



The Application of Business Judgment Rule to Credit Decision Making at Rural Banks: Between Board Protection and the Prudential Principle

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Abstract

Background: Credit-granting decisions at Rural Banks (*Bank Perkreditan Rakyat* or *BPR*) are business decisions that inherently involve risk, yet they also possess a distinct legal character because banks manage funds entrusted to them by the public. Existing studies of the Business Judgment Rule have largely situated the doctrine within the general framework of corporate law, whereas studies of non-performing loans in the banking sector have tended to focus on the prudential principle, lending procedures, and risk management.

Objective: This article aims to analyze the position of the Business Judgment Rule in relation to the liability of the Board of Directors of *BPRs* for credit-granting decisions that result in losses and to delineate the conditions under which directors may or may not be afforded protection when loans subsequently become non-performing.

Method: This study employs a normative legal research method using statutory and conceptual approaches.

Result: The findings demonstrate that the Business Judgment Rule may protect the Board of Directors of *BPRs* when a non-performing loan results from a legitimate business risk—that is, a risk that materializes even though the credit decision was made through a prudent, rational, independent, and properly documented process and within the limits of lawful authority. Conversely, such protection is unavailable when the credit loss arises from governance failures in the lending process.

Conclusion: The applicability of the Business Judgment Rule to credit decisions made by *BPRs* is determined by the distinction between legitimate business risks and governance failures.

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INTRODUCTION

Lending is the principal business activity of Rural Banks (*Bank Perekonomian Rakyat*, or *BPR*) and an important means of financing local economies, particularly micro, small, and medium-sized enterprises. The central role of lending in the *BPR* business model is accompanied by risks inherent in every credit decision. Accordingly, non-performing loans must be assessed proportionately (Aini, 2024).

Non-performing loans do not necessarily result from errors by bank management. In practice, a loan initially assessed as viable may become non-performing because of a deterioration in the debtor's business, changes in market conditions or government policy, defaults by third parties, or other economic factors that could not reasonably have been foreseen (Hardyansah et al., 2026). Consequently, not every non-performing loan should automatically be treated as

evidence of fault on the part of the Board of Directors. A credit decision is essentially a business decision that requires a careful assessment of a prospective debtor's creditworthiness amid uncertain economic conditions (Aledeimat & Bein, 2025; Angela, 2025; Karmakar, 2025). In such circumstances, a non-performing loan may reflect a legitimate business risk.

Under corporate law, the Business Judgment Rule is premised on the need to afford the Board of Directors discretion in making business decisions. Courts, shareholders, and other external parties should not readily substitute their own *ex post* assessment for the business judgment exercised by the Board of Directors merely because a loss has occurred (Farhan et al., 2025). The Board of Directors must be given room to exercise business judgment, provided that its decisions are made in good faith, on the basis of sufficient information, without conflicts of interest, within the limits of its authority, and in the interests of the company. Although Indonesian law does not expressly use the term Business Judgment Rule, its substance is reflected in provisions exempting directors from personal liability for corporate losses when certain requirements are satisfied (Sudarna, 2025).

However, the application of the Business Judgment Rule in the banking industry cannot simply be equated with its application to business decisions made by ordinary companies. Banks are institutions of trust that mobilize and channel public funds. Accordingly, their business decisions are always subject to the prudential principle, sound governance, risk management, compliance requirements, and regulatory supervision. The Banking Law requires Indonesian banks to conduct their business in accordance with the prudential principle (Sandy et al., 2024). In the BPR context, these obligations are further reinforced by Financial Services Authority regulations governing BPRs and BPRSs, including provisions concerning the duties and responsibilities of the Board of Directors, internal control, conflicts of interest, compliance, internal audit, risk management, anti-fraud strategies, and adherence to legal lending or financing limits (Putri & Ryketeng, 2025).

