Post Merger Performance Analysis Case Of Permata Bank

THESIS

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POST-MERGER PERFORMANCE ANALYSIS (CASE OF: PERMATA BANK)

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ABSTRAK

Merger possibilities between banks and finding ways for small banks in facing regulation pressure and competition which is become more intense are the topics of banking discussion in Indonesia today. Other trend of banking industry is consolidation through M&A to response and behaves toward the internal bank condition and global environment alteration. Merger is one of the choices to keep the bank competitive ability. The purpose of the research is to investigate whether any significance different on bank performance after merger. Data collection using library study from several published sources. There are four aspects measured in by calculating four financial ratios: capital aspect measured by CAR, management aspect measured by profit margin, earning aspect measured by OEOI, and liquidity by measuring LDR. A statistical tool used to analyze the data is paired t-test two sample which compared mean of each ratio in the pre- and post-merger period. The result of the research proves that there is no significant different of bank performance after merger in term of capital adequacy, management, earning, and liquidity.

Key Words: merger, bank performance

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ABSTRACT

Merger possibilities between banks and finding ways for small banks in facing regulation pressure and competition which is become more intense are the topics of banking discussion in Indonesia today. Other trend of banking industry is consolidation through M&A to response and behaves toward the internal bank condition and global environment alteration. Merger is one of the choices to keep the bank competitive ability. The purpose of the merger is not only to fulfill minimum determination of financial capital of the bank which is determined by Central Bank or Bank of Indonesia, but also to create powerful financial capital of the bank, to create healthy finances condition, and to create bank with high competitiveness in order to running out intermediation function.

The purpose of the research is to investigate whether any significance different on bank performance after merger. Data collection using library study from several published sources. There are four aspects measured in by calculating four financial ratios: capital aspect measured by CAR, management aspect measured by profit margin, earning aspect measured by OEOI, and liquidity by measuring LDR. A statistical tool used to analyze the data is paired t-test two sample which compared mean of each ratio in the pre- and post-merger period.

The result of the research proves that there is no significant different of bank performance after merger in term of capital adequacy, management, earning, and liquidity.

CHAPTER I

INTRODUCTION

1.1 Background of the Research

Entering the Era of Free Trade, competition between companies is becoming more intense. Such conditions require firms to continuously develop corporate strategies in order to survive or can be more developed. Companies need to develop an appropriate strategy so the company could maintain its existence and improve their performance.

As an organism, a company will experience a variety of conditions: growth and developing dynamically, is on static conditions and experience the process of regression or shrinkage. In order to grow and develop, these companies can do business expansion by selecting one of the alternative route between the two are the growth of the firm (the organic / internal growth), and growth from outside the company (external growth).

Internal growth is the expansion that was done by building a business or new business units from scratch. This path requires different stages ranging from market research, product design, recruitment of experts, market testing, procurement and construction of production facilities / operations before the company sells its products to market. Mergers and acquisitions are an external growth strategy and it is a fast path to access a new market and new products without having to build from scratch. There is a very significant time savings between the internal and external growth through mergers and acquisitions. From time to time, the company prefers external growth through mergers and acquisitions than internal growth.

Mergers and acquisitions (M&As) have become major means of industry consolidation. A merger can be defined as an amalgamation, if all assets and liabilities of one company are transferred to the transferee company, in consideration of payment in the form of equity shares of the transferee company or debentures or cash or a mix of the above modes of payment. An acquisition, on the other hand, is aimed at gaining a controlling stake in the share capital of targeted company. A takeover, which is essentially an acquisition, differs from a merger in its approach to business combinations. Merger activity relatively affects more stakeholders of a firm. It is very consequential at the firm and economy level.

There are various reasons behind firms going for mergers and acquisitions. The main corporate objectives are to gain greater market power, gain access to innovative capabilities, thus reducing the risks associated with the development of a new product or service, maximize efficiency through economies of scale and scope and finally in some cases, reshape a firm's competitive scope. Other reasons include a short-term solution to finance problems that companies face due to information asymmetries (Fluck and Lynch, 1999), revitalize the company by bringing in new knowledge to foster long-term survival (Vermeulen and Bakerma, 2001) and to achieve synergy effects (Lubatkin,1987; Birkinshaw et al., 2000).

The M&A deals are common not only in the developed countries but also have become more apparent in the developing counties. In the pre-liberalization period, in India, corporate restructuring had not been uncommon though the frequency was not much. In early 1990s mergers, acquisitions, takeovers and other strategic alliances in the corporate sector geared up for a large scale restructuring in the face of cut throat competition from multinational corporations as well as exploiting new opportunities. There were many M&A deals in banking sector also in recent times. Firms go for M&A with high expectations and there is conflicting evidence, both for and against, on impact of M&As on firm performance.

Bank consolidation in the form of merger become one of the regulation initiated by the Indonesian Central Bank in order to improve banking system's capacity to provide financial intermediation between savers and borrowers and restore public confidence. As merger activities around the world have same purpose, the most common purpose for merger is to increase efficiency and reduce costs. In the depth of crisis, initiated by the government, sixty seven banks were closed, merged or acquired by other institutions. To recondition bank balance sheets and public confidence, the government implemented a major restructuring and recapitalization program, directed by the Indonesian Bank Restructuring Agency. The priorities were to reduce overlap in the banking sector and to create much larger and stronger entities that could serve the needs of modern economy. Therefore, merger mechanism became one of the options for banking industry to survive the crisis.

Permata Bank is one of the largest private banks in Indonesia. This bank is merged of five banks: Bank Bali, Bank Universal, Bank Prima Express, Artamedia Bank and Bank Patriot. It formed as implementation of bank consolidation program conducted by Indonesian Central Bank. This merger is expected to improve the Bank performance.

Based on the conceptualization, I will investigate and analyze the topic in a thesis with the title is "**Post-Merger Performance Analysis (Case of: Permata Bank)**"

1.2 Problem statement

Based on the research background, the problems statement of the research is: How does the difference of performance of the Permata Bank before and after merger, in term of capital adequacy, management, earning, and liquidity?

1.3 Research objective

The objectives of the present research are

1. To analyze post-merger performance whether there is any performance improvement after the merger.
2. To provide information for the company on merger decision making

1.4 Significance of the research

1. Theoretically, the research is expected to give contribution to the research about post-merger performance analysis
2. For the managers, before taking decision on merger or Acquisition, they can predict the company performance which reflected on company financial report

3. For the readers, the research is expected to provide additional references, both for the purposes of research or to add the knowledge about analyzing the post-merger performance

1.5 Structure of Writing

The following are the order of the research, which will be divided into six sections:

Chapter I : Introduction

This chapter describes the background of the problem statement, research objective

Chapter II : Literature Review and Theoretical Framework

This chapter will describe the related theories and opinions of the experts gathered from different sources, such as text-books, reading materials, journals, and internet based content and information.

Chapter III : Research Methods

This chapter describes the related theories and techniques used to analyze the data and information needed for this thesis.

Chapter IV : Organizational Review

This chapter will give a brief description of Permata Bank, such as the company's profile

Chapter V : Data Analysis and Result

This chapter will describe the implication and result of the research based on the data and information gathered by relating theories and its implementation in this company

Chapter VI : Conclusion

This chapter will describe the conclusion, limitations and the areas of further research.

CHAPTER II

REVIEW OF LITERATURE

2.1 Mergers and acquisitions

The phrase mergers and acquisitions (abbreviated M&A) refers to the aspect of corporate strategy, corporate finance and management dealing with the buying, selling and combining of different companies that can aid, finance, or help a growing company in a given industry grow rapidly without having to create another business entity (DePamphilis, 2008).

Mergers may occur in varied forms. A horizontal merger is one where two competing firms belonging to the same industry join. In a vertical merger a company takes over or seeks a merger with another company to ensure acquisition of the sources of supply (backward integration) or forward integration towards market outlets. A conglomerate merger is the amalgamation of two firms engaged in unrelated businesses to enhance the overall stability of the acquiring company by improving its business and/or product portfolio. Economic theory generally offers two competing thoughts about the efficacy of mergers as corporate restructuring strategies. First, the neoclassical theory or the value-maximizing theory assumes merger consequences as the motivation for mergers, and views corporate mergers as value-enhancing activities in which managers work to achieve shareholders' wealth maximization goal of the firm (Franks and Hariss, 1989). Second, in contrast, is managerial theory or non-value maximizing theory, which views mergers as the extension of managers' own potential interests, undertaken for the purpose of increasing their own wealth or prestige by managing a larger post-merger entity (Roll, 1986). The market for corporate managing a larger post-merger entity (Roll, 1986). The market for corporate control is best viewed as an arena in which managerial teams compete for the rights to manage resources (Jensen and Ruback, 1983).

2.1.1 Acquisition

An acquisition, also known as a takeover or a buyout or "merger", is the buying of one company (the 'target') by another. An acquisition may be friendly or hostile. In the former case, the companies cooperate in negotiations; in the latter case, the takeover target is unwilling to be bought or the target's board has no prior knowledge of the offer. Acquisition usually refers to a purchase of a smaller firm by a larger one. Sometimes, however, a smaller firm will acquire management control of a larger or longer established company and keep its name for the combined entity. This is known as a reverse takeover. Another type of acquisition is reverse merger, a deal which enables a private company to get publicly listed in a short time period. A reverse merger occurs when a private company that has strong prospects and is eager to raise financing buys a publicly listed shell company, usually one with no business and limited assets. Achieving acquisition success has proven to be very difficult, while various studies have shown that 50% of acquisitions were unsuccessful. The acquisition process is very complex, with many dimensions influencing its outcome (DePamphilis, 2008).

- The buyer buys the shares, and therefore control, of the target company being purchased. Ownership control of the company in turn conveys effective control over the assets of the company, but since the company is acquired intact as a going concern, this form of transaction carries with it all of the liabilities accrued by that business over its past and all of the risks that company faces in its commercial environment.

- The buyer buys the assets of the target company. The cash the target receives from the sell-off is paid back to its shareholders by dividend or through liquidation. This type of transaction leaves the target company as an empty shell, if the buyer buys out the entire assets. A buyer often structures the transaction as an asset purchase to "cherry-pick" the assets that it wants and leave out the assets and liabilities that it does not. This can be particularly important where foreseeable liabilities may include future, unquantified damage awards such as those that could arise from litigation over defective products, employee benefits or terminations, or environmental damage. A disadvantage of this structure is the tax that many jurisdictions, particularly outside the United States, impose on transfers of the individual assets, whereas stock transactions can frequently be structured as like-kind exchanges or other arrangements that are tax-free or tax-neutral, both to the buyer and to the seller's shareholders.

2.1.2 Distinction between mergers and acquisitions

Although they are often uttered in the same breath and used as though they were synonymous, the terms merger and acquisition mean slightly different things. When one company takes over another and clearly establishes itself as the new owner, the purchase is called an acquisition. From a legal point of view, the target company ceases to exist, the buyer "swallows" the business and the buyer's stock continues to be traded.

In the pure sense of the term, a merger happens when two firms agree to go forward as a single new company rather than remain separately owned and operated. This kind of action is more precisely referred to as a "merger of equals". The firms are often of about the same size. Both companies' stocks are surrendered and new company stock is issued in its place. For example, in the 2001 merger of Sony and Ericsson, both firms ceased to exist when they merged, and a new company, Sony Ericsson, was created.

In practice, however, actual mergers of equals don't happen very often. Usually, one company will buy another and, as part of the deal's terms, simply allow the acquired firm to proclaim that the action is a merger of equals, even if it is technically an acquisition. Being bought out often carries negative connotations, therefore, by describing the deal euphemistically as a merger, deal makers and top managers try to make the takeover more palatable. An example of this would be the takeover of Chrysler by Daimler-Benz in 1999 which was widely referred to in the time.

A purchase deal will also be called a merger when both CEOs agree that joining together is in the best interest of both of their companies. But when the deal is unfriendly - that is, when the target company does not want to be purchased - it is always regarded as an acquisition.

Whether a purchase is considered a merger or an acquisition really depends on whether the purchase is friendly or hostile and how it is announced. In other words, the real difference lies in how the purchase is communicated to and received by the target company's board of directors, employees and shareholders. It is quite normal though for M&A deal communications to take place in a so called 'confidentiality bubble' whereby information flows are restricted due to confidentiality agreements (Harwood, 2006).

2.1.3 Motives behind M&A

The dominant rationale used to explain M&A activity is that acquiring firms seek improved financial performance. The following motives are considered to improve financial performance:

- Economy of scale: This refers to the fact that the combined company can often reduce its fixed costs by removing duplicate departments or operations, lowering the costs of the company relative to the same revenue stream, thus increasing profit margins.
- Economy of scope: This refers to the efficiencies primarily associated with demand-side changes, such as increasing or decreasing the scope of marketing and distribution, of different types of products.
- Increased revenue or market share: This assumes that the buyer will be absorbing a major competitor and thus increase its market power (by capturing increased market share) to set prices.
- Cross-selling: For example, a bank buying a stock broker could then sell its banking products to the stock broker's customers, while the broker can sign up the bank's customers for brokerage accounts. Or, a manufacturer can acquire and sell complementary products.
- Synergy: For example, managerial economies such as the increased opportunity of managerial specialization. Another example are purchasing economies due to increased order size and associated bulk-buying discounts.

