

ANALYSIS OF FINANCIAL PERFORMANCE FROM SYNERGISTIC VALUE PRE AND POST MERGER AND ACQUISITION

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ABSTRACT

The purpose of this study is to examine the synergistic effect on the financial performance of PT Bank Mandiri Tbk three years before and after acquisition period of PT Asuransi Jiwa InHealth using the Risk-Based Bank Rating Model. Financial ratios being used in this study are based on the three measurements Risk-Based Bank Rating bank soundness level criteria including, risk profile, earnings, and capital. The study is then continued with further analysis of reasoning regarding the impact of synergistic effect towards mergers and acquisitions' financial performance. The result of this study indicates that there is no improvement in risk profile after acquisition because of increasing trend of credit risk with non performing loan as the indicator. Whereas earnings and capital have shown improvement after acquisition despite decreasing trend of net interest margin due to slowing down economy of Indonesia. Overall, it can be said that PT Bank Mandiri Tbk has always maintaining excellent financial performance before and after acquisition period of PT Asuransi Jiwa InHealth.

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1. INTRODUCTION

During the past decades, globalization has been one of the leading factors contributing to the rapidly changing business environment due to increasing global competitiveness. Thus, adaptability in business is crucial to develop and sustain in the fast-changing economy. Most goals of adaptability are to foster competitive advantage by establishing a better market positioning and acting on any signals of change (Reeves & Deimler, 2011). One of the strategies commonly being used is expanding the market to have more growth opportunities. Strategy can be done through merger and acquisition that permit a critical strategic instrument for diversifying product portfolios, accessing new business opportunities, acquiring new technology, and establishing new generation organizations with the strength and resources necessary to compete globally. During the past decades, global merger and acquisition activities have experienced few cyclical trends.

The occurrence of mergers and acquisitions has been increasing in Indonesia, including the banking industry, due to the intention of increasing market size to compete regionally. In support of banking industry development, Bank Indonesia has launched a comprehensive framework for the policy direction in the banking industry, which is the Indonesian Banking Architecture (IBA). This program aims to improve the efficiency of the banking system, both traditional and sharia, by anticipating risk, improving information technology, and expanding their market size to assist national economic growth in the long-term period. As one of the most crucial factors in the IBA program, the market size of banks can be expanded by strengthening the capital, either from shareholder capital addition, issuance of new shares in the capital stock market, and most importantly, merger and acquisition with other banks to achieve the new minimum capital requirement.

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Besides market size, an acquisition of a particular company may provide certain synergistic benefits for the acquirer, such as when two lines of business complement one another. Synergy means that the combined value of the two companies is greater than the sum of each company value combined. Banks are expected to improve their performance, which will have a direct impact on bank finances.

Due to vulnerability in the banking industry, few amendments of regulation have been done during the last decades, including on bank soundness level regulation. According to the Financial Services Authority Regulation No. 4/POJK.03/2016 regarding the level of health in conventional, the bank soundness level system is used to evaluate the level of health in the bank is based on Risk-Based Bank Ranking, which provides additional focus on bank risk management. It includes evaluation of risk profile, good corporate governance, earnings, and capital.

During the past few years, foreign investors have been actively acquiring banks in Indonesia. The reason behind the active acquisition for investors lies behind Indonesia's prospect in the financial industry. Indonesia is one of the countries with the highest net interest margin level, which makes banking acquisition an interesting phenomenon, achieving 4.47% in February 2021 (Sitanggang, 2021). Compared to other Asian countries, Indonesia possesses a low level of domestic credit to the private sector towards its gross domestic product during the last decades. This means that there is still lots of potential of credit as the primary revenue stream of the bank that can be implemented in Indonesia. This implies that by doing merger and acquisition, potential credit in Indonesia can result in a potential increase of foreign acquirers' interest revenue, which they cannot obtain in their market. That will eventually lead to improvement of net interest margin as one of the criteria of bank soundness level according to Financial Services Authority Regulation No. 4/POJK.03/2016.

Furthermore, Indonesia's low public access to the banking system, despite the country's large population, is evidence of an opportunity in the market growth of the country's banking industry, according to the World Bank. Consequently, mergers and acquisitions carried out by foreign banking companies will have the potential to increase money deposits, which is the primary reason for owning a checking or savings account. Furthermore, the increase in money deposits may result in an increase in the amount of potential loan capacity that can be provided. Having said that, it eventually leads to increased liquidity and earnings using net interest margin, which is one of the criteria used to determine a bank's soundness level. A bank's soundness is determined by a set of criteria established by the Financial Service Authority of Indonesia. Compliance with the regulations is required of all financial institutions, including those involved in mergers and acquisitions. The risk profile, earnings, and capital of a bank are just a few of the criteria used to determine a bank's soundness level, all of which have a strong relationship with the discussion of financial accounting. Despite the growing trend of banking industry merger and acquisition in Indonesia, which can be attributed to the country's promising macroeconomic prospects, there may be several factors that contribute to the inconsistent trend of performance in each merger and acquisition activity.