Several previous studies have examined the Business Judgment Rule in relation to the liability of the Board of Directors. Wardani (2023) for example, characterizes the Business Judgment Rule as a doctrine that protects directors when business decisions are made lawfully, in good faith, on a rational basis, with due care, and in the belief that they serve the company's best interests. Hadi (2021) examine the application of the Business Judgment Rule to the legal liability of directors of state-owned enterprises for loss-generating investment decisions. They conclude that the requirements for BJR protection are cumulative and must all be satisfied before directors may be exempted from personal liability. Meanwhile, Wijayanti (2019) specifically examines the legal protection afforded to directors of state-owned banks in relation to non-performing loans under the Business Judgment Rule, emphasizing that such loans cannot automatically be attributed to the fault of the Board of Directors or classified as state losses carrying criminal consequences.

However, these studies have not specifically examined the application of the Business Judgment Rule to credit decisions at BPRs. Existing BJR scholarship remains largely situated within the general framework of corporate law or the context of state-owned enterprises, whereas studies of the liability of bank directors for non-performing loans tend to focus on the prudential principle, compliance with lending procedures, and risk management. An underexplored question therefore remains: how should the Business Judgment Rule apply to BPR credit decisions, which simultaneously constitute business decisions, fiduciary decisions, and decisions governed by the prudential banking regime? This question is important because non-performing loans do not necessarily result from fault on the part of the Board of Directors, yet clear boundaries are needed to distinguish legitimate business risks from governance failures.

The novelty of this article lies in treating the Business Judgment Rule not merely as a corporate-law doctrine protecting the Board of Directors, but also as a framework for evaluating the quality of the credit decision-making process at BPRs. Accordingly, this article not only considers whether the Board of Directors should be protected when a loan becomes non-performing but also formulates the boundaries within which such protection is warranted and the circumstances in which it should be unavailable.

Against this background, this article addresses two legal questions. First, what is the position of the Business Judgment Rule in relation to the liability of the BPR Board of Directors for credit-granting decisions that subsequently cause losses to the bank? Second, under what circumstances may or may not the BPR Board of Directors obtain Business Judgment Rule protection for credit decisions involving loans that subsequently become non-performing?

In addressing these questions, this article aims to analyze the position of the Business Judgment Rule in relation to the liability of the BPR Board of Directors for credit decisions that result in losses and to delineate the circumstances under which the BPR Board of Directors may or may not obtain Business Judgment Rule protection when the loans subsequently become non-performing.

METHOD

This study employs a normative legal research method using statutory and conceptual approaches. This method was selected because the research concerns the construction of legal norms, principles, doctrines, and the boundaries of directors' legal liability in making credit decisions. The central issue is how the Business Judgment Rule, as a corporate law doctrine, may be situated within a banking law regime governed by the prudential principle, sound governance, risk management, and compliance.

The statutory approach is used to examine provisions of the Limited Liability Company Law concerning the position, authority, and responsibilities of the Board of Directors, as well as provisions of the Banking Law and Financial Services Authority regulations governing BPR governance and risk management. Under this approach, credit decisions are regarded not only as business decisions but also as decisions that must satisfy prudential banking standards.

The conceptual approach is used to explain the relationship among the Business Judgment Rule, fiduciary duty, the duty of care, the duty of loyalty, the prudential principle, and directors' liability. This approach helps distinguish losses resulting from legitimate business risks from those arising from governance failures, such as deficient analysis, procedural irregularities, conflicts of interest, or violations of sound banking governance standards.

The primary legal materials used in this study include Law Number 40 of 2007 concerning Limited Liability Companies, the Banking Law, and Financial Services Authority regulations governing BPR governance and risk management. The secondary legal materials include literature on corporate law, banking law, and the Business Judgment Rule, as well as academic writings on fiduciary duty, the duty of care, and directors' liability. All legal materials were examined through qualitative and prescriptive legal analysis by interpreting the relationships between legal norms and concepts to formulate the boundaries of the Business Judgment Rule in BPR credit decisions.

