THE COMPARISON ANALYSIS OF FINANCIAL PERFORMANCE BASED ON MERGER IN BANKING SECTOR CASE STUDY FOR PERMATA BANK IN INDONESIA

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June 2003

Dissertation submitted in partial fulfillment for the degree of

Master of Science

in

Financial Management

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Abstract

In Indonesia, business combination in the form of merger in banking industry has ken place since early 70s. Its echo more felt since the existence of monetary crisis as well as ınking crisis, where many bank was liquidated or hit by recapitalization treatment. Merger cecuted for the purpose of better performance. The last bank that conduct merger is Bali Bank ith four other bank join forces, which is Universal Bank, Prima Express Bank, Artamedia ank and Patriot Bank and create the name of new bank that is Permata Bank. This is become ıe of the largest bank in Indonesia, with total asset consolidation of Rp. 28.03 trillions, 328 ·anch offices in 30 cities.

This paper identify a new problem such as, how the finance performance before ɔnducting merger? How condition of bank finance after merger? Does condition of bank nance after merger become better than before merger?

Bank Bali as largest bank that join in merger have loss balance. Asset value, bligation and its equity is positive. Other bank, that is Universal Bank, Artamedia Bank, Prima xpress Bank, and Patriot Bank, have worse finance performance. Not only its bad ratios, but so have loss balance and negative equity. However because the entire bank are in supervision f IBRA (Indonesian Banking Restructuring Agency), we expect that each of the bank had a ıck of finance performance previously. But in the long term, with the merger action, the new ank management can increase their overall performance and regain the market confidence.

ACKNOWLEDGEMENTS

I'd like to thank all of my professors and committee members for all that they have taught me during my course of study over the last two years. A special thanks to my supervisor, Dr. Jon Triggs, for his hands-on approach and patience while guiding me in my research endeavors. Thanks to my fellow students for help and encouragement. Finally, I'd like to thank my parents, sister and brother, and everyone else who has provided support in any way during my time at University of East London.

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CHAPTER I
INTRODUCTION

1.1. Background

The banking industry in Indonesia is facing dramatic change as the Asian currency crisis of 1997 caught most of the banks in Indonesia. The crisis developed from a combination of an external contagion and structural weaknesses of the national economy. It started with an external shock from a regional financial panic hitting the Indonesian currency market that caused the Rupiah, to depreciate tremendously. Facing the shock, the national economy that was embedded with structural weaknesses, in banking as well as in the real sector, was unable to adjust, and was disintegrating. With a high percentage of Non-Performing Loans (NPLs) and huge loans in U.S. dollar denomination, most banks found themselves against the wall. Almost 60 percent of the 240+ banks in Indonesia were closed down and many placed under the Indonesian Banking Restructuring Agency (IBRA), a Government Supervisory body that manages problematic financial institutions.

Two related factors are very crucial in the economic crisis of Indonesia, namely the large amount of corporate debts, short term in particular, and the weakness of the banking sector. The complex problems in these two areas, plus social and political problems associated with them, put Indonesia in the position as the worst among the crisis countries. Bank recapitalization is part and partial of bank restructuring or systemic bank restructuring to use a more accurate term due to the strategic position of banking in the Indonesian economy, bank restructuring, including bank closures, merger or acquisition, is very crucial for the banking sector to move out from the crisis.

To address this problem, the Indonesian government gave an alternative to some banks that have problem with their liquidity of fund to improve their own performance, by join forces or merge with well established and healthy banks. The last action mentioned was taken by five banks that the writer will explain.

Legal merger of five banks (Bank Bali, Bank Universal, Bank Patriot, Bank Prima Express and Bank Arthamedia) effectively began on Monday, September 30, 2002, following the issuance of merger permit from Bank Indonesia and the justification of corporate by rules.

As the completion of that process, the next stage is the completion of operational merger process which is expected to be completed by the end of December 2002.

The new merger bank is named as Bank Permata and is expected to become one of the biggest ten banks in the country. Regarding to the ownership composition of Bank Permata, government own 97.67% and the rest 2.33% owned by public.

There are some challenges for pursuing merger execution in Indonesia for example:

1. Problem of level management top position (board of commissioner and board of directors). Merged Banks become one needs new organization structure to reach the target of after merger bank.
2. Duplication offices of branches and ATM in same location. After merger bank have to can eliminate of those problems to avoid inefficiency.

3. Differences of credit process, process of branches, and ability of service. Difference process and branch operational activity must follow according to after merger bank's business strategy and vision.
4. Cultural difference of job/activity.
5. Difficult of determining price agreed on with. In consequence need precise and careful calculation so that both can give larger ones value.
6. Level of non performed credit in banks is for that needed by precise strategy and plan to overcome of non performed credit and also credit handling have problem.

1.2. Problem Identification

Permata Bank as a merger of Bank Bali and 4 other banks which joined, that are Universal Bank, Prima Express Bank, Artamedia Bank and Patriot Bank. In merger five the bank emerge the name of new bank result of merger that is Bank Permata. The problems are:

1. How is financial condition of banks before and after merger?
2. Do financial condition of bank after merger better than before merger?

1.3. Problem Limitation

Problem of company's finance very complex and can be seen from assorted of aspects. Like known that marginally bank financial statement in fact cover : Balance, Report Commitment, Contingency, Balance Statement, Cash Flow statement, and Note to the Financial Statement. Based on the financial statement, we can see its financial performance results a big of financial change and also with its financial ratio. Considering various existing limitation so that solution do not turn tail and also wide of, in this research is limited only studying to the financial condition of banks before merger and after merger pursuant to consolidation report of bank result after merger.

1.4. Objective of Study

The research concerned Bank Permata as new bank, result of merger have a purpose:

1. To know the condition of bank, especially the financial condition of banks before merger.
2. To know the condition of bank especially the financial condition of banks after merger.
3. To know comparison about the condition of finance before and after merger

1.5. Benefit of Study

Result of research which in the form of this thesis is expected can be useful:

1. To writer, representing translation from theory studied by during following lecturing and is hereinafter synchronized with condition of which in fact happened. Besides this research report represent accomplishment of study.
2. To other party, expected with this research will become input and can be made one of the reference to which wish to perform a research of banking area concerning merger is specially seen from the aspect of its finance.

1.6. Hypothesis

Hypothesis represent answer whereas to existing problems under of existing theory. As hypothesis in research raise as follows:

1. See condition of each bank to conduct merger reside in under observation of IBRA (Indonesian Restructuring Banking Agency), hence can be ascertained by the condition of its finance rather is feeling concerned about. The main bank as sure have larger ones asset compared to asset had by other banks which join forces.
2. Condition of bank finance result of merger reside in both of bank group that is among bank which is group and acquisition joining forces except Asset having value increase.
3. Although finance of each element in bookkeeping have difference, but in general the condition of bank finance result of merger will be more either from at previously this matter can be seen clearly from asset value had is ever greater.

CHAPTER II
LITERATURE REVIEW

2.1. Definition of Merger

Business combination in banking sector in Indonesia has been started in the early year 70s. Business combination became popular again in a period of crisis as a mean to improve bank performance that exists in Indonesia to face crisis.

Problem about merger have been arranged by Indonesian Standard Financial Accounting No. 22 namely business combination in general term. While business combination in banking sector do not specified in detail by Minister for Finance No. 222 year 1999.

According to Indonesian Standard Financial Accounting No. 22, a business combination defined as federating two or more separate company become one economic entity because one company united with other company to take control of the other company's operation and asset.

Business combination can be conducted variously, which is relied on law consideration, other reason or taxation. Business combination can be conducted by of purchasing of shares one company by other company or purchasing of company's net asset. Transaction usually paid with publication of share or with delivery of cash, equivalent asset of other asset or cash.

Kam (1990) said that especial characteristic in business combination is one entity to conduct the usage of other entity asset. Operation can be conducted directly by buying asset or indirectly, by obtaining operation of importance of other company through the ownership of its share.

According to Pike and Nile (1999), a merger is a pooling of the interest of two companies into a new enterprise, requiring an agreement of both sets of shareholders. By definition, merger involve the friendly (initially at least) restructuring of assets into a new organization, whereas many takeovers are hotly resisted. In practice, the vast majority of business amalgamations are takeovers rather than mergers.

It has been generally accepted that where the company is acquired for cash, the transaction represents an acquisition. Where a company is acquired is by exchanging shares, however, the view that a merger has occurred, since the transaction represent a pooling of interest.

2.2. Forms of Business Combination

Business combination classified into three forms namely merger, acquisition and consolidation. To be more third sharpness of merger form can be elaborated as follows:

1. Merger.

According to Imdike and Smith (1989) Merger happened if one company master entire net asset of one or more company through delivery of capital, payment of other property or cash.

Congeniality of Merger more relate at way of fundamental idea execution of business combination. According to Ross (1990) in fact consolidation or merger and acquisition only as from take over mechanism. Thereby acquisition can take over merger form or consolidation, share acquisition and asset acquisition.

Although a merger involves a combination of two or more entities, they are rarely equal participant. Sometimes a merger is really an acquisition financed by common stock. Merger are typically more expensive than acquisition, with the parties incurring high legal cost.

There are several ways to structure a merger. In forward merger, the target merges into the acquirer's company, and selling shareholders receive the acquirer's stock. In a reverse merger, the acquirer merges into the target company and gets the target company's stock. In a subsidiary merger, an acquirer incorporates an acquisition subsidiary and merges it with the target company. In a triangular merger, the target company's asset are conveyed to the acquirer's company in exchange for the acquirer's stock. Each of these types of mergers can have different tax and legal consequences, and the acquirer and the seller must seek proper tax and legal advise from experts.

These are many reasons for parties to decide to merge rather than treat the combination as an acquisition. Some of the more frequently encountered reasons are :

- The merger does not require cash
- A merger may be accomplished tax-free for both parties
- A merger lets the target realize the appreciation potential of the merged entity, instead of being limited to the sales proceeds.

- A merger allows the shareholders of smaller entities to own a smaller piece of a larger pie, increasing their overall net worth
- A merger allows the acquirer to avoid many of the costly and time consuming aspects of asset purchases, such as the assignment of leases and bulk sales notifications
- Of considerable importance when there are minority stockholders is the fact that upon obtaining the required number of votes in support of merger, the transaction becomes effective and dissenting shareholders are obliged to go along.

Decree Of The Minister For Finance RI No. 222/KMK/1999 identified the merger as follow:

- Merger represents one of the ways of process federating of business entity.
- Merger always entangle two party that is receiver party (absorbing) and jointed party (target)
- The company as receiver will acquire entire joined company ownership and asset.
- All stockholders also become stockholder from company of receiver or get indemnity if refusing.

2. Acquisition.

Although the term takeover and merger are used as synonyms, there is a technical difference. A take over is the acquisition by one company of the share capital of another in exchange by cash, ordinary shares, loan stock or some mixture of these.

Acquisition is more known with takeover of ownership or follow to master / having proprietary rights to an entity through purchasing of stock.

Indonesian Standard Financial Accounting No. 22 explaining congeniality of acquisition as a business combination where one of the company, that is the acquirer get to conduct to the net asset and company operation which is the acquire by giving certain asset, confessing an obligation, or shares.

When acquisitions has highly uncertain outcomes, the larger they are, the more catastrophic the impact of any adverse outcomes. As a result, it may be rational and less risky to continue takeover activity to small, uncontested bids. Alternatively, a spread of larger acquisitions might confer portfolio diversification benefits, so long as they have low cash flow correlation. However, the greater the scale of take over activity, the greater the resulting financial burden placed on the parent, and the greater the impact of diverting managerial capacity into solving integration problem.