Many researchers tried to explore operating synergy and financial synergy after the first development of Gunther in 1955. According to Yanqin Li in her research entitled "Analysis of M&A Performance of Internet Classified Information Enterprises," The merger and acquisition activities of 58.com in 2014 and 2015 had a significant influence on the enterprise's present performance, with profitability, operating capability, debt repayment capability, and development capability all declining. It has increased companies' financial core competitiveness in the medium and long run and positively influenced their medium and long-term performance. (Li, 2018). This result is inconsistent with the phenomenon of PT Bank Woori Saudara.

According to Mengya Wang in the research entitled "Analysis on the Synergistic Effect of M&A from the Perspective of Finance-A Case Study of China Zhonghua Geotechnical Engineering Co.,Ltd," there was also the inconsistent result of analysis with PT Bank Woori Saudara Tbk at which comparing several financial indicators prior to and during the merger and purchase reveals that GEC's growth capability

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indicators have significantly improved. Although the utilization efficiency of total assets and working capital assets improved somewhat, the firm's operational capacity following mergers and acquisitions remained unchanged, and the cost control situation remained unsatisfactory. The enterprise's long-term debt-paying capacity has been strengthened, and the tax-saving impact has been achieved. As a result, the management synergy impact of merger and acquisition is obscure, and to a degree, the synergy and financial synergy effects of merger and acquisition are also obscure (Wang, 2018).

2. METHOD

2.1. Type and Data Source

The study uses a qualitative approach since it is intended to provide thorough understanding regarding synergistic value in PT Bank Mandiri Tbk's financial performance after acquisition of PT Asuransi Jiwa InHealth has been executed. Moreover, this study includes wide range of data analysis from secondary sources, including text analysis from news report and interpret it in larger scope of findings. The qualitative approach used in this study is an explanatory study design with comparative analysis. Explanatory research is conducted with the primary objective of explaining why events occur and developing, elaborating, extending, or testing theory. This study is categorized as explanatory because it proposes a conceptual explanation and then give empirical data that supports or disprove it. Moreover, it offers multiple competing arguments and then compare the data to determine which is superior. The following research techniques were used in this study: (1) The research is quantitative; (2) The time horizon for this study is longitudinal; and (3) The data is collected through secondary sources. Secondary data sources include open-source databases, companies' annual reports, reputable journals, and reports.

The research object for this study includes the acquisition case of PT Asuransi Jiwa InHealth, as the acquiree, and PT Bank Mandiri Tbk, as the acquirer. Acquisition activity occurred starting from 23 December 2013 to 3 June 2014. The research will be conducted based on data during three years before and after the acquisition case, which is from 2011 to 2017.

2.2. Analysis Method

This study is conducted with the structure of general overview towards details of acquisition together with the causal supporting facts, in the expectation of providing in-depth understanding regarding synergistic value in the financial performance for the acquisition case. In this study, the writer commences its analysis with company and business overview, industry analysis, acquisition overview, qualitative synergy analysis and proceeded with quantitative synergy analysis that consisted of financial performance analysis and macro factor analysis as the supporting facts of financial performance trend.

The quantitative synergy analysis will be carried out in stages, starting with a ratio analysis of each bank's soundness level indicators, which will include risk profile, earnings, and equity. For each financial ratio, the formula will be determined in accordance with Financial Service Authority Regulation No. 4/POJK.03/2016, which is concerned with the level of health in commercial banks. The following is a description of each of the financial ratio formulas that will be used:

Table 1 Financial Ratio Formula

Risk Profile	Non Performing Loan	$NPL = \frac{\text{Non Performing Loan}}{\text{Total Loan}}$
	Loan to Deposit Ratio	$LDR = \frac{\text{Net Loan}}{\text{Deposit and Short term funding}}$
Earnings	Net Interest Margin	$NIM = \frac{\text{Net Interest Income}}{\text{Average Earning Assets}}$
	Return on Asset	$ROA = \frac{\text{Net profit before tax}}{\text{Average Total Asset}}$
Capital	Capital Adequacy Ratio	$CAR = \frac{\text{Total capital (Tier 1 + Tier2 + Capital)}}{\text{Total risk – weighted bank assets}}$

With the help of trend analysis, we will be able to compare the results of financial ratio measurements three years before and after acquisition. Few regulation benchmarks that will be used in the trend analysis:

1. Financial Services Authority Regulation Number 11/POJK.03/2016 concerning Minimum Capital Adequacy Requirement for Commercial Banks (CAR)
2. Financial Service Authority Regulation Number 40/POJK/03/2019 concerning Asset Quality Evaluation for Commercial Bank (NPL)
3. Bank Indonesia Regulation Number 15/7/PBI/2013 concerning Statutory Reserves in Rupiah and Foreign Currency for Commercial Banks. (LDR)
4. Bank Indonesia Circular Letter Number 6/23/DPNP/2004 concerning Bank Soundness Level (NIM and ROA)

After analyzing ratio and trend of financial performance for PT Bank Mandiri Tbk before and after acquisition, analysis is continued with the performance of macro factor analysis. This analysis is intended to provide explanation regarding rationale for the cause of trend being analyzed.