- Taxation: A profitable company can buy a loss maker to use the target's loss as their advantage by reducing their tax liability. In the United States and many other countries, rules are in place to limit the ability of profitable companies to "shop" for loss making companies, limiting the tax motive of an acquiring company.
- Geographical or other diversification: This is designed to smooth the earnings results of a company, which over the long term smoothens the stock price of a company, giving conservative investors more confidence in investing in the company.
- Resource transfer: resources are unevenly distributed across firms and the interaction of target and acquiring firm resources can create value through either overcoming information asymmetry or by combining scarce resources.
- Vertical integration: Vertical integration occurs when an upstream and downstream firm merges (or one acquires the other). There are several reasons for this to occur. One reason is to internalize an externality problem. A common example is of such an externality is double marginalization. Double marginalization occurs when both the upstream and downstream firms have monopoly power; each firm reduces output from the competitive level to the monopoly level, creating two deadweight losses. By merging the vertically integrated firm can collect one deadweight loss by setting the upstream firm's output to the competitive level. This increases profits and consumer surplus. A merger that creates a vertically integrated firm can be profitable.

However, on average and across the most commonly studied variables, acquiring firms' financial performance does not positively change as a function of their acquisition activity. Therefore, additional motives for merger and acquisition that may not add shareholder value include:

- Diversification: While this may hedge a company against a downturn in an individual industry it fails to deliver value, since it is possible for individual shareholders to achieve the same hedge by diversifying their portfolios at a much lower cost than those associated with a merger.
- Manager's hubris: manager's overconfidence about expected synergies from M&A which results in overpayment for the target company.
- Empire-building: Managers have larger companies to manage and hence more power.
- Manager's compensation: In the past, certain executive management teams had their payout based on the total amount of profit of the company, instead of the profit per share, which would give the team a perverse incentive to buy companies to increase the total profit while decreasing the profit per share (which hurts the owners of the company, the shareholders); although some empirical studies show that compensation is linked to profitability rather than mere profits of the company (Cartwright, and Schoenberg, 2006).

2.2 The impact of M&A on Performance

2.2.1 Positive impact of M&A on performance

The remaining assets of the firm improved in performance after asset sales that subsequently left the firm more focused according to John and Ofek (1995, reported by Kumar and Bansal, 2008). Mitchell and Mulherin (1996, cited in Kumar and Bansal, 2008) found the industrial associations between target and acquirer were fruitful for the bidding firms. There were significant improvements in the liquidity, leverage and profitability position of seven out of eight studied companies. Normally, total assets were financed by equity, debt and retained earnings. In the study, it was found that total assets were always less than the debt plus equity for pre acquisition period, but after acquisition, it turned out to be positive. All the units selected for the study were sick, but after takeover five out of eight revived. The acquiring firms had performed above the industry average and the acquired firms were below the industry average in terms of size and profitability (Cosh et al., 1998). The firms recorded meaningful synergy in their net earnings, and those with the successful merger of the firms, the return on capital employed and return on total assets, increased substantially with a significant percentage. The variability in the earnings (risk) of the pre-merger firms was significantly higher than that of post-merger firms. The cost ineffectiveness ranged from 10-20 percent increasing with their size and profit inefficiencies were even higher. Scale economies were significant only for small banks. Larger and more sophisticated banks bought less profitable banks, possibly as a way to enter new markets or to improve the quality of the loan portfolio of the acquired bank. There were no evidence of cost reduction after M&As; however, profitability increased for merging corporations because of a more efficient use of capital, a decrease in tax burden and an increase in fee-related income; for acquired banks, the improvement were due to a decrease in bad loans as a fraction of total loans; for state owned banks there were no discernible effect of a merger, except for an increase in labor cost (Salleo, 1999).

2.2.2 Negative impact of M&A on performance

M&A activities are taking place to generate synergy. Research study attempted to develop to provide a workable model for M&As but the study revealed that only 17 percent of financial service firms those merged in the past two years over globally could manage to create good returns (Mohan and Suganthi, 2001). Research showed that merger did not lead to improved performance. The only significant gains to the acquired firm were through an increased leverage. The Analysis further shows that merger did not lead to excess profits for the acquiring firm. Poor corporate performance in post-merger period has been attributed to numerous reasons – manager's desire for position and influence, low productivity, poor quality, reduce commitment, voluntary turnover, and related hidden costs and untapped potential (Buono, 2003).

2.2.3 Mixed impact of M&A on performance

Out of the four ratios, three ratios namely, earning to equity ratio, liquidity ratio and size ratio, turned out to be positive for acquired firms; whereas pre-tax profit, the fourth ratio, turned out negative at 2 percent level of significance. The study of profitability after mergers found that selling expenses, administrative expenses and operating expenses came down. But the substantial decrease in the expenses was found in the related mergers cases only. The earnings per share increased marginally. In most of the cases the return on capital employed, return on total assets and return on equity enhanced with a marginal rate. In few cases, it was found that there had been an increase in the net profit, but when the discounted rate of return was calculated for pre merger and after merger period, there were no sign of increase of profits in after merger era. In regards of dividends percentage growth had been more in case of MNCs, while Indian companies had maintained a constant dividend (Jain et al., 1999).

2.3 Merger Performance Measurement

M&A is one of the important topics in the area of finance and strategy; especially, performance related issues, which have been subjected to various academic studies. Measuring merger performance has been one of the most difficult problems in front of researchers. Different tools and techniques in the forms of ratio analysis etc. are used by scholars to identify the effects of M&As and interestingly different results are there in the market. Performance can be measured on the basis of long-term and short-term time period; long-term performance can be checked on the basis of profitability of the firm. Fundamental analysis of the company with the help of ratio analysis, comparative statement analysis is there to see the potential and capitalized synergy in cases of M&As in long run.

The acquiring firm generally earns positive returns prior to announcements, but less than the market portfolio in the post-merger period. The operating performance approach compares the pre-merger and post-merger performance of companies using accounting data to determine whether consolidation leads to changes in reported costs, revenue or profit figures (Healy et al., 1992). They suggest that mergers may alter the level of profits of a firm either because it alters the monopoly power (the market power) or alters the efficiency or both. Hence a firm's post-merger operating performance is one indicator of the synergy gain that is generated by a merger or an acquisition.

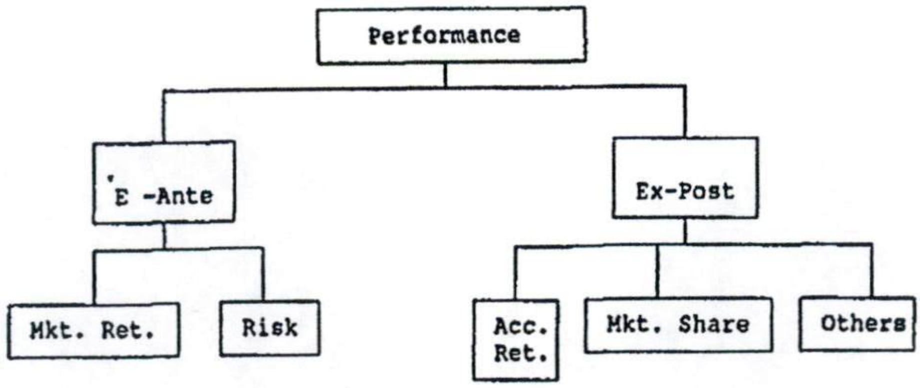
The question of whether M&As improve corporate performance is one that has been addressed by many researchers over the last three decades (for example – Cosh et al., 1980; Healy et al., 1992; Manson et al., 2000; Ghosh, 2001). Unfortunately, there still appears to be no consensus on whether M&A create improvements in operating performance. The issue appeared to be settled in the USA with contributions by many scholars (Healy et al., 1992). These studies report statistically significant estimates of improvements in the post-takeover industry-adjusted operating cash flows their respective samples. Similar results are also found in the UK (Manson et al., 2000).

2.3.1 Measures are used to examine merger performance

Researchers have used a variety of measures to examine merger performance. As shown in Figure 1, these measures can be broadly divided into ex-ante or anticipatory measures and ex-post or after the fact measures. Thus, for example, returns based on stock market performance are an ex-ante measure, while accounting-based returns are ex-post measures. The literature on merger performance can be studied using the framework given in Figure 2.1 under the following categories: returns-both accounting and market-based risk, market share, and others. In the following sections, each of these categories will be discussed in detail (Subramanian, Ebrahimi and Thibodeaux, 1992).

Figure 2.1

Measures are Used to Evaluate Merger Performance



2.3.1.1 Returns

Past researchers used accounting-based measures such as return on investment (ROI) and price-earnings ratio (P/E) to measure merger performance (Melicher and Nielson, 1978). Halpern (1983) criticizes research studies that use purely accounting-based performance measures to study the effects of mergers. His criticisms, also shared by others (e.g., Lubatkin and Shrieves, 1986), include the following; First, accounting data are historical and reflect past performance (ex-post) rather than expected future earnings (ex-ante). The second shortcoming is that it is difficult to get comparable control groups using accounting-based measures. Third, most publicly available accounting data (e.g., from annual reports) are highly aggregated, making it difficult to isolate the effects of individual and relatively small events such as mergers and acquisitions which sometimes account for less than 5 percent of a firm's total assets. His final criticism is that accounting-based measures capture only one dimension of performance.

Halpern (1983) supports the body of work that examines merger performance using what is called an "event study." An "event study," according to Halpern (1983), studies the impact of an event by comparing the returns to the stockholders after the event (in this case a merger or an acquisition) with returns predicted by general market relationships. Support for using event studies rather than accounting-based rates of return to measure performance can also be found in the strategic management literature (Lubatkin and Shrieves, 1986).

Halpern (1983) reviewed the finance literature that examined merger performance using an event study approach. He concluded that, while strong evidence exists to suggest that higher than normal returns accrue to stockholders of acquired firms following a merger, the findings were inconclusive regarding the returns to the stockholders of the acquiring firm.

Several explanations are offered in the finance literature (e.g., Michel and Shaked, 1985) for gains to the stockholders of acquired firms being higher than normal. The first explanation is that the acquired firm may not have the managerial expertise or access to finances to exploit its unique resources. The second explanation is that the acquired firm may have been operating at suboptimal levels of efficiency and the merger may be seen as a way of increasing the level of performance.

Finally, it is argued that, attracted by the potential synergy possible in a merger, acquiring firms often overpay. Thus, synergies are created at a high cost which often cancels the gains derived from synergy. Thus, since there are often no real gains from a merger for stockholders of the acquiring firm, the returns to stockholders are either less than or equal to those from other similar investments.

However, to the best of the current researchers' knowledge, none of these explanations appear to have empirical support.

Most of the early studies examined merger performance by classifying mergers into two broad categories: related and unrelated. This two-way classification is too broad to be of practical value and is also inconsistent with schemes suggested in the strategic management literature (Lubatkin, 1987).

Lubatkin offered a scheme based on the Federal Trade Commission's categorization that sought to overcome the limitations caused by the broad classifications used in earlier studies. He classified mergers as product concentric, horizontal, market concentric, conglomerate, and vertical. His classification scheme touched off a series of studies that examined merger performance in relation to the type of merger.

Contrary to the conclusions arrived at by finance researchers, Lubatkin (1987) found evidence to suggest that gains accrued to stockholders of both the acquired and the acquiring companies. He, however, could not find any significant differences in returns among merger types. Pettway and Yamada (1986) found similar evidence in their study of mergers in Japan. In conclusion, although the finance and strategic management disciplines agree on returns to the stockholders of acquired firms, they are divided as to the returns to the acquiring firms' stockholders.

2.3.1.2 Risk

Langeteig, Haugen, and Wichern (1980) examined the relationship between risk and mergers by using traditional finance literature-based measures such as Beta, total variance, and residual variance. They concluded that, partly because of increased leverage, mergers result in increased risk for the consolidated firm.

Subsequent studies from the strategic management perspective that used different constructs of risk (Lubatkin and O'Neill, 1987), however, concluded that one of the reasons firms merge is to reduce risk. Lubatkin and O'Neill (1987) classified risk as unsystematic or business-specific risk, systematic or market risk, and total risk that is the combination of both unsystematic and systematic risks. Using a model developed earlier by Lubatkin and Shrieves (1986) to operationalize the different types of risk, they concluded that all types of mergers result in a significant increase in unsystematic risk, while related mergers result in a corresponding reduction in both systematic and total risks for the consolidated firm. Lubatkin and O'Neill (1987) thus, argue that risk reduction may be a valid rationale for mergers. Therefore, like the evidence on measures using returns, the literature on the nexus between mergers and risk is also conflicting.

