# THE EFFECTS OF ACQUISITION ON PROFITABILITY, GROWTH AND VALUE CREATION: A CASE OF AN INDONESIAN BANK

**By**

**Kartikawati, Ikka**

**THESIS**

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

MASTER OF BUSINESS ADMINISTRATION

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Committee in charge:

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Professor SOHN, Wook ________________________

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# ABSTRACT

THE EFFECTS OF ACQUISITION ON PROFITABILITY, GROWTH AND VALUE CREATION: A CASE OF AN INDONESIAN BANK

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This is a study about the effects of acquisition of PT Tunas Financindo Sarana (hereafter, TFS) on profitability, growth, and value creation of PT Bank Mandiri (Persero) Tbk (hereafter, BM). BM has a mid-term goal to become a regional champion bank. To achieve the goal, BM should have 20-30% of the market share in each market segment. BM has chosen an acquisition of TFS as a way to achieve the goal in consumer finance sector.

According to the financial forecasts in this paper, acquisition would affect the ratios for profitability, growth and value creation of BM. With acquisition, market value added growth become Rp 8,532.40 per share, without acquisition market value added Rp 8,516.69 per share. Profit margin also increases, for 2009 projection, without acquisition profit margin growth from 18.76% in 2007 to 23.12%, with acquisition profit margin increase to 23.30%. Ratios for growth also increase, in 2009, revenue growth at rate 5.27%, operating income growth rate become 19.10% and net operating asset growth to 13.94%.

Therefore, the acquisition would help BM to achieve its target and help to increase the profitability and share price. Thus, we recommend the shareholders of BM to endorse the acquisition plan.

**Dedicated to the people that I love and love me unconditionally: my husband, my children, my parents and my brother**

## ACKNOWLEDGMENTS

Many people have given their precious time, good thinking and generous support to this thesis. First of all, I would like to thank my thesis supervisor, Prof Lee, Jin Soo for his time, effort, and thoughtful advice throughout the process. I would like to thank Prof Cho, Seong-Ho and Prof Sohn, Wook as the committee in charge for their contribution and approval. I also wish to express my sincere gratitude to the Staff of Academic Office Division for making my life in Korea easy and smooth. Last but not least, Bank Mandiri`s Board of Directors and its staff for the financial support.

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# I. INTRODUCTION

## 1.1. Research Background

PT Bank Mandiri (Persero) Tbk., commonly referred to as Bank Mandiri (BM), is the largest bank in Indonesia in terms of assets, loans, and deposits. The bank was established on October 2, 1998 as a result of the amalgamation of Bank Bumi Daya, Bank Dagang Negara, Bank Ekspor Impor Indonesia and Bank Pembangunan Indonesia. As of June 2008, BM had 958 branch offices throughout Indonesia, 5 branch offices abroad, and 6 subsidiaries (5 in Indonesia and 1 in London).

Already becoming the biggest bank in Indonesia, BM currently has a midterm target to become Regional Champion Bank. To achieve the target, BM should have 20-30% of the total market revenue of the Indonesian banking sector. BM has adequate capacity in corporate banking since it has already run BM business from the beginning (legacy bank). But in consumer finance sector and micro and retail banking sector, BM market revenue share is considerably low.

To achieve the target share, BM may not depend on organic growth but on inorganic growth. The inorganic growth can be achieved through acquisition. On March 17, 2008, during a general meeting, BM shareholders agreed to buy back 80% of shares of Bank Sinar Harapan Bali (BSHB), which focuses on the business in micro segment, to increase market revenue shares in micro sector.

To increase the market share in consumer finance, the management of BM has already signed Conditional Sales and Purchase Agreement (CSPA) with PT Tunas Financindo Sarana (TFS).

TFS is a multi finance company which mainly deals with automotive consumer finance. Established in 1989, TFS had a total asset of IDR 2.14 billion as of December 2007 and becomes one of the biggest multi finance companies in Indonesia with excellent performance according to *Infobank* magazine (a well-known finance magazine in Indonesia).

The CSPA allows BM to acquire 51% of the stocks of PT Tunas Financindo Sarana which worth IDR 290 billions (equivalent to USD 31 millions).

### 1.2. Research Purpose

This study aims at evaluating whether the decision made by BM to buy TFS will help BM achieve its target. Specifically, we will find out the effects of TFS acquisition on the profitability, growth, and value creation of BM. The effects will be measured by comparing the return on invested capital, return on net operating assets, earning growth, residual earnings, operation value, and equity value before and after acquisition.

This is a case study to analyze how M&A between financial institutions would affect the profitability, growth, and value creation of the merging institution. After thoroughly investigating this issue, we can provide BM shareholders with adequate information in order to help them decide whether they should agree with the acquisition or not.

# II. LITERATURE REVIEW

## 2.1. Definition of Acquisition

Acquisition is a condition when a particular firm buys a controlling interest from other firms with the intent of making the acquired firm a subsidiary business or integrated part of its own portfolio.[1]

Economic theory classifies mergers into three broad categories: [2]

1. Horizontal mergers. Horizontal mergers are the integration of two competitors. Increased horizontal mergers can affect the level of competition in an industry.
2. Vertical mergers. Vertical mergers are deals between companies that have a buyer-and-seller relationship with each other. In a vertical transaction, a company might acquire a supplier or another company closer in the distribution chain to consumers.
3. Conglomerate. Conglomerate deals are the integration of companies that do not have a business relationship with each other.

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[1] Jeongil, Seo. "Developing Corporate Strategy" Strategic Management Lecture, KDI School of Public Policy and Management, Seoul, July. 2008.

[2] Gaughan, Patrick A., "Mergers: What Can Go Wrong and How to Prevent It", John Wiley&Sons, Inc, 2005.

### 2.2. Reason for Acquisition

There are strategic reasons for acquisition such as:

1. Market penetration
2. Vertical expansion
3. Financial synergies
4. Market entry
5. Asset potential or synergy
6. Economies of scale

There are some other reasons why companies expand through M&As[3]:

1. Growth. Company can grow in two major ways: through internal expansion and through M&As. Internal expansion is sometimes referred to as an organic growth. Organic growth is the growth that a company can achieve by increasing output and enhancing sales. This type of growth can be slow. Meanwhile, the growth from takeovers, acquisitions or mergers is not generated within the company, and therefore is not considered organic. A merger or acquisition can enable a company to quickly respond to perceived opportunities in the marketplace. M&As enables a company to grow faster than does internal expansion.
2. Synergy. There are two types of synergies from acquisition: operating synergies and revenue-enhancing synergies. Operating synergies refer to

[3] Gaughan, Patrick A., “Mergers: What Can Go Wrong and How to Prevent It”, John Wiley&Sons, Inc, 2005.

## 2.3. Acquisition Processes

In an acquisition process, we can distinguish business management issues from transaction issues.

Transaction issues include search, screening, critical evaluation and integration. The search step begins with a strategic plan that leads to an objective of strategic acquisition and ends with identification of target sellers. The screening step begins with the initial contact with target businesses and ends when a letter of intent or offer letter is provided to the selected target. The critical evaluation step begins with an agreement in principle (offer letter) and ends with a definitive agreement and deal closing. Integration step begins with the transfer of the company to the new owner and ends when the strategic objective is accomplished.

Business management issues include strategic issues, people issues, and operating and financial issues. Strategic issues address the initial direction for acquisition activity, continuous evaluation of the feasibility of achieving the strategic objectives and turning the business strategies into a post-acquisition implementation plan. People issues address the role of the business manager in selecting individuals who will facilitate acquisition activity, evaluating the capability of acquired personnel and integrating the acquired personnel into the post-acquisition business. Operating and financial issues address the process of developing a suitable operating plan with financial forecasts, testing the plan to assure financial objective to be met and converting financial reporting systems to be comparable to the acquiring company.

### 2.4. Performance Measures of Acquisition

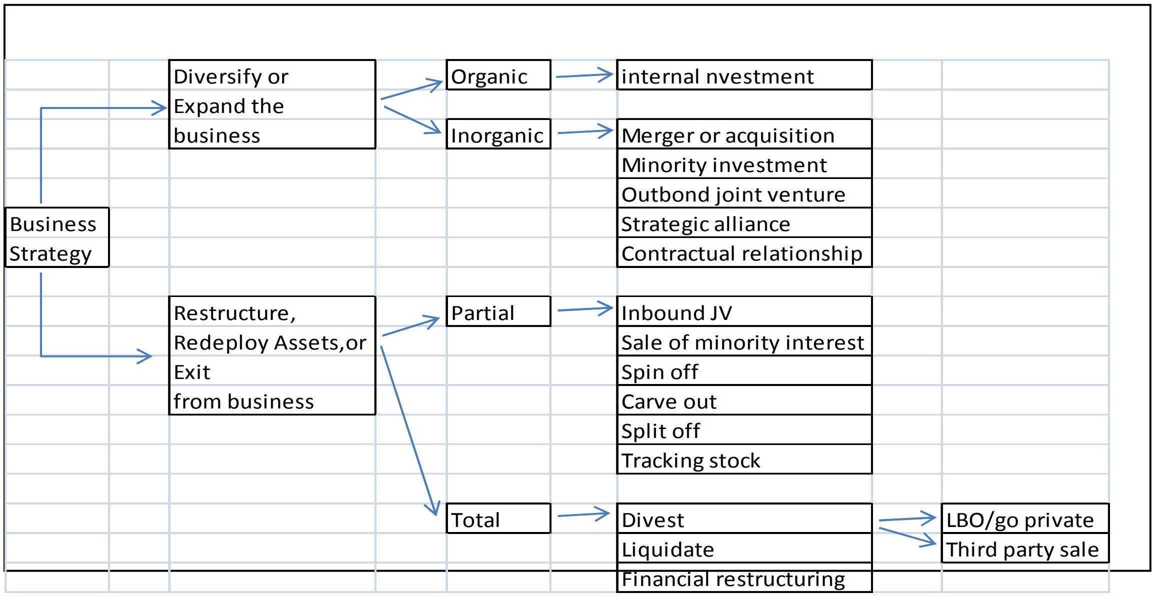
There are three possible outcomes when the performance of acquisition is measured:[4]

1. Value conserved. Here the investment returns equal to the required return. The investor has an NPV of zero.
2. Value created. This occurs when the returns on the investment exceed the required return. This investment bears a positive NPV.
3. Value destroyed. In this case, investment returns are less than the required return. The investor may do better by investing in another opportunity with similar risk.

[4] Bruner, Robert F., Applied Mergers and Acquisitions. John Wiley&Sons Inc. 2004. New Jersey.

## 2.5. Inorganic Growth

There are several strategies to develop business; each strategy is determined by business goal. Figure 1 shows the range of transaction in a decision framework.




Source: Bruner, Robert F., "Applied Mergers and Acquisitions", (New Jersey: John Wiley&Sons Inc, 2004).

Figure 1. Range of Transaction in a Decision Framework

Inorganic growth is a growth of business that comes not from its own business activity but usually arises from mergers or takeovers. Strategists and scholars point out five main reasons why a firm pursues inorganic growth:

1. Maturing product line
2. Regulatory or antitrust limits
3. Value creation through horizontal and vertical integration
4. Acquisition of resources and capabilities
5. Value creation through diversification

## 2.6. Valuation of Firm

The aim of valuation is to search for profit making opportunities. Value is created (hence profit is made) when we sell goods above their intrinsic price or buy something below its intrinsic price. In M&A, in order to create value, the following rules should be followed:

**a.** Buyer`s view : accept the proposal deal only if the intrinsic value of the target to the buyer is greater than the payment for the target.

**b.** Seller`s view : accept the proposed deal only if the payment for target is larger than the intrinsic value of target.

The value of a firm is defined as:

Value of firm = Value of debt + Value of equity

There are nine approaches of valuing a firm:[5]

1. Book value of the target firm

   This is a backward looking method, since it only reflects what has already happened. Thus, this approach has limited significance when used as an estimator of the value of a healthy and growing firm. The estimates from this approach may be appropriate for firms with little intangible assets, commodity-type assets, and stable operations.

[5] Bruner, Robert F., “Applied Mergers and Acquisitions”, (New Jersey: John Wiley&Sons Inc, 2004).

2. Liquidation value of the target firm

   This is the sum of the values that might be earned in a liquidation of the firm. This approach has several weaknesses: Liquidation values tend to depend highly on appraiser. This method might ignores the value of growth opportunities, and valuable intangible assets, such as patents and brand names. This method is more appropriate for firms which experience financial distress.

3. Replacement cost of the target firm

   This valuation method is used to determine the cost to replace the assets of the firm. This approach has some weaknesses: The estimation of replacement might be highly subjective and often relies on rules of thumb. These estimates might fail to notice the various uses of the assets and the expected future benefits from the asset. In addition, intangible assets are difficult to value with this method.

4. Current market value of the target firm

   Value of the firm is the sum of market value of its debt and equity. The value of equity is computed through share price multiplied by the number of shares. The value of debt can be estimated by estimating the present value of future cash flows from the debt.

5. Valuing the target with trading multiples of comparable firms

   This approach estimates a target`s value by applying the valuation multiples of peer firms to the target. This approach is vulnerable to several potential problems: It is hard to find a peer on which valuation is based. The method critically depends on accounting practices, when computing multiples. It is often based on the financial performance during the most recent fiscal year but some analysts state that the multiple should be based on the expected performance in the years to come. The method uses the proxies of the cash flows rather than the cash flows themselves.

6. Valuing the target with transaction multiples of comparable acquisition

   This approach adopts many of the multiples mentioned earlier but uses the actual prices paid to the target firms in order to compute the multiples.

7. Discounted cash flow of the target firm

   This approach calculates the present value of cash flows of the target firm with an estimated cost of capital. This approach has several strengths: This approach uses forward-looking measures which are more appropriate for the valuation of the target firm than backward-looking accounting values. Since it focuses on cash flow rather than accounting profits, the approach includes noncash charges and investment flows, recognizes the time value of money, and explicitly models the outlook for the firm. Since the approach could be so complex that analysts might be entangled and fail to pay attention to the big picture of the M&A deal.

8. Venture capital/private equity approach

   It is a stripped-down variant of the discounted cash flow methods. First, the analyst projects the performance of the firm in the future assuming that the private equity investor will exit in 3 or 5 years. Second, the exit value at that horizon is estimated using exit multiple. Third, the exit value is usually discounted to the present one using a discount rate in a range between 30% and 75%. Alternatively, the analyst calculates the internal rate of return rate from the flows and compares the internal rate of return to the target return for the deal.

9. Option valuation of the target firm

   This approach views the equity in a levered firm as equivalent to a call option on the asset value of the firm.

These nine approaches are summarized in the following table:

Table 1. Overview of the Classic Measuring of Value

| Approach | Advantages | Disadvantages |
|---|---|---|
| Book Value | • Simple<br>• Authoritative | • Ignores some assets and liabilities<br>• recorded costs: backward looking<br>• Subject to accounting manipulation |
| Liquidation value | Conservative | • Ignores going concern value<br>• (Dis) orderly sale? |
| Replacement value | Current | • Replace what?<br>• Subjective estimates |
| Multiples, earnings capitalization<br>• Price/earnings<br>• Value/EBIT<br>• Price/book | • Simple<br>• Widely used | • Earning subject to accounting manipulation<br>• Snapshot estimate: may ignore cyclical, secular changes<br>• Depends on comparable firms: ultimately just a measure of relative, not absolute value |
| Discounted cash flow<br>FCF @ WACC<br>RCF @ $K_e$<br>APV | • Theoretically based<br>• Rigorous<br>• Affords many analytical insights<br>• Cash focus<br>• Multi period<br>• Reflects time value of money | • Time consuming<br>• Risks analysis paralysis<br>• Easy to abuse, misuse<br>• Tough to explain to novices |
| Venture capital/private equity approach | • Simpler than standard DCF approaches<br>• Focuses on timing and exit values<br>• Avoids heavy theoretical assumptions | • Discount rates may appear to be arbitrary and too high<br>• Interim cash flows may be material |
| Option-adjusted valuation | • Augments DCF for hidden option value<br>• Permits explicit modeling of important rights | • Difficult to estimate parameters especially volatility<br>• Some hidden options do not map easily onto the simple models<br>• Complex modeling may be required |

# III. METHODOLOGY

This research uses the data from the secondary sources. The data include financial statements for both company from 2005 to the 2$^{nd}$ quarter of 2008 (Q2/2008) and the published business planning and financial projection.

The following data analysis techniques will be used in each stage:

1. Evaluation and analysis of the financial performance of BM from 2005 to Q2/2008 to find out the condition and ability of BM to acquire TFS.
2. Evaluation of BM's financial projection.
3. Analysis of financial performance of TFS and evaluation of its financial projection
4. Elaboration on BM's financial projection by taking into account the benefits of acquisition.
5. Analysis of profitability, growth, and value creation.
6. Comparison of the financial projection of the acquisition to the projection without acquisition.
7. Interpretation of the results with some suggestions

# IV. GENERAL INFORMATION AND RESEARCH OBJECT

## 4.1. Banking Sector

When economic crisis hit Asia in 1997-1998, Indonesia finance sector including banking sector was affected and many of the banks were liquidated. This happened especially because of low health level of the banking sector.

Under the tight control of Bank of Indonesia, banking sector in Indonesia was able to survive the crisis. Throughout 2007, the performance of banking sector in Indonesia was quite good, buoyed by good economic conditions. Net income reached Rp 32,940,000 Mn, increasing by 14% compared to that of the previous year. Loan increased by 27.01% meanwhile deposits increased by 17.76%. This credit expansion was partly due to the policy of Bank of Indonesia, such as low BI Rate and the amendments of various regulations.

The overall performance of banking in Indonesia during this period is shown in Table 2.

