International Journal of Economic, Business, Accounting, Agriculture Management and Sharia Administration (IJEBAS)

International Journal of Economics, Business, Accounting, Agriculture Management and Sharia Administration (IJEBAS Journal) | ISSN(e): 2808-4713
Volume 6 No. 5 (2026)

CREDIT ASSET QUALITY ANALYSIS AND FINANCIAL PERFORMANCE RECOVERY RECOMMENDATIONS FOR AN INDONESIAN GOVERNMENT-OWNED RURAL BANK: A CASE STUDY OF PT BPR SERANG (PERSERODA), 2020–2025

Barelvi Ghazy Daffa[1], Sylviana Maya Damayanti[2]
[12]School of Business and Management, Institut Teknologi Bandung, Indonesia
Corresponding author: barelvi_daffa@sbm-itb.ac.id

Received: 05/07/2026 | **Revised:** 13/07/2026 | **Accepted:** 20/07/2026 | **Published:** 31/08/2026

Abstract

Non-performing loans (NPL) among Indonesian Bank Perekonomian Rakyat (BPR, rural banks) rose nationally from 7.89% in 2022 to 11.75% in 2025, well above the 5% prudential guideline. PT BPR Serang (Perseroda), a rural bank wholly owned by the Serang Regency government, experienced a more severe deterioration: Net NPL rose from 3.86% in 2020 to 18.39% in 2025, Gross NPL reached 22.21%, Return on Assets (ROA) fell to 1.48%, and net profit declined from IDR 13.66 billion in 2022 to IDR 6.49 billion in 2025. This study examines the bank's credit asset quality over 2020–2025, investigates the internal and external factors driving its deterioration, evaluates the resulting impact on financial performance, and develops empirically grounded recovery recommendations. A single-case, sequential explanatory mixed-methods design was used, combining CAMEL-based gap analysis of secondary financial data against SEOJK No. 11/SEOJK.03/2022 thresholds and national industry averages with qualitative content analysis of semi-structured interviews with three key informants (Direktur Bisnis, Manajer Kredit, and Kepala Manajemen Risiko/Kepatuhan), and a supplementary Pearson correlation analysis of internal financial indicators. Findings indicate that structural deterioration in credit asset quality reduced both profitability and capital adequacy through four internal factors — high portfolio concentration in ASN (civil servant) payroll-deduction loans, underwriting that relies on payroll-deduction collection rather than fully verified repayment capacity, insufficient oversight of broker-mediated financing, and an early-warning system that functions as a monitoring dashboard rather than a triggered escalation mechanism — compounded by intensifying competition from larger payroll banks and volatility in ASN allowance disbursement. A supplementary correlation analysis (n=6 annual observations, descriptive only) found the loan-to-deposit ratio to be the most robust internal correlate of Net NPL. Six recovery recommendations are proposed using the Robbins and Pearce (1992) retrenchment/recovery turnaround model, mapped to the four rencana tindak categories of SEOJK No. 11/SEOJK.03/2022: credit risk reduction, governance improvement, capital reinforcement, and financial performance improvement. Credit policy is one operational instrument within this broader recovery package rather than a substitute for it.

Keywords: credit asset quality; rural bank; non-performing loan; credit policy; bank turnaround

1. Introduction

Bank Perekonomian Rakyat (BPR) play a distinct role in the Indonesian financial system, extending credit to micro, small, and unbanked segments that commercial banks often do not reach, including civil servants (Aparatur Sipil Negara, ASN), micro-entrepreneurs, and salaried employees of local private firms. Nationally, however, BPR asset quality has deteriorated sharply in recent years: aggregate NPL rose from 7.89% in 2022 to 11.75% in 2025 (Otoritas Jasa Keuangan, 2023–2025), well above the 5% level generally treated as a prudential ceiling and far above the corresponding ratio for commercial banks over the same period.