2.3.1.3 Market Share

Horizontal integration (merging with or acquiring a competitor) is a common way for a company to gain market share and the resulting market power. In 1982 and 1984, the United States Department of Justice announced new merger guidelines. The development of these guidelines underscored the government's concern that mergers result in undue concentration in certain industries because one or more firms show significant gains in market share (Weston, Chung, and Hoag, 1990). However, empirical evidence does not appear to support the Justice Department's contention.

Using an experimental and control sample made up of conglomerate and horizontal acquisitions between 1950 and 1972, Mueller (1985) examined the impact of mergers and acquisitions on market shares. He found that both types of mergers resulted in substantial losses in market share to the acquired firms in contrast to the control group.

Hopkins (1987) classified acquisitions into conglomerate (unrelated), technology-related, and marketing-related. Using a sample of sixty-four firms that were active acquirers during the period from 1964 to 1979, he found evidence to support Mueller's contention that, in general, acquisitions resulted in a loss of market share to the acquired firms. One exception was the case of marketing-related acquisitions where market shares increased following the acquisition.

In spite of evidence to the contrary, the Justice Department's new guidelines adopt the Herfindahl Index (Weston, Chung, and Hoag, 1990). The index is used to determine if the merger would result in undue concentration in the industry in question.

2.3.1.4 Other Measures

Neely and Rochester (1987) examined operating synergies in the savings and loan industry using experimental and control groups. They found support for the operating synergy effect because the merged firms showed significant increases in profitability and return on net worth. It is not clear, however, if these findings apply to other industries as well. While it can be argued that a firm can diversify as well through internal growth as through acquisitions, the tremendous investment (and the associated risk) required for making technological changes is one reason for the explosion of merger and acquisition activity in the 1980s.

Chakrabarti and Souder (1987) surveyed managers in thirty-four firms to examine their perceptions of the efficacy of mergers to gain new technologies for the acquiring firms. Although the managers in the survey agreed that mergers helped the acquiring company gain access to new technology, they were of the opinion that the merged firm had to follow a proactive and aggressive research and development policy in the post-acquisition period to exploit the technology.

2.3.2 Aspects are measured in the research

Ratios are used to measure the performance of companies in the study is limited to the aspects of capital, management, earnings, and liquidity, namely:

2.3.2.1 Capital ratio (Solvability)

Capital is an important factor in order to accommodate business expansion and risk of loss. Capital used to finance operations, as an instrument for anticipating ratio, and as a tool for business expansion. Capital ratio is also referred to as solvency ratios or Capital Adequacy Ratio. Solvency analysis is used to: 1) measure the bank's ability to absorb losses that cannot be avoided, 2) find the source of the funds needed to finance its business activities to a certain extent, because the sources of funds can also come from the sale of debt assets that are not used and others, 3) the measurement tools of the size of bank properties owned by its shareholders, and 4) with sufficient capital, management allows the bank concerned to work with high efficiency, as desired by the owners of capital in the bank .

Research aspects of capital a bank is more intended to know how or how much the bank has adequate capital to support their needs. Capital adequacy is analyzed by using the leverage ratio and core capital to assets ratio. In this study, it assessed based on capital adequacy ratio (CAR) as follows:

$$\text{Capital Adequacy Ratio (CAR)} = \frac{\text{Equity Capital} - \text{Fixed Assets}}{\text{Total Loan} + \text{Securities}}$$

2.3.2.2 Management

A management aspect of this study is indicated by the profit margin. The reason is, all activities which include management of a bank capital management, general management, asset quality, profitability management, and liquidity management will eventually lead to the acquisition of influence and profit.

$$\text{Profit Margin} = \frac{\text{Net Income}}{\text{Operating Income}}$$

2.3.2.3 Earning (Rentability)

Profitability ratio than aiming to find out the bank's ability to generate profits during the period, also aims to measure the effectiveness of operational management in running the company. On the profitability ratio (profit), the ratio can be measured by operating costs / operating income. This ratio is used to measure the ratio of operating expenses / intermediation costs toward operating income obtained bank. The smaller the number the ratio of OE/OI, the better the condition of the bank.

$$\text{Operating Expense to Operation Income} = \frac{\text{Operation Expense}}{\text{Operation Income}}$$

2.3.2.4 Liquidity

The bank is said liquid if the bank can meet or fulfill its debt obligations; it can pay back all deposits, and can meet the demand for credit submitted without a delay. Therefore, the bank can be said to liquid if: 1) the bank has assets of cash used to meet the needs of liquidity, 2) the bank has the cash assets that are smaller than their liquidity needs, but has assets or other assets (e.g. marketable securities) vertical mergers generated positive wealth effects that were significantly larger compared with those for diversifying mergers; and that the wealth effects in vertical mergers were comparable to those in pure horizontal mergers. Even in a sub-sample of mergers between bidders and targets in different industries, the study found that vertically related mergers generated significantly greater positive wealth effects compared to vertically unrelated mergers.

Healy, Palepu and Ruback (1992) examined post-merger cash flow performance for 50 largest US mergers and concluded that operating performance of merging firms improved significantly following acquisitions, in comparison with their industries, in the five years following mergers. The study observed that the improvement in post-merger cash flows was not achieved at the expense of the merging firms' long-term viability, since the sample firms maintained their capital expenditure and research and development (R&D) rates in relation to their industries. The study also suggested that the increase in industry-adjusted operating returns could be attributable to an increase in asset turnover, rather than an increase in operating margins.

Aloke Ghosh (2001) compared the post- and pre-acquisition operating cash flow performance of merging firms for three years after merger, with control firms based on pre-acquisition performance and size of merging firms. Pro forma performance was computed by aggregating performance data of target and acquiring firms for pre-acquisition years. The study found that merging firms had systematically outperformed industry-median firms over pre-acquisition years, and once the superior pre-acquisition performance was accounted for, there was that could be withdrawn at any time without decreasing its market value, and 3) the bank has the ability to create new asset cash through various forms of debt.

Liquidity Analysis is intended to measure to what extent the bank's ability to pay its debts and pay back to depositors and can meet the demand for credit is submitted without a delay. Level of bank liquidity is measured using the following:

$$\text{Loan to Deposit Ratio} = \frac{Total\ Loans}{Total\ Deposit}$$

2.4 Previous Empirical Studies

There is large number of studies on post-merger performance undertaken in American, European and other developed countries. Mergers seem to lead to strategic and financial growth. No strong evidence of improvements in post-merger performance was reported while examining target lines of business performance using operating earnings. Poor corporate performance in post-merger periods has been attributed to numerous reasons – manager's desires for position and influence, low productivity, poor quality, reduced commitment, voluntary turnover and related hidden costs and untapped potential.

2.4.1 Studies in the US

Joseph P H Fan and Vidhan K Goyal (2002) used industry commodity flows information to measure vertical relations for completed mergers from 1962 to 1996 in the US, and the wealth effects of mergers of different types. The study examined the cross sectional variation in the wealth effects of mergers by merger type, and if there was a time-series relation between vertical merger activity and wealth effects, using standard event study methodology. The study found that no evidence of improvement in the operating performance of acquiring firms following acquisitions.

Malcolm Salter and Wolf Weinhold (1979) studied a sample of 36 companies and compared their operating returns with those of other stocks listed on the New York Stock Exchange (NYSE). The study found that the average return on equity (ROE) for the sample of merging firms was 44 per cent lower than average NYSE-listed firm levels, and their average return on assets (ROA) was 75 per cent lower than average NYSE-listed firm levels. The results suggested that acquiring firms underperformed other listed companies. The study however did not consider firm characteristics or business similarities between sample and control firms.

John B Kusewitt (1985) investigated the relationship of some common factors of acquisition strategy to the long-run financial performance of acquiring firms, using a database of 138 active acquiring firms, which had accomplished some 3,500 acquisitions during 1967-76 periods. Using the measure of accounting return on assets and market return, the study found that industry commonality between acquirers and acquired firms was linked with superior performance, and that unrelated acquisitions seemed to entail greater risks to performance on average.

Heron and Lie (2002) investigated the relation between method of payment in acquisitions, earnings management and operating performance for a large sample of firms that conducted acquisitions between 1985 and 1997, and found that even though acquiring firms exhibited superior operating performance relative to their industry counterparts prior to acquisitions, there was no evidence of earnings management. Post-acquisitions, acquiring firms continued to exhibit operating performance levels in excess of their respective industries and significantly outperformed control firms with similar pre-event operating performance. Method of payment did not convey any information about the acquirer's future operating performance.

2.4. 2 Studies in Europe

Bild, Guest, Cosh and Runsten (2002) studied value creation in takeovers by UK firms completed during 1985-96. The study used a methodology of employing the residual income approach to valuation, and comparing the present value of the acquirer's future earnings before the acquisition, with those that actually result following takeover. The study also accounted for the cost of the acquisition; the acquirer's cost of capital, and the earnings which are created beyond the sample period. The study found that by using the traditional accounting method, acquisitions resulted in a significant improvement in profitability. However, the residual income approach revealed that on average, acquisitions destroyed roughly 30 per cent of the acquirer's pre-acquisition value.

Mueller (1980) edited a collection of studies of M&A profitability (measured by (a) return on equity, (b) return on assets, and (c) net profit margin) across seven nations in Europe and the US and found that acquiring firms reported worse returns in the five years after acquisition than their non-acquiring counterparts, but not significantly. No consistent pattern of either improved or deteriorated profitability could therefore be claimed across the seven countries.

Marina Martynova, Sjoerd Oosting and Luc Renneboog (2006) investigated the long-term profitability of corporate takeovers in UK, using four different measures of operating performance based on earnings before interest taxes depreciation and amortization (EBITDA), and found that both acquiring and target companies significantly outperformed the median peers in their industry prior to the takeovers, but the raw profitability of the combined firm decreased significantly following the takeover. Factors such as means of payment, geographical scope, and industry-relatedness did not explain the post-acquisition operating performance.

Dickerson, Gibson and Tsakalotos (1997) investigated the impact of acquisitions on company performance using a large panel of UK companies during 1948-77 and found that in both the short-run and the long-run, acquisitions had a negative net impact on company profitability as measured by the rate of RoA. Acquisitions also had a detrimental impact on company growth measured by rate of return, compared to growth through internal investment.

Pazarskis, Vogiatzogloy, Christodoulou and Drogalas (2006) empirically examined the operating performance for three years before and after merger, for acquiring firms in Greece, in the period 1998 to 2002, using selected accounting variables, 3 and using t-statistic. The study found that post-merger, for the firms in the sample, gross profit margin decreased slightly, while the liquidity ratios – quick ratio and current ratio did not show a decrease. Solvency ratios – net worth/total assets, and total debt/net worth also decreased slightly in values. Also, profitability and returns on assets decreased in value after merger.

Powell and Stark (2005) also find modest improvements in operating performance in a UK study of merged firms between 1985 and 1993, using a variety of approaches adopted in the prior literature. The approaches that are relevant to this study are their benchmarking methods (both matched firms, and industry average, based on Healy et al., 1992), their cash flow performance measures (one based on Healy et al., 1992 and the other accrual-adjusted), their use of different deflators, and their size and industry adjustments to their benchmark performance measures. Across all of these approaches, they report that "our results largely establish that prior results on operating performance improvements arising from takeovers are robust to some of the methodological concerns raised".

2.4.3 Studies in Asia

Divesh S Sharma and Jonathan Ho (2002) used accrual and cash flow performance measures (for three years after merger and for three years before merger), and found that corporate acquisitions did not lead to significant post-acquisition improvements in operating performance of acquiring Australian firms during 1986-91. The study also found that the type of acquisition (conglomerate versus non-conglomerate) and the form of acquisition financing (cash, share or a combination) did not significantly influence post-acquisition performance. Similarly, the size of the acquisition and the payment of a premium (goodwill) did not seem to influence post-acquisition performance.

Timothy Kruse, Hun Park, Kwangwoo Park and Kazunori Suzuki (2003, cited in Mantravadi, Pramod and A Vidyadhar Reddy 2008) examined the long-term operating performance of Japanese companies in a sample of 56 mergers of manufacturing firms, during 1969-97. On comparison of the operating returns and operating margin in the five-year period following mergers, with a control sample to account for changes in performance attributable to industry or economy-wide factors, the study found evidence of improvements in operating performance of merging companies, and also that the pre- and post-merger performance was highly correlated. Long-term performance was also seen to be significantly greater following diversifying mergers, particularly for those that acquired their sales or trading company affiliates.

Abdul Rahman and Limmack (2004) examined financial performance of a sample of 94 Malaysian companies that made acquisitions during 1988-92, using operating cash flow returns and found that financial performance improved significantly following acquisitions; improvement was driven both by an increase in asset productivity and by higher levels of operating cash flow generated per unit of sales. Increases in capital expenditure in post-acquisition period suggested that companies had not sacrificed long-term investments for the sake of short-term profitability.

