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Analysis of Financial Statements As A Means of Measuring Financial Performance In The Banking Business In Indonesia

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Abstract: This study aims to analyze financial statements as a tool for measuring financial performance in the banking business in Indonesia. Financial statements are essential sources of information for assessing the health and stability of banks and supporting effective strategic decision-making. The analysis of financial statements is conducted using ratio analysis methods, including liquidity, solvency, and profitability ratios, each of which provides insights into a bank's ability to meet short-term and long-term obligations, as well as generate profits. This research uses secondary data, including annual financial statements and literature studies, to evaluate the financial performance of banks in Indonesia. The findings show that financial statements, especially through ratio analysis, are highly useful for measuring financial performance and providing a comprehensive picture of the efficiency and effectiveness of bank financial management. These findings can serve as a reference for bank management in formulating better financial policies and for stakeholders to evaluate potential risks and investment opportunities in the banking sector.

Keywords: Financial Statements, Financial Performance, Financial Ratio Analysis, Banking Business in Indonesia.

Introduction

In the banking world, finance plays a very important role in ensuring operational continuity and supporting strategic decision making. Financial reports not only reflect the financial condition of a bank, but also provide an overview of management performance in managing the resources it has. Therefore, financial report analysis is an essential tool in assessing the stability, efficiency, and effectiveness of bank financial management.

In the context of banking business in Indonesia, financial reports have a strategic function as a basis for determining policies, both related to credit distribution, management of public funds, and decision-making related to investment. According to Harahap (2021), financial reports are one of the most relevant tools for assessing the financial performance of an entity, because this report provides information about the financial position, performance, and changes in the company's financial position that are useful for various stakeholders.

The development of financial position has a significant meaning for the sustainability of the company, including banks. Not only seen from the physical aspect, the success of a bank is also determined by the ability of management to maintain financial stability and performance. This is important to ensure that the financial policies taken are in accordance with the company's strategic objectives (Kasmir, 2020). From the perspective of stakeholder theory, banks as financial institutions have a responsibility to not only create value for shareholders, but also provide benefits to the wider community through intermediation activities (Freeman, 1984).

According to the Republic of Indonesia Law Number 7 of 1992 concerning Banking, which was later amended by Law Number 10 of 1998, Article 1 paragraph 2 defines a bank as "a business entity that collects funds from the public in the form of savings and distributes them to the public in the form of credit and/or other forms in order to improve the standard of living of the people." Thus, banks function as intermediary institutions that mediate between parties who have excess funds and parties who need funds, while also providing other financial services.

Financial statement analysis includes various methods, including financial ratio analysis, trend analysis, and horizontal analysis. This analysis is used to evaluate the financial health of the bank, identify risks, and determine opportunities to improve financial performance. According to Maith (2013), financial ratio analysis can help management understand financial conditions comprehensively, including assessing profitability, liquidity, solvency, and operational efficiency.

Furthermore, Sutrisno (2022) explained that financial ratio analysis requires financial report data from at least the last two years to provide an overview of performance trends. This information is important for bank management to evaluate the effectiveness of the strategies that have been implemented and to make policy adjustments if necessary. In addition, the relevance of financial reports is also increasing in the modern era, where information technology allows faster and more accurate access to financial data. Technologies such as big data and financial analytics are now used to deepen insights from financial reports and provide more appropriate recommendations (Nurhayati, 2021).

Therefore, this study aims to analyze financial reports as a measure of financial performance in the banking business in Indonesia. With this approach, it is expected to provide practical contributions to bank management as well as theoretical insights for the development of financial accounting studies.

Methodology

This study uses a *literature review method* to analyze various library sources, such as scientific journals, bank financial reports, and regulatory documents from the Financial Services Authority (OJK), to evaluate financial performance in the banking business in Indonesia. The data used are secondary data, which include annual financial reports, academic studies, and official publications. Data analysis is carried out using a quantitative descriptive approach through financial ratio analysis, such as liquidity, solvency, and profitability ratios, to assess financial performance in depth. In addition, a comparative analysis is carried out to compare performance between periods or between banks, and a normative approach is used to evaluate the conformity of financial reports with applicable accounting standards and banking regulations. This approach is expected to provide a comprehensive picture of financial performance measurement in the banking industry in Indonesia.

Result and Discussion

This study analyzes various literature related to the use of financial reports as a tool to measure financial performance in the banking business in Indonesia. The analysis focuses on three main ratios: liquidity, solvency, and profitability, which provide a comprehensive picture of the bank's financial health. The literature study involves several previous studies, including:

1. Wina Feronika Rabuisa et al. (2018) who analyzed the financial report of the Manado Dana Raya Rural Credit Bank (BPR).
2. Febe Aprilia Marpaung et al. (2016) who assessed the financial performance of PT Bank Tabungan Pensiunan Nasional (BTPN).
3. Ayu Desi Kurnia Wijaya (2022) who analyzed the financial reports of PT Bank Jatim.
4. Gita Gabriella Kakasih et al. (2018) who used cash flow reports to assess the performance of PT Bank Sulutgo.
5. Melissa Olivia Tanor et al. (2015) who evaluated the financial performance of PT Bank Artha Graha International, Tbk.

