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NAVIGATING EARNINGS MANAGEMENT: THE ROLE OF FINANCIAL STABILITY AND CREDIT RISK IN RURAL BANKS

Isti Fadah
Jember University
Jember, Indonesia
istifadah@unej.ac.id

Nurshadrina Kartika Sari
Institute of Technology and Sains Mandala
Jember, Indonesia
shadrina.kartika@itsm.ac.id

ABSTRACT

This study aims to examine the influence of Non-Performing Loans (NPL), Return on Assets (ROA), Net Interest Margin (NIM), Capital Adequacy Ratio (CAR), and Loan Loss Provision (LLP) on earnings management practices in rural banks (BPR) in the Jember-Indonesia. The findings reveal that among the five variables tested, only NPL significantly impacts earnings management decisions. The operational activities of BPRs, which are more straightforward and focused on providing credit services, particularly to small and medium-sized enterprises, make credit distribution their primary source of income, resulting in a more homogeneous credit portfolio. High NPL values, due to poor credit management, can negatively affect the financial health of BPRs and, ultimately, their financial performance. Therefore, BPR management endeavors to maintain control over the NPL ratio, with one of the efforts being through earnings management practices. The study also finds that although ROA, NIM, CAR, and LLP do not significantly influence earnings management individually, they do have a combined effect on these practices. The combination of credit risk, profitability pressure, capital requirements, and credit risk management needs can motivate management to engage in earnings management to maintain reported performance stability.

Keyword: Financial Performance, Profit Management, BPR, Regulation, Bank Health.

1. INTRODUCTION

Rural Banks (BPRs) have demonstrated significant operational advantages compared to other types of banks in Indonesia. As of 2023, 1,402 BPRs were registered to operate in Indonesia, with 253 located in East Java Province (Indonesian Banking Statistics, 2023). This high number of BPRs reflects the strong societal demand for financial services offered by BPRs, particularly in their capacity as microfinance institutions focused on serving micro, small and medium enterprises (MSMEs).

To enhance BPR performance and ensure operational transparency, Bank Indonesia issued Bank Indonesia Regulation (PBI) No. 14/14/PBI/2012, which regulates the transparency and publication of bank statements. This regulation aims to facilitate evaluation by the public and market players regarding bank conditions and performance. Additionally, BPR financial reports are required to adhere to the Financial Accounting Standards for Entities Without Public Accountability (SAK ETAP), with a transition to Public Entity Financial Accounting Standards (SAK EP) planned for 2025.

Strict regulations imposed by the government are intended to maintain stable BPR health. Based on POJK Number 3/POJK.03/2022 concerning the assessment of BPR and BPRS health levels, BPRs are required to maintain and/or improve their health levels by applying prudential principles and risk management. BPR health assessment encompasses four main factors: risk profile, governance, profitability, and capital. The BPR health level is measured through the resulting financial reports, which also play a crucial role in economic decision-making by management. Therefore, accuracy and transparency in BPR financial report preparation are of paramount importance.

Earnings management practices often emerge as a response to various banking regulations. Earnings management, as defined by (Fischer & Rosenzweig, 1995; Schipper & Katherine, 1989; Skinner et al., 2000), as well as (Sari & Widaninggar, 2021; Scott, 2012), refers to actions taken by management to arrange reported net profits through accounting policy choices to maximize utility or company market

value. Based on Positive Accounting Theory, there are three main motives for earnings management: economic rationality, maximum expected utility, and risk aversion (Watts et al., 1990). On the other hand, the risks faced by BPRs, including business failure risk, encourage the use of earnings management practices as a mitigation step.

Based on various previous studies, several factors have been identified as encouraging earnings management practices. The first is credit risk. According to POJK Number 3/POJK.03/2022, BPRs with core capital below IDR 50 billion are assessed based on credit risk using the Non-Performing Loan (NPL) ratio. Banks that fail to manage this risk potentially face a greater risk of failure. (Agarwal et al., 2007) found that during financial crises, banks in Japan faced a significant increase in failure risk, ultimately pushing earnings management practices. Studies have shown that credit risk influences earnings management (Kaligis & Kasingku, 2022), while other research found a negative influence between risk profile and earnings management (Paramastri et al., 2021).