Table 2. Indonesia Banking Performance

| No | Items | Jun-07 | Dec-07 | Jun-08 |
|---|---|---|---|---|
| 1 | Fund | ######### | ######### | ######### |
| 1 | Loan Obligation | 14,000,000 | 14,300,000 | 14,600,000 |
| 2 | Issued Securities | 16,800,000 | 17,300,000 | 15,300,000 |
| 3 | Third Party Fund | ######### | ######### | ######### |
| a | in Rupiah | ######### | ######### | ######### |
| b | in Foreign Currency | 223,000,000 | 226,000,000 | 259,300,000 |
| 4 | Money Market Borrowing | 118,700,000 | 137,800,000 | 147,400,000 |
| 2 | Loanable Fund | ######### | ######### | ######### |
| 1 | Bank Indonesia Certificate | 202,100,000 | 203,900,000 | 113,700,000 |
| 2 | Other Securities **) | 84,100,000 | 85,200,000 | 82,600,000 |
| 3 | Money Market Lending | 165,100,000 | 139,800,000 | 174,500,000 |
| 4 | Equity Participation | 6,000,000 | 5,600,000 | 6,100,000 |
| 5 | Credits *) | 904,100,000 | ######### | ######### |
| a | in Rupiah | 707,800,000 | 810,400,000 | 944,900,000 |
| b | in Foreign Currency | 196,400,000 | 235,300,000 | 245,200,000 |
| 3 | Asset | ######### | ######### | ######### |
| 4 | Capital | 139,900,000 | 193,700,000 | 196,500,000 |
| 5 | Performance | | | |
| 1 | Non Performing Loan | | | |
| a | Value | 57,500,000 | 48,600,000 | 48,600,000 |
| b | Ratio to total credits (%) | 6,400,000 | 4,600,000 | 4,100,000 |
| 2 | Profit/Loss | 25,200,000 | 49,860,000 | 24,900,000 |
| a | Operational | 18,100,000 | 35,040,000 | 17,600,000 |
| b | Non Operational | 7,100,000 | 14,820,000 | 7,200,000 |
| 3 | Net Interest Margin | 7,700,000 | 8,900,000 | 9,600,000 |

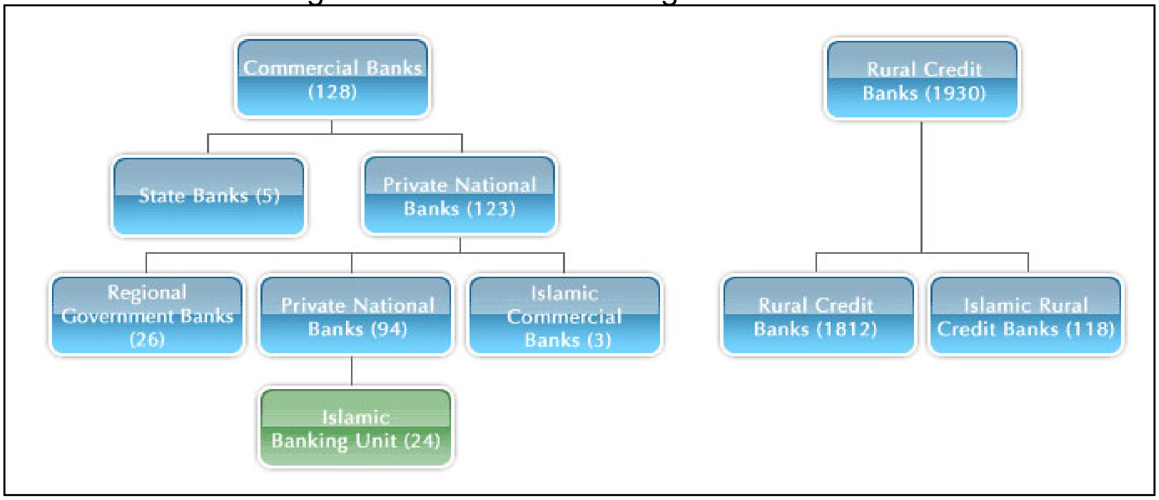
*) Including chanelling credit

**) Excluding government obligation in term capitalization

Source: Bank of Indonesia. *Indonesian Banks Statistics*. Jakarta: Bank of Indonesia, June 2008.

According to Indonesian banking law, Indonesian banking institutions are typically categorized into commercial and rural banks. Commercial banks differ from rural banks in that the latter are not involved directly in the payment system and that they have restricted operational areas. In terms of operational definition, banks in Indonesia are classified into non-sharia and sharia-based commercial banks. Figure 2. shows both the banking classification and the number of bank as of April 2008.

Figure 2. Indonesia Banking Classification




Source: Bank of Indonesia. *Indonesian Banks Statistics*. Jakarta: Bank of Indonesia, June 2008.

## 4.2. Commercial Banks

The performance of national commercial banking sector is shown in Table 3.

Table 3. Commercial Bank Performance

| Key Indicators | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|
| Total Aset (Trillions Rp) | 1,006.7 | 1,030.5 | 1,099.7 | 1,112.2 | 1,196.2 | 1,272.3 | 1,469.8 | 1,693.5 | 1,986.5 |
| Depositor Funds (Trillions Rp) | 617.6 | 699.1 | 797.4 | 835.8 | 888.6 | 963.1 | 1127.9 | 1287 | 1510.7 |
| Credit (Trillions Rp)* | 277.3 | 320.5 | 358.6 | 410.3 | 477.2 | 595.1 | 730.2 | 832.9 | 1045.7 |
| LDR (Credit/Deposits, %) | 44.9 | 45.8 | 45 | 49.1 | 53.7 | 61.8 | 64.7 | 64.7 | 69.2 |
| NII (Trillions Rp) | 1.1 | 2.9 | 3.1 | 4 | 3.2 | 6.3 | 6.2 | 7.7 | 8.9 |
| ROA (%) | -6.1 | 0.9 | 1.4 | 1.9 | 2.5 | 3.5 | 2.6 | 2.6 | 2.8 |
| Gross NPLs (%) | 32.8 | 18.8 | 12.1 | 8.1 | 8.2 | 5.8 | 8.3 | 7 | 4.6 |
| Net NPLs (%) | 7.3 | 5.8 | 3.6 | 2.1 | 3 | 1.7 | 4.8 | 3.6 | 1.9 |
| CAR (%) | -8.1 | 12.7 | 20.5 | 22.5 | 19.4 | 19.4 | 19.5 | 20.5 | 19.2 |

*including channeling credit

Source: Bank of Indonesia. *2007 Economic Report on Indonesia*. Jakarta: Bank of Indonesia, 2007.

The performance of commercial banks contributes to the performance of the whole banking sector in Indonesia since these banks dominate the sector in terms of asset. Table 4 shows the ranking of Indonesian commercial banks from December 2006 to June 2008 based on the size of the assets. Bank Mandiri, which is the acquiring bank of the deal we analyze, is the largest national commercial bank owned by Indonesian government

Table 4. Commercial Bank Rating

| Rating | Dec-06 | | | Dec-07 | | | Jun-08 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Bank Name | Total Assets (Billion Rp) | Portion to Total Assets at Commercial Banks (%) | Bank Name | Total Assets (Billion Rp) | Portion to Total Assets at Commercial Banks (%) | Bank Name | Total Assets (Billion Rp) | Portion to Total Assets at Commercial Banks (%) |
| 1 | Bank Mandiri | 255,988 | 15.11 | Bank Mandiri | 306,563 | 15.43 | Bank Mandiri | 286,602 | 14.04 |
| 2 | Bank Central Asia | 177,611 | 10.49 | Bank Central Asia | 218,615 | 11.01 | Bank Central Asia | 222,151 | 10.89 |
| 3 | Bank Negara Indonesia | 168,863 | 9.97 | Bank Rakyat Indonesia | 204,009 | 10.27 | Bank Rakyat Indonesia | 219,557 | 10.76 |
| 4 | Bank Rakyat Indonesia | 154,979 | 9.15 | Bank Negara Indonesia | 184,463 | 9.29 | Bank Negara Indonesia | 174,579 | 8.55 |
| 5 | Bank Danamon Indonesia | 79,708 | 4.71 | Bank Danamon Indonesia | 86,684 | 4.36 | Bank Danamon Indonesia | 94,365 | 4.62 |
| 6 | Bank International Indonesia | 48,316 | 2.85 | Bank Niaga | 54,733 | 2.76 | Bank Niaga | 59,044 | 2.89 |
| 7 | Bank Niaga | 46,464 | 2.74 | Pan Indonesia Bank | 51,384 | 2.59 | Pan Indonesia Bank | 56,770 | 2.78 |
| 8 | Pan Indonesia Bank | 39,229 | 2.32 | Bank Internasional Indonesia | 50,941 | 2.56 | Bank Internasional Indonesia | 53,286 | 2.61 |
| 9 | Citibank NA | 38,169 | 2.25 | Citibank NA | 45,021 | 2.27 | Citibank NA | 45,220 | 2.22 |
| 10 | Bank Permata | 37,869 | 2.24 | Bank Permata | 39,131 | 1.97 | Bank Permata | 43,112 | 2.11 |

Source: Bank of Indonesia. *Indonesian Banks Statistics*. Jakarta: Bank of Indonesia, June 2008.

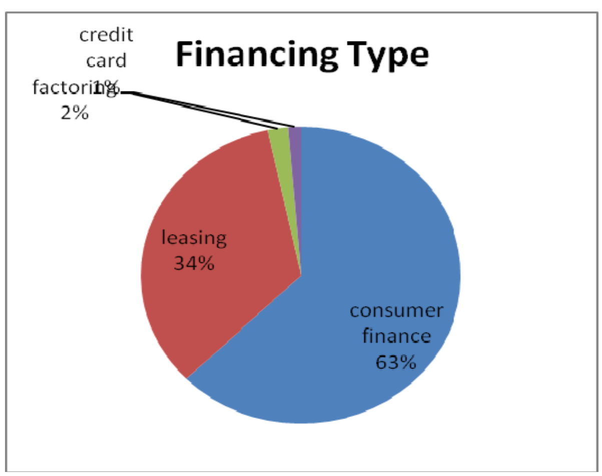
### 4.3. Multi-finance Sector

The existence of multi finance sector in Indonesia is traced back to 1974 with the issuance of circular letter of 3 Ministries: Ministry of Finance, Ministry of Industry, and Ministry of Trade.

The ministerial decree of the Ministry of Finance in 1988 allowed the government to give multi-finance business more freedom to extend their business to leasing, factoring, consumer finance, capital venture and credit card.

Despite the downturn, including the tight monetary policy in 1991, the development of multi-finance companies has been quiet impressive. Above all, the leasing business in Indonesia has contributed to the development of multi finance business in Indonesia. The type of financed goods includes automotive, manufactured goods, construction as well as agricultural products.

The ministerial decree of the Ministry of Finance in 2006 stated that multi-finance company is a business entity outside of the bank which is especially established to do multi-finance business, such as leasing, factoring, credit card and consumer financing. Consumer financing including automotive financing has become the biggest part of multi finance industry in Indonesia. Ministry of Finance is the supervisor of this sector. Figure 3 shows the composition of financing types of multi-finance sector in 2007. Consumer financing dominated the sector, reaching the proportion of 63%. Leasing (34%), factoring (2%) and credit card (1%) follow.




Source: Bank of Indonesia. 2007 Economic Report on Indonesia. Jakarta: Bank of Indonesia, 2007.

Figure 3. Proportion of Financing

Due to the increase in consumer's purchasing power, consumers spend more on automotive. As of April 2008, multi-finance loan exceeded Rp 114.32 Tn, a 20% increase compared to the figure of the same period in 2007.

The majority of the automotive sales are based on credit. For example, in the 1st quarter of 2008, 90% of the automotive sales relied on credit: 78% was provided by the multi-finance companies and 12% was provided by banks.

Financing from multi-finance company grew by 16.65% from 2006 to 2007 and the amount of financing was Rp 120,987,873 Mn at the end of 2007. Profit also increased by 39.49% from Rp 2,798,707 Mn to Rp 3,904,006 Mn during the same period. Low interest rate, high purchasing power of consumer, and the increase of wage as well as the increase of business volume were the key factors of the growth. It was predicted that the sale of automotive would reach Rp 185,000,000 Mn in 2008.

As of December 2007, there were 158 multi-finance companies. The market share of 10 largest companies was 53.58%, and the share of the other companies (148 companies) was 46.42%. Table 5 shows the performance of multi-finance companies and their recent growth rates.

Table 5. Performance of Multifinance Companies in 2006-2007

| | 2006(Rp Mio) | 2007(Rp Mio) | Growth (%) |
|---|---|---|---|
| Asset | 103,721,580 | 120,987,873 | 16.65 |
| Financing | 90,742,963 | 105,429,910 | 16.19 |
| Liabilities | 83,743,745 | 96,486,648 | 15.22 |
| Equity | 31,476,191 | 38,280,312 | 21.62 |
| Net Income | 2,798,707 | 3,904,006 | 39.49 |
| Number of Company | 152 | 158 | 3.95 |

Source: Infobank, August 2008

## 4.4. Bank Mandiri

PT Bank Mandiri (Persero) Tbk., commonly referred to as Bank Mandiri (BM), is the largest bank in Indonesia in terms of assets, loans, and deposits. The bank was established on October, 2, 1998 as the result of amalgamation of Bank Bumi Daya, Bank Dagang Negara, Bank Ekspor Impor Indonesia and Bank Pembangunan Indonesia.

### 4.4.1. Equity

From the inception, BM has been a state-owned bank. On July 14, 2003 BM launched an *Initial Public Offering.* As many as 19,800,000,000 shares of BM owned by Indonesian government were registered at Jakarta Stock Exchange and Surabaya Stock Exchange. Among them, 4,000,000,000 shares were offered to public with the nominal value of Rp 500 and the market price of Rp 675 per share. The equity position of BM as of June 2008 is shown in Table 6.

Table 6. Bank Mandiri Equity Composition

| | Number of Shares | Nominal Value/Share | Share Value | % Share Owned |
|---|---|---|---|---|
| Authorized Capital | | | | |
| Dwiwarna Series A Share | 1 | 500 | 500 | 0 |
| Series B Share | 31,999,999,999 | 500 | 15,999,999,999,500 | 100 |
| Total Authorized Capital | 32,000,000,000 | 500 | 16,000,000,000,000 | 100 |
| Issued and Fully Paid Equity | | | | |
| Indonesia Government | | | | |
| Dwiwarna Series A Share | 1 | 500 | 500 | 0 |
| Series B Share | 13,999,999,999 | 500 | 6,999,999,999,500 | 66.97 |
| Public (Below 5%) | | | | |
| Series B Share | 6,905,126,202 | 500 | 3,452,563,101,000 | 33,03 |
| Total Issued and Fully Paid Equity | 20,905,126,202 | 500 | 10,452,563,101,000 | 100 |

Source: Bank Mandiri Financial Statement

Dwiwarna series A share is a share owned by Indonesian government and cannot be handed over to anybody else. This type of share grants Indonesian government the following exclusive rights:

1. General shareholders meeting with an agenda to increase the value of equity should be attended and agreed by dwiwarna series A shareholders.
2. General shareholder meeting with an agenda to choose and dismiss board of director and board of commissioner should be attended and agreed by dwiwarna series A shareholders.
3. General shareholder meeting with an agenda to change corporate charters should be attended and agreed by dwiwarna series A shareholders.
4. General shareholder meeting with an agenda of merger, acquisition, and consolidation should be attended and agreed by dwiwarna series A shareholders.
5. General shareholder meeting with agenda to liquidate the company should be attended and agreed by dwiwarna series A shareholders.

### 4.4.2 Organization Structure

Board of directors manage and direct the company under the supervision of the board of commissioners. Members of the board of directors and board of commissioner are appointed and dismissed in the general meeting of shareholders, which must be attended by dwiwarna series A shareholders. The resolution of the general meeting must be approved by dwiwarna series A shareholders.

Their tenure is 5 years, but they can be dismissed before their term ends if shareholders don't approve their performance. As of June 2008, board of directors and board of commissioner of BM were as follow:

Table 7. Bank Mandiri Board of Directors and Board of Commissioners

| | | | |
|---|---|---|---|
| President Commissioner | Edwin Gerungan | President Director | Agus Martowardojo |
| Vice PresComm | Muchayat | Vice PresDirector | I Wayan Agus M |
| Commissioner | Mahmuddin Yasin | Director | Zulkifli Zaini |
| Independent Commissioner | Soedarjono | Director | Sasmita |
| Independent Commissioner | Gunarni Soeworo | Director | Abdul Rachman |
| Independent Commissioner | Pradjoto | Director | Sentot A. Sentausa |
| | | Director | Bambang Setiawan |
| | | Director | Riswinandi |
| | | Director | Thomas Arifin |
| | | Director | Budi Gunadi Sadikin |
| | | Director | Ogi Prastomiyono |

As of June 2008, BM had 958 branch offices throughout Indonesia, 5 branch offices abroad, and 6 subsidiaries (5 in Indonesia and 1 in London). The six subsidiaries are Bank Mandiri Europe Limited (Bank), PT Bank Sharia Mandiri (Sharia Bank), PT Usaha Gedung Bank Dagang Negara, PT Bumi Daya Plaza (Property Management), PT Mandiri Sekuritas (Securities Company), and PT Bank Sinar Harapan Bali (Bank).

## 4.5. PT Tunas Financindo Sarana

The history of PT Tunas Financindo Sarana began with TUFI. TUFI was established in 1985 as a credit department of PT Tunas Ridean to support its automotive sales on credit. Along with its business development, TUFI obtained a multi-finance company license and started to operate independently under the name of PT Tunas Financindo Corporation in 1989. It changed its name to PT Tunas Financindo Sarana (TFS) in 2000.

In its initial stage, TUFI obtained a business license from the Ministry of Finance to operate in leasing, factoring and consumer financing. However, it currently deals only with the leasing and consumer financing activities. In the beginning, TUFI was set to finance only the business institutions within its group. However, in 1999, the company started to expand its businesses and provided automotive financing to dealers of other groups.

In early 2005, leasing business unit was transferred to other companies under Tunas Group and TUFI focused on consumer financing business.

### 4.5.1. Management

As of December 2007, the board of directors and board of commissioners of TFS were as follows:

Table 8. Tunas Financindo Sarana Board of Directors and Board of Commissioners

| | | | |
|---|---|---|---|
| President Commissioner | Anton Setiawan | President Director | Halim Gunadi |
| Commissioner | Rico Adisurja Setiawan | Director | Tenny Febyana Halim |
| Independent Commissioner | Hanifah Purnama | Director | Tan Fony Salim |

Source: TFS Financial Report

### 4.5.2. Equity

The composition of the company`s shareholders as of June 30, 2008 is shown in Table 9.

