

Financial Health Assessment of Bank BRI: Trends in Liquidity, Profitability, and Management Efficiency

Isma Azis Riu^{1*}

¹Department Of Management, Makassar State University

e-mail: ^{1*}ismaazisriu@unm.ac.id

Abstract

Banking is the backbone of the construction of Indonesia's economic and financial system. A variety of economic issues greatly affect the business world, especially banking, where companies compete to perform well. Several metrics can be used to assess a bank's financial performance, such as the bank's financial statement performance. Financial reports are one of the information media that can provide an overview of a bank's health. The purpose of this study is to "research and understand PT's financial performance." Based on bank BRI Persero, Tbk, liquidity ratio, solvency ratio and profitability ratio. The study uses descriptive and quantitative methods by measuring liquidity, solvency and profitability ratios. Results based on liquidity ratio using quick ratio, bank. One Belt, One Road has sufficient capital to guarantee both short-term and long-term debt. Based on the indicators of NPM, ROE and ROA, the rate of return has decreased for five years due to the bank management's inability to manage assets to increase sales. Gross margin has increased for five years in a row, and BRI has been able to minimize costs and generate high gross margins, which is healthy. NPM, ROE and ROA have all declined, but profitability metrics remain healthy as they comply with BI's overall credit rating criteria. In order to increase this ratio, banks need to evaluate their business performance and appropriately improve their lending and asset management.

Keywords : *Financial Performance, Liquidity Ratios, Profitability Analysis*

INTRODUCTION

Economic growth in a country is significantly influenced by the economic activities undertaken within it. Each economic activity plays a crucial role in the overall economic wheel. One notable example of Indonesia's development progress is the banking sector. As is well-known, nearly all sectors related to financial activities require banking services. Bank Indonesia. (2021) The financial performance of banks is an important assessment as it reflects the economic outcomes achieved through their banking activities over a specific period, enabling banks to generate profits efficiently and effectively.

The financial performance of a bank can be evaluated through the analysis of its financial statements, which include the balance sheet and income statement, using ratio analysis techniques. Brealey, R. A., & Myers, S. C. (2016) These ratios serve as metrics for analyzing financial reports of both banking and non-banking companies. Financial indicators are essential tools for conducting this analysis. In the increasingly competitive banking industry, where a variety of popular banking products are available, measuring financial performance becomes critical. This measurement can enhance operational activities, thereby facilitating the growth of the bank.

One of the banks currently experiencing growth is Bank Rakyat Indonesia (BRI). BRI is one of the largest state-owned banks in Indonesia, operating traditionally and/or based on

Sharia principles. PT Bank Rakyat Indonesia, Tbk. (2021) Established in 1895, PT Bank Rakyat Indonesia (Persero) Tbk focuses on serving small communities and has consistently provided credit, particularly to small business owners. To position BRI among the top five banks in terms of assets and profits, effective bank management is essential, supported by professional resources. A large asset base and substantial profits are integral to its success.

Financial Performance Analysis of Bank Rakyat Indonesia (BRI)

Liquidity Ratios: BRI has demonstrated sufficient liquidity to meet both short-term and long-term obligations. Van Horne, J. C. (2010) The quick ratio indicates that the bank maintains adequate capital to cover its debts, reflecting a strong liquidity position.

Profitability Ratios: Despite a decline in profitability indicators such as Net Profit Margin (NPM), Return on Equity (ROE), and Return on Assets (ROA) over the past five years, BRI has managed to maintain healthy profitability metrics that comply with Bank Indonesia's credit rating criteria. The bank's gross margin has shown consistent improvement, indicating effective cost management and the ability to generate high gross margins.

Solvency Ratios: BRI's solvency ratios suggest that the bank is well-positioned to meet its long-term financial commitments. This is crucial for sustaining operations and supporting growth initiatives.

Financial Performance

The definition of performance according to the Indonesian Dictionary (Kamus Besar Bahasa Indonesia, 2001) is: performance is interpreted as the result of achievement, demonstration of ability, and expertise in performing work "using certain tools." Financial performance of a company can also be considered a good indicator that shows potential for future growth and development. Higgins, R. C. (2012), performance is defined as the achievement of something, a demonstration of results, and the ability to work using tools. Rahman, A. (2020) The financial performance of a company can also be regarded as an indicator of the company's positive prospects and potential for future development.

Understanding Financial Statements

According to Modigliani, F., & Miller, M. H. (1958), financial statements are essentially the result of the accounting process and can serve as a means to communicate financial data and company activities to stakeholders. In other words, financial statements act as a source of information that connects the company with its stakeholders and reveals the financial condition and performance of the company.

Financial Ratio Analysis

A number of financial evaluation criteria are necessary to assess the financial situation and performance of a company. The parameters commonly used are measures or indices that relate two financial data points. By examining and interpreting various indicators, experts and experienced analysts can obtain a more accurate picture of the financial condition and performance of the company than evaluations that rely solely on individual financial data that are not indicative (James C. Van Horne, Fundamentals of Financial Management).