2.3 Types of Merger

There some types of merger, these are horizontal integration, vertical integration and conglomerate. Each will be explained as follows:

1. *Horizontal integration* is where a company takes over another from the same industry and at the same stage of the production process. Target of horizontal business combination is to improve economic scale in distribution and production, eliminating the happening of emulation among company of the same kind, improving competitiveness and also degrade the expense of expansion.

2. *Vertical integration* is where the target is in the same industry as the acquirer, but operating at a different stage of the production chain, either nearer the source of materials (backward integration) or nearer to the final consumer (forward integration) . This type of merger entangles two or more company having the character of is supporting each other in course of effort or production. Each company has excellence and experience which is closing over each other lacking of other enterprise.

3. *Conglomerate* is where the target is in an activity apparently unrelated to the acquirer. This kind of merger often said to lack 'industrial logic', but can lead to

economies in the provision of company-wide services. Reason conducted by merger is to degrade obtained risk through to be diversified.

2.4. The Impact of Merger

Practice business combination especially in Indonesia not yet been supported by adequate to enough empirical evidence regarding efficacy practice especially practice business combination in the world of banking. In general business combination have positive side and weakness side or negativity.

1. Positive Impact of Business Combination

- Scale of company relative become bigger, big entrepreneurs can enjoy and exploit scale of economics.
- From management facet, decision making centralizes of positive aspect especially in decision making which tend to be quicker.
- Quickening growth of company.
- Improving market compartment.
- Extending marketing area.
- Improving stocks market value.
- Developing product
- Divide risk through to be diversified.
- Contesting seasonal sale cycle and
- Heightening prestige (company prestige).

2. *Negative Impact of Business Combination*

- Centralization decision making can be exploited to conduct report manipulation result of company, reporting of properties of manipulation and also company through the transfer of pricing.

- If business combination do not limit in scale and type of company, hence tending to generate liberalism fight free which is on finally have estuary at new market structure which is monopolistic.

- Horizontal integration with a purpose to lessen the amount of competitor and also vertical with a purpose to limit ability of competitor through levying a number of production link can affect at weakening the market mechanism.

2.5. Causes of merger and acquisition

At the outset it is important to realize that the motives for mergers and acquisitions are complex and present problem for classification. Often there is not one single reason for mergers, but rather a number of reasons. In the book of 'Merger and Acquisition' by Terrence Cooke, there are some motives to conduct a merger, that explained below;

Synergy

Synergy is often the name given to the concept by which two firms combine and increase their value. The basis of synergy is that operating economic of scale may achieved because existing firms in the industry are operating at the level below optimum.

The empirical evidence on the achievement of synergy resulting from merger is not encouraging. For example, in an investigation of 59 mergers in New York Stock Exchange between 1951 and 1968, Haugen and Langetieg (1975) found little evidence of the achievement of synergy; 'Given the scope of our search, any stockholder could have obtained the same results on his by combining the shares of the two companies in the appropriate proportions in his portfolio'. Their methodology was to use a matched sample of merged and no-merged companies, in order to combine them into stock portfolios to establish whether there are any significant changes in the underlying distribution which generates rates of return as a result of merger.

To reduce capacity

During the recession of the early 1980s the desire to reduce capacity become more prevalent as a motive for merger. The desire was not to raise prices to exploit the market, but to rationalize in traditional industries. This motives is not peculiar in the UK. For example, in October 1984 Klockner and Krupp, two steel producers in FRG, announced plans to merger in an attempt to reduce costs by up to DM 250million in a year. This was to be achieved by a restructure which involved reducing the workforce by 3000, raw material output by 1 million tones a year and rolling capacity by 2 million tones.

Managerial motives

The agency problem may arise where management only own a small proportion of share capital. As a result, management may pursue their own aims, such as a lower level of work effort or more perquisites, rather than profit maximization, at the expense of shareholders. The difficulty faced by shareholders is that the cost of detection might outweigh the cost of the agency problem.

The variation of agency problem is that managers may wish to expand their enterprises, since their salaries, perquisites and status often increases with size. Newbould (1970) found that manager's motive for merger is often to increase the acquirer's dominant position in the market and to defend existing market position. He also outline a number of reasons why managers themselves might be interested: due to prestige, immeasureable but undoubtedly greater in the large firm, especially for that level of management most likely to initiate merger proposals. Another is higher remuneration, for which there is some evidence to suggest that it is higher the larger the firm. And there is security, when merger activity is high, management may desire increased size for the security it brings, either in being in greater control of the immediate market or industrial environment or being "bid proof".

To acquire growth

A further reason for acquiring another company is to sustain growth. The acquiree may be in a growth sector which seems attractive to the acquirer. In addition it may well be cheaper to acquire growth rather than to develop into new areas. The q ration is the ratio of the value of the firm's shares to the replacement cost of its assets, and in the USA this ratio is normally somewhere between 0.5 and 0.6. Consequently it may be appropriate to acquire a company in a growth sector at a premium, rather than invest in assets.

Acquisition of specific assets

The acquisition of a specific asset or access to an asset is also often a reason for merger. For example, a manufacturer may decide to integrate vertically in order to secure a source of raw materials. The acquiree may be also have a specific asset such as good management team or good research and development facilities that may utilized more efficiently and effectively. This is often the case where the product or the market is expanding rapidly and expertise is relatively scarce.

Acquiring assets at a discount

The basis of this approach is that the acquirer knows better than the acquiree the real value of the assets. The acquiree may possess valuable land or freehold property that might stand in the book at depreciated historical cost, which underestimates its current replacement value. The acquirer might purchase the company and sell off its valuable assets.

Another motives might be to acquire an unprofitable company, close down the s-making activities and sell off the profitable sectors in the hope of making a gain.

Acquisition by management – leverage buyouts

One of the problem with the large company, especially conglomerate companies, is that decision-making is a remote function resulting in a sloe response to changes in the business environment, which leads to inefficiencies. The return of a business to management called leverage buyouts, has been common in the USA for three decades. Management raise the capital to acquire the company on the strength of its assets, presumably in the belief that it is acquiring assets or earnings at a discount from its holding company.

At a time when the financial institutions are become increasingly active in their role as shareholders, it seems sensible for them to divest their peripheral activities. To sell to existing management has been advantage not only of speed, but also that the business is not thereby sold to competitor.

Acquiring market share

Essentially, there appears to be high degree of correlation between increased market share and increased profitability. In an article of Kitching (1974), he advise that it is useful to find a sufficient small, fragmented market which can be protected against competitors. This motive is closely aligned to the economies-of -scale argument, since increasing market share usually entails a higher level of production, economies will be achieved and learning effects will assist in decreasing unit costs.

Diversification

In practice, companies often acquire others in order to diversify their operations either to increase returns or to lower risk. In the other side, the is argument that diversification by companies is of no value to shareholders, since the latter may diversify their own portfolios more cheaply than can be achieved by companies.

Other Reason

A number of other reasons may be put forward as justifications for a merger. These include the acquisition of competitor, possibly with the aim of raising prices through market power or of taking advantage of marketing skills, especially where products are complementary

Speculative Motive – Gort's economic disturbance theory of mergers

Gort (1969) questions whether explanations for mergers, such as the pursuit of monopoly power or of economies of scale, actually explain fluctuations in the levels of merger activity. The rate of mergers is defined as the number of acquisitions to total business firms in a given sector.

The basis of theory is that differences exist between shareholders concerning the present value of shares because of information imperfections, in the sense that individuals possess different information and assess that information differently. These differences occur because of economic disturbances such as rapid changes in technology and share prices. When technology changes are rapid, the product life cycle is shortened and the past record of the firm becomes less relevant to its future.

Raid changes in share prices represent a break with the past leading to a temporary disequilibrium, since it takes time for investors' expectations to be realigned to market events. Consequently, whenever share price change rapidly, either upward or downward, merger activity will increase.

If Gort's theory has some validity, one would expect an increase in merger activity in a bull market to secure windfall capital gains for speculators. In addition, investment banks, merchant banks and other'adviser will be more active in promoting mergers to secure profits for themselves. Similarly, management within a company will be willing to consummate a merger in order to secure capital gains for themselves.

2.6. Accounting Method for Business Combination

Business combination generates change at its financial statements. In business combination we are recognize two accounting methods that is:

1. *Purchase Accounting Method*

Under the purchase method, which is broadly similar to the standard UK acquisition method, the accounting basis for the acquired enterprise's assets is changed from (a) historical cost (adjusted for depreciation) to (b) fair value at the time of business combination.

As the term implies, the purchase method treats the combination as the purchase of one or more companies by another. The acquiring company records the purchase at its cost. If cash is given, the amount paid constitutes cost. Cost also includes the direct expenses incurred in the combination, such as accounting and consulting fees.

Indirect, ongoing costs, such as those incurred to maintain a mergers and acquisitions department , however, are charged to expense as incurred.

Assets acquired by issuing shares of stock of the acquiring corporation are recorded at the fair values of the stock given or the assets received, whichever is more clearly evident. Is

Once the total cost is determined, it must be allocated to the identifiable assets acquired (including intatedngibles) and liabilities assumed, both of which should be recorded at their fair values at the date of acquisition. Any excess of total cost over the sum of amounts assigned to identifiable assets and liabilities assumed, both of which should be recorded as goodwill and should be amortized over its economic life but not in excess of 40 years..

2.Pooling Of Interest Accounting Method

The pooling of interests method interprets a business combination as a process in which two or more groups of stockholders unite their ownership interests by an exchange of common stock. No acquisition of one company or companies by another is recognized, because the combination is accomplished without disbursing resources of the constituents (a corporation's unissued stock is not considered an asset). No owners of former firms are bought out. Instead, the owners, because they continue become a stockholders, retain proprietary right, however small, in a larger surviving firm. Accordingly, the net assets of the combining companies remain intact, although combined, and the stockholders groups also remain intact but combine.

Proponents of pooling contend that the combination is essentially a transaction between the combining stockholders group and, therefore, that is does not involve the corporation entities; consequently , the transaction neither requires nor justifies establishing a new basis of accountability for the assets and equities of combined operations. Thus, fair values of assets and liabilities are ignored, except in the determination of an equitable exchange ratio of common stock, and the assets acquired and liabilities assumed are carried forward to the new surviving entity at their recorded book values.

In business combination which is accounted as united of importance, hence cannot be told there is the existence of company dominate other company. Company background can be traced from a period before merger to company after merger operation.

Accountancy according to pooling of interest method, cover reinforce and gathering assessment in company of alliance. Debt and asset recorded equal to value that exist in join company, and at all transactions, transferred capital stock account to be agreed to be given by is same treatment. Company retained earning that result from alliance is usually formed from the amount of company retainec earning new company.

2.7. Financial Statement

According to Myer in his book of Financial Statement Analysis says that financial statement is:

" Two lists compiled by accountant by the end of period for a company. Both of that lists is balance statement or financial position statement and profit loss statement, and recently added with third statement that is surplus statement".

Financial statement represents the part of monetary reporting processes. Complete financial statement usually cover Balance Statement, Profit Loss Statement , Statement Of Changes In Financial Position (which can presented in so many way of like for example, as cash flow statement or fund flow report) other report and note and also clarification items representing integral part from financial statement.

Beside that is also include supplementary information and schedule related to the report, for example monetary information of industrial segment and its geographical and also price change influence, usage of report for investor, employees, lender, supplier, governmental, client and also institute society institute, which use financial statement to fulfill some requirement of different information according to Standard Accountancy Indonesia published for the Indonesian Institute of Accountants, some the requirement for example (IAI; 1994):

1. Investor. They have interest at risk to coherent and also result of development from investment which they conduct.

2. Employees. Employees and groups deputizing them interest regarding to profitability and stability

3. Lender. They interest to decide do loan and also the interest can be paid at the time of due.

4. Supplier and Creditor. They interest to decide about the debt amount will be paid at the certain time , creditor have importance at company in shorter period than lender otherwise as a special client, they depend to continuity of company life.