Table 9. Shareholder of Tunas Financindo Sarana

| Shareholders | Number of shares | Value | Percentage of ownership (%) |
|---|---|---|---|
| PT Tunas Ridean Tbk | 1,875,000,000 | 187,500 | 75 |
| PT Tunas Mobilindo Parama | 625,000,000 | 62,500 | 25 |
| | 2,500,000,000 | 250,000 | 100 |

Source: TFS Financial Report

As of June 2008, TFS had 32 branches throughout Indonesia. The recent performance of TFS is shown in Table 10.

Table 10. Performance of Tunas Financindo Sarana

| Million IDR | 2006 | 2007 | Growth (%) |
|---|---|---|---|
| Asset | 1,846,897 | 2,140,000 | 15.87% |
| Financing | 1,728,081 | 2,040,000 | 18.05% |
| Liabilities | 1,593,590 | 1,810,000 | 13.58% |
| Equity | 258,476 | 335,890 | 29.95% |
| Net Income | 12,861 | 84,730 | 558.83% |

Source: TFS Financial Report

# V. DATA ANALYSIS AND EXPLANATION

This chapter will discuss financial analysis and performance review of PT Bank Mandiri (Persero)Tbk. and PT Tunas Financindo Sarana from 2005 to 2007. In addition, this chapter also evaluates their financial projection after the acquisition. With the projection, we can analyze the effect of the acquisition on the profitability, growth, and value creation of Bank Mandiri.

## 5.1. Evaluation of Financial Performance of Bank Mandiri

### 5.1.1. Assets

The value of assets increases every year. Value of assets increased by 1.57% in 2006 and by 19.28% in 2007. As of June 2008, assets already increased by 95.49% compared to the end of 2007. The predominant forms of assets were loans (more than 30% of the total asset) and government bond.

Table 11. Bank Mandiri Financial Performance

| | Value | | | | Composition | | | |
|---|---|---|---|---|---|---|---|---|
| In Billion IDR | 2005 | 2006 | 2007 | Q2/2008 | 2005 | 2006 | 2007 | Q2/2008 |
| **Balance Sheet** | | | | | | | | |
| **Assets** | **263,383.35** | **267,517.19** | **319,085.59** | **304,680.49** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |
| Cash | 2,522.76 | 3,965.72 | 5,909.37 | 5,200.77 | 0.96% | 1.48% | 1.85% | 1.71% |
| Current Account&other placement in Central Bank &others bank | 44,619.36 | 31,551.93 | 46,381.98 | 40,191.42 | 16.94% | 11.79% | 14.54% | 13.19% |
| Marketable securities | 10,821.31 | 18,380.50 | 30,607.41 | 7,263.77 | 4.11% | 6.87% | 9.59% | 2.38% |
| Government Bond | 92,055.96 | 91,461.87 | 89,466.32 | 88,386.40 | 34.95% | 34.19% | 28.04% | 29.01% |
| Loans | 94,869.47 | 103,282.25 | 125,488.38 | 140,041.04 | 36.02% | 38.61% | 39.33% | 45.96% |
| Fixed assets | 5,305.41 | 4,709.24 | 4,531.58 | 4,355.19 | 2.01% | 1.76% | 1.42% | 1.43% |
| Other assets | 13,189.06 | 14,165.68 | 16,700.56 | 19,241.92 | 5.01% | 5.30% | 5.23% | 6.32% |
| **Liabilities** | **240,168.95** | **241,176.52** | **289,868.79** | **276,942.85** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |
| Deposits from customers | 206,289.65 | 205,707.55 | 247,355.02 | 236,212.98 | 85.89% | 85.29% | 85.33% | 85.29% |
| Deposits from other banks | 6,798.99 | 8,189.30 | 5,410.34 | 5,253.19 | 2.83% | 3.40% | 1.87% | 1.90% |
| Transaction payable | 5,102.73 | 4,223.62 | 5,527.09 | 5,526.18 | 2.12% | 1.75% | 1.91% | 2.00% |
| Other liabilities | 21,977.58 | 23,056.06 | 31,576.34 | 29,950.51 | 9.15% | 9.56% | 10.89% | 10.81% |
| **Equity** | **23,214.40** | **26,340.67** | **29,243.73** | **27,710.71** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |
| Common stock | 10,127.86 | 10,315.61 | 10,502.37 | 10,452.56 | 43.63% | 39.16% | 35.91% | 37.72% |
| Capital surplus | 6,181.27 | 6,539.28 | 6,678.28 | 6,863.23 | 26.63% | 24.83% | 22.84% | 24.77% |
| retained earnings | 6,905.27 | 9,485.78 | 12,063.08 | 10,394.92 | 29.75% | 36.01% | 41.25% | 37.51% |
| **Income Statement** | | | | | | | | |
| **Interest income** | **20,999.23** | **26,261.11** | **23,928.55** | **12,174.97** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |
| Interest expense | (12,044.18) | (15,915.87) | (11,142.63) | (5,170.58) | -57.36% | -60.61% | -46.57% | -42.47% |
| Net interest income | 8,955.04 | 10,345.24 | 12,785.92 | 7,004.39 | 42.64% | 39.39% | 53.43% | 57.53% |
| Other operating income | 3,634.97 | 2,899.64 | 3,763.13 | 1,998.87 | 17.31% | 11.04% | 15.73% | 16.42% |
| Other operating expense | (11,402.45) | (10,533.76) | (10,336.13) | (5,314.49) | -54.30% | -40.11% | -43.20% | -43.65% |
| Net operating income | 1,187.57 | 2,711.11 | 6,212.92 | 3,688.77 | 5.66% | 10.32% | 25.96% | 30.30% |
| Non operating income and expense-net | 45.30 | 120.09 | 120.47 | 71.84 | 0.22% | 0.46% | 0.50% | 0.59% |
| Net income | 603.37 | 2,421.41 | 4,346.22 | 2,609.23 | 2.87% | 9.22% | 18.16% | 21.43% |

Source: Bank Mandiri Financial Statement

The value of government bond decreased every year since 1999, when the bond first appeared in the bank's balance sheet. The type of government bond is capitalization bond. After Asian financial crisis in 1997, the Indonesian government adopted a strategy to restructure state banks by recapitalizing them. The four states banks that were restructured are Bank Bumi Daya, Bank Pembangunan Indonesia, Bank Dagang Negara Indonesia and Bank Ekspor

Impor Indonesia. These banks were merged to Bank Mandiri in 1999. Then, the government increased the capital of Bank Mandiri through investing government recapitalization bonds. Table 12 shows the value of the bonds in recent period.

Table 12. Government Recapitalization Bond

| Type of Bond | 2005 | 2006 | 2007 | Q2/2008 |
|---|---|---|---|---|
| Trading, fair value | 2,143.72 | 1,289.48 | 972.39 | 506.50 |
| Available for sale, fair value | 28,817.64 | 28,978.48 | 27,294.44 | 26,681.73 |
| Held to maturity, at cost | 61,094.60 | 61,193.92 | 61,199.48 | 61,198.17 |
| Total (Billion IDR) | 92,055.96 | 91,461.87 | 89,466.32 | 88,386.40 |

Source: Bank Mandiri Financial Statement

### 5.1.2. Liabilities

The largest part of its liabilities is deposits from customers. Deposits make up more than 85% of its liabilities. Table 13 shows the ratio of interest expense to interest income. The ratio continued to improve except in 2006.

Table 13. Net Interest Margin

| Billion IDR | 2005 | 2006 | 2007 | Q2/2008 |
|---|---|---|---|---|
| Interest expense | 10,446.85 | 14,845.04 | 10,027.85 | 4,613.32 |
| Interest income | 20,209.94 | 25,193.57 | 23,172.83 | 11,959.87 |
| Ratio expense to income | 51.69% | 58.92% | 43.27% | 38.57% |

Source: Analyzed Data

### 5.1.3. Equity

Bank Mandiri is a state-owned bank. As of Jun 2008, Indonesian government owned 66.97% of the total shares. The rest is owned by the public. However, no shareholders owned more than 5%.

### 5.1.4. Profit and Loss

Bank Mandiri is a holding company with several subsidiaries. Table 14 shows the structure of Bank Mandiri and its subsidiaries.

Table 14. Bank Mandiri Segment Information

| Company Name | Industry Sector | Location |
|---|---|---|
| • **Holding Company** | | |
| PT Bank Mandiri (Persero)Tbk | Banking | Indonesia, Singapore, Hongkong, Grand Cayman and Timor Leste |
| • **Subsidiaries** | | |
| PT Bank Sharia Mandiri | Sharia Banking | Indonesia |
| Bank Mandiri (Europe)Limited | Banking | England |
| PT Mandiri Sekuritas | Securities | Indonesia |
| PT Bumi Daya Plaza and its subsidiaries | Other | Indonesia |
| PT Usaha Gedung Bank Dagang Negara and its subsidiaries | Other | Indonesia |

Source: Bank Mandiri Financial Statement

Table 15 shows the proportion of assets, liabilities, net income and equity of Bank Mandiri and its subsidiaries. This table shows that the bank has a dominant position over the subsidiaries.

Table 15. Comparison of Assets, Liabilities, Equity and Income between Bank and Consolidation

| Billion IDR | | Value | | | | Composition | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2005 | 2006 | 2007 | Q2/2008 | 2005 | 2006 | 2007 | Q2/2008 |
| Assets | Consolidation | 263,383.35 | 267,517.19 | 319,085.59 | 304,680.49 | 100.00% | 100.00% | 100.00% | 100.00% |
| | Bank Only | 254,298.74 | 256,211.22 | 303,435.87 | 285,769.85 | 96.55% | 95.77% | 95.10% | 93.79% |
| Liabilities | Consolidation | 240,164.25 | 241,171.35 | 289,835.51 | 276,942.85 | 100.00% | 100.00% | 100.00% | 100.00% |
| | Bank Only | 231,084.35 | 229,870.55 | 274,192.14 | 258,059.14 | 96.22% | 95.31% | 94.60% | 93.18% |
| Equity | Consolidation | 23,214.40 | 26,340.67 | 29,243.73 | 27,710.71 | 100.00% | 100.00% | 100.00% | 100.00% |
| | Bank Only | 23,214.40 | 26,340.67 | 29,243.73 | 27,710.71 | 100.00% | 100.00% | 100.00% | 100.00% |
| Net Income | Consolidation | 603.37 | 2,421.41 | 4,346.22 | 2,609.23 | 100.00% | 100.00% | 100.00% | 100.00% |
| | Bank Only | 603.37 | 2,421.41 | 4,346.22 | 2,609.23 | 100.00% | 100.00% | 100.00% | 100.00% |

Source: Bank Mandiri Financial Statement

The main source of BM's income is interest income. The sources of interest income include interest incomes from loans, securities, government bond (recapitalization bond) and placements in central bank. Placements in the central bank are not considered core operating income because those placements are required by banking regulation. Table 16 shows all the interest income that the bank earned during recent period. Interest income from loans and government bonds became the main sources of interest income for BM.

Table 16. Composition of Bank Mandiri Interest Income

| Billion IDR | Value | | | | Composition | | | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | Q2/2008 | 2005 | 2006 | 2007 | Q2/2008 |
| Interest Income | 20,999.23 | 26,261.11 | 23,928.55 | 12,174.97 | 100.00% | 100.00% | 100.00% | 100.00% |
| Loan | 10,418.83 | 11,319.18 | 12,629.79 | 6,828.13 | 49.62% | 43.10% | 52.78% | 56.08% |
| Government Bond | 7,797.77 | 10,840.99 | 7,418.24 | 3,522.77 | 37.13% | 41.28% | 31.00% | 28.93% |
| Others | 2,782.63 | 4,100.94 | 3,880.53 | 1,824.07 | 13.25% | 15.62% | 16.22% | 14.98% |

Source: Bank Mandiri Financial Statement

The net income increases due to the increased interest income and low cost funding. Table 17 shows the bank's cost component. The cost of BM is divided into 4 parts: interest expenses, provision for possible losses on earning assets, overhead cost and other cost.

Interest expenses consist of interest payment for the third party fund, loan, securities, subordination loan and others. Interest expenses for the third party's fund is the biggest part among those expenses. The provisions for possible losses on the earning asset are mostly the provisions for loans. Overhead costs consist of cost of labor and general and administration cost. Other costs consist of reversal/addition of estimated losses from commitments and contingencies, losses from decrease in value of securities, tax and minority interest in consolidated subsidiaries.

The biggest proportion of the cost for BM is the interest expense which makes up more than 40%. The overhead cost is the next biggest part. During the last 3 years, interest expenses and provisions for possible losses on earning tended to decrease, while overhead costs and other costs tended to increase.

Especially, iInterest expense decreased in 2007 mainly because of the decrease in the cost of funding. There was a significant increase in the current account and saving account from Rp 109.1 trillion in 2006 to Rp 152.4 trillion in 2007. Provisions decreased mainly reflecting the improvement in loan quality.

Table 17. Bank Mandiri Cost Component

| Billion IDR | Value | | | | Composition | | | | Growth | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | Q2/2008 | 2005 | 2006 | 2007 | Q2/2008 | 2006 | 2007 |
| Interest expense | 12,044.18 | 15,915.87 | 11,142.63 | 5,170.58 | 50.03% | 59.26% | 47.48% | 44.43% | 32.15% | -29.99% |
| losses on earning assets | 4,445.23 | 3,671.79 | 2,113.99 | 798.37 | 18.46% | 13.67% | 9.01% | 6.86% | -17.40% | -42.43% |
| Overhead cost | 6,868.00 | 6,861.98 | 8,208.08 | 4,383.80 | 28.53% | 25.55% | 34.98% | 37.67% | -0.09% | 19.62% |
| Others | 718.73 | 409.79 | 2,001.22 | 1,283.70 | 2.99% | 1.53% | 8.53% | 11.03% | -42.98% | 388.35% |
| **Total** | 24,076.13 | 26,859.42 | 23,465.92 | 11,636.45 | 100.00% | 100.00% | 100.00% | 100.00% | 11.56% | -12.63% |

Source: Bank Mandiri Financial Statement

### 5.1.5. Performance Compared to Industry

The performance of Bank Mandiri doesn't match its peers in banking industry. Table 18 shows the recent trend of 4 key ratios of performance: growth rate in interest income, growth rate in net income, growth rate in loans and growth rate in third party's fund. Table 18 shows that, except for the growth rate in net income, the performance of Bank Mandiri is below the average performance of the industry.

The main reason why the growth rate in interest income for BM didn't match the peers of the industry over the recent period was the decrease in the interest payment from the government bond. The government recapitalization bond makes up the second biggest part of the bank's assets. However, note that the growth rate in net income become substantially better both in 2006 and in 2007 than its peers due to increase in interest income from its loan and to decrease in the funding costs.

Table 18. Bank Mandiri Growth Performance Compare to Industry

| Growth | Bank Mandiri | | | Banking Industry | | |
|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| Ratios | | | | | | |
| Growth on Interest Income | 9.29% | 25.06% | -8.88% | 16.96% | 31.17% | 0.90% |
| Growth on Net Income | -88.52% | 301.31% | 79.49% | -15.81% | 14.21% | 23.58% |
| Growth on Loans | 10.57% | 8.87% | 21.50% | 24.34% | 13.89% | 26.47% |
| Growth on Third Party Fund-Non Bank | 16.59% | -0.21% | 20.81% | 17.24% | 14.11% | 17.38% |

Source: Analyzed Data

## 5.2. Profitability, Growth, and Value Creation of Bank Mandiri

An analysis of profitability shows how the operational and financial activities of BM contributed to its profitability, growth and value added. Table 19 shows the bank's operational performance from 2005 to Q2/2008.

Table 19. Bank Mandiri Operation Performance

| | 2005 | 2006 | 2007 | Jun-08 |
|---|---|---|---|---|
| Net Operating Asset | 210,908.82 | 225,635.89 | 259,936.29 | 249,859.64 |
| Net Financial Obligation (inc Minority Interest) | (187,694.42) | (199,295.23) | (230,692.56) | (222,148.93) |
| Common Stockholder`s Equity | 23,214 | 26,341 | 29,244 | 27,711 |
| | | | | |
| Sales | 20,209.94 | 25,193.57 | 23,172.83 | 11,959.87 |
| Operating Income After Tax | 1,213.33 | 2,885.57 | 4,282.76 | 2,484.08 |
| Comprehensive Income | 646.54 | 2,882.20 | 4,030.14 | 2,243.44 |
| Net Financial Expense/Income | 565.63 | 2.31 | 251.34 | 239.51 |
| | | | | |
| ROCE | 2.69% | 11.63% | 14.50% | 7.88% |
| RNOA | 0.58% | 1.32% | 1.76% | 0.97% |
| NBC | 0.30% | 0.00% | 0.12% | 0.11% |
| PM | 6.00% | 11.45% | 18.48% | 20.77% |
| ATO (X) | 0.10 | 0.11 | 0.09 | 0.05 |
| FLEV | 772.83% | 780.93% | 773.58% | 795.09% |
| SPREAD | 0.27% | 1.32% | 1.65% | 0.87% |
| | | | | |
| Residual Earnings | 2005 | 2006 | 2007 | Jun-08 |
| Revenue Growth Rate | 8.50% | 24.66% | -8.02% | -48.39% |
| Growth in CSE | 2.42% | 13.47% | 11.02% | -5.24% |
| Growth in Comprehensive Income | -90.39% | 345.79% | 39.83% | -44.33% |
| Residual Earnings (at Cost of Equity of 20.70%) | (4,514.95) | (1,923.18) | (1,422.37) | (3,810.02) |

Source: Analyzed Data

### 5.2.1. Profitability

The ROCE (Return on Capital Employed) in 2007 was 14.5%. The return from operational activities, called RNOA (Return on Net Operating Assets), was 1.76%, while the return from financing activities was 12.74%. The return from financing activities can be computed as financial leverage times spread (773.58%*1.65%).

The leverage of BM is very high reflecting the nature of the banking business. The increasing spread from 2005 to 2007 is mainly due to the ability of the bank to collect low-cost funding.

### 5.2.2. Growth

The growth rate in revenue and growth in comprehensive income have fluctuated with big swings. This suggests that the growth of BM might be unstable and face high business risk.

### 5.2.3. Value Added

As seen in EVA (Economic Value Added) in Table 20, BM still cannot create positive value added. However, there have been some improvements: negative EVA decreased over the past three years (2005~2007) mainly due to the increase in NOPAT (Net Operating Profit After Tax).