The second factor is profitability, measured by Return on Assets (ROA) and Net Interest Margin (NIM) ratios. Managers are motivated to engage in earnings management based on the company's ability to generate profit, as larger bonuses can be obtained by the manager. This aligns with the bonus plan hypothesis presented by (Scott, 2012). It is expected that profitability can motivate management to engage in earnings management (Chin et al., 2009). The result revealed that CSR can increase company profitability, which in turn increases the incentive for earnings management (Ruwanti et al., 2019). However, other research results show that profitability in Sharia Banks and state-owned enterprises in Indonesia does not significantly influence earnings management (Kaligis & Kasingku, 2022; K. C. Lestari & Wulandari, 2019).

In addition to credit risk and profitability, the capital ratio is also a factor that must be maintained by banks to comply with banking regulations. (Paramastri et al., 2021) found that the Capital Adequacy Ratio (CAR) has a negative influence on earnings management in Sharia Banks in Indonesia, while (Kaligis & Kasingku, 2022) did not find a significant influence of CAR on earnings management in state-owned banks.

The final factor that can influence earnings management practices is the Loan Loss Provision (LLP), which is one of the instruments used by the banking sector to anticipate future loan losses and is often used in earnings management practices. (Anandarajan et al., 2005) did not find evidence of LLP use in earnings management; however, studies by (Azzali et al., 2014; Ceccobelli & Giosi, 2019; Sari & Widaninggar, 2020) show that LLP significantly influences earnings management.

The inconsistent results of ongoing research motivate us to conduct this study. The objective of this study is to determine and analyze the influence of NPL, ROA, NIM, CAR, and LLP on earnings management practices, both partially and simultaneously.

2. BACKGROUND AND HYPOTHESIS DEVELOPMENT

Earnings management can be interpreted as a form of managerial decision-making aimed at reporting management performance achievements in a reasonable and legally valid manner (Sari & Widaninggar, 2021). The practice of earnings management is intended to create confusion by manipulating financial reports using permitted methods, ultimately producing misleading information that does not reflect the company's true economic circumstances (Dadbeh & Mogharebi, 2013).

Various managerial motivations for engaging in earnings management include those related to the bonus plan hypothesis, debt (equity) hypothesis, and political cost hypothesis (Watts et al., 1990). In the banking sector, earnings management is often motivated by regulatory considerations. Several regulations that encourage management to engage in earnings management are aimed at maintaining bank health levels and capital ratios (CAR) (Cohen et al., 2011; Firdaus, 2013; Kartika Sari & Dwi Astuti, 2015). Additionally, managers may employ earnings management practices using Loan Loss Provisions (LLP).

2.1 The influence of NPL on Earnings Management

Credit risk, arising from counterparty failure to meet obligations, is measured using Non-Performing Loans (NPL) (Bank Indonesia Regulation, 2003). This credit risk represents the failure of debtors to fulfill their obligations to the bank for granted loans. Credit risk faced by BPRs can lower company performance and impact bank health, prompting managers to address this issue through earnings management practices. These practices may involve lowering the non-performing loan ratio by reducing reported non-performing loans or manipulating current assets to increase company liquidity. Research

conducted by (Kaligis & Kasingku, 2022; Paramastri et al., 2021) concludes that there is an influence of credit risk measured by NPL on earnings management.

H1.1: There is an influence of NPL on earnings management.

2.2 The influence of ROA on Earnings Management

The profitability ratio reflects a company's ability to generate profit and constitutes the level of management effectiveness. The Return on Assets (ROA) ratio measures the extent to which assets can produce profit for the company. If a bank's profit-generating capabilities decrease, it will impact earnings for that period, potentially motivating management to engage in earnings management practices to stabilize profit reporting from one period to another. Research results from (Chen et al., 2001; Kapoor & Goel, 2017; Suteja et al., 2016) find that there is an influence of profitability measured by ROA on earnings management.

H1.2: There is an influence of ROA on earnings management.

2.3 The influence of NIM on Earnings Management

Net Interest Margin (NIM) is a primary profitability indicator in the banking sector, providing information about the difference between interest income earned from financed assets and interest costs paid to depositors. Banks with high NIM demonstrate better ability to manage interest income; however, pressure to maintain or increase NIM can encourage banks to engage in earnings management practices (Kanagaretnam et al., 2003; Kothari et al., 1999; Leventis et al., 2011). These practices may involve adjusting loan loss provisions, asset sales, or income recognition manipulation, potentially influencing fluctuations in the bank's NIM value and its ability to meet external party expectations.

