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Analysis of financial performance and risk profile of bank ocbc nisp in 2004-2008

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ABSTRACT

The purpose of this descriptive study is to find out the financial performance of a bank and its risk profile. The object of this research is OCBC NISP Bank with the observation period of five years from 2004 to 2008. This study is also comparing the size of banks and their ROE. The hypothesis of size and ROE were tested using the Independent Sample T-Test. Based on the research, the results are: the low ROE is caused by the lack of ability to collect funds, while the decrease in profitability is caused by the increase of high cost funds, and the low placement of assets. Credit risk, liquidity risk, interest rate risk, and capital risk of OCBC NISP Bank are quite low. The statistical analysis shows that there is a significant difference between the ROE of small banks and large banks.

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1. INTRODUCTION

The growth of the banking industry has had a significant impact on the Indonesian economy, where this sector has a role of around 80% -90% of the existing financial system. Banks as intermediary institutions were apparently unable to carry out their functions properly, so that the community experienced a crisis of confidence and there was a massive withdrawal of funds (rush). This banking restructuring aims to ensure sound banking operational activities and the availability of banking service facilities which are very important as a vehicle for mobilizing funds, creating legal infrastructure and banking supervision standards, creating and maintaining a healthy banking system, and to resolve bank problems that weak and insolvent and restore public confidence in the banking system.

Bank performance is a description of the achievements of a bank in its operational activities in all aspects, both concerning aspects of finance, marketing, collection, distribution of funds, human resources, and technology. The assessment of a bank's liquidity condition is intended to determine how much a bank is able to fulfill its obligations to depositors. Assessment of the profitability aspect is carried out to determine the ability to create profit (profit) in a bank for its owners. Good bank performance will have an impact on both internal and external parties of the bank. An indicator in the form of an analysis of financial ratios is a simple tool that can provide benefits in determining a bank's business activities more effectively and efficiently.

This is based on the concept of high risk, high return as expressed by Idroes (2008) that the relationship between risk and return is naturally negatively correlated. The higher the expected return, the greater the risk it takes to deal with. One of the banks that had relatively low ROE in 2008 was Bank OCBC NISP, which was around 9%, with the average ROE of other banks around 12%. When compared to banks that have equivalent assets, namely Bank Mega and Bank Bukopin, both have ROE far above Bank OCBC NISP, namely around 18% and 17%, which are quite high in the category of Foreign Exchange Private Banks.

Table 1. List of banks

BANK	ASSETS 2008	ROE 2008
BCA	244,712,927	23%
DANAMON	104,842,261	14%
CIMBNIAGA	69,301,394	7%
PANIN	63,231,511	9%
GEMSTONE	53,992,357	11%
BII	53,893,523	10%
MEGA	34,873,650	18%
OCBC NISP	34,245,838	9%
BUKOPIN	32,797,660	17%
UOB BUANA	21,204,929	8%
Average ROE		12%

The bank size factor is also indicated to cause differences in ROE values. This is based on the issue that there are several banks in the Foreign Exchange Private Bank category that have quite large total assets, accompanied by relatively high ROE ratios in 2008, such as Bank Central Asia and Bank Danamon, which were around 23% and 14%. If total assets are assumed to be the size of a bank, then Bank OCBC NISP, Bank Bukopin and Bank Mega can be categorized as medium-sized banks. This is based on the premise that the total asset value of the three banks is above that of banks with small assets, such as UOB Buana, and below those of banks with large assets, such as Bank Central Asia.

On the other hand, the global economy and market integration over the past 10 years have resulted in higher risk exposures to be borne by banks. Management often ignores risk management in order to create bank profitability. The events of 1997 are an important example for the banking industry to be able to manage risk in all of its business activities through proper and correct application of risk management. Based on the explanation above, this study will also analyze the risk profile of Bank OCBC NISP.

2. RESEARCH METHOD

This research is a descriptive study conducted at the end of 2009 to 2010 by examining the bank's financial performance and risk profile. The object of this study was Bank OCBC NISP, which had a lower ROE than other equivalent banks in 2008. The observation period for this study was pool data for 5 years, namely 2004-2008.

Data Collection Methods. This study uses secondary data types, namely data that already exists and does not need to be collected by the researchers themselves. Some sources of secondary data include statistical bulletins, government publications, published and unpublished information from within or outside the company, data available from previous researchers, case studies and library documents, online data, Web sites, and the Internet." (Now, 2006). Secondary data in this study is the data contained in the publication of bank financial statements in the period 2004-2008.