Table 20. Value Added from Bank Mandiri Operation

| Value Added | 2005 | 2006 | 2007 | Jun-08 |
|---|---|---|---|---|
| NOPAT | 1,213.33 | 2,885.57 | 4,282.76 | 2,484.08 |
| Net Operating Assets =Net Debt + Equity | 210,908.82 | 225,635.89 | 259,936.29 | 249,859.64 |
| After Tax Cost of Capital (5.05%X(1-30%)) | 3.54% | 3.54% | 3.54% | 3.54% |
| Cost of capital | 7,455.63 | 7,976.23 | 9,188.75 | 8,832.54 |
| EVA (NOPAT-Cost of Capital) | (6,242.30) | (5,090.66) | (4,905.99) | (6,348.46) |

Source: Analyzed Data

Although BM has shown negative EVA, stock price has increased. This suggests that the market sees the growth potential of BM positively. Table 21 shows the market and book values of BM increased over time.

Table 21. Bank Mandiri Book Value and Market Value (Billion IDR)

| Company Value | 2005 | 2006 | 2007 | Jun-08 |
|---|---|---|---|---|
| Based on Book Value | | | | |
| - Net Debt | 187,694.42 | 199,295.23 | 230,692.56 | 222,148.93 |
| - Equity | 23,214.40 | 26,340.67 | 29,243.73 | 27,710.71 |
| - Company Book Value | 210,908.82 | 225,635.90 | 259,936.29 | 249,859.64 |
| Based on Market Value | | | | |
| - Closing price (Rp) | 1,640.00 | 2,900.00 | 3,500.00 | 2,600.00 |
| - Number of share outstanding (Billion) | 20.26 | 20.63 | 20.75 | 20.91 |
| - Net Debt | 187,694.42 | 199,295.23 | 230,692.56 | 222,148.93 |
| - Equity | 33,219.38 | 59,830.53 | 72,623.43 | 54,353.33 |
| - Company Market Value | 220,913.80 | 259,125.76 | 303,315.99 | 276,502.26 |

Source: Analyzed Data

Table 22 shows the market value added and market to book ratio of BM. These ratios also increased every year.

Table 22. Market Value Added of Bank Mandiri

| Billion IDR | 2005 | 2006 | 2007 | Jun-08 |
|---|---|---|---|---|
| Market Value | 220,913.80 | 259,125.76 | 303,315.99 | 276,502.26 |
| Book Value | 210,908.82 | 225,635.90 | 259,936.29 | 249,859.64 |
| Market Value Added | 10,004.98 | 33,489.86 | 43,379.70 | 26,642.62 |
| Market to Book Ratio | 1.05 | 1.15 | 1.17 | 1.11 |

Source: Analyzed Data

### 5.2.4. Cash flow

Table 23 shows that BM has not been able to create positive cash flows since 2005. The amounts invested in the operating assets are larger than its operating income. Return on invested capital (ROIC) decreased over the 3 year period.

Table 23. Cash Flow Analysis

| Method 1= OI-ΔNOA | 2005 | 2006 | 2007 |
|---|---|---|---|
| Operating Income After Tax, t | 1,213.33 | 2,885.57 | 4,282.76 |
| NOA, t | 210,908.82 | 225,635.89 | 259,936.29 |
| NOA, t-1 | 209,350.64 | 210,908.82 | 225,635.89 |
| ΔNOA | 1,558.18 | 14,727.08 | 34,300.40 |
| FCF, t | (344.85) | (11,841.51) | (30,017.64) |
| Method 2 = NFE - ΔNFO + d | | | |
| NFE, t | 565.63 | 2.31 | 251.34 |
| NFO, t | (187,694.42) | (199,295.23) | (230,692.56) |
| NFO, t-1 | (184,415.93) | (187,694.42) | (199,295.23) |
| ΔNFO | 3,278.49 | 11,600.80 | 31,397.34 |
| Net dividend, t | 2,366.85 | (244.08) | 1,127.08 |
| FCF, t | (346.01) | (11,842.57) | (30,018.91) |
| | | | |
| Return on Invested Capital=OI/ΔNOA | 77.87% | 19.59% | 12.49% |

Source: Analyzed Data

## 5.3. Profitability, Growth, and Value Creation of Bank Mandiri Based on Financial Projection

### 5.3.1 Evaluation Performance Year 2005-2007

Table 24 shows the balance sheet and income statement of BM from 2005 to 2007. The total asset increased by 21.15% over the three years, mostly due to increase in loan (32.27%). The investment in marketable securities also substantially increased (182.84%).

Growth rate in liabilities reached 20.68% over the three years. There was an increase in third party's fund. However, the increase in third party's fund was lower than the increase in loan, which led to the increase of LDR (Loan-Deposit Ratio) . Total equity also increased by 25.97%, mostly due to the increase in the retained earnings (74.69%).

Income statement shows that interest income increased by 13.95%, while interest expenses decreased by 7.49% over the period. This resulted in the increase in net interest income by 42.78%. This reflects the ability of BM to get low-cost funding. Net income increased by 620.33% over the same period. The increase in net income is mainly due to the increase in operating profit, and decrease in provisions for possible losses on earning assets (52.44%).

Table 24. Balance Sheet and Income Statement Component of Bank Mandiri

| In Billion IDR | Value | | Composition | | % Changes |
|---|---|---|---|---|---|
| | 2005 | 2007 | 2005 | 2007 | 2005-2007 |
| **Balance Sheet** | | | | | |
| **Assets** | **263,383.35** | **319,085.59** | **100.00%** | **100.00%** | **21.15%** |
| Cash,Current Account&other placement in Central Bank &others bank | 47,142.13 | 52,291.35 | 17.90% | 16.39% | 10.92% |
| Marketable securities | 10,821.31 | 30,607.41 | 4.11% | 9.59% | 182.84% |
| Government Bond | 92,055.96 | 89,466.32 | 34.95% | 28.04% | -2.81% |
| Loans | 94,869.47 | 125,488.38 | 36.02% | 39.33% | 32.27% |
| Fixed assets | 5,305.41 | 4,531.58 | 2.01% | 1.42% | -14.59% |
| Other assets | 13,189.06 | 16,700.56 | 5.01% | 5.23% | 26.62% |
| **Liabilities** | **240,168.95** | **289,841.86** | **91.19%** | **90.84%** | **20.68%** |
| Deposits from customers | 206,289.65 | 247,355.02 | 85.89% | 85.34% | 19.91% |
| Deposits from other banks | 6,798.99 | 5,410.34 | 2.83% | 1.87% | -20.42% |
| Transaction payable | 5,102.73 | 5,527.09 | 2.12% | 1.91% | 8.32% |
| Other liabilities | 21,977.58 | 31,549.40 | 9.15% | 10.89% | 43.55% |
| **Equity** | **23,214.40** | **29,243.73** | **8.81%** | **9.16%** | **25.97%** |
| Common stock | 10,127.86 | 10,502.37 | 43.63% | 35.91% | 3.70% |
| Capital surplus | 6,181.27 | 6,678.28 | 26.63% | 22.84% | 8.04% |
| Retained earnings | 6,905.27 | 12,063.08 | 29.75% | 41.25% | 74.69% |
| **Income Statement** | | | | | |
| **Interest income** | **20,999.23** | **23,928.55** | **100.00%** | **100.00%** | 13.95% |
| Interest expense | (12,044.18) | (11,142.63) | 57.36% | 46.57% | -7.49% |
| Net interest income | 8,955.04 | 12,785.92 | 42.64% | 53.43% | 42.78% |
| Other operating income | | | | | |
| - Other fees and commissions | 1,577.33 | 2,447.48 | 7.51% | 10.23% | 55.17% |
| - Foreign exchange gains-net | 74.08 | 311.46 | 0.35% | 1.30% | 320.44% |
| - Others | 671.46 | 401.27 | 3.20% | 1.68% | -40.24% |
| Provision for possible lossess on earning assets | (4,445.23) | (2,113.99) | 21.17% | 8.83% | -52.44% |
| Reversal/(Addition) of Estimated lossess on commitments and contingencies | (0.08) | 61.41 | 0.00% | 0.26% | -76861.25% |
| Reversal of allowance for possible losses-others | 1,056.65 | 313.02 | 5.03% | 1.31% | -70.38% |
| Gains/(losses) from increase/(decrease) in value of securities and government recapitalization bonds | (89.14) | (14.06) | 0.42% | 0.06% | -84.23% |
| Gains from sale of securities and government recapitalization bonds | 255.46 | 228.50 | 1.22% | 0.95% | -10.55% |
| Other operating expense | | | | | |
| General and administrative expenses | (3,080.08) | (3,409.26) | 14.67% | 14.25% | 10.69% |
| Salaries and employee benefits | (3,187.26) | (4,082.22) | 15.18% | 17.06% | 28.08% |
| Others-net | (600.66) | (716.59) | 2.86% | 2.99% | 19.30% |
| Profit from operations | 1,187.57 | 6,212.92 | 5.66% | 25.96% | 423.16% |
| Non operating income and expense-net | 45.30 | 120.47 | 0.22% | 0.50% | 165.91% |
| Tax expense-net | (628.35) | (1,985.89) | 2.99% | 8.30% | 216.05% |
| Minority interest in net profit of consolidated subsidiaries | (1.16) | (1.27) | 0.01% | 0.01% | 9.04% |
| **Net income** | **603.37** | **4,346.22** | **2.87%** | **18.16%** | 620.33% |

Source: Analyzed Data

### 5.3.2. Financial Forecast

Table 25 shows profitability, revenue growth and expense for 2005-2007 and projection for 2008-2009. The assumptions for the financial forecast are as follows:

1. President director of BM has announced that growth rate in its loan would be 25.9% in 2008. The growth rate in loan is targeted around 15-17% in 2009, which is lower than that in 2008 due to the world's economic turmoil.[6] The annual growth rates from 2010 to 2012 is expected to be 16%.
2. President director of Bank Mandiri declared that BM recorded growth rate in deposit was 16.9% in 2008.[7] From 2009, the annual growth rate would be maintained at 15%.
3. Management would maintain NIM (Net Interest Margin) of 5.3% in 2009 and of 5.4% in 2008. Growth rate in third-party fund is expected to be 15%.[8] For the period from 2010 to2012, NIM is predicted to grow at the same rate as that in 2009.
4. Growth rate in net income for 2008 is computed based on the financial statement for Q3/2008. With the assumption that interest income would grow

[6] Kristanto, Dicky. Indonesia's Mandiri Sees 2008 Loan Growth. Reported by Andreas Ismar. Edited by Ed Davies. http://in.reuters.com, accessed March 16, 2009.

[7] Setiawan, Katarina. Indonesia Equity Daily. February 9, 2009. www.kimengresearch.com.sg, access March 16, 2009.

[8] Setiawan, Katarina. Indonesia Equity Daily. January 6, 2009. www.kimengresearch.com.sg, access March 16, 2009.

at the same rate in every quarter by the end of 2008, growth rate in net income would be 21.28% in 2008.

5. The forecast of growth rate in net income for 2009 is based on researches from securities companies. [9] The annual growth rate for the period from 2010 to 2012 is also assumed to be the same as the rate in 2009 .This growth rate is lower than that in 2008 due to global economic crisis.
6. By September 2008, assets and equity of BM grow by 16.4% and 3.62%, respectively. These growth rates are used for the entire year.[10] For year 2009, assets growth is expected to be slower due to global economic crisis. For the period 2010 to 2012, the annual growth rate in assets is projected to increase to 14% from 13% in 2009. For equity, the average growth rate from 2006 - 2007 is used.
7. SGA (Selling, General and Administrative) costs are computed based on the average growth for the past 3 years.
8. Interest income for 2008 is computed based on financial statement in Q3/2008.

Using these assumptions, yearly forecasts for profitability ratios are made. ROA is expected to increase to 1.42% in 2008 and to 1.41% in 2009. Profit margin is forecasted to be 21.48% in 2008 and 23.12% in 2009. SGA is predicted to be stable over the five-year period.

[9] Widarini, Wahyu Mardi., Supriyadi, and Nugroho, Widhi Indratmo. Bank Mandiri Equity Research. March 5, 2009. Asia Securities Online, March 15, 2009.

[10] ibid

The growth rates in revenue, net income, loan and deposit are expected to be moderate due to bitter economic condition.

Table 25. Financial Ratios of Bank Mandiri: Actual and Projection

| | Actual | | | Projected | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| **Profitability** | | | | | | | | |
| ROA | 0.23% | 0.91% | 1.36% | 1.42% | 1.41% | 1.41% | 1.39% | 1.38% |
| Profit Margin | 2.99% | 9.61% | 18.76% | 21.48% | 23.12% | 24.88% | 26.77% | 28.81% |
| Ratio Expense to Income | 51.69% | 58.92% | 43.27% | 43.51% | 43.37% | 43.23% | 43.09% | 42.95% |
| SGA Expense | 33.98% | 27.24% | 35.42% | 31.05% | 31.05% | 31.05% | 31.05% | 31.05% |
| **Revenue Growth** | | | | | | | | |
| Growth Rate in Revenue | 8.51% | 24.66% | -8.02% | 5.90% | 5.00% | 5.00% | 5.00% | 5.00% |
| Growth Rate in Net Income | -88.52% | 301.31% | 79.49% | 21.28% | 13.00% | 13.00% | 13.00% | 13.00% |
| **Margin ( Billion IDR)** | | | | | | | | |
| Net Income | 603.37 | 2,421.41 | 4,346.22 | 5,271.10 | 5,956.34 | 6,730.67 | 7,605.66 | 8,594.39 |
| Net Interest Income | 9,763.09 | 10,348.53 | 13,144.99 | 13,863.38 | 14,592.85 | 15,360.48 | 16,168.27 | 17,018.30 |
| | | | | | | | | |
| **Operating Expense (Billon IDR)** | 6,868.00 | 6,861.98 | 8,208.08 | 7,619.68 | 8,000.66 | 8,400.70 | 8,820.73 | 9,261.77 |
| | | | | | | | | |
| **New Loan Origination (Billion IDR)** | 9,102.57 | 8,412.77 | 22,206.14 | 32,501.49 | 25,278.38 | 29,322.92 | 34,014.59 | 39,456.92 |
| **Lending&Funding Growth** | | | | | | | | |
| Loan Growth-net | 10.61% | 8.87% | 21.50% | 25.90% | 16.00% | 16.00% | 16.00% | 16.00% |
| Deposit Growth | 17.32% | -0.28% | 20.25% | 16.90% | 15.00% | 15.00% | 15.00% | 15.00% |

Source: Analyzed Data

Table 26 shows that both profitability ratios and growth rates in revenue are expected to be stable. Increase in profit margin is mainly related to the increase in ROIC (Return on Invested Capital). Revenue is predicted to grow at 5.9% in 2008 and at 5.0% annually from 2009 to 2012 because of the increase in revenue from the operation.

Table 26. Bank Mandiri Performance Ratios: Actual and Projection

| | 2007A | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| **Profitability** | | | | | | |
| EROIC | 12.49% | 12.61% | 16.36% | 15.50% | 14.91% | 14.41% |
| RNOA | 1.76% | 1.97% | 2.02% | 2.00% | 1.97% | 1.90% |
| Profit Margin | 18.76% | 21.48% | 23.12% | 24.88% | 26.77% | 28.81% |
| **Growth** | | | | | | |
| Revenue Growth Rate | -8.02% | 5.90% | 5.00% | 5.00% | 5.00% | 5.00% |
| Operating Income Growth Rate | 48.42% | 29.43% | 18.27% | 12.22% | 12.27% | 10.12% |
| Net Operating Asset Growth Rate | 15.20% | 16.92% | 13.18% | 13.79% | 14.16% | 14.13% |
| Growth in ReOI | | 6.62% | 15.92% | -183.83% | 12.27% | 10.12% |

Source: Analyzed Data

Table 27 shows forecasted free cash flows for the period from 2008 to 2012. The analysis shows that although there would be increase in interest income, free cash flows are expected to be still negative. This is the case because change in NOA (Net Operating Assets) is expected to be larger than the increase in the operating income.

Table 27. Financial Statement Projection 2008-2012 for Bank Mandiri

| Proforma Financial Statements based on Reformulated Financial Statement (Billion IDR) | | | | | | |
|---|---|---|---|---|---|---|
| Income Statement | | | | | | |
| Interest Income | 23,172.83 | 24,540.03 | 25,767.03 | 27,055.38 | 28,408.15 | 29,828.56 |
| Interest Expense | 10,027.85 | 10,676.65 | 11,174.18 | 11,694.90 | 12,239.88 | 12,810.26 |
| Gross Margin | 13,144.99 | 13,863.38 | 14,592.85 | 15,360.48 | 16,168.27 | 17,018.30 |
| Total Operating Expenses (SGA Expense) | 8,208.08 | 7,619.68 | 8,000.66 | 8,400.70 | 8,820.73 | 9,261.77 |
| Core Operating Income Before Tax | 8,097.11 | 9,554.80 | 10,061.39 | 10,594.64 | 11,155.96 | 11,564.95 |
| Taxes | 2,093.61 | 1,697.44 | 1,907.58 | 2,144.53 | 2,411.78 | 2,713.23 |
| Core Operating Income After Tax | 6,003.50 | 7,857.37 | 8,153.81 | 8,450.11 | 8,744.18 | 8,851.72 |
| Other Income (Expense) | (1,841.21) | (2,377.61) | (2,181.10) | (2,291.64) | (2,407.78) | (2,529.81) |
| Operating Income | 4,282.76 | 5,543.26 | 6,555.97 | 7,357.01 | 8,259.71 | 9,095.32 |
| | | | | | | |
| Loan | 125,488.38 | 157,989.88 | 183,268.26 | 212,591.18 | 246,605.76 | 286,062.69 |
| Government Bond | 89,466.32 | 88,106.07 | 88,100.74 | 85,941.90 | 81,644.80 | 77,562.56 |
| Equity Investment | 124.91 | 124.91 | 124.91 | 124.91 | 124.91 | 124.91 |
| Other NOA | 44,856.68 | 57,685.56 | 72,478.55 | 92,765.08 | 118,459.45 | 146,212.86 |
| NOA | 259,936.29 | 303,906.41 | 343,972.45 | 391,423.06 | 446,834.93 | 509,963.02 |
| | | | | | | |
| Free Cash Flow | | | | | | |
| Operating Income | 4,282.76 | 5,543.26 | 6,555.97 | 7,357.01 | 8,259.71 | 9,095.32 |
| Change in NOA/Investment | 34,300.40 | 43,970.12 | 40,066.04 | 47,450.61 | 55,411.87 | 63,128.09 |
| Free Cash Flow | (30,017.64) | (38,426.86) | (33,510.06) | (40,093.60) | (47,152.16) | (54,032.77) |

Source: Analyzed Data

To make financial forecast for BM, cost of equity, cost of debt and cost of capital for BM are estimated using the data for 2007. With the he β of 1.4, its cost of equity is estimated to be 20.70%. The cost of debt is estimated to be 0.12%, using the net borrowing cost of BM. The capital of Bank Mandiri consists of 23.94% equity and 76.06% debt. Due to the high portion of debt, the WACC is estimated to be as low as 5.05%.