H1.3: There is an influence of NIM on earnings management.

2.4 The influence of CAR on Earnings Management

The Capital Adequacy Ratio (CAR) measures a bank's capital adequacy to cover financial risks. A higher CAR value indicates that the bank has a strong capital buffer capable of increasing financial stability, thereby enhancing stakeholder confidence. Banks with low CAR are vulnerable to pressure to engage in earnings management, particularly to avoid increased regulatory supervision and to improve public perception of their financial performance. Several studies have found an influence of CAR on earnings management (Beatty et al., 1993; Kothari et al., 1999).

H1.4: There is an influence of CAR on earnings management.

2.5 The influence of LLP on Earnings Management

Banks are required to form reserves to face the risk of loss resulting from productive asset placement. Loan Loss Provision (LLP) is assessed based on objective evidence indicating a decline in debtor-owned credit. The determination of these reserves depends on rules set by individual banks, varying from one institution to another. While banks have rules related to LLP reserve determination, they still use these reserves as one of the discretionary accrual accounts to address future credit quality decline (Abdullah et al., 2015; Cohen et al., 2011; Sari & Widaninggar, 2020). The engineering patterns employed by managers depend on the desired motives, with banks needing to comply with rules related to capital (CAR) and Non-Performing Loan (NPL) levels. Research results prove that there is an influence of LLP on earnings management (Azzali et al., 2014; Ceccobelli & Giosi, 2019; Kartika Sari & Widaninggar, 2020).

H1.5: There is an influence of LLP on earnings management.

2.6 The influence of NPL, ROA, NIM, CAR, and LLP on earnings management

Banks must exercise caution in managing their business due to numerous government regulations aimed at enabling banks to maintain their health levels and protect depositor and public trust. Regulations related to bank health levels through credit risk, profitability, and capital ratios can serve as control mechanisms to suppress business practices that do not reflect the bank's real financial condition, such as earnings management. Additionally, more detailed LLP regulations aim to ensure that banks are careful in managing distributed credit by assessing reserves appropriately.

H1.6: There is an influence of NPL, ROA, NIM, CAR, and LLP on earnings management.

2.7 Conceptual Framework

This study aims to analyze the influence of independent variables (X) on the dependent variable (Y), where the independent variables (X) consist of NPL (X1), ROA (X2), NIM (X3), CAR (X4), and Loan Loss Provision (LLP) (X5), and the dependent variable (Y) is Earnings Management (Y). The conceptual framework of this study can be seen in Figure 1 below:

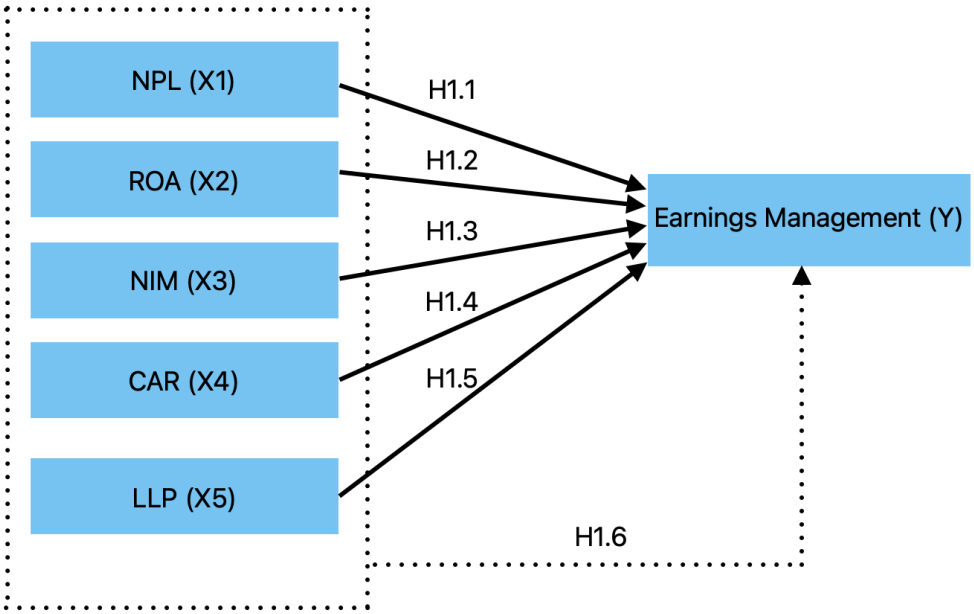

Figure 1. Framework Conceptual

3. SAMPLE SELECTION AND RESEARCH DESIGN

Study This is study quantitative which uses secondary data form report BPR finance in the Jember area in 2019-2023. Where is the population research This are BPRs in the Jember area, totaling 16 BPRs. Determination sample study use method sample fed up that is use all over population study. Report data BPR finance is obtained through page The official OJK is ojk.go.id and the respective Rural Bank's website.