Sampling technique. The sample in this study is a purposive sampling, namely a sampling method based on certain criteria (Sekaran, 2006). The criteria for selecting a bank are as follows: 1). The bank that is used as a comparison of the performance of Bank OCBC NISP is a Foreign Exchange Private Bank which has an average total asset equivalent to Bank OCBC NISP. 2). The bank used to analyze bank size is a bank that is included in the category of Foreign Exchange Private Banks. 3). The bank in question has published financial reports per December 31 for the period 2004-2008.

Data Collection Techniques. The data collection techniques used in this study are in the form of literature study techniques regarding theory and information related to research, as well as study techniques for documentation of bank financial statements, namely balance sheets, profit and loss, and other published reports that are available on the Bank Indonesia website. (www.bi.go.id) and other related sources.

Data Analysis Methods. Data Processing Techniques. This study uses analytical tools in the form of financial ratios to assess bank performance and risk profile, as well as statistical analysis to analyze bank size. Bank financial report data in the form of balance sheet and profit and loss are analyzed using financial ratios with the ROE model as a measuring tool. In statistical tests, a simple statistical model is first used to obtain the mean and standard deviation of the population. This is done to find out whether there are outlier data in the population to be tested or not. This stage is carried out repeatedly until the outlier data is deemed not to exist. After that, the banks are divided into 4 parts based on their size value using the quartile formula, namely:

$$K1 = \frac{1(N+1)}{4} \text{ ; Quartile I} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

$$K2 = \frac{2(N+1)}{4} \text{ ; Quartile II} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

$$K3 = \frac{3(N+1)}{4} \text{ ; Quartile III} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3)$$

The banks in the first quartile are the banks with the highest size, while the banks in the fourth quartile are the banks with the lowest size. The second and third quartiles will not be used in the analysis, because the banks included in this quartile have sizes that are around the average. Next, testing of the hypotheses that have been determined is carried out.

Hypothesis Testing Techniques, testing of hypotheses that have been previously determined, is carried out using independent sample T-test statistical analysis. Independent sample T-test is used in this study to compare the sizes of several bank categories that are not related to each other. There are two stages in the independent sample t-test.

3. RESULTS AND DISCUSSIONS

Object of research

The object of this research is Bank OCBC NISP which is included in the category of Foreign Exchange Private Banks. This bank has a lower ROE than other equivalent banks, namely Bank Mega and Bank Bukopin in 2008. PT. Bank NISP Tbk, which is now PT. Bank OCBC NISP Tbk., is the fourth oldest bank in Indonesia, founded in Bandung on 4 April 1941 under the name NV. Nederlandsch Indische Spaar En Bank Deposits. Bank OCBC NISP obtained its status as a commercial bank in 1964, then became a foreign exchange bank in 1990 and listed its shares on the Indonesia Stock Exchange in 1994.

Research Descriptive Analysis

ROE decomposition

Based on table .2 below, it can be seen that Bank OCBC NISP's ROA and EM values have continued to decline over the past five years:

Table.2: ROE Decomposition

	ROE	ROA	EM
OCBC NISP 2004	20.84%	1.63%	12.81
2005	10.00%	1.02%	9,81
2006	9.66%	0.98%	9.86
2007	7.42%	0.86%	8.60
2008	8.73%	0.93%	9,43
MEGA2004	26.54%	1.67%	15.84
2005	14.05%	0.71%	19.67
2006	7.84%	0.49%	16.01
2007	17.72%	1.49%	11.88
2008	17.48%	1.44%	12.15
BUKOPIN 2004	20.20%	1.14%	17,68
2005	21.51%	1.04%	20.68
2006	18.90%	1.00%	18,92
2007	19.09%	1.09%	17.53
2008	17.05%	1.13%	15.09

Table.2, that the owned NISP for below Bank indicates NISP's funds lowest other Return

In it can be seen total funds by Bank OCBC five years are still Bank Mega and Bukopin. This that Bank OCBC ability to raise (EM) is the compared to the two banks. on Assets (ROA)

Meanwhile, the tendency for a low level of profitability (ROA) at Bank OCBC NISP could be due to differences in the composition of sources of funds from the other two banks. This difference can lead to high interest expenses, so that the level of bank profitability is low.