5. Customer/ client. All customer have importance with information regarding to the continuity of company life, especially if involved with long-range agreement with or depend on company.

6. Government. Government have importance with resource allocation and corporate activity, they also require information to arrange corporate activity specify policy as basic for compile national statistic earnings or other statistic.

7. Society. Company influence society member in so many ways, for example, company can give a great contribution in economic activities, create a job so that lessen unemployment which also increase national economy in general.

2.7.1 Target of financial statement:

Target of financial statement is to provide information which concerning financial position, company performance that worthwhile to a large amount of user in intake of economic decision. Financial statement made as a target to fulfill requirement with most user but that way financial statement do not provide all information which is possible required by user in economic decision making because in general depict monetary influence from occurred in the past, and not obliged to provide non finance information. Financial statement also shows what have been conducted by the responsible management or management to which the resource have been entrusted to its user which wished to assess what have been conducted or management answer that way so that they earn to make economic decisions. This decision include, for examplê decision to detain or sell their investment or company to detain or sell their investment in decision or company to give promotion or change management.

According To Drs S. Munawir, Akt. (1995) in his book of Financial statement Analysis, expressed that financial statement can be used by management to :

- Measure the level of its expense from various activity of company.

- Determining / measuring efficiency every shares, production or process and also to determine degree of advantage that able to reach by pertinent company.

- Assessing and measuring result of activity from every individual which have been gave a responsibility and authority.

- Determining of need to do or not need about policy used by new procedure or wisdom to reach result of good.

2.7.2. The nature of financial statement

Financial statement drawn and made to give progress report or periodical picture which is conducted by management party. Financial statement have the character of historically and also totality and as a financial statement report progress consist of data representing result of from a combination among :

1. Fact which have been noted (fact recorded).

2. Principles and habits in accountancy (postulate and convention accounting).

3. Personal opinion. Fact which have been noted to mean that this financial statement is made on the basis of fact from accountancy note, like amount of cash which is available in company and also which is kept by bank, amount of debt, merchandise stock receivable, and also plant asset had by record-keeping from this post to historical note from other event and amount of registered money, is expressed in price when the event happened. Principles and habits in accountancy mean that noted data relied on certain ascription and also procedure which represents inveterate accounting principles of this matter is conducted as a mean to facilitate uniformly or record-keeping.

Personal opinion meant that although record-keeping of transaction have been arranged by theorem or convention which have been specified becomes standard practice bookkeeping but usage from convention and the theorem depended from at company management or accountant. This opinion depended to its decision maker integrity which combined with fact which have been noted and habit and also elementary theorem of accountancy which have been agreed to be used in several things, for example way or method to appraise receivable which cannot be billed for and determination of decrease burden and also determination age of an assets, will very depend on personal opinion of company management and pursuant to past experience in making of policy.

2.8. Bank Financial Statement

Indonesian Standard Financial Accounting (PSAK) No. 31 is specially arrange the problem in banking sector. According to PSAK No. 31, Bank Financial Statement have to be reported pursuant to Indonesian Standard Financial Accounting with financial statement component which consist of five element that is:

1. Balance
2. Report Commitment and Contingency
3. Report Balance
4. Cash flow statement
5. Note to the Financial Statement Financial statement bank have to be presented in Rupiah currency, by using mid rate going into effect on report. For the capital of which remit in foreign currency formulated by using rate convert Indonesia Bank at the (time) of the model remit (rate historical). Bank also is obliged to lay open net asset position and obligation in foreign currency which leave open.

In presentation of Balance, obligation and asset in bank balance do not be grouped according to liquid and is not liquid, but as possible remain to in order of liquidity level and fall due.

Commitment report and contingency is obliged to be compiled systematically so that can give picture concerning commitment position and contingency, both for having the character of obligation and also invoice, on report.

Profit Loss bank report compiled in the form of has ladder (multi step) depicting expense or earnings coming from especial activity of other activity and bank. Earnings element and expense have to be differentiated by earnings coming from operational activity and non-operational.

Cash flow statement has to be compiled pursuant to Cash Concept during report period. This report has to show all critical aspect from activity of bank without reference to do the transaction have a direct effect at cash.

2.9. Financial Analysis

Appliance able to be used to yield decision of rational management productively accurate information about and strength weakness of company is financial statement analysis. Technique able to be used for the financial statement analysis of (Munawir; 1993) is:

1. Analysis Comparison Financial Statement. That is analysis by comparing financial statement to two periods or more
2. Or financial position mainstream Trend which is expressed in percentage of, to show what is mainstream remains to, go up or even downhill.
3. Report with percentage of per statement size common or component
4. Analysis of Source and Usage of Working Capital, that is to know causes change of working capital
5. Analysis of Source and Usage of cash
6. Ratio Analysis, that is to know the relation among certain post in Balance and Loss Report of Profit individually and combination
7. Analysis of Change in gross profit, that is to know causes change of gross profit
8. Break Even Analysis, that is to know company break even point.

Analysis Common Size (Percentage per component)

This analysis is used to know the percentage of investment at each asset to Total of its asset, and to know capital structure, and also composition of expense that happened compared to the amount of its sales.

Weakness from this technique is we do not get the picture about change in the each component from year to year in its relation to total asset or its total of sale.

2.10. Ratio Analysis.

Ratios describe the relationship between different items in the financial statements. A very simple concept, ratios compare values in the profit and loss account and/or the balance sheet. Obviously, the relative usefulness of each ratio depend on what aspect of the company's business affairs are being investigated.

Company financial statement analysis basically represents enumeration of ratios to assess situation of company's finance in the past, in this time, and possibility of future. With this analyzer appliance or ratio can be used to measure weakness and strength faced by finance-related company. With ratio analysis, analyzer can obtain a picture about financial growth from the company.

The key to a successful understanding and interpretation of financial statement is the adoption of an extremely inquisitive and enquiring frame of mind. When examining a set of accounts, we should try to understand exactly what the figure mean. One of the main strength of the financial ratios is that they help to direct user's focus of attention. Ratios identify and highlight areas of poor performance and areas of significant change. Conversely, ratios also spotlight areas of exceptionally good performance. In each instance, the user should attempt to explain exactly why the accounts reveal this behavior.

To analyze the ratio, we need the financial statement in the form of Balance, Profit and Loss report of last profit for a number of years so that we can compare to and known by tendency instruct its movement go up or go down so that can be obtained by data to support decision to be taken, because financial statement represent very important appliance to get information referring to financial position and result of which have been reached by the company, kinds of monetary ratio, because ratio can be made according to requirement of analyst.

Some basic rules for financial ratio analysis are as follows :

1. Compare like with like

The relative performance of an company can be gauged in a number of different terms by comparing that company's financial ratios with:

- Financial Ratios for preceding period;
- Budgeted financial ratios for the current period
- Financial ratios for other profit centre within the company
- Financial ratios for other companies within the same industry sector

In each case, comparison is only possible if an identical basis of compilation is employed. There must be conformity and uniformity in the preparation of accounts to ensure a comparison of like is with like.

2. Clear definition of the financial ratio

A full understanding of the precise implications of a given ratio is only possible if it is accompanied by a clear definition of its constituent parts. The user must be able to judge the accuracy and reliability of the underlying business operation before the reliability of the ratio can be assessed. In addition, the definitions of ratios may vary from source to source as concepts and terminology are not universally defined.

3. Awareness of underlying trends

As a ratio is comparing two values, any changes in each of these underlying values over time may be obscured in the final ratio figure.

According to J. Fred Weston and Thomas E. Copeland in the book of Finance Management expressing that monetary ratio can be classified to become six type that is:

- Liquidity Ratio, that is Ratio which measuring ability of company to fulfill obligation short-range if/when falling due.

- Leverage Ratio, that is ratio which measuring how far company financed by its debt.

- Activity Ratio, that is Ratio which measuring how company effectively use its resources.

- Profitability Ratio, that is ratio which measuring the effectiveness of management which is calculated by yielded profit from company investment and sale.

- Growth Ratio, that is ratio which measuring ability of company to maintain its economic position in industrial and economic growth.

- Valuation Ratio, that is ratio which measuring ability of management in creating abysmal market value of expenditure expense of investment. Valuation ratio represents most complete size measure about company's achievement, because expressing risk ratio (two first ratio) and decision making ratio (the next three ratio), valuation ratio has vital importance because of the ratio of direct relevance with a purpose to maximize company value and properties of all stockholders.

While according to Drs. Bambang Riyanto (1994) in elementary book of expenditure base company, monetary ratio classified as follows :

- Balance Ratio, is compiled ratio from data coming from balance, for example Liquidity ratio consist of: Current Ratio, Cash Ratio, Quick (Acid Test) Ratio, Working, Total Capital To Asset ratio – Loss Profit Ratio, is compiled ratio from data coming from profit loss report, for example margin profit report, ratio operate for etcetera

- Ratio between reports, is compiled ratio pursuant to data coming from profit loss report and balance of profit, for example rotation of receivable, asset turnover, etcetera.

According to Elliot and Elliot , there are six key ratios are divided into three categories, as below :

1. Primary investment level ratios

a. Primary investment ratio (Return On Equity)

The Return on Equity represents the net profit of the company as a percentage of shareholder's funds (i.e. the total investment by the owners). The ratio is at the apex of the ratio pyramid, and it is the product of financial leverage multiplier and the ROCE

$$= \frac{\text{Net Profit before Interest and Tax}}{\text{Shareholders' fund}}$$

b. Primary financing ratio (Financial Leverage Multiplier)

The financial leverage multiplier expresses how many time bigger the capital employed is compared to the shareholders funds. The multiplier implies that assets funded by sources other than owners will increase the profit or loss of the company relative to shareholder's funds.

$$= \frac{\text{Capital Employed}}{\text{Shareholder's Fund}}$$

2. Primary operative level ratios

c. Primary Operating ratio (Return on Capital Employed)

The ROCE is a fundamental measure of the profitability of a company. The ratio is popular indicator of management efficiency because it contrasts the net profit generated by company with the total value of fixed and current assets which are presumed to be under management control. Therefore, the ROCE demonstrates how well the management has utilized total assets.

$$= \frac{\text{Net Profit before Interest and Tax}}{\text{Capital Employed}}$$

d. *Primary utilization Ratio (Asset Turnover)*

The asset turnover is a measure of how much sales are generated by the capital asset base of a company. Although this ratio can act as a good guide to company performance, it can be also misleading. Therefore, the magnitude of this ratio should be evaluated in terms of its constituent parts. If the asset turnover increases, what does it mean? Either the total value of sales is increasing, or the capital asset base is decreasing, or the mixture of both. If it is because sales are increasing, then we might presume that this signifies improve performance.

$$= \frac{\text{Sales}}{\text{Capital Employed}}$$

e. *Primary Efficiency Ratio (Net Profit Margin)*

Net profit margin is another widely used ratio in the assessment of company performance and in comparisons with other companies. Profit margin depends on what type of industry a company is operating within (i.e. high volume / low margin), the company pricing policy, the sales volume and cost handling. As a general rule, a higher a margin suggest a good performance but the profit should not be taken at face value.

$$= \frac{\text{Net Profit before Interest and Tax}}{\text{Sales}}$$

3. *Primary Liquidity level ratios*

f. *Primary Liquidity Ratio (Current Ratio)*

The Current Ratio is a short term measure of the liquidity position of the company. This ratio (which should be appraised in conjunction with the acid test ratio) compares current assets with current liabilities, and in cases where the value is greater than unity the current asset value exceeds the value of the current liabilities. It is often cited that the current ratio should be greater than 2, but the recommended current ratio depends on the industry sector.

$$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Description of Subsidiary ratios

1. *Gearing Ratios*

$$= \frac{\text{Total Liability} - \text{Current Liability}}{\text{Capital Employed}}$$

The gearing ratio represents the proportion of capital employed which is accounted for by long term fixed interest debt. The gearing structure of a company refers to the amount of borrowings compared with the amount of shareholder's fund. A company with high gearing is predominantly finance by debt, whereas a company with low gearing relies on equity finance. Different user groups prefer different gearing structure- creditors and stakeholders will be influenced by gearing structures such as annual interest payment and earnings per share.

$$\text{Shareholders' Ratio} = \frac{\text{Shareholder's fund}}{\text{Capital Employed}}$$

This represents the_proportion of capital employed which is made up by shareholder's funds.

$$\text{Interest Cover} = \frac{\text{Net Profit before Interest and Tax}}{\text{Interest}}$$

Most companies are committed to repaying a certain amount of interest charges. This ratio describes how many times greater the profit is compared to the interest charges. This multiple gives creditors an indication of how secure these repayments are.

