

ABSTRACT

This case study research aims to identify the increasing risks during the merger process of rural banks (BPR) based on their risk rating. The study focuses on six BPR in the Malang Raya region that are currently undergoing the merger process as of December 31, 2022. The merger's impact results in a rise in core capital, leading to more complex business activities for the BPR and an expansion of branch networks. According to OJK regulations, the increase in BPR's core capital will necessitate a higher level of risk management implementation.

The research is conducted in four stages. First, the risk rating of the six BPR are individually assessed and determined. Second, financial consolidation takes place. Third, the estimation of risk rating for the BPR after the merger is performed. Finally, recommendations are formulated to reduce risk rating and mitigate risks. The findings of this research indicate that the credit risk and operational risk rating of the BPR are projected to increase after the merger. This is mainly due to the low quality of productive assets from each BPR before the merger, inadequate IT systems within the BPR, and the unstructured branch networks.

Based on the research results, during the merger process, each BPR should strive to reduce the level of inherent credit risk by lowering the Non-Performing Loan (NPL) ratio and the ratio of low-quality credit to improve the quality of productive assets. Additionally, efforts should be made to decrease operational risk by establishing adequate IT systems and enhancing efficiency in branch networks. The BPR's Quality of Risk Management Implementation (KPMR) level can be enhanced by promoting the vision, mission, business plans, and strategies, along with risk management frameworks for all operational activities. Furthermore, post-merger risk mitigation efforts can be achieved by setting loan concentration limits in each economic sector, devising long-term branch network expansion strategies, and considering credit quality in specific regions when marketing products and services.

Keywords: *BPR, Merger, Risk Management Implementation, Risk Ranking, Inherent Risk Level, KPMR Level, Credit Risk, Operational Risk, Risk Mitigation.*