BANKING MODUL

Bank Financial Statement and Performance

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2. BANK FINANCIAL STATEMENT AND PERFORMANCE

1.1 Understanding Banking Chart of Accounts
1.2 Ratios in banking Industry
1.3 Bank Healthiness
Lesson 1.1
UNDERSTANDING BANK CHART OF ACCOUNT

GOALS

Identify type of banks financial statements.
Explain the components of banks financial statements.
BANK FINANCIAL STATEMENTS

- Report of Condition – Balance Sheet (On & Off)
- Report of Income – Income Statement
- Sources and Uses of Funds Statement
- Statement of Stockholders’ Equity
REPORT OF CONDITIONS

- The Balance Sheet of a Bank Showing its Assets, Liabilities and Net Worth

\[ C + DFB + L + I + FA + IA + OA = DA + B + OL + CA \]

- **C** = Cash
- **DFB** = Due From Banks
- **L** = Loans
- **I** = Investments
- **FA** = Fixed Assets
- **OA** = Other Assets
- **DA** = Deposit Accounts
- **B** = Borrowings
- **OL** = Other Liabilities
- **CA** = Capital Accounts
For presentation purposes, assets and liabilities in a bank’s balance sheet should not be grouped as current and non-current (unclassified). However, as far as possible, they should reflect the level of liquidity and maturity.

Each Productive Asset should be presented in the balance sheet at the gross amounts of the loans, receivables or bank placements less allowance for possible losses from each productive asset. This allowance should be presented as a contra account (offsetting account) for each category of the respective productive assets.
CASH

- Cash represents currency bills and coins, both in Rupiah and foreign currencies, which are valid as legal instruments of payment.

- Includes:
  - Vault Cash
  - ATM
  - Cash Items in Process of Collection
DUE FROM BANKS

Current Accounts with Bank Indonesia
- Current Accounts with Bank Indonesia consist of the balance of the current accounts of the bank in both Rupiah and foreign currencies with Bank Indonesia.

Current Accounts with Other Banks
- Current Accounts with other banks consist of the balance of the current accounts of the bank in both Rupiah and foreign currencies with other banks.

Placement with Other Banks
- Placement with other banks consist of the placement of bank funds with other banks, both in Indonesia and overseas, in the form of inter-bank call money, savings, time deposits and other similar placements intended, with the intention of earning income.
LOAN ACCOUNTS

- Gross Loans – Sum of All Loans
- Allowance for Possible Loan Losses
  - Contra Asset Account
  - For Potential Future Loan Losses
- Net Loans
- Nonperforming Loans
OTHER ASSETS

- Other assets consist of accounts for the purpose of recording assets which cannot be categorized into any of the accounts referred to above and are not material enough to be presented in a separate account.

- Examples of other assets are
  - gold bullion,
  - commemorative coins,
  - notes to be collected,
  - deferred costs,
  - prepaid taxes and
  - collateral repossessed by the bank.
**DEPOSIT ACCOUNTS**

**Current accounts**
- Current Accounts are deposits of other parties with a bank which may be used as instruments of payment, and which may be withdrawn at any time by check, ATM card or other orders of payment or transfers.

**Savings Deposits**
- Savings are deposits of other parties with the bank which may only be withdrawn in accordance with certain agreed conditions, but may not be withdrawn by check or other equivalent instrument.

**Time Deposits**
- Time Deposits are deposits of other parties with the bank which may only be withdrawn after a certain time in accordance with the agreement between the depositor and the bank.

**Certificates of Deposit**
- Certificates of Deposits are time deposits which are negotiable.
BORROWINGS

- Borrowings are credit facilities received from other banks or parties, including Bank Indonesia, both in Rupiah or foreign currencies, and are payable upon maturity. Subordinated loans are not included within the definition of borrowings.

