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Analysis of Banking Sector Financial Reports Using the Common Size Method (Case Study of a Bank in Bandung)

ABSTRACT

This study is to evaluate the financial performance of a bank in Bandung utilizing the common size technique from 2021 to 2023. The standard size approach is a financial statement analysis methodology employed to evaluate a company's financial structure by comparing each item in the financial statement to total assets (for the balance sheet) and total revenue (for the income statement). This method presents each element of the financial statement as a percentage, enabling comparisons across periods and firms and offering a deeper understanding of proportions and financial patterns. The data utilized in this study were sourced from the company's audited annual reports, ensuring excellent authenticity and dependability.

The analysis results indicate that the bank under examination demonstrates robust and steady financial performance throughout the assessment period. The financial position statement reveals a consistent structure of assets, liabilities, and equity, demonstrating adaptability to macroeconomic dynamics. Furthermore, the income statement shows a year-over-year improvement in the ratio of operating expenses to income, alongside a rise in net profit, indicating proficient cost management and effective revenue strategies. The fluctuations in percentages of various financial items were effectively recognized and thoroughly analyzed to elucidate the trends in bank performance.

The analysis revealed that the bank successfully preserved its financial performance despite external hurdles, including global economic uncertainties and market swings. These findings are expected to help firm management assess internal performance and devise more effective future business strategies. Furthermore, the findings of this study may serve as a reference for investors, financial analysts, and academics in evaluating the financial status of the banking industry with a more objective and informed perspective. The common-size technique provides a comprehensive overview of a bank's financial status and operational performance, serving as a valuable tool for strategic financial decision-making.

Keywords: Common Size Analysis, Financial Performance, Financial Statements

INTRODUCTION

The banking sector is crucial for maintaining stability and fostering economic progress within a nation. Banks operate as financial intermediaries that connect entities with surplus funds to those

who need financial resources. By engaging in public fundraising through deposits and providing credit, banks facilitate economic activity across numerous sectors, including trade, industry, investment, and household consumption. Consequently, robust banking performance serves as a crucial metric for assessing the overall health of the national economy. In this context, examining bank financial statements is essential for assessing the financial situation and operational performance of the banking organization. (Widayanti & Fadjar, 2022; Aloulou, Grati, Al-Qudah & Al-Okaily, 2024; Gunawan, Permatasari & Sharma, 2022)

Financial statements are primary tools for evaluating a company's performance and financial standing, particularly those of banks. Financial statements provide a summary of an organization's operating activities, asset and liability status, and profitability over a specific period. Nonetheless, not all stakeholders possess sufficient accounting expertise to comprehend financial reporting fully. Consequently, a method of analysis is required to streamline the understanding of financial data and furnish more pertinent information for management, investors, regulators, and the general populace. A prevalent technique in financial statement analysis is the standard size method. (Ecer & Pamucar, 2022; Abed, Hussin, Haddad, Almubaydeen & Ali, 202; Isayas, 2022)

The standard size approach, also known as uniform size analysis, is a technique that converts

absolute figures in financial statements into percentages, facilitating comparisons between periods and across different businesses. In the financial position statement, each account is expressed as a percentage of total assets. In contrast, the income statement represents each income and expense item as a percentage of total revenue. This method enables analysts to discern variations in ratios among financial accounts and comprehend performance trends over time. Furthermore, the standard size method facilitates the comparison of financial statements among companies of varying scales, as the percentage presentation mitigates discrepancies in absolute company size. (Moufty, Al-Najjar & Ibrahim, 2024; Banna, Hassan, Ahmad & Alam, 2022; Diwan & Amarayil Sreeraman, 2024)