Liquidity Ratio

Loan To Deposit Ratio (LDR)

LDR is used to measure a bank's ability to manage depositor funds and credit demand. The literature shows fluctuations in this ratio, which reflects the bank's ability to meet depositor obligations. When LDR increases, this indicates a high demand for credit compared to funds received, so banks need to increase funds to balance the amount of credit provided (Wijaya, 2022)

Quick Ratio

Quick ratio measures the bank's ability to meet immediate obligations with liquid assets. The results of the analysis show fluctuations with a dominant decline, mainly caused by a decrease in cash assets that is not balanced with an increase in total deposits (Rabuisa et al., 2018).

Solvency Ratio

Capital Adequacy Ratio (CAR)

CAR is used to assess a bank's ability to maintain sufficient capital against the risks faced. Based on the literature, CAR has decreased due to an increase in total equity accompanied by an increase in risk-weighted assets (RWA). However, the CAR value remains above the minimum standard of 8% set by Bank Indonesia, indicating a healthy banking condition (Rabuisa et al., 2018).

Profitability Ratio

Return On Assets (ROA)

ROA is used to evaluate the effectiveness of management in utilizing assets to generate profits. The results of the analysis show fluctuations with a dominant decline, mainly due to slower net profit growth compared to total asset growth. However, an ROA level of more than 1.5% still reflects good performance according to Bank Indonesia standards (Tanor et al., 2015).

Discussion

Financial statement analysis is one of the effective methods to assess financial performance in banking business. The results of several previous studies show that financial ratios, such as liquidity, solvency, and profitability, can provide deep insight into the health and efficiency of bank financial management.

Liquidity Ratio Analysis

Loan to Deposit Ratio (LDR) and Quick Ratio are key indicators in measuring a bank's ability to meet its obligations to depositors. Based on the literature, fluctuations in LDR reflect variations between the amount of credit disbursed and funds received. When LDR increases, this indicates high demand for credit that risks increasing the bank's funding needs. On the other hand, a Quick Ratio that tends to decrease indicates the bank's challenge in maintaining sufficient liquid assets to meet short-term obligations. This highlights the importance of effective liquidity management to maintain the stability of bank operations.

Solvency Ratio Analysis

Capital Adequacy Ratio (CAR) is the main indicator in assessing a bank's ability to maintain capital against risk. A significant decrease in CAR from year to year, as found in the literature, can be caused by an increase in risk-weighted assets that is not comparable to an increase in capital. However, the CAR value that remains above 8% indicates that the bank is still able to meet the health standards set by Bank Indonesia. This reflects that despite the pressure, the banking sector is generally still in a safe condition.

Profitability Ratio Analysis

Return on Assets (ROA) measures how effectively bank management is utilizing assets to generate profits. Fluctuations in ROA, with a dominant decline, indicate challenges in maintaining net profit growth that is balanced with total asset growth. However, the ROA level that is still above 1.5% indicates that the bank is able to maintain its profitability despite external pressures, such as market competition and macroeconomic conditions.

The results of this discussion indicate that banks need to adopt better risk management strategies to improve liquidity, strengthen solvency, and maintain profitability. Banks also need to conduct a comprehensive evaluation of credit policies, fund management, and asset risk management to ensure optimal stability and performance. In the context of the banking business in Indonesia, strengthening these aspects will help banks adapt to market dynamics and maintain depositor confidence. Overall, financial statement analysis can provide a clear picture of the bank's financial performance and become the basis for strategic decision making, both for internal improvements and to respond to external challenges.

Conclusion

Based on the results and discussions conducted, financial statement analysis has proven to be an effective tool for measuring financial performance in banking businesses in Indonesia. Some of the main findings can be summarized as follows:

a. Liquidity Ratios: *Loan to Deposit Ratio* (LDR) and *Quick Ratio* show significant fluctuations. An increase in LDR reflects high demand for credit, while a decrease in *Quick Ratio* indicates challenges in maintaining liquid assets. This shows that good liquidity management is an important element in maintaining the stability of bank operations.
b. Solvency Ratio: *Capital Adequacy Ratio* (CAR) above the minimum standard of 8% indicates that banks are generally able to maintain capital adequacy despite pressure in the form of increasing risk-weighted assets. This indicates that the banking sector in Indonesia is still in the healthy category.
c. Profitability Ratio: *Return on Assets* (ROA) shows fluctuations with a downward trend, although it remains above the minimum standard of 1.5%. This shows that the bank is able to utilize its assets to generate profits effectively, although there are challenges in maintaining net profit growth along with asset growth .

Overall, the financial performance of banks in Indonesia shows good stability, despite facing challenges in terms of liquidity, solvency, and profitability. Better risk management, capital strengthening, and credit strategy optimization are strategic steps that need to be taken to improve financial performance in the future. Financial statement analysis not only provides an overview of financial performance, but also becomes a strong basis for strategic decision making in facing market dynamics and competition in the banking industry.

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