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ANALYSIS OF BANK SOUNDNESS LEVEL USING RGEC METHOD (RISK PROFILE, GOOD CORPORATE GOVERNANCE, EARNINGS, CAPITAL) AT PT BANK PEMBANGUNAN DAERAH JAWA TIMUR TBK FOR THE PERIOD OF 2020-2024

Ika Atriyani Yanuar Mulatsih[1], Suryani Sri Lestari[2], Moh. Muslikh[3]
Faculty of Accounting, Banking and Finance Study Program, Semarang State Polytechnic[1,2,3]
Email: ikayanuar3124@gmail.com[1], suryani.sri.lesstari@polines.ac.id[2], mrmuslikh20@gmail.com[3]

Abstract: This study aims to analyze the soundness level of PT Bank Pembangunan Daerah Jawa Timur Tbk for the period 2020–2024 using the RGEC method, which consists of four assessment factors: Risk Profile, Good Corporate Governance (GCG), Earnings, and Capital. This research uses secondary data in the form of annual financial statements, GCG self-assessment reports, and official publications from the Financial Services Authority (OJK). The Risk Profile analysis focuses on the Non-Performing Loan (NPL) and Loan to Deposit Ratio (LDR) indicators. GCG is assessed based on self-assessment reports referring to POJK No. 55/POJK.03/2016 and POJK No. 17/POJK.03/2023. Earnings are measured using Return on Assets (ROA), Net Interest Margin (NIM), and the BOPO ratio, while Capital is evaluated using the Capital Adequacy Ratio (CAR). The results indicate that the Risk Profile is in the Sound to Very Sound category, with low NPL and LDR within a reasonable range. GCG obtained composite ratings between 2 (Sound) and 3 (Fair), Earnings showed fluctuations with declining ROA and NIM in 2023–2024, while BOPO remained sound. Capital consistently achieved the Very Sound category with CAR above the minimum requirement. The overall composite soundness ratings (CR) obtained consecutively from 2020 to 2024 were CR 2 (Sound), CR 1 (Very Sound), CR 2 (Sound), CR 1 (Very Sound), and CR 3 (Fairly Sound).

***Keywords**: RGEC, Risk Profile, Good Corporate Governance, Earnings, Capital, Bank Jatim.*

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1. Introduction

The soundness of a bank is a crucial factor in ensuring financial system stability and in fostering economic growth, both at the national and regional levels. In Indonesia, the Financial Services Authority (OJK) has mandated that all commercial banks conduct periodic soundness assessments using the RGEC method an evaluation framework that integrates the Risk Profile, Good Corporate Governance (GCG), Earnings, and Capital dimensions—pursuant to POJK No.4/POJK.03/2016 (OJK, 2016). This framework replaces the previous CAMELS approach and places greater emphasis on risk management and governance quality alongside traditional profitability and capital adequacy measures.

A significant amount of research has been conducted on the soundness of banks using the RGEC method to assess their ability to manage various economic situations. Some studies indicate that large banks and government-owned banks tend to remain sound to very sound even in times of global uncertainty and pandemics (Diyah Ardiyanti & Putri Pradita, 2025; Puspitasari & Dinuka, 2023). However, research that focuses on regional development banks gives a more dynamic and specific picture. A study by Fitriyah & Muyassaroh (2023) on PT Bank Pembangunan Daerah Jawa Timur Tbk (Bank Jatim) during the pandemic found that, while the Capital Adequacy Ratio (CAR) and several liquidity risk ratios (LDR, LAR) were at very sound levels, the profitability side (ROA) dropped to a soundness level. The Interest Rate Risk (IRR) dropped to the less sound category. The performance phenomenon that showed signs opposite to the soundness level of PT Bank Pembangunan Daerah Jawa Timur Tbk during the research period makes it even clearer that the company's soundness needs to be examined in more detail. In the meantime, Bank Jatim did a good job of acting as an intermediary. However, the final net profit numbers reveal significant issues. This phenomenon is the basis for this study.