In recent decades, Indonesia's banking sector has undergone swift advancement due to financial system reform, the integration of digital technologies, and the enhancement of community financial literacy. This industry has considerable problems, including the global crisis, macroeconomic uncertainty, exchange rate volatility, and technological upheaval, necessitating ongoing adjustments and innovations by banks. Consequently, regular monitoring and assessment of a bank's financial performance are necessary, not just for internal management but also for regulators and investors. Common-size analysis enables these parties to gain a deeper understanding of the

bank's financial structure, operational efficiency, and capacity to manage risk and generate profits. (Boateng, Tawiah & Tackie, 2022; Gazi, Nahiduzzaman, Harymawan, Masu & Dhar, 2022; VenkateswaraRao, Vellela, Redd, Vullam & Sk, (2023)

This study aimed to analyze the financial statements of a bank in Bandung from 2021 to 2023 using the standard size approach. Bandung was selected as the study site due to its status as a regional economic hub in Indonesia, characterized by a relatively high and dynamic level of banking activity. The subject of the study is a commercial bank that operates entirely, possesses an extensive network, and prepares its financial statements publicly, having undergone auditing. This study examines the period from 2021 to 2023, a crucial phase for evaluating the resilience and adaptation methods of the banking industry in response to global economic challenges following the COVID-19 pandemic.

The data utilized in this analysis is derived from the bank's audited and officially released annual reports. The financial statements comprise the statement of financial condition and the income statement, which are subsequently analyzed with the standard size method. The analytical procedure involves transforming absolute figures into percentages, identifying variations in proportions among accounts annually, and understanding the financial and operational implications of these changes. The analysis results are contrasted with national

banking industry trends to contextualize and validate the findings. (Erin, Adegboye & Bamigboye, 2022; Siddique, Khan & Khan, 2022; El-Chaarani, Abraham & Skaf, 2022)

This study analyzes important indicators, including the ratio of current and non-current assets to total assets, the composition of short-term and long-term obligations to total liabilities, and the comparison of equity to total assets as a measure of financial leverage. The income statement analysis encompasses interest expense, operating expenses, and profit, both before and after tax, relative to total revenue. This technique aims to achieve a comprehensive understanding of the bank's financial structure, including its strengths and weaknesses, as well as the efficacy of management strategies in cost management and profitability enhancement.

The urgency of this research stems from its contribution to providing a novel perspective on the application of the standard size technique within the realm of local banking. Despite its extensive use in international financial literature, the applicability of this strategy in banking contexts, such as in Bandung, remains very restricted. This research is both academic and practical, as its findings can assist bank management in assessing financial strategies, enable regulators to monitor the health of the regional banking sector and provide investors and the public with a clearer understanding of banks' financial conditions. (Sassi & Damak-Ayadi, 2023;

Issa, Zaid, Hanaysha & Gull, 2022; Jarrah, Al Jarrah, Al-Zaqeba & Al-Jarrah, 2022)

This research is grounded in the theory of financial statement analysis, which posits that presenting financial information in a structured and comparative manner enhances the quality of decision-making. Furthermore, the standard size method aligns with the notion of vertical analysis, which evaluates the efficiency and effectiveness of a company's financial resource management. Consequently, the choice of this method is predicated on its appropriateness for addressing the study topic, specifically examining alterations in the financial structure and trends in the overall financial performance of the bank.

This research is anticipated to provide a substantial contribution to the advancement of financial management science, particularly in the application of banking financial statement analysis. This study's results provide both descriptive data on banks' financial structures over the past three years and analytical insights into the factors influencing these changes. This study serves as both a scientific document and a strategic tool for decision-making in the banking sector, applicable at both management and public policy levels.

METHOD

This study is classified as quantitative research, emphasizing the systematic collection and analysis of numerical data to elucidate financial

phenomena. The quantitative approach is employed as it offers an objective assessment of the company's financial status and performance through measurable facts. The collected data comprises annual financial reports, specifically the financial position report (balance sheet) and profit and loss statement from a bank operating in Bandung City for the period 2021 to 2023. Furthermore, the firm profile is gathered as ancillary information to contextualize the financial facts under examination.

