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ANALYSIS OF RISK PROFILE, GOOD CORPORATE GOVERNANCE, EARNINGS, CAPITAL ON POTENTIAL FINANCIAL DISTRESS

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ABSTRACT

Banks are financial organizations that are regularly subject to strict regulations and standards set by the Financial Services Authority (OJK) in order to maintain business continuity and stakeholder and public trust. RGEC (Risk Profile, Good Corporate Governance, Earnings, Capital) analysis is a crucial method for assessing a bank's compliance with OJK criteria and monitoring its financial health and stability. This study uses RGEC and a quantitative descriptive technique based on the officially issued financial statements to examine the financial statements of PT Bank Rakyat Indonesia from 2019 to 2023. With a Composite Rating of 1 (PK-1) in the "Very Healthy" category and no signs of weakness or potential financial difficulties, PT Bank Rakyat Indonesia Tbk has maintained a very stable financial position over the last five years, according to the analysis's findings.

Keyword:
Capital, Earnings, Financial Distress, Good Corporate Governance Risk Profile

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INTRODUCTION

One important indicator to evaluate the stability and resilience of financial institutions is the financial state of banks. As PT Bank Rakyat Indonesia Tbk plays an important role in the national economy, to get a comprehensive picture of the financial institution's performance, bank health analysis is very relevant. This is because 2019-2023 is filled with a plethora of challenges, including the impact of the COVID-19 pandemic and regulatory changes that impact the entire banking sector. According to Financial Services Authority Regulation No. 4/POJK.03/2015, Chapter 1, Chapter 2, and Chapter 2, it is the duty of all banks to uphold and enhance bank soundness by implementing risk management principles in business management (OJK, 2015). After a period of operation, banks should be carefully inspected to ascertain their financial performance because they play a significant role in the nation's economic development.

The most popular approach to assessing bank performance and soundness is CAMEL (Capital, Assets, Management, Earnings, and Liquidity). However, as the banking sector becomes more complex, this approach is considered inadequate to conduct a thorough analysis. Bank Indonesia has issued new rules that use a risk-based assessment method. Chapter 1 Article 2 Paragraph 3 of the Financial Services Authority Regulation Number 4/POJK.03/2016 concerning Health Level Assessment of Commercial Banks mandates each bank to carry out individual and consolidated health level assessments (OJK, 2016).

The four main pillars of this strategy are capital, profit, good corporate governance, and risk profile. The most significant benchmark for banking supervision is RGEC. An evaluation standard for banking supervision that uses financial statements to assess each aspect of the methodology. The bank's financial statements form the basis of the review procedure. Financial statements provide management with the data they need to answer to stakeholders about the performance the bank achieved over a period of time. As a result, the financial performance of the bank can be seen using various financial ratios generated from its financial statements. Furthermore, these financial checks project future profits and serve as an important foundation for strategic choices in the banking industry.

Many other authors have conducted health level analysis research with different subjects, in different times, and various research results. Among them by (Paramartha dan Darmayanti, 2017) This research uses a quantitative approach to descriptive research. Calculated using LDR and NPL ratios, GCG with self-assessment, profit with ROA and NIM, and capital with CAR. The results show that Bank Mandiri obtained the “Very Healthy” category during the period 2013-2015. This demonstrates Bank Mandiri's ability to overcome the negative impact of changing business circumstances.

Furthermore (Nufus et al., 2019) analyzed the financial statements of PT Bank Negara Indonesia (Persero) Tbk in 2013-2017. The RGEC method (Risk Profile, Good Corporate Governance, Earnings, Capital) was used to measure this research. The results of the analysis show that BNI's health status from 2013 to 2017 can be said to be good. Evaluation of risk profile variables through the use of NPL, LDR, and cash ratio shows that risk management has been implemented effectively. Elements of good corporate governance: BNI has good corporate governance and has implemented it. The return factor whose assessment consists of Return On Assets (ROA) has increased, indicating an increase in the amount of assets BNI has followed by an increase in the profit BNI generates.

Research by (Pratikto et al., 2019) aims to evaluate the finances of Bank BNI Syariah from 2014 to 2018. The bank health examination method has undergone various changes ranging from CAMEL, CAMELS, and now the RGEC method, which is the latest method used to analyze financial statements. According to the research results, Bank BNI Syariah received a PK-2 rating from 2014 to 2018. This bank is considered healthy and does not show financial problems and does not have the potential to experience financial distress.