3. RESULT AND DISCUSSION

3.1. Company and Industry Overview

I. PT Bank Mandiri Tbk

PT Bank Mandiri Tbk was founded on October 2, 1998, as part of the Indonesian government's financial reform initiative. The major shareholder of PT Bank Mandiri Tbk is the government of Indonesia, with 60% shares of ownership. As the leading banking company in Indonesia, PT Bank Mandiri Tbk provides main products and services, including saving products, credit products, and other services such as trade service products, agency services, treasury services, and financial institution pension fund products. PT Bank Mandiri Tbk's business operation mainly consists of four main segments, which are wholesale banking, institutional banking, treasury, and retail banking.

Overall, PT Bank Mandiri Tbk's six years before acquisition performance in retail banking had resulted in compound annual growth rate of 70.4 percent, from Rp3.5 trillion volume of business saving account to Rp85.8 trillion. As one of the effects in increasing business saving account, there was a considerable increase of branch units, ATM, EDC, and most importantly, internet banking and mobile banking users as the facilities that can be used by business saving account users in their business. This indeed matched with PT Bank Mandiri Tbk's digitalization strategy through the internet and mobile banking.

The constant increase of loan disbursement in PT Bank Mandiri Tbk has brought attention towards its quality of loan given concerning its collectability. Non performing Loans (NPL) during 2013 increased 13 percent from Rp5.97 trillion to Rp6.75 trillion. This was mainly caused by the substantial increase of loan collectability from small and micro segments loans being downgraded to NPL. Despite having significant changes in net NPL ratio, PT Bank Mandiri Tbk's credit risk measuring from its NPL was still considered in good condition.

II. Banking Industry

Inflationary pressure increased quite strongly in 2013, triggered by rising food prices and subsidized fuel prices. In line with the economic slowdown, the banking industry had adjusted the pace of credit growth to mitigate potential credit risk. Thus, the economic climate deteriorated in 2013 as Bank Indonesia increased its benchmark interest rate to comprising inflation, while the domestic market was suffering from decreased foreign investment and a growing current account deficit. Decreasing trend of Net Interest Margin was expected to continue as loan consumption slows and depositors seek higher rates to safeguard their funds from inflation.

III. PT Asuransi Jiwa InHealth

PT Asuransi Jiwa InHealth was previously owned by PT Askes (Persero) with ownership of 99.4 percent and Koperasi Bhakti Askes for 0.6 percent. PT Asuransi Jiwa InHealth Indonesia's business focus is on group insurance, particularly health insurance for companies in Indonesia. InHealth Insurance products are divided into life insurance and health insurance. In accordance with the foregoing business operations, PT Asuransi Jiwa InHealth provides health insurance and life and accident insurance, which are subdivided

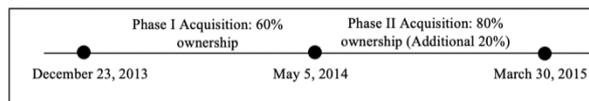
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into different products and services, such as InHealth Managed Care and InHealth Indemnity for health insurance and InHealth Group Term Life, Personal Accident, Endowment and Credit Life for life insurance categories.

IV. Insurance Industry

The insurance industry in Indonesia has a lot of potential because of the low penetration of insurance coverage and the young demographics of the population. Since less than 10% of the population has any form of health insurance, there is still a tremendous amount of untapped potential. Indonesia's insurance sector is expected to more than triple its total insurance premiums by 2014, reaching Rp254.5 trillion (Insurance International News, 2013).

3.2. Acquisition Overview



Phase 1, PT Bank Mandiri Tbk essentially became the largest stakeholder in PT Asuransi Jiwa InHealth with a 60 percent with the amount of Rp990 billion, followed by PT Kimia Farma (Persero) Tbk. and PT Asuransi Jasa Indonesia (Persero) with a 10 percent accumulated to Rp165 billion ownership and BPJS with a 20 percent ownership, respectively accumulated to Rp330 billion.

On March 30, 2015, the Bank increased its investment in InHealth shares by purchasing 200,000 shares held by the Employment Social Security Agency (BPJS) according to the execution of a Deed of Sale and Purchase Agreement on March 30, 2015, representing 20 percent of InHealth's total shares issued. The whole buying price was Rp330 billion. PT Bank Mandiri Tbk purchased 80 percent of PT Asuransi Jiwa InHealth for a sum of Rp1,320 billion. Goodwill resulting from the acquisition of PT Asuransi Jiwa InHealth was Rp268.18 billion.

3.3. Qualitative Analysis of Synergy

The acquisition case of PT Bank Mandiri Tbk and PT Asuransi Jiwa InHealth has occurred in accordance with synergy theory at which there are several synergistic effects that serve as the motives of this acquisition case that will be elaborated more below:

Being one of the largest scale banking companies in Indonesia has undoubtedly been one of PT Bank Mandiri Tbk's competitive advantages in this acquisition case. With over 700 institutional clients, 300 corporate clients, and 1,700 commercial customers, PT Bank Mandiri Tbk can enhance its insurance industry portfolio through group life insurance service. Diversified industry portfolio in wholesale banking in corporate and commercial lending has also been one of PT Bank Mandiri Tbk's strengths in increasing its insurance portfolio. With that being said, leveraging PT Bank Mandiri Tbk's banking customers to its insurance industry portfolio through PT Asuransi Jiwa InHealth had been one of the synergies that PT Bank Mandiri Tbk got in this acquisition case.