This study used the common size method, often known as uniform size analysis. This technique involves converting each element in the financial report into a percentage of its total—specifically, total assets for the financial position report and total income for the income statement. For instance, cash and cash equivalents are assessed about total assets to evaluate their impact on the financial structure. At the same time, operating expenses are juxtaposed with total income to measure spending efficiency. This methodology facilitates more precise and quantifiable comparisons between eras, hence simplifying the identification of financial patterns and structural changes that transpire annually.

Upon obtaining the percentage results, the researcher assessed the changes that transpired during the three years, including increases, decreases, or stability, to ascertain the trajectory and trend of the company's financial performance. The study was conducted quantitatively, involving a descriptive narrative that elucidates the

estimated data about the bank's financial status. This strategy seeks to enhance comprehension of the bank's financial composition, operational efficiency, and the strengths and weaknesses within its financial structure. The analytical results are anticipated to serve as a benchmark for management, investors, and other stakeholders in evaluating and formulating financial strategies with more precision.

RESULTS and DISCUSSION

The examination of the financial report, using the standard size approach, for a bank in Bandung from 2021 to 2023 provided a distinct overview of the bank's financial composition and dynamics over the preceding three years. The bank demonstrated stability and positive growth in its assets, liabilities, and equity structure despite experiencing pressure on profitability from external difficulties that impacted interest income and operating expenses.

The percentage of credit allocation to third parties has markedly risen year over year. In 2021, the ratio of credit to total assets was 49.91%, rising to 52.93% in 2022 and further increasing to 55.65% in 2023. This increase reflects the company's focus on core banking operations, including lending to the public as a primary source of interest revenue. This rise reflects the bank's optimism about the economic recovery following the COVID-19 pandemic and its ability to allocate funds effectively.

Conversely, there was a reduction in the percentage of assets designated for less productive instruments, such as deposits with Bank Indonesia and other financial institutions. This decline demonstrates an effective technique in asset allocation, as it minimizes exposure to products that typically yield lower returns than credit distribution. The ratio of cash and cash equivalents to total assets declined from 1.92% in 2021 to 1.47% in 2023. This drop does not signify a liquidity deficiency; instead, it reflects an optimization of fund utilization to prevent excessive cash deposits that yield no direct gains.

Third-party funds provide the primary source of liabilities. The structure of third-party funds exhibits an upward trajectory, particularly in demand deposits, which rose from 22.98% in 2021 to 24.46% in 2023. This growth may indicate heightened consumer trust and the efficacy of the bank's management's fundraising approach. Moreover, time deposits exhibit a rising trend, indicating that savings products offering higher interest rates remain appealing to consumers under volatile economic conditions. The robust mix of third-party funds indicates a resilient funding structure and the bank's capacity to uphold consumer confidence.

The retained earnings subsequently exhibited growth, indicating favorable and sustained company outcomes in terms of equity. In 2021, retained earnings accounted for 14.41% of total equity, increasing to 15.60% by 2023. This growth indicates that the majority of profits were

not allocated as dividends but reinvested to bolster the company's capital. The stock held by the parent corporation increased from 16.50% to 17.21%, indicating a rise in the company's overall value. The consistency in asset composition and favorable equity growth reflect management's continuous commitment to preserving financial stability and enhancing shareholder value.

Nonetheless, during the expansion and reorganization of its asset and liability structure, the corporation encounters several obstacles regarding profitability. The common-size income statement indicates a substantial decline in net interest income. Interest income declined from 116.90% in 2021 to 87.68% in 2023. The decline resulted from multiple factors, including a reduction in the benchmark interest rate, heightened competition within the banking sector, and shifts in consumer preferences toward more advantageous financial instruments.