Surjit Kaur (2002) compared the pre- and post-takeover performance of a sample of 20 merging firms, using a set of eight financial ratios, for a period of three years each immediately preceding and succeeding the merger. The study found that gross profit margin (earnings before interest and taxes (EBIT)/sales), return on capital employed (ROCE) and asset turnover ratio declined significantly in the post-takeover period, suggesting that both profitability and efficiency of merging companies declined in post-takeover period. However, the change in post-takeover performance was statistically not significant when "t" test was used.

Beena (2004) analyzed the performance of 84 domestic acquiring firms and 31 foreign-owned acquiring firms, in the manufacturing sector in India, during 1995-2000. The study used some financial ratios4 to test for difference of means between pre- and post-merger phase, using t-statistic and could not find any evidence of improvement in the chosen financial ratios of the acquiring firms in the sample, during the post-merger period, as compared to the pre-merger period. However, the profitability ratios were seen to be relatively better when compared to the overall manufacturing average, and foreign-owned acquiring firms seemed to perform relatively better, compared to Indian-owned acquiring firms.

Sudha Swaminathan (2002) studied a sample of five mergers during 1995-96, and found that four of the five acquiring firms improved operating and financial synergies (measured through certain financial ratios) three years after the merger. While net profit margin significantly improved post-merger, the asset turnover did not show significant change – the study concluded that shareholder value improved for the mergers of smaller companies, but not for mergers of large companies.

Kumar and Bansal (2008) studied the impact of mergers and acquisitions on corporate performance in India. The result indicate that in many cases of M&As, the acquiring firms were able to generate strategy in the long run, that may be in the form of higher cash flow, more business, diversification, cost cutting etc.

Raj Kumar (2009) also did the research related to merger that examine the post-merger operating performance of acquiring companies involved in merger activities during the period 1999-2002 in India which attempts to identify synergies, if any, resulting from mergers.

Another research done by Mantravadi and Reddy (2008) which analyze post-merger operating performance for acquiring firms in Indian industry during the post-reforms period of 1991-2003, which were involved in different types of mergers, to see if merger type makes an impact on the performance outcomes, as compared to general results of post-merger performance studies. The results showed that while there was no change in the mean operating profit margin and gross profit margin ratios, there was significant decline in the net profit margin, return on net worth and return on capital employed, in the post-merger period.

For mergers between same group companies, there was a significant decline in net profit margin due to likely increase in interest costs, while other profitability ratios, remained unchanged. The significant declines in returns on net worth and capital employed suggest that the mergers were not motivated by efficiency enhancement possibilities, but were aimed at consolidating the asset base by merging assets of various group companies to emerge larger.

Comparison of post- vs. pre-merger operating ratios, for the different types of mergers suggested that horizontal mergers had caused the highest decline in the operating performance of the merging companies, followed by conglomerate and vertical mergers, in that order. The declines were more prominent in terms of returns on net worth and capital employed, and to a lesser extent on net profit margin, among all types of mergers. The declines in profitability margins at the operating and gross level were not significant among the various types. The differences between different combinations of mergers however, were not statistically significant, leading to the conclusion that merger outcomes were similar for all merger types.

2.4.4 Other Studies

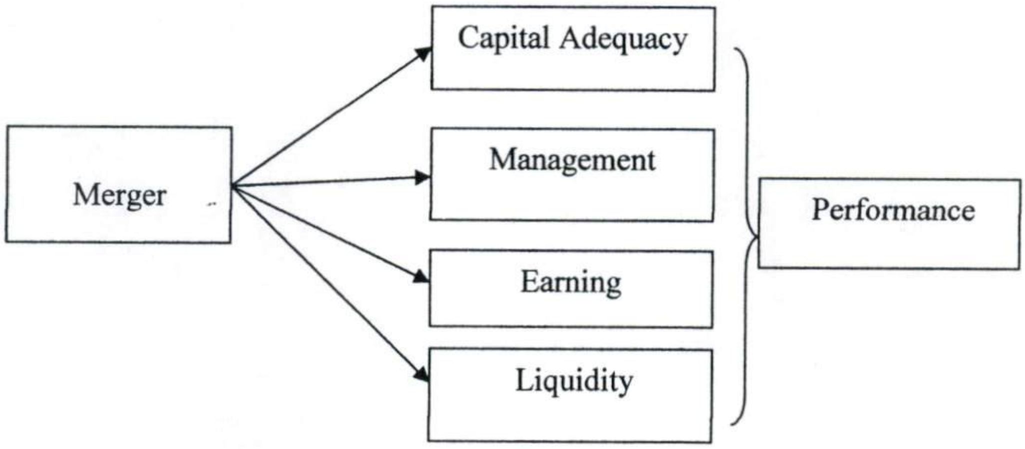
Gugler et al. (2003) examine the post-merger operating performance of firms across a number of countries and regions, including the USA, the UK, Europe, Japan, and Australia/New Zealand/Canada, for an extended period from the 1980s until 1998. Compared to control groups based on industry, they find that profits either increase or do not decrease in almost all countries, whereas sales did not increase.

Australian research on post-merger corporate level operating performance provides contrasting findings to most of the international literature. Based on accounting rather than cash flow measures of operating performance, Australian studies do not find improved outcomes for the merged firms. McDougall and Round (1986, reported in da Silva Rosa and Walter, 2004)) examine 88 mergers in the retail, transport and industrial sectors between 1970 and 1981, finding that both their profit and leverage are worse than those of the matched firms. Other Australian studies of mergers in specific industries (summarized in da Silva Rosa and Walter, 2004) also report results that contrast with the findings reported in most of the corresponding international literature. No evidence of improved operating performance has been found for Australian mergers, nor is there evidence of the selected merger characteristics being associated with post-merger operating performance.

Lau, Proimos and Wright (2008) analyzed success at corporate level for 72 Australian mergers between publicly listed firms during the period 1999-2004, and reassess evidence in earlier Australian studies that contrasts findings from other countries which report a decline in post-merger operating performance.

Some evidence that mergers improve the operating performance of the post-merger firms is found. Industry adjusted profitability, cash flows, efficiency and leverage measures were higher in the post-merger period.

2.5 Theoretical Framework



2.6 Hypotheses

The hypotheses tested in this research are:

H_0 : There is no significant different on performance of Permata Bank in term of capital adequacy, management, earning, and liquidity

H_1 : There is significant different on performance of Permata Bank in term of capital adequacy, management, earning, and liquidity

CHAPTER III

RESEARCH METHOD

3.1. Sample of the Research

The samples of the research are: Bank Bali, Bank Universal, Bank Prima Express, Artamedia Bank and Bank Patriot, which merged into Bank Permata.

3.2. Sources of Data

The data used in this research is the secondary data, collected from any published and written document which is related to this research. All the materials are collected from textbooks, journals, magazines and The Internet. The Financial data based on report published by Central Bank of Indonesia.

3.3. Data Collection Method

The Data in this research will be gathered through analyzing the reading materials, books, magazines, articles, journals, internet based on content and other literatures that are relevant to the discussed topic. These data will be enhanced by theories used as theoretical background.

3.4 Analysis of Data

The research study adopted the methodology of comparing pre- and post-merger performance of merging companies by measuring performance based on some ratios. Table 3.1 presents testable predictions and the empirical proxies employed.

Table 3.1

Summary of Testable Predictions

This table details the economic characteristics I examine for changes resulting from mergers. I also present and define the empirical proxies I employ in my analyses. The index symbols *POST* and *PRE* in the predicted relationship column stand for post-merger and premerger, respectively.

Variable	Proxies	Predicted Relationships
Capital Adequacy	Capital Adequacy Ratio(CAR) = $\frac{Equity\ Capital - Fixed\ Assets}{Total\ Loan + Securities}$	$CAR_{post} \neq CAR_{pre}$
Management	Profit Margin = $\frac{Net\ Income}{Operating\ Income}$	$PM_{post} \neq PM_{pre}$
Earning	Operating Expense to Operation Income = $\frac{Operation\ Expense}{Operation\ Income}$	$OEOI_{post} \neq OEOI_{pre}$
Liquidity	Loan to Deposit Ratio = $\frac{Total\ Loans}{Total\ Deposit}$	$LDR_{post} \neq LDR_{pre}$

3.5 Statistical Tools

Normality test is used to determine whether a variable is normal or not. The data is normal or not based on standard normal distribution of data which have similar mean and standard deviation. Basically, the normality test is to compare between the data we have with the normal distribution of data which has a similar mean and standard deviation. The analysis model used to determine whether or not the normal distribution of data is a series of tests of Kolmogorov-Smirnov (KS).

The pre-merger (for three years prior to merger) and post merger (for three years after the merger) averages of financial ratio will compared, and tested for differences, using paired "t" test for two samples if the data is normally distributed and Wilcoxon Sign Rank test will use if the is not normally distributed. The observation of pairs of firms as the sample is not independent, since the merging firm retains its identity before and after merger. Therefore "paired two sample t-tests for mean" or "Wilcoxon Sign Rank test fot two samples related" were considered appropriate to measure merger performance change. Year of completion of merger, denoted as year 0, was not included in estimation. For the years prior to a merger, the financial ratio of the merging firm alone considered. Post the merger, the financial ratio for combined firm will use for analysis. This t-test will compare the means of financial ratio calculated which further provide information that there is any difference on performance after merger or not. So that the results can support the hypothesis developed or not.

CHAPTER IV

ORGANIZATIONAL REVIEW

4.1 Company Profile

4.1.1 Vision

To be the outstanding financial services provider in Indonesia, focusing on the Consumer and Commercial segments

4.1.2 Mission

• **Customers**

Be the partner of choice through service excellence and value-added solutions

• **Employees**

Support our people to develop both professionally and personally

• **Communities**

Make a difference through active participation

• **Investors**

Deliver superior shareholder value

• **Government**

Be the role model for Good Governance and compliance practices

4.1.3 PermataBank Corporate Culture (Core Values)

PermataBank Corporate Culture is a set of principles that we believe is good and right in order to achieve PermataBank mission statements, and in the long run to attain the vision of PermataBank. PermataBank Corporate Culture lies at the core of every rules and policies within the organization, and guides the behavior of each and all PermataBankers.

a. Trust

We have to build and maintain the trust of all our stakeholders that we, as individual and as an institution, perform always on the basis of good intention, honesty and reliability. Explanation on the meaning of Trust:

- Building trust is aimed at gaining the confidence of all stakeholders. Stakeholder represents any party with an interest in PermataBank, comprising internal parties (employees, the Management, Board of Commissioners) and external parties (customers, the Goverrnment, Bank Indonesia, the society in general).
- Confidence on the part of stakeholders is not something that can be taken for granted, but instead, it is something that must be acquired and build upon, and then maintained to keep intact in the long term.
- The words 'build upon' and 'maintained' pertain to a process, in which confidence is something that must be acquired, rather than taken for granted. Specifically, the word 'maintained' infers that building trust from stakeholders is a continuing process, which requires proof in the form of concrete action or behavior.
- Good intention, honesty and reliability become the key foundation and an absolute must in all of our endeavor in order to gain the trust of stakeholders.
- The phrase 'as individual and an institution' means that gaining trust begins at the individual level, and as each individual within PermataBank gained the required trust, PermataBank as an institution become imbued with the same trust.

b. Integrity

Pertains to a matching between the correct and positive intention, thoughts, words and actions, in accordance with established norms of the company, the society and the principles of good corporate governance.

Explanation on the meaning of Integrity:

- Integrity refers to the matching between intention, thoughts, spoken words and physical action.
- Possessing matching intention, thoughts, words and actions is the sign of an individual with consistent, wholesome character and attitude.
- The action or conduct referred to is the correct and positive conduct, namely a conduct in accordance with established norms within the company, the society and in line with principles of good corporate governance.
- The corporate values are reflected on various company regulations and code of ethics. Aside from corporate values, established norms within the society also provide a guide for the proper and correct conduct.
- Good corporate governance comprises principles of transparency, accountability, responsibility and independency.

c. Service

Always provides a service level that exceeds the expectation of stakeholders and gives a compelling customer experience, as well as possessing the highest quality in terms of speed, accuracy and friendliness.

Explanation on the meaning of Service:

- Exceed the expectation of stakeholders means a commitment towards one of the most important aspect in the banking business, namely service level. PermataBank goes beyond meeting the standard needs of its stakeholders, and provides services that create more value for the stakeholders.
- However, exceeding the expectation is not the same as providing an over-service just for the sake of service. Rather, great service is provided with the right balance of prudence, thereby maintaining the trust placed on PermataBank.
- As customer satisfaction is the benchmark of service, it follows that a compelling customer experience, first-rate quality service, as well as speed, accuracy and friendliness become the means by which stakeholders' satisfaction is achieved.
- A compelling customer experience should always be the result of any interaction by each PermataBankers with other parties.
- First-rate quality refers to a service level based on high standards or norms. Speed, accuracy and friendliness are required in any interaction by each PermataBankers with other parties.
- Provide the best of service will serves to maintain good relationship with stakeholders, and leave a lasting impression in the mind of stakeholders.

d. Excellence

Always strive to the best of one's ability and according to the highest standards to consistently deliver the best results.