Table 28. Bank Mandiri Discount Rate

| | Denoted as | Formula |
|---|---|---|
| Cost of capital for equity | kE | rf + β* (rm - rf) |
| Cost of capital for debt | kD | NBC |
| Cost of operations | kF | kE*VE/VF + kD*VD/VF |
| | | |
| | Value | Noted |
| Risk free rate | 8.66% | Average Central Bank Rate in 2007 |
| β | 1.40 | β Bank Mandiri 2007 |
| rm | 17.26% | Market return |
| rm-rf | 8.60% | Market risk premium |
| kE | 20.70% | |
| kD | 0.12% | |
| kF | 5.05% | |
| Market value of equity | 72,623.43 | Closing price Rp 3,500 with 20,749,551,742 share outstanding |
| Market value of debt | 230,692.56 | Net debt 2007 |
| Market value of the firm | 303,315.99 | Debt + Equity |

Source: Analyzed Data

Using the cost of capital, the present value of ReOI are calculated. With the assumption that the value of ReOI will grow at constant rate, the value of operations and equity for the period from 2009 to 2012 are calculated.

Table 29. ReOI Growth Calculation

| PV | | | | | | |
|---|---|---|---|---|---|---|
| RNOA | 1.76% | 1.97% | 2.02% | 2.00% | 1.97% | 1.90% |
| ReOI (at cost of operation 5.05%) | (7,100.91) | (7,570.92) | (8,776.56) | 7,357.01 | 8,259.71 | 9,095.32 |
| Growth in ReOI | | 6.62% | 15.92% | -183.83% | 12.27% | 10.12% |

| Value | |
|---|---|
| Cost of Operations | 5.05% |
| Total PV of ReOI to 2012 | 6,556.78 |
| Continuing Value (constant RE after T ) | 180,278.44 |
| PV of CV | 140,917.04 |
| NOA as of 2007 | 259,936.29 |
| Value of Operations | 407,410.11 |
| NFO as of 2007 | (230,692.56) |
| Value of Common Equity | 176,717.56 |
| Number of Share Outstanding (Billion shares) | 20.75 |
| Value per Share | 8,516.69 |

Source: Analyzed Data

According to the financial forecast in Table 29, the market value of BM would increase by Rp 140,917.04 Bn mainly because of the increase in value of operation to Rp 407,410.11 Bn. With the same level of net debt, the increase in value of operation would improve the value of common equity. Specifically, the equity value of BM per share would increase from Rp 1,409.37 to Rp 8,516.69 or increase by 604.29% in 5 years.

Table 30. Bank Mandiri Market Value Added Projection

| Comparison of Operation Value | 2007A | Based on Projection | Market Value Added |
|---|---|---|---|
| Value of Operations (Billion IDR) | 259,936.29 | 407,410.11 | 147,473.82 |
| Net Debt (Billion IDR) | (230,692.56) | (230,692.56) | |
| Value of Common Equity (Billion IDR) | 29,243.73 | 176,717.56 | 147,473.82 |
| Number of Shares Outstanding (Billion) | 20.75 | 20.75 | |
| Value per Share (Rp) | 1,409.37 | 8,516.69 | 7,107.33 |

Source: Analyzed Data

### 5.4. Consumer Finance in Bank Mandiri

As mention before, to become Regional Champion Bank, BM should have 20-30% of the total market revenue of the Indonesian banking sector, including consumer finance segment. In this segment, BM revenue is less than 20%, which mainly comes from consumer loan and credit card. BM has several products in consumer loan such as mortgage, home equity, payroll loan, unsecured and secured loan and automotive financing (named KPM). Loan portfolio in consumer loan is reported as follow:

Table 31. Bank Mandiri Consumer Loan Portfolio

| IDR Billion | Mortgage (KPR Mandiri) | Home Equity (Multiguna Mandiri) | Automotive Financing | Other | Total |
|---|---|---|---|---|---|
| 2006 | 3,610.00 | 3,670.00 | 141.65 | 3,908.35 | 11,330.00 |
| 2007 | 5,382.00 | 3,437.00 | 250.28 | 5,162.72 | 14,232.00 |
| 2Q2008 | NA | NA | 504.21 | NA | 18,860.00 |

Source: Bank Mandiri Financial Statement

Mortgage and home equity dominate this segment. On the other hand, automotive financing only contributes to less than 3% of total BM loan portfolio in consumer segment.

Table 32. Bank Mandiri Automotive Financing Portfolio

| | Automotive Financing | Total | Portion |
|---|---|---|---|
| 2006 | 141.65 | 11,330.00 | 1.25% |
| 2007 | 250.28 | 14,232.00 | 1.76% |
| 2Q2008 | 504.21 | 18,860.00 | 2.67% |

Source: Bank Mandiri Financial Statement

Automotive consumer finance is the essential part to support the business development in consumer finance sector. To achieve the target, organic growth itself is not adequate given the strong dominance of multifinance in this segment. KPM Mandiri itself has grown rapidly in the last 2 year as shown in the table below.

Table 33. Automotive Financing Growth

| Year | KPM Portfolio (IDR Billion) | Growth (%) |
|---|---|---|
| 2006 | 141.65 | |
| 2007 | 250.28 | 76.69 |
| 2Q2008 | 504.21 | 101.46 |

Source: Bank Mandiri Financial Statement

From 2007 to 2Q2008, KPM portfolio grew at 101.46%. Multifinance companies still dominates this sector (their average market share was 78%). In 2007, The market share of BM (through KPM) was only 0.2%: The amount of vehicle financing provided by MB was Rp 504.21 billion whereas the total vehicle financing was Rp 135.17 trillion in 2007.

Due to this reason, BM decided to acquire a multifinance company. From customer view, financing from a multifinance company has some advantages to financing from a bank, Thus, multifinance company becomes their first choice to finance their automotive spending. Here are some advantages for customer:

1. Simple procedure
2. Competitive down payment
3. Quick approval

4. Innovative approach
5. Good service
6. Close relationship with dealer

With this acquisition, BM has a target to increase the total asset in consumer finance to Rp 41.48 Tn in 2010.

## 5.5. Evaluation of Financial Performance of Tunas Financindo Sarana

### 5.5.1. Assets

Tunas Financindo Sarana is a multi-finance company whose revenue mainly comes from consumer financing. For the past 3 years, the revenue from consumer financing has made up more than 80% of the whole revenue. The second largest asset is cash, but the portion of cash is usually less than 10% of the asset.

### 5.5.2. Liabilities

Liabilities include trade payable, bank loans, bond payable and other forms of liabilities. Trade payables include payables to suppliers for motor vehicle financing and for operating leases, and payables to insurance companies in relation to motor vehicle financing. The primary sources of funds for finance companies are bank loans and bond issued. Other payables include customer deposits. Customer deposits are claims received from insurance companies, which are payable to customers.

Among all these liabilities, bank loans and bond payable are the biggest parts. As of June 2008, the share of bank loans and bond payable were 44.17% and 51.76%, respectively. The bank loans decreased from 62.07% in 2005 to 44.17% in June 2008. In contrast, bond payable increased from 34.57% in 2005 to 51.76% in June 2008.

### 5.5.3. Equity

Equity includes common stock, capital surplus and retained earnings. As of June 2008, the value of common stock was Rp 250 Bn.

Table 34 shows details of balance sheet and income statement of TFS.

Table 34. Financial Statement of Tunas Financindo Sarana

| | Value | | | | Composition | | | |
|---|---|---|---|---|---|---|---|---|
| In Billion IDR | 2005 | 2006 | 2007 | Q2/2008 | 2005 | 2006 | 2007 | Q2/2008 |
| **Balance Sheet** | | | | | | | | |
| **Assets** | **2,086.09** | **1,847.87** | **2,141.04** | **2,564.03** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |
| Cash | 145.97 | 42.31 | 47.31 | 302.76 | 7.00% | 2.29% | 2.21% | 11.81% |
| Consumer financing receivables | 1,694.96 | 1,707.41 | 2,040.91 | 2,211.09 | 81.25% | 92.40% | 95.32% | 86.23% |
| Operating lease receivables | 4.55 | 2.91 | 1.61 | 0.28 | 0.22% | 0.16% | 0.08% | 0.01% |
| Other receivables | 158.94 | 17.57 | 5.76 | 5.65 | 7.62% | 0.95% | 0.27% | 0.22% |
| Collateral vehicles | 9.82 | 9.14 | 8.59 | 7.70 | 0.47% | 0.49% | 0.40% | 0.30% |
| Fixed assets | 7.20 | 26.44 | 5.59 | 5.89 | 0.35% | 1.43% | 0.26% | 0.23% |
| Other assets | 64.65 | 42.10 | 31.28 | 30.66 | 3.10% | 2.28% | 1.46% | 1.20% |
| **Liabilities** | **1,829.60** | **1,589.39** | **1,805.15** | **2,213.84** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |
| Trade payable | 27.93 | 30.67 | 32.64 | 31.69 | 1.53% | 1.93% | 1.81% | 1.43% |
| Bank loans | 1,135.66 | 1,276.25 | 1,016.32 | 977.91 | 62.07% | 80.30% | 56.30% | 44.17% |
| Bonds payable | 632.58 | 199.48 | 697.85 | 1,145.90 | 34.57% | 12.55% | 38.66% | 51.76% |
| Other liabilities | 33.43 | 82.98 | 58.33 | 58.34 | 1.83% | 5.22% | 3.23% | 2.64% |
| **Equity** | **256.49** | **258.48** | **335.89** | **350.19** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |
| Common stock | 65.00 | 65.00 | 65.00 | 250.00 | 25.34% | 25.15% | 19.35% | 71.39% |
| Capital surplus | 15.54 | 0.00 | 185.00 | 7.65 | 6.06% | 0.00% | 55.08% | 2.18% |
| retained earnings | 175.95 | 193.48 | 85.89 | 92.54 | 68.60% | 74.85% | 25.57% | 26.42% |
| **Income Statement** | | | | | | | | |
| **Consumer financing** | **308.55** | **331.37** | **368.95** | **191.54** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |
| Operating leases | 51.31 | 27.09 | 6.36 | 0.30 | 16.63% | 8.18% | 1.72% | 0.15% |
| Other operating income | 52.30 | 88.64 | 82.07 | 59.87 | 16.95% | 26.75% | 22.24% | 31.26% |
| Other operating expense | (270.04) | (316.12) | (279.37) | (133.24) | -87.52% | -95.40% | -75.72% | -69.56% |
| Net operating income | 142.13 | 130.99 | 178.00 | 118.47 | 46.06% | 39.53% | 48.25% | 61.85% |
| Non operating income and expense-net | (100.36) | (115.75) | (57.65) | (29.25) | -32.53% | -34.93% | -15.63% | -15.27% |
| Net income | 29.93 | 12.86 | 84.73 | 63.53 | 9.70% | 3.88% | 22.97% | 33.17% |

Source: TFS Financial Statement

### 5.5.4. Profit and Loss

Revenue can be divided into two parts: operating income and non operating income. Operating incomes include incomes from consumer financing, operating leases, discount on insurance premiums, and administration. Non operating income includes interest income from time and current deposits and gains from foreign exchange.

Table 35 shows the proportion of each income source. As seen in Table 33, most of the income comes from the consumer financing activities. The second biggest part is income from administration. Discount on insurance premiums is the third biggest income. Insurance income refers to the difference between insurance premiums charged to customers and the amounts paid to insurance companies.

Table 35. Tunas Financindo Sarana Income Component

| Income (Billion IDR) | Value | | | | Composition | | | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | Q2/2008 | 2005 | 2006 | 2007 | Q2/2008 |
| **Operating income:** | **407.07** | **426.63** | **446.28** | **246.45** | **98.76%** | **95.42%** | **92.28%** | **94.98%** |
| Consumer financing | 308.55 | 331.37 | 368.95 | 191.54 | 74.86% | 74.11% | 76.29% | 73.82% |
| Operating leases | 51.31 | 27.09 | 6.36 | 0.30 | 12.45% | 6.06% | 1.31% | 0.11% |
| Discount on insurance premiums | 17.67 | 24.66 | 28.05 | 22.52 | 4.29% | 5.51% | 5.80% | 8.68% |
| Administration&others | 29.54 | 43.50 | 42.92 | 32.10 | 7.17% | 9.73% | 8.87% | 12.37% |
| **Nonoperating income:** | **5.09** | **20.48** | **37.31** | **13.01** | **1.24%** | **4.58%** | **7.72%** | **5.02%** |
| Interest income&other | 5.09 | 20.48 | 37.31 | 13.01 | 1.24% | 4.58% | 7.72% | 5.02% |
| **Total** | **412.17** | **447.11** | **483.59** | **259.47** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |

Source: TFS Financial Statement

Table 36 reports the cost component of Tunas Financindo Sarana. The largest part of the cost comes from interest expenses. To finance consumer, the company gets loans from bank or issues bonds.

The second biggest part is general and administration expenses. These expenses include employee salary and depreciation costs. Expenses for provision and doubtful accounts are low, amounting to 3.35%-6.38% from 2005 to June 2008. These low numbers suggest that the company has properly managed their credit risk.

Table 36. Cost Component of Tunas Financindo Sarana

| Billion IDR | Value | | | | Composition | | | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | Q2/2008 | 2005 | 2006 | 2007 | Q2/2008 |
| Interest expense/cost of fund | 222.83 | 257.13 | 240.96 | 122.83 | 58.30% | 59.21% | 56.69% | 62.69% |
| Cost for generate income: | | | | | | | | |
| Provision for doubtful accounts | 24.37 | 17.12 | 21.69 | 6.56 | 6.38% | 3.94% | 5.10% | 3.35% |
| Loss on sale of collateral vehicles | 36.47 | 44.68 | 33.21 | 10.18 | 9.54% | 10.29% | 7.81% | 5.20% |
| Operating lease expenses | 10.74 | 55.44 | 31.42 | 0.23 | 2.81% | 12.77% | 7.39% | 0.12% |
| General and administration expenses | 75.99 | 57.49 | 62.18 | 30.44 | 19.88% | 13.24% | 14.63% | 15.54% |
| Tax | 11.84 | 2.38 | 35.62 | 25.69 | 3.10% | 0.55% | 8.38% | 13.11% |
| **Total** | 382.23 | 434.25 | 425.07 | 195.94 | 100.00% | 100.00% | 100.00% | 100.00% |

Source: TFS Financial Statement

### 5.5.5. Performance Compared to Industry

In 2005, TFS exhibited negative growth in leasing since TFS prioritized on expanding to the consumer finance. In 2006, TFS showed negative growth in all sectors except for consumer finance. In late 2005, the government raised the oil price by 126%, which caused the purchasing power of consumers to deteriorate. In 2007, TFS achieved tremendous growth in profit, more than 14 times higher than that of the average growth rate of industry. All in all, TFS growth rate was below the average rate of industry, but has been significantly improved since 2007.

Table 37. Tunas Financindo Sarana Performance Compared to Industry

| Description | Growth (%) | | | | | |
|---|---|---|---|---|---|---|
| | TFS | | | Industry | | |
| | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| Total Assets | 38.65% | -11.42% | 15.87% | 22.30% | 12.81% | 16.87% |
| Business Turnover: | | | | | | |
| Leasing | -22.47% | -47.20% | -76.53% | 24.80% | 71.05% | 11.76% |
| Consumer Finance | 29.38% | 7.40% | 11.34% | 26.10% | 27.14% | 17.09% |
| Current Year Profit (Loss) | -58.36% | -57.04% | 558.83% | 16.70% | -10.04% | 39.79% |

Source: TFS Financial Statement and Infobank Magazine

### 5.6. Profitability, Growth, and Value Creation of Tunas Financindo Sarana

An analysis of profitability shows how the operational and financial activities of TFS contributed to its profitability, growth and value added. Table 38 shows operational performance of TFS from 2005 to Q2/2008.

Table 38. Tunas Financindo Sarana Operation Performance

| | 2005 | 2006 | 2007 | Jun-08 |
|---|---|---|---|---|
| Net Operating Asset | 2,060.63 | 1,816.95 | 2,091.77 | 2,509.92 |
| Net Financial Obligation | (1,804.14) | (1,558.47) | (1,755.88) | (2,159.73) |
| Common Stockholder`s Equity | 256.49 | 258.48 | 335.89 | 350.19 |
| | | | | |
| Sales | 407.07 | 426.63 | 446.28 | 246.45 |
| Operating Income After Tax | 41.91 | (4.25) | 80.52 | 55.61 |
| Comprehensive Income | 45.47 | 10.09 | 88.28 | 59.30 |
| Net Financial Expense/Income | (3.57) | (14.34) | (7.77) | (3.68) |
| | | | | |
| ROCE | 18.29% | 3.92% | 29.71% | 17.29% |
| RNOA | 2.37% | -0.22% | 4.12% | 2.42% |
| NBC | -0.23% | -0.85% | -0.47% | -0.19% |
| PM | 10.30% | -1.00% | 18.04% | 22.57% |
| ATO (X) | 0.20 | 0.23 | 0.21 | 0.10 |
| FLEV | 612.44% | 652.97% | 557.62% | 570.72% |
| SPREAD | 2.60% | 0.63% | 4.59% | 2.61% |
| | | | | |
| Residual Earnings | 2005 | 2006 | 2007 | Jun-08 |
| Revenue Growth Rate | -1.12% | 4.80% | 4.61% | -44.78% |
| Growth in CSE | 6.54% | 0.77% | 29.95% | 4.26% |
| Growth in Comprehensive Income | -35.93% | -77.81% | -774.84% | -32.84% |
| Residual Earnings (at Cost of Equity of 69.23%) | (121.20) | (167.48) | (90.66) | (173.24) |

Source: Analyzed Data

### 5.6.1. Profitability

The ROCE (Return on Capital Employed) in 2007 was 29.71%. The return from operational activities, called RNOA (Return on Net Operating Assets), was 4.12%, while the return from financing activities was 25.59%. After the downturn in 2006, TFS recovered in 2007.