Measurement of financial distress can also be done through financial statement analysis. Financial reports are the result of business activities that are prepared based on certain methods and procedures, and are equipped with explanations to provide useful information for users. Apart from presenting financial information, the report also functions as a tool for future financial projections and to estimate the company's survival, which is very useful for management and owners in assessing potential bankruptcy (Hidayat et al., 2020).

The phrases "healthy" and "unhealthy" banks have been used more and more in recent years. Mergers and liquidations, among other real-life banking events, are invariably linked to the state of banks. Bank Indonesia acknowledges the significance of banking soundness as the cornerstone for establishing trust in the banking industry and putting sound banking practices and principles into effect. Regulations that evaluate the soundness of banks must therefore be passed. According to the Bank Health Regulation, banks must always be in good standing in order to protect the public. As a result, after operating for a while, banks are required to perform a study to assess their current state (Umiyati et al., 2024).

Assessing the condition of a bank is an important step in understanding its financial condition, as well as predicting and anticipating possible problems that may arise. Bank management must be able to detect potential financial difficulties in order to take preventive action to avoid bankruptcy before the situation worsens (Pratikto et al., 2019). Based on the previous description, the authors are interested in conducting research entitled “Analysis of Risk Profile, Good Corporate Governance, Earnings, Capital on Potential Financial Distress (Study on PT Bank Rakyat Indonesia Tbk 2019-2023 Period)”. This study aims to evaluate the health of PT Bank Rakyat Indonesia Tbk using the RGEC approach, and identify the possibility of financial distress during the 2019-2023 period through financial statement analysis.

LITERATUR REVIEW

Bank

Banks are defined by Banking Law No. 10 of 1998 as organizations that receive deposits from the general public and reinvest those monies in the form of loans or other financing to enhance the general welfare. According to Law No. 21 of 2008's Article 1 Point 4, conventional banks comprise both traditional commercial banks and rural banks (Saparinda, 2020).

According to Law Number 10 Year 1998 concerning Banking, banking encompasses all facets of banks, such as their business operations, institutional frameworks, and operational methods and procedures. With the ultimate purpose of enhancing the social and economic well-being of society as a whole, banks serve as financial intermediary organizations tasked with collecting money from the general public and rerouting it into finance (Febrianti, 2023).

Banking can be viewed as a growth agent that has a major impact on the national economy, claim. As "financial intermediaries," banks play a crucial role in assisting in the accomplishment of the national development triad, which includes boosting dynamic and healthy national stability, promoting sustainable economic growth, and expanding the equal distribution of public benefit(Sari & Dwiriotjhajono, 2021).

To accomplish this duty, the banking sector must operate at its highest level and maintain public trust. Following the principles of sound banking as well as the regulations set forth by the relevant financial authorities, especially Bank Indonesia, helps to preserve the stability and health of the banking system in the face of changes in the domestic and global economy.

Financial Statement Analysis

Financial statements according to PSAK No. 1, are an organized display of data regarding the performance and financial status of a company. Financial statements are instruments to evaluate the company's performance in the present and future. Financial reports also play an important role in evaluating the company's progress. To estimate the company's future financial performance, financial statement analysis seeks to convert raw data from accounts into more detailed and relevant information.

Analysts often focus their attention on several important factors when evaluating the progress, financial condition, and prospects of an organization. First, liquidity indicates how well a business is able to pay its short-term debts when they come due. Second is solvency, which indicates a company's capacity to meet all of its short-term and long-term debts. Thirdly, profitability measures how profitable a business is expected to be in a given period of time. The report also raises concerns about other issues, such as long-term business growth and stability.

In the banking industry, financial statement analysis has now become more crucial, especially in the face of risks following the COVID-19 pandemic, which has directly affected the economy and the banking sector. The worsening economic conditions due to the pandemic could have a devastating impact on banks' finances. However, through in-depth and accurate financial statement analysis, these risks can be identified for the financial stability of banks (Febrianti, 2023).

