

## Capital and earnings analysis for measuring the bank's performance: study case at bank BNP Paribas Indonesia

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### Abstrak

The continuous supervision and observation to banks' performance and soundness are essential actions to promote a safe, sound and stable banking system. Supervision of bank is the responsibility of the government which is conceded to the Central Bank. Bank Indonesia (BI) as the central bank in Indonesia has the authority to generate bank regulations in order to conduct and monitor all banking practices in Indonesia.

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For the purpose of monitoring, BI regularly assesses the financial condition of each bank in Indonesia and specific risks faced via on-site examinations and periodic reports on a quarterly basis. BI rates banks according to the Uniform Financial Institutions Rating system, which now encompasses six general categories of performance under the label CAMELS. Each letter refers to a specific category, which denotes Capital, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk. The CAMELS method has its function as an early warning system to reflect problems faced by bank. The result of the assessment will produce one of the categories of five bank ratings which cover a bank in excellent condition, in sound condition, in Fairly sound condition, in poor condition and in unsound condition.

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PT. Bank BNP Paribas Indonesia is one of the joint venture banks in Indonesia and commenced its operation in Indonesia since 1989, with a shareholding of 99% by Banque Nationale de Paris (BNP) Paribas International and 1% by local company, PT. BNP Paribas Peregrine. Bank BNP Paribas Indonesia operates as a commercial bank which provides limited services and banking facilities only for medium and large domestic companies and multinational companies. As a part of international bank, Bank BNP Paribas Indonesia holds a big name of BNP Paribas International which is based in Paris, France and operates in more than 85 countries world wide. As a joint venture bank in Indonesia, Bank BNP Paribas Indonesia has the obligation to make the periodical report to its parent company and also to BI, which stands as the bank supervisory authority in Indonesia. Those reports are used to assess the performance and soundness of the bank periodically. Until this time, Bank BNP Paribas Indonesia still exists in Indonesia with no retained earnings recorded. Retained earnings is the bank's cumulative net income retained in the business (also called undivided profits) in order to provide a larger capital base to support the future growth (Rose, 2005, 490).

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Although Bank BNP Paribas Indonesia has not been able to make the positive retained earnings to support its future growth, it sustains its existence and maintains its activity in Indonesia successfully, even through the monetary crisis until now. Analyzing the earnings factor is needed to identify profoundly its financial condition and the causes of its incapability to gain the retained earnings. In spite of that, the analysis of the capital factor is also needed to describe the strength of Bank BNP Paribas Indonesia to maintain its daily operations and ensuring its long-run viability.

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The capital analysis has been conducted on Bank BNP Paribas Indonesia in four periods during the year 2004. The result obtained from the capital analysis is the sound condition of capital. It reflects its Capital Adequacy Ratio by a range from 24.58 to 46.15 percent, which exceeds the minimum Capital Adequacy Ratio at 8 percent. The capability of Bank BNP Paribas Indonesia proved the high composition of core capital in its capital composition to absorb potential loss in the future. To support its business plan, Bank BNP Paribas Indonesia should improve its capital source gradually in the coming year. The increase of capital is conducted in accordance with the increase of risk-weighted assets and the growth of activities in the future while at the same time improving the quality of its assets continually in order to reduce the possibility of losses from the deterioration of productive assets.

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The result obtained from earnings analysis is the fairly sound condition of earnings. It is reflected by its Return on Asset Ratio, Return on Equity Ratio and Net Interest Margin Ratio which has exceeded the ratio regulated by BI even though the Return On Asset Ratio and Return on Equity Ratio have the tendency to decrease. On contrary, the Efficiency Ratio and the operational profit growth of Bank BNP Paribas Indonesia were not good enough. Since Bank BNP Paribas Indonesia has not yet capable to improve the amount of the capital from its earnings because of the big loss compensation from the previous year, thus Bank BNP Paribas Indonesia has to prepare and provide the adequate capital source to anticipate the potential loss in the future. Until this time, the provision of capital is highly depends on the fund from its head office.

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In the coming year, Bank BNP Paribas Indonesia has to determine its business strategy which consists of short-term and middle-term strategy. Those strategies are applied by enhancing its number of loan portfolio and become more aggressive in offering its products and optimize its fee-based income. In spite of doing that, Bank BNP Paribas Indonesia should also observe the quality of its asset continually and conducts the efficiency of running the business.