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FINANCIAL PERFORMANCE OF BANKING SECTOR BEFORE AND AFTER IMPLEMENTATION OF IFRS-BASED PSAK

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ABSTRACT

This research aims to investigate the differences in the financial performance (CAR, NPL, ROA, BOPO, and LDR) of the banking industry before and after the implementation of IFRS-based PSAK in the 2011, 2013, and 2022. This study proposes the hypothesis that there is an increase in the variables between financial statements prepared by IFRS-based PSAK and financial statements prepared by Indonesian accounting standards.

The population of this research is banking companies listed by the Financial Services Authority of Indonesia in 2011, 2013, and 2022. The sampling method used is purposive sampling. The Paired sample t-test is used to test the hypothesis. The findings show increases in CAR, ROA, BOPO, and LDR after implementing IFRS-based PSAK.

Keywords: IFRS, CAR, LDR, NPL, ROA, BOPO, Financial Performance.

INTRODUCTION

Financial statements present a company's financial performance, position, and changes. This information should be understandable, relevant, reliable, and comparable to help users make economic decisions (IAI, 2012). Financial accounting standards guide entities in preparing reports to produce quality user information.

The financial statement includes a statement of financial position, a statement of comprehensive income, a report on changes in cash flows, a report on changes in equity, and notes to financial statements (PSAK, 2012). The report is prepared to meet financial reporting objectives according to accounting standards, called Standar Akuntansi Keuangan (SAK) in Indonesia. These standards ensure the quality and uniformity of financial reports for better user understanding.

The Financial Accounting Standards (SAK) prepared by the Indonesian Institute of Accountants (IAI) ensure uniformity in the presentation of financial statements. In Indonesia, PSAK has adopted the International Accounting Standards (IAS) since 1994 due to its consistent development and uncomplicated application.

IFRS has been promoted as a high-quality standard that leads to more quality and comparable accounting information, reducing information asymmetry. Its implementation in Indonesia is expected to increase the value relevance of companies' accounting information, significantly impacting various aspects of the business world.

Financial statements prepared by IFRS-based PSAK provide data different from those prepared by local accounting standards. This difference can impact the outputs of financial condition prediction models, so it is crucial to study the impact of applying IFRS-based PSAK on these models.

Studies of financial performance have been focused on different perspectives. For example, Akinleye (2016) investigated the relationship between IFRS adoption and financial performance and found differences after adopting IFRS. Hossain et al. (2021), Wanjare & Ongalo (2022), and Abuaddous (2023) investigated the impact of IFRS adoption, and all of them also found differences after adopting IFRS. Meanwhile, Nwaogwugwu (2020) examined the differences between financial performance prepared before and during IFRS and found no difference. The same results were found in studies conducted by Nurisya & Wardoyo (2013) and GS et al. (2022) that investigated differences in financial performance prepared before and after IFRS, and no differences were found. The

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previous studies provide us with useful contributions, but they result in different findings and tend to be inconsistent. This could happen because IFRSs have been implemented in different environments. Unfortunately, it is not easy to find studies on implementing IFRS-based PSAK and its consequences on financial performance, especially in the banking industry. This is why it is necessary to investigate the implementation of IFRS-based PSAK and the financial performance of the banking industry in the Indonesian environment.

This research aims to analyze the impact of implementing IFRS-based PSAK in Indonesia on the ability of financial statements to predict the financial performance of companies in the banking sector using five financial ratios. The study examines the annual financial statements of banking companies listed in the Indonesia Stock Exchanges before and after implementing IFRS-based PSAK in 2011, 2013, and 2022.

THEORETICAL FRAMEWORK AND HYPOTHESIS FORMULATION

Agency Theory

Agency theory explains the contractual relationship between a manager (known as the agent) and stockholders (known as the principal). The agency relationship occurs when one or more principals hire agents to provide a service and delegate decision-making authority to the agent. Therefore, an agent is accountable for the mandate given by the principal (Jensen et al., 1976). Aduda et al. (2013) identify three primary sources of agency problems in commercial banking: ownership and management-related behavior, government deposit insurance programs creating moral hazards, and informational asymmetry between owners and managers.

In a company, the principal and agent relationship is evident between shareholders and managers. Shareholders are the principals, while managers are the agents. This relationship can lead to conflicts of interest due to information asymmetry, where managers have more information than shareholders, leading to negative outcomes for both parties (Ross et al., 2013; Clarkson et al., 2007).