At the end of 2023, Bank Jatim achieved an impressive 18.54% year-over-year growth in credit distribution, as reported in widely published financial performance 5 reports. This double-digit credit growth was faster than the overall growth of the national banking industry. This indicates that Bank Jatim is rapidly emerging as a key player in regional development. This outstanding credit distribution performance did not lead to higher profits, which is ironic. According to CNBC Indonesia (2024) Bank Jatim's net profit for the 2023 fiscal year was 4.71% lower than it was in the previous year. There are important questions about why credit is rising so quickly while net profit is falling. Initial reports from several news outlets suggest that one of the reasons for the pressure on profits is the sharp rise in interest expenses or funding costs associated with high interest rates.

This study applies explicit methodological choices and benchmark standards to translate financial ratios into soundness categories. The thresholds adopted are consistent with OJK regulations and banking industry references: NPL below 5% indicates low credit risk, LDR in the 78–92% range reflects optimal intermediation, ROA, NIM, and BOPO are compared against national industry averages published by OJK, and CAR is assessed against the minimum requirements set in the capital adequacy regulation. For the composite score the study follows OECD (2008) best practice for constructing composite indicators: each indicator is first checked against its benchmark (binary pass/fail), the resulting scores are normalized to a common scale, weights are applied according to the study’s scheme, and the normalized, weighted indicators are aggregated into pillar scores and an overall composite ranking.

2. Literature Review

2.1. Risk profile

According to the Financial Services Authority Regulation No. 4/POJK. 03/2016, banks must manage eight key risks, including credit risk, market risk, liquidity risk, operational risk, legal risk, strategic risk, compliance risk, and reputational risk. However, in analyses using public data, the primary focus is often on risks that can be measured through quantitative indicators available in financial reports, like credit risk using Non-Performing Loan (NPL) ratio and liquidity risk using Loan to Deposit Ratio (LDR). According to the Financial Services Authority’s (OJK) 2021 Annual Report, an NPL value below 5% is categorized as “Sound” and indicates low credit risk. Higher NPL levels signal a deterioration in asset quality and an increased risk of losses, which may erode a bank’s profitability and capital adequacy. In line with statements from OJK published in Bisnis.com (2024), the optimal or "Sound" range for LDR is 78%–92%. Values within this range suggest that the bank is effectively channeling funds into productive loans without placing undue strain on liquidity. An LDR below 78% indicates under-utilization of funding capacity (under-intermediation), while an LDR above 92% may point to excessive loan growth and potential liquidity pressures. This curvilinear relationship implies that both excessively low and excessively high LDR values can negatively impact bank soundness.

2.2. Good Corporate Governance (GCG)

The Financial Services Authority through the Financial Services Authority Regulation No. 55/POJK.03/2016 on the Implementation of Governance for Commercial Banks emphasizes that GCG is a governance framework that applies certain principles to ensure that the management of banks runs well, protects customer funds, and maintains the stability of the financial system(OJK, 2016). Banks are required to prepare a self-assessment report on governance based the Financial Services Authority Regulation No.55/POJK.03/2016 concerning the Implementation of Governance for Commercial Banks. This framework references 11 assessment factors that focus on the fundamental pillars of corporate governance. In 2023, the assessment of Good Corporate Governance changed with the enactment of Financial Services Authority Regulation No.17 of 2023 concerning the Implementation of Governance for Commercial Banks, which simultaneously revoked the previous Financial Services Authority Regulation. This new regulation introduces a more comprehensive and detailed assessment framework, expanding the evaluation scope from 11 to 18 criteria.

2.3. Earnings

Earnings is a company's ability to generate profit over a specific period. According to Kasmir (2014), profitability ratios aim to measure the level of management effectiveness in managing the company's resources to obtain profit. To measure profitability, there are several key financial ratios used in the analysis are Return on Asset (ROA), Net Interest Margin (NIM), and Operating Expenses to Operating Income or *Biaya Operasional Pendapatan Operasional (*BOPO).

The "Sound" benchmark for ROA is determined annually based on industry averages reported in the *Indonesian Banking Statistics*: in 2020, ≥1.59%; in 2021, ≥1.84%; in 2022, ≥2.43%; in 2023, ≥2.73%; and in 2024, ≥2.69%. ROA values at or above these thresholds indicate that the bank is effectively using its assets to generate income, reflecting high profitability and strong asset management performance.