Explanation on the meaning of Excellence :

- Striving always to the best of one's ability represents the spirit and work motivation of each PermataBankers. It also refers to a consistent and continuing process.
- The highest standards of best-practices become the benchmark in striving for improved performance in order to maintain our competitive edge.
- This consistent and continuing process, benchmarked against standards of best-practices, will result in the highest achievements in all endeavors.
- The standards for the highest achievements are also continually escalating, making the achievement process itself to be a continuous one.
- Therefore, the output of this achievement process will always be the best results possible.

e. Professionalism

Carrying out one's role and function always on the basis of reliable competence, responsibility and continuing self-development.

Explanation on the meaning of Professionalism:

- Carry out the role and function as assigned (through a job description or orally).
- A reliable competence is required of each PermataBanker in order to perform properly.
- Continuing self-development to become an expert in each assigned function, thereby keeping up with the dynamic demands of our role and function.
- Responsible to the consequences of our performance in our assigned jobs.

PermataBank Core Values are a set of values that lies at the very core of our behavior, work environment, norms, philosophy and other symbolic acts within PermataBank.

4.1.4 The 8 Behaviors of PermataBanker

In order to implement the PermataBank Core Values in our daily work activities, we need a set of behavior that can drive us to implement those values. This set of behavior is defined in "8 Perilaku PermataBanker" or the 8 Behaviors of PermataBanker.

a. Discipline

The behavior rule of Discipline is reflected in the conduct of work activities in accordance to standards set by company regulations, punctuality, and commitment to deliver on promises made.

Some examples of the behavior of Discipline:

- Compliance to regulations of Bank Indonesia and other regulatory bodies.
- Comply with regulated company norms, for example with regards to systems and procedure as well as work target assigned.
- Deliver service in accordance with established standards/regulations, following all systems and procedures consistently.
- Commitment to promises made, for example the promise to call back a customer at a certain time.
- Arrive on time in all activities.
- Not using company's working time for personal interests.
- Appropriately dressed as per company regulation.

b. Responsible

The behavior of being Responsible reflects the conduct of each individual that is based on good intention and motivation, acted out in the proper way, and in full acceptance of the consequences for the particular conduct.

Some examples of the behavior of being Responsible:

- Properly completing each assignment and striving to achieve stated target regardless of the scale of the target.
- Adhere to established SLA (service level agreement).
- Conduct assignments in accordance with the given authority and complete them as previously committed.
- Safeguard confidential information and customers' data.
- Safeguard the company's assets, using and keeping the company's property in good repairs.
- Admit to mistakes done rather than looking for scapegoats.
- Accept the consequences of all conduct.
- Perform monitoring/control independently over daily transactions.
- Recognize the development needs of subordinates.

c. Prompt, Responsive and Proactive

Prompt behavior refers to the efficient use of time. PermataBankers should posses the ability and willingness to complete tasks in the optimum time, striving for speedy execution without compromising the quality of the work results.

Responsive behavior is based on concern to improve those conditions deemed to be wrong or unethical, and also a willingness to help others that need to be helped.

Proactive behavior is based on the ability to anticipate future situation or potential problems. Being proactive is not limited physical action but also in the form of ideas that ultimately may result in improvements needed by the organization.

Some examples of Prompt, Responsive and Proactive behavior:

- Anticipate problems, for example to anticipate service issues that might arise even before there is any customer complaint.
- Strive to exceed targets and complete tasks quickly.
- Proactively performing an investigation in the event of mistakes.
- Not delaying the completion of troublesome tasks, such as a Bill of Statement complains or pending items (sundry creditor, etc).
- Respond quickly to faulty ATMs (especially for ATM units located in shopping malls or outside from branch offices).
- Actively suggesting and performing maintenance tasks particularly with regards to banking operations.
- Make suggestions to improve applicable work processes as well as improvement on company policies.

d. Expert in One's Field

The behavior "Becoming an Expert in One's Field" refers to the drive to continuously develop oneself to meet the increasing demands of work and the organization. Self-development denotes moving beyond being capable, where the employee is expected to improve its work capacity and become an expert in chosen field. Having such an expertise, whenever a problem occurs, the employee will be able not only to solve the problem, but also to use it as a learning experience enabling further continuous development.

Some examples of the behavior "Becoming an Expert in One's Field":

- Master every detail of systems and procedures.

- Understand and master the knowledge and skills related to the job, and continually improving.
- Can be depended upon to solve problems at the workplace. Able to communicate with customers from a variety of background; knowledgeable in many things.
- Understand the technical operational detail of the job, for example, a technician should be able to conduct optimum maintenance and repair job of IT equipment.
- Ability to provide customers with suggestion, recommendations and solutions in his/her area of expertise.
- Ability to initiate product innovation in the respective area of expertise.
- Able to conduct a transfer of knowledge to other employees as needed.

e. Teamwork

The behavior of Teamwork refers to the ability of employees in working together, in the sense of continually striving towards an effective cooperation within the team while minimizing the tendency towards the interests of an individual.

Basically, as a social being who always needs each other, people have a natural tendency to cooperate. Unfortunately, personal interests often become more dominant, negating the chance of an effective cooperation.

The ability to work as a team requires a willingness to open oneself, to give and receive input from others, to coordinate with others, and to carry out the decisions agreed by all. Some examples of the behavior of teamwork are as follows:

- Show goodwill and willingness to help.
- Place collective interest above personal interest to achieve common goals.

- Contribute actively according to one's competence for a given project. Be open-minded rather than defensive.
- Execute plans that have been decided upon.
- Be a team player in every working group and at all levels. Cooperate regardless of rank.
- Respond to matters that are related with other departments, even if such matters lie beyond one's scope of work, in the interest of expedited work process.
- Coordinate regularly among and between departments and show willingness and ability to work as a team with all parties.

f. Communicative

The Communicative behavior is reflected in the willingness to listen to the other party, understand correctly what is said, and then responding an appropriate manner. When conveying our thoughts/opinion, we need also to consider the conditions of the other party with whom we are communicating, as well as the existing social norms. Some examples of the behavior Communicates Effectively:

- Conduct brief and direct communication to ensure understanding and prepare the team well for the intended task.
- Obtain information and input from subordinates.
- Observe the state-of-mind of listeners closely when speaking.
- Conduct an effective meeting by formulating a clear meeting agenda, giving focus to the discussion and ensuring optimal allocation of time.
- Be able to present/express ideas verbally in a clear and easy to understand manner.
- Be able to communicate management policies and governmental regulations to all concerned staff, for example in socializing new systems and procedures, HR policy, etc.

- Actively listen and convey messages in a clear and easy to understand manner.

g. Caring and Sensitive

Being Sensitive pertains to having the sensitivity to react to outside stimuli in a way that fosters goodwill and trust. Caring refers to an attitude whereas one gives particular notice to conditions deemed to be wrong or need to be corrected, and react to improve such conditions. The actions taken as a result of being sensitive and caring are directed for the good of all- both the individuals and the organization.

Some examples of "Sensitive and Caring for Goodness behavior":

- Take care of the company's assets, for example by switching off lights and computers at the end of the workday.
- Make telephone calls only as needed, and receive incoming calls and taking messages.
- Help a colleague without being asked to.
- Refrain from smoking in the workplace in consideration of his/her own health and those of others.
- Care for the environment, for example through participation in charity drives, religious group events, or employee outings.
- Be responsive to customers' complains and able to provide prompt and appropriate solutions.
- Remind a colleague about keeping a clean work environment.

h. No conflict of Interest

No conflict of interest refers to a conduct of not using company resources or facilities for personal interest, and not asking compensation from other parties for services rendered by the authority of the job.

Some examples of the behavior of No conflict of interest:

- The courage to refuse acting in violation to company regulations.
- Refrain from using the company's business partners for personal interests.
- Refrain from acts of corruption, collusion and nepotism.
- Refrain from making subjective decisions (for personal or group interests).
- Place the interest of the company above personal interest.
- Refrain from using company facilities such as company car, telephone or photocopier for personal interest.
- Refrain from assigning tasks outside of company business to subordinates, such as paying the electricity or water main bills.
- Refrain from expecting compensation for services rendered.
- Refrain from accepting bribes in any form.

The 8 Behaviors of PermataBanker, consistently put into practice, will result in the development of a real PermataBanker, one who is trustworthy, possessing integrity, ready to serve, striving for the optimum results and fully competent in work.

4.1.5 PermataBank in brief

PermataBank a Merger Bank of 5 (five) banks under the management of National Bank Restructuring Agency (IBRA), namely PT Bank Bali Tbk, PT Bank Universal Tbk, PT Bank Prima Express, PT Bank Patriot, and Bank Artamedia, which the Bank Bali Tbk has been appointed to the Bank Framework (Platform Bank) and changed its name to PermataBank, while other banks as the merged bank. Combining (merging) 5 of this bank is an implementation of Government decisions on Further Restructuring Program which was issued on November 22,

2001. The merger process began with the signing of prior agreement between the five Merging Banks and IBRA on May 20, 2002 and the legal merger was declared effective on September 30, 2002 after the issuance of the approval from Bank Indonesia and the Minister of Justice and Human Rights Republic of Indonesia.

The purpose of the merger is to establish a bank with a strong capital structure, sound financial condition and highly competitive in performing the intermediary function, with a wider network of services and products that are more diverse. Therefore, the pattern of mergers that produced this PermataBank is to combine the forces that are owned by their respective Banks merging into one unity of positive synergy. Then, the Government has done IBRA Placement Temporary Capital amounting to Rp 4.6 trillion, consisting of cash deposits amounting to Rp 2.8 trillion and the issuance of fixed rate government bonds amounting to Rp 1.8 trillion.

PermataBank-with total consolidated assets of Rp 28.03 trillion as of December 31, 2002-has a distribution network that includes 328 branches and 456 ATMs in 30 cities and 15 provinces, PermataTel telebanking services and internet banking facilities PermataNet and sms banking service which can be accessed at anytime and anywhere. The market segment that became the main target customer of PermataBank are middle to upper income levels (for the retail segment), segment of small and medium enterprises (SMEs) through a diversified portfolio with good credit and maintaining market share in the automotive segment (for the commercial segment).

The name of PermataBank is an integral part as a reflection of the bank in a friendly, caring and quality in service, supported by professional PermataBanker. New brand name and logo of PermataBank launched on February 18, 2003 consists of a collection of 3 (three) colors, namely blue, red and green. Blue represents eternity, red is reflecting the spirit, and green represents prosperity.

With the motto "Making life more valuable", the Bank exists to help people achieve their life comfortable and safe always (Annual Report of Permata Bank, 2002).

4.1.6 Merger Process

November 2001: continued on 5 bank restructuring

- Financial Sector Policy Committee (KKSK) decided to conduct further restructuring of the four banks, PT Bank Bali Tbk, PT Bank Universal Tbk, PT Bank Prima Express, PT Bank Patriot with the merger mechanism.

June - July 2002: merger process commence

- Chandra Purnama appointed as Project Director and formally conduct Kick-Off for 5 bank merger project which is supported by an independent consultant.
- The appointment of the BANK PLATFORM

August 2002

- IBRA appointed PT Bank Bali Tbk as the Bank Framework (Platform Bank) and the Summary Plan of Merger announced in mass media.

September 2002 : the end of merger legal

- Legal process of merger completed on September 30, 2002 followed by a change in the name of PT Bank Bali Tbk to PT Bank Permata Tbk.

October - November 2002 : new management appointment

- Appointment of new Board of Commissioners and Directors of PT Bank Permata Tbk in the General Shareholders' Meeting Extraordinary. PT Bank Artamedia has been completed the operational integration of the conversion process on October 21 and PT Bank Prima Express on November 4, 2002. Subsequently followed by PT Bank Universal Tbk on November 18, 2002, and PT Bank Patriot in the next month.

December 2002

- Operational merger

  Mergers Operational phases have been completed by the end of 2002. After passing through the stages of merger within 5.5 months, the Bank is able to achieve the Capital Adequacy Ratio (CAR) of 10.4%.

