

ABSTRACT

People's Banks (BPR) play a strategic role in supporting the local economy through their financial intermediation function, particularly in the Micro, Small, and Medium Enterprises (MSMEs) sector. This study aims to analyze the effect of Non-Performing Loans (NPL), Capital Adequacy Ratio (CAR), Loan-to-Deposit Ratio (LDR), and Firm Size on Return on Assets (ROA) in Private and Regional Government-owned BPRs in Indonesia.

The research method used was quantitative with a multiple regression approach, utilizing secondary data from the annual financial reports of Private and Regional Government BPRs for the 2019-2024 period. The sample was selected using stratified random sampling based on data published by the Financial Services Authority (OJK). From the total population, 92 Private BPRs and 92 Regional Government BPRs were selected, with a total of 1,100 initial observations. Outlier trimming was then performed to increase validity, resulting in 302 observations of Private BPRs and 488 observations of Regional BPRs for analysis. Data processing was performed using SPSS version 26.0.

The results showed that in private rural banks (BPR), the NPL variable had a significant negative effect on ROA, CAR had a significant positive effect on ROA, LDR had a significant positive effect on ROA, while Firm Size had no significant effect on ROA. In local government-owned rural banks (BPR), the results showed that NPL had a significant negative effect on ROA, CAR had a significant positive effect on ROA, LDR had no significant effect on ROA, while Firm Size had a significant positive effect on ROA. The coefficient of determination (Adjusted R²) was 0.209, or 20.4%, for private rural banks and 0.204, or 20.4%, for local government-owned rural banks, indicating that the independent variables were able to explain variations in ROA.

The implications of this study emphasize the importance of controlling non-performing loans (NPLs), strengthening capital (CAR), and effectively channeling quality credit (LDR) in improving the financial performance of rural banks. Furthermore, asset scale management (Firm Size) needs to be optimized, particularly in local government-owned rural banks, to contribute significantly to increased profitability. This research contributes theoretically to the banking literature on the factors influencing rural bank profitability and provides practical input for bank management and regulators in formulating regional banking policies.

Keywords: Non-Performing Loan (NPL), Capital Adequacy Ratio (CAR), Loan to Deposit Ratio (LDR), Firm Size, Return on Assets (ROA), Rural Bank (BPR).