

Analysis Of Financial Performance And Strategies For Increasing The Minimum Core Capital Of Bank BPD In Accordance With The Provisions Of Pojk No. 12/Pojk.03/2020

Nur Ellyanawati Esty Rahayu^{1*}

¹Department of Economics, Universitas Islam Indonesia, Indonesia

*Correspondence email: nur.ellyanawati@uii.ac.id

Abstract-This study aims to analyze the financial performance and strategies for increasing the core capital of Pembangunan Daerah (BPD) Banks in accordance with the Financial Services Authority of Indonesia (OJK) Regulation No. 12/POJK.03/2020 concerning the Consolidation of Commercial Banks, which stipulates a minimum core capital of IDR 3 trillion by 2024. The financial performance assessment was carried out using the CAMEL, RGEC, and Altman Z-Score models. The research employed a descriptive-comparative approach. The observation period covered 2023–2024 with a sample of ten BPD Banks categorized under Core Capital Group 1. The CAMEL analysis indicates that Bank Sultra, Bank Sulteng, Bank NTB Syariah, Bank SulutGo, and Bank Bengkulu fall within the sound category, while the other five (5) BPDs are categorized as fairly sound. The RGEC analysis shows that Bank Sultra, Bank NTB Syariah, Bank NTT, Bank BJB Syariah, Bank Malulu Malut, Bank Bengkulu, and Bank Banten are deemed sound, whereas the other three (3) BPD banks are assessed as fairly sound. The Altman Z-Score results show that nine (9) BPD banks are financially sound, with only Bank Banten positioned within the grey area. Strategies to enhance the core capital of BPDs can be pursued through: (a) increasing local government shareholding; (b) consolidating with BPDs in Core Capital Groups 2 or 3; (c) consolidating with other BPDs in Core Capital Group 1; (d) attracting investment from state-owned banks (BUMN) or private banks; (e) engaging non-bank investors, both domestic and international; and (f) conducting a rights issue for BPDs already listed on the Indonesia Stock Exchange.

Keywords: *bank consolidation, CAMEL, RGEC, altman z-score*

INTRODUCTION

The Financial Services Authority of Indonesia (OJK), as the regulatory body overseeing the banking sector in Indonesia, has proactively established regulations aimed at strengthening the core capital of Bank Pembangunan Daerah Banks (BPD) to enhance financial stability and competitiveness within the national banking industry. OJK mandates that all Bank BPDs in Indonesia must possess a minimum Tier I core capital of IDR 3 trillion by no later than December 31, 2024. This requirement is stipulated in OJK Regulation No. 12/POJK.03/2020 dated March 16, 2020, concerning the Consolidation of Commercial Banks, which came into effect on March 17, 2020. Compared to commercial banks, which were required to meet the core capital threshold by December 31, 2022, regional government-owned banks were granted a more lenient deadline of December 31, 2024 (Otoritas Jasa Keuangan, 2020). However, based on the 2024 Indonesian banking statistics released in February 2025, ten Bank BPDs were still recorded as having core capital below IDR 3 trillion as of December 31, 2024. Furthermore, the financial statements for the second quarter of 2025 indicate that these banks have yet to meet the minimum core capital requirement.

Failure to comply with the OJK regulation may result in the reclassification of the affected BPDs to rural banks (Bank Perkreditan Rakyat/BPR), which would significantly impact their operational scope, reputational risk, and the credibility of their shareholders

(Sadaa et al., 2023). At the same time, the issuance of this regulation exerts additional pressure on undercapitalized BPDs. The establishment of minimum core capital is a critical policy step to strengthen the capital base of regional banks, enabling them to address economic challenges, improve financial stability, and enhance competitiveness within the national banking industry (Fich et al., 2018). This condition highlights significant challenges in the transition and capital consolidation process that must be addressed promptly to ensure regional banks meet regulatory standards and operate soundly in the long term (Hassan & Giouvriss, 2020).

OJK Regulation No. 12/POJK.03/2020 presents a strategic opportunity for BPDs in Indonesia to increase their core capital through improved financial performance, thereby attracting potential investors via various investment schemes. While under previous regulations, large banks were permitted to own only one subsidiary, either in the form of a single Islamic bank or a merged bank, the current regulation provides flexibility for banks to establish multiple subsidiaries. This may take the form of consolidation through mergers, acquisitions/integration, or the establishment of a Banking Group (Kelompok Usaha Bank, KUB) (Otoritas Jasa Keuangan, 2020). This study aims to analyse the financial performance of BPD Banks and propose effective strategies to achieve the OJK's minimum core capital requirement and to evaluate the financial soundness of BPDs, this study applies the CAMEL and RGEC models and predicts the probability of financial distress or bankruptcy using the Altman Z-Score model (Zhao et al., 2023). The assessment of bank soundness serves as a critical consideration for potential investors in making investment decisions and provides bank management with a strategic foundation for strengthening their core capital to meet the IDR 3 trillion requirement (Rahayu, 2022).