2. Liquidity Ratios

$$\text{Acid Test Ratio} = \frac{\text{Current Assets} - \text{Stock}}{\text{Current Liabilities}}$$

The acid test or Quick Ratio indicates the company's ability to repay immediately commitments using cash or near-cash. For this reason, the acid test ratio excludes the value of stock to show immediate solvency of the company.

3. Asset Utilization Ratios

The asset turnover ratio can be subdivided into more specific component parts, so that each element of fixed and current assets can be analyzed separately. The asset turn over ratio, measure the amount of sales generated by the capital employed as a whole, whereas individual asset utilization ratios compare total sales with the selected asset under management control.

The fixed assed, tangible and property/ plant utilization ratio are all measures of efficiency. These ratios all indicate the sales volume produced by the available fixed assets. Although an improvement in these ratios will also improve the ROCE, this improvement should be accepted with the knowledge that the depreciation policies and historic cost valuation of fixed assets will cause a distortion.

Three utilization (turnover) ratios are particularly informative for understanding and interpreting financial statements, are stock turnover, debtor turnover, and creditor turnover:

$$\text{Stock Turnover} = \frac{\text{Sales}}{\text{Stock}} \quad \text{or} \quad \frac{\text{Cost of Sales}}{\text{Average Stock}}$$

The average stock holding period (in days) can be calculated as :

$$= \frac{\text{Stock}}{\text{Sales}} \times 365$$

The debtor ratios is usually expressed in terms of the debtor collection period (in days) :

$$= \frac{\text{Debtors}}{\text{Sales}} \times 365$$

$$\text{Creditors turnover} = \frac{\text{Sales}}{\text{Creditors}}$$

This ratios usually expressed in terms of creditor payment period (in days) :

$$= \frac{\text{Creditors}}{\text{Sales}} \times 365 \quad \text{or} \quad \frac{\text{Creditors}}{\text{Cost of Sales}}$$

This ratios indicates the credit facilities extended to a company by its suppliers. Any changes in the payment period might be due to suppliers altering credit terms (either more generous or tightening up), the company trying to gain maximum credit facilities, or the company utilizing early payment incentives.

4. *Investment Ratios*

Investment Ratios are of great interest to investors. Earning per Share (EPS) indicates the amount of profit after tax, interest and preference shares earned for each ordinary share. The Price/ Earning Ratio (PE Ratio) is a measure of market confidence in the shares of company. Dividend Cover compares net profit with dividends to show how many times over the dividends could be paid and how safe this annual yield is. Dividend yield expresses dividend as a proportion of the market value of total shares.

$$\text{Earning Per Share} = \frac{\text{Net Profit After Tax - Preference Dividends}}{\text{Number or Ordinary Share}}$$

$$\text{Price Earning Ratio} = \frac{\text{Share Price}}{\text{Earning per Share}}$$

$$\text{Dividend Cover (ordinary share)} = \frac{\text{Net Profit after Tax - Preference Dividend}}{\text{Dividend on Ordinary Shares}}$$

$$\text{Dividend Yield} = \frac{\text{Dividend on Ordinary Share}}{\text{Market value of Ordinary Shares}}$$

5. *Profitability Ratios*

Profitability Ratios allow a more specific analysis of profit margin, e.g. singling out individual expenses as a proportion of sales or cost of sales. These ratios will identify any irregularities in specific expenses from year to year.

2.5. Analysis of Bank Statement in Indonesia

Financial analysis of bank used to assess the bank performance. High inflation rate, bank financial statement analysis conducted to avoid the existence of intake of wrong conclusion.

Monetary analysis also used to measure efficiency that is ability to yield certain output by using input which as minimum as possible. The smaller the input used to yield certain output, more and more highly of efficiency level of activity. Measurement of this efficiency is hereinafter used to measure good company performance of financial performance and also management performance or conduct prediction in the future.

There is seven analysis type that known related to the bank financial statement, but analysis used for the measurement the performance of bank, , have been specified by Indonesia Bank , called Camel Analysis, which is arranged in SE No. 26/5/BPPP/1993.

In financial performance of bank in Indonesia, there is three types of analysis used by banks in Indonesia, that is: liquidity analysis, solvability analysis and rentability analysis.

1. Liquidity analysis.

We can say that the bank is liquid if pertinent bank can pay all of its obligation /debts in short-range of time, can repay all of its creditor, and also can fulfill request of credit borrowing without deferment.

There is eight way of calculating bank liquidity level that is:

* Quick Ratio, that is ratio showing ability of bank to repay deposit from all of its customer with most liquid appliance had by bank party or often is also referred by ratio quick.

* Investing Policy Ratio, is a ratio to measure ability of bank in paying obligation to all of its debtor with liquidating all the securities owned.

* Banking Ratio, to measure the liquidity level of the bank, that is comparison between total debt and total saving from their customer.

* Asset to Loan Ratio, shows the capability of the bank to pay its obligations with total asset available.

* Investment Portfolio Ratio, used to measure liquidity level in investment at securities.

* Investment Risk Ratio, used to measure risk which have happened in investment at marketable securities that is by comparing among market price with its value.

* Liquidity Risk, showing risk which target by bank because experiencing of failure to fulfill obligation to its creditor with very is limited liquid assets available.

* Cash Ratio, showing ability of bank to pay their obligations which have to be paid immediately with liquid appliance had.

2. Solvability Analysis

Solvability analysis or referred as Capital analysis represent analysis to measure bank ability in paying debt , in short-range and also long term liabilities from owned asset.

This analysis can be calculated by seven ways of that is:

* Primary Ratio, that is ratio used to measure until how far degradation that happened in Totaling asset able to close over by Equity Capital had by company. Through this ratio all parties and investor required information to know ability of bank in defraying asset with capital alone.

* Risk Asset Ratio, the principle is equal to ratio primary but this is ratio more emphasizing at of possibility if degradation of asset happened, especially marketable securities and cash.

* Secondary Risk Asset Ratio, is equal to previous ratio but more enhancing if risk degradation happened in higher level asset.

* Capital Ratio, used to measure ability of reserve and capital abolition of debtor in supporting credit, especially risk if the credit do not be returned and also fail in collecting the interest.

* Capital Risk, used to measure ability of company's capital in supporting if there is a risk in degradation of asset by using Equity Capital had.

* Capital Adequacy Ratio (CAR) used to see ability of company's capital to cover the possibility of loss due to the given credit along with loss at securities investment.

* Deposit Risk Ratio, used to measure possibility of bank unable to repay all the fund that deposed by its customer which must be guaranteed by the bank's capital.

3. Rentability Analysis.

Rentability analysis or is also recognized with profitability analysis represent analysis used to measure ability of company / bank in yielding profit. Equally this analysis is to measure efficiency of the bank and profitability that gained by the bank.

There is five way of analyzing ability of bank rentability, that is:

* Gross Profit Margin, used to know the percentage from profit to the business activity from pertinent bank before deducted with personnel costs, expense of other overhead expense and administration.

* Net Profit Margin, used to measure ability of bank in generates net income from activity of fundamental operation of bank.

* Return On Equity Capital, used to measure ability of management in managing capital which available to getting net income.

* Total Return on of Asset, used to measure ability of management in generates income for the bank from management of entrusted asset.

* Return On Specific Asset, used to measure ability of bank management in managing excess of its fund which invested into securities

2.7 The Benefit of Financial Analysis

Financial statement represents a very important appliance to obtain information referring to financial position and result, of which have been reached by pertinent company. The monetary data will be more meaningful to external parties if the data compared to two period or more and analyzed furthermore so that can be use to support decisions that has to be taken. Financial analysis report, especially concentrated to calculation of ratio so that can evaluate the finance situation in the past, now and project result to come.

Ratio analysis represent form or a way of used in financial report analysis, equally among appliance which is always used to measure weakness and strength which is finance-related company is ratio analysis.

Ratio represent appliance which is expressed in meaning of relative and also absolute to explain certain link among factor which is one with other factor from a financial report. With monetary ratio analysis hence expected will be able to answer some problem of related to :

1. The ability of Company to fulfill monetary obligation which is must immediately fulfilled on time.

2. The ability of Company to fulfill monetary obligation if the company is liquidated, long-range obligation and or short-range obligation

3. The ability of Company to yield maximum profit during specified period which have as according to corporate planning.

4. The ability of Company to conduct its stability in financial activities, measured by considering ability of company to pay for interest burden to the its debt and finally can repay the debt on time and also ability of company to pay for dividend regularly to all stockholders.

2.13. Valuation Technique : Discounted Cash Flow

Discounted cash flow is what someone is willing to pay today in order to receive the anticipated cash flow in future years. It is the method most often used by large investment banks and consulting and accounting firms. The discount rate is based on the level of risk of the business and the opportunity cost of capital. In other words, it is the return you can earn by investing your money elsewhere.

In his book Creating Shareholder Value, Alfred Rappaport states:

The appropriate rate for discounting the company's cash flow stream is the weighted average of the costs of debt and equity capital. For example, if a company's after tax cost of debt is 6% and its estimated cost of equity is 16% and it plans to raise capital 20% by way of debt and 80% by way of equity, it computes the cost of capital at 14% as follows:

Weight	Cost	Weighted	Cost
Debt	20%	6%	1.2%
Equity	80%	16%	12.8%
Cost of Capital	14.0%		

The use of discounted cash flow is a hotly debated subject among those in the mergers and acquisitions business, particularly in the middle market. Its use is widely accepted with larger companies because it provides a rational economic framework for valuing acquisitions in that marketplace.

In the book Mergers & Acquisitions: A Valuation Handbook, Joseph H. Marren states,

One of the complexities with using the net present value method is that a target company's future cash flow depends on the method of acquisition and the purchase price. How? A target company's future cash flows are directly impacted by the taxes it will pay. The taxes it will pay depend on the company's taxable income. And the company's taxable income will depend, in part, on its taxable deductions for depreciation and the amortization of intangible assets. Such deductions depend on the target's tax basis for its assets, which in turn depend directly on the purchase price paid for the business.

Other opponents of the discounted cash flow method do not believe in paying for earnings that are not earned. Furthermore, the projections are speculative, and the selection of the discount rate is somewhat subjective. Nevertheless, it is important to mention this method, as it is one of the most popular methods for analyzing large companies. Its use is more appropriate for determining shareholder value than for valuing acquisitions.