Table.3: Composition of Funds Raised

(in millions)	giro	Savings	Deposit	NDPK
OCBC NISP 2004	11.64%	20.46%	58.64%	9.25%
2005	13.24%	19.84%	62.88%	4.04%
2006	13.82%	19.64%	60.98%	5.55%
2007	18.26%	23.87%	50.20%	7.67%
2008	11.52%	28.10%	56.00%	4.39%
MEGA 2004	15.44%	11.61%	68.16%	4.78%
2005	9.14%	7.53%	77.26%	6.07%
2006	11.87%	11.69%	67.81%	8.63%
2007	22.05%	20.24%	54.50%	3.21%
2008	18.18%	17.43%	62.97%	1.41%
BUKOPIN 2004	30.82%	10.46%	49.72%	9.00%
2005	34.45%	7.73%	48.14%	9.68%
2006	30.46%	7.35%	53.56%	8.63%
2007	27.98%	9.40%	55.24%	7.37%
2008	19.53%	13.95%	59.59%	6.93%

Based on Table 3 above, it can be seen that for five years Bank OCBC NISP had a larger portion of NDPK funds than the other two banks, namely 9.25%, 4.04%, 5.55%, 7.67% and 4. 39% of the total funds raised. This NDPK consists of funds originating from deposits from other banks, loans received, and securities issued.

ROA decomposition

The tendency of the ROA ratio to decrease in the David Cole Model can be caused by the low ratio of NPM or AU. The low NPM is caused by high interest expenses, high operating expenses, or low interest income. The low AU ratio was due to the inappropriate allocation of assets, which resulted in a decrease in interest income.Based on Table 4, it can be seen that the cause of the low

ROA value at Bank OCBC NISP is due to the lower NPM value compared to the other two banks, and it tends to continue to decrease from year to year, namely 17.47%, 9.71%, 8, 6%, 8.45%, and 9.73%.

Table.4: ROA Decomposition

		ROA	NPM	AU
OCBC NISP	2004	1.63%	17.47%	9.32%
	2005	1.02%	9.71%	10.50%
	2006	0.98%	8.60%	11.39%
	2007	0.86%	8.45%	10.21%
	2008	0.93%	9.73%	9.51%
MEGA	2004	1.67%	17.85%	9.38%
	2005	0.71%	7.59%	9.41%
	2006	0.49%	4.81%	10.19%
	2007	1.49%	14.51%	10.28%
	2008	1.44%	12.60%	11.42%
BUKOPIN	2004	1.14%	11.26%	10.15%
	2005	1.04%	11.75%	8.85%
	2006	1.00%	9.73%	10.26%
	2007	1.09%	10.79%	10.10%
	2008	1.13%	10.02%	11.28%

Based on Table 4.4, it can be seen that the cause of the low ROA value at Bank OCBC NISP is due to the lower NPM value compared to the other two banks, and it tends to continue to decrease from year to year, namely 17.47%, 9.71%, 8.6 %, 8.45%, and 9.73%.

Net Interest Margin (NIM)

The cause of the low NIM can be shown by the ratio of interest income (PB/KYD) and interest expense (BB/DPK) for five years. This is based on previous research (Muchlis, 2009) where the two ratios are used to determine the causes of low NIM. Table 4.5 shows that Bank OCBC NISP's PB/KYD ratios have low values, namely 14.8%, 15.21%, 16.25%, 13.72% and 13.39%. In fact, for five consecutive years, this ratio is the lowest.

Table.5: PB/KYD Ratio

(in millions)	PB/KYD

	OCBC NISP	MEGA	BUKOPIN
2004	14.80%	22.45%	11.88%
2005	15.21%	20.37%	15.69%
2006	16.25%	27.62%	20.54%
2007	13.72%	23.82%	16.44%
2008	13.39%	19.47%	14.25%

The same thing can be seen in Table.6, where the BB/DPK ratio of Bank OCBC NISP has a fairly high value. In 2004, 2005 and 2007 the BB/DPK ratios of Bank OCBC NISP were the highest compared to the other two banks, namely 6.51%, 7.63% and 6.74%. Based on the data, it can be said that Bank OCBC NISP's low NIM was due to the low level of interest income and high interest expenses.