A standard that facilitates adequate information sharing is needed to minimize information asymmetry and ensure management accountability to the owner. Nugrohadi (2014) suggests that IFRS can act as a mediator in reducing information asymmetry due to the higher level of disclosure in accounting reporting. The use of IFRS, which is more focused on shareholders, can help reduce agency conflicts as owners will be more informed about the performance of their management. IFRS-based financial reports can provide valuable information to investors and influence their decisions to invest.

Hypothesis Formulation

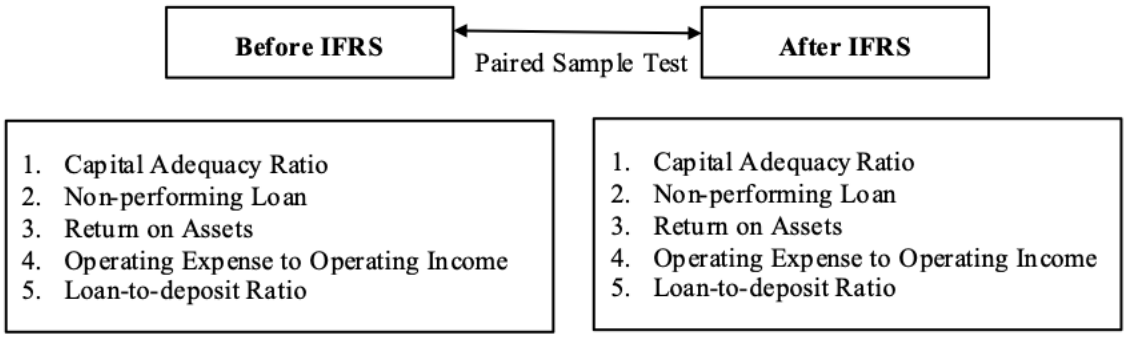
Adopting IFRS will impact every item of financial statements and financial ratios, such as using fair value in IFRS to increase transparency, accountability, and comparability of financial reports (AIA, 2009). Adopting IFRS for accounting needs can enhance income quality and improve operational efficiency. As per agency theory, implementing IFRS helps minimize information asymmetry and enhance disclosure quality by ensuring the accuracy of claims. This theory also forms the foundation for analyzing the influence of disclosure quality on performance. According to agency theory, a company's leadership often influences accounting decisions to influence reported earnings in less-than-ideal markets. Additionally, income-related metrics are commonly used to assess performance. This implies that transitioning to IFRS standards can affect a company's agency performance (Minh et al., 2023).

Research conducted by Nurisya and Wardoyo (2013) found differences in the financial performance of banks that had adopted IFRS, as measured by the Capital Adequacy Ratio (CAR). Financial performance can also be measured by the level of Non-performing Loans (NPL). Nurisya and Wardoyo (2013) and Abuaddous (2023) found differences in the NPL variable after IFRS adoption.

Several studies have also found differences in financial performance measured by the Return on Assets (ROA) ratio. These studies include Nuariyanti and Erawati (2014), Akinleye (2016), Nwaogwugwu (2020), Imran et al. (2021), and Ongalo and Wanjare (2022). Furthermore, Kartika et al. (2022) found differences in financial performance measured by the Operating Expense to Operating Income (BOPO) and Loan-to-Deposit Ratio (LDR).

H1: There is an increase in the CAR, LDR, NPL, ROA, and BOPO between financial statements prepared before and after the implementation of IFRS-based PSAK in 2011, 2013, and 2022.

Theoretical Framework



RESEARCH METHOD

Population and Sample

This population in this study is banking companies listed by the Financial Services Authority of Indonesia in 2011, 2013, and 2022. The reason for using data starting in 2011 is that it was the year before IFRS-based PSAK was implemented in 2012, and 2013 was the first year after the IFRS-based PSAK implementation process occurred. The procedure used to determine the research sample is the purposive sampling method, which is a sampling technique that can provide maximum data according to the research objectives. The following criteria carry out the sampling technique used:

1. State-owned banks, regional government banks, and national private bank companies were listed on the Financial Services Authority of Indonesia in 2011, 2013, and 2022.
2. Banking companies that provide complete financial statements from 2011 to 2022.

Samples will be collected from all banking companies listed on the Financial Services Authority of Indonesia based on predetermined sampling criteria.

