bank Y itself has disbursed loans of IDR 111.45 trillion or 12.8 percent.

- Head of Government Relations (Bank X & Bank Y)

a). How is the implementation of credit governance in Bank X and Bank Y that can increase *profitability and company value*?

Bank X conducted a self-assessment of governance based on OJK Circular Letter No. 13 / SEOJK / 2017 concerning the Implementation of Governance for Commercial Banks. The principles of governance at Bank X consist of: a. Transparency b. Accountability c. Responsibility.

Bank X is committed to contributing to the achievement of the SDGs in Indonesia, manifested in the operational activities and implementation of social responsibility as conveyed in the Bank's Sustainability Action Plan (RAKB).

- Head of Strategic Improvement & Business Bank X and Bank Y

A). How is the implementation of credit governance and consumer issues in Bank X and Bank Y?

Good Corporate Governance (GCG) is a Bank governance that applies the principles of transparency, accountability, responsibility, independency, and fairness in carrying out business activities.

Implementation related to consumer issues considers factors:

1. Compliance under applicable Laws.
2. Based on business principles appoint a Service Level Agreement (SLA).
3. Increase customer satisfaction.

- Head of Government Relations Bank X and Bank Y

A. How is the implementation of governance at Bank X and Bank Y?

Findings on Governance and Environment, Social & Governance Risk Management activities

Bank Y has policies and commitments for environmental, social, and governance management in the financial products and services provided. Policy implementation includes:

- a. Integration of ESG considerations into financing activities to effectively manage ESG risk and realize ESG opportunities.
- b. Engagement and dialogue with debtors cooperate in the improvement of ESG for debtors.
- c. Continuous efforts on opportunities to minimize the impact of ESG on Bank Y's operations, products and services.

Research Findings

Analysis of Findings of Non-Performing Loan Criteria Indicators

Non-Performing Loan as a determinant of high credit risk, high profitability, high NPL will affect financial stability (Khan et al, 2020). There is a linkage between ROE, capital ratio, and GDP which affects NPLs in banks (Makri et al, 2014).

The handling of Non-Performing Loan stability at Bank X is better than Bank Y in the first half of the COVID-19 pandemic in the March – December 2020 period.

Analysis of CSR Indicator Findings related to loans during the Pandemic

According to Baicu et al (2020) that banks in Romania have donated banking CSR funds to the sustainability of small and medium enterprises (SMEs) and protected bank customers and implemented bank CSR social actions during the COVID-19 pandemic.

Bank X and Bank Y allocated CSR funds related to credit loans for small and medium enterprises (MSMEs), providing sustainable credit facilities during the pandemic.

Analysis of SDG 8 Indicator Findings

Barua's research (2021) suggests that high NPLs during the pandemic affect banking liquidity and affect slow-running loan demand (Goodell, 2020). According to the OJK, the pandemic period since March 2020 has affected long debts which has affected banking profitability.

The two banks in the first semester of March 2020 had decreased profitability, but the 2021-2022 period has achieved profitability to fund loans in the retail sector and non-retail sector.

Analysis of ISO 26000 Findings related to profitability & consumer issues

According to Cakranegara (2020), the COVID-19 pandemic has an influence on loans and liquidity and is related to bank profitability per year. According to Pradipta (2020), the pandemic resulted in liquidity and the ability to borrow and repay loans.

Bank X and Bank Y have implemented issues of handling customers related to loans, implementing interest discounts, and restructuring debt during the pandemic.

The implementation of ISO 26000 went well in Bank X and Bank Y.

Analysis of Research Findings

Findings relating to SDGs at Bank X and Bank Y

Baicu et al (2020) stated that Banks in Romania carried out social actions and actions (CSR) in the form of financing in the hospital sector during the COVID-19 pandemic.

Bank X and Bank Y support the achievement of SDG 8 with the support of the Bank's financing and capital to small and medium enterprises (SMEs).

RESULTS AND DISCUSSION

Governance and Consumer Issues of Bank X and Bank Y

According to Kasoga & Tegambwage (2021), policymakers are advised to reschedule loan payments and reduce the number of large loans. This research is also related to the achievement of SDG 8, namely sustainable and inclusive economic growth and ISO 26000 Core Subject Consumer Issues related to customer service, data protection, and customer privacy that can increase corporate value and investor trust by implementing sustainable governance practices.

The basis for the researchers' consideration is to combine the positive relationship between governance and performance (Sianipar, 2020), governance variables, and financial services (banking) variables that have an influence on economic growth that can increase profitability (Li & Zhang, 2022a).