### 5.6.2. Growth

The growth rate in revenue shows a wide fluctuation. The growth rate in revenue was negative in 2005. Then, the rate bounced back to be positive in 2006 and in 2007.

### 5.6.3. Value Added

Through its operation, TFS creates value added. This can be seen in positive EVA, except in 2006. When the government raised oil price in late 2005, the volume of consumer finance in automotive decreased significantly. Revenue from this area also decreased substantially. NOPAT for TFS was – Rp 4.25 Bn in 2006. This explains why EVA for TFS was negative in 2006. However, EVA returned to its positive trend in 2007**.**

Table 39. Value Added of Tunas Financindo Sarana

| Value Added | 2005 | 2006 | 2007 | Jun-08 |
|---|---|---|---|---|
| NOPAT | 41.91 | (4.25) | 80.52 | 55.61 |
| Net Operating Assets =Net Debt + Equity | 2,060.63 | 1,816.95 | 2,091.77 | 2,509.92 |
| After Tax Cost of Capital (2.02%X(1-30%)) | 1.41% | 1.41% | 1.41% | 1.41% |
| Cost of capital | 29.14 | 25.69 | 29.58 | 35.49 |
| EVA (NOPAT-Biaya Modal) | 12.77 | (29.94) | 50.94 | 20.12 |

Source: Analyzed Data

TFS is a private company and its stock is not traded in the stock market. Thus, the value of the company is evaluated based on its book value. The value of TFS has increased every year except in 2006 for the same reason as mentioned above.

Table 40. Tunas Financindo Sarana: Company Book Value

| Company Value | 2005 | 2006 | 2007 | Jun-08 |
|---|---|---|---|---|
| - Net Debt | 1,804.14 | 1,558.47 | 1,755.88 | 2,159.73 |
| - Equity | 256.49 | 258.48 | 335.89 | 350.19 |
| - Company Book Value | 2,060.63 | 1,816.95 | 2,091.77 | 2,509.92 |

Source: Analyzed Data

To calculate the cost of capital, data for 2007 are used. The cost of debt equals to the net borrowing cost while the cost of equity is computed from the total distributed dividend divided by book value of stocks.

Table 41. Tunas Financindo Sarana Cost of Capital

| Billion IDR | 2007 |
|---|---|
| **Cost of debt=NBC** | **-0.47%** |
| Value of debt | 1,755.88 |
| **Cost of equity** | **69.23%** |
| Total Dividend | 45.00 |
| Book value of stock | 65.00 |
| | |
| **wacc/cost of capital** | **2.02%** |

Source: Analyzed Data

### 5.6.4. Cash flow

TFS has not created positive free cash flow, except in 2006. TFS showed positive FCF in 2006 not because of the increase in operating income but because of the selling of operating asset. Negative FCF indicates that TFS needs to increase its working capital in order to finance its increasing operation.

**Table 42. Tunas Financindo Sarana Cash Flow Analysis**

| Method 1= OI-DNOA | 2005 | 2006 | 2007 |
|---|---|---|---|
| Operating Income After Tax, t | 41.91 | (4.25) | 80.52 |
| NOA, t | 2,060.63 | 1,816.95 | 2,091.77 |
| NOA, t-1 | 1481.994 | 2,060.63 | 1,816.95 |
| DNOA | 578.64 | (243.68) | 274.82 |
| FCF, t | (536.73) | 239.43 | (194.30) |
| Method 2 = NFE - DNFO + d | | | |
| NFE, t | (3.57) | (14.34) | (7.77) |
| NFO, t | (1,804.14) | (1,558.47) | (1,755.88) |
| NFO, t-1 | (1,241.24) | (1,804.14) | (1,558.47) |
| DNFO | 562.90 | 245.66 | (197.41) |
| Net dividend, t | (29.74) | (8.11) | (6.43) |
| FCF, t | (536.73) | 239.43 | (198.74) |
| | | | |
| Return on Invested Capital=OI/DNOA | 7.24% | 1.74% | 29.30% |

Source: Analyzed Data

## 5.7. Profitability, Growth, and Value Creation of Tunas Financindo Sarana Based on Financial Projection

### 5.7.1. Evaluation of Performance In 2005 and 2007

Table 43 shows the balance sheet and income statement of TFS in year 2005 and 2007. Over this period, the assets only grew by 2.63%. On the other hand, liabilities decreased by 1.34%. Most of the decrease in liabilities was due to the decrease in bank loans. Equity increased by 30.96% due to the increase in the capital subscribed in advance. The capital subscribed in advance refers to shareholders' capital contribution which has been already approved by the shareholders and received by the company, but is waiting for approval by Ministry of Justice and Human Rights. This capital contribution would be recorded as “Paid-in Capital” once it is approved by the Ministry of Justice and Human Rights. Net income rose significantly by 183.06% over the 3 years, mostly due to the increase in interest income.

Table 43. Tunas Financindo Sarana Balance Sheet and Income Statement Component

| In Billion IDR | Value | | Composition | | % Changes 2005-2007 |
|---|---|---|---|---|---|
| | 2005 | 2007 | 2005 | 2007 | |
| **Balance Sheet** | | | | | |
| **Assets** | **2,086.09** | **2,141.04** | **100.00%** | **100.00%** | **2.63%** |
| Cash | 145.97 | 47.31 | 7.00% | 2.21% | -67.59% |
| Consumer financing, operating lease, and other receivable, collateral vehicle | 1,868.27 | 2,061.20 | 89.56% | 96.27% | 10.33% |
| Tax (claim for tax and deferred tax) | 18.35 | 20.96 | 0.88% | 0.98% | 14.22% |
| Fixed assets | 49.67 | 5.59 | 2.38% | 0.26% | -88.76% |
| Other assets | 3.83 | 5.99 | 0.18% | 0.28% | 56.42% |
| **Liabilities** | **1,829.60** | **1,805.15** | **87.70%** | **84.31%** | **-1.34%** |
| Trade and other payable | 34.79 | 37.71 | 1.90% | 2.09% | 8.39% |
| Deferred operating lease | 1.10 | 0.12 | 0.06% | 0.01% | -88.82% |
| Taxes payable | 3.10 | 21.06 | 0.17% | 1.17% | 579.79% |
| Accrued expenses | 20.84 | 26.44 | 1.14% | 1.46% | 26.86% |
| Bank loans | 1,135.66 | 1,016.32 | 62.07% | 56.30% | -10.51% |
| Bonds&derivative payable | 632.58 | 701.72 | 34.57% | 38.87% | 10.93% |
| Employee benefit obligation | 1.53 | 1.77 | 0.08% | 0.10% | 16.12% |
| **Equity** | **256.49** | **335.89** | **12.30%** | **15.69%** | **30.96%** |
| Common stock | 65.00 | 65.00 | 25.34% | 19.35% | 0.00% |
| Capital surplus | 15.54 | 196.89 | 6.06% | 58.62% | 1166.96% |
| Retained earnings | 175.95 | 74.01 | 68.60% | 22.03% | -57.94% |
| **Income Statement** | | | | | |
| **Consumer financing** | **308.55** | **368.95** | **100.00%** | **100.00%** | 19.58% |
| Operating lease | 51.31 | 6.36 | -16.63% | -1.72% | -87.61% |
| Discount on insurance premiums | 17.67 | 28.05 | 5.73% | 7.60% | 58.75% |
| Interest | 5.09 | 11.10 | 1.65% | 3.01% | 117.82% |
| Administration&others | 29.54 | 42.92 | 9.57% | 11.63% | 45.28% |
| Cost of fund | (222.83) | (240.96) | -72.22% | -65.31% | 8.13% |
| Depreciation of fixed and lease fixed assets | (23.26) | (3.18) | -7.54% | -0.86% | -86.34% |
| Provision for doubtful accounts | (24.37) | (21.69) | 7.90% | 5.88% | -11.01% |
| General and administration | (52.73) | (59.00) | -17.09% | -15.99% | 11.91% |
| Loss on sale of collateral vehicle | (36.47) | (33.21) | -11.82% | -9.00% | -8.93% |
| Operating lease and other expenses | (10.74) | (5.21) | 3.48% | 1.41% | -51.50% |
| Other expenses:foreign exchange and lossess on derivative | 0.00 | 26.21 | 0.00% | 7.10% | #DIV/0! |
| Tax expense-net | (11.84) | (35.62) | 3.84% | 9.65% | 200.93% |
| **Net income** | **29.93** | **84.73** | **9.70%** | **22.97%** | 183.06% |

Source: TFS Financial Statement

### 5.7.2. Financial Prospect

In 2009, multi-finance companies are expected to continue to grow although the growth rate would be predicted to be less than the growth rate in 2008 due to the current economic crisis. Several factors may contribute to the growth of multi-finance companies.

1. Liquidity provided by Banking Industry

   Table 44 shows the sources of fund for multi-finance company. The main source of fund for multi-finance company is bank. For example, in 2007, bank loans to multi-finance companies reached Rp66.4 trillion, making up 58.14% of the total funding for multi-finance companies. Therefore, if the liquidity from banks would become tight, the multi-finance companies might be short of fund to finance its businesses.

**Table 44. Multifinance Sources of Fund**

| Sources of Fund | Value | | | Composition | | |
|---|---|---|---|---|---|---|
| (Trillion IDR) | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| Bank Loans | 49.2 | 55 | 66.4 | 57.08% | 58.32% | 58.14% |
| Other Loans | 11.6 | 10.2 | 10.5 | 13.46% | 10.82% | 9.19% |
| Bond Issuance | 10.2 | 10.1 | 12.8 | 11.83% | 10.71% | 11.21% |
| Capital | 15.2 | 19 | 24.5 | 17.63% | 20.15% | 21.45% |
| Total | 86.2 | 94.3 | 114.2 | 100.00% | 100.00% | 100.00% |

Source: Infobank Magazine, 2008

2. Interest rate

   Multi-finance companies set their interest rate charged to their customers by taking into account the interest expenses for their sources of fund, especially the interest expenses that the company should pay to banks. If banks set a high interest rate for the multi-finance companies, the multi-finance companies also should set a high interest rate for their customers. This may negatively contribute to their businesses because fewer customers can afford the higher interest rate.

3. Fluctuation in foreign exchange rate

   The fluctuation in foreign exchange rate might affect the price of consumer goods, especially price of imported consumer goods. High price of consumer goods may discourage customers to buy goods on credit from multi-finance companies.

4. Election

   General election will be held in 2009. Traditionally, the general election spurs the consumption of customers.

Thus, it can be concluded that the growth of multi-finance companies depends on the consumption sector, interest rate, foreign exchange rate, and bank liquidity. TFS financial projection is based on the following internal assumptions:

1. Consumer financing would grow at the same rate as the average growth rate over the past 3 years. For other revenues, we use the same rule. Revenues would grow in 2009 based on the prediction of the Association of Indonesian Multi-finance Companies (APPI). The chairman of APPI stated that the target rate of the multi-finance industry would be 25.9% in 2009. TFS would be part of BM as of 2009 and would have access to low cost of fund and to large customer's base. The target growth rate in revenue for TFS above industry average, which is 30%.[11] For the purpose of analysis, target growth rate was assumed to be slightly below 30%.
2. Operating assets and liabilities would increase following the increase in sales.
3. Bank loan and bond payable would not increase unless the bank loan would increase more than Rp 2 Tn in 2009. After the acquisition by BM, Bank Mandiri would distribute Rp 2 Tn through a joint financing scheme.
4. Based on the income statement for 2007, the average cost of debt for TFS is estimated to be 9.61%. The interest expenses for 2008 are assumed to be at the same rate.
5. No public information is available concerning the interest rate Bank Mandiri would charge to TFS. Thus, for the debt to pay the interest expenses in 2009, using the base lending rate of BM as of December 2008, Bank Mandiri is

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[11] APPI Cut Revenue Growth to 25.9%. January 7, 2009. March 18, 2009. http://web.bisnis.com/edisi-cetak/edisi-harian/keuangan/1id95793.html.

assumed to charge at 9.25%. For the rest of the debt, BM is assumed to charged base on the cost of debt in 2007.

Table 45 reports the performance ratios of TFS. ROA and profit margin show consistent growth. SGA tends to be flat. Revenue also grows consistently. In 2007, net income grew by 558.83%; meanwhile revenue only grew by 4.61%. This substantial growth in net income was mainly due to increase in other income, especially gains from foreign exchange. The growth in consumer financing is expected to be considerable after BM's acquisition.

Table 45. Tunas Financindo Sarana Financial Ratios: Actual and Projection

| | Actual | | | Projected | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| **Profitability** | | | | | | | | |
| ROA | 1.43% | 0.70% | 3.96% | 5.96% | 7.13% | 8.53% | 9.27% | 9.58% |
| Profit Margin | 7.35% | 3.01% | 18.99% | 28.97% | 35.12% | 42.39% | 46.51% | 48.42% |
| SGA Expense | 18.67% | 13.48% | 13.93% | 14.11% | 14.30% | 14.44% | 14.57% | 14.68% |
| **Revenue Growth** | | | | | | | | |
| Growth Rate in Revenue | -1.12% | 4.80% | 4.61% | 14.62% | 28.21% | 28.75% | 28.88% | 28.99% |
| Growth Rate in Net Income | -58.36% | -57.04% | 558.83% | 74.89% | 55.45% | 55.38% | 41.39% | 34.30% |
| **Margin ( Billion IDR)** | | | | | | | | |
| Net Income | 29.93 | 12.86 | 84.73 | 148.18 | 230.36 | 357.94 | 506.11 | 679.69 |
| Gross Margin | 184.24 | 169.49 | 205.33 | 316.28 | 348.94 | 573.55 | 838.62 | 1,154.10 |
| | | | | | | | | |
| **Operating Expense (Billon IDR)** | 123.19 | 116.48 | 100.60 | 116.73 | 146.37 | 184.04 | 232.01 | 293.21 |
| | | | | | | | | |
| New Financing Origination (Billion IDR) | 70.06 | 22.82 | 37.58 | 59.17 | 128.44 | 166.97 | 217.06 | 282.18 |
| Consumer Financing Growth | 29.38% | 7.40% | 11.34% | 16.04% | 30.00% | 30.00% | 30.00% | 30.00% |

Source: Analyzed Data

Table 46 provides the actual and projected performance ratios of TFS. ROIC and RNOA of TFS are predicted to be higher in 2008 than those in 2007. Those ratios may decrease in 2009, but are expected to grow consistently after that.

Table 46. Tunas Financindo Sarana Performance Ratios: Actual and Projection

| | Actual | Projected | | | | |
|---|---|---|---|---|---|---|
| | 2007A | 2008 | 2009 | 2010 | 2011 | 2012 |
| **Profitability** | | | | | | |
| ROIC | 29.30% | 41.86% | 14.31% | 24.48% | 30.87% | 34.60% |
| RNOA | 4.12% | 6.15% | 3.73% | 6.39% | 8.05% | 9.03% |
| Profit Margin | 18.99% | 28.97% | 35.12% | 42.39% | 46.51% | 48.42% |
| **Growth** | | | | | | |
| Revenue Growth Rate | 4.61% | 14.62% | 28.21% | 28.75% | 28.88% | 28.99% |
| Operating Income Growth Rate | 15.15% | 74.40% | -25.80% | 122.45% | 63.93% | 45.69% |
| NOA Growth Rate | 15.13% | 16.04% | 30.00% | 30.00% | 30.00% | 30.00% |
| Growth in ReOI | | 124.02% | -43.80% | 204.59% | 76.79% | 50.06% |

Source: Analyzed Data

With these financial projections, as seen in Table 47, TFS is expected to fail to generate positive FCF mainly because the increase in NOA would be higher than the increase in its operating income.

Table 47. Tunas Financindo Sarana Financial Statement Projection

| Proforma Financial Statements (Billion IDR) | 2007A | 2008P | 2009P | 2010P | 2011P | 2012P |
|---|---|---|---|---|---|---|
| Income Statement | | | | | | |
| Operating Income | 446.28 | 511.53 | 655.85 | 844.42 | 1,088.27 | 1,403.75 |
| Interest Expense | 240.96 | 195.25 | 306.91 | 270.87 | 249.65 | 249.65 |
| Gross Margin | 205.33 | 316.28 | 348.94 | 573.55 | 838.62 | 1,154.10 |
| Total Operating Expenses (SGA&Other Expense) | 100.60 | 116.73 | 146.37 | 184.04 | 232.01 | 293.21 |
| Core Operating Income Before Tax | 104.73 | 199.55 | 202.57 | 389.51 | 606.61 | 860.90 |
| Taxes | 27.85 | 60.18 | 95.40 | 150.07 | 213.57 | 287.97 |
| Core Operating Income After Tax | 76.88 | 139.37 | 107.17 | 239.44 | 393.04 | 572.93 |
| Other Income (Expense) | 3.64 | 1.05 | (2.99) | (7.67) | (13.11) | (19.41) |
| Operating Income After Tax | 80.52 | 140.42 | 104.19 | 231.77 | 379.93 | 553.52 |
| | | | | | | |
| Consumer Financing | 2,040.91 | 2,368.24 | 3,078.71 | 4,002.32 | 5,203.01 | 6,763.92 |
| Collateral vehicles | 8.59 | 9.97 | 12.96 | 16.85 | 21.90 | 28.48 |
| Operating lease receivables | 1.61 | 1.87 | 2.43 | 3.15 | 4.10 | 5.33 |
| Other NOA | 40.66 | 47.18 | 61.34 | 79.74 | 103.66 | 134.75 |
| NOA | 2,091.77 | 2,427.25 | 3,155.43 | 4,102.06 | 5,332.67 | 6,932.47 |
| Free Cash Flow | | | | | | |
| Operating Income | 80.52 | 140.42 | 104.19 | 231.77 | 379.93 | 553.52 |
| Change in NOA/Investment | 274.82 | 335.48 | 728.18 | 946.63 | 1,230.62 | 1,599.80 |
| Free Cash Flow | (194.30) | (195.06) | (623.99) | (714.86) | (850.68) | (1,046.28) |

Source: Analyzed Data

### 5.7.3. Value Added

The present value of ReOI is calculated with the cost of operations at 2.02%, which is computed based on the financial projections. It is assumed that the value of ReOI will grow at the constant rate after 2009. It is also assumed that value of operations and of equity would recover in 2009.