RESULTS AND DISCUSSION

Results

The findings indicate that the application of the Business Judgment Rule to BPR credit decisions involves two levels of assessment. The first is a corporate law assessment of whether the Board of Directors managed the company in good faith, with due care, without conflicts of interest, and within the limits of its authority. The second reflects the distinctive character of banking and examines whether the credit decision complied with prudential, governance, risk management, and compliance standards. Thus, the Business Judgment Rule does not operate independently in BPR credit decisions; rather, it functions in close conjunction with the banking prudential principle.

Position of the Board of Directors in Corporate and Bank Management

In a limited liability company, the Board of Directors is the corporate organ responsible for managing the company in its interests and in accordance with its purposes and objectives (Prakasa & Sudarwanto, 2025). In this capacity, the Board of Directors has discretion to make business decisions, including decisions involving risk (Retired, 2026). Such discretion is necessary because corporate activities cannot be conducted without decisions based on opportunities, projections, and uncertainties. Corporate law does not require directors to ensure that every

decision produces a favorable outcome. Instead, it requires them to manage the company with due care, loyalty, and responsibility.

In the BPR context, the position of the Board of Directors is more complex. The Board not only manages the company as a legal entity but also oversees a financial institution that mobilizes and channels public funds (Noviyanti et al., 2023). Consequently, the decisions of the BPR Board of Directors, particularly those concerning the granting of credit, cannot be regarded solely as ordinary business decisions. Such decisions fall simultaneously within the regimes of corporate law and banking law. The responsibilities of the BPR Board of Directors must therefore be understood in two dimensions: its role as corporate management and its role as the manager of a financial institution required to observe the prudential principle.

In principle, the BPR Board of Directors may obtain legal protection for credit decisions that result in losses, provided that those decisions remain within the legitimate sphere of business discretion. However, because credit decisions involve public funds, such discretion is not unlimited. The Board must demonstrate that the decision was reached through a reasonable, rational, and properly documented process consistent with prudent bank management standards. Thus, in making credit decisions, the BPR Board of Directors acts not merely as a business risk-taker but also as a fiduciary responsible for ensuring that risks are assumed in a measured manner.

Elements of the Business Judgment Rule under the Limited Liability Company Law

The substance of the Business Judgment Rule in Indonesian law may be derived from the provisions governing directors' liability under the Limited Liability Company Law. Directors may be held personally liable when they are at fault or negligent in performing their management duties. However, they may be exempted from liability if they can prove that the loss was not caused by their fault or negligence; that they managed the company in good faith and with due care in its interests; that they had no conflict of interest; and that they took action to prevent the occurrence or continuation of the loss (Nathanasha, 2026).

In BPR credit decisions, these elements translate into concrete standards of assessment. First, the absence of fault or negligence requires the Board of Directors to demonstrate that the credit decision was not made arbitrarily. It must be based on sufficient and relevant information, including the debtor's business condition, repayment capacity, intended use of the credit, source of repayment, collateral, business prospects, and legal risks. Second, the requirement of good faith means that the decision must be directed toward the interests of the bank as part of the Board's fiduciary duty, rather than the personal interests of directors, particular shareholders, affiliated parties, or specific debtors.

Third, the duty of care requires a proper analytical process before credit is approved. In this context, the duty of care is not merely a moral obligation but a legal obligation to make decisions through an adequate process. Eisenberg explains that the duty of care concerns the standards of attention, information, and deliberation that corporate directors and officers should apply when making business decisions (Arifin et al., 2026). In credit decisions, this duty is reflected in the requirement to conduct feasibility analyses, verify data, assess risk, and document the reasons for credit approval.

Fourth, the absence of conflicts of interest, as an aspect of the duty of loyalty, constitutes an important boundary in the application of the BJR. Credit extended to related or affiliated parties must be processed with heightened transparency and independence. Fifth, the requirement to take action to prevent or limit losses demonstrates that the BJR assesses not only the decision made when credit is approved but also the response of the Board of Directors when credit risks begin to materialize.