PT Bank Mandiri Tbk, as PT Asuransi Jiwa InHealth's partner, will utilize the hospital network to promote transactions through better cash management solutions. Considering many healthcare providers and the number of claims that had been handled, the opportunity of revenue synergy in terms of providing cash management products in each of PT Asuransi Jiwa InHealth healthcare providers throughout the entire business process that will eventually enhance healthcare business infrastructure, especially in the payment gateway. Diversifying banking products, not only to healthcare providers but also towards policyholders, had been one of the synergies that PT Bank Mandiri Tbk considered in this acquisition case. Considering its business model that focuses on group insurance products, PT Bank Mandiri Tbk can leverage its commercial and corporate banking service towards policyholders to provide end-to-end banking solutions towards various segments of policyholders.

3.4. Quantitative Analysis of Synergy

A. Risk Profile

1. Non performing Loan

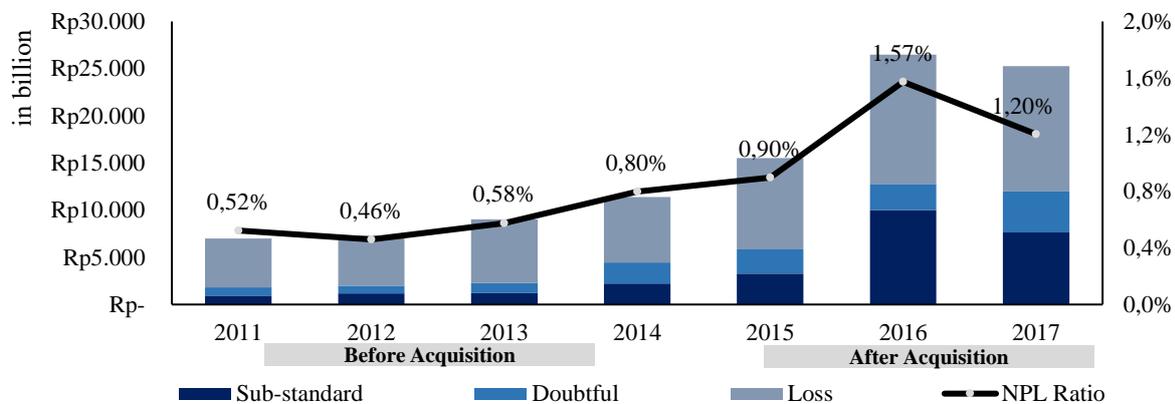


Figure 2 PT Bank Mandiri Tbk Before and After Acquisition Non Performing Loan Ratio (2011-2017)

Despite maintaining slight increase of non performing loan during the last few years, PT Bank Mandiri Tbk actually experience sudden dramatical growth of non performing loan ratio two years after acquisition of PT Asuransi Jiwa InHealth, to 1.57 percent. This significant increase was supported by sharp increase of sub-standard loan achieving 206.9 percent of increase to Rp9,901 billion. Another contributor came from 41.2 percent rose of loss loan during 2016 to Rp13,658 billion. As its non performing loan increase significantly, there was no indication of significant increase in PT Bank Mandiri Tbk's performing loan at which it can be seen that special mention loan was actually having a decrease of 5.9 percent during 2016 and also slight increase of current loan with 9.8 percent to Rp598,170 billion.

Notable improvement of PT Bank Mandiri Tbk's non performing loan was observed in the third year of acquisition period with decreasing non performing loan ratio to 1.20 percent. Despite having increased of 63.24 percent doubtful loan during 2017, it was also observed that there was significant decrease of sub-standard loan, with 23.93 percent decrease to Rp7,531 billion. Supporter of decreasing non performing loan ratio also came from consistent increase of performing loan consisted of 10.1 percent increase of current loan and 13.1 percent increase of special mention loan. Significant increase of current loan in consumer financing and net investment in lease financing was also observed to be one of the contributors towards decreasing non performing loan.

PT Bank Mandiri Tbk had experienced a significant increase in non performing loan ratio after acquisition activities. Its non performing loan ratio fluctuated three years after the acquisition period, with the highest net non performing loan ratio achieved 1.57 percent in 2016. Measuring from its non performing loan ratio three years before and three years after the acquisition period, its compound annual growth rate (CAGR) rose dramatically from 3.25 percent (2011-2013) to 10.26 percent (2015-2017).

Despite having a dramatic increase in non performing loan ratio three years after the acquisition period, PT Bank Mandiri Tbk is still considered to be one of the commercial banks in Indonesia that performed well during the period of 2011 to 2017. As what has been required by Financial Service Authority Regulation Number 40/POJK/03/2019 concerning Asset Quality Evaluation for Commercial Bank, commercial banks are required to have a maximum net non performing loan ratio of 5 percent. Observing from PT Bank Mandiri Tbk's historical results of non performing loan ratio, it can be concluded that PT Bank Mandiri Tbk's credit risk in terms of non performing loan was doing good during the period of 2011 to 2017 with the highest 1.57 percent of non performing loan during 2016. However, the comparison that had been done three years before and after the acquisition period had shown that there had been increasing credit risk in terms of non performing loan after the acquisition period.