Liquidity Ratios

Several liquidity ratios commonly used to assess the performance of a bank include the following:

- a. Quick Ratio
- b. Banking Ratio
- c. Assets to Loan Ratio
- d. Loan to Deposit Ratio (LDR)

Solvency Ratios

The types of ratios typically used to assess solvency ratios include:

- a. Primary Ratio %
- b. Risk Assets Ratio
- c. Secondary Risk Ratio
- d. Capital Ratio

Profitability Ratios

Profitability ratios frequently used in research include:

- a. Gross Profit Margin
- b. Net Profit Margin
- c. Return on Equity (ROE)
- d. Return on Total Assets (ROA)

In conclusion, while BRI faces challenges in managing assets to enhance sales and profitability, its overall financial health remains robust. Continuous evaluation of business performance and strategic improvements in lending and asset management are necessary for the bank to enhance its financial ratios and achieve its growth objectives.

METHOD

Type of Research

This study employs a descriptive research design with a quantitative approach. In this context, the data used for analysis consists of balance sheets and income statements. The reported data will be reviewed, calculated, compared, or measured, interpreted, and applied to the research findings. The technique utilized involves relevant ratios to analyze the relationships between liquidity, solvency, and profitability.

Data Sources

Secondary data serves as the source of information for this research. Secondary data refers to research data collected or obtained indirectly by the researcher, such as archival evidence, historical records, or published and unpublished reports (documentary data). In this study, the financial statement data is sourced from the official website of PT Bank Rakyat Indonesia, Tbk, at www.bri.co.id, covering the period from 2017 to 2021.

RESULTS AND DISCUSSION

Financial Statement Analysis of Bank BRI

The following analysis of Bank BRI's financial statements will be presented based on data from the income statements for the years 2017 to 2021. This analysis will include liquidity, solvency, and profitability ratios, with detailed breakdowns provided thereafter.

1. Liquidity Ratios

Quick Ratio: This ratio has shown volatility, starting at 17.14% in 2017, increasing in 2018, but declining in subsequent years, reaching a low of 7.48% in 2020. This indicates the bank's ability to meet its short-term obligations.

Banking Ratio: This ratio has gradually increased from 87.84% in 2017 to approximately 91.58% in 2021, reflecting a rising trend of loans compared to deposits.

Assets to Loan Ratio: This ratio decreased from 65.58% in 2017 to 62.15% in 2021, indicating a downward trend in liquidity due to the increase in loans relative to assets.

Loan to Deposit Ratio (LDR): This ratio has fluctuated, significantly rising to 85.29% in 2021. Although it remains below the maximum limit of 110%, it indicates that the bank is still in a good liquidity position.

2. Solvency Ratios

Primary Ratio: This ratio has been volatile with an average of 15.96%, indicating a robust ability to seek funding sources. However, it drastically fell to 5.01% in 2021.

Risk Assets Ratio: This ratio sharply declined from 48.12% in 2018 to 7.84% in 2021, indicating a reduced capacity for the bank to manage declines in the value of risky assets.

Secondary Risk Ratio: This ratio decreased from 25.4% in 2017 to 8.2% in 2021, reflecting a reduction in resilience against high-risk assets.

Capital Ratio: The capital ratio fell from 11.68% in 2017 to 2.42% in 2021, indicating a declining capacity for capital in facing credit default risks.

3. Profitability Ratios

Gross Profit Margin (GPM): Averaging 28.52% over five years, this ratio indicates profitability from operations. The GPM in 2021 showed a higher increase compared to 2019 and 2020, reaching 34.64%.

Net Profit Margin (NPM): With an exceptionally high average of 435.71%, despite fluctuations, this ratio remains above Bank Indonesia's healthy threshold. However, declines in 2018 and 2019 suggest challenges in controlling costs.

Return on Equity (ROE): Although this has generally decreased, it continues to meet Bank Indonesia's financial health criteria, averaging above 12.5%, indicating the bank's ability to maintain equity returns despite operational pressures.

Overall, Bank BRI has demonstrated good performance in maintaining liquidity and profitability amidst economic challenges, although there have been declines in solvency in recent years. The bank remains categorized as healthy according to several Bank Indonesia standards, despite indications of reduced capital and capacity to manage risky assets.

Discussion on Bank BRI's Liquidity, Solvency, and Profitability

Liquidity

Bank BRI's liquidity has shown fluctuations over the past five years, with an average quick ratio of 15.72%. This indicates that despite volatility, the bank's financial performance remains healthy and exceeds the strength metrics set by Bank Indonesia (BI). The average banking ratio over the same period is 90.2%, suggesting that BRI has consistently achieved a healthy ranking according to BI's criteria.

The asset-to-loan ratio has decreased to an average of 63.95% over the last five years, which is below BI's prudential limit of 80%. This decline indicates a potential risk in liquidity management as the bank increases its lending relative to its total assets. However, the average Loan to Deposit Ratio (LDR) of 74.30% signifies that BRI is in a very healthy

position regarding its ability to cover deposits with loans, aligning well with BI's standards for liquidity management.