LITERATURE REVIEW

The concept of bank mergers in POJK No. 12/POJK.03/2020 provides a structural basis for strengthening regional bank capital, but the effectiveness of this policy is highly dependent on each bank's own situation. Therefore, the use of CAMEL, RGEC, and Altman Z-Score is important as complementary evaluation tools. CAMEL is used to evaluate the internal health of a bank, such as its capital, asset quality, management, profitability, and liquidity, so that operational weaknesses that could hinder the success of the merger can be identified. RGEC adds a perspective on risk and management, which directly affects a bank's readiness to merge or accept new investors, two important parts of a merger strategy. Meanwhile, the Altman Z-Score adds a predictive aspect regarding the likelihood of a bank experiencing difficulties, so that banks that appear healthy based on CAMEL and RGEC can still be identified if they have long-term risks. Thus, the decision to merge is not only based on minimum capital requirements, but also on a comprehensive picture of the bank's capabilities, risks, and resilience.

The integration of these four frameworks also shows that the success of BPD's core capital increase cannot only be seen from compliance with capital limits, but must also look at how healthy the bank is overall as an institution that is still operating. CAMEL provides an overview of short-term operational capabilities; RGEC ensures that banks have a strong risk management and governance foundation to support growth after consolidation; while Altman Z-Score assesses the likelihood of a bank going bankrupt, which is an important indicator in determining whether additional capital through mergers, consolidation of banking business groups, or additional funds from investors will have a sustainable impact. By combining evaluations of past performance,

management quality, risk profile, and bankruptcy predictions, banks and government authorities can determine the most appropriate consolidation model—whether it be horizontal mergers between regional development banks, integration into large banking groups, or additional capital from local shareholders. Thus, this theoretical framework functions as an integrated system, supporting the creation of capital increase strategies that are appropriate, effective, and sustainability-oriented.

Bank Consolidation

The Financial Services Authority of Indonesia (OJK) released Regulation No. 12/POJK.03/2020 on March 16, 2020, about the consolidation of commercial banks. This rule started being followed on March 17, 2020. The regulation asks commercial banks in Core Capital Group 1 to have at least IDR 3 trillion in core capital by December 31, 2022, and BPDs to reach that amount by December 31, 2024 (Otoritas Jasa Keuangan, 2020). The reason for making this rule was to make the banking industry stronger, more stable, and better able to compete, including BPDs, thereby supporting financial system stability, fostering national economic growth, and promoting greater efficiency within the banking sector toward achieving economies of scale (Ibrahim et al., 2019; Cao et al., 2024). Consolidation, mergers, and acquisitions are recognized as mechanisms that can enhance financial performance and improve institutional health (Goetz, 2018; Adhikari et al., 2023). Consolidation is expected to create stronger banks that are better prepared to face challenges, develop innovative products, and deliver technology-based services. Consequently, such banks will demonstrate stronger adaptive capacity and be able to address challenges posed by global economic conditions, shifts in the structure of the national banking system, and efforts to rehabilitate distressed financial institutions (Arsal, 2025). Consolidation encourages BPDs to evolve beyond regional resilience and become competitive at both national and global levels (Bank Indonesia, 2012a; Bank Indonesia, 2012b). The classification of banks based on core capital is closely related to their level of security and ability to manage operational risks (Çelik & Tekşen, 2021); the larger the capital base, the higher the level of financial security risks (Zhu, 2021).

CAMEL Analysis

The assessment of a bank's financial soundness follows the rules set by Bank Indonesia Regulation No. 6/10/PBI/2004 for conventional commercial banks and Bank Indonesia Regulation No. 9/1/PBI/2007 for Islamic commercial banks, using the CAMEL analysis method. The CAMEL analysis serves not only to evaluate a bank's financial performance but also to identify potential issues that may disrupt its operational stability (Trung, 2021). The CAMEL framework encompasses key aspects that most significantly influence a bank's financial condition. Therefore, CAMEL is considered a benchmark for assessing both the soundness level and overall performance of a bank (Bank Indonesia, 2004). The ratios used in CAMEL analysis are as follows (Bank Indonesia, 2007):

1. Capital

The capital component reflects the bank's ability to manage its own capital to offset any decline in assets caused by potential losses.

$$CAR = \frac{\text{Capital}}{\text{Risk-weighted Assets}} \times 100\%$$

2. Asset

The quality of productive assets indicates the financial performance of the bank.

$$\text{Assets} = \frac{\text{Classified Productive Assets}}{\text{Total Productive Assets}} \times 100\%$$

3. Management

This aspect measures the management's capability to maintain, manage, measure, and control risks in bank operations.

$$\text{Management} = \frac{\text{Operating Income}}{\text{Net Income}} \times 100\%$$

4. Earnings

A bank's ability to generate income or profit reflects its level of financial health.