Bank Health

Regulation (Bank Indonesia, 2004) Number 6/10/PBI/2004, which governs the processes for evaluating the health of commercial banks, serves as the foundation for the bank health assessment process. Using a qualitative approach, this evaluation takes into account a number of significant factors, including capital, management, profitability, liquidity, market risk sensitivity, and the quality of productive assets. This evaluation's goal is to ascertain the bank's capacity to oversee day-to-day operations and carry out its obligations in compliance with relevant laws and regulations. The ability of the bank to control risk and preserve operational and financial stability, as evidenced by the bank's soundness, is therefore crucial to the long-term viability of banking operations. According to Bank Indonesia Regulation No. 13/1/2011 concerning Health Level Assessment of Commercial Banks, each bank must also conduct a self-assessment to ascertain the bank's health level using the Risk Based Bank Rating (RBR) method, either separately or in combination. By evaluating both qualitative and quantitative factors that impact the bank's performance and financial stability, the health level of the institution is established. In order to promote the adoption of sound management, Bank Indonesia implemented Regulation No. 13/1/PBI/2011, which places an emphasis on evaluating bank soundness using the RGEC technique, which comprises Risk Profile, Good Corporate Governance (GCG), Profitability, and Capital.

Financial Distress

The risk of bankruptcy can be decreased by performing a comprehensive examination of the financial situation. This analysis evaluates financial health, ability to meet short-term obligations, effective capital structure, and optimization of asset usage. This analysis is also very important for predicting future financial problems. Since corporate bankruptcy indicates significant mismanagement, it is crucial to conduct bankruptcy analysis early on to spot signs of financial distress. The sooner these signs are discovered, the greater the opportunity for management to make improvements, and the greater the opportunity for creditors and shareholders to prepare for possible risks. This is a good opportunity for all parties to take action to reduce future adverse impacts and ensure that the business continues to operate properly. (Salman & Wulandari, 2021).

RGEC Method

Based on Bank Indonesia Regulation Number 13/1/PBI/2011 and Bank Indonesia Circular Letter Number 13/24/DPNP, there are several indicators in the health assessment of commercial banks:

1. Risk Profile

Credit risk occurs when debtors are unable to fulfill their bank obligations. Bank Indonesia divides non-productive loans into three categories: bad loans, dubious loans, and substandard loans. Credit risk is gauged by the Non-Performing Loan ratio; the lower the ratio, the less probable it is that the bank would experience losses. Conversely, the bank's risk of loss increases with the NPL ratio.

$$NPL = \frac{Non-Performing\ Loan}{Total\ Credit}$$

The loan-to-deposit ratio, sometimes called LDR, indicates how much a bank can use its disbursed loans as its main source of liquidity to pay its obligations to depositors. Since loans are the bank's main source of funding, a high LDR ratio indicates a more constrained liquidity position, while a low LDR ratio indicates greater liquidity reserves.

$$LDR = \frac{Total\ Credit}{Third\ Party\ Fund}$$

2. Good Corporate Governance (GCG)

A thorough and methodical analysis of the application of GCG principles and other pertinent data is done in order to evaluate effective corporate governance. According to Bank Indonesia Circular Letter No. 15/15/DPNP of 2013, every bank must evaluate how well it is performing in terms of using GCG principles and other pertinent aspects. The evaluation yields a composite GCG score that makes it easier to evaluate how well the bank is adhering to and implementing the relevant GCG standards.

3. Earnings

Analysis of bank profitability that shows how well the bank can generate profits. According to Bank Indonesia Circular Letter Number 6/23/DPNP/2011, a comprehensive assessment of various financial performance metrics, consisting of the following elements:

a. Return on Asset (ROA)

This technique looks at the relationship between net income and total assets owned to assess the bank's ability to create profits. Therefore, a high Return on Assets indicates that the business is not only generating significant profits but is also very efficient in using its assets to achieve the highest possible level of profitability.

$$ROA = \frac{Profit\ Before\ Tax}{Average\ Total\ Assets}$$

b. Return on Equity (ROE)

The method used in evaluating the bank's ability to generate net income is done through a comparison between net income and total capital. Thus, a higher percentage of Return on Equity indicates a more significant level of company profitability.