The "Sound" benchmark for NIM is also updated annually: in 2020, ≥4.45%; in 2021, ≥4.51%; in 2022, ≥4.71%; in 2023, ≥4.81%; and in 2024, ≥4.62%. Achieving or surpassing these benchmarks indicates efficient management of interest-earning assets and a strong contribution to profitability.

The "Sound" benchmark for BOPO in 2020 is ≤86.58%; in 2021, ≤83.58%; in 2022, ≤78.65%; in 2023, ≤78.92%; and in 2024, ≤81.30%. Ratios exceeding these benchmarks suggest cost inefficiency, where operational expenses consume an excessive proportion of income, thereby weakening profitability even if interest margins remain favorable.

3. Research Method

In this research, the bank's soundness predicate per year is determined using a majority rule approach based on four RGEC factors (Risk Profile, Good Corporate Governance, Earnings, and Capital). Each factor is further broken down into several indicators: Risk Profile (NPL, LDR), Good Corporate Governance, Earnings (ROA, NIM, BOPO), and Capital (CAR). Each indicator will be given points using a data normalization method, which is necessary because the studied data have different measurement units (OECD, 2008). According to the Handbook on Constructing Composite Indicators Methodology and User Guide published by the OECD in 2008, indicators that are above or below the average will be assigned values; indicators above the average will receive a score of 1, those around the average will score 0, while those below the average will receive -1. In the research that refers to Financial Services Authority Regulation No. 6 of 2016 and SEOJK No. 14 of 2017, it is not possible to assign a definitive ranking to each indicator based on rank, but can only assess whether the indicator meets the standards or not. Therefore, the scoring will be as follows: indicators that meet the standards described in sub-chapter 3.3 or have a good predicate will receive a score of 1, while indicators that do not meet the standards will receive a score of 0.

Each indicator owned by the RGEC factor will be summed and then divided by the total number of indicators for each factor, resulting in a score for the four factors. For each year, the total score for each RGEC factor will be calculated to determine the soundness predicate. The soundness predicate determination is conducted as follows:

Table 1. Score Range for Soundness Predicate

Composite Ranking	Predicate	Range Score
Composite Ranking 1	Very Sound	4 – 3,50
Composite Ranking 2	Sound	3,49 – 2,50
Composite Ranking 3	Fairly Sound	2,49 – 1,50
Composite Ranking 4	Unsound	1,49 – 0,50
Composite Ranking 5	Not Sound	0,49 – 0

Source: Adapted from Financial Services Authority Circular Letter No.14/SEOJK.03/2017

4. Result and Discussion

4.1. Result

Risk Profile is assessed using Non-Performing Loan (NPL) and Loan to Deposit Ratio (LDR) indicators. The “Sound” benchmarks are set at NPL < 5% and LDR within the 78%–92% range as per OJK standards and public statements. Table 4.1 presents the results for 2020–2024 with the assigned categories.

Table 2. Risk Profile Indicators and Soundness Categories

Year	NPL (%)	Category	LDR (%)	Category
2020	4,00	Low Risk	60,58	Low Risk
2021	4,48	Low Risk	51,38	Low Risk
2022	2,83	Low Risk	56,50	Low Risk
2023	2,49	Low Risk	70,03	Low Risk
2024	3,45	Low Risk	82,66	Low Risk

Source: Data processed, 2025

GCG is evaluated through self-assessment scores based on POJK criteria: 11 criteria for 2020–2023 (POJK No. 55/2016) and 18 criteria for 2024 (POJK No. 17/2023). Table 4.2 summarizes the composite scores and categories.

Table 3. GCG Composite Scores and Categories

Year	Ranking	Category
2020	3	Fair

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2021	2	Good
2022	3	Fair
2023	2	Good
2024	3	Fair

Source: Data processed, 2025

Earnings performance is assessed through Return on Assets (ROA), Net Interest Margin (NIM), and the Operating Efficiency Ratio (BOPO), each benchmarked annually against industry averages. (*STATISTIK PERBANKAN INDONESIA - Desember 2024*, n.d.)