$$\text{ROA} = \frac{\text{Profit Before Tax}}{\text{Total Assets}} \times 100\%$$

$$\text{Operating ratio} = \frac{\text{Operating Expenses}}{\text{Operating Income}} \times 100\%$$

5. Liquidity

Liquidity measures the company's ability to meet short-term or maturing obligations.

$$\text{Cash Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \times 100\%$$

$$\text{LDR} = \frac{\text{Loans Granted}}{\text{Total Deposits}} \times 100\%$$

Table 1. Credit Score for Bank Soundness Assessment Based on CAMEL

Credit Score	Category
81–100	Sound (healthy)
66–81	Fairly sound
51–<66	Less sound
0–<51	Unsound (unhealthy)

Source: Bank Indonesia, 2007

RGEC Analysis

Another regulatory framework used to assess the soundness of banking institutions is Bank Indonesia Regulation No. 13/1/PBI/2011 and OJK Regulation No. 4/POJK.03/2016. These more recent regulations assess bank health based on four key components: risk profile, good corporate governance, earnings, and capital—collectively known as the RGEC framework. The assessment indicators within RGEC are as follows:

1. Risk

The assessment of the risk profile factor involves evaluating the level of inherent risk and the quality of risk management implementation in the bank's operational activities. The measured components of risk management include credit risk, market risk, liquidity risk, operational risk, legal risk, strategic risk, compliance risk, reputation risk, rate of return risk, and investment risk.

2. Good Corporate Governance (GCG)

The assessment of the GCG factors for commercial banks evaluates the quality of bank management in implementing the five (5) principles of good corporate governance—transparency, accountability, responsibility, professionalism, and fairness.

3. Earnings

The earnings factor assesses the bank's profitability performance, sources of profitability, profitability sustainability, profitability management, and implementation of social functions. The main components used to evaluate earnings include Return on Assets (ROA), Return on Equity (ROE), and current profit growth.

4. Capital

The capital factor involves evaluating the adequacy of capital and its management effectiveness. Capital is calculated in accordance with prevailing regulations on the minimum capital adequacy requirement for commercial banks, as measured by the Capital Adequacy Ratio (CAR).

Table 2. Composite Rating of Commercial Bank Soundness

No	Composite Rating	Score Range (%)	Category
1	Composite rating 1	86–100	Very sound
2	Composite rating 2	71–85	Sound (healthy)
3	Composite rating 3	61–70	Fairly sound
4	Composite rating 4	41–60	Less sound
5	Composite rating 5	<40	Unsound

Source: Bank Indonesia, 2011

Altman Z-Score Bankruptcy Analysis

In the middle of the 1960s, Edward I. Altman introduced the Z-score formula in New York. This method was developed to measure or predict a company's potential for bankruptcy and can also serve as a comprehensive indicator of financial performance (Altman, 1968). The Z-score exhibits a high degree of accuracy, making it a reliable tool for evaluating a firm's financial risk (Altman, 2018). The Z-score is obtained by multiplying standardized coefficients by various financial ratios that reflect the likelihood of business failure (Isayas, 2021). According to Altman (2000) the Z-score can be utilized as a strategic reference for firms to improve performance in subsequent fiscal years, formulate business development policies, and enhance bank capitalization to support operational activities. The assessment of a bank's financial soundness serves as a critical benchmark for investors when deciding to allocate capital to the institution.

The Altman Z-Score model is used to predict if a company in manufacturing or services might go bankrupt (Altman, 2000).

$$Z = 3.25 + 6.56X_1 + 3.26X_2 + 6.72X_3 + 1.05X_4.$$

Interpretation of Z-Score values:

Z-Score > 2.99: Financially sound

1.81 ≤ Z-Score ≤ 2.99: Grey area

Z-Score < 1.81: Financial distress

Variable descriptions:

X1 = Working capital to total assets

X2 = Retained earnings to total assets

X3 = Earnings before interest and taxes to total assets

X4 = Book Value of equity to total liabilities

Novelty

The novelty should emphasise the methodological superiority of using these three models (CAMEL, RGEC, and Altman Z-Score) comparatively to assess the condition of Bank Pembangunan Daerah (BPD) Banks classified under Core Capital Group 1, whose core capital has not yet reached Rp3 trillion as of December 31, 2024. For bank management, the results derived from these analytical models can serve as a reference in determining the most appropriate strategies for core capital strengthening and institutional consolidation. Meanwhile, for investors, these findings offer important information for assessing the investment feasibility and financial sustainability of the respective banks.