$$ROE = \frac{Profit\ After\ Tax}{Average\ Total\ Capital}$$

c. Net Interest Margin (NIM)
By comparing the difference between net interest revenue and interest expense to total earning assets, this measure assesses how well banks optimize their assets to maximize income. A greater percentage suggests that the bank is doing better at managing its assets to maximize interest income.

$$NIM = \frac{Net\ Interest\ Income}{Average\ Earning\ Assets}$$

4. Capital
The method of comparison between capital and risk-weighted assets (ATMR) serves as a key indicator in assessing the financial stability of the company. Thus, the higher the CAR ratio, the stronger the company's ability to effectively manage risks and maintain its financial stability.

$$CAR = \frac{Total\ Modal}{Total\ ATMR}$$

Bank Health Level Composite Rating

This assessment aims to collect and analyze comprehensive data related to the bank's health condition at a particular Composite Rating, by applying a systematic approach that includes in-depth analysis of each relevant component, and using predetermined financial ratio calculations. This process not only serves as the basis for decision-making related to the evaluation of the bank's financial performance and operational viability, but also provides significant strategic information to all stakeholders, whether located inside or outside the organization.

Hopefully, this information can contribute to more informed and effective decision-making. Each ratio calculation result is then assigned a weight, which is determined based on the percentage of the calculation results of each analyzed component. The composite rating resulting from the evaluation of all components will be adjusted to the percentage weights listed in the relevant table, thus providing an accurate and in-depth picture of the bank's health. (Budiarto & Ruzikna, 2023).

Table 1. Health Level Composite Rating

Composite Rating	Rating	Level
CR 1	86-100	Very Healthy
CR 2	71-85	Healthy
CR 3	61-70	Quite Healthy
CR 4	41-60	Less Healthy
CR 5	<40	Not Healthy

RESEARCH METHODS

Within the framework of descriptive research, emphasizing the use of quantitative in this study. With data taken from financial statements this research tries to ascertain the extent to which the health of banking companies can be categorized as healthy or unhealthy through a series of transformation processes and statistical analysis. The descriptive approach provides an overview of current conditions and describes in detail the symptoms or indications of challenges faced by the company. This research utilizes a documentation strategy for data collection, with an emphasis on reviewing and assessing relevant company records or archives.

DISCUSSION
Risk Profile

Table 2. Net Performing Loan (NPL) Test Results

Year	NPL	Total Credit	NPL (%)	Level
2019	25,292,571	903,197,389	2.80	Healthy
2020	28,021,597	938,373,880	2.99	Healthy
2021	31,238,375	1,042,867,454	3.00	Healthy
2022	30,447,891	1,139,077,067	2.67	Healthy
2023	37,322,700	1,266,429,247	2.95	Healthy

Table 2 shows that the value of Net Performing Loan (NPL) has changed in the last 5 years. The highest NPL value was recorded in 2021, namely 3.00% and the lowest NPL value was recorded in 2022, namely 2.67%. Overall, financial performance with the NPL ratio in 2019-2023 has an average value of 2.88%, which can be categorized as “Healthy”.

Table 3. Loan to Deposit Ratio (LDR) Test Results

Year	Total Credit	Third Party Funds	LDR (%)	Level
2019	5,616,992	5,998,648	93.64	Quite Healthy
2020	5,481,560	6,665,390	82.24	Healthy
2021	5,768,585	7,479,463	77.13	Healthy
2022	6,423,564	8,153,590	78.78	Healthy
2023	6,965,899	8,216,207	84.78	Healthy

Table 3 shows that the Loan to Deposit Ratio (LDR) value has changed in the last 5 years. The highest value of LDR was recorded in 2019 at 93.64% and the lowest value of LDR was recorded in 2021 at 77.13%. overall, financial performance with the LDR ratio in 2019-2023 has an average value of 83.31% which can be categorized as “Healthy”.

Good Corporate Governance

A Good Corporate Governance assessment, as used in the context of Indonesian commercial banks, is a thorough and extensive evaluation procedure that gauges how well bank management adheres to several GCG principles that Bank Indonesia has formally established. In order to generate an evaluation that offers a more comprehensive view of management performance and integrity, this process considers the distinct features of every bank as well as the intricacy of the financial institution's operations.