Table 48. Tunas Financindo Sarana ReOI Growth Calculation

| PV | 2007A | 2008P | 2009P | 2010P | 2011P | 2012P |
|---|---|---|---|---|---|---|
| RNOA | 4.12% | 6.15% | 3.73% | 6.39% | 8.05% | 9.03% |
| ReOI (at cost of operation 2.02%) | 43.83 | 98.18 | 55.17 | 168.05 | 297.10 | 445.83 |
| Growth in ReOI | | 124.02% | -43.80% | 204.59% | 76.79% | 50.06% |
| **Value** | | | | | | |
| Cost of Operations | 2.02% | | | | | |
| Total PV of ReOI to 2012 | 985.17 | | | | | |
| Continuing Value (constant RE after T) | 22,070.99 | | | | | |
| PV of CV | 19,970.79 | | | | | |
| NOA as of 2007 | 2,091.77 | | | | | |
| Value of Operations | 23,047.73 | | | | | |
| NFO as of 2007 | (1,755.88) | | | | | |
| Value of Common Equity | 21,291.85 | | | | | |
| Number of Share Outstanding (Billion shares) | 2.50 | | | | | |
| Value per Share | 8,516.74 | | | | | |

Source: Analyzed Data

According to this scenario, the value of operations is expected to increase to Rp 23,047.73 Bn and value added is expected to increase to Rp 19,970.79 Bn. With the same level of net debt, the value of common equity will increase from Rp 134.36 per share to Rp 8,516.74 per share in 5 years.

Table 49. Tunas Financindo Sarana Value Added Projection

| Comparison of Operation Value | 2007A | Based on Projection | Value Added |
|---|---|---|---|
| Value of Operations (Billion IDR) | 2,091.77 | 23,047.73 | 20,955.96 |
| Net Debt (Billion IDR) | 1,755.88 | 1,755.88 | |
| Value of Common Equity (Billion IDR) | 335.89 | 21,291.85 | 20,955.96 |
| Number of Shares Outstanding (Billion) | 2.50 | 2.50 | |
| Value per Share (Rp) | 134.36 | 8,516.74 | 8,382.38 |

Source: Analyzed Data

## 5.8. Effects of Acquisition on Both Institutions

### 5.8.1. Tunas Financindo Sarana as acquisition target.

As mentioned in the background, Bank Mandiri's goal is to become a regional champion bank in 2010. To achieve the goal, BM should have the market share of 20-30% in every segment including consumer finance. However, it is hard for BM to achieve the target market share in consumer finance sector without acquisition because multi-finance companies already dominate this sector. The market share of multi-finance companies in this sector is 78%.

On the other hand, PT Tunas Financindo Sarana is a multi-finance company that focuses on consumer financing, especially in automotive. This segment is an essential part to achieve the goal of BM in consumer finance sector since motorcycle loans and car loans are the biggest part of the consumer financing in Indonesia.

For BM, TFS can be the target of acquisition for several reasons:

1. Focuses on automotive consumer financing

2. Has enough qualified assets
3. Has strong distribution network supported by strong infrastructure.
4. Has good relationship with dealers
5. has a potential that BM could become the majority shareholder
6. Is one of the top multi-finance companies whose assets are above Rp 1 Tn with a very good rating.

### 5.8.2. Effects of Acquisition on Bank Mandiri

This acquisition can generate the following benefits for both TFS and BM:

1. Access to low cost of fund

   As BM's subsidiary, TFS would have access to low cost of fund through a joint financing scheme.
2. BM has a massive customer base and distribution network

   BM has more than 950 outlets throughout Indonesia with large customer's bases.
3. Speedy process

   TFS has efficient processing infrastructure that help BM to process credit faster.
4. Close relationship with dealers

   As part of Tunas Group Company, TFS has strong relationship with Tunas Group dealers.

Gradually, the synergy between TFS and BM would increase their portfolio in consumer segment faster and increase market share in automotive consumer financing.

With this acquisition, BM would be the majority shareholder and the capital structure would change as seen in Table 47.

Table 50. Tunas Financindo Sarana Capital Structure

| | Before Acquisition | | | After Acquition | | |
|---|---|---|---|---|---|---|
| | Share Nominal | Share Value | % | Share Nominal | Share Value | % |
| Authorised capital | 10,000,000,000 | 1,000,000,000,000 | 100 | 10,000,000,000 | 1,000,000,000,000 | 100 |
| Issued and fully paid | | | | | | |
| 1. PT Tunas Ridean Tbk. | 1,875,000,000 | 187,500,000,000 | 75 | 1,225,000,000 | 122,500,000,000 | 49 |
| 2. PT Tunas Mobilindo Parama | 625,000,000 | 62,500,000,000 | 25 | - | - | - |
| 3. PT Bank Mandiri (Persero) Tbk. | - | - | - | 1,275,000,000 | 127,500,000,000 | 51 |
| Issued and fully paid | 2,500,000,000 | 250,000,000,000 | 100 | 2,500,000,000 | 250,000,000,000 | 100 |

Source: Analyzed Data

In order to acquire 51% of the shares of TFS, BM should arrange the following investment patterns:

1. BM would buy TFS' shares at an equivalent to PBV 2.27 with the total cost of Rp 290 Bn.
2. After acquisition, BM is committed to distribute Rp 2,000 Bn through a joint financing scheme. The total investment needed to acquire TFS would be Rp 2,290 Bn.

| Acquisition Benefit (Billion IDR) | 2009 |
|---|---|
| Joint Financing | 2,000.00 |
| Investment | 290.00 |
| Total | 2,290.00 |

In return, BM would earn interest income from the joint financing, dividend income, and capital gains if the share price of TFS exceeds Rp 227.00 per share. The benefits from the acquisition that BM will enjoy in the first year would be:

1. Dividend payments would be 20% of the net income in 2009. In other words, BM would earn Rp 22.94 Bn (20%*NI*51%). Dividend payments are assumed to 20% of the net income afterwards.
2. Only part of the total joint financing, Rp 2,000 Bn, would be distributed by TFS within one year. So TFS may assume only Rp 710.47 Bn (based on new origination of consumer financing in 2009) which would generate interest income of Rp 65.72 Bn (9.25%* Rp 710.47 Bn) in 2009. Complete loan distribution and interest income are reported as follow:

| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Loan to TFS (IDR Bn) | 710.47 | 923.61 | 1,200.70 | 1,560.90 |
| Interest rate | 9.25% | 9.25% | 9.25% | 9.25% |
| Interest income (IDR Bn) | 65.72 | 85.43 | 111.06 | 144.38 |

The effects of acquisition on BM's financial statement are:

1. In 2009, BM's revenue would increase by Rp 89.21 Bn. The increase in dividend payment would be Rp 23.50 Bn and the increase in the interest income would be Rp 65.72 Bn.

| Revenue (IDR Bn) | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Dividen | 23.50 | 36.51 | 51.62 | 69.33 |
| Interest income | 65.72 | 85.43 | 111.06 | 144.38 |
| Total | 89.21 | 121.94 | 162.69 | 213.71 |

2. BM's asset would increase by Rp 2,290.00 Bn, mainly in loan and equity investment.

The overall financial performance of BM is presented in Table 51.

Table 51. Bank Mandiri Financial Statement Projection after Acquisition

| Proforma Financial Statements | 2007A | 2008P | 2009P | 2010P | 2011P | 2012P |
|---|---|---|---|---|---|---|
| Income Statement | | | | | | |
| Interest Income | 23,172.83 | 24,540.03 | 25,832.75 | 27,140.81 | 28,519.21 | 29,972.94 |
| Interest Expense | 10,027.85 | 10,676.65 | 11,174.18 | 11,694.90 | 12,239.88 | 12,810.26 |
| Gross Margin | 13,144.99 | 13,863.38 | 14,658.57 | 15,445.91 | 16,279.33 | 17,162.68 |
| Total Operating Expenses (SGA Expense) | 8,208.08 | 7,619.68 | 8,000.66 | 8,400.70 | 8,820.73 | 9,261.77 |
| Core Operating Income Before Tax | 8,097.11 | 9,554.80 | 10,127.11 | 10,680.07 | 11,267.02 | 11,709.33 |
| Taxes | 2,093.61 | 1,697.44 | 1,927.29 | 2,170.16 | 2,445.09 | 2,756.54 |
| Core Operating Income After Tax | 6,003.50 | 7,857.37 | 8,199.82 | 8,509.91 | 8,821.92 | 8,952.79 |
| Other Income (Expense) | (1,841.21) | (2,377.61) | (2,181.10) | (2,291.64) | (2,407.78) | (2,529.81) |
| Operating Income | 4,282.76 | 5,543.26 | 6,601.98 | 7,416.81 | 8,337.45 | 9,196.38 |
| | | | | | | |
| Loan | 125,488.38 | 157,989.88 | 185,268.26 | 214,591.18 | 248,605.76 | 288,062.69 |
| Government Bond | 89,466.32 | 88,106.07 | 88,100.74 | 85,941.90 | 81,644.80 | 77,562.56 |
| Equity Investment | 124.91 | 124.91 | 414.91 | 124.91 | 124.91 | 124.91 |
| Other NOA | 44,856.68 | 57,685.56 | 72,478.55 | 92,765.08 | 118,459.45 | 146,212.86 |
| NOA | 259,936.29 | 303,906.41 | 346,262.45 | 393,423.06 | 448,834.93 | 511,963.02 |
| | | | | | | |
| Free Cash Flow | | | | | | |
| Operating Income | 4,282.76 | 5,543.26 | 6,601.98 | 7,416.81 | 8,337.45 | 9,196.38 |
| Change in NOA/Investment | 34,300.40 | 43,970.12 | 42,356.04 | 49,740.61 | 57,701.87 | 65,418.09 |
| Free Cash Flow | (30,017.64) | (38,426.86) | (35,754.06) | (42,323.80) | (49,364.42) | (56,221.71) |

Source: Analyzed Data

Table 52 shows that acquisition would not affect the ratios for profitability and growth significantly. ROIC would decrease from 16.36% to 15.59% because the increase in investment is expected to be greater than that in the operating income in 2009. Profit margin would increase from 23.12% to 23.30% mainly due to the increase in revenue from dividend and loans. This figure shows a stable growth in revenue. Revenue growth rate remains the same, while operating income growth rate tends to decrease.

Table 52. Bank Mandiri Financial Ratios after Acquisition

| | | Before Acquisition | | After Acquisition | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2007A | 2008 | 2009 | 2008 | 2009 | 2010 | 2011 | 2012 |
| **Profitability** | | | | | | | | |
| ROIC | 12.49% | 12.61% | 16.36% | 12.61% | 15.59% | 15.73% | 15.05% | 14.57% |
| RNOA | 1.76% | 1.97% | 2.02% | 1.97% | 2.03% | 2.01% | 1.98% | 1.91% |
| Profit Margin | 18.76% | 21.48% | 23.12% | 21.48% | 23.30% | 25.11% | 27.07% | 29.17% |
| **Growth** | | | | | | | | |
| Revenue Growth Rate | -8.02% | 5.90% | 5.00% | 5.90% | 5.27% | 5.06% | 5.08% | 5.10% |
| Operating Income Growth Rate | 48.42% | 29.43% | 18.27% | 29.43% | 19.10% | 12.34% | 12.41% | 10.30% |
| Net Operating Asset Growth Rate | 15.20% | 16.92% | 13.18% | 16.92% | 13.94% | 13.62% | 14.08% | 14.06% |
| Growth in ReOI | | 6.62% | 15.92% | 6.62% | 15.32% | -184.95% | 12.41% | 10.30% |

Source: Analyzed Data

The effect of acquisition on the value per share of BM is presented in Table 53. ReOI before acquisition would be Rp 9,095.32 Bn while ReOI after acquisition would be Rp 9,196.38 Bn in 2012.

Table 53. ReOI Growth Calculation after Acquisition

| PV | 2007A | 2008P | 2009P | 2010P | 2011P | 2012P |
|---|---|---|---|---|---|---|
| RNOA | 1.76% | 1.97% | 2.03% | 2.01% | 1.98% | 1.91% |
| ReOI (at cost of operation 5.05%) | (7,100.91) | (7,570.92) | (8,730.56) | 7,416.81 | 8,337.45 | 9,196.38 |
| Growth in ReOI | | 6.62% | 15.32% | -184.95% | 12.41% | 10.30% |

| Value | |
|---|---|
| Cost of Operations | 5.05% |
| Total PV of ReOI to 2012 | 5,316.88 |
| Continuing Value (constant RE after T ) | 182,281.67 |
| PV of CV | 142,482.89 |
| NOA as of 2007 | 259,936.29 |
| Value of Operations | 407,736.07 |
| NFO as of 2007 | (230,692.56) |
| Value of Common Equity | 177,043.51 |
| Number of Share Outstanding (Billion shares) | 20.75 |
| Value per Share | 8,532.40 |

Source: Analyzed Data

Reflecting the insignificant change in the ReOI, the value per share of BM would change little from Rp 8,516.69 per share before the acquisition to Rp 8,532.40 per share after the acquisition.

Table 54. Bank Mandiri Market Value Added Projection after Acquisition

| Comparison of Operation Value | 2007A | Before Acquisition | | After Acquisition | |
|---|---|---|---|---|---|
| | | Based on Projection | Market Value Added | Based on Projection | Market Value Added |
| Value of Operations (Billion IDR) | 259,936.29 | 407,410.11 | 147,473.82 | 407,736.07 | 147,799.78 |
| Net Debt (Billion IDR) | (230,692.56) | (230,692.56) | | (230,692.56) | |
| Value of Common Equity (Billion IDR) | 29,243.73 | 176,717.56 | 147,473.82 | 177,043.51 | 147,799.78 |
| Number of Shares Outstanding (Billion) | 20.75 | 20.75 | | 20.75 | |
| Value per Share (Rp) | 1,409.37 | 8,516.69 | 7,107.33 | 8,532.40 | 7,123.03 |

Source: Analyzed Data

Without acquisition, in 5 years market value added Bank Mandiri growth Rp 7,107.33 per share while with acquisition, market value added growth to Rp 7,123.03 per share. Profit margin also increase, for 2009 projection, without acquisition profit margin growth from 18.76% in 2007 to 23.12%, with acquisition profit margin increase to 23.30%. Ratios for growth also increase, in 2009, revenue growth at rate 5.27%, operating income growth rate become 19.10% and net operating asset growth to 13.94%.

In sum, the effect of acquisition on profitability, growth and value creation is insignificant but acquisition would help BM to achieve its target that it would become a regional champion bank faster. Without the acquisition, BM could not grow by 20-30% in consumer finance sector. Thus, we recommend the shareholders of BM to endorse the acquisition plan.

# VI. CONCLUSION AND RECOMMENDATION

A company may take two ways to grow: organic growth and inorganic growth. Organic growth refers to the growth in the company's core business, and inorganic growth refers to the growth which is not related to the company's core business activities. Acquisition is an example of inorganic growth.

To achieve the target of becoming a regional champion bank, Bank Mandiri should have 20-30% of the market share in each market segment. Bank Mandiri has chosen an acquisition as a way to achieve the target in consumer finance sector.

Bank Mandiri has a low market share in the segment of consumer finance. Thus, Bank Mandiri has decided to acquire a company that has competence in consumer finance. Bank Mandiri chooses to acquire PT Tunas Financindo Sarana (TFS).

In sum, the effect of acquisition on profitability, growth and value creation is insignificant but acquisition would help BM to achieve its target that it would become a regional champion bank faster. With acquisition, market value added growth to Rp 7,123.03 per share. Profit margin also increases for 2009 projection, without acquisition profit margin growth from 18.76% in 2007 to 23.12%, with acquisition profit margin increase to 23.30%. Ratios for growth also increase, in 2009, revenue growth at rate 5.27%, operating income growth rate become

19.10% and net operating asset growth to 13.94%. Without the acquisition, BM could not grow by 20-30% in consumer finance sector

Thus, we recommend the shareholders of BM to endorse the acquisition plan.