METHODOLOGY

This study uses a comparative descriptive research approach, conducted by grouping Bank Pembangunan Daerah (BPD) Banks whose core capital had not yet reached Rp3 trillion as of December 31, 2024. The analysis utilizes the 2023–2024 annual reports of these banks to assess their financial performance. CAMEL, RGEC, and Z-score calculations are performed by calculating financial ratios as specified in each formula, then summing the results and ranking them according to credit value, composite rating, or score to determine the score rating. These calculations can be performed manually or using spreadsheets or statistical software such as SPSS to ensure consistency of results. The study includes all BPD banks in Indonesia, but the actual sample is made up of BPD banks that are part of the Core Capital Bank Group 1. The method used to select these banks was purposive sampling, which means they were chosen based on specific criteria. In total, ten BPD banks were included in the sample: Bank Sultra, Bank Sulteng, Bank NTB Syariah, Bank NTT, Bank Lampung, Bank SulutGo, Bank BJB Syariah, Bank Maluku Malut, Bank Bengkulu, and Bank Banten.

RESULTS

Bank Pembangunan Daerah (BPD) Banks of the Core Capital Bank Group 1

BPD Banks that fall under Core Capital Bank Group 1, those whose core capital remains below Rp3 trillion as of December 31, 2024, comprise ten (10) banks, both conventional and sharia-based. As shown in Table 3, as of the second quarter of 2025, none of these banks has reached the minimum core capital requirement of Rp3 trillion yet.

Table 3. BPD Banks in Core Capital Group 1 with Core Capital Below IDR 3 trillion (in millions of rupiah)

No	Bank Name	December 31, 2024	Second Quarter (June 30, 2025)
1	Bank Sultra	1,983,581	1,863,585
2	Bank Sulteng	1,356,581	1,484,629
3	Bank NTB Syariah	1,976,974	2,037,484
4	Bank NTT	2,504,856	2,404,621
5	Bank Lampung	1,343,487	1,336,742
6	Bank SulutGo	1,803,181	1,828,045
7	Bank BJB Syariah	1,388,477	1,436,598

8	Bank Maluku Malut	1,464,819	1,440,125
9	Bank Bengkulu	1,395,499	1,403,445
10	Bank Banten	1,274,849	1,319,613

Source: Bank Financial Report (2025)

The tenth (10) core capital of BPD banks until the second quarter of 2025 has not yet been able to meet OJK requirements, partly due to a decline in assets, profits, and CAR, so that investors from parent banks, other BPD banks, or bank business groups are not yet willing to increase core capital (Goetz, 2018; Adhikari et al., 2023). (The 2024 financial reports of ten (10) BPD banks show that three (3) BPDs experienced a decline in assets compared to 2023, namely Bank Sultra, Bank NTT, and Bank Maluku Malut. In addition, four (4) BPDs experienced a decline in profits, namely Bank Sultra, Bank Sulteng, Bank Lampung, and Bank SulutGo, while seven (7) BPDs experienced a decline in CAR, namely Bank Sultra, Bank Sulteng, Bank Lampung, Bank SulutGo, Bank BJB Syariah, Bank Maluku Malut, Bank Bengkulu, and Bank Banten.

CAMEL Analysis

The financial statements of the ten (10) BPDs in Core Capital Bank Group 1 were analyzed using the CAMEL method for the 2023–2024 period.

Table 4. CAMEL Analysis of BPD Banks in Core Capital Bank Group 1 (2023–2024)

No	Bank Name	CAMEL 2023	Rating 2023	CAMEL 2024	Title 2024
1	Bank Sultra	96.21	Sound	92.91	Sound
2	Bank Sulteng	86.80	Sound	89.18	Sound
3	Bank NTB Syariah	97.47	Sound	96.74	Sound
4	Bank NTT	74.88	Fairly sound	79.93	Fairly sound
5	Bank Lampung	89.91	Sound	75.66	Fairly sound
6	Bank Sulut Go	85.54	Sound	84.03	Sound
7	Bank BJB Syariah	79.67	Fairly sound	73.04	Fairly sound
8	Bank Maluku Malut	73.13	Fairly sound	80.18	Fairly sound
9	Bank Bengkulu	84.04	Sound	94.83	Sound
10	Bank Banten	56.23	Less sound	64.96	Less sound

Source: Authors

Based on Table 4, five (5) BPD banks consistently received a “sound” rating in both 2023 and 2024: Bank Sultra, Bank Sulteng, Bank NTB Syariah, Bank SulutGo, and Bank Bengkulu. Meanwhile, three (3) BPDs—Bank NTT, Bank BJB Syariah, and Bank Maluku Malut—maintained a “fairly sound” rating over the same period. Bank Lampung experienced a downgrade from “sound” in 2023 to “fairly sound” in 2024, while Bank Banten showed improvement from “less sound” in 2023 to “fairly sound” in 2024.

RGEC Analysis

This study analyzed the financial reports of the same banks using the RGEC method to assess their soundness for the period 2023–2024.