The self-assessment approach is used to conduct GCG assessments in compliance with BI Circular Letter No. 15/15/DPNP 2013 criteria. Every bank must carry out an independent evaluation under the direction of the current composite rating rules in the banking industry and with permission from the board of directors. To preserve public confidence and the stability of the financial system as a whole, PT Bank Rakyat Indonesia Tbk successfully applied for and received an assessment in the "Healthy" category for 2019–2023. This indicates that the bank has consistently upheld the principles of responsibility, accountability, and transparency.

Earnings

Table 4. Return on Asset (ROA) Test Result

Year	Net Profit	Total Modal	ROA (%)	Level
2019	43,364,053	1,416,758,840	3.06	Very Healthy
2020	18,660,393	1,610,065,344	1.16	Healthy
2021	30,755,766	1,678,097,734	1.83	Very Healthy
2022	51,408,207	1,865,639,010	2.76	Very Healthy
2023	60,425,048	1,965,007,030	3.08	Very Healthy

Table 4 shows that the Return On Asset (ROA) value has changed in the last 5 years. The highest ROA value occurred in 2023, namely 3.08% and the lowest ROA value was in 2020, namely 1.16%. Overall, financial performance with the ROA ratio in 2019-2023 has an average value of 2.38%, which means that the higher the ROA makes the net profit generated from each rupiah of funds embedded in total assets even higher, which can be categorized as "Very Healthy".

Table 5. Return On Equity (ROE) Test Result

Year	Net Profit	Total Equity	ROE (%)	Level
2019	43,364,053	208,784,336	20.77	Very Healthy
2020	18,660,393	229,466,882	8.13	Quite Healthy
2021	30,755,766	291,786,804	10.54	Quite Healthy
2022	51,408,207	303,395,317	16.94	Very Healthy
2023	60,425,048	316,472,142	19.09	Very Healthy

Table 5 shows that Return On Equity (ROE) has changed in the last 5 years. The highest value was recorded in 2019, namely 20.77% and the lowest value was recorded in 2020 at 8.13%. Overall, financial performance with the ROE ratio in 2019-2023 received an average value of 15.10% so that it was categorized as a "Very Healthy" condition. From the previous data, it can be concluded that PT Bank Rakyat Indonesia Tbk in 2019-2023 in using its own capital has been good at making a profit. The higher the percentage of ROE obtained makes the net profit the company earns more and more, and the opposite is the lower the ROE makes the profit earned by the company less and less.

Table 6. Net Interest Margin (NIM) Test Result

Year	Net Interest Income	Average Earning Assets	NIM (%)	Level
2019	81,707,305	1,416,758,840	5.77	Healthy
2020	93,584,113	1,610,065,344	5.81	Healthy
2021	114,094,429	1,678,097,734	6.80	Healthy
2022	124,597,073	1,865,639,010	6.68	Healthy
2023	135,183,487	1,965,007,030	6.88	Healthy

Table 6 shows that the Net Interest Margin (NIM) value has changed in the last 5 years. The highest NIM value was recorded in 2023, namely 6.88% and the lowest NIM value was recorded in 2020 at 5.77%. Overall financial performance assessed using the NIM ratio in 2019-2023 received an average value of 6.39% so that it can be categorized as "Healthy", meaning that the higher the percentage of the NIM ratio, the better the company's asset management.

Capital

Table 8. Capital Adequancy Ratio (CAR) Test

Year	Total Modal	ATMR	CAR (%)	Level
2019	195,986,650	869,020,388	22.55	Very Healthy
2020	183,337,537	889,596,695	20.61	Very Healthy
2021	241,660,763	955,756,191	25.28	Very Healthy
2022	245,292,175	1,052,719,198	23.30	Very Healthy
2023	250,568,767	993,151,284	25.23	Very Healthy

Table 8 shows that the value of the Capital Adequancy Ratio (CAR) has changed in the last 5 years. The highest CAR value was recorded in 2021, namely 25.28% and the lowest CAR value was recorded in 2020, namely 20.61%. Overall, financial performance with the CAR ratio in 2019-2023 has an average of 23.40% which can be categorized as “Very Healthy”.