2. Loan to Deposit Ratio

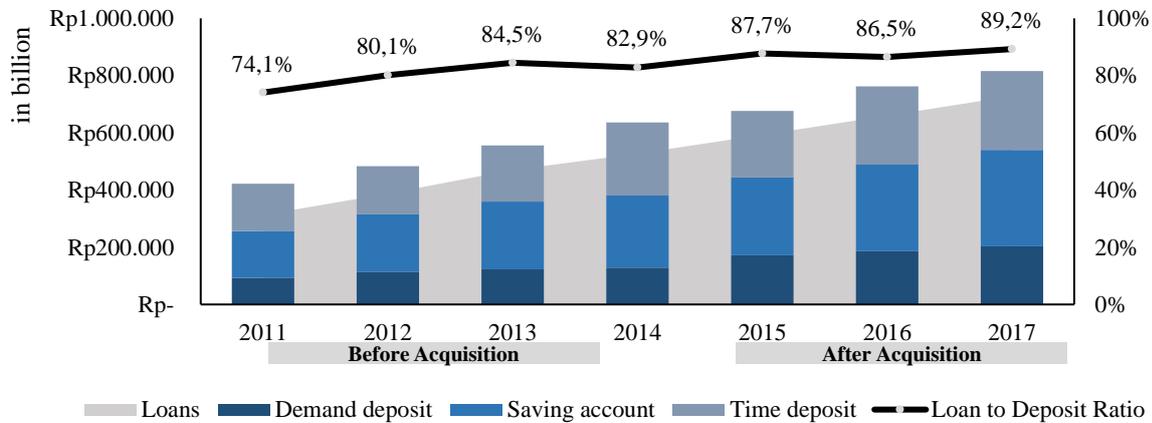


Figure 3 PT Bank Mandiri Tbk Before and After Acquisition Loan to Deposit Ratio (2011-2017)

Despite slowing down of loan to deposit ratio during 2016, PT Bank Mandiri achieved highest point of loan to deposit ratio during the seven years' timeframe, amounted to 89.2 percent of loan to deposit ratio. Prominent growth of loan to deposit ratio was contributed by slowing down growth of third-party funds with only 7 percent increase in 2017 and maintenance of loan disbursement at consistent growth level of 10.3 percent. Slowing down of third-party funds growth can be observed through PT Bank Mandiri Tbk's time deposits value which had only 0.87 percent increase compared to 2016 while other third-party funds such as demand deposit and saving account was maintained in a consistent level of 8.73 percent and 11.44 percent of increase.

According to figure 4.22, PT Bank Mandiri experienced a consistent increase of LDR before the acquisition activity of PT Asuransi Jiwa InHealth occurred, from 74.1 percent during 2011 to 84.5 percent during 2013. However, after acquisition activity occurred, the LDR is observed to have slight fluctuation with a compound annual growth rate (CAGR) of 7.1 percent of the loan and 6.4 percent of third-party funds. Despite having fluctuation in LDR, PT Bank Mandiri Tbk had consistently maintained an increasing trend of both loan and deposit both before and after acquisition activity.

Fluctuation of loan to deposit ratio mainly occurred because of significant changes of trend in CASA (Current Account Saving Account). Notable changes that can be observed were a sudden increase of current account in demand deposit a year after acquisition activity occurred, experiencing an increase of 34.4 percent of the loan to deposit ratio changes and a decrease of 9.41 percent in saving account. With this expansion, the bank is working toward its goal of becoming a leader in digital banking innovation to improve the customer experience, transactions, and revenues.

Thus, it can be said that the acquisition of PT Asuransi Jiwa InHealth has contributed to PT Bank Mandiri Tbk's improvement of liquidity risk in terms of the Loan to Deposit Ratio (LDR) through its cross-selling strategy of wholesale cash management products. Meanwhile, according to Bank Indonesia Regulation Number 15/7/PBI/2013 concerning Statutory Reserves in Rupiah and Foreign Currency for Commercial Banks, commercial banks are required to maintain a LDR between 78 percent to 92 percent. Thus, it can also be concluded that PT Bank Mandiri Tbk has supported a better range of LDR after the acquisition of PT Asuransi Jiwa InHealth since it succeeded in maintaining the LDR between the range of 86.5 percent to 89.2 percent three years after acquisition period.