Table 5. RGEC Analysis of BPD Banks in the Core Capital Bank Group 1 (2023–2024)

No	Bank Name	RGEC 2023	Composite Rating 2023	Description 2023	RGEC 2024	Composite Rating 2024	Description 2024
1	Bank Sultra	82.48	2	Sound	82.48	2	Sound
2	Bank Sulteng	76.23	2	Sound	67.77	3	Fairly sound
3	Bank NTB Syariah	84.70	2	Sound	83.65	2	Sound
4	Bank NTT	68.42	3	Fairly sound	79.37	2	Sound
5	Bank Lampung	76.67	2	Sound	64.22	3	Fairly sound
6	Bank Sulut Go	74.03	2	Sound	69.85	3	Fairly sound
7	Bank BJB Syariah	69.62	3	Fairly sound	73.48	2	Sound
8	Bank Maluku Malut	64.88	3	Fairly sound	84.65	2	Sound
9	Bank Bengkulu	76.42	2	Sound	84.93	2	Sound
10	Bank Banten	63.62	3	Fairly sound	76.37	2	Sound

Source: Authors

Based on the RGEC analysis in Table 5, it can be concluded that only three BPDs, Bank Sultra, Bank NTB Syariah, and Bank Bengkulu, maintained a “sound” rating across both years. Four banks that were rated “fairly sound” in 2023 improved to “sound” in 2024: Bank NTT, Bank BJB Syariah, Bank Maluku Malut, and Bank Banten. However, three banks are Bank Sulteng, Bank Lampung, and Bank SulutGo, experienced a downgrade from “sound” in 2023 to “fairly sound” in 2024.

Altman Z-Score Analysis

This section evaluates the financial performance to predict potential bankruptcy of BPDs in Core Capital Group 1 during 2023 and 2024 using the Altman Z-Score model.

Table 6. Altman Z-Score Analysis BPD Banks in Core Capital Bank Group 1

No	Bank Name	Z-Score 2023	Category 2023	Z-Score 2024	Category 2024
1	Bank Sultra	4.44	Non-bankrupt (sound)	4.50	Non-bankrupt (sound)
2	Bank Sulteng	4.49	Non-bankrupt (sound)	4.44	Non-bankrupt (sound)
3	Bank NTB Syariah	9.67	Non-bankrupt (sound)	10.26	Non-bankrupt (sound)
4	Bank NTT	4.32	Non-bankrupt (sound)	4.52	Non-bankrupt (sound)
5	Bank Lampung	4.61	Non-bankrupt (sound)	4.53	Non-bankrupt (sound)
6	Bank Sulut Go	3.94	Non-bankrupt (sound)	3.95	Non-bankrupt (sound)
7	Bank BJB Syariah	8.46	Non-bankrupt (sound)	8.15	Non-bankrupt (sound)
8	Bank Maluku Malut	4.82	Non-bankrupt (sound)	5.08	Non-bankrupt (sound)
9	Bank Bengkulu	4.44	Non-bankrupt (sound)	4.47	Non-bankrupt (sound)
10	Bank Banten	2.12	Grey area	2.30	Grey area

Source: Authors

Based on Table 6, the results indicate that during both years (2023 and 2024), nine (9) out of ten (10) BPDs in Core Capital Group 1 were in financially sound condition and showed no signs of financial distress, namely Bank Sultra, Bank Sulteng, Bank NTB Syariah, Bank NTT, Bank Lampung, Bank SulutGo, Bank BJB Syariah, Bank Maluku, and Bank Bengkulu. Bank Banten was classified within the “grey area”. The analysis further reveals that none of the BPDs in this group were identified as being in an “unsound” or bankrupt condition throughout the study period.

DISCUSSION

Financial Performance Analysis of Bank Pembangunan Daerah (BPD) Banks in Core Capital Bank Group 1

The financial performance of BPD Banks in Core Capital Group 1 is categorized based on the similarity of their bank soundness levels to facilitate discussion. The soundness levels of Bank Sultra, Bank NTB Syariah, and Bank Bengkulu, as analyzed using the CAMEL, RGEC, and Altman Z-Score methods, indicate consistent results. These three banks are in sound financial condition and show no signs of financial distress or bankruptcy. This condition is advantageous for the banks’ management, as it facilitates the process of attracting potential investors to become shareholders. Investors usually prefer to put their money into banks that are in good financial shape because these banks can offer good returns on their investment over both the short and the long term. Furthermore, a financially sound bank offers a higher level of investment security.

Bank Sulteng and Bank SulutGo exhibited similar financial performance outcomes during the 2023–2024 period. Based on CAMEL and Altman Z-Score evaluations, both banks demonstrated sound financial conditions, indicating no signs of financial distress. The 2023 RGEC analysis also confirmed their sound status. However, in 2024, both institutions experienced a decline in performance to “fairly sound”. This decline suggests that bank management must formulate and implement appropriate strategies to maintain investor interest in acquiring bank shares (Dinger et al., 2024). Nevertheless, the banks remain financially stable and do not exhibit indications of bankruptcy. It is noteworthy that both Bank Sulteng and Bank SulutGo operate within the same geographic region—Sulawesi, which may justify the adoption of similar strategic approaches to meet core capital requirements.