Variable of Research

Susanti et al. (2023) identified several banking performance ratios covering aspects like capital, assets, equity, and liquidity. The Capital Adequacy Ratio (CAR) evaluates a bank's capital aspect, which is crucial for profitability. The Non-performing Loan ratio (NPL) is vital for assessing a bank's level of non-performing loans.

The Return on Assets (ROA) and Operating Expense to Operating Income ratio measure a bank's earnings and efficiency. ROA assesses financial performance and the efficiency of using assets to generate revenue, while BOPO determines banking efficiency.

The last banking performance ratio measures bank liquidity, specifically its ability to fulfill short-term obligations. The Loan-to-Deposit Ratio (LDR) is a crucial indicator in bank reports submitted to regulatory authorities.

Analysis Model

The analysis used is the T-test (Paired Sample Test) in SPSS to compare a company's financial performance before and after implementing IFRS-based PSAK. The financial ratios are divided into three sample groups, and data was collected from one year before, one year after, and ten years after the implementation of IFRS-based PSAK.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table 1 presents descriptive statistics for all variables in the research model. After implementing the IFRS-based PSAK, banks that adopted it showed an increase in their average CAR value. Before IFRS implementation, the average CAR value was 3.89%; one year after, it was 4.08%,

and in 2022, it increased to 5.07%. This improvement aligns with Financial Services Authority Regulation Number 11/POJK.03/2016 requirements, which requires a minimum capital of 8-14% of weighted assets based on profit risk.

Before implementing IFRS, the NPL average value was 0.81%, then it increased to 0.82% after implementing IFRS. In 2022, the average NPL value increased to 0.84%. This suggests that banks are able to perform well after implementing IFRS-based PSAK.

The average Return on Assets (ROA) value was 2.46% before IFRS adoption, increased slightly to 2.47% after adoption, and fell to 1.77% in 2022. According to Bank Indonesia Regulation No.13/24/DPNP of 2011, a company with a ROA between 0.5% and 1.5% is considered good. The analysis shows that the average ROA of banks that have adopted IFRS-based PSAK and those that have not is similar, but the ROA of banks that have implemented IFRS is higher. However, after nine years, the ROA value decreased below the pre-IFRS adoption level but still met the requirements.

After implementing IFRS-based PSAK, the bank's average BOPO decreased from 80.43% to 78.50%. In 2022, it slightly increased to 78.83%. The BOPO ratio standard is between 83% and 89%, indicating that the bank was able to maintain efficiency after implementing IFRS-based PSAK.

The Loan-to-Deposit Ratio (LDR) value was 79.19% before the IFRS-based PSAK period. After adopting IFRS, the average value increased to 87.99% but fell again in 2022 to 81.32%. Bank Indonesia Regulation No. 15/7/PBI/2013 sets the LDR value limits at 78% (lower limit) and 100% (maximum limit). According to Nurisya and Wardoyo (2013), a bank's performance is better when the LDR value ranges from 50% to 100%. If the LDR value exceeds 100%, the bank's liquidity capacity decreases, making it more susceptible to financial trouble. Banks implementing IFRS have higher LDR but still perform well after the IFRS-based PSAK period.

Table 1
Descriptive Statistical Analysis

		Min	Max	Mean ± Sd
CAR (Transformed value)	Pre IFRS (2011)	3.09	5.07	3.89 ± 0.42
	Post IFRS (2013)	3.50	5.08	4.08 ± 0.38
	Recent (2022)	3.34	6.61	5.07 ± 0.60
NPL (Transformed value)	Pre IFRS (2011)	0.14	1.83	0.81 ± 0.38
	Post IFRS (2013)	0.00	1.71	0.82 ± 0.40
	Recent (2022)	0.00	1.97	0.84 ± 0.42
ROA	Pre IFRS (2011)	-1.64	7.44	2.46 ± 1.46
	Post IFRS (2013)	-0.93	5.03	2.47 ± 1.14
	Recent (2022)	-1.97	4.00	1.77 ± 1.12
BOPO	Pre IFRS (2011)	54.45	114.63	80.43 ± 11.35
	Post IFRS (2013)	60.58	107.77	78.50 ± 9.70
	Recent (2022)	46.54	122.93	78.83 ± 13.37
LDR	Pre IFRS (2011)	48.01	101.08	79.19 ± 10.46
	Post IFRS (2013)	57.41	110.56	87.99 ± 9.05
	Recent (2022)	41.07	139.94	81.32 ± 17.06

Source: Secondary data processed using IBM SPSS 26, 2024

Normality Test

Table 2 shows the results of the normality test. The test was conducted using the Monte Carlo exact test to carry out the One-Sample Kolmogorov-Smirnov test in SPSS 26 software. The test results indicate that the data is normally distributed with a significance level of more than 0.05. Conversely, if the resulting significance level is less than 0.05, the data is not normally distributed (Ghozali, 2018).