Solvency

The average base interest rate over the past five years stands at 15.96%, which is above the BI standard of 3%. This high rate indicates that BRI has maintained a strong interest income relative to its liabilities. The Risk Asset Ratio (RAR) has experienced fluctuations, averaging 28.71% over the last five years, which exceeds BI's health criteria of greater than 8%, categorizing the bank as healthy.

The Secondary Risk Ratio (SRR) has also improved, averaging 29.93% during this period, again surpassing the 8% threshold set by BI. Furthermore, the Capital Ratio (CR) has shown an average of 14.10%, which is above BI's health measure of 10%. These metrics collectively indicate that BRI is well-positioned to meet its long-term obligations and manage its capital effectively.

Profitability

In terms of profitability, Bank BRI's gross margin has shown significant variation. In 2017, the gross margin was 34.58%, calculated by subtracting operational costs from operating income. However, this margin decreased to 27.18% in 2018, and further to 24.30% in 2019, reflecting challenges in managing operational expenses relative to income. The trend continued with a drop to 21.93% in 2020, indicating a consistent decline in profitability margins during these years.

Notably, there was a significant recovery in 2021, where the gross margin increased to 34.64%, driven by a rise in agricultural revenue to Rp156,353,311 against operational costs of Rp102,191,842. This rebound suggests that BRI has effectively managed to enhance its operational efficiency and revenue generation capabilities, particularly in the agricultural sector, which is crucial for Indonesia's economy.

Theoretical Correlation and Previous Research

The analysis of Bank BRI's financial performance aligns with existing theories on liquidity, solvency, and profitability. According to the liquidity theory, a bank's ability to meet short-term obligations is critical for maintaining operational stability (Brealey & Myers, 2016). The fluctuations in BRI's liquidity ratios reflect the bank's strategic decisions in asset management and lending practices.

Solvency ratios are essential indicators of a bank's long-term financial health, as they measure the ability to cover long-term debts with equity (Modigliani & Miller, 1958). BRI's strong solvency ratios indicate a robust capital structure, which is crucial for sustaining growth and managing risks associated with lending.

Profitability ratios, particularly gross margins, are vital for assessing a bank's operational efficiency and market competitiveness (Higgins, 2012). The recovery in BRI's gross margin in 2021 highlights the importance of effective cost management and revenue diversification strategies, particularly in response to economic challenges.

In conclusion, Bank BRI has demonstrated resilience in its liquidity, solvency, and profitability metrics over the past five years. Suyanto, H. (2019) While there have been challenges, particularly in profitability margins, the bank's strategic focus on enhancing operational efficiency and managing risks has positioned it well for future growth. Santoso, H. (2020) Continued monitoring of these financial ratios will be essential for assessing the bank's ongoing performance and stability in the Indonesian banking sector.

CONCLUSION

The liquidity ratios of PT Bank BRI, including the Quick Ratio, Banking Ratio, and Asset to Loan Ratio, indicate that the bank's financial performance from 2017 to 2021 has been fluctuating, aligning with the standards set by Bank Indonesia. Considering that the ideal Loan to Deposit Ratio (LDR) for banks is 85%, Bank BRI has not been able to effectively allocate credit, leading us to assess its declining LDR over five years as still very healthy. The solvency ratios, including the primary ratio, risk-weighted assets ratio, secondary risk ratio, and overall capital ratio from 2015 to 2017, demonstrate consistent solvency. In terms of profitability, the indicators such as Net Profit Margin (NPM), Return on Equity (ROE), and Return on Assets (ROA) show a significant drop in ROE to 10.25% in 2018 due to a substantial increase in the bank's capital. Although NPM saw a drastic increase in 2020, it subsequently declined in 2021, while ROA has decreased over the last two years, indicating challenges in asset management to enhance profitability. However, the Gross Profit Margin (GPM) has increased over the five years, reflecting a healthy operational performance.

REFERENCES

- Bank Indonesia. (2021). Banking Statistics. Retrieved from <https://www.bi.go.id>
- Brealey, R. A., & Myers, S. C. (2016). Principles of Corporate Finance (12th ed.). McGraw-Hill Education.
- Higgins, R. C. (2012). Analysis for Financial Management (10th ed.). McGraw-Hill/Irwin.
- Modigliani, F., & Miller, M. H. (1958). The Cost of Capital, Corporation Finance and the Theory of Investment. *American Economic Review*, 48(3), 261-297.
- Rahman, A. (2020). Financial Performance Analysis of Banking Institutions: A Study of Indonesian Banks. *Journal of Financial Management*, 8(2), 45-60.
- Santoso, H. (2020). The Impact of Liquidity on Profitability in the Banking Sector: Evidence from Indonesia. *International Journal of Economics and Finance*, 12(5), 112-120.
- Suyanto, H. (2019). Analyzing the Financial Ratios of Indonesian Banks: A Case Study of BRI. *Journal of Business and Finance*, 7(3), 102-110.
- PT Bank Rakyat Indonesia, Tbk. (2021). Annual Report 2021.
- Van Horne, J. C. (2010). Fundamentals of Financial Management (13th ed.). Pearson.