February 2003: logo launching

- The launching of the official logos of Permatabank by IBRA Chairman, Mr Syafruddin A. Tomonggong

March 2003: profit in first quarter booked in 2003

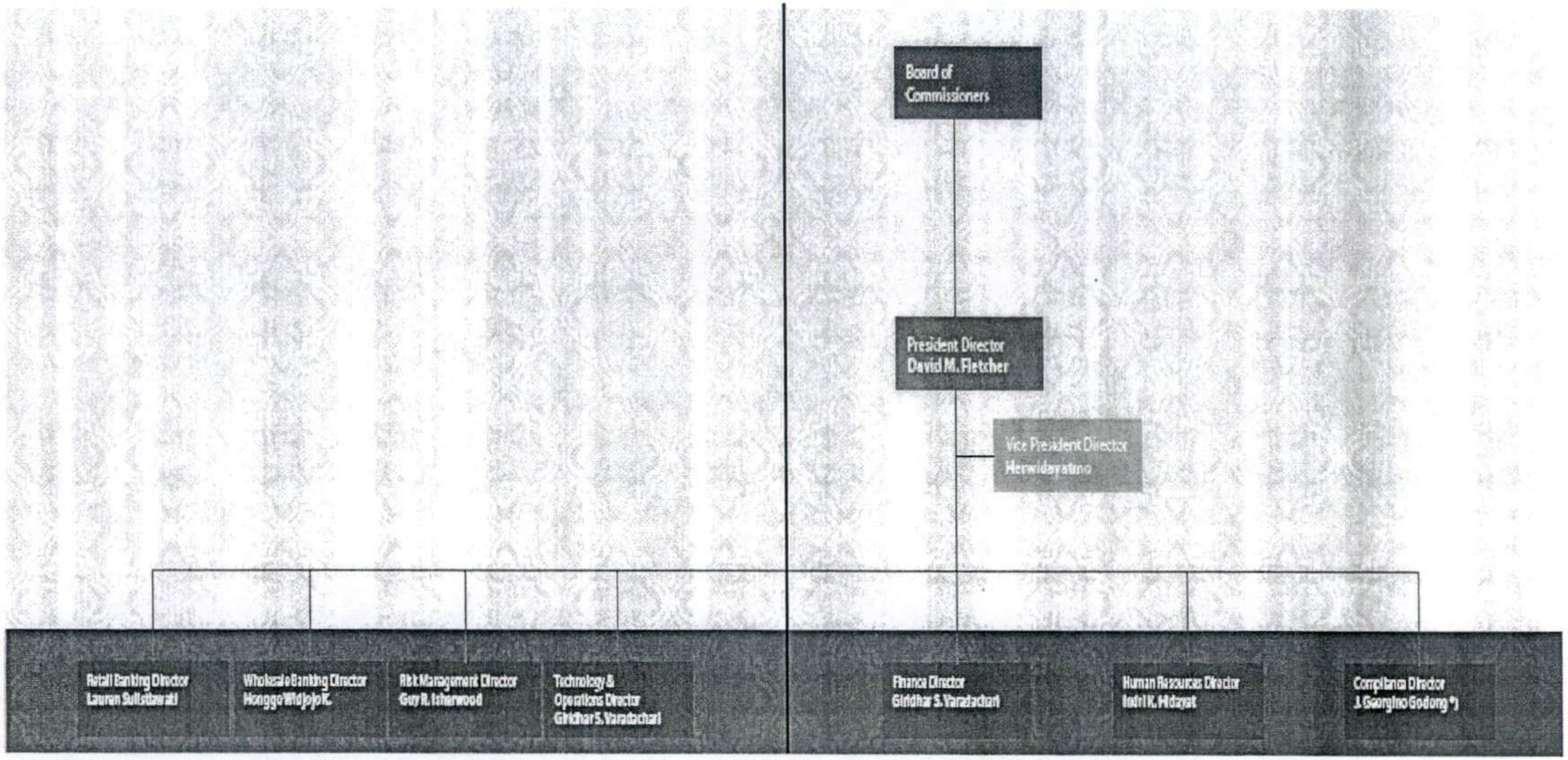
- Beginning in 2003 PermataBank booked net profit of Rp 102.29 billion (not yet audited, before consideration of deferred taxes of the parent company). Rationalization Process, Employee Selection and Placement can be completed at the end of March 2003.

In 2004, PT Astra International Tbk and Standard Chartered Bank took over PermataBank and initiated a major transformation of the organization. Subsequently, as a manifestation of their commitment to PermataBank, these major shareholders increased their joint ownership to 89.01% in 2006. PT Astra International Tbk is a leading conglomerate group of companies in Indonesia having a deep insight in the domestic market, while Standard Chartered Bank is a well-respected international bank with market leading expertise and global experience. The combination of these two strategic shareholders has become one of PermataBank's core strengths, one that is unique in the Indonesian banking industry.

Envisioning itself to be an outstanding financial services provider in Indonesia, PermataBank is committed to sustain growth and expand market share. PermataBank is constantly building a reputation that relies on excellent service and innovative financial products, customer convenience and safety backed by sophisticated information technology and risk management systems, as well as outstanding people and leadership.

At year end 2009, PermataBank was the 10th largest bank in Indonesia in terms of assets size, with a footprint in 55 cities throughout the country comprising 279 conventional and dedicated sharia branches as well as 569 ATMs.

4.1.7 Organizational Structure



4.1.8 Subsidiaries & Affiliated Companies

No. Company Name	Line of Business	Share Holding
1. PT Bali Securities	Securities	98.36%
2. PT Bali Tunas Finance	Consumer Finance & Leasing	-
3. PT Asuransi Permata Nipponkoa Indonesia	General Insurance	51.00%
4. PT Sarana Bali Ventura	Venture Capital	4.02 %
5. PT Kustodian Sentral Efek Indonesia	Capital Market	1.00 %
6. PT Sarana Bersama Pembiayaan Indonesia	Investment	0.93 %
7. PT Aplikanusa Lintasarta	Communication	1.90 %

*) The entire shareholding at PT Bali Securities was divested on 15 January 2010.

**) The expiration of the legal status of PT Bali Tunas Finance was published in the State Gazette of Republic of Indonesia No. 83 dated 16 October 2009.

4.1.9 Products and Services

4.1.9.1 Asset Products

- PermataKPR Bijak
- PermataHome Ready Cash
- PermataKPR Cicilan Tetap
- PermataKPR Konvensional
- PermataDana Usaha
- PermataAnjak Piutang
- PermataKTA Bisnis

- PermataGriya Bisnis
- Medika
- Si Kecil
- Proteksi
- Bijak Plus
- Bijak Aktif
- Santunan Hati Plus
- Perisai Ganda
- Perisai Prima
- SafeSaving
- SafeSaving Platinum
- SafeSaving AlliSya
- Perisai Kecelakaan

4.1.9.2 Services

- Permata e-Banking
- Permata atm
- Permata Mobile
- PermataNet
- PermataMini atm
- PermataTel
- Call Center Kencana (500100)

CHAPTER V

DATA ANALYSIS AND RESULTS

5.1 Result of the research

5.1.1 Financial measurement

In this research, performances of banks are assessed by measuring aspects of capital, management, earnings and liquidity. The assessment was made by calculating ratios of each aspect. Data for calculation of these ratios were obtained from the financial statements and data published by Central Bank and magazine. Here are the results of these calculations:

5.1.1.1 Capital Adequacy Ratio (CAR)

Table 5.1
Permata Bank Pre-,During and Post-merger
CAR

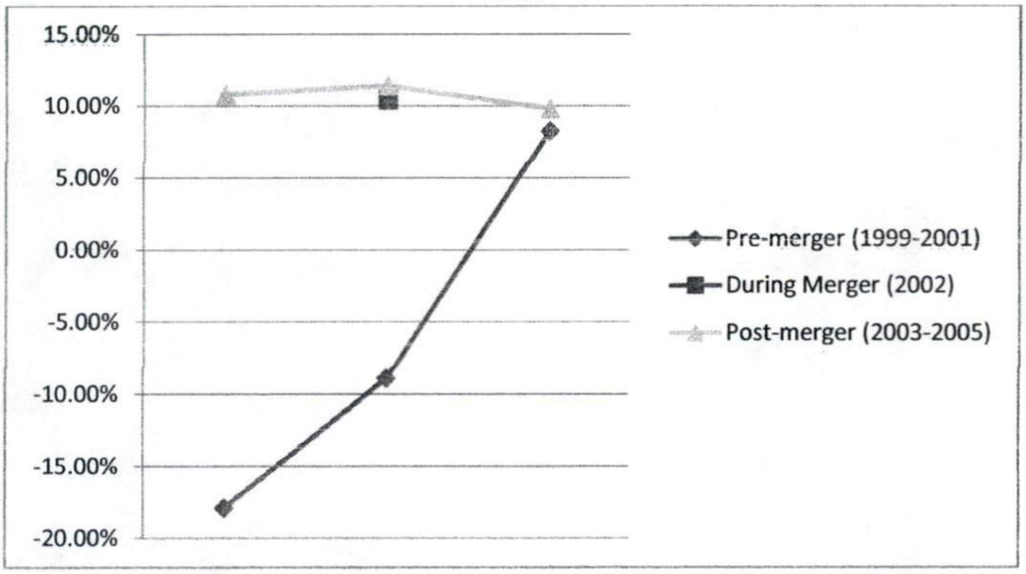
	Permata Bank		
Proxie	**Pre-merger (1999-2001)**	**During Merger (2002)**	**Post-merger (2003-2005)**
CAR	-17,89%		10,80%
	-8,89%	10,40%	11,40%
	8,25%		9,80%

Source: appendix 4

Before the merger, the CAR ratio in 1999 was negative. But in 2000 and 2001, CAR increased to 8,25%. During the merger in 2002, CAR of Permata Bank still could not reach CAR rate set by central bank, which is about 10, 40% (less than 12%). For the next year, CAR had increased almost reaching CAR rate set by government. In 2005, it decreased to 9,8%. The CAR after merger is better than before merger.

This following figure shows the progress of CAR on pre-, during and post-merger stage.

Figure 5.1
CAR



5.1.1.2 Profit Margin (PM)

Table 5.2
Permata Bank Pre-,During and Post-merger
Profit Margin

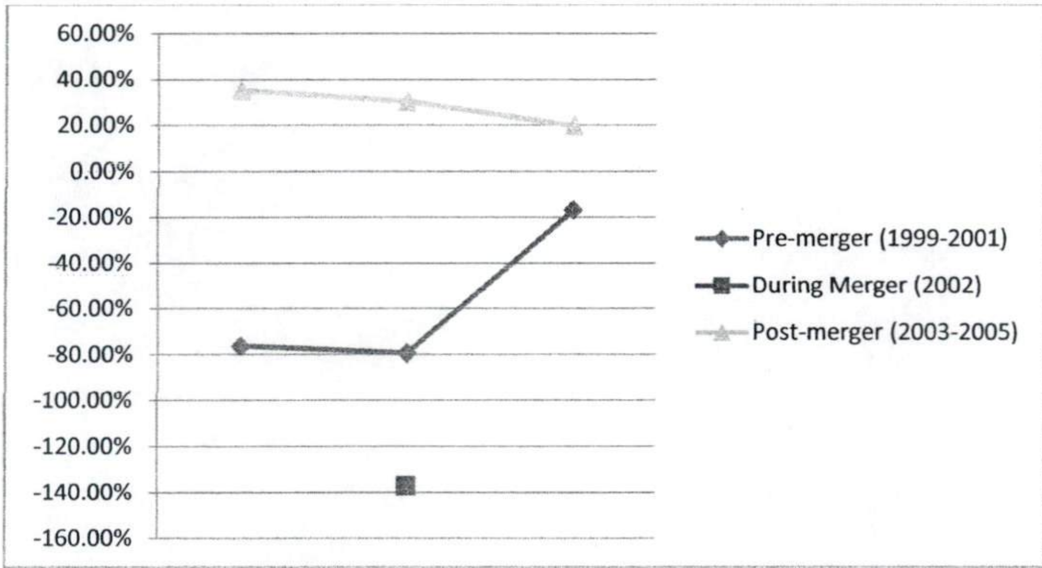
	Permata Bank		
Proxie	Pre-merger (1999-2001)	During Merger (2002)	Post-merger (2003-2005)
PM	-76,25%		35,08%
	-79,34%	-137,04%	30,30%
	-16,95%		19,78%

Source: Appendix 4

In 1999, the profit margin of five banks before they merged into Permata bank showed negative value. The significant declining of profit margin showed in 2000. The performance of the bank became better in 2001which indicated by the improvement on profit margin but the value still negative.

During merger, in 2002, Permata Bank showed negative value on profit margin which indicating loss. Some reasons that cause this loss is high cost of merger and also accumulated of loss had by Bali Bank as platform bank. The profit margin had increased in the next year. But, in 2004 and 2005 the profit margin tend to decline. The trend of profit margin of the bank showed in this following figure.