DISCOUNTED CASHFLOW MODELS: WHAT THEY ARE AND HOW TO CHOOSE THE RIGHT ONE..

THE FUNDAMENTAL CHOICES FOR DCF VALUATION

- **Cashflows to Discount**
    - Dividends
    - Free Cash Flows to Equity
    - Free Cash Flows to Firm
- **Expected Growth**
    - Stable Growth
    - Two Stages of Growth: High Growth -> Stable Growth
    - Three Stages of Growth: High Growth -> Transition Period -> Stable Growth
- **Discount Rate**
    - Cost of Equity
    - Cost of Capital
- **Base Year Numbers**
    - Current Earnings / Cash Flows
    - Normalized Earnings / Cash Flows

WHICH CASH FLOW TO DISCOUNT...

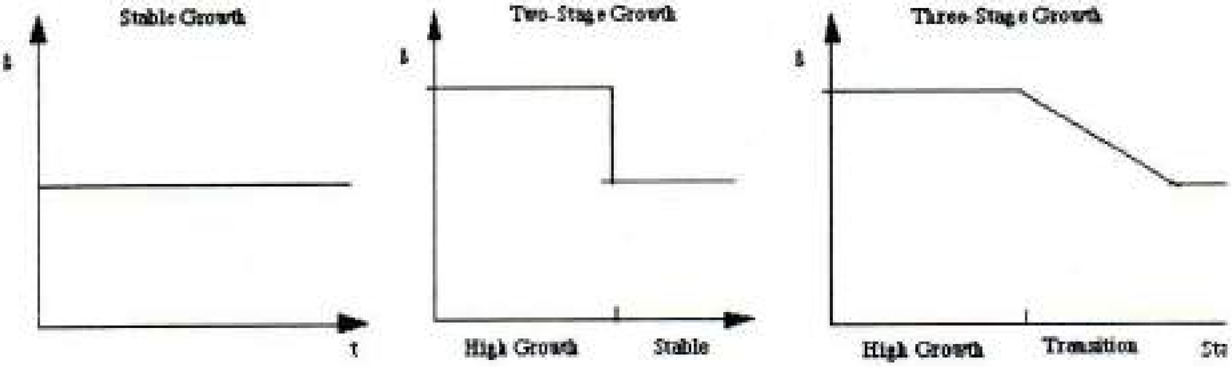
- **The Discount Rate should be consistent with the cash flow being discounted**
  - Cash Flow to Equity -> Cost of Equity
  - Cash Flow to Firm -> Cost of Capital
- **Should you discount Cash Flow to Equity or Cash Flow to Firm?**
  - *Use Equity Valuation*
    - (a) for firms which have stable leverage, whether high or not, and
    - (b) if equity (stock) is being valued
  - *Use Firm Valuation*
    - (a) for firms which have high leverage, and expect to lower the leverage over time, because
      - debt payments do not have to be factored in
      - the discount rate (cost of capital) does not change dramatically over time.
    - (b) for firms for which you have partial information on leverage (eg: interest expenses are missing..)
    - (c) in all other cases, where you are more interested in valuing the firm than the equity. (Value Consulting?)
- **Given that you discount cash flow to equity, should you discount dividends or Free Cash Flow to Equity?**
  - *Use the Dividend Discount Model*
    - (a) For firms which pay dividends (and repurchase stock) which are close to the Free Cash Flow to Equity (over a extended period)
    - (b)For firms where FCFE are difficult to estimate (Example: Banks and Financial Service companies)
  - *Use the FCFE Model*
    - (a) For firms which pay dividends which are significantly higher or lower than the Free Cash Flow to Equity. (What

is significant? ... As a rule of thumb, if dividends are less than 75% of FCFE or dividends are greater than FCFE)

- (b) For firms where dividends are not available (Example: Private Companies, IPOs)

WHAT IS THE RIGHT GROWTH PATTERN...

- **The Choices**



THE PRESENT VALUE FORMULAE

- For Stable Firm: $V_0 = \frac{CF_1}{r - g_n}$

- For two stage growth: $V_0 = \frac{CF_0*(1+g)*\left(1 - \frac{(1+g)^n}{(1+r)^n}\right)}{r - g} + \frac{CF_{n+1}}{(r - g_n)(1+r)^n}$

- For three stage growth: $V_0 = \sum_{t=1}^{t=n1} \frac{CF_0*(1+g_a)^t}{(1+r)^t} + \sum_{t=n1+1}^{t=n2} \frac{CF_t}{(1+r)^t} + \frac{CF_{n2+1}}{(r - g_n)(1+r)^n}$

Definitions of Terms

V_0= Value of Equity (if cash flows to equity are discounted) or Firm (if cash flows to firm are discounted)

CF_t = Cash Flow in period t; *Dividends* or *FCFE* if valuing equity or *FCFF* if valuing firm.

r = Cost of Equity (if discounting Dividends or FCFE) or Cost of Capital (if discounting FCFF)

g = Expected growth rate in Cash Flow being discounted

g_a= Expected growth in Cash Flow being discounted in first stage of three stage growth model

g_n= Expected growth in Cash Flow being discounted in stable period

n = Length of the high growth period in two-stage model

n1 = Length of the first high growth period in three-stage model

n2 - n1 = Transition period in three-stage model

WHICH MODEL SHOULD I USE?

- Use the growth model only if cash flows are positive
- *Use the stable growth model, if*
    - the firm is growing at a rate which is below or close (within 1-2%) to the growth rate of the economy
- *Use the two-stage growth model if*
    - the firm is growing at a moderate rate (... within 8% of the stable growth rate)
- *Use the three-stage growth model if*
    - the firm is growing at a high rate (... more than 8% higher than the stable growth rate)

SUMMARIZING THE MODEL CHOICES

	Dividend Discount Model	**FCFE Model**	**FCFF Model**
Stable Growth Model	• Growth rate in firmís earnings is stable. (g of	• Growth rate in firmís earnings is stable.	• Growth rate in firmís earnings is

	firm$_{economy}$+1%) • Dividends are close to FCFE (or) FCFE is difficult to compute. • Leverage is stable	($g_{firmeconomy}$+1%) • Dividends are very different from FCFE (or) Dividends not available (Private firm) • Leverage is stable	stable. ($g_{firmeconomy}$+1%) • Leverage is high and expected to change over time (unstable).
Two-Stage Model	• Growth rate in firmís earnings is moderate. • Dividends are close to FCFE (or) FCFE is difficult to compute. • Leverage is stable	• Growth rate in firm's earnings is moderate. • Dividends are very different from FCFE (or) Dividends not available (Private firm) • Leverage is stable	• Growth rate in firmís earnings is moderate. • Leverage is high and expected to change over time (unstable).
Three-Stage Model	• Growth rate in firmís earnings is high. • Dividends are close to FCFE (or) FCFE is difficult to compute. • Leverage is stable	• Growth rate in firmís earnings is high. • Dividends are very different from FCFE (or) Dividends not available (Private firm) • Leverage is	• Growth rate in firmís earnings is high. • Leverage is high and expected to change over time (unstable).

	stable

GROWTH AND FIRM CHARACTERISTICS

	Dividend Discount Model	*FCFE Discount Model*	*FCFF Discount Model*
High growth firms generally	• Pay no or low dividends • Earn high returns on projects (ROA) • Have low leverage (D/E) • Have high risk (high betas)	• Have high capital expenditures relative to depreciation. • Earn high returns on projects • Have low leverage • Have high risk	• Have high capital expenditures relative to depreciation. • Earn high returns on projects • Have low leverage • Have high risk
Stable growth firms generally	• Pay large dividends relative to earnings (high payout) • Earn moderate returns on projects (ROA is closer to market or	• narrow the difference between cap ex and depreciation. (Sometimes they offset each other) • Earn moderate returns on projects (ROA is	• narrow the difference between cap ex and depreciation. (Sometimes they offset each other) • Earn moderate returns on projects (ROA is

industry average) • Have higher leverage • Have average risk (betas are closer to one.)	closer to market or industry average) • Have higher leverage • Have average risk (betas are closer to one.)	closer to market or industry average) • Have higher leverage • Have average risk (betas are closer to one.)

SHOULD I NORMALIZE EARNINGS?

- *Why normalize earnings?*
    - The firm may have had an exceptionally good or bad year (which is not expected to be sustainable)
    - The firm is in financial trouble, and its current earnings are below normal or negative.
- *What types of firms can I normalize earnings for?*
    - The firms used to be financially healthy, and the current problems are viewed as temporary.
    - The firm is a small upstart firm in an established industry, where the average firm is profitable.

HOW DO I NORMALIZE EARNINGS?

- If the firm is in trouble because of a recession, and its size has not changed significantly over time,
- *Use average earnings over an extended time period for the firm*

Normalized Earnings = Average Earnings from past period (5 or 10 years)

- If the firm is in trouble because of a recession, and its size has changed significantly over time,
- *Use average Return on Equity over an extended time period for the firm*

Normalized Earnings = Current Book Value of Equity * Average Return on Equity (Firm)

- If the firm is in trouble because of firm-specific factors, and the rest of the industry is healthy,
- *Use average Return on Equity for comparable firms*

Normalized Earnings = Current Book Value of Equity * Average Return on Equity (Comparables)

CHAPTER III.
RESEARCH METHODOLOGY.

3.1. Conceptual Framework

This Research type represent research of descriptive analysis, its meaning of research report represent presentation clearly as it is. Early stage taken is data collecting matching with research, among others industrial growth of banking in Indonesia, the forming of bank, organization chart, differentiated company financial statement become two big group that is report before merger (company merger) and financial statement after merger (the new company). Financial statement before merger differentiated to become two also that is bank accepting bank corps and absorbed. The financial statement is then analyzed and each compared to among before and after merger so that can be seen by how its situation.

From the analysis we will be able to know the reason of finance short-range why the company conduct merger.

3.2. Data Collection Method

To be able to know picture truthfully from research object, hence needed a precise and good data. Data which disagree with its situation will cause risk to decision making. The data shall be accurate and represent real data. However, often happened the existence of mistake of data.

In activity of making of this thesis is conducted by seeking of data with the following classification:

1. Desc·iptive data
   a. Data qualitative, that is data which do not in form of number. For example organizational structure, history of company, and organization operations.
   b. Quantitative data, that is data which in form of number. In this case is all institute financial statement, among others is year balance 1997 up to year 1999, profit/lost report of year profit 1997 up to year 1999 and other data which support.
2. Way of getting data
   a. Primary data, where way of getting it by getting is direct the than research object, in this case is to come from interview with manager and employees, and also by performing a direct perception to research object.
   b. Secondary data, that is got data indirectly to research object. This data is got from responsibility reporting, financial statement data and appropriate other data.

3.3. Data Analysis

After all the data that retrieved, continued with data analysis by using quantitative analysis and method descriptive analysis (qualitative).

1. Quantitative Analysis method
   a. Presenting financial calculation, for the bank of which is joined, bank group joining and new bank result of merger or after merger by each Balance calculated by the percentage. Totaling asset. Financial calculation of statements of bank to be reported by for example:
      - Income statement
      - Profit/loss
      - Financial Ratios

      Considering the existence of limitation of data specially bank financial statement of bank that joined and new bank as result of merger where consolidation financial statement only in the form of balance without there is profit/lost report and also capital statement etc. hence this solution will only calculate ratio for a few part.

b. Conducting calculation of financial ratio. But considering so much existing ratio type, hence writer more is emphasizing at of ratio analysis which is used and also can be processed.
   - Quick Ratio
   - Cash Ratio
   - Asset to Working Capital
   - Equity Total to Debt Total
   - Ratio Asset Total to Debt Total
   - Return on Investment
   - Rate of Return

2. Method Analyze Qualitative.

In this method of writer present and phrase result of calculation of quantitative analysis above, the description cover the breakdown of to the result of quantitative analysis to Balance Consolidation Opening of September 2002 which not yet been made an audit of is containing of Bank financial statement Which Become Mains, Total of Bank Joining and After joining.