Bank NTT, Bank BJB Syariah, and Bank Maluku Malut showed relatively stable performance during the 2023–2024 period. The 2023 CAMEL and RGEC results placed all three in the “fairly sound” category, while the Altman Z-Score values for both years of observation showed “sound” conditions with no indication of bankruptcy risk. The improvement in the RGEC rating in 2024 confirms an increase in risk management and governance capacity. These results are consistent with Goetz's (2018) study, which states that the stability of a bank's performance depends a lot on its risk setup and how well the management keeps the assets in good shape and has enough cash during economic changes. So, the trend of higher stability in the three BPDs fits with what the research says about how important it is to be efficient and manage risks to keep a bank healthy.

According to the CAMEL and RGEC analyses, Bank Lampung showed a “sound” condition in 2023, but fell into the “fairly sound” category in 2024. However, the Z-score still indicates a healthy condition, indicating the bank's capacity to sustain an adequate capital structure and profitability. The decline in the CAMEL and RGEC indicators aligns with the findings of Dinger et al. (2024), which explain that a bank facing operational or moderate pressure may experience short-term performance fluctuations despite being fundamentally stable. Thus, despite the decline in the category, Bank Lampung remains in a financially safe zone.

Conversely, Bank Banten shows a more complex pattern. The CAMEL results place this bank in a “less sound” condition during 2023–2024, while the RGEC shows an improvement from “fairly sound” (2023) to “sound” (2024). However, the Z-score, which consistently remains in the “grey area,” indicates the potential for financial risks that need to be anticipated. This is in line with Fahlenbrach et al. (2018), who found that banks with unstable capital pressure and credit growth often face uncertainties that can only be captured through market-based risk indicators or financial predictions such as the Z-score. Therefore, Bank Banten's management needs to strengthen credit, liquidity, and capital risk management to prevent a shift towards distress.

In addition, the core capital improvement strategy for these banks needs to adopt a risk-based approach. Regional development banks (BPDs) in the “sound” category, such as Bank NTB Syariah or Bank Bengkulu, can prioritize expansion strategies for example, increasing investment cooperation or consolidation that provides operational synergies, because their internal risk levels are lower. Conversely, banks in the “fairly sound” or “grey area” category, such as Bank Banten or Bank Lampung, should first implement risk mitigation strategies: improving asset quality, raising CAR through internal capital additions, limiting high-risk credit growth, and improving governance before accepting consolidation or external capital injections. This risk-based approach is in line with

literature recommendations, which emphasize that the success of a capitalization strategy largely depends on how well a bank can control and manage its risk levels before expanding its capital structure or business network (Goetz, 2018; Dinger et al., 2024).

Strategies for Increasing the Core Capital of BPD Banks in Core Capital Group 1

The evaluation of a bank's stability using the CAMEL, RGEC, and Altman Z-Score methods helps BPD Banks in Core Capital Group 1 develop better ways to boost their core capital. For investors, these evaluations provide critical insights to guide decision-making regarding capital investment in BPDs under this classification. Based on the results of CAMEL, RGEC, and Altman Z-Score analyses, bank management must develop targeted strategies to attract prospective investors willing to become shareholders. These strategies are essential for banks across varying levels of financial health, whether classified as sound, fairly sound, less sound, or within the grey area.

Banks still have a chance to improve their financial results in the third and fourth quarters of 2025. This could make them more appealing to investors who want to add more core capital before the deadline set by the Indonesian Financial Services Authority on December 31, 2025 (Budiman et al., 2017). If a bank doesn't meet the minimum core capital requirements set by the OJK, it might be reclassified as a rural bank (BPR) or a sharia rural bank (BPRS) (Otoritas Jasa Keuangan, 2020). To support compliance, OJK provides several alternatives for fulfilling the minimum core capital requirement. One of these policies allows controlling shareholders to own one or more banks under a bank consolidation scheme. The increase in core capital can be achieved in these ways: a) by merging, combining, or integrating different entities; b) by buying another company and then merging, combining, or integrating it; c) by creating a banking group for banks that are already owned by the same person or company; d) by forming a banking group (Kelompok Usaha Bank, KUB) when a sharia business unit (Unit Usaha Syariah, UUS) is separated from the main company; or e) by forming a banking group through an acquisition. Hence, it is necessary to establish priority criteria for potential investors to ensure the realization of core capital enhancement (Mohd Isa & Abdul Rashid, 2018).

a. Core Capital Increase from Provincial, Regional, and Regency/Municipal Governments