Concurrently, interest expenses diminished from -16.90% to -12.31% within the same timeframe. Despite a reduction in interest expenses, it was insufficient to counterbalance the loss in interest income, resulting in a diminished net interest margin. Furthermore, operating expenses rose, indicating the escalating costs associated with system maintenance, digitalization of services, and the need for skilled personnel. The interplay of these factors resulted in a substantial decrease in profit before tax, plummeting from 69.19% in 2021 to merely 6.10% in 2023. This reduction is a

significant aspect of the company's performance assessment since it indicates substantial pressure on profitability from both external and internal sources.

Nonetheless, the income statement reveals a favorable aspect indicating an enhancement in asset quality. This condition is reflected in the reduction in the allowance for impairment losses (CKPN), indicating a diminished risk of non-performing loans. Despite the reduction in income, the bank has successfully maintained the quality of its credit portfolio, as evidenced by the decreased provisioning requirements. Moreover, income from non-operational activities, including securities trading and dividends, showed consistency, so bolstering total income despite the decrease in net interest.

Other comprehensive income, indicating fluctuations in the fair value of financial assets and derivative instruments, exhibited a negative trend throughout the analyzed period. Total comprehensive income declined from 56.78% in 2021 to 48.80% in 2023. The decline was affected by the volatility of the global financial market, which impacted the valuation of the company's financial assets. Despite the decline in comprehensive income, the presence of additional income components demonstrates the company's resiliency in producing positive cash flow from diverse sources.

The research indicates that the bank successfully sustains the integrity of its asset and liabilities structure while enhancing the efficiency

of asset utilization. The fund allocation strategy prioritizes productive assets, such as credit, while minimizing exposure to low-return instruments. The augmentation of third-party funding and profit retention further demonstrates that the bank is reinforcing its financial base despite external difficulties.

Nonetheless, the primary difficulty persists in the realm of profitability. The reduction in net interest income and profit before tax suggests the need for a more flexible approach to addressing market challenges. Enhancing profitability in the future requires consideration of product innovation, operational efficiency, and diversification of revenue streams. Furthermore, risk management methods, such as limiting market volatility, are equally crucial for sustaining the stability of the company's overall profit.

These findings provide a comprehensive assessment of the banking sector in Indonesia, particularly in terms of asset allocation efficiency and the challenges of sustaining financial performance amid global economic fluctuations. The outcomes of the standard size analysis yield significant advantages in evaluating the bank's financial structure proportionally and aid in recognizing patterns, which can subsequently serve as a foundation for performance assessment and long-term strategic planning.

CONCLUSION

The analysis of the financial report, utilizing the standard size method, for a bank in Bandung from 2021 to 2023 indicates that the bank demonstrates stability in its financial structure and a favorable growth trajectory in the composition of assets, liabilities, and equity. The rise in the share of credit allocation to third parties indicates the company's emphasis on core banking functions and its endeavors to utilize assets more efficiently. The reduction in cash and cash equivalents during the period demonstrates effective liquidity management while addressing short-term financial requirements. The predominance of third-party funds as the primary funding source persists, evidenced by a favorable trend in the rise of demand and time deposits, which indicates customer confidence in the financial services offered. The rise in retained earnings and equity held by the parent company signifies the fortification of equity that underpins long-term growth and enhances shareholder value.

The primary problem encountered by the bank during the analysis period pertains to profitability. Interest revenue has diminished considerably whilst operating expenses and funding costs have escalated. This result directly affects the reduction in profit before tax and comprehensive income, indicating significant pressure on the bank's capacity to earn a net profit. Despite a reduction in the provision for impairment losses, indicating an improvement in the quality of credit assets, it was insufficient to

offset the decrease in net interest margin. Nevertheless, the bank successfully sustained revenue from other activities, including trading and dividends, which bolstered cash flow stability and overall income.

The standard size method effectively enhances the comprehension of financial proportions and temporal trends. This analysis outlines the bank's strengths and weaknesses in terms of its financial structure and operational performance. These findings are anticipated to serve as a reference for management in developing more adaptive financial plans while also offering valuable information for investors, regulators, and other stakeholders in making decisions grounded on objective financial data.

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