CHAPTER IV.

ANALYSIS AND RESULT

4.1. General Information of Bank Permata

Legal merger of five banks (Bank Bali, Bank Universal, Bank Patriot, Bank Prima Express and Bank Arthamedia) effectively began on Monday, September 30, 2002, following the issuance of merger permit from Bank Indonesia and the justification of corporate by rules.

As the completion of that process, the next stage is the completion of operational merger process which is expected to be completed by the end of December 2002. The merger bank is named as Bank Permata and is expected to become one of the biggest ten banks in the country. Regarding the ownership composition of Bank Permata, government own 97.67% and the rest 2.33% owned by public.

VISION "To be the bank of choice by giving the best" MISSION "To provide quality solutions and to build a company that is capable of attracting, developing and retaining human resources of high integrity, based on total caring philosophy"

Year 2001 marked the 46th year of Bank Bali's existence. The bank incorporated as BPDI (*Bank Persatuan Dagang Indonesia* or United Commercial Bank of

Indonesia Ltd.) was renamed Bank Bali in 1970. Having passed the growth and business consolidation phases, Bank Bali earned the leading position as one of top national banks and listed as a public company in the Jakarta and Surabaya Stock Exchanges since 1990.

Moving toward the vision of "To be The Bank of Choice by Giving The Best", Bank Bali survived despite many difficulties and major challenges for the past few years including the recapitalization in 2000 by the Government, represented by the Indonesian Bank Restructuring Agency (IBRA), following the negative effect of economic crisis that hit Indonesia in 1997. Today IBRA on behalf of the Government controls 98.23% of Bank Bali. The sustainability was made possible by consistent practice of corporate values that consist of two-way communication, care, and PDCA approach (Plan, Do, Check, Action). To enhance the corporate culture, Bank Bali also created corporate identity visuals including a corporate logo symbolizing "Building successful future on a solid foundation". The corporate identity was dominated by yellow and blue corporate colors that reflect dynamic spirit. To help develop unity, the management composed corporate anthems "*Kami Bank Bali* (The management are Bank Bali)" and "*Bank Bali Jaya* (Bank Bali Victorius)" to be sung in important corporate events.

The intensive and future-driven information technology implementation has made Bank Bali one of the pioneers in banking technology. Bank Bali was the first to run online technology, operation of ATM, nation-wide centralization of back-office, launching of debit card, telephone and internet banking, as well as the most recently introduced "e-Wallet" rechargeable prepaid card. With 245 branches and 4,730 employees, Bank Bali is ready to serve various retail and corporate banking transactions.

Bank Bali have also earned various international awards since 1997. Recently the management attained "Recognition of Payment Formatting and Straight Through Rate 2001" and "2001 Top Tier Customer for Their Continued Support of USD Clearing" by Bank of New York, reflecting third party's acknowledgement about Bank Bali's achievements.

Leaving 2001 and entering 2002, Bank Bali remains optimistic about the future. Holding on to the mission of "To provide quality solutions and to build a company that is capable of attracting, developing and retaining human resources of high integrity, based on total caring philosophy", Bank Bali will always strive to improve its performance in order to create added values and accountability toward all stakeholders.

Organization structure

Following the completion of corporate recapitalization program by the end of 2000 and the formation of new management, the management execute strategic actions to recover business activities through development of various potential business opportunities.

The corporate recovery began with consolidation and focus on the core retail and commercial banking while consistently practicing the prudent banking principle to achieve Good Corporate Governance.

Among the executives assigned by IBRA as the members of Management Team during the pre-recapitalization period, four were appointed Directors of Bank Bali after the recapitalization. They were Dradjat Bagus Prasetyo, Hendry Khendy, Sjahfiri Gaffar and Nandi H. Hamaki. The Board of Directors post-recapitalization was elected by the General Shareholders Meeting and led by Dradjat Bagus Prasetyo as the President Director.

To ensure better management, each Director received specific assignments. Hendry Khendy supervised Commercial Banking Directorate, Sjahfiri Gaffar was responsible for the Operational Banking Directorate and Nandi H. Hamaki managed the Treasury and International Banking Directorate. Concurrently, Joseph Georgino Godong and Andrew Hardi Hanubrata, who have been officers of Bank Bali for 15 years, respectively led the Individual Banking and Technology Directorate as well as the Corporate Finance and Risk Management. The Board of Directors also included a senior executive of Bank Bali, Thomas Tan, who was promoted and entrusted with responsibilities as the Corporate

Resources Director. This Directorate manages Human Resources, Legal and Compliance, Corporate Communications and Corporate Services.

In the later development, the assignments were minorly changed due to the resignation of Nandi H. Hamaki from Bank Bali effective on 1 August 2001 to handle new responsibilities in Bank Rakyat Indonesia. His resignation made the Directorate previously had been under his management consolidated into the other Directorates.

To support acceleration of business development warranted for year 2001, Bank Bali conducted major organization restructuring. Firstly, the decision making chain was shortened. Formerly a senior executive who was appointed a mentor from another department had to be involved in decision making process. The new system allowed quicker delivery of service to the customers by limiting the process to the direct supervisor's acknowledgement. Secondly, to help front liners focus on their sales function and secure more customers, all support or purely administrative functions were separated from business functions. These two functions remain well-balanced despite the separation because each continues to maintain the synergy of their productivity.

In 2001, the unstable economic and monetary condition of Indonesia were marked by the weakening exchange rate and high interest rate of Rupiah currency. To Bank Bali, this was a major challenge to overcome throughout the year. Meanwhile, in October 2000 the management was the last bank recapitalized by the Government. The recapitalization bond was at a fixed rate of 12.125% in average per annum, causing negative spread in Rupiah. Consequently the management had to pay significant amount of interest subsidy due to the high interest rate of third party funding guarantee in 2001.

The above condition pushed the management to exercise various efforts in improving efficiency and exploring opportunities to increase revenue without compromising customer service quality. The result was satisfactory and the management finally achieved the goals set in the beginning of the year. In 2001, the management successfully met the Capital Adequacy Ratio (CAR) and Non

Performing Loan (NPL) targets regulated by the Central Bank and posted consolidated net profit of Rp. 216.12 billion.

Assets

By 31 December 2001, consolidated assets amounted to Rp. 13,001.60 billion, an 8.7% increase from year 2000. This was mainly attributed to the 102.6% net rise in loans distribution.

Marketable Securities

The position of marketable securities as of 31 December 2001 before allowance for losses and decline in market value was Rp. 7,623.16 billion - 69.7% of which was the recapitalization bond issued by the Government of the Republic of Indonesia on 12 October 2001.

The value of marketable securities rose by 25.4% compared to the position at the end of 2000. The increment was mainly due to significant rise in the volume of exchange offer placement worth Rp. 1,391.72 billion, the Floating Rate Notes (FRN) of minimum USD 10 million and the government bond of USD 20 million. The marketable securities acquired or placed were at the high yield - low risk category so the management can improve revenue without the expense of the CAR.

Loans

By the end of 2001, the amount of loans before allowance for losses was Rp. 2,196.33 billion, increasing sharply by 45.9% from position by the end of 2000 due to intensified lending activities.

Loans were channeled as small business loans (*Kredit Usaha Kecil*/KUK) that constituted 3.66% of total lending by 31 December 2001. KUK accounts equaled 1.40% of total debtors.

Meanwhile, by the end of 2001 lending to parties with privileged relationships decreased by 67.2% to Rp. 2.86 billion compared to the end of 2000 position.

Loans extended to key employees was in the form of vehicle, housing or other primary loans with 1 to 10 years maturity. The payment of these loans was deducted from their monthly salaries.

By the end of 2001 the accumulated allowance for loan losses was Rp. 160.04 billion or 7.3% of the loans portfolio. It was 68.0% lower than the position by the end of 2000, due to the decreasing number of non-performing loans.

Non-performing loans by the end of 2001 amounted to 3.2% of the total lending (parent company only) or Rp. 68.93 billion, plunging by 87.9% compared to the 31 December 2000 position.

By economic sectors, the management's lending portfolio was still dominated by industry and trading, respectively 40.1% and 16.2%. The lending composition by currency was 74.7% in Rupiah and 25.3% in foreign currencies. This is due to the undervaluation of Rupiah exchange rate by the end of 2001 (USD/IDR = Rp. 10,400).

Third Party Funding

Third party funding by the end of 2001 was Rp. 10,525.75 billion, increased by Rp. 1,819.10 billion or 20.9% compared to the position at the end of 2000. It constituted 84.5% of the management's total liabilities by 31 December 2001. The increase in third party funding reflected strong public trust in Bank Bali.

The structure of third party funding consist of current accounts, savings accounts and time deposits by the end of 31 December 2001 were 19.8%, 15.8% and 64.4% respectively. The public funding successfully gathered was 83.0% in Rupiah and 17.0% in foreign currencies. The average maturity period of time deposits was less than a year, and by the end of 2001 only 2.9% of the total time deposits volume was on 12 months maturity basis.

Fund generated from other parties with privileged relationships amounted Rp. 16.68 billion by the end of 2001 or decreasing 28.6% from its position by the end of 2000.

Equity

On 31 December 2001, the management posted equity of Rp. 513.94 billion, an increase of Rp. 40.82 billion or 8.6% from the level on 2000. The rise was mainly contributed by net profit yielded by the end of 2001. The Capital Adequacy Ratio (CAR) at the end of 2001 was 8.9%, decreasing from 13.5 % by the end of 2000 due to the change in CAR formula (based on the Central Bank Regulation No. 3/21/PBI/ 2001 dated 13 December 2001, effective from the end of December 2001).

Net Profit

With the success of recapitalization, the management posted operating profit of Rp. 31.57 billion in 2001 against operational loss amounted Rp. 942.49 billion at the same period in 2000. Consolidated net profit soared to Rp. 216.12 billion in 2001 compared to net loss of Rp. 1,080.36 billion in year 2000. As the positive impact of quality improvement in loans portfolio, the reversal of provision for losses of productive assets contributed significantly toward the net profit achievement in 2001. Furthermore, to create operational efficiency and exercise the contingency measure to achieve profit target in 2001, the management have divested from PT Prudential BancBali Life Assurance, Jakarta, and Bali International Finance Ltd., Hong Kong. The summary of explanation about important changes in profit/loss is available below.

Net Interest Income

After two years of net interest loss, in 2001 the management successfully yielded 130.5% increase in net interest income to Rp. 77.89 billion. The rise was caused by improvement in interest income amounting to Rp. 655.69 billion or 106.5% to the level of Rp. 1,271.12 billion in year 2001. Expense on interest, however, only rose by Rp. 322.70 billion or 37.1% to Rp. 1,193.23 billion in 2001.

The positive net interest income was mainly due to increase in lending and good management of marketable securities (except the recapitalization bond), enabling the management to close negative spread from the fixed interest rate

Products and Services

In line with the corporate strategy, innovation as well as products and services development aim at expanding market share in retail banking, particularly for small-medium enterprise activities on individual or corporate basis.

As the first step to actualize the goals that the Bank set at the beginning of 2001 - among others was to promote lending - in 2001 the Bank cooperated with the Indonesian Export Insurance (ASEI) to launch export loans particularly for exporters with small-medium businesses. By this cooperation, the conveniences exporters will enjoy is, for those who conduct transactions without letter of credit, they can choose to be covered with export insurance through ASEI and avoid unpaid risks.