B. Earnings

1. Net Interest Margin

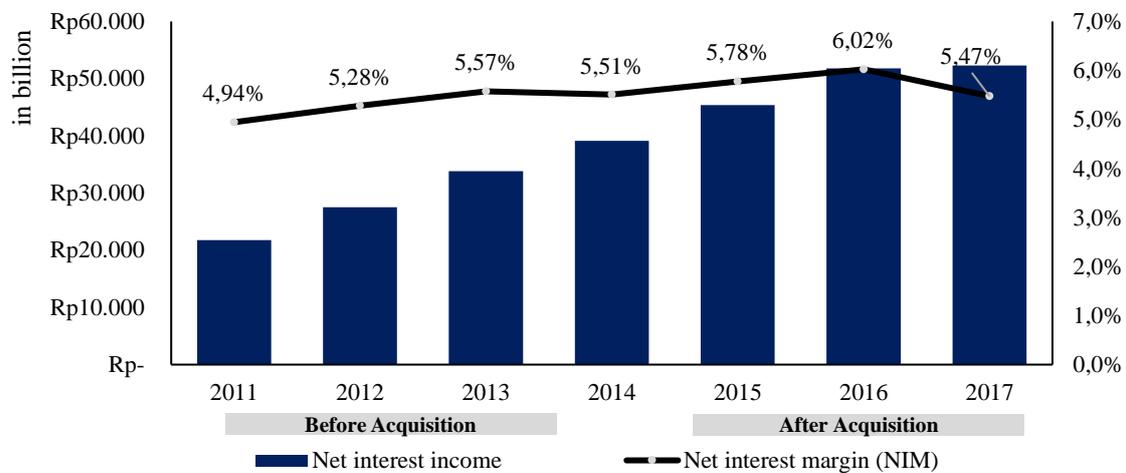


Figure 4 PT Bank Mandiri Tbk Before and After Acquisition Net Interest Margin Ratio (2011-2017)

As depicted in figure 4.25, PT Bank Mandiri Tbk's net interest margin had always performed well during the seven years' time frame. During 2011, PT Bank Mandiri Tbk's net interest margin stayed at 4.94 percent, with net interest income of Rp21,775 billion and earning assets of Rp484,168 billion. Increasing trend of net interest margin continued in 2013 achieving 5.57 percent of net interest margin. Slight decrease of net interest margin was observed during the year of acquisition of PT Asuransi Jiwa InHealth to 5.51 percent. Decrease of net interest margin was mainly caused by slowing down growth of net interest income. A year following acquisition of PT Asuransi Jiwa InHealth, PT Bank Mandiri Tbk's net interest margin increased to 5.78 percent. This was caused by slowing down of earning assets growth to 5.1 percent while net interest income maintained its growth at 15.9 percent. Continuing growth of net interest margin post acquisition of PT Asuransi Jiwa InHealth occurred during 2016, with a slight increase to 6.02 percent achieving PT Bank Mandiri Tbk highest net interest margin throughout the given timeframe. Three years after acquisition of PT Asuransi Jiwa InHealth, there was decreasing of net interest margin to 5.47 percent. According to the findings of the qualitative analysis of synergy, PT Bank Mandiri Tbk's intention to incorporate its retail packaged products to all practitioners as a partner of PT Asuransi Jiwa InHealth in the entire healthcare ecosystem has been elaborated. One of the synergies that PT Bank Mandiri Tbk can benefit from is the provision of end-to-end banking solutions to healthcare ecosystems to increase the number of retail products customers. For example, a significant increase in fee income from the e-channel retail payment system during 2015, a year after the acquisition of PT Asuransi Jiwa InHealth was completed, can be seen as one of the indicators.

According to Bank Indonesia Circular Letter Number 6/23/DPNP/2004 concerning the Bank Soundness Level, the minimum level of net interest margin required by commercial banks in Indonesia is 2 percent, and the maximum level is 5 percent. Even with the fluctuations in its NIM performance over the years 2011 to 2017, PT Bank Mandiri Tbk's NIM performance was considered excellent from 2011 to 2017. In contrast, when PT Bank Mandiri Tbk's pre- and post-acquisition performance of NIM were compared, the stagnancy of NIM had prevented the bank from improving its performance in the post-acquisition period, as evidenced by the dramatic decrease in CAGR when compared to the pre-acquisition period.

2. Return on Asset

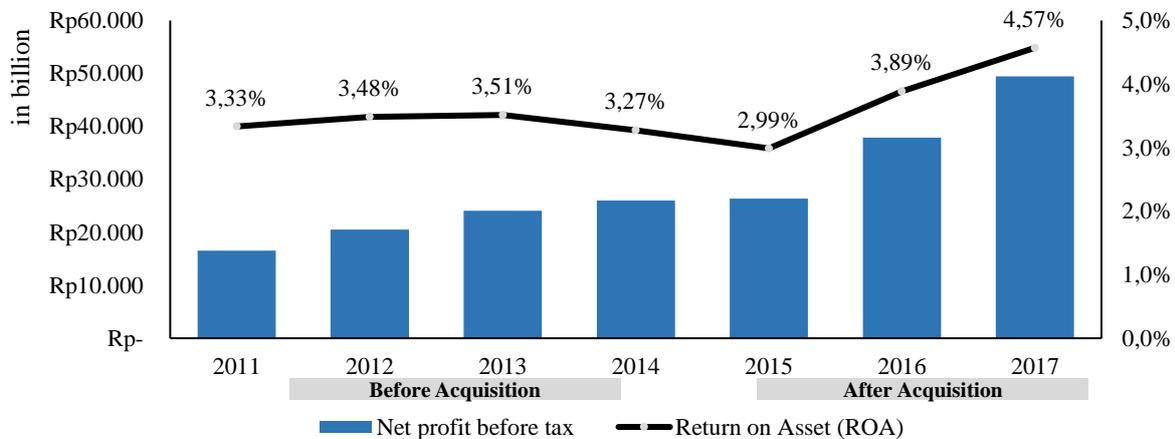


Figure 5 PT Bank Mandiri Tbk Before and After Acquisition Return on Asset (2011-2017)