Table 2

One-Sample Kolmogorov-Smirnov Test

Periods	Monte Carlo Sig. (2-tailed)				
	CAR	NPL	ROA	BOPO	LDR
Pre IFRS (2011)	0.817	0.761	0.809	0.685	0.508
Post IFRS (2013)	0.075	0.676	0.644	0.974	0.266
Recent (2022)	0.370	0.383	0.384	0.495	0.169

Source: Secondary data processed using IBM SPSS 26, 2024

Paired Sample Test

The paired samples t-test is a statistical method used to compare the means of two sets of related data. It requires that the variables being compared are at the ratio level, follow a normal distribution, and are measured using the same scale. The basis for making decisions from the Paired-sample t-test is if the probability Sig. (2-tailed) < 0.05, then the null hypothesis (H1) is accepted, meaning there is a significant difference in the tested variables. However, if the probability Sig. (2-tailed) > 0.05, the null hypothesis (H1) is rejected, indicating no significant differences in the tested variables. The table 3 below shows the result of the paired sample test for 2011 and 2013.

Table 3
Paired sample T-test Results in 2011 and 2013

	Ratio	t	Sig. (2-tailed)
1	CAR	-3.624	0.001
2	NPL	-0.216	0.830
3	ROA	-0.138	0.891
4	BOPO	2.382	0.021
5	LDR	-6.212	0.000

Source: Secondary data processed using IBM SPSS 26, 2024

The results from the Paired sample test for Capital Adequacy Ratio (CAR) in the table above indicate that the significance value of CAR one year before and after IFRS-based PSAK is 0.001. This value is lower than the significance level, assuming that 0.001 is greater than 0.05. The same result was found for the Operating Expense to Operating Income (BOPO) and Loan-to-deposit Ratio (LDR) with significance values of 0.021 and 0.000, respectively. This means there are significant differences in the CAR, BOPO, and LDR variables after implementing IFRS-based PSAK.

However, the Paired sample test results for Non-performing Loan (NPL) in the table above show that the significance value of NPL one year before and after adopting IFRS is 0.830, which is greater than the significance level of 0.05. The same result was found for the Return on Assets (ROA) with significance level of 0.891. This indicates that there are no significant difference in the NPL and ROA variables after implementing IFRS-based PSAK.

Table 4
Paired sample T-test Results in 2011 and 2022

	Ratio	t	Sig. (2-tailed)
1	CAR	-10.807	0.000
2	NPL	-0.321	0.749
3	ROA	4.186	0.000
4	BOPO	1.025	0.310
5	LDR	-0.841	0.404

Source: Secondary data processed using IBM SPSS 26, 2024

The table 4 above shows the result of the paired sample test for 2011 and 2022. According to the Paired sample test results presented in the table above, the CAR variable was one year before implementiing IFRS-based PSAK, and the recent year had a significance value of 0.00. This value is lower than the significance level of 0.05. The same result was obtained for the ROA variable, which has a significance value of 0.00. This implies significant differences between the CAR and ROA variables a year before and ten years after implementing IFRS-based PSAK.

Based on the NPL ratio test results shown in the table above, there is no significant difference in the NPL, BOPO, and LDR variables before and ten years following the implementation of IFRS-based PSAK. Specifically, the significance value for NPL one year before and ten years after implementing IFRS is 0.749, greater than the 0.05 significance level. Similarly, the significance values for BOPO and LDR variables are 0.310 and 0.404, respectively.

Table 5
Paired sample T-test Results in 2013 and 2022

	Ratio	t	Sig. (2-tailed)
1	CAR	-10.433	0.000
2	NPL	-0.279	0.781
3	ROA	4.615	0.000
4	BOPO	-0.192	0.849
5	LDR	2.685	0.010

Source: Secondary data processed using IBM SPSS 26, 2024

Table 5 above shows the results of the paired sample test for 2013 and 2022. The table shows the CAR and ROA variables with a significance value of 0.00, which is lower than the significance level of 0.05. The same result was obtained for the LDR variable, which has a significance value of 0.010. This implies significant differences in the CAR, ROA, and LDR variables between the year after implementing IFRS-based PSAK and nine years later.