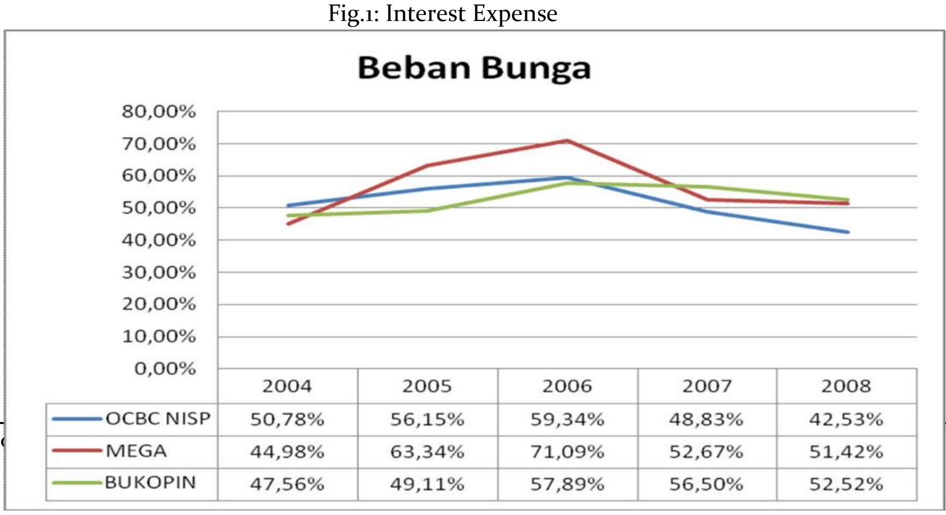
Table.6: BB/DPK Ratio

(in millions)	BB/DPK		
	OCBC NIS	**MEGA**	**BUKOPIN**
2004	6.51%	5.07%	5.75%
2005	7.63%	6.81%	5.22%
2006	8.60%	8.71%	7.41%
2007	6.74%	6.29%	6.59%
2008	6.37%	6.97%	6.86%

Operating Expenses/Operating Income (BOPO).

Apart from NIM, one of the reasons for the low NPM is the high BOPO. Based on previous research (Muchlis, 2009) four components of operating expenses were used which had the largest composition as an analytical tool for the causes of high BOPO, namely Interest Expenses, Administrative Expenses, PPAP Expenses, and Personnel Expenses. The following is a graph of the four loads.

Fig.1: Interest Expense

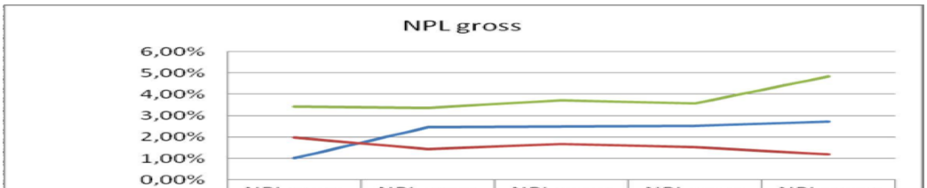


The first graph shows that Bank OCBC NISP had quite high interest expenses in 2004, 2005 and 2006, namely 50.78%, 56.15% and 59.34%. This is due to the high composition of expensive funds in the NDPK and bank deposits. In 2007 and 2008, the chart shows that Bank OCBC NISP experienced a decrease in interest expenses to 48.83% and 42.53%.

Risk Profile

Credit Risk

In the graph below, it can be seen that over a period of five years, the three banks have complied with Bank Indonesia's requirements to maintain the gross NPL ratio below 5%. Bank OCBC NISP has a tendency for gross NPL to increase from year to year, but the value is still quite low, namely 1.01% in 2004, then to 2.46% in 2005, and continues to increase slowly until it reaches number 2 .72% in 2008.



	NPL gross 2004	NPL gross 2005	NPL gross 2006	NPL gross 2007	NPL gross 2008
OCBC NISP	1,01%	2,46%	2,49%	2,53%	2,72%
MEGA	1,98%	1,43%	1,68%	1,53%	1,18%
BUKOPIN	3,43%	3,37%	3,71%	3,57%	4,85%

Among the three banks, Bank OCBC NISP occupies the second position, which is below Bank Mega which has a lower gross NPL ratio, and above Bank Bukopin which has a higher gross NPL ratio, namely 3.43% in 2004, then to 3.37 % in 2005, and continued to fluctuate until it reached 4.85% in 2008. This value almost reached the maximum regulatory limit of 5%, which means that Bank Bukopin has a larger number of non-performing loans compared to Bank OCBC NISP and Bank Mega.