As can be seen from figure 4.27, PT Bank Mandiri Tbk always had a satisfactory performance on its return on asset. Starting from 2011, PT Bank Mandiri Tbk had 3.33 percent return on asset with Rp16,512 billion of net profit before tax and Rp541,891 billion of total assets. During the process of PT Asuransi Jiwa InHealth acquisition, PT Bank Mandiri Tbk experienced decrease of return on asset to 3.27 percent. This was mainly caused by notable slowing down of net profit before tax growth with only 8.09 percent of increase while total assets increase 16.56 percent during 2014. Continuing decreasing trend of return on asset occurred in PT Bank Mandiri Tbk during 2015 at which its return on asset fell to lowest point during seven years' timeframe, 2.99 percent. With the acquisition by PT Asuransi Jiwa InHealth, PT Bank Mandiri Tbk experienced its first increasing trend in 2016, after several years of declining trends. The continuing upward trend in return on asset in PT Bank Mandiri Tbk continues in 2017, with PT Bank Mandiri Tbk achieving a 4.57 percent return on asset to Rp49,438 billion, which was the highest point of return on asset in PT Bank Mandiri Tbk's history.

Prior to the acquisition period, PT Bank Mandiri Tbk had been able to maintain a consistent level of return on assets growth, with a compound annual growth rate of 1.8 percent (CAGR). However, during the period following the acquisition of PT Asuransi Jiwa InHealth, its return on asset ratio dropped to 3.27 percent in 2014 and continued its downward trend into 2015, with a return on asset of 2.99 percent. In contrast, during the period following the acquisition (from 2015 to 2017), PT Bank Mandiri Tbk's return on assets increased significantly, with a compound annual growth rate of 15.2 percent in 2015 rising to 4.57 percent in 2017. As a result of the rising trend in return on assets, there has been a dramatic increase in net profit before tax, with a compound annual growth rate (CAGR) of 23.3 percent. The significant increase in reserves of impairment (CKPN) expenses from Rp5.718 trillion to Rp11.644 trillion during the year 2015, which was one of the anticipations of a significant increase in non-performing loans during the year, was the primary cause of the stagnant net profit during the year.

According to Bank Indonesia Circular Letter Number 6/23/DPNP/2004, commercial banks in Indonesia are required to maintain a return on asset ratio of at least 1.5 percent of the total assets under management. However, because PT Bank Mandiri Tbk has consistently outperformed the state-required level of performance, it can be concluded that PT Bank Mandiri has a favorable return on assets ratio. Furthermore, as a result of the significant increase in its return on asset ratio following the acquisition of PT Asuransi Jiwa InHealth, PT Bank Mandiri Tbk's earnings are considered to have improved three years following the acquisition period. Though the return on asset of PT Bank Mandiri Tbk has been increasing as a result of acquisition activity, the company's improvement in return on asset was due to both acquisition and non-acquisition rationales, which were changes in allowance for impairment losses and insurance gross written premium revenue synergy obtained from PT Asuransi Jiwa InHealth, respectively.

C. Capital

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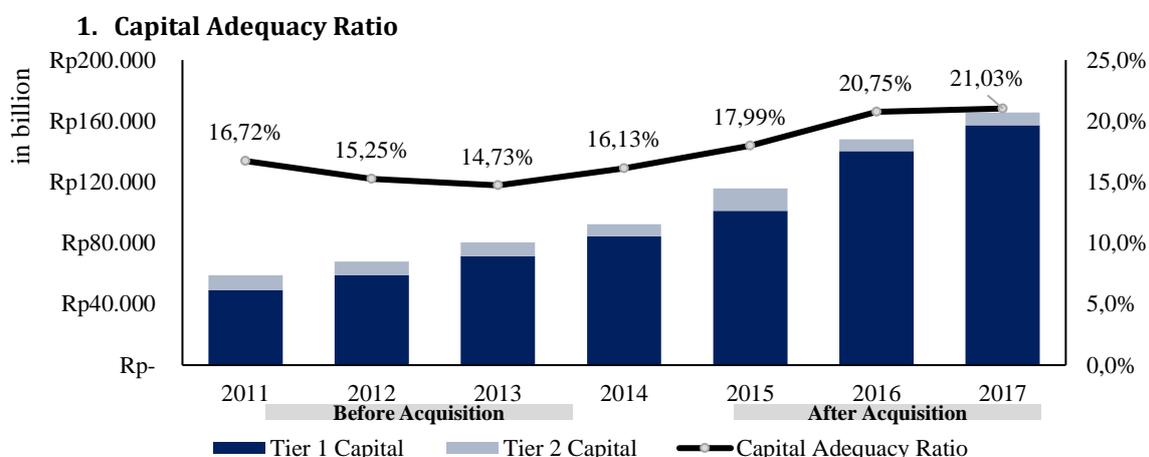


Figure 6 . PT Bank Mandiri Tbk Before and After Acquisition Capital Adequacy Ratio (2011-2017)