The Distinctive Character of Credit Decisions as Banking Business Decisions

Credit decisions are business decisions because they involve assessments of risk and prospective returns. Nevertheless, credit decisions at BPRs are not identical to business decisions made by non-bank companies. Because banks mobilize public funds, every credit decision must comply with the prudential principle. The discretion of the Board of Directors in making credit

decisions is therefore constrained by the obligation to maintain asset quality, liquidity, public confidence, and the soundness of the bank.

This distinctive character subjects the application of the BJR in banking to more stringent standards. In an ordinary company, a risky business decision may more readily fall within the authority of the Board of Directors, provided that it involves no fraud, conflict of interest, or violation of law. In a bank, the same decision must also be assessed for compliance with credit policies, delegated authority, risk management requirements, the prudential principle, internal control systems, and regulatory provisions. Thus, the application of the BJR in banking requires not only a rational business decision but also a prudent one.

This assessment is particularly important for BPRs because many MSME debtors have limited formal financial data. Such limitations do not relieve BPRs of their analytical obligations. BPRs must continue to employ appropriate methods, including bank-statement analysis, business visits, interviews with suppliers or customers, daily cash-flow assessments, business-cycle analysis, and repayment-capacity calculations.

A BPR credit decision may be regarded as a business decision deserving protection only if the relevant risks have been identified, measured, mitigated, and monitored (Syaika, 2024). Risk-taking without an appropriate risk management process does not guarantee protection. The BJR in BPR credit decisions should therefore be understood as protection against legitimate business risks, not as protection against governance failures.

Limits of BJR Protection for Non-Performing Loans

The boundary of Business Judgment Rule protection for non-performing loans lies in the distinction between losses resulting from legitimate business risks and those resulting from governance failures. A non-performing loan arising after the analysis, approval, disbursement, and monitoring processes have been properly conducted may still be classified as a legitimate business risk. By contrast, a non-performing loan resulting from analytical negligence, procedural violations, conflicts of interest, abuse of authority, or neglect of control functions cannot be treated as a legitimate business risk; it constitutes a governance failure.

The BPR Board of Directors may obtain BJR protection when several conditions are satisfied. First, the credit decision is made by an authorized officer or corporate organ within the applicable limit of authority. Second, the decision is based on adequate information that has been reasonably verified. Third, the credit analysis appropriately assesses repayment capacity, sources of repayment, the intended use of the credit, the debtor's character, business prospects, capital, and collateral. Fourth, the decision is made without conflicts of interest. Fifth, the decision is properly documented so that its business rationale can be evaluated. Sixth, after the credit is disbursed, the bank conducts monitoring and takes recovery measures when signs of deteriorating credit quality emerge.

Conversely, the BPR Board of Directors cannot obtain BJR protection when the credit decision-making process is fundamentally defective. Such defects may include approving credit without adequate analysis; disregarding appraisal or legal-review findings; disbursing funds before material requirements have been satisfied; exceeding delegated authority; violating prudential requirements; extending credit to related parties without disclosure; yielding to shareholder pressure; fabricating documents; or disregarding recommendations from risk management and compliance functions. In such circumstances, the credit loss no longer constitutes a legitimate business risk but instead results from a governance failure in the credit-granting process.

Discussion

The findings raise two principal issues that require further analysis. The first concerns the position of the Business Judgment Rule in relation to the liability of the BPR Board of Directors for credit-granting decisions that subsequently cause losses to the bank. The second concerns the circumstances under which the BPR Board of Directors may or may not obtain Business Judgment Rule protection when loans subsequently become non-performing. These issues must be examined sequentially because BJR protection cannot be separated from the position of the Board

of Directors as a business decision-maker while also accounting for the distinctive character of a BPR as a financial institution entrusted with public funds.