Variable study This consists of five variables free namely NPL (X1), ROA (X2), NIM (X3), CAR (X4), LLP (X5) and 1 variable bound that is Earnings Management (Y). Where NPL (X1) is calculated use formula comparison total non-performing loans to total outstanding loans, ROA (X2) is calculated use formula comparison net income by the average of its total assets, NIM (X3) is calculated with compare income flower clean divided by average total assets productive, CAR is calculated with compare net interest income to average interest minus earning assets, LLP (X5) is calculated with the amount set aside to meet the expected credit loss and Earnings Management (Y) is calculated using The Modified Jones Model.

Method analysis of the data used in study This shared become four namely 1) Statistics Descriptive; 2) Test Assumptions Classic consisting from the Normality Test, Multicollinearity Test, Autocorrelation Test and Heteroscedasticity Test; 3) Multiple Linear Regression Model; and 4) Hypothesis Testing consisting of from Partial Test (t) and Simultaneous Test (F).

4. RESULTS AND DISCUSSION

Study This use all over Rural Bank population in the Jember area that is as many as 16 Rural Banks during the period 2019 to 2023, where every variable calculated with formula that has been determined, tabulated and analyzed use method analysis that has been explained previously.

Statistical Descriptive Results

Table 1. Statistical Descriptive Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
NPLs	80	.001	.348	.04103	.052029
ROA	80	-.064	.118	.04195	.029780
NIM	80	.117	.359	.18943	.054788
CAR	80	.158	2.005	.85144	.487626
LLP	80	.004	.292	.04616	.050044

Management Profit	80	-.189	.283	.04370	.094858
Valid N (listwise)	80				

Source: SPSS (2024)

Based on Table 1 amount of data used is as many as 80 data samples. The average value of NPL is 4.1% p This show that the average Rural Bank has ratio credit traffic jam is awake Because Still under OJK regulations, namely by 5% and enter in criteria Healthy. Highest NPL value amounting to 34.8% obtained by PT BPR Bumi Hayu in 2022 and value lowest of 0.1% obtained by PT BPR Wutama Artha Jaya in 2021.

Measured Profitability Value use the ratio of ROA and NIM is obtained by data as follows following: 1) The average ROA is of 4.19% shows that the average Rural Bank is in in very healthy criteria Because own more ROA value from 2%. Highest ROA value obtained by PT BPR Bintang Niaga in 2020, namely of 11.8% and the lowest ROA value -6.4 % obtained by PT BPR Bumi Hayu in 2022; 2) The average NIM is amounting to 18.9% of the value This enter to in very healthy criteria Because more from 10%. Where is the highest NIM PT BPR Balung Artha Guna obtained 35.9 % in 2020 and the lowest NIM obtained by PT BPR Bapuri in 2023, namely amounting to 11.7%.

Ratio value measured capital using CAR has an average value of 85.1% where enter very healthy criteria Because more from 12%, p This shows Rural Bank has ability for support activity operations and cover loss consequence from decline asset risky.

The LLP value has an average value of 0.046 which shows value formed form reserve on asset productive experience decline mark consequence exists risk of each asset. LLP will be reserved the taller if loans provided experience congested. This aim for give protection to customers on savings funds disbursed by the bank in question congested.

Lastly, Earnings Management the average profit is 0.043 and shows mark positive, this means the average Rural Bank in the Jember area do practice management profit with raise reported profits in report finance during period 2019-2023. Value management profit highest PT BPR Balung Artha Guna obtained 0.283 in 2020 and was the lowest namely -0.189 obtained by PT BPR Rambi Artha Putra in 2020.