Figure 5.2
PM



5.1.1.3 Operating Expense to Operating Income (OEOI)

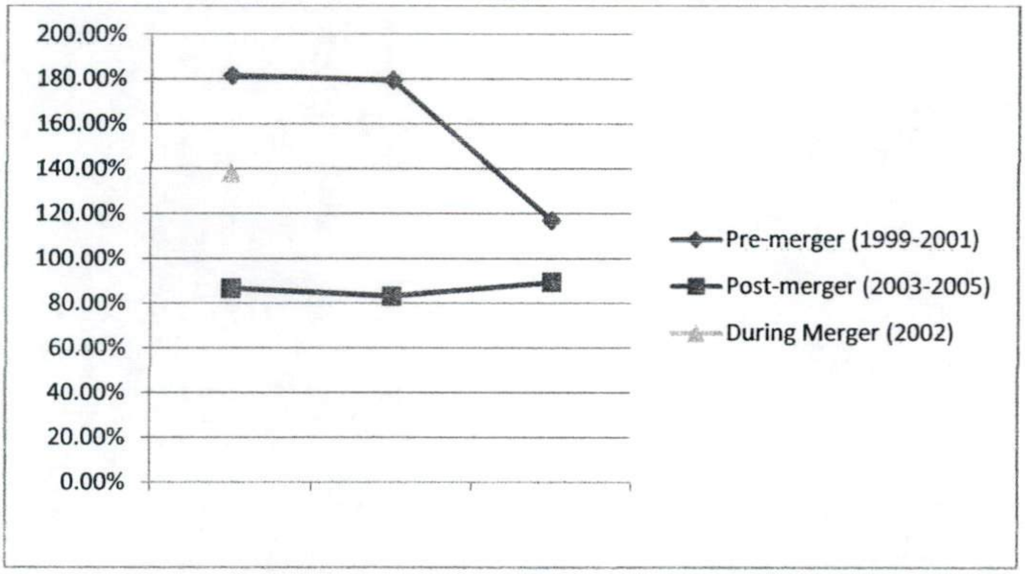
Table 5.3
Permata Bank Pre-,During and Post-merger
OEOI

Proxie	Permata Bank		
	Pre-merger (1999-2001)	**During Merger (2002)**	**Post-merger (2003-2005)**
OEOI	181,40%		86,60%
	179,34%	138,10%	83,10%
	116,95%		89,3%

Source: appendix 4

Tabel 5.3 showed OEOI before merger of five banks merged into Permata Bank was high, which is more than 100%. It could caused by economic crisis occurred during the period which made increasing in operational expense. OEOI rate during merger is more than 100% in 2002 (138,10%). It could be caused by merger cost incurred by bank about 482 billion rupiah. The figure below shows the trend of OEOI of Permata Bank.

Figure 5.3
OEOI



5.1.1.4 Loan to Deposit Ratio (LDR)

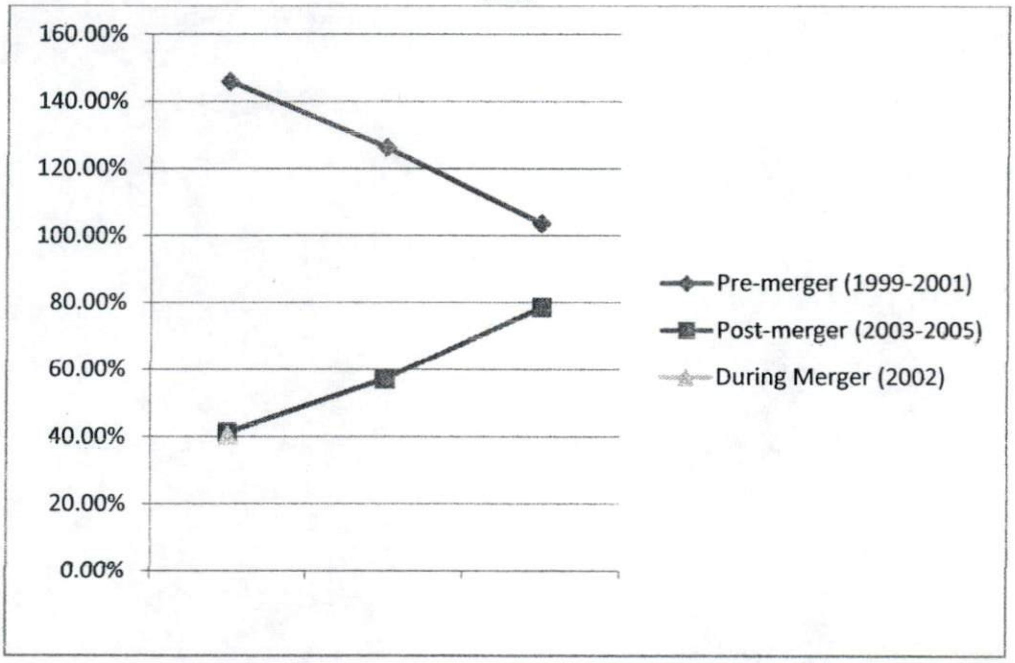
Table 5.4
Permata Bank Pre-,During and Post-merger
LDR

	Permata Bank		
Proxie	Pre-merger (1999-2001)	During Merger (2002)	Post-merger (2003-2005)
LDR	145,92%		41,30%
	126,34%	40,50%	57,20%
	103,64%		78,50%

Source: appendix 4

LDR of Permata Bank in 1999 and 2000 had over the maximum rate decided by Bank of Indonesia. But in 2001, LDR was good categorized. According to the Central Bank, the LDR was set in the range of 85% - 110%. In period 2002, Permata Bank showed declining on LDR. After merger, in 2003-2005, the LDR tend to increased but it was not good categorized since it less than 85%. LDR showed ability of bank to distribute the loan. The following figure shows the trend of LDR.

Figure 5.4
LDR



5.1.2 Statistical Measurement

Normality test is used to determine whether the variable is normal or not. Test of Kolmogorov-Smirnov was used in this normality test. This following table shows the results of the test:

Table 5.5
Result of Normality Test

Proxies	Significance	Pre-merger	Post-merger	Testing
CAR	Asymp.sig	0.934	0.997	Paired t-test
	Description	Normal	Normal	
PM	Asymp.sig	0.843	0.985	Paired t-test
	Description	Normal	Normal	
OEOI	Asymp.sig	0.843	1,000	Paired t-test
	Description	Normal	Normal	
LDR	Asymp.sig	0.782	1,000	Paired t-test
	Description	Normal	Normal	

Source: Appendix 5

Since all of data is normal, performance of the bank will analyzed by using statistical tool "paired t-test for two samples". The test will compare mean of the financial ratios calculated of merging firms in the pre-and post merger period in order to investigate whether there is any difference on performance after merger. These following tables show the results of the test:

Table 5.6
Mean of Pre and Post Merger Ratios for Permata Bank

Proxie	Pre-merger	Post-merger	t-statistic (0.05 significance)	t-critical (two tails)
CAR	-0.061767	0.106667	0.171	4.303
PM	-0.575133	0.283867	0.073	4.303
OEOI	1.592300E0	0.863333	0.084	4.303
LDR	1.253000E0	0.590000	0.102	4.303

Source: Appendix 6

Table 5.7
Correlation of Performance and Merger of Permata Bank

Proxie	Correlation	Sig.
CAR	-0.748	0.462
PM	-0.938	0.226
OEOI	-0.810	0.399
LDR	-0.999	0.026

Source: Appendix 6

5.1.2.1 Capital Adequacy Ratio (CAR)

There was difference on CAR after merger which indicated by increasing of mean (-6.17 percent to 10.6 percent). The improvement is not statistically significant (t-value 0.171, less than t-table 4.303). The test showed there is no correlation between CAR in the pre-merger period and post-merger period (sig. 0.462, greater than 0.05).

5.1.2.2 Profit Margin (PM)

In term of profit margin, there was significant improvement on profit margin after merger compare to before merger. Mean increased to 28,3 percent from -57,5 percent. The improvement is not statistically significant as confirmed by t-value 0.073. There is also no correlation between profit margin in the pre-merger period and post merger period (sig. 0.226, greater than 0.05).

5.1.2.3 Operating Expense to Operating Income (OEOI)

Mean of operating expense to operating income had also increased in the post-merger period which increases into 86.3 percent but it is not statistically significant. It confirmed by t value 0.084, less than 4.303. There is no correlation between operating expense to operating income before and after merger (sig.0,399).

5.1.2.4 Loan to Deposit Ratio (LDR)

Mean of loan to deposit ratio had improved in the post-merger period. The improvement is quiet high. It became 59 % on the post-merger period. This result is not statistically significant (t-value 0.102, less than t-critical). Different from other ratio, the test shows there is correlation between LDR in the pre merger and post-merger period as confirmed by significance value 0.026 that less than 0.05.

5.2 Analysis of the Results

Permata Bank was officially formed on September 2002 as the result of merger of five banks (Bali Bank, Universal Bank, Prima Express Bank, Artamedia Bank and Patriot Bank). In this case, Bali bank was appointed as the platform bank. This merger is the result of implementing the government policy on the restructuring program to create banks with strong capital structure, fit financial condition, and high competitive capability to run its intermediary function.

Through this merger, the assets and capital of those banks will be increased. For example, Mandiri bank was created from a merger of four government banks, Bumi Daya Bank, Dagang Negara Bank, Exim Bank and Pembangunan Indonesia Bank. The total assets of those banks before this merger was approximately 90 trillion and capital about 9 trillion rupiah. In the post-merger the total assets was 225,945 billion rupiah and capital was 8,875 billion rupiah. Besides that, number of customers and the branch will also increase because the combining of bank certainly combining each bank's customers and their branch.

Mean while, by merger, the bank is expected to increase its efficiency through reducing overlapping activities of the bank. As a consequence, there should be a willingness to reduce the employees in each level or position. To anticipate it, management should give training to the employees in order to become independent after firing and teach necessary skills to develop their own business. Management of merged banks plays an important role and expected to create efficiencies and optimal performance improvement by hiring the professional bankers owned by each merged banks.

After merger, Permata bank kept struggle to become one of top bank in Indonesia. In short time, the bank which suffered loss about 400 billion in 2002, was able to reach profit approximately 600 billion in 2004. It indicates a good performance of the bank. Based on this condition, the director of bank targeted the next year profit become 900 billion. But, on April 2005, Standard Chartered Bank-one of owner of Permata bank (stock owned: 31,55%)- tried to restrain and took several actions such changing the vision, change the culture and custom of the bank. As the result, Permata Bank could not reach the target since it earned profit only 300 billion. This number even less than profit earned in 2003, whereas, this bank still adapted after merger in 2002. Standard Chartered Bank is one consortium who bought Permata Bank Stocks form government through divestment program.

Related to financial measurement, CAR value had increased in the post-merger period. Merger caused improvement in total capital of the bank about 1.1 trillion in 2002 and become 2 .5 trillion on 2005. But, it is not supported by statistical calculations that indicate there is no significant difference on performance in term of Capital Adequacy Ratio.

In the pre merger period, profit margin rate tend to negative. Economic crisis at that time gave contribution on the worst profit margin. During the merger, in 2002, the profit margin getting worst. It caused by high cost of merger incurred and loss had by Bali Bank as a platform bank. But, it increased in the period 2003-2004 while it decreased in 2005 after Standard Chartered Bank joint to the company and took several actions that create bad impact on the bank. The statistical measurement showed that there is no significance different on performance of the bank after merger in term of management which measure by profit margin.

Economic crisis also contributed on the worst of OEOI rate before the bank merger. During the merger period, OEOI still high, caused by merger expense bear by the bank. After merger, the OEOI rate had declined but still high, around 80%. It had increased in 2005 almost 90%. Salary expense gave big contribution on increasing this rate. The bank had to bear 46%

employment cost included salary expense of several employees of Standard Chartered Bank. The decline was not statistically significant. So, there is no significant different on performance of the bank after merger in term of earning, measured by OEOI.

LDR ratio of Permata bank in the pre-merger period is better than during and post-merger period except in 1999. The ratio of LDR after merger below the LDR rate set by the government (85%-110%). It means that the ability of the bank in distributing the loan was still not good. And it supported by statistical measurement that showed there is no significant different on performance of the bank after merger, in term of liquidity which measured by LDR.

PermataBank performed satisfactorily in 2006 by maintaining its focus on serving the Small and Medum Enterprise and Consumer sectors. The Bank's net operating profit reached Rp52 billion, a 30% increase compared to the previous year while net profit grew by 5,6% to Rp311 billion in 2006. Net interest margin also improved from 5.9% in the previous year to 6.4% in 2006, while the Bank's Loan to Deposit Ratio (LDR) increased strongly to 83.1%.

Throughout 2006, the Bank maintained Good Corporate Governance practices and fully complied with all prevailing regulations issued by Bank Indonesia and the capital market regulators. The Bank remained focused on business process improvements to foster higher levels of integrity and information transparency, and maintained its commitment to corporate social responsibility programs, not only at the head office level but also in all its branches across the country.

CHAPTER VI

CONCLUSION

6.1 Conclusion of the Research

Financial measurement of the Analysis of pre- and post-merger performance ratios for the entire sample set of mergers shows that there is improvement on profit margin and capital adequacy ratio. But it is not supported statistically because the t-value indicate that there is no significant different on both ratio, before and after merger.