PT Bank Mandiri had consistently maintained a satisfactory level of capital adequacy ratio both before and after the acquisition of PT Asuransi Jiwa InHealth. PT Bank Mandiri Tbk experienced a declining trend in its capital adequacy ratio in the years prior to its acquisition of PT Asuransi Jiwa InHealth, with 15.25 percent in 2012 and 14.73 percent in 2013, respectively. Before the acquisition activity of PT Asuransi Jiwa InHealth, PT Bank Mandiri Tbk had decreasing trend of capital adequacy ratio with compound annual growth rate of -4.14 percent. The increasing trend of capital adequacy ratio was triggered by government regulation regarding asset revaluation during 2015. In this case, PT Bank Mandiri Tbk's fixed assets had grown by Rp23 trillion in 2016 because of the asset revaluation. The company's asset position was Rp807.55 trillion as of December 2015, while its total equity was Rp111.75 trillion. One year before the acquisition of PT Asuransi Jiwa InHealth, PT Bank Mandiri continued its downward trend in its capital adequacy ratio, which fell to 14.73 percent from 15.03 percent the previous year. PT Bank Mandiri began to see an increase in its capital adequacy ratio during the transition year following the acquisition of PT Asuransi Jiwa InHealth, which eventually reached 16.13 percent. Following the second year of acquisition case, PT Bank Mandiri continued its increasing trend achieving 20.75 percent in 2016. After a series of sharp increasing trend after acquisition of PT Asuransi Jiwa InHealth, PT Bank Mandiri Tbk experienced stagnancy of capital adequacy ratio with slight increase to 21.03 percent. Regulation 11/POJK.03/2016 of the Financial Services Authority on the Minimum Capital Adequacy Requirement for Commercial Banks (CAR) stated that the minimum capital adequacy ratio required to be met by the bank with core capital exceeding Rp30 trillion was set at 8%. According to the trend in PT Bank Mandiri Tbk's capital adequacy ratio from 2011 to 2017, PT Bank Mandiri has consistently performed in an excellent manner, consistently exceeding the minimum required rate of capital adequacy ratio in the industry. When a comparison is made between the period before and after the acquisition of PT Asuransi Jiwa InHealth, it has revealed a similar improvement in accordance with the theoretical explanations.

4. CONCLUSION

In conclusion, synergistic value arising from the acquisition case of PT Bank Mandiri Tbk and PT Asuransi Jiwa InHealth has been proven through the comparative study of its before and after financial acquisition performance. After performing a comparative analysis of PT Bank Mandiri Tbk's financial ratio and its root cause and impact of changes through qualitative and quantitative analysis of acquisition synergy, the writer can conclude that:

1. Synergistic values that lie behind the acquisition of PT Bank Mandiri Tbk and PT Asuransi Jiwa InHealth include leveraging banking widespread customers to enrich insurance, enhancement of cash

- management product transactions through acquiree healthcare provider, opportunity to cross-sell banking product to acquiree client portfolio.
2. There is no improvement in risk profile after merger and acquisition. Despite a growing trend in non performing loans, which showed an increase in credit risk following the acquisition, PT Bank Mandiri Tbk's loan to deposit ratio has improved, implying that liquidity risk has declined following the transaction. Based on PT Bank Mandiri Tbk's historical non-performing loan ratio results, comparison of the three years before and following the acquisition period revealed an increase in credit risk as measured by the non performing ratio during the acquisition period.
Through its cross-selling strategy of banking products, the acquisition of PT Asuransi Jiwa InHealth supported PT Bank Mandiri Tbk in improving its liquidity risk in terms of the loan to deposit ratio. Thus, it can be inferred that PT Bank Mandiri Tbk maintained a more favorable loan-to-deposit ratio range following the purchase of PT Asuransi Jiwa InHealth, which was in the range of benchmark.
 3. There is improvement in earnings after acquisition. Despite its volatility, PT Bank Mandiri Tbk's net interest margin trend from 2011 to 2017 was perceived satisfactory since it was above 2 percent benchmark. However, when analyzing its pre-and post-acquisition net interest margin results, PT Bank Mandiri Tbk's stagnant net interest margin hindered it from growing during the post-acquisition era. The findings of the analysis of PT Bank Mandiri Tbk's net interest margin did not indicate a substantial increase in earnings. However, this is due to Indonesia's macroeconomic conditions weakening and Bank Indonesia's attempt to lower the BI rate. Given that PT Bank Mandiri Tbk has consistently performed well over the 1.5 percent benchmark, the writer can imply that PT Bank Mandiri has a favorable return on assets. Thus, the return on assets shows a considerable boost upon PT Bank Mandiri Tbk's earnings in this research.
 4. There is improvement in the capital after acquisition. According to the trajectory of PT Bank Mandiri Tbk's capital adequacy ratio from 2011 to 2017, PT Bank Mandiri has always performed very well, consistently exceeding the minimum needed rate of capital adequacy ratio. Comparing before and after the acquisition of PT Asuransi Jiwa InHealth also revealed comparable results of improvement. The capital adequacy ratio analysis of PT Bank Mandiri Tbk reveals a considerable increase in capital following the acquisition due to revaluation surplus decision.

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