Table 4. Earnings Indicators and Soundness Categories

Year	ROA (%)	Category	NIM (%)	Category	BOPO (%)	Category
2020	1,88	Satisfactory	5,59	Satisfactory	76,55	Satisfactory
2021	2,10	Satisfactory	5,53	Satisfactory	74,69	Satisfactory
2022	1,99	Unsatisfactory	5,27	Satisfactory	73,81	Satisfactory
2023	1,83	Unsatisfactory	5,14	Satisfactory	76,77	Satisfactory
2024	1,60	Unsatisfactory	5,47	Satisfactory	81,59	Unsatisfactory

Source: Data processed, 2025

The standards used for this ratio are based on the risk assessment of Bank Jatim each year. From 2020 to 2024, Bank Jatim has consistently received a risk level assessment of 2, so according to Financial Services Authority Regulation No.11/POJK.03/2016, the minimum capital requirement is 9-10%. Additionally, there is an obligation to maintain three buffers, each of 2.5%. Thus, the minimum capital that Bank Jatim must have is 16.5%. The calculation of Bank Jatim's CAR for the years 2020-2024 can be seen in the following table.

Table 5. CAR and Soundness Categories

Year	CAR (%)	Category
2020	21,64	Satisfactory
2021	23,52	Satisfactory
2022	24,74	Satisfactory
2023	25,71	Satisfactory
2024	23,49	Satisfactory

Source: Data processed, 2025

Overall, the soundness assessment results of PT Bank Pembangunan Daerah Jawa Timur Tbk for the period 2020-2024 using the RGEC method are as follows:

Year	RGEC Aspect	Indicator	Level	Criteria		RGEC Aspect Score (Total Criteria Score/ Total Indicators)
				Low / Good /Satisfactory (1)	High / Fairly Good / Unsatisfactory (0)	
2020	Risk Profile	NPL	4,00%	✓	-	1
		LDR	60,58%	✓	-	
	GCG		3	-	✓	0
	Earnings	ROA	1,88%	✓	-	1
		NIM	5,59%	✓	-	

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Year	RGEC Aspect	Indicator	Level	Criteria		RGEC Aspect Score (Total Criteria Score/ Total Indicators)
				Low / Good /Satisfactory (1)	High / Fairly Good / Unsatisfactory (0)	
		BOPO	76,55%	√	-	
	Capital	CAR	21,64%	√	-	1
TOTAL						**3**
2021	Risk Profile	NPL	4,48%	√	-	1
		LDR	51,38%	√	-	
	GCG		2	√	-	1
	Earnings	ROA	2,10%	√	-	
		NIM	5,53%	√	-	1
		BOPO	74,69%	√	-	
	Capital	CAR	23,52%	√	-	1
TOTAL						**4**
2022	Risk Profile	NPL	2,83%	√	-	1
		LDR	56,50%	√	-	
	GCG		3	-	√	0
	Earnings	ROA	1,99%	-	√	0,67
		NIM	5,24%	√	-	
		BOPO	73,81%	√	-	
	Capital	CAR	24,74%	√	-	1
TOTAL						**2,67**
2023	Risk Profile	NPL	2,49%	√	-	1
		LDR	70,03%	√	-	
	GCG		2	√	-	1
	Earnings	ROA	1,83%	-	√	0,67
		NIM	5,11%	√	-	
		BOPO	76,77%	√	-	
	Capital	CAR	25,71%	√	-	1
TOTAL						**3,67**
2024	Risk Profile	NPL	3,45%	√	-	1
		LDR	82,66%	√	-	
	GCG		3	-	√	0
	Earnings	ROA	1,60%		√	0,34
		NIM	5,47%	√	-	
		BOPO	81,59%	-	√	
	Capital	CAR	23,49%	√	-	1
TOTAL						**2,34**

Source: Data processed, 2025

Next, based on the assessment results, the soundness ranking of the bank for each year will be determined as follows:

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Year	Score	Rank	Predicate
2020	3	2	Sound
2021	4	1	Very Sound
2022	2,67	2	Sound
2023	3,67	1	Very Sound
2024	2,34	3	Fairly Sound

Source: Data processed, 2025

4.2. Discussion

Overall, the soundness assessment results of PT BPD Jawa Timur Tbk indicate a fluctuating performance during the period of 2020-2024. The bank demonstrated the ability to achieve the status of "Very Sound," but ended with a significant decline to the status of "Fairly Sound" in 2024.