Table 9. Health Level Assessment Results

Year	Component	Ratio	%	Ranking					Level	Komposit
				1	2	3	4	5		
2019-2023	Risk Profile	NPL	2.88%		✓				Healthy	CR 1 - Very Healthy
		LDR	83.31%		✓				Healthy	
	GCG	Self Assesment			✓				Healthy	
	Earnings	ROA	2.38%	✓					Very Healthy	
		ROE	15.10%	✓					Very Healthy	
		NIM	6.39%		✓				Healthy	
	Capital	CAR	23.40%	✓					Very Healthy	
Composite Score				15	16	0	0	0	31÷35×100% = 88.57%	

The results of PT Bank Rakyat Indonesia Tbk's health level from 2019–2023 across all ratios are displayed in Table 9. Based on all parameters, PT Bank Rakyat Indonesia Tbk's health level is typically categorized as "Very Healthy." This demonstrates how PT Bank Rakyat Indonesia's Health applies GCG by safeguarding shareholders' interests and promoting adherence to generally applicable regulations both inside and outside the organization.

Analysis of Potential Financial Distress

The Capital Adequacy Ratio (CAR) and Return on Asset (ROA) are two metrics utilized in this study to evaluate the likelihood of financial distress. A bank's ability to produce a profit from its resources is gauged by its return on assets, or ROA. When the ROA value is higher, banks are able to manage their assets more profitably. A decline in ROA, on the other hand, suggests that the bank is less capable of turning assets into profit, raising the possibility of financial difficulties. On the other hand, CAR is used to assess how well a bank's capitalization can compensate for a potential drop in assets. The bank's ability to manage the risk of asset decrease is indicated by a high CAR number.

Based on Table 4, the ROA ratio of PT Bank Rakyat Indonesia Tbk during the 2019-2023 period showed fluctuations, but remained in the “Very Healthy” category. Although there are changes each year, but the average ROA value shows that the bank is able to maintain stable profitability and consistently generate adequate profits over the past five years. This indicates that PT Bank Rakyat Indonesia Tbk does not show the potential to experience financial difficulties, because the profits generated are sufficient to maintain the bank's financial stability. In addition, the average CAR ratio which reached 23.40% during the same period was also categorized as "Very Healthy". This ratio shows that the bank's capital is very adequate to cover the potential for a decline in asset value, so that the risk of financial distress

can be minimized. Thus, it can be concluded that in terms of profitability and capital, PT Bank Rakyat Indonesia Tbk in the 2019-2023 period is in very good condition and shows no signs of financial distress. This ratio shows that the bank's capital is very adequate to cover the potential for a decline in asset value, so that the risk of financial distress can be minimized. Thus, it can be concluded that in terms of profitability and capital, PT Bank Rakyat Indonesia Tbk in the 2019-2023 period is in very good condition and shows no signs of financial distress.

CONCLUSION

Based on the results of research and analysis of the performance of PT Bank Rakyat Indonesia Tbk during the 2019-2023 period, it can be concluded that the financial health of this bank is in very good and stable condition, based on measurements using the RGEC method (Risk Profile, Good Corporate Governance, Earnings, Capital). First, the Risk Profile which includes Non-Performing Loans (NPL) and Loan to Deposit Ratio (LDR), the average NPL recorded was 2.88% and the average LDR was 83.31%. This data shows that PT Bank Rakyat Indonesia Tbk has succeeded in managing credit risk effectively and maintaining the liquidity ratio at a safe level.

Second, by guaranteeing accountability, openness, and effective and efficient management, PT Bank Rakyat Indonesia Tbk consistently carries out GCG. The implementation of good governance over the past five years has significantly contributed to the stability and enhancement of the bank's performance. Third, it can be seen from the profit side through important metrics such as the average Return on Assets (ROA) of 2.38%, Return on Equity (ROE) of 15.10%, Net Interest Margin (NIM) of 6.39%. Last but not least, the bank's average Capital Adequacy Ratio (CAR) of 23.40% shows that it has a lot of capital to handle financial risks and can successfully cover possible drops in asset value. Because of its strong capital, PT Bank Rakyat Indonesia Tbk is well-positioned to manage risks and preserve its financial stability. In terms of risk, governance, profitability, and capital, PT Bank Rakyat Indonesia Tbk is in very good shape for the 2019–2023 period, according to the evaluation conducted using the RGEC approach. Since high equity enables the bank to cover asset declines and maintain steady and sustainable operations, there is no sign of financial difficulty.

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