PT BPR Serang (Perseroda) illustrates this deterioration in an acute form. As a Regional-Owned Enterprise (BUMD) wholly owned by the Serang Regency government, the bank combines a public-service mandate — financial inclusion and regional revenue contribution — with the same prudential obligations as any other BPR under Otoritas Jasa Keuangan (OJK) supervision. Between 2020 and 2025, the bank's Net NPL rose from 3.86% to 18.39% and its Gross NPL reached 22.21%, breaching the Peringkat 1 (healthiest rating tier) threshold defined under SEOJK No. 11/SEOJK.03/2022. This deterioration has propagated into the bank's earnings and capital position: ROA fell to 1.48%, below the 2.00% Peringkat 1 threshold; BOPO (Operating Expenses to Operating Income) rose to 90.40%;

net profit fell by approximately 52.5% from its 2022 peak; and the Capital Adequacy Ratio (KPMM/CAR) declined by 664 basis points cumulatively over the period. Despite this deterioration, the bank had not, prior to this study, produced a structured diagnosis distinguishing the symptom of declining asset quality from its downstream financial consequences and its underlying causes, nor had it translated any such diagnosis into a concrete, actionable set of recovery measures. This study addresses that gap by pursuing three research questions: (RQ1) What is the condition of PT BPR Serang (Perseroda)'s credit asset quality over 2020–2025, and what factors contributed to its deterioration? (RQ2) In what ways did this deterioration affect the bank's financial performance? (RQ3) What recovery recommendations should be made to address the underlying causes of deterioration and support financial performance recovery?

2. Literature Review

This study draws on three complementary bodies of theory. First, bank soundness is assessed using the CAMEL framework (Capital, Asset Quality, Management, Earnings, Liquidity), operationalized in the Indonesian regulatory context through SEOJK No. 11/SEOJK.03/2022, which establishes threshold ratios for each Peringkat (rating tier). CAMEL is treated here as a diagnostic instrument for identifying where a bank's condition deviates from prudential norms, not as an explanatory theory of why asset quality deteriorates (Almilia & Herdinigtyas, 2005).

Second, because CAMEL alone cannot explain causation, this study draws on credit risk management theory — loan portfolio concentration risk, underwriting and repayment-capacity assessment (the 5C framework: character, capacity, capital, collateral, and condition), credit-risk governance, and problem-loan management — as the analytical lens applied to the qualitative interview evidence and used directly as coding criteria (Aryana et al., 2021; Muhammad et al., 2020).

Third, the design of recovery recommendations draws on the corporate turnaround literature, specifically the retrenchment/recovery model of Robbins and Pearce (1992), later extended by Pearce and Robbins (1993) and reviewed by Nyagiloh and Kilika (2020), who emphasize that turnaround outcomes must be tracked longitudinally against explicit performance indicators rather than assessed only at a single terminal point. This model structures the study's recommendations into a Phase 1 retrenchment stage (0–12 months) and a Phase 2 recovery stage (12–36 months), mapped onto the four rencana tindak (action plan) categories required under SEOJK No. 11/SEOJK.03/2022: credit risk reduction, governance improvement, capital reinforcement, and financial performance improvement.

3. Research Methodology

This study uses a single-case, sequential explanatory mixed-methods design (Yin, 2018): a quantitative phase establishes what happened to the bank's credit asset quality and financial performance, followed by a qualitative phase that explains why. The quantitative phase applies CAMEL-based gap analysis to six years (2020–2025) of the bank's audited and internally reported financial data, comparing Gross NPL, Net NPL, PPAP/CKPN adequacy, ROA, BOPO, and KPMM/CAR against SEOJK No. 11/SEOJK.03/2022 thresholds and national BPR industry averages published by OJK. A supplementary Pearson correlation analysis was added to this phase in response to reviewer feedback requesting a more rigorous quantitative treatment of NPL determinants; given the six-year sample, this analysis is explicitly treated as descriptive and corroborative rather than as inferential determinant modeling, and its results were checked for robustness using leave-one-out sensitivity testing.