4.1 Assumption Classic Test Results

1) Normality Test Results

Table 2. One-Sample Kolmogrov -Smirnov Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residuals
N		80
Normal Parameters [a, b]	Mean	.0000000
	Std. Deviation	.09151831
Most Extreme Differences	Absolute	.074
	Positive	.074
	negative	-.056
Statistical Tests		.074
Asymp . Sig. (2-tailed)		.200[c,d]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

Source: SPSS (2024)

Based on the results in Table 2 are known mark asymp. sig (2-tailed) has a value of 0.200, which means the data is normally distributed, because value 0.200 > 0.05.

2) Multicollinearity Test Results

Table 3. Multicollinearity Test Results

Coefficients [a]				
Model		Sig.	Collinearity Statistics	
			Tolerance	VIF
1	(Constant)	.001		
	NPLs	.010	.736	1.358
	ROA	.890	.498	2.008
	NIM	.236	.561	1.782
	CAR	.190	.373	2.681
	LLP	.958	.487	2.053
a. Dependent Variable: Earnings Management				

Source: SPSS (2024)

Based on the results in Table 3 are known that tolerance value above 0.10 and VIF smaller from 10 so can concluded that regression model study No happen multicollinearity.

3) Autocorrelation Test Results

Table 4. Autocorrelation Test Results

Test Runs	
	Unstandardized Residuals
Test Value [a]	.06746
Cases < Test Value	27
Cases >= Test Value	27
Total Cases	54
Number of Runs	21
Z	-1.923
Asymp. Sig. (2-tailed)	.054
a. Median	

Source: SPSS (2024)

Based on Table 4 is known that mark asymp. Sig. (2-tailed) of more than 0.054 bigger than 5%, so can concluded that no autocorrelation in this research.

4) Heteroscedasticity Test Results

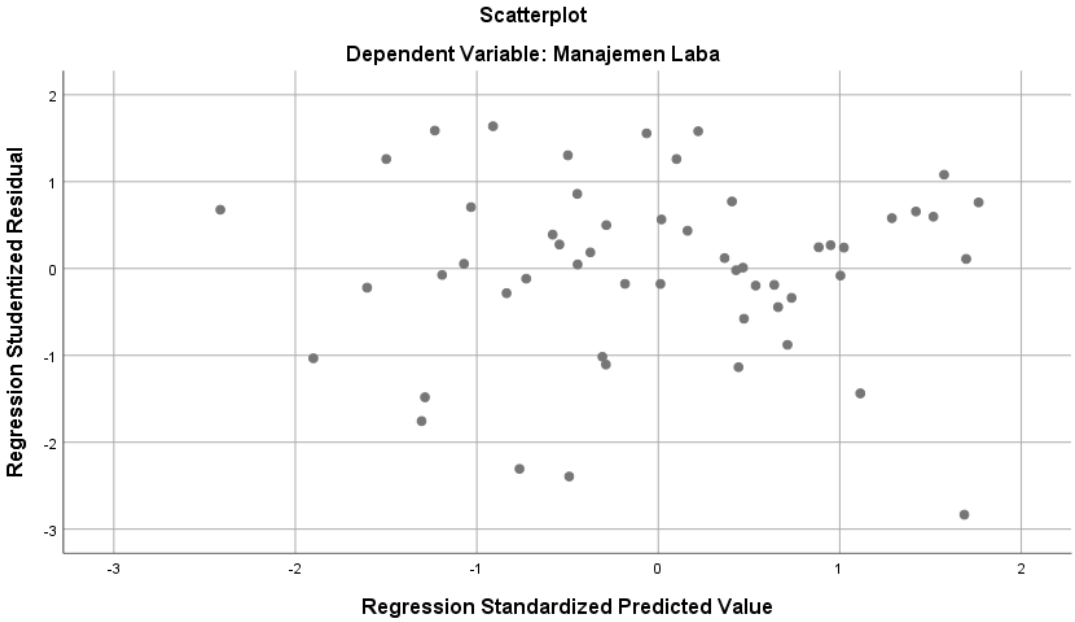

Figure 2. Heteroscedasticity Test Results using Scatterplot

Source: SPSS (2024)

Based on Figure 2 it is known that dot spread above and below number 0 on the Y axis and no form pattern certain so that can conclude that no happen heteroscedasticity.