Furthermore, to create added values for the customers, in 2001 the Bank introduced several new services such as free information service through Short Message Service (SMS) for Rupiah current account customers of Bank Bali. The service allowed the customers to be aware immediately of incoming fund transfer to their accounts. The Bank also continuously strived to enhance the functions of Bank Bali Call Center and ATM to provide all business partners and customers with better services. The Bank partnered with Citibank and HSBC to offer more convenience for customers in paying their Citibank and HSBC credit card bills through Bank Bali electronic distribution channel, ATM and UBUD (Bank Bali Internet Banking). Alliance was also built with PT Aplikanusa Lintasarta by joining the ATM network, so customers have more convenience in transactions and ATM availability. Together with PT CIGNA (insurance), the Bank launched Bali Cash & Fund and Bali Term Life. These are health insurance programs designed exclusively for the Bank's savings accounts, private current accounts and credit card holders. For savings account holders, in 2001 the management launched a lucky draw program for two consecutive periods.

Closer to the end of 2001, more precisely in December, the Bank and Visa International launched the first prepaid product called *"e-Wallet"* targeting on customers and non-customers of the Bank. "e-Wallet" was the first Visa Electron prepaid card with unique features. First, no personalization. This means the e-Wallet card holder is not obliged to open a bank account and any individual can

Technology

Technology remains a powerful medium for the Bank to increase revenue stream, especially from fee-based income.

Various initiatives have been exercised to benefit from the available technology infrastructure, such as the opening of ATM exotic features for ALTO whereby the customers of other banks within ALTO network can do banking, payment and purchase transactions through Bank Bali ATMs. The Bank also cooperated with the provider of ATM Rintis-BCA and ATM Bersama to expand cash withdrawal services for the customers. Furthermore, credit card payment cooperation with Citibank and HSBC has allowed the designated card holders to pay their bills through Bank Bali ATMs, Bali Kring and UBUD (internet banking) facilities.

As technology advances, it is now possible to check the net position of foreign currency reserve through online Automatic Squaring. The initiative enables more efficient and secure foreign currency transactions in the management's branches due to the switching from manual blotter registration to Jack Henry (JHA) system.

The launching of e-Wallet product previously described in the Product And Services section was also made possible by the support of technology development.

Technology has also enhanced internal communication and information distribution. Today all corporate information can be accessed by the employees through BALIinfo Online site in Lotus Notes. The site was a more efficient and effective version of the print format.

Human Resouce Development

Consistent with the Bank's commitment to giving the best, human resource quality remains crucial. Today's competition grows tighter and thus the need for smart, skilled and capable workforce has become greater.

Therefore, the Bank from time to time conducts special trainings to improve the employees' competency and professionalism. The trainings were focused on banking technical areas that relate directly with business activities. On the other hand, people management training was also provided. Trainings were led by internal resources and professional institution outside Bank Bali. Employees were also given opportunities to join external trainings on more specific areas. The conception and revision of labor policy remained continuous to build conducive work environment. These efforts are designed to improve the workforce capability and help accelerate their career path in the future, while increasing motivation and productivity.

Throughout 2001, the Bank continued to implement home-grown employee policy. By this means, available positions were filled by the internal resources. Employee recognition was also given in 2001. A total of 236 employees received recognition for their 8, 16 and 24 years of loyal service.

By the end of 2001, the management conducted organization restructuring to improve the previous year's functions and sharpen focus on supporting the execution of corporate business plan. The change was also designed to intensify market penetration for each segment and enhance operational control.

The Bank's human resource profile by the end of 31 December 2001 consists of 4,730 employees, of which 4,454 were permanent employees and 37.17% are holders of Bachelors and Masters Degrees.

Risk management

In managing the business, the Bank deals with various business risks that directly and indirectly affect the management's condition and capacity to absorb the loss depending on the level of capital at hand. As the practice of prudent banking management principle, it is necessary to construct monitoring, supervision, assessment and risk management application system which at anytime can be the centerpoint for the Management in measuring the potential of the existing and potential risks of loss.

To maximize risk supervision and management, special corresponding divisions have been formed. The divisions participating in the risk supervision and management process are :

a. Internal Control Unit (ICU)

b. Corporate Internal Audit (CIA)

c. Risk Management

The Internal Control Unit (ICU) supervises internal daily operations to identify as soon as possible any discrepancies at work. The findings then become one of the references for Corporate Internal Audit when evaluating a branch office. On the other hand, the data were also forwarded to the Risk Management as an input for advice on early anticipation of loss and how to minimize potential risk of loss.

A. Internal Control Unit

The Internal Control Unit (ICU) is a division coordinated by a branch to examine and evaluate the internal control system of previously completed transactions and to ensure whether the operation comply with the valid system and procedure.

This division reports to the Branch Manager, so that every discrepancy in the application of system and procedure in the respective branch can be promptly identified and handled by each Branch Manager.

To conduct evaluation and update the control implementation by each branch, the Head Office has formed ICU Support responsible for publishing the Guideline of Branch ICU Control Implementation to ensure uniformity in audit activities.

B. Corporate Internal Audit

To create more efficient and effective monitoring system, the Internal Audit Task Force (Work Unit *Audit Internal*) has been restructured to become Corporate Internal Audit (CIA) that emphasize more on specific areas of audit, such as Operation, Credit & Trade Finance, Information Technology, Corporate Resources Management, Treasury and others. The intensified offsite audit activities has produced better understanding of each audit area.

On the other hand, CIA's supervisory function was enhanced by the formation of Audit Committee consisting of two Commissioners and an external independent member. The CIA policy and procedure has also been reviewed to comply with the new understanding of Good Corporate Governance, which later applied to the improvement of CIA Internal Audit Chapter and Policy.

C. Risk Management

The Risk Management division is formed to comply with international banking standard that require a bank to have a risk management unit responsible for minimizing possible risks generated by the bank's daily operation. The division consists of a few units depending on the available lines of business, and at such the management have established :

1. Commercial Risk Management

   One of their activities is supervising and managing risks by :

   - Review on the spot

     Evaluation toward the borrowers' industrial, management and financial business activities using facilities from Credit Quality Point and visiting a few loans customers to collect sampling.

   - Passive review

     Evaluation on quantitative data to assess the total quality of commercial loans portfolio by monitoring account receivables and payables of each business unit every month.

2. Individual and Operational Risk Management

   To create more efficient and effective risk monitoring and management, the Risk Management division exercises further quantitative or qualitative analyses on the data collected by ICU from each business unit. The result is useful in many ways, one of which is as a recommendation for revising or writing new policy and/or procedure to minimize potential risks.

3. Treasury Risk Management

Another activity was, together with the Assets Liabilities Committee (ALCO), managing risks related to the management of the Bank's investment portfolio and cash position.

Good Corporate Governance

To improve the quality of Good Corporate Governance and comply with IBRA's directive for banks under its management, the Bank and several other banks under recapitalization have written Good Corporate Governance guideline that includes the following main point :

1. Roles, Responsibilities and Potential Development of the Board of Commissioners and the Board of Directors
2. Business Planning and Performance Monitoring
3. Supervision toward Risk Management and Compliance
4. Audit Committee Operation
5. Information Availability
6. Work Ethics

The above main ideas were excerpts from best practices found in other countries already implementing Good Corporate Governance successfully, including these Good Corporate Governance principles :

1. Fairness
2. Transparency
3. Accountability
4. Responsibility

To exercise one of Good Corporate Governance principles, the Bank selected Mr. Emri and Mr. Kemas M. Arief as Independent Commissioners by the Decree of Board of Commissioners No. 03/2001 dated 14 November 2001. This action was also to meet the requirement outlined in Announcement from the Jakarta Stock Exchange No. SE-005/BEJ/09-2001 dated 24 September 2001 about Procedure in the Election of Independent Commissioners and point C in the Decree of Jakarta Stock Exchange Board of Directors No. Kep-339/BEJ/07/2001 dated 20 July 2001.

To ensure good management and fulfill their roles, functions and responsibilities together or separately, the Board of Directors meet with the Board of Commissioners once a month. This also applies to the Audit Committee.

The application of Good Corporate Governance principles aims to create added values for the Bank's stakeholders.

The Bank will always consistently practice the Good Corporate Governance principles in the workplace, concurrent with its mission of "Giving The Best". By continuously improving performance, the Bank hopes to solidify Bank Bali's presence in the national banking community.

4.2. Comparison of Financial Statement Before and After Merger

Bank before and after merger can know to through financial statement before and after merger execution poured in balance opening of company consolidation. Bank Permata,Tbk. Last Data is consolidation balance of[is date of 30 September 2002 as follows:

Table 4.1

Balance of Consolidation Before And After Merger

30 September 2002

NO		BEFORE MERGER	CONTRIBUTION FROM OTHER BANKS	AFTER MERGER
	ASSETS			
1	Cash	195,008	160,325	355,333
2	Placements in Bank of Indonesia			
	a. Demand Deposits at Bank Indonesia	585,395	1,879,881	2,465,276
	b. Certificates of Bank Indonesia	881,513	5,418	886,931
	c. Others	2,358,705	0	2,358,705
3	Demands Deposits at other Banks			
	a. Rupiah	17,274	6,782	24,056
	b. Foreign Currencies	107,487	544,402	651,889
4	Interbank Placements			
	a. Rupiah	632,793	24,384	657,177
	b. Other Currencies	273,344	984	274,328
	Allowance for Interbank Placement	-9,572	-23,574	-33,146
5	Securities Held			
	a. Rupiah			
	- Traded	10,139	19,915	30,054
	- Available for Sale	0	14,147	14,147
	- Held to Maturity	105,321	0	105,321
	b. Foreign Currencies			
	- Traded	1,264,575	0	1,264,575
	- Available for Sale	0	896	896
	- Held to Maturity	263,370	74,321	337,691
	Allowance for Securities Held	-14,496	-19,206	-33,702
6	Government Bonds Held			
	a. Traded	0	352	352
	b. Available for Sale	0	3,422,488	3,422,488
	c. Held to Maturity	7,177,613	1,092,907	8,270,520
7	Securities Purchased under Agreement to re-sell (reverse repo)			
	a. Rupiah	0	0	0
	b. Foreign Currencies	0	0	0
	Allowance for Securities Purchased -/-	0	0	0

8	Derivative Assets	78	0	78
	Allowance for Derivative Assets -/-	-1	0	-1
9	Credit Extended (Loan)			
	a. Rupiah			
	- Connected Parties	2,685	5	2,690
	- Other Parties	2,399,838	5,523,135	7,922,973
	b. Foreign Currencies			
	- Connected Parties	0	0	0
	- Third Parties	420,885	1,770,047	2,190,932
	Allowance for Credit Extended	-73,860	-1,503,148	-1,577,008
10	Acceptance Assets	60,467	13,675	74,142
	Allowance Acceptance Assets -/-	-605	-299	-904
11	Equity Participation	17,867	192,218	210,085
	Allowance for Equity Participation	-1,909	-170,427	-172,336
12	Deferred Income	266,875	143,328	410,203
13	Prepaid Expenses	24,649	42,685	67,334
14	Prepaid Taxes	1,520	19	1,539
15	Deferred Tax Assets	144,317	376,427	520,744
16	Fixed Assets	760,792	399,939	1,160,731
	Accumulated Depreciation of Fixed Assets	-242,380	-159,100	-401,480
17	Leased Assets	0	0	0
	Accumulated Depreciation of Leased Assets	0	0	0
18	Transferred Collaterals	72,509	410,471	482,980
19	Other Assets	695,614	44,955	740,569
	TOTAL ASSETS	18,397,810	14,288,352	32,686,162