The qualitative phase consists of semi-structured interviews with three purposively selected informants — the Direktur Bisnis, the Manajer Kredit, and the Kepala Manajemen Risiko/Kepatuhan — chosen to jointly cover credit origination, underwriting, and risk oversight. Sample adequacy for this narrow, single-case design is justified through the information power framework (Malterud et al., 2016) rather than a fixed sample-size rule. Interview data were processed on two explicit evidentiary tiers: Tier 1 (the Direktur Bisnis interview, audio-recorded and transcribed in full, coded directly against a timestamped verbatim transcript) and Tier 2 (the remaining two interviews, coded from contemporaneous structured notes in the absence of a retained recording). Coding followed the qualitative content analysis process of Elo and Kyngäs (2008): familiarization, open coding, axial coding into themes anchored to the theoretical framework in Section 2, and tabulation into a coding matrix recording, for each theme, whether it was raised explicitly, raised implicitly, contradicted, or not mentioned by each informant.

Because this is a single-researcher thesis, all coding was performed by one coder without a second-coder reliability check; this limitation is partially mitigated for Tier 1 evidence, which remains independently auditable against the verbatim transcript. The study does not disaggregate the loan portfolio by loan-type, sector, or tenor in a structured time series, and does not incorporate a direct survey of ASN debtors or independent auditor working papers, LPS reports, or PPATK reports; these are acknowledged as data-access limitations rather than resolved within this study.

4. Results and Discussion

4.1 Credit Asset Quality Trends, 2020–2025

Table 1 summarizes the development of PT BPR Serang (Perseroda)'s Net and Gross NPL against the SEOJK No. 11/SEOJK.03/2022 Peringkat 1 threshold and the national BPR industry average. Three stages are evident. In the first stage (2020–2021), control was maintained with only initial pressure (Net NPL 3.86% → 4.03%). In the second stage (2022–2023), the Peringkat 1 threshold was breached and decline accelerated (Net NPL 7.20% → 9.70%). In the third stage (2024–2025), deterioration became unchecked, with Net NPL reaching 18.39% by December 2025 against a Gross NPL of 22.21%. Because Net NPL is measured after PPAP/CKPN provisioning while Gross NPL is not, and because PPAP/CKPN coverage itself has been affected by the use of BUMN/BUMD guarantee (Jamkrida-type) insurance schemes that reduce required provisioning for guaranteed exposures, the gap between the Net and Gross ratios in the later years likely understates, rather than overstates, the full historical scale of credit deterioration.

Indicator	OJK Threshold	2020	2021	2022	2023	2024	2025
Net NPL (%)	≤ 5%	3.86	4.03	7.20	9.70	11.92	18.39
Gross NPL (%)	—	6.75	6.74	7.22	13.88	15.64	22.21
ROA (%)	≥ 2.00%	2.77	2.88	2.80	2.19	2.85	1.48
BOPO (%)	≤ 85.00%	85.54	84.94	79.57	87.87	84.91	90.40
CAR/KPMM (%)	≥ 15.00%	28.32	25.36	23.14	27.11	24.91	21.68

Table 1. Development of PT BPR Serang (Perseroda)'s Key CAMEL Indicators, 2020–2025

4.2 Impact on Financial Performance

Asset quality deterioration transmitted into profitability through two simultaneous but opposing channels: revenue compression, as non-performing loans ceased generating recognizable contractual interest, and expense expansion, as declining collectibility categories required larger PPAP/CKPN provisions. This is consistent with prior evidence from rural banks operating in Banten Province, where an inverse relationship between NPL, BOPO, and ROA has been empirically confirmed (Aminudin & Supeno, 2025). Net profit rose from IDR 11.21 billion in 2020 to a peak of IDR 13.66 billion in 2022, before falling to IDR 10.08 billion in 2023 (–26.2% from peak) and IDR 6.49 billion in 2025. On the capital side, although total equity rose from IDR 82.72 billion to IDR 96.14 billion over the period, CAR declined by 664 basis points cumulatively as risk-weighted assets grew faster than capital, a pattern of elevated risk exposure consistent with evidence on Indonesian rural banks during periods of financial stress (Setiyono & Munawaroh, 2024).

4.3 Determinants of Asset Quality Deterioration

Two external factors and four internal factors were identified. Externally, ASN allowance (Tukin/TPP) disbursement is subject to timing volatility tied to local government cash position, directly affecting the repayment capacity of payroll-deducted loans; and competition from larger payroll banks, principally Bank BJB and Bank Banten, has intensified. A public-data comparison corroborates the latter: Bank Banten alone reported total assets of IDR 10.00 trillion as of December 2025, more than seventeen times PT BPR Serang (Perseroda)'s IDR 562.21 billion, with a Gross NPL of only 5.10% (BisnisBanten.com, 2026).