Multiple Linear Regression Model Results

Table 5. Results of Multiple Linear Regression Models

Coefficients [a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.181	.053		3.419	.001
	NPLs	-.513	.192	-.368	-2.670	.010
	ROA	.002	.016	.023	.139	.890
	NIM	.045	.038	.190	1.201	.236
	CAR	-.025	.019	-.258	-1.330	.190
	LLP	-.001	.010	-.009	-.053	.958
a. Dependent Variable: Earnings Management						

Source: SPSS (2024)

Based on Table 5 then equality multiple linear regression is as follows:

$Y = 0.181 – 0.513X1 + 0.002X2 + 0.045X3 – 0.025X4 – 0.001X5$

4.2 Hypothesis Test Results

Partial Test Results (t)

Based on Table 5, the results can be outlined as follows:

1. The significance value is less than 0.010, which is below 0.05; therefore, H0.1 is rejected. This means that NPL (X1) is partially and significantly influential on Earnings Management (Y).

2. The significance value is greater than 0.890, which exceeds 0.05; therefore, H0.2 is accepted. This indicates that ROA (X2) is not partially and significantly influential on Earnings Management (Y).
3. The significance value is greater than 0.236, which is above 0.05; hence, H0.3 is accepted. This implies that NIM (X3) is not partially and significantly influential on Earnings Management (Y).
4. The significance value is greater than 0.190, which surpasses 0.05; therefore, H0.4 is accepted. This means that CAR (X4) is not partially and significantly influential on Earnings Management (Y).
5. The significance value is greater than 0.958, which is over 0.05; thus, H0.5 is accepted. This suggests that LLP (X5) is not partially and significantly influential on Earnings Management (Y).

Simultaneous Test Results (F)

Table 6. Simultaneous Test Results (F)

ANOVA [a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.067	5	.013	4.705	.001 [b]
	Residual	.136	48	.003		
	Total	.203	53			
a. Dependent Variable: Earngs Management						
b. Predictors: (Constant), LLP, NPL, ROA, NIM, CAR						

Source: SPSS (2024)

Based on Table 6, it is evident that the significance value is 0.001, which is greater than 0.05, leading to the conclusion that H0.6 is rejected. This indicates that NPL (X1), ROA (X2), NIM (X3), CAR (X4), and LLP (X5) collectively influence Earnings Management (Y).

4.3 Discussion

1) The Influence of NPL on Earnings Management

Based on the results, it is evident that NPL significantly influences Earnings Management. The average NPL value for Rural Bank in the Jember area is below 5%, demonstrating the ability of Rural Bank to manage credit risk effectively and comply with related OJK regulations. The maintenance of NPL value significantly affects the Earnings Management practices carried out by BPR managers, as it is known that the average BPR manages profits by increasing reported earnings. Additionally, the relationship between NPL and Earnings Management is negative, where an increase in NPL leads to a decrease in Earnings Management practices, and vice versa. A higher NPL value signifies an increased credit risk level, which negatively impacts the financial health of the BPR, potentially leading to a decline in stakeholder and public trust. This strict supervision of NPL regulations, combined with the long-term impact on financial performance, leads management to adopt a more transparent and cautious approach in reporting profits. These findings align with previous studies showing that NPL influences earnings management (Sari & Astuti, 2015; P. Lestari et al., 2019; Sari & Widaninggar, 2020).

2) The Influence of ROA on Earnings Management

The research finds no significant influence of ROA on Earnings Management in Rural Bank in the Jember area. The average ROA value during the 2019-2023 period is 41%. A stable ROA value likely lacks the strength to influence earnings management, as earnings management is often conducted to cover instability or fluctuations in financial performance (Kanagaretnam et al., 2003). Banks primarily focus on maintaining capital adequacy and liquidity to comply with regulations and meet external expectations. Earnings management is often pursued to meet regulatory requirements and external expectations (Fonseca & González, 2008). Therefore, in the banking context, maintaining financial stability reduces the impact of ROA on earnings management practices.

3) The Influence of NIM on Earnings Management

NIM is found to have no significant influence on Earnings Management, indicating that NIM is not a primary variable in Earnings Management decision-making in Rural Bank in the Jember area. The average NIM value, which exceeds 10%, reflects the ability of BPRs to manage interest income effectively. The stability in NIM reduces the likelihood of Rural Bank using NIM as the primary motivation for Earnings Management. (Beatty et al., 1993) suggest that banks under strict supervision are more likely to

comply with regulations and reduce opportunities for profit manipulation through NIM. When the BPR's NIM is stable and meets expectations, there is less need for aggressive Earnings Management. Earnings Management is more likely to occur in the presence of volatility or uncertainty in financial performance (Leventis et al., 2011).