- Types of borrowings:
  - Bank Indonesia liquidity credits (kredit likuiditas)
  - Borrowings from the money markets; and
  - Others.
OTHER LIABILITIES

- Other liabilities consist of accounts for the purpose of recording bank liabilities which cannot be categorized into any of the accounts referred to above and are not material enough to be presented in a separate account, such as:
  - Interest payables
  - Tax payables
  - Reserve for expense
  - Guarantee deposits.
CAPITAL ACCOUNTS

- Subordinated Notes and Debentures
- Preferred Stock
- Common Stock
  - Common Stock Outstanding
  - Capital Surplus
  - Retained Earnings (Undivided Profits)
  - Treasury Stock
  - Contingency Reserve
A commitment is an undertaking or a contract in the form of an irrevocable promise by one party which must be carried out if the mutually agreed conditions are met. The usual types of financial commitments include the following:

- Loan Commitments
- Standby Letter of Credit
- Spot
- Forwards
- Swaps
- Futures
Contingencies are bank receivables or payables which may arise depending on whether or not one or more future event occurs. The usual types of contingent receivables or payables include the following:

- Bank guarantees
- Options
BALANCE SHEETS

ASSETS
1. Assets
   1.1. Cash
   1.2. Current Accounts with Bank Indonesia
   1.3. Current Accounts with other banks
   1.4. Placements at other banks
       -/- Allowance for possible losses
   1.5. Securities
       -/- Allowance for possible losses and
decline in value of securities
   1.6. Loans
       -/- Allowance for possible losses
   1.7. Investments
   1.8. Fixed Assets - Net
   1.9. Other Assets

LIABILITIES & CAPITAL
2. Liabilities
   2.1. Current Accounts
   2.2. Savings
   2.3. Time Deposits
   2.4. Certificates of Deposits
   2.5. Borrowings
   2.6. Other payables
   2.7. Subordinated loans
3. Equity Capital
   3.1. Paid-up capital
   3.2. Additional paid-up capital
   3.3. Increment from revaluation of fixed assets
   3.4. Retained earning
OFF BALANCE SHEET STATEMENTS

COMMITMENTS
1. COMMITMENT RECEIVABLES
   1. 1. Unused loan facilities received
   1. 2. Forward foreign exchange purchased
   1. 3. Unsettled spot foreign exchange purchased
2. COMMITMENT PAYABLES
   2. 1. Unused loan facilities given to customers
   2. 2. Obligation to repurchase bank assets sold with a Repo condition
   2. 3. Outstanding irrevocable L/C in connection with imports and exports
   2. 4. Acceptance of import notes based on issuance of L/C
   2. 5. Forward foreign exchange sold
   2. 6. Unsettled spot foreign exchange sales

CONTINGENCIES
1. CONTINGENT RECEIVABLES
   1. 1. Guarantees from other banks
   1. 2. Foreign exchange option purchased
   1. 3. Past due interest
2. CONTINGENT PAYABLES
   2. 1. Guarantees given
   2. 2. Outstanding revocable L/C in connection with imports and exports
   2. 3. Sales of foreign exchange options
REPORT OF INCOME

• The Statement of Revenues, Expenses and Profits for a Bank
  • Net Interest Income
  • +/- Provision for Loan Loss
  • Net Income After Provision for Loan Loss
  • +/- Net Non-Interest Income
  • Net Income Before Taxes
  • +/- Taxes
  • Net Income
  • +/- Dividends
  • Undivided Profits
A bank’s income statement must be presented in such a manner so as to reflect the operating results of the bank for a certain period.

A bank’s income statement must be presented in a multiple-step form depicting revenue or expenses arising from the bank’s major activities or its other activities.

The method for presenting a bank’s income statement is as follows:

(a) revenue and expense items must be presented in detail; and
(b) revenue and expense items must be differentiated into revenue and expenses arising from operating activities and non-operating activities.
NET INTEREST INCOME

Net Interest Income = Int. Income – Int. Expenses

**INTEREST INCOME**
- Interest received
- Fees on Loans
- Taxable Securities Revenue
- Other Interest Income

**INTEREST EXPENSE**
- Deposit Interest Costs
- Interest on Short-Term Debt
- Interest on Long-Term Debt
Net Non-Interest Income = Noninterest Income – Noninterest Expenses

**NON-INTEREST INCOME**
- Service Charges on Customers Deposits
- Trust Department Income
- Other Operating Income

**NON-INTEREST EXPENSE**
- Wages and Salaries
- Other Personnel Expenses
- Net Occupancy Expenses
- Other Operating Expenses
SOURCES AND USES OF FUNDS

**SOURCES**
- Net Income
- Noncash Expenses
- Decrease in Assets
- Increase in Liabilities
- Increase in Capital Accounts

**USES**
- Net Loss
- Dividends
- Increase in Assets
- Decrease in Liabilities
- Decrease in Capital Accounts
STATEMENT OF STOCKHOLDERS’ EQUITY