Internally, four factors were identified through the Tier 1/Tier 2 interview evidence described in Section 3. First, the loan portfolio is heavily concentrated in the ASN payroll-deduction segment; the closest available proxy, the 2022 sector breakdown, classified 86.83% of the portfolio as consumptive, though this figure should be read as indicative rather than as a precise or temporally stable ASN share, since the consumptive category may also include non-ASN payroll-based borrowers. Second, underwriting for this segment has relied substantially on the payroll-deduction mechanism itself as a collection safeguard, with a documented blind spot for debt held through informal cooperative (koperasi) channels that does not appear in SLIK. Third, an active governance gap exists in broker-mediated financing to private-sector employers, including two companies (PT Parkland World Indonesia and PT Nikomas Gemilang) that experienced waves of layoffs, without a corresponding formal inter-institutional agreement (PKS/MoU) in all cases. Fourth, the bank's early-warning system functions predominantly as a monitoring dashboard rather than as a mechanism with defined escalation triggers.

A supplementary Pearson correlation analysis of Net NPL against eight internal financial indicators over 2020–2025 (n=6) found the loan-to-deposit ratio (LDR) to be the most robust correlate ($r = 0.82$; stable at $r = 0.78$–0.95 under leave-one-out sensitivity testing), consistent with a volume-driven lending expansion that outpaced underwriting capacity. An apparent correlation between ROA and Net NPL ($r = -0.82$) was found not to be robust, collapsing to $r = -0.34$ when the single most extreme year (2025) was excluded, and is accordingly not relied upon as a standalone finding.

4.4 Recovery Recommendations

Six recovery recommendations are proposed, structured across a Phase 1 retrenchment stage (0–12 months) and a Phase 2 recovery stage (12–36 months) following the Robbins and Pearce (1992) model, and mapped to the four SEOJK No. 11/SEOJK.03/2022 rencana tindak categories. It is important to state clearly what these recommendations are, and are not: they constitute a financial performance recovery package, not a credit policy document. Credit policy is one operational instrument within that broader package — specifically, the lending rules through which Recommendations 1, 2, 4, 5, and 6 are implemented — alongside capital, governance, and strategic actions that fall outside credit policy by definition.

Recommendation 1 (Credit Risk Reduction): strengthen underwriting based on actual, verified repayment capacity rather than payroll-deduction collection alone.

Recommendation 2 (Credit Risk Reduction): require a formal PKS/MoU for all institution- and company-based financing, including an audit of existing no-MoU exposures.

Recommendation 3 (Capital Reinforcement): formally engage the shareholder for a capital commitment roadmap.

Recommendation 4 (Governance Improvement): strengthen the early-warning system into a proactive, data-driven, trigger-based mechanism.

Recommendation 5 (Governance Improvement): increase the enforcement authority of the risk management function.

Recommendation 6 (Financial Performance Improvement): pursue exclusive ASN/Aparatur Desa payroll arrangements and, contingent on a defined trigger, MoU-based diversification into vetted private-sector segments.

5. Conclusion

PT BPR Serang (Perseroda) experienced structural, accelerating credit asset quality deterioration over 2020–2025 that breached SEOJK No. 11/SEOJK.03/2022 Peringkat 1 thresholds on Net NPL, ROA, and CAR, driven by a combination of external payroll-banking competition and allowance-disbursement volatility, and four internal factors centered on portfolio concentration, underwriting design, governance gaps in broker-mediated financing, and an under-triggered early-warning system. The loan-to-deposit ratio emerged as the most robust internal correlate of NPL, corroborating a volume-driven expansion narrative. Six recovery recommendations, addressing credit risk, governance, capital, and financial performance in an integrated turnaround package, are proposed as a starting point for the bank's recovery; their implementation, and the availability of more granular loan-type, tenor, and debtor-segment data in future reporting, are identified as priorities for the bank's management and as directions for future research.

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