The Business Judgment Rule in Relation to the Liability of the BPR Board of Directors for Credit-Granting Decisions

An analysis of the Business Judgment Rule in relation to the liability of the BPR Board of Directors must begin with the recognition that granting credit is a business decision. Every credit decision involves an assessment of the debtor's business prospects, repayment capacity, character, capital, collateral, and prevailing economic conditions. Because such a decision is necessarily based on the information available at the time, a loan that subsequently becomes non-performing should not automatically be treated as evidence that the Board of Directors was at fault or negligent.

Within the corporate law framework, the BJR protects the Board of Directors from assessments based solely on the eventual outcome of a business decision. Directors cannot be required to ensure that every decision produces a favorable outcome because business activities inherently involve risk. They may, however, be required to demonstrate that the decision-making process was conducted in good faith, with due care, based on adequate information, without conflicts of interest, and within the limits of lawful authority. Thus, the BJR protects a properly conducted decision-making process rather than the outcome of the decision itself.

In the context of BPR lending, this principle means that non-performing loans are not automatically attributable to fault on the part of the Board of Directors. A loan may become non-performing because of external factors that could not reasonably have been foreseen, including a decline in the debtor's business, fluctuations in commodity prices, changes in government policy, defaults by third parties, natural disasters, or broader economic disruption. If, when the credit was approved, the Board of Directors ensured that the decision was supported by appropriate analysis, data verification, an assessment of repayment capacity, a suitable credit structure, legal review, collateral valuation, and approval by the competent authority, the resulting loss is more appropriately classified as a legitimate business risk. BPR credit decisions must therefore be understood as business decisions subject to prudential standards.

This is the distinctive feature of the BJR in banking. Although the doctrine remains relevant to the protection of the BPR Board of Directors, the standards governing its application are more stringent. It is insufficient for the Board merely to assert that granting credit constitutes a business decision. It must demonstrate that the decision was reached through a prudent process, complied with the bank's credit policy, was consistent with risk management requirements, and did not contravene banking governance or compliance standards. In other words, the BJR allows the Board to assume legitimate business risks, while the prudential principle determines whether those risks were assumed appropriately and in a measured manner.

The BPR Board of Directors also acts in a dual capacity. On the one hand, it is a corporate organ responsible for managing the company in its interests. On the other hand, it manages a financial institution entrusted with public funds. This dual capacity places the Board in a more complex fiduciary relationship. It is not only accountable to shareholders but must also ensure that the bank's activities are conducted soundly, prudently, and in accordance with applicable laws and regulations. BJR protection for the BPR Board of Directors must therefore be understood as protection for business discretion exercised in a fiduciary and prudential manner.

Consequently, the liability of the BPR Board of Directors for a non-performing loan should not be assessed solely on the basis that the loan has become non-performing. The assessment should address the processes undertaken before, during, and after the credit was granted. Before approval, it must be determined whether the information considered was sufficient and relevant. At the time of approval, it must be determined whether the decision was made by an authorized officer, on rational grounds, and without conflicts of interest. After disbursement, it must be determined whether the bank conducted appropriate monitoring and took recovery measures when signs of deteriorating credit quality emerged.

Thus, the BJR performs a corrective function in assessing the liability of the BPR Board of Directors. It prevents directors from being held liable merely because a loan they approved

subsequently becomes non-performing. At the same time, however, the BJR does not relieve directors of the obligation to demonstrate that the credit decision resulted from a proper management process. It is not an exemption from prudential standards but a form of protection against legitimate business risks assumed through a prudent and accountable decision-making process.

Conditions Under Which BPR Directors May or May Not Obtain Business Judgment Rule Protection for Non-Performing Loans

The next question concerns the circumstances under which the BPR Board of Directors may or may not obtain BJR protection when loans subsequently become non-performing. The answer rests on the distinction between losses resulting from legitimate business risks and those resulting from governance failures. The BJR may operate in the first situation but cannot provide protection in the second.