However, the NPL ratio test results presented in the table above reveal that the significance value is 0.781, exceeding the 0.05 significance level. Similarly, the significance value for the BOPO variable is 0.849. These findings suggest no significant difference in the NPL and BOPO variables from the year of IFRS-based PSAK adoption to nine years later.

Based on the hypothesis testing that has been carried out, the following conclusions can be drawn:

Hypothesis one (H_1) states an increase in the CAR, NPL, ROA, BOPO, and LDR between financial statements prepared before and after implementing IFRS-based PSAK. Based on the Paired sample t-test outcomes presented above, it is evident that IFRS impacts various variables such as CAR, BOPO, and LDR for 2011 and 2013, as well as CAR and ROA for 2011 and 2022. Consequently, it can be concluded that the hypothesis, **H1 is accepted** by CAR, ROA, BOPO, and LDR variables but is **rejected** by the NPL variable.

As per Eisenhardt's (1989), cited in Stefano et al.'s research (2022), management mistakes can cause agency problems when their interests do not align with shareholders, leading to a decline in company performance. Non-performing loans (NPL) are managed by banking companies through credit evaluation of potential borrowers. The performance of bank management impacts the bank's credit quality, revenue, and profits. The NPL value aligns with studies by Nurisya and Wardoyo (2013), GS et al. (2022), and Abuaddous (2023).

According to agency theory, disclosing high-quality information enhances business performance. Implementing the IFRS promotes a uniform accounting standard system, improving the quality of financial information. The adoption of IFRS-based PSAK has resulted in changes in financial performance metrics such as Operating Expense to Operating Income (BOPO) and Return on Assets (ROA) ratios. The switch to the IFRS system leads to changes in asset valuation and affects profits by requiring research and development costs to be expensed annually. This can result in a

decrease in profits (Nuariyanti et al., 2014). The differences aligns with research conducted by Nuariyanti and Ekawati (2014), Akinleye (2016), Hossain et al. (2021), Kartika et al. (2022), and Wanjare and Ongalo (2022).

Larasati et al. (2019) highlight agency theory, where management and agents may act in self-interest. The Loan-to-deposit Ratio (LDR) reflects past decisions and can impact corporate liquidity. Monitoring management's performance is vital to prevent personal gain. Adopting IFRS can improve performance and limit accounting manipulations while ensuring cash flow for short-term commitments (Abebe, 2022). The study findings are consistent with Nurisya and Wardoyo's (2013) and Kartika et al.'s (2022) research, which found differences in LDR values.

According to agency theory, shareholders rely on management to act in their best interests when making decisions. In the bank's capital structure, debt primarily comes from funds raised by the public, creating a need for company managers to balance shareholders' desire for maximum profit and customers' desire for the safety of their funds with minimal risk (Mandiri et al., 2023). The Capital Adequacy Ratio (CAR) indicates a bank's ability to handle risks associated with each loan and maintain enough capital to cover potential losses (Evina et al., 2023). After implementing IFRS-based PSAK, the test results show differences in the CAR value. This result align with research conducted by Nurisya and Wardoyo's (2013) and Kartika et al.'s (2022).

CONCLUSION AND LIMITATION

Conclusion

This study aims to investigate the increases in the CAR, LDR, NPL, ROA, and BOPO of the banking industry before (2011) and after the implementation of IFRS-based PSAK (2013 and 2022). Samples will be collected from banking companies listed on the Financial Services Authority of Indonesia based on predetermined sampling criteria.

Based on the findings highlighted in this study and the explanation given, the hypothesis is accepted by the CAR, ROA, BOPO, and LDR variables but rejected by the NPL variable. This means that increases were found in the CAR, ROA, BOPO, and LDR variables before and after implementing IFRS-based PSAK. The results of this research are expected to assist researchers in taking external factors into account when analyzing the financial performance of banks. This information can also help managers understand the effects of implementing IFRS-based PSAK and identify which aspects may not benefit the company.

Limitation

In this research, several limitations were experienced:

1. Limited use of variables that could have potentially impacted the accuracy and reliability of the results.
2. The subject of this research is focused on banking companies, which limits the findings to other industries.

Suggestion

The following suggestions for future research have been proposed:

1. Including additional variables that have a direct impact on financial performance after the implementation of IFRS-based PSAK.
2. Future researchers can broaden the scope of their samples beyond banking companies or all the companies listed on the Indonesia Stock Exchange and extend the research period.

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