4) The Influence of CAR on Earnings Management

The analysis reveals no significant influence of CAR on Earnings Management in Rural Bank in the Jember area. Rural Bank operations are generally simpler and more focused compared to other types of banks, with a priority on deposit interest. This makes CAR less relevant as a driver of Earnings Management practices in BPRs. The capital ratio in the context of BPRs functions to ensure that the bank's capital can cover the risks it faces. Given that BPR operations are smaller in scale compared to commercial banks, BPRs focus more on operational sustainability and providing credit services to the local community (Beatty et al., 1993). As a result, CAR does not become a primary driver in Earnings Management decision-making. Moreover, Rural Bank rely more on interest income from loans as their main income source, unlike commercial banks, which have more diverse income sources. Therefore, BPRs are more focused on managing credit risk (as evidenced by the influence of NPL on Earnings Management) than on managing capital ratios like CAR. (Kothari et al., 1999) find that banks focusing on interest income have different priorities in managing their finances, reducing the influence of CAR on Earnings Management.

5) The Influence of LLP on Earnings Management

LLP does not significantly influence earnings management in Rural Bank in the Jember area. This is due to the credit portfolio owned by Rural Bank and the simpler regulations, which make Rural Bank focus more on operational resilience and dependence on interest revenue. LLP becomes less relevant as a tool for Earnings Management practices, unlike larger and more complex commercial banks. Rural Bank have relatively homogeneous market segments, primarily serving small and medium-sized businesses. A more homogeneous and predictable credit portfolio makes LLP setting more routine, reducing the tendency to use LLP as a tool for Earnings Management. The simpler regulations in BPRs related to financial reporting and LLP arrangements reduce the pressure to manipulate loan loss reserves to meet certain earnings targets. Lastly, Rural Bank are more likely to focus on direct credit risk management rather than adjusting LLP to influence earnings reporting.

6) The Influence of NPL, ROA, NIM, CAR, and LLP on Earnings Management

NPL, ROA, NIM, CAR, and LLP collectively influence earnings management in Rural Bank in the Jember area. The combination of credit risk, profitability pressure, capital needs, and credit risk management requirements interact to encourage management to engage in Earnings Management to maintain reported performance stability, meet bank health standards, and avoid negative public perception. The synergy of these financial factors can mutually influence Earnings Management practices. For example, an increase in NPL may decrease ROA and increase pressure on NIM and CAR. In such situations, BPR performance may decline, and management may see Earnings Management as an alternative to achieving more stable financial performance.

5. SUMMARY AND CONCLUSION

This research article aims to test the influence of NPL, ROA, NIM, CAR, and LLP on Earnings Management practices in BPRs in the Jember area. The research finds that NPL is the only variable significantly influencing Earnings Management decisions. The operational activities of Rural Bank are still primarily focused on providing credit services to the community, particularly small and medium-sized enterprises, making Rural Bank more focused on credit distribution, which is their main income source. With a limited income source, the BPR credit portfolio becomes more homogeneous. This significantly impacts the regulatory supervision of credit portfolio management, requiring more careful management to prevent non-performing loans. A high NPL value, as a result of poor credit management, can affect the financial health of the BPR and ultimately impact financial performance. Therefore, Rural Bank management makes efforts to manage credit to ensure the NPL ratio is controlled, with one of the efforts being through Earnings Management practices.

The ratio of non-performing loans, measured using NPL, directly impacts net profit. When non-performing loans are high, net profit decreases, which in turn affects the financial performance of the Rural Bank and reduces stakeholder trust. To maintain financial performance and stakeholder trust, Rural Bank are encouraged to engage in Earnings Management practices through credit restructuring, problem asset write-offs, delayed NPL recognition, and adjustment of interest income recognition.

1. Credit restructuring is done to reduce reported NPLs by extending credit terms, lowering interest rates, or rescheduling payments.
2. Problem asset write-offs through the sale or transfer of assets to third parties can reduce the reported NPL value.
3. Delayed NPL recognition may be carried out by BPR management in the hope that the debtor's financial condition will improve; however, this carries the risk of accumulating more significant credit problems in the future.
4. Adjustment of interest income recognition can be postponed or accelerated when approaching NPL status.

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