The BPR Board of Directors may obtain BJR protection if the credit decision is made within the limits of lawful authority. Authority is a prerequisite because a business decision can be protected only when it is made by an organ or officer who is empowered to do so. If a decision exceeds delegated authority, lacks the approval of the competent organ, or disregards the bank's internal approval structure, the basis for BJR protection is weakened. The relevant issue is not merely whether the credit was feasible but whether the decision was lawfully made in the first place.

In addition to being made within lawful authority, a credit decision must be based on adequate information. This does not require perfect information because, in lending practice, particularly in the MSME segment, debtor data is often less complete than that available for large corporations. Nevertheless, the information must be sufficient to support a rational credit assessment. BPRs may use methods appropriate to the characteristics of their debtors, including bank-statement analysis, business visits, interviews with suppliers or customers, cash-flow analysis, business-cycle assessment, and verification of the intended use of the credit. If these processes are diligently conducted, the decision may still be considered prudent despite limitations in the debtor's formal data.

The Board of Directors may also obtain BJR protection when the credit decision is supported by a proper analysis. Credit analysis must not focus exclusively on collateral. Although collateral is important as a means of mitigating risk, the primary source of repayment remains the debtor's repayment capacity. The analysis must therefore examine the source of repayment, cash flow, business capacity, appropriateness of the credit ceiling, loan term, installment structure, and business risks. A decision based solely on collateral value, without an assessment of repayment capacity, is difficult to characterize as prudent.

The absence of conflicts of interest is another condition that strengthens BJR protection. Credit extended to related or affiliated parties is not necessarily prohibited, but it must be processed with heightened transparency, independence, and compliance. Directors who have a direct or indirect relationship with a debtor must ensure full disclosure and an objective decision-making mechanism. The duty of loyalty is preserved when the decision is free from personal interests, is not influenced by shareholder pressure, and is directed toward the interests of the bank.

The Board of Directors must also be able to demonstrate that the credit decision was adequately documented. In the application of the BJR, documentation provides the principal evidentiary basis for assessing the decision-making process. Good faith, due care, lawful authority, risk analysis, and the absence of conflicts of interest cannot be established by assertion alone. They must be reflected in the credit-analysis memorandum, credit-committee minutes, legal review, appraisal report, opinions of the risk management and compliance functions, disbursement requirements, security documents, and post-disbursement monitoring reports. Without documentation, a decision that was in fact rational may appear unsupported. Conversely, proper documentation enables the Board to demonstrate that the credit was granted through an accountable process.

BJR protection is further strengthened when the bank conducts reasonable monitoring and recovery measures after disbursement. The responsibility of the Board of Directors for credit

does not end upon approval or disbursement (Al Rasyid et al., 2025). When signs of deteriorating credit quality appear, the bank must monitor the loan, undertake collection efforts, communicate with the debtor, restructure the facility when appropriate, strengthen collateral, restrict further disbursements, or take legal action as necessary. If the Board can demonstrate that these measures were taken proportionately, the resulting credit loss is more readily understood as a legitimate business risk rather than the consequence of neglect.

Conversely, the BPR Board of Directors cannot obtain BJR protection when the credit decision results from a fundamentally defective process. Such defects may include approving credit without an assessment of repayment capacity; disregarding material information or a legal review; relying on an unreasonable appraisal; disbursing funds before material requirements have been satisfied; exceeding delegated authority; violating prudential requirements; or disregarding recommendations from risk management and compliance functions. In such circumstances, the credit loss can no longer be regarded as a legitimate business risk but instead results from a governance failure in the credit-granting process.