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Bank X is committed to contributing to the achievement of the SDGs in Indonesia, manifested in the operational activities and implementation of social responsibility as conveyed in the Bank's Sustainability Action Plan (RAKB).

Bank Y has policies and commitments for environmental, social, and governance management in the financial products and services provided. Policy implementation includes:

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- b. Engagement and dialogue with debtors cooperate in the improvement of ESG for debtors.

- c. Continuous efforts on opportunities to minimize the impact of ESG on Bank Y's operations, products, and services.

Bank Y's sustainability commitment in 2022 focuses on 3 main priorities:

1. Internal capability development
2. Organizational adjustment, risk management, governance, and standard operating procedures (SPO).
3. Sustainable financial product and service development.

Bank Y carries out operational activities with the following strategic steps:

1. Improving the capability of human resources including the availability of new skill sets of employees needed.
2. Integrating environmental, social and governance (ESG) aspects in developing policies or standard operating procedures and risk management in the Bank's business activities.

Bank X Sustainability Policy

Three pillars in six main initiatives in the pillars:

1. Sustainable Banking
 - A. Application of ESG aspects of internal capability development in five priority sectors
 - B. Development of *sustainability products*
2. Sustainable Operation
 - a. Green Operation (green office implementation) and green Campaign (internalization of environmentally friendly culture).
 - b. Data Privacy and Security
3. Sustainability CSR & Financial Inclusion
 - a. Community Empowerment
 - b. Financial Inclusion

Bank X applies the concept of sustainable development through community and environmental empowerment.

The responsibilities of the ESG Related Unit at Bank X are as follows:

- 1 Update and review the implementation of RAKB related to ESG risk management activities related to banking activities in order to increase portfolio resilience.
- 2 Plan and coordinate capacity-building sessions necessary for ESG policy development and revision.

The implementation of Bank Y's GCG has a positive impact on the Bank's overall performance including:

1. Build reputation and performance before stakeholders both nationally and regionally.
2. As a business entity, the implementation of good governance contributes to performance growth through the establishment of clear systems and workflows.

According to Clair (2019), there are two ways credit quality is investigated; the ratio of total loans and the ratio of Non-Performing Loans (NPL) and loan amount. The results showed that Non-Performing Loans are associated with low-cost efficiency, and better cost efficiency to reduce Non-Performing Loans (NPL). Credit strategy evaluation is carried out by renegotiating payment methods, providing incentive facilities, and providing short-term services to customers (Isaacs Kimberly, 2021).

According to Bank X and Bank Y, there are limitations in the ability of debtors during the COVID-19 pandemic, there is a decrease in the debtor's business, debtors lose their jobs, there are layoffs, decreased economic activities, and limited collectors to come to visit the debtor's place of business (home) to collect due to PSBB / PPKM. In addition, the existence of work from home and or the implementation of shifting has caused the effectiveness of billing to decrease due to the reduction in the number of working hours during the COVID-19 pandemic.

According to Li & Zhang (2022b) there is a relationship between bank development and economic growth during the financial crisis. The government should support the development of banks in the future and make improvements to control risks and provide better financial services. From 2020 to 2022, the NPL of banking credit cards at Bank X reached 1.08%-5.03%.

For Kantabutra and Ketrapkorn (3) companies can increase profits by contributing by developing basic sustainability practices. This relates to SDG 8 (Decent work and economic growth).

Bank X provides KUR (People's Business Credit) which is part of the Government's program in providing access to financing for Micro, Small and Medium Enterprises consisting of:

1. KUR Retail has a credit limit of more than IDR 25 million.
2. KUR Mikro has a maximum credit limit of up to RP 25 million per debtor within a period of 2 years.

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Then, the realization of Bank X's credit growth on a consolidated basis as of the second quarter of 2022 reached IDR 1,138.31 trillion or grew 12.22% (yoy). Through this achievement, Bank X also became the bank with the largest national credit distribution.

CONCLUSION

The two banks, namely Bank X and Bank Y, have implemented Good Corporate Governance & Sustainability Business in Banking. The existence of market risk, liquidity, legal risk, and reputational risk, the strategic risk to both Banks does not affect the Bank in implementing sustainability practices. Both Banks implement sustainability practices (organizational & operational) according to the conceptual framework as suggested by previous researchers.

Both Banks apply communication methods supported by mindset and awareness to transfer information on sustainability practices in banking to customers, and debtors. Both banks implement sustainability business in banking practices such as making environmentally friendly debit and credit cards. Governance, ESG, and ISO 26000 subject fair operating issues, and consumer issues have been implemented in the Monthly Report and Sustainability Report with transparent and accountable governance.

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