1) Risk Profile (NPL & LDR)

This aspect is one of the main pillars of the bank's strengths. The NPL and LDR ratios have consistently been in the "Low" category each year. This stability reflects highly effective credit and liquidity risk management, which is an essential foundation for the bank's soundness. The decline in NPL to its lowest point in 2023 (2.49%) and the increase in LDR approaching the lower threshold standard in 2023-2024 indicate the bank's success in optimizing its intermediation function without sacrificing asset quality.

2) GCG (Good Corporate Governance)

The GCG aspect shows important areas that need improvement. The fluctuating GCG score, ranging between 2 and 3, with a rating of "Fairly Good" in 2020, indicates that corporate governance still faces challenges. Although its value increased and was categorized as "Good" in subsequent years, this fluctuation shows the need for strengthening the structure and implementation of GCG consistently to ensure good governance.

3) Earnings (ROA, NIM, BOPO)

The Earnings aspect shows diverse trends. NIM and ROA have consistently been "Satisfactory" reflecting maintained profitability. However, the BOPO ratio—an indicator of operational efficiency—has come under scrutiny. While the bank showed peak efficiency in 2022 (BOPO 73.81%), the trend reversed, experiencing a significant decline in 2024. The sharp rise in BOPO to 81.59%, classified as "Unsatisfactory" serves as an important warning. This indicates an increase in operational burden that is outpacing the growth of operational income, which could pose challenges to the bank's profitability in the future if not managed effectively.

4) Capital (CAR)

The CAR ratio, consistently rated as "Adequate" with a high value (above 21%), indicates that the bank has substantial capital. This condition provides a strong buffer to absorb potential losses and support future business expansion. The stability of CAR demonstrates the bank's resilience in facing economic fluctuations.

The analysis shows that the soundness of the bank is supported by substantial capital and excellent risk management. At the same time, the main challenges lie in the areas of GCG and operational efficiency. The decline in efficiency, as reflected by the rise in the BOPO ratio in 2024, is the most critical issue and requires attention

5. Conclusion

Based on the RGEC analysis of Bank Jatim for the 2020–2024 period, the following conclusions can be drawn:

1) Risk Profile
    - Non-Performing Loan (NPL) remained below the 5% benchmark in all years: 4.00% (2020), 4.48% (2021), 2.83% (2022), 2.49% (2023), and 3.45% (2024) — all classified as “Low Risk (Sound)”.
    - Loan to Deposit Ratio (LDR) was below the optimal 78%–92% range in 2020–2023, indicating under-intermediation: 60.58%, 51.38%, 56.50%, and 70.03% respectively; in 2024, LDR reached 82.66%, entering the “Optimal Range (Sound)”.
2) Good Corporate Governance (GCG)
    Self-assessment composite scores fluctuated between 2 (“Good”) and 3 (“Fair”): 3 (2020), 2 (2021), 3 (2022), 2 (2023), and 3 (2024). The fluctuation reflects inconsistency in governance implementation, with the drop in 2024 coinciding with expanded POJK assessment criteria from 11 to 18 aspects.
3) Earnings
    - Return on Assets (ROA) met the annual sound benchmarks in all years but showed a downward trend: 1.88% (2020), 2.10% (2021), 1.99% (2022), 1.83% (2023), and 1.60% (2024).
    - Net Interest Margin (NIM) consistently exceeded benchmarks: 5.59% (2020), 5.53% (2021), 5.24% (2022), 5.11% (2023), and 5.47% (2024).
    - BOPO remained in the “Sound” category until 2023 (76.55%, 74.69%, 73.81%, 76.77%) but worsened to 81.59% in 2024, exceeding the benchmark and classified as “Unsound”.
4) Capital
    Capital Adequacy Ratio (CAR) was consistently far above the regulatory minimum, indicating very strong capital buffers: 21.64% (2020), 23.52% (2021), 24.74% (2022), 25.71% (2023), and 23.49% (2024).
    Overall Soundness composite RGEC rankings: “Sound” in 2020 (CR 2) and 2022 (CR 2), “Very Sound” in 2021 (CR 1) and 2023 (CR 1), and “Fairly Sound” in 2024 (CR 3). The downgrade in 2024 was driven primarily by the deterioration in BOPO efficiency and the drop in GCG ranking, despite continued strength in capital adequacy and low credit risk.

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STATISTIK PERBANKAN INDONESIA - Desember 2024. (n.d.).