BPD banks are controlled by provincial, regional, regency, or municipal governments. Therefore, the first strategy for increasing core capital should be to offer additional capital participation to the respective local governments, as it provides greater economic and social benefits to them as the primary shareholders (Uchino & Uesugi, 2022). The role and support of local governments are critical to the continuity and growth of BPDs. Local governments should optimize their equity ownership in BPDs to strengthen the bank's capital structure. Failure to meet the OJK's minimum core capital requirement may result in the bank's reclassification to a lower-tier institution, restricting its operational scale and market scope. Such a downgrade would not only lead to economic losses for the local government but also diminish its institutional prestige. If this first strategy cannot be fully implemented or if, despite implementation, the bank's core capital remains below Rp3 trillion, the management may proceed with the second strategy. Several BPDs, such as Bank Sultra, Bank Maluku Malut, Bank Lampung, and Bank Banten, which are 100% owned by regional governments, have strong potential to

increase their core capital through local government funding support. Nevertheless, these banks may also consider consolidation with external investors as a complementary strategy.

b. Core Capital Increase through Consolidation with BPD Banks in Core Capital Groups 2 and 3.

BPDs in Core Capital Groups 2 and 3 need to maintain their position while simultaneously strengthening their capital base and expanding their banking networks (Dahl & Coster, 2022). Banks classified under Core Capital Group 2 include Bank Jatim, Bank DKI, and Bank Jateng, while Bank BJB represents Group 3. Currently, Bank BJB and Bank Jatim are actively expanding their banking groups. In line with OJK regulations, banks with core capital below Rp3 trillion are permitted to consolidate with other banks. Consolidation with BPDs in Groups 2 and 3 may be strategically considered based on geographic proximity and operational alignment. Annual reports indicate that Bank BJB Syariah and Bank Bengkulu have already become part of the Bank BJB business group. As the parent institution, Bank BJB holds the potential to inject additional capital into its subsidiaries (Trinugroho et al., 2021). Similarly, Bank NTB Syariah and Bank NTT have joined the Bank Jatim group (Kuehn, 2018). The meeting plans of the Board of Directors and Commissioners, as listed in the annual reports, show that they have been talking about the possible merging of Bank Sultra with Bank Jatim and Bank BJB. Similar considerations are underway between Bank Banten and Bank Jatim. Historical data show that this strategy was previously employed by Core Capital Group 1 commercial banks in 2022 to meet OJK's capital requirements. Notable examples include Bank Mega Syariah, BCA Syariah, and Bank Panin Dubai Syariah, whose capital compliance was achieved through injections from their respective parent banks Bank Mega, Bank BCA, and Bank Panin.

c. Increasing Core Capital through Consolidation among Banks within the Core Capital Bank Group 1

Consolidating the core capital of banks within Core Capital Group 1 presents a viable strategy for meeting the Indonesian Financial Services Authority's requirement of Rp3 trillion. In the Sulawesi region, a merger involving Bank Sultra, Bank Sulteng, Bank SulutGo, and Bank Maluku Maluku is geographically feasible. As of the second quarter of 2025, the combined core capital of these banks amounts to IDR 6,616,384,000,000. In the Sumatra region, Bank Lampung and Bank Bengkulu have a combined total core capital of IDR 2,740,187,000,000. This amount is projected to meet the IDR 3 trillion requirement by the end of 2025. In the Java region, BJB Syariah and Bank Banten have a combined total core capital of IDR 2,756,211,000,000, which also has the potential to fulfill the requirement by the end of 2025, particularly if Bank BJB, as the parent bank, injects additional core capital into its subsidiary, BJB Syariah. This aligns with the policy that parent banks may prioritize capital strengthening for their subsidiaries (Trinugroho et al., 2021).

d. Increasing Core Capital through Investment from Government-Owned Banks (BUMN) or Private Banks.

State-owned banks (BUMN) or private national banks, as potential investors, can derive economic benefits, expand their banking networks, and strengthen their core

capital positions. Investors also stand to gain profits, support business growth, and mitigate operational and financial risk (Fees et al., 2022). As stated in the annual reports, Bank Sulteng and Bank SulutGo have become part of the Bank Mega Group through PT Mega Corpora. The management of these banks can adopt a core capital enhancement strategy by requesting PT Mega Corpora, as an existing investor, to increase its investment in Bank Sulteng and Bank SulutGo. For BPD Banks that do not yet have investors from state-owned or private national banks, the process of initiating consolidation discussions can begin. This strategy has also been implemented by several Core Capital Bank Group 1 commercial banks to comply with OJK's core capital requirements in 2022. According to the annual reports, Bank Raya joined the Bank BRI Group, while Bank Hibank Indonesia became part of the Bank BNI Group.

e Increasing Core Capital from Non-Bank Investors

Domestic and foreign non-bank investors can serve as shareholders (Delice & Karadas, 2022). Based on each bank's 2022 annual report, several commercial banks seeking to meet the minimum core capital requirements have implemented this strategy. For instance, Shopee became a shareholder of Sea Bank in 2022. Similar cases occurred with Bank Index Selindo, Bank Mas, Bank Bisnis, Bank Saqu Indonesia, and Bank Prima, which received additional core capital injections from domestic non-bank investors. Meanwhile, Bank National Nobu, Bank IBK, Bank CTBC Indonesia, Bank Resona Perdana, and Bank Fama International obtained additional core capital from foreign investors. However, this strategy is not advisable when Indonesia's political and security conditions are unfavorable for foreign investors. In addition to assessing a bank's financial health, foreign investors also consider the political climate and investment security of a host country before committing capital (Mohd Isa & Abdul Rashid, 2018).

f. Enhancing Core Capital via the Issuance of New Shares for BPD Banks Traded on the Indonesia Stock Exchange (IDX).