Liquidity Risk

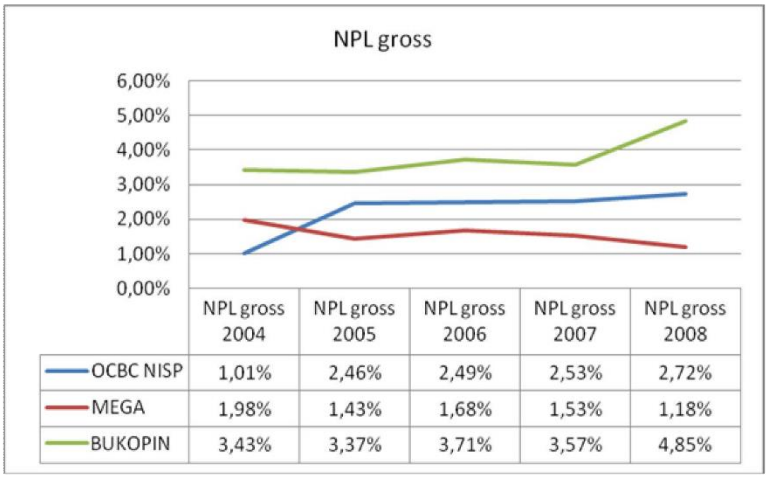
In the graph below, it can be seen that the three banks have LDR levels that do not exceed the 110% limit over a five-year period, so that it can be said that Bank OCBC NISP, Bank Mega, and Bank Bukopin have a fairly good level of bank liquidity. When compared to the other two banks, Bank OCBC NISP always seems to have a higher LDR level.

Statistic analysis

The following are the results of the Levene Test at Foreign Exchange Private Banks, which have met the criteria. that the probability value (significance) with equal variance assumed (assumed that the two variants are the same) is 0.001 less than 0.05, then Ho is rejected, so it can be concluded that the two variants are different. With this the test uses equal variance not assumed (it is assumed that the two variants are different).

Managerial Implications

In the analysis of financial performance, it can be seen that Bank OCBC NISP's low ROE is due to the low ability to raise funds. Therefore, Bank OCBC NISP should make improvements in bank marketing. The low level of profitability at this bank is due to the inefficient management of associated costs and low interest income. The related costs in question are interest costs, administrative costs, PPAP costs, and personnel costs. In the risk profile analysis, it appears that Bank OCBC NISP has a fairly low level of risk. Some of the risks referred to are credit risk, liquidity



risk, interest rate risk, and capital risk. The four risks have complied with existing regulations and all four are at a good level.

4. CONCLUSION

This research is focused on analyzing the financial performance and risk profile of Bank OCBC NISP compared to the other two banks through ROE decomposition and bank risk analysis. The author also analyzes the comparison of bank size and ROE of the Private Foreign Exchange Bank category as a support for the research results. Based on the results of the analysis in Chapter IV, there are several conclusions obtained by researchers to answer problems in research. The following are some conclusions obtained based on the results of the author's research: 1). Bank OCBC NISP's low ROE was due to its weak ability to raise funds. This can be seen in Bank OCBC NISP's low EM score. 2). The composition of Bank OCBC NISP's funds causes high related costs resulting in low profitability. The high proportion of expensive funds in the form of NDPK and time deposits in the composition of Bank OCBC NISP's funds caused interest expenses to increase, resulting in decreased profitability. 3). Placement of earning assets of Bank OCBC NISP can lead to low profitability. The low placement of funds in earning assets resulted in low interest income, resulting in decreased profitability. 4). Bank size can cause differences in ROE values at each bank. The results of the statistical analysis show that there is a significant difference between the ROE of small BSD and large BSD, which means that the ROE of large banks is higher than the ROE of small banks. 5). Overall, Bank OCBC NISP's risk profile can be said to be quite good. This is based on the low credit risk, liquidity risk, interest rate risk, and capital risk (leverage). Nonetheless, when compared to the other two banks, Bank OCBC NISP's level of credit risk and liquidity risk are still in second place.

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