# LIST OF ABBREVIATION

| No. | Ratios | Formula |
|---|---|---|
| 1 | RNOA (Return on Net Operating Asset) | Operating Income After Tax/[($NOA_t$ + $NOA_{t-1}$)/2] |
| 2 | NBC (Net Borrowing Cost) | NFE after tax/[($NFO_t$ + $NFO_{t-1}$)/2] |
| 3 | Operating Profit Margin | Operating Income After Tax/Sales |
| 4 | Net Comprehensive Profit Margin | Comprehensive Income/Sales |
| 5 | FLEV (Financial Liability Leverage) | ($NFO_t$ + $NFO_{t-1}$)/($CSE_t$ + $CSE_{t-1}$) |
| 6 | Spread | RNOA – NBC |
| 7 | Growth Rate in Sales | Change in Sales/Prior Period`s Sales |
| 8 | Growth Rate in Operating Income | Change in OI After Tax/Prior Period`s OI |
| 9 | Growth in NOA | Change in NOA/Beginning NOA |
| 10 | Growth in CSE | Change in CSE/Beginning CSE |
| 11 | ROA (Return on Assets) | [Net Income + Interest Expense (After Tax)]/Average Total Assets |
| 12 | ROCE (Return on Common Equity) | Comprehensive Income/[(CSEt + CSEt-1)/2] |
| 13 | Growth Rate of CSE (Common Shareholders Equity) | Change in CSE/Beginning CSE |

# APPENDIX A

Bank Mandiri Balance Sheet Reformulated (Billion IDR)

| Net Operating Assets (NOA) | 2005 | 2006 | 2007 | Jun-08 |
|---|---|---|---|---|
| Operating Assets: | | | | |
| Cash | 2,522.76 | 3,965.72 | 5,909.37 | 5,200.77 |
| Derivative Receivable | 315.24 | 410.73 | 336.65 | 288.86 |
| Acceptance Receivable | 3,890.01 | 3,453.17 | 4,953.48 | 4,926.60 |
| Repo Securities | 317.04 | 833.39 | 3,290.85 | 1,296.15 |
| Trade Documents and Other Facilities | 2,724.73 | 1,958.04 | 2,028.54 | 3,780.84 |
| Loan | 94,869.47 | 103,282.25 | 125,488.38 | 140,041.04 |
| Securities | 10,504.27 | 18,360.96 | 27,316.55 | 5,967.61 |
| Government Bonds | 92,055.96 | 90,648.02 | 89,466.32 | 88,386.40 |
| Equity Investment | 68.07 | 84.87 | 124.91 | 106.39 |
| Fixed Assets | 5,305.41 | 4,709.24 | 4,531.58 | 4,355.19 |
| Deferred Tax | 2,231.40 | 3,295.45 | 4,096.45 | 3,929.72 |
| Other Assets | 3,959.61 | 4,963.43 | 5,160.53 | 6,209.51 |
| **Total Operating Assets** | **218,763.99** | **235,965.26** | **272,703.61** | **264,489.07** |
| Operating Liabilities: | | | | |
| Due Liabilities | 675.29 | 671.34 | 852.78 | 1,587.62 |
| Other Liabilities | 5,619.74 | 6,970.30 | 9,624.03 | 11,843.05 |
| Accrued expenses | 693.96 | 590.53 | 540.61 | 445.90 |
| Deferred Tax | 272.10 | 1,582.80 | 1,280.40 | 257.92 |
| Loss Estimation on Commitment and Contingency | 594.08 | 514.40 | 469.51 | 494.94 |
| **Total Operating Liabilities** | **7,855.17** | **10,329.37** | **12,767.32** | **14,629.43** |
| **Net Operating Assets (NOA)** | **210,908.82** | **225,635.89** | **259,936.29** | **249,859.64** |
| | | | | |
| Net Financial Assets (Obligation) | | | | |
| Financial Assets: | | | | |
| Current Account in Central Bank | 20,304.71 | 21,579.16 | 28,161.06 | 22,840.43 |
| Current Account in Other Banks | 697.60 | 537.23 | 1,387.60 | 1,250.12 |
| Settlement in Central Banks and Other Banks | 23,617.05 | 9,435.54 | 16,833.32 | 16,100.87 |
| **Total Financial Assets** | **44,619.36** | **31,551.93** | **46,381.98** | **40,191.42** |
| Financial Liabilities: | | | | |
| Third Party Fund | 206,289.65 | 205,707.55 | 247,355.02 | 236,212.98 |
| Other Bank Fund | 6,798.99 | 8,189.30 | 5,410.34 | 5,253.19 |
| Derivative Payable | 189.55 | 100.82 | 34.35 | 36.30 |
| Acceptance Payable | 4,319.10 | 3,608.39 | 5,023.24 | 4,994.94 |
| Repo Securities | 2,046.42 | 1,859.78 | 2,914.34 | 1,905.71 |
| Securities Issued | 3,983.47 | 3,793.88 | 4,050.56 | 1,208.08 |
| Loan | 4,279.63 | 3,424.89 | 9,345.06 | 9,806.74 |
| Subordinated Loan | 4,402.27 | 4,157.36 | 2,935.28 | 2,895.49 |
| **Total Financial Liabilities** | **232,309.08** | **230,841.98** | **277,068.19** | **262,313.42** |
| **Net Financial Assets (Obligation)** | **(187,689.71)** | **(199,290.05)** | **(230,686.21)** | **(222,122.00)** |
| | | | | |
| CSE and Minority Interest | 23,219.10 | 26,345.85 | 29,250.08 | 27,737.64 |
| Minority Interest | 4.71 | 5.18 | 6.35 | 26.93 |
| **Common Stockholders Equity** | **23,214.40** | **26,340.67** | **29,243.73** | **27,710.71** |

# APPENDIX B

Bank Mandiri Income Statement Reformulated (Billion IDR)

| | 2005 | 2006 | 2007 | Jun-08 |
|---|---|---|---|---|
| Interest Income: | | | | |
| Loans | 10,418.83 | 11,319.18 | 12,629.79 | 6,828.13 |
| Provison and Commission (Loans) | 632.78 | 603.71 | 695.80 | 414.51 |
| Government Bonds | 7,797.77 | 10,840.99 | 7,418.24 | 3,522.77 |
| Securities | 1,008.77 | 1,646.83 | 1,759.70 | 970.33 |
| Others | 351.81 | 782.87 | 669.31 | 224.13 |
| **Total Interest Income** | **20,209.94** | **25,193.57** | **23,172.83** | **11,959.87** |
| Interest Expense: | | | | |
| Time Deposits | 7,161.13 | 11,459.89 | 6,466.08 | 2,809.48 |
| Saving Deposits | 2,033.44 | 2,059.39 | 2,310.03 | 1,203.69 |
| Demand Deposits | 1,252.28 | 1,325.76 | 1,251.73 | 600.14 |
| **Total Interest Expense** | **10,446.85** | **14,845.04** | **10,027.85** | **4,613.32** |
| **Net Interest Margin** | **9,763.09** | **10,348.53** | **13,144.99** | **7,346.55** |
| Other Operating Income: | | | | |
| Others Provision and Commission | 1,577.33 | 1,755.03 | 2,447.48 | 1,608.61 |
| Foreign Exchange Income-Net | 74.08 | 379.73 | 311.46 | 184.96 |
| Others | 671.46 | 351.35 | 401.27 | 195.60 |
| **Total Others Operating Income** | **2,322.87** | **2,486.10** | **3,160.21** | **1,989.17** |
| **Operating Income** | **12,085.96** | **12,834.63** | **16,305.19** | **9,335.72** |
| Operating Expense: | | | | |
| General and Administration | 3,080.08 | 3,250.89 | 3,409.26 | 1,797.95 |
| Employee Salary and Benefit | 3,187.26 | 3,017.50 | 4,082.22 | 2,195.22 |
| Others-Net | 600.66 | 593.58 | 716.59 | 390.64 |
| **Total Operating Expense** | **6,868.00** | **6,861.98** | **8,208.08** | **4,383.80** |
| Core Operating Income (Before Tax) | 5,217.97 | 5,972.66 | 8,097.11 | 4,951.92 |
| Tax on Operating Income: | | | | |
| Tax as reported | 628.35 | 408.72 | 1,985.89 | 1,150.25 |
| Tax (Benefit) of Debt/aditional of Interest Income | 242.41 | 0.99 | 107.72 | 102.65 |
| Total Tax on Operating Income | 870.76 | 409.71 | 2,093.61 | 1,252.90 |
| **Core Operating Income (After Tax)** | **4,347.21** | **5,562.94** | **6,003.50** | **3,699.02** |
| Other Operating Income(Expense): | | | | |
| Provision for possible losses on productive assets | (4,445.23) | (3,671.79) | (2,113.99) | (798.37) |
| Reversal/(Addition) of estimated losses on comitments and contigencies | (0.08) | 37.67 | 61.41 | (31.76) |
| Reversal of allowance for possible losses-others | 1,056.65 | 128.95 | 313.02 | (25.12) |
| Gain/Losses from Increase/Decrease Value of Securities and Governmant Bonds | (89.14) | 109.38 | (14.06) | 9.70 |
| Gain/Losses from Securities and Government Bond Selling | 255.46 | 137.54 | 228.50 | (75.44) |
| Unrealized Income/Expense Based on CSE: | | | | |
| Gains/Losses from securities and bond transactions | 162.04 | 471.53 | (233.14) | (148.28) |
| Others | (118.87) | (10.74) | (82.94) | (217.51) |
| Total | (3,179.18) | (2,797.46) | (1,841.21) | (1,286.78) |
| Non Operating Income-Net | 45.30 | 120.09 | 120.47 | 71.84 |
| **Operating Income After Tax** | **1,213.33** | **2,885.57** | **4,282.76** | **2,484.08** |

## APPENDIX B, cont

| | | | | |
|---|---|---|---|---|
| Net Financial Expense: | | | | |
| Interest Expense: | | | | |
| Securities Issued | 413.20 | 251.97 | 269.64 | 128.80 |
| Other Financing Expenses | 296.82 | 139.12 | 142.43 | 83.95 |
| Subordinated Loans | 84.01 | 129.70 | 162.47 | 37.15 |
| Loan | 427.61 | 331.81 | 332.66 | 277.72 |
| Others | 375.69 | 218.22 | 207.58 | 29.64 |
| **Total Interest Expense** | **1,597.33** | **1,070.83** | **1,114.78** | **557.26** |
| Interest Income: | | | | |
| Placement With Other Banks | (789.29) | (1,067.53) | (755.72) | (215.10) |
| **Total Interest Income** | **(789.29)** | **(1,067.53)** | **(755.72)** | **(215.10)** |
| Net Interest Expense Before Tax | 808.05 | 3.30 | 359.06 | 342.16 |
| Tax on Net Interest Expense/Income | (242.41) | (0.99) | (107.72) | (102.65) |
| Net Interest Expense/Income After Tax | 565.63 | 2.31 | 251.34 | 239.51 |

| | | | | |
|---|---|---|---|---|
| Minority Interest | 1.16 | 1.07 | 1.27 | 1.13 |

| | | | | |
|---|---|---|---|---|
| **Comprehensive Income to common** | **646.54** | **2,882.20** | **4,030.14** | **2,243.44** |

## APPENDIX C

Bank Mandiri Statement of Shareholder Equity Reformulated (Billion IDR)

| | | |
|---|---|---|
| Balance at Dec 31, 2004 | | 24,934.71 |
| Transaction with Shareholder: | | |
| Stock Option | 260.97 | |
| Dividend | (2,627.82) | (2,366.85) |
| Comprehensive Income: | | |
| Net Income | 603.37 | |
| Gains/Losses from securities and bond transactions | 162.04 | |
| Others | (118.87) | 646.54 |
| Balance at Dec 31, 2005 | | 23,214.40 |
| Transaction with Shareholder: | | |
| Stock Option | 545.76 | |
| Dividend | (301.69) | 244.08 |
| Comprehensive Income: | | |
| Net Income | 2,421.41 | |
| Gains/Losses from securities and bond transactions | 471.53 | |
| Others | (10.74) | 2,882.20 |
| Balance at Dec 31, 2006 | | 26,340.67 |
| Transaction with Shareholder: | | |
| Stock Option | 325.76 | |
| Dividend | (1,452.84) | (1,127.08) |
| Comprehensive Income: | | |
| Net Income | 4,346.22 | |
| Gains/Losses from securities and bond transactions | (233.14) | |
| Others | (82.94) | 4,030.14 |
| Balance at Dec 31, 2007 | | 29,243.73 |
| Transaction with Shareholder: | | |
| Stock Option | 135.14 | |
| Dividend | (3,911.60) | (3,776.46) |
| Comprehensive Income: | | |
| Net Income | 2,609.23 | |
| Gains/Losses from securities and bond transactions | (148.28) | |
| Others | (217.51) | 2,243.44 |
| Balance at Jun 30, 2008 | | 27,710.71 |

## APPENDIX D

TFS Balance Sheet Reformulated (Billion IDR)

| Net Operating Assets (NOA) | 2005 | 2006 | 2007 | Jun-08 |
|---|---|---|---|---|
| Operating Assets: | | | | |
| Cash | 145.97 | 42.31 | 47.31 | 302.76 |
| Tax | 18.35 | 36.31 | 20.96 | 22.66 |
| Fixed assets | 49.67 | 26.44 | 5.59 | 5.89 |
| Other assets | 3.83 | 5.79 | 5.99 | 7.31 |
| Collateral vehicles | 9.82 | 9.14 | 8.59 | 7.70 |
| Consumer financing receivables | 1,694.96 | 1,707.41 | 2,040.91 | 2,211.09 |
| Operating lease receivables | 4.55 | 2.91 | 1.61 | 0.28 |
| Other receivables | 158.94 | 17.57 | 5.76 | 5.65 |
| Derivative Receivable | 0.00 | 0.00 | 4.32 | 0.70 |
| **Total Operating Assets** | **2,086.09** | **1,847.87** | **2,141.04** | **2,564.03** |
| Operating Liabilities: | | | | |
| Taxes payable | 3.10 | 2.38 | 21.06 | 22.37 |
| Accrued expenses | 20.84 | 26.95 | 26.44 | 29.74 |
| Employee benefits obligation | 1.53 | 1.59 | 1.77 | 2.00 |
| **Total Operating Liabilities** | **25.46** | **30.91** | **49.27** | **54.11** |
| **Net Operating Assets (NOA)** | **2,060.63** | **1,816.95** | **2,091.77** | **2,509.92** |
| | | | | |
| Net Financial Assets (Obligation) | | | | |
| **Total Financial Assets** | **0.00** | **0.00** | **0.00** | **0.00** |
| Financial Liabilities: | | | | |
| Trade Payable | 27.93 | 30.67 | 32.64 | 31.69 |
| Other Payable | 6.86 | 8.59 | 5.07 | 0.94 |
| Deferred Operating Lease Income | 1.10 | 0.26 | 0.12 | 0.00 |
| Bank Loans | 1,135.66 | 1,276.25 | 1,016.32 | 977.91 |
| Bonds Payable | 632.58 | 199.48 | 697.85 | 1,145.90 |
| Derivative Payable | 0.00 | 43.22 | 3.87 | 3.29 |
| **Total Financial Liabilities** | **1,804.14** | **1,558.47** | **1,755.88** | **2,159.73** |
| **Net Financial Assets (Obligation)** | **(1,804.14)** | **(1,558.47)** | **(1,755.88)** | **(2,159.73)** |
| | | | | |
| **Common Stockholders Equity** | **256.49** | **258.48** | **335.89** | **350.19** |

## APPENDIX E

Income Statement Reformulated (Billion IDR)

| | 2005 | 2006 | 2007 | Jun-08 |
|---|---|---|---|---|
| Revenue: | | | | |
| Consumer Financing | 308.55 | 331.37 | 368.95 | 191.54 |
| Operating Lease | 51.31 | 27.09 | 6.36 | 0.30 |
| Discount on insurance premiums | 17.67 | 24.66 | 28.05 | 22.52 |
| Others | 29.54 | 43.50 | 42.92 | 32.10 |
| **Total Interest Income** | **407.07** | **426.63** | **446.28** | **246.45** |
| Interest Expense: | | | | |
| Cost of Funds | 222.83 | 257.13 | 240.96 | 122.83 |
| **Total Interest Expense** | **222.83** | **257.13** | **240.96** | **122.83** |
| **Gross Margin** | **184.24** | **169.49** | **205.33** | **123.63** |
| Operating Expense: | | | | |
| General and Administration | 75.99 | 57.49 | 62.18 | 30.44 |
| Loss on sale of collateral vehicles | 36.47 | 44.68 | 33.21 | 10.18 |
| Operating lease expenses | 10.74 | 14.30 | 5.21 | 0.23 |
| **Total Operating Expense** | **123.19** | **116.48** | **100.60** | **40.86** |
| Core Operating Income (Before Tax) | 61.05 | 53.01 | 104.73 | 82.77 |
| Tax on Operating Income: | | | | |
| Tax as reported | 11.84 | 2.38 | 35.62 | 25.69 |
| Tax (Benefit) of Debt/aditional of Interest I | (1.53) | (6.14) | (7.77) | (1.58) |
| Total Tax on Operating Income | 10.31 | (3.76) | 27.85 | 24.11 |
| **Core Operating Income (After Tax)** | **50.74** | **56.78** | **76.88** | **58.66** |
| Other Operating Income(Expense): | | | | |
| Provision for doubtful accounts | (24.37) | (17.12) | (21.69) | (6.56) |
| Gain/Losses on foreign exchange | 0.00 | (41.13) | 26.21 | 7.75 |
| Unrealized Income/Expense Based on CSE: | | | | |
| Gains/Losses on sale of fixed assets | 15.54 | (2.77) | (0.89) | (4.24) |
| Total | (8.83) | (61.02) | 3.64 | (3.05) |
| **Operating Income After Tax** | **41.91** | **(4.25)** | **80.52** | **55.61** |
| Net Financial Expense: | | | | |
| Interest Expense | 0.00 | 0.00 | 0.00 | 0.00 |
| Interest Income | (5.09) | (20.48) | (11.10) | (5.26) |
| Net Interest Expense Before Tax | (5.09) | (20.48) | (11.10) | (5.26) |
| Tax on Net Interest Expense/Income | (1.53) | (6.14) | (3.33) | (1.58) |
| Net Interest Expense/Income After Tax | (3.57) | (14.34) | (7.77) | (3.68) |

| | | | | |
|---|---|---|---|---|
| **Comprehensive Income to common** | **45.47** | **10.09** | **88.28** | **59.30** |

## APPENDIX F

TFS Statement of Shareholder Equity Reformulated (Billion IDR)

| | | |
|---|---|---|
| Balance at Dec 31, 2004 | | 240.76 |
| Transaction with Shareholder: | | |
| Dividend | (29.74) | (29.74) |
| Comprehensive Income: | | |
| Net Income | 29.93 | |
| Gains/Losses on sale of fixed assets | 15.54 | 45.47 |
| Balance at Dec 31, 2005 | | 256.49 |
| Transaction with Shareholder: | | |
| Dividend | (8.11) | (8.11) |
| Comprehensive Income: | | |
| Net Income | 12.86 | |
| Gains/Losses on sale of fixed assets | (2.77) | 10.10 |
| Balance at Dec 31, 2006 | | 258.48 |
| Transaction with Shareholder: | | |
| Dividend | (6.43) | (6.43) |
| Comprehensive Income: | | |
| Net Income | 84.73 | |
| Gains/Losses on sale of fixed assets | (0.89) | 83.84 |
| Balance at Dec 31, 2007 | | 335.89 |
| Transaction with Shareholder: | | |
| Dividend | (45.00) | (45.00) |
| Comprehensive Income: | | |
| Net Income | 63.53 | |
| Gains/Losses on sale of fixed assets | (4.24) | 59.30 |
| Balance at Jun 30, 2008 | | 350.19 |

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