Procedural deviations constitute an important negative boundary in the application of the BJR. Lending procedures are not mere administrative formalities; they are instruments of risk control. When a material step in the lending process is disregarded, the Board of Directors will find it difficult to establish that the decision was made with due care (Noviansyah et al., 2025). Nevertheless, an impermissible deviation must be distinguished from a permissible exception. In practice, credit may be approved subject to a particular exception when additional mitigating measures are imposed, such as reducing the credit ceiling, disbursing funds in stages, strengthening collateral, or imposing more stringent covenants. Such an exception may still warrant protection if it is permitted by internal policy, approved by the competent authority, supported by rational business justification, and clearly documented. Deviations that are concealed, unauthorized, unmitigated, or repeatedly made in pursuit of growth targets without regard to credit quality do not warrant protection.

Conflicts of interest also provide a strong basis for denying BJR protection. If credit is extended to a party connected to a director, shareholder, bank officer, or affiliated party without proper disclosure and objective procedures, the decision loses its character as an independent business judgment. Moreover, where gratuities, undisclosed commissions, data manipulation, fabricated collateral documentation, or collusion with the debtor are involved, the decision no longer falls within the realm of business judgment. It constitutes an abuse of authority and does not merit BJR protection.

Based on the foregoing analysis, whether the BPR Board of Directors may obtain BJR protection can be assessed in several stages. First, was the credit decision made within lawful authority? Second, was it based on adequate information? Third, was the credit analysis substantively sufficient? Fourth, was the decision free from conflicts of interest? Fifth, did it comply with the prudential principle, internal policies, and prudential regulations? Sixth, was the entire process adequately documented? Seventh, did the bank undertake reasonable monitoring and recovery measures after disbursement?

This staged assessment is important to avoid two extremes. The first is to treat every non-performing loan as the fault of the Board of Directors. Such an approach may create excessive risk aversion in credit decision-making and undermine the intermediation function of BPRs. The second is to treat all credit decisions as matters of business discretion that should not be subject to scrutiny. This approach is equally flawed because it may create opportunities for procedural deviations, conflicts of interest, and violations of the prudential principle. A more proportionate position is to regard the BJR as a shield against legitimate business risks, not as protection against governance failures. Recent developments indicate that the OJK encourages the banking industry to recognize that the Business Judgment Rule may provide protection in credit-granting decisions, provided that those decisions are made prudently and in accordance with applicable laws and regulations (Rohmah et al., 2025).

Thus, the BPR Board of Directors may obtain BJR protection when a credit loss occurs even though the decision was made prudently, rationally, independently, within lawful authority, with proper documentation, and subject to reasonable monitoring. Conversely, the Board cannot

obtain such protection when the non-performing loan results from an improper, non-independent, or undocumented process; a violation of applicable requirements; or a disregard of prudential standards. Under this formulation, the BJR maintains a balance between protecting legitimate business risk-taking and preventing governance failures in the management of public funds.

CONCLUSION

The Business Judgment Rule serves as a legal safeguard for the prudent exercise of business discretion by the BPR Board of Directors, rather than as absolute immunity from liability when a loan subsequently becomes non-performing. Its application must be assessed more stringently because a credit decision is not merely a corporate business decision; it also concerns the management of public funds and is therefore subject to the banking prudential principle. Accordingly, the BPR Board of Directors may obtain Business Judgment Rule protection when a non-performing loan results from a legitimate business risk, meaning a risk that materializes even though the credit-granting process was conducted rationally, independently, within lawful authority, with proper documentation, and subject to adequate monitoring. Conversely, such protection is unavailable when the credit loss results from a governance failure in the credit-granting process. The boundary of the Business Judgment Rule in BPR credit decisions therefore lies in the distinction between legitimate business risks and governance failures.

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Rizki Tri Anugrah, Bhakti Dwi Afni Maileni, and Frans Borgias jointly contributed to the conceptualization, collection and examination of legal materials, normative legal analysis, interpretation of the findings, and preparation of the manuscript. All authors participated in revising the article, approved the final version for publication, and agreed to be accountable for the accuracy and integrity of the work.

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