NO		BEFORE MERGER	CONTRIBUTION OTHER BANK	AFTER MERGER
	LIABILITIES			
1	Demand Deposits			
	a. Rupiah	1,043,416	1,444,540	2,487,956
	b. Foreign Currencies	1,038,367	406,571	1,444,938
2	Other Current Liabilities	783,670	372,597	1,156,267
3	Saving Deposits	1,618,488	1,168,137	2,786,625
4	Time Deposits			
	a. Rupiah			
	- Connected Parties	2,505	421,540	424,045
	- Other Parties	6,949,253	9,613,846	16,563,099
	b. Foreign Currencies			
	- Connected Parties	11,946	36,824	48,770
	- Other Parties	749,816	1,276,015	2,025,831
5	Certificates of Deposits			
	a. Rupiah	0	5,539	5,539
	b. Foreign Currencies	0	0	0
6	Deposits From Other Banks	14,013	13,411	27,424
7	Securities Sold Under Agreement	0	42,868	42,868
8	Derivative Liabilities	13	0	13
9	Acceptance Liabilities	42,907	13,675	56,582

10	**Securities Issued**			
	a. Rupiah	189,095	0	189,095
	b. Foreign Currencies	10,420	0	10,420
11	**Borrowings**			
	a. Short Term Funding Facilities from Bank Indonesia	0	0	0
	b. Others			
	i. Rupiah			
	- Connected Parties	0	0	0
	- Other Parties	78,938	789,533	868,471
	ii. Foreign Currencies			
	- Connected Parties	0	0	0
	- Other Parties	416,892	91	416,983
12	**Allowance for Losses on Commitment**	15,314	26,921	42,235
13	**Leasing Liabilities**	0	0	0
14	**Deferred Expenses**	60,256	77,529	137,785
15	**Income Tax Assessment**	2,060	0	2,060
16	**Deffered Expenses**	0	0	0
17	**Other Liabillities**	124,495	59,564	184,059
18	**Subordinated Loans**			
	a. Connected Parties	0	0	0
	b. Other Parties	0	0	0
19	**Loan Capital**			
	a. Connected Parties	0	0	0
	b. Other Parties	0	0	0
20	**Minority Interest**	39,271	0	39,271
21	**Equities**			
	a. Paid Up Capital	668,646	1,228,771	1,897,417
	b. Agio (Disagio)	5,023,052	5,298,369	10,321,421
	c. Deposit for Future Stock Subscribe	4,600,000	0	4,600,000
	d. Donated Capital	0	0	0
	e. Translation Adjustment in Financial Statement	-21,451	0	-21,451
	f. Increment from Revaluation of Fixed Assets	43,574	87,846	131,420
	g. Unrealized Gains/ Losses	0	-1,772	-1,772
	h. Other Comprehensive Income	0	0	0
	j. Retained Earnings (Losses)	-5,107,146	-8,094,063	-13,201,209
	TOTAL LIABILITIES AND STOCKHOLDER EQUITY	18,397,810	14,288,352	32,686,162

Tabel 4.2.

Total Equity

EQUITY			
a. Paid Up Capital	668,646	1,228,771	1,897,417
b. Agio (Disagio)	5,023,052	5,298,369	10,321,421
c. Deposit for Future Stock Subscribe	4,600,000	0	4,600,000

d. Donated Capital	**0**	**0**	**0**
e. Translation Adjustment in Financial Statement	**-21,451**	**0**	**-21,451**
f. Increment from Revaluation of Fixed Assets	**43,574**	**87,846**	**131,420**
h. Unrealized Gains/Losses of Security	**0**	**-1,772**	**-1,772**
i. Other Comprehensive Income	**0**	**0**	**0**
j. Retained Earnings	**-5,107,146**	**-8,094,063**	**-13,201,209**
TOTAL EQUITIES	**5,206,675**	**-1,480,849**	**3,725,826**

Table 4.3

Total Loan Given

Credit Given (Loan)	**Before Merger**		**After Merger**
a. Rupiah			
- Connected Parties	2,685	5	2,690
- Other Parties	2,399,838	5,523,135	7,922,973
b. Foreign Currencies			
- Connected Parties	0	0	0
- Other Parties	420,885	1,770,047	2,190,932
TOTAL CREDIT GIVEN (LOAN)	2,823,408	7,293,187	10,116,595

Table 4.4

Society Fund

Society Fund			
Time Deposit			
a. Rupiah			
- Connected Parties	2,505	421,540	424,045
- Other Parties	6,949,253	9,613,846	16,563,099
b. Foreign Currency			0
- Connected Partie	11,946	36,824	48,770

- Other Parties	749,816	1,276,015	2,025,831
TOTAL SOCIETY FUND	7,713,520	11,348,225	19,061,745

Table 4.5

Productive Assets

	BEFORE MERGER	From Other Banks	AFTER MERGER
ASSETS			
Cash	195,008	160,325	355,333
Placements at Bank Indonesia	3,825,613	1,885,299	5,710,912
Demand Deposits at Other Banks	124,761	551,184	675,945
Interbank Placements	896,565	1,794	898,359
Securities Held	1,628,909	90,073	1,718,982
Government Bonds Held	7,177,613	4,515,747	11,693,360
Securities Purchased Under Agreement to re sell (reverse repo)	0	0	0
Derivative Assets	77	0	77
Acceptance Assets	59,862	13,376	73,238
Deffered Income	266,875	143,328	410,203
Prepaid Expenses	24,649	42,685	67,334
Prepaid Taxes	1,520	19	1,539
CURRENT ASSETS	**14,201,452**	**7,403,830**	**21,605,282**
Credit Extended (Loan)	2,749,548	5,790,039	8,539,587
Equity Participation	15,958	21,791	37,749
Deffered Tax Assets	144,317	376,427	520,744
Fixed Assets	518,412	240,839	759,251
Leased Assets	0	0	0
Transferred Collaterals	72,509	410,471	482,980

FIXED ASSETS	**3,500,744**	**6,839,567**	**10,340,311**
Other Assets	695,614	44,955	740,569
TOTAL ASSETS	18,397,810	14,288,352	32,686,162

Tabel 4.6.

Summary of Financial Information and Financial Ratio

(in percentage)

Descriptions	BEFORE MERGER	Contribution from Joined Banks	AFTER MERGER
Total Equity and Liabilities to Total Assets	71.70	110.36	88.60
Total Liability to Total Equity	253.35	-1,064.88	777.29
Total Credit given to Total Assets	15.35	51.04	30.95
Total Productive Assets to Total Assets	86.51	87.49	86.94
Total Fund from Society to Total Assets	41.93	79.42	58.32
Credit Given to Fund Received	36.60	64.27	53.07
Allowance of Bad Credit to Credit Given	-2.62	-20.61	-15.59
Current Ratio	112.21	49.43	78.18
Cash Ratio	39.84	17.35	27.65
Working Capital to Total Asset Ratio	8.40	-53.02	-18.45
Total Debt to Total Equity Ratio	253.35	-1,064.88	777.29
Total Debt to Total Asset Ratio	71.70	110.36	88.60
Return On Investment Ratio	-27.76	-56.65	-40.39
Rate of Return on Net Worth Ratio	-49.62	-124.01	-78.49
		In million Rupiah	
Total Assets	18,397,810	14,288,352	32,686,162
Total Liabilities	13,191,135	15,769,201	28,960,336
Total Equity	5,206,675	-1,480,849	3,725,826

Current Ratio shows ability of company to pay for debt which immediately has to chockablock circulating assets. Before merger of Rp. 1 debt guaranteed by

Rp. 1,12; bank joining forces Rp. 1 debt guaranteed by Rp. 0,49; and merger having taken steps hence Rp. 1 debt guaranteed by Rp. 0,78 circulating assets.

Cash Ratio show ability of company in paying debt very immediately. Before merger of Rp. 1 current liabilities guaranteed by Rp. 0,40 bank and cash; bank joining forces Rp. 1 current liabilities guaranteed by Rp. 0,17 bank and cash; after merger of Rp. 1 current liabilities guaranteed by Rp. 0,28 bank and cash.

Total Working Capital to of Asset used to measure total liquidity of net working capital position and asset. Before merger of its ratio is 0,08; bank joining forces to have ratio - 0,53; after merger of its ratio is - 0,18.

Total Debt to of Equity measure the part of each capital Rupiah alone taken as for the whole of the debt. Before merger of Rp. 1 capital to guarantee Rp. 2,53 debt; bank joining forces Rp. 1 capital to guarantee - Rp. 10,68; after merger of Rp. 1 capital to guarantee Rp. 7,77 debt.

Total Debt to of Asset Ratio measure how big asset taken as guarantee to close debt. Before merger of Rp. 0,72 debt guaranteed by Rp. 1 Totaling company asset; bank joining forces Rp. 1,10 debt guaranteed by Rp. 1 asset had; after merger of Rp. 0,87 debt guaranteed by Rp. 1 asset had by pertinent company (Bank Permata).

On Investment Return show ability from fund which is inculcated in company in yielding net profit. Before merger every Rp. 1 asset yield loss equal to Rp. 0,28; bank joining forces every Rp. its 1 asset yield loss equal to Rp. 0,57; after merger of Rp. 1 asset yield loss equal to Rp. 0,40.

Of Return Net Worth on Rate show level ability of capital alone in yielding profit / net loss. Before merger at Bali Bank each Rp. 1 capital alone yield Rp loss. 0,50; after bank joining forces Rp. 1 capital alone yield loss equal to Rp. 1,24; after merger of Rp. 1 capital alone will yield loss equal to Rp. 0,78.

Amount of obligation and asset had positive valuable so that before merger of each bank have value which are positive so that after merger assess asset and its obligation mount. Equity bank value becoming mains is positive while bank equity after joining forces positive valuable so that assess bank equity after merger on the wane.

CHAPTER V.
CONCLUSION AND RECOMMENDATION

5.1. Conclusion

1. Bank Bali as a main bank to conduct merger have loss balance. Asset, obligation and its Equity has positive value. Banks which joining forces are; Universal Bank, Artamedia Bank, Prima Express Bank and Patriot Bank, totally have worse finance condition. Not only its bad ratios, but also have negative in profit/lost balance. However because all the bank is bank which in IBRA (Indonesian Restructuring Banking Agency) supervision, we can expect that had a bad financial performance previously.
2. Bank Permata as a result of five bank that conducting merger, still have quite lack of financial performance. Asset and its obligation growing larger, but its equity is not too good. Its Financial Ratios also not too good, because however Bank Permata represent a form from banks which brings their problem into the new company.
3. Condition of Permata Bank's finance as a result of merger in fact resides in both of bank group. Bali Bank as the acquirer having better performance subsidize bank joining forces so that financial ratio of bank after merger there is among 2 condition of that is among bank which is acquirer and joining forces before merger. Clear Financial increase is at asset side, where each having asset which are positive.

5.2. Recommendation

1. Merger or business combination, in this case Permata Bank, is right and can be conducted to get big asset, so that can be made for the capital of the period to come. Just only management require to see that result of merger from performance bank altogether have big risk more than anything else for the bank of having an finance problem.

2. If target of merger just for addition of asset without followed with correction of management and policy, hence to be able to succeed very difficult therefore first matter which require to be conducted is with correction of management by exploiting asset had and also big office network by eliminating branch office in one place.
3. Management require to conduct extension of its ownership, because if big asset or capital but ownership do not be extended even is exactly narrowed, hence bank will be difficult to expand.

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