There is declining in term of LDR and OEOI ratio of Permata bank after merger but this decline is not supported by statistical measurement. Statistically, it indicate that there is no significant different on performance in term of LDR and OEOI.

We can conclude that there is no significant different on bank performance after merger in term of capital adequacy, management aspect, earning, and liquidity. Definitely, H_0 is accepted. Merger is not appropriate choice of strategy for Permata Bank.

In order to improve its performance, in 2006 Permata bank maintained its focus on SME sectors and customers sectors by providing excellence service. As the result, profit margin increased around 30% than previous year and better LDR.

6.2 Limitation and Recommendation of the research

This research has some deficiencies which can be improved in some further researches. Here are the limitations of this research:

There was only one sample used in this research of merger banks. The number of the samples was probably still not enough to give satisfying information in measuring the post-merger performance of the companies, especially post-merger performance in banking sectors. Data used to analysis in this research was also limited. Only three years of data before and three years after the merger were used. The ratio used for analysis is only four which can be added in further research.

6.3 Implication of the Research

Actually, the motivation of many companies doing merger based on economic consideration (such cost saving, tax consideration, increased debt capacity, manipulating earning per share etc.) and in order to be more competitive. Through this merger, it expected that the performance will be better. It can improve company's efficiency and value of the assets etc. and especially for bank, this merger is expected to support the bank in playing its intermediaries role.

The finding of the research is not suitable with the expectation of stakeholder of the company toward merger, that the performance of the company will be better after merger. The research showed that there was significance difference on bank performance in the post-merger period compare to pre-merger period.

Practically, the result of the research could be a consideration of management of the company, especially management of the bank in making decision and develop strategy, particularly merger strategy.

Despite some success stories of merger, based on findings of this study, there are still question of to what extent merger affect the bank performance and whether merger action could improve banks ability to accomplish their main tasks as an intermediary institution between depositors and borrowers.

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APPENDIX 1

Permata Bank Pre-merger
CAR
(Percentage)

Period	Bali	Universal	Prima Express	Patriot	Artamedia
1999	-17,80%	-63,36%	-12,07%	5,34%	0,94%
2000	-84,48%	4,59%	5,52%	20,90%	9%
2001	13,60%	4,50%	5,41%	10,15%	7,58%

Permata Bank Pre-merger
LDR
(Percentage)

Period	Bali	Universal	Prima Express	Patriot	Artamedia
1999	116,44%	156,10%	90,39%	62,82%	303,87%
2000	99,89%	91,47%	80,16%	56,32%	303,87%
2001	85,02%	86%	86,86%	75,61%	184,72%

Source: Info bank 2006

PT. Bank Permata Post-Merger
CAR and LDR
(percentage)

Period	Capital Adequacy Ratio(CAR)	Loan to Deposit Ratio (LDR)
2003	10,80%	41,30%
2004	11,40%	57,2%
2005	9,80%	78,5%

PT. Bank Permata During Merger
CAR and LDR
(percentage)

Period	Capital Adequacy Ratio(CAR)	Loan to Deposit Ratio (LDR)
2002	10,40%	40,50%

Source: Annual Report of Permata Bank 2006

APPENDIX 2

Pre Merger Profit Margin (in million Rp)						
Bank	**Period**	**Operating Income (1)**	**Operating Expense (2)**	**(1)-(2) =(3)**	**Operating Income (4)**	**Profit Margin (3):(4)= (5)**
PT. Bank Bali	1999	4.690.605	7.301.781	-2.611.176	4.690.605	-55,67%
	2000	1.281.961	3.326.878	-2.044.917	1.281.961	-159,51%
	2001	872.951	1.829.948	-956.997	872.951	-109,63%
PT. Bank Universal	1999	1.599.188	5.483.398	-3.884.210	1.599.188	-242,89%
	2000	1.048.033	2.531.200	-1.483.167	1.048.033	-141,52%
	2001	1.397.505	1.450.058	-52.553	1.397.505	-3,76%
PT. Bank Prima Express	1999	769.518	1.054.152	-284.634	769.518	-36,99%
	2000	258.945	358.683	-99.738	258.945	-38,52%
	2001	202.874	134.777	68.097	202.874	33,57%
PT.Bank Patriot	1999	46.832	68.870	-22.038	46.832	-47,06%
	2000	28.438	45.487	-17.049	28.438	-59,95%
	2001	27.774	29.895	-2.121	27.774	-7,64%
PT.Bank Artamedia	1999	119.814	118.211	1.603	119.814	1,34%
	2000	156.272	151.887	4.385	156.272	2,81%
	2001	519.001	504.864	14.137	519.001	2,72%

Source: Info bank 2005

During Merger
Profit Margin
(in million Rp)

Period	Profit Margin (1)	Operating Income (2)	(1):(2) =(3)
2002	-859.056	626.874	-137,04%

Post Merger
Profit Margin
(in million Rp)

Period	Profit Margin (1)	Operating Income (2)	(1):(2) =(3)
2003	480083	1368398	35,08%
2004	559043	1844812	30,3%
2005	398958	2016625	19,78%

Source: Annual Report 2005

APPENDIX 3

PT. Permata Bank Pre-Merger
Operating Expense to Operating Income
(in million RP)

Bank	Period	Operating Expense (2)	Operating Income (1)	OEOI = (1):(2)
PT. Bank Bali	1999	7.301.781	4.690.605	155,67%
	2000	3.326.878	1.281.961	259,51%
	2001	1.829.948	872.951	209,63%
PT. Bank Universal	1999	5.483.398	1.599.188	342,89%
	2000	2.531.200	1.048.033	241,52%
	2001	1.450.058	1.397.505	103,76%
PT. Bank Prima Express	1999	1.054.152	769.518	136,99%
	2000	358.683	258.945	138,52%
	2001	134.777	202.874	66,43%
PT.Bank Patriot	1999	68.870	46.832	147,06%
	2000	45.487	28.438	159,95%
	2001	29.895	27.774	107,64%
PT.Bank Artamedia	1999	118.211	119.814	98,66%
	2000	151.887	156.272	97,19%
	2001	504.864	519.001	97,28%

PT. Bank Permata During Merger
Operating Expense to Operating Income
(OEOI)
(in million Rp)

Period	OEOI
2002	138,10%

PT. Bank Permata Post Merger
Operating Expense to Operating Income
(OEOI)
(in million Rp)

Period	OEOI
2003	86,60%
2004	83,1%
2005	89,3%

Source: Annual Report 2005

APPENDIX 4 Summary of CAR, PM, OEOI, LDR, Pre Merger

Permata Bank Pre Merger
CAR

Period	Bali	Universal	Prima Express	Patriot	Artamedia	Mean
1999	-17,80%	-63,36%	-12,07%	5,34%	0,94%	-17,39%
2000	-84,48%	4,59%	5,52%	20,90%	9%	-8,89%
2001	13,60%	4,50%	5,41%	10,15%	7,58%	8,25%

Permata Bank Pre Merger
Profit Margin

Period	Bali	Universal	Prima Express	Patriot	Artamedia	Mean
1999	-55,67%	-242,89%	-36,99%	-47,06%	1,34%	-76,25%
2000	-159,51%	-141,52%	-38,52%	-59,95%	2,81%	-79,34%
2001	-109,63%	-3,76%	33,57%	-7,64%	2,72%	-16,95%

Permata Bank Pre Merger
OEOI

Period	Bali	Universal	Prima Express	Patriot	Artamedia	Mean
1999	155.67%	342,89%	136,99%	147,06%	98,66%	181,40%
2000	259,51%	241,52%	138,52%	159,95%	97,19%	179,34%
2001	209,63%	103,76%	66,43%	107,64%	97,28%	116,95%

Permata Bank Pre Merger
LDR

Period	Bali	Universal	Prima Express	Patriot	Artamedia	Mean
1999	116,44%	156,10%	90,39%	62,82%	303,87%	145,92%
2000	99,89%	91,47%	80,16%	56,32%	303,87%	126,34%
2001	85,02%	86%	86,86%	75,61%	184,72%	103,64%

Summary of CAR, PM, OEOI, LDR, Pre-, During, and Post- merger

Proxie	Permata Bank		
	Pre-merger (1999-2001)	During Merger (2002)	Post-merger (2003-2005)
CAR	-17,39%		10,80%
	-8,89%	10,40%	20,41%
	8,25%		18,16%
PM	-76,25%		35,08%
	-79,34%	-137,04%	40,17%
	-16,95%		42,31%
OEOI	181,40%		86,60%
	179,34%	138,10%	58,17%
	116,95%		56,34%
LDR	145,92%		41,30%
	126,34%	40,50%	125,54%
	103,64%		137,88%

Appendix 5 Normality Test

CAR

One-Sample Kolmogorov-Smirnov Test

		PREMERGERCAR
N		3
Normal Parameters[a]	Mean	.009233
	Std. Deviation	.0926795
Most Extreme Differences	Absolute	.311
	Positive	.223
	Negative	-.311
Kolmogorov-Smirnov Z		.538
Asymp. Sig. (2-tailed)		.934

a. Test distribution is Normal.

One-Sample Kolmogorov-Smirnov Test

		POSTMERGERCAR
N		3
Normal Parameters[a]	Mean	.106667
	Std. Deviation	.0080829
Most Extreme Differences	Absolute	.232
	Positive	.192
	Negative	-.232
Kolmogorov-Smirnov Z		.402
Asymp. Sig. (2-tailed)		.997

a. Test distribution is Normal.

PM

One-Sample Kolmogorov-Smirnov Test

		PREMERGERPM
N		3
Normal Parameters[a]	Mean	-.415300
	Std. Deviation	.3733421
Most Extreme Differences	Absolute	.355
	Positive	.355
	Negative	-.255
Kolmogorov-Smirnov Z		.615
Asymp. Sig. (2-tailed)		.843

a. Test distribution is Normal.

One-Sample Kolmogorov-Smirnov Test

		POSTMERGERPM
N		3
Normal Parameters[a]	Mean	.283867
	Std. Deviation	.0782740
Most Extreme Differences	Absolute	.263
	Positive	.198
	Negative	-.263
Kolmogorov-Smirnov Z		.456
Asymp. Sig. (2-tailed)		.985

a. Test distribution is Normal.

OEOI

One-Sample Kolmogorov-Smirnov Test

		PREMERGEROEOI
N		3
Normal Parameters[a]	Mean	1.415567
	Std. Deviation	.3728818
Most Extreme Differences	Absolute	.355
	Positive	.255
	Negative	-.355
Kolmogorov-Smirnov Z		.615
Asymp. Sig. (2-tailed)		.843

a. Test distribution is Normal.

One-Sample Kolmogorov-Smirnov Test

		POSTMERGER OEOI
N		3
Normal Parameters[a]	Mean	.863333
	Std. Deviation	.0310859
Most Extreme Differences	Absolute	.201
	Positive	.184
	Negative	-.201
Kolmogorov-Smirnov Z		.348
Asymp. Sig. (2-tailed)		1.000

a. Test distribution is Normal.

LDR

One-Sample Kolmogorov-Smirnov Test

		PREMERGERLDR
N		3
Normal Parameters[a]	Mean	.586580
	Std. Deviation	.4158732
Most Extreme Differences	Absolute	.379
	Positive	.276
	Negative	-.379
Kolmogorov-Smirnov Z		.657
Asymp. Sig. (2-tailed)		.782

a. Test distribution is Normal.

One-Sample Kolmogorov-Smirnov Test

		POSTMERGER LDR
N		3
Normal Parameters[a]	Mean	.590000
	Std. Deviation	.1866521
Most Extreme Differences	Absolute	.205
	Positive	.205
	Negative	-.185
Kolmogorov-Smirnov Z		.355
Asymp. Sig. (2-tailed)		1.000

a. Test distribution is Normal.

Appendix 6 T-test

CAR

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	PREMERGER	-.061767	3	.1327955	.0766695
	POSTMERGER	.106667	3	.0080829	.0046667

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	PREMERGER & POSTMERGER	3	-.748	.462

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
					95% Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Pair 1	PREMERGER - POSTMERGER	-1.6843333E-1	.1389441	.0802194	-.5135895	.1767229	-2.100	2	.171

Profit Margin (PM)

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	PREMERGER	-.575133	3	.3516284	.2030127
	POSTMERGER	.283867	3	.0782740	.0451915

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	PREMERGER & POSTMERGER	3	-.938	.226

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
					95% Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Pair 1	PREMERGER - POSTMERGER	-8.5900000E-1	.4259085	.2458984	-1.9170154	.1990154	-3.493	2	.073

OEOI

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	PREMERGER	1.592300E0	3	.3663004	.2114836
	POSTMERGER	.863333	3	.0310859	.0179475

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	PREMERGER & POSTMERGER	3	-.810	.399

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
					95% Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Pair 1	PREMERGER – POSTMERGER	.7289667	.3919138	.2262715	-.2446011	1.7025344	3.222	2	.084