Publicly listed companies, such as Bank Banten, can boost their core capital by selling new shares (Fahlenbrach et al., 2018). According to annual report data, several banks, namely Bank IBK Indonesia, Bank MNC International, Bank J Trust Indonesia, Bank Bumi Arta, Bank Ganesha, Bank Amar Indonesia, and Bank Aladin Syariah, issued new shares in 2022 to comply with the minimum core capital requirements for commercial banks. Bank management may implement any of the six (6) recommended strategies by considering factors such as timeliness, accuracy, and risk management. A well-executed strategy is expected to support BPDs in meeting the Rp3 trillion threshold required for Core Capital Group 1 classification, thereby preventing potential reclassification to a rural bank (BPR) or sharia rural bank (BPRS).

CONCLUSION

This study on the financial performance analysis and strategic approaches to increasing the minimum core capital of Bank Pembangunan Daerah (BPD) Banks concludes the following:

- 1) In accordance with OJK Regulation No. 12/POJK.03/2020 concerning Bank Consolidation, Regional Development Banks within the Core Capital Bank Group 1 are required to have a minimum core capital of IDR 3 trillion no later than December 31, 2024. However, there are still ten BPDs whose core capital has not

yet met this requirement.

- 2) The financial soundness of BPDs within Core Capital Group 1 can be assessed using three analytical frameworks: CAMEL (Capital, Asset Quality, Management, Earnings, Liquidity), RGEC (Risk Profile, Good Corporate Governance, Earnings, Capital), and the Altman Z-Score. For bank management, these diagnostic tools serve as a basis for formulating strategies to augment core capital and pursue consolidation. For prospective investors, the results of these assessments provide critical insights into investment feasibility.
- 3) BPDs within the Core Capital Bank Group 1 that demonstrate sound financial health and show no signs of financial distress or bankruptcy are more likely to attract investors, as observed in Bank Sultra, Bank NTB Syariah, and Bank Bengkulu, due to their high investment security levels.
- 4) BPDs in the Core Capital Bank Group 1 that exhibit less sound, fairly sound, or grey-area financial conditions need to implement prudent and well-targeted strategies to improve their financial performance, achieve a sound rating, and avoid signs of bankruptcy, thereby increasing their attractiveness to potential investors.
- 5) The Financial Services Authority (OJK) permits controlling shareholders to own one or more banks under a bank consolidation scheme. Core capital can be increased through several mechanisms:
 - a. merger, consolidation, or integration;
 - b. acquisition followed by merger, consolidation, or integration;
 - c. formation of a banking group for banks already under ownership;
 - d. formation of a banking group (Kelompok Usaha Bank, KUB) due to the spin-off of a sharia business unit (Unit Usaha Syariah, UUS); or
 - e. formation of a banking group resulting from an acquisition.
- 6) These findings can serve as input for OJK and local governments in designing sustainable capital consolidation policies for regional banks.
- 7) The selection of investors to increase the core capital of BPDs in the Core Capital Bank Group 1 can be carried out through several approaches:
 - a. capital injection from provincial or regency/municipal governments as majority shareholders;
 - b. consolidation with BPDs belonging to Core Capital Bank Groups 2 or 3;
 - c. consolidation among BPDs within Core Capital Bank Group 1;
 - d. attracting investors from state-owned (BUMN) or private national banks outside the BPD network;
 - e. engaging domestic or foreign non-bank investors; and
 - f. issuing new shares or conducting a rights issue for BPDs that are already listed on the Indonesia Stock Exchange.

LIMITATIONS AND IMPLEMENTATIONS

This study is limited to the analysis of Bank Pembangunan Daerah (BPD) Banks within the Core Capital Bank Group 1 using the CAMEL, RGEC, and Altman Z-Score models. Macroeconomic factors were not incorporated into the determination of strategies for increasing core capital. Future studies are encouraged to integrate macroeconomic variables and government policy frameworks that influence bank performance. The CAMEL, RGEC, and Altman Z-Score analyses can be applied not only to BPDs but also to commercial banks, Islamic commercial banks, and rural banks. The findings from these

analyses can be utilized to assess financial performance, formulate effective banking policy strategies, and anticipate potential financial distress or bankruptcy at an early stage.

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