- Report Showing the Changes in the Make Up of the Bank’s Capital Account
  - Beginning Capital Account Balance
  - +/- Net Income (Loss) for Period
  - +/- Preferred Stock Dividends
  - +/- Common Stock Dividends
  - +/- New Shares of Stock Issued
  - +/- Purchases of Treasury Stock
  - Ending Capital Account Balance
Lesson 1.2
FINANCIAL RATIOS IN BANKING INDUSTRY

GOALS

List of financial ratios used in banking industry

Explain that information from bank’s financial statements can be used as tools to reveal how well their banks are performing.
CAPITAL ADEQUACY RATIO

- Capital Adequacy Ratio = Capital / Risk Weighted Assets
- Fixed Assets / Capital
ASSET QUALITY

- Total Non Performing Assets / Total Productive Assets
- Total Non Performing Loans / Total Loans
- Bad Debt Expense / Total Productive Assets
- Total Required Allowance for Possible Losses / Total Available Allowance for Possible Losses
PROFITABILITY RATIO

- Return On Assets (ROA) = NIAT / TA
- Return On Equity (ROE) = NIAT / TE
- Net Interest margin (NIM) = Net Interest Income / TA
- Operational expense vs Operational Revenue (BOPO)
- Net Bank Operating Margin = (Total Operating Revenues – Total Operating Expense) / TA
- Earning Per Share (EPS) = NIAT / Common Equity Shares Outstanding
LIQUIDITY RATIO

- Loan to Deposit Ratio (LDR);
- Liquid Asset (less than 1 month) / Liquid Liabilities (less than 1 month)
- 1-month maturity mismatch ratio;
Lesson 1.3
BANK HEALTHINESS

GOALS

List of components used to rate bank healthiness

Explain how to rate the bank’s healthiness and what are the rating impact to the bank.
The scope of Bank Rating encompasses rating of the following factors:

- Capital;
- Asset quality;
- Management;
- Earnings;
- Liquidity; and
- Sensitivity to market risk.

CAMELS
CAMELS

1. Rating of **capital** is rating of the adequacy of Bank capital for covering current risk exposures and anticipating future risk exposures.

2. Rating of **asset quality** is the rating of the condition of Bank assets and adequacy of credit risk management.

3. Rating of **management** is the rating of the managerial capacity of the Bank management in conducting its business, adequacy of risk management, and compliance of the Bank with applicable legal provisions and commitments made to Bank Indonesia and/or other parties.

4. Rating of **earnings** is the rating of the condition and capacity of Bank earnings to sustain operations and capital.

5. Rating of **liquidity** is the rating of the capacity of the Bank to maintain adequate levels of liquidity and adequacy of liquidity risk management.

6. Rating of **sensitivity to market risk** is rating of the adequacy of Bank capital for covering consequences arising from changes in market risks and adequacy of market risk management.
**RATING HEALTHINESS**

- **Composite Rating 1**, indicating that the Bank is in **excellent condition** and able to withstand impact from negative changes in economic conditions and the financial industry;

- **Composite Rating 2**, indicating that the Bank is in **sound condition** and is able to withstand impact from negative changes in economic conditions and the financial industry, notwithstanding the Bank still has **minor weaknesses** that can be quickly resolved through routine measures;

- **Composite Rating 3**, indicating that the Bank is in **fairly sound condition** but has weaknesses that may lead to deterioration in composite rating if the Bank does not take immediate corrective actions;

- **Composite Rating 4**, indicating that the Bank is in **poor condition** and sensitive to impact from negative changes in economic conditions and the financial industry, or that the Bank has serious financial weaknesses or a combination of a number of unsatisfactory factors that if not addressed with effective corrective actions could potentially lead to difficulties endangering its survival.

- **Composite Rating 5**, indicating that the Bank is in **unsound condition** and highly sensitive to impact from negative changes in economic conditions and the financial industry, and is experiencing financial difficulties endangering its survival.
If the bank’s rating is 4 or 5 the bank should submit action plan to Bank Indonesia:

- **Inject capital** – if the capital is below the minimum requirements of 8%.
- **Intensive and effective problem loans management** – if the non performing loans are significantly impact the bank.
- **Increase the internal audit function** – if the bank’s management is not operating effectively.
- **Increase operating efficiency** – if the bank is experiencing decrease in profits.
- **Increase access to capital market or other source of funding** – if the bank is experiencing liquidity shortage.