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Financial Performance Analysis of Pt Bank Danamon Indonesia, Tbk Using Camel Model

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The purpose of this research is to analyse the financial performance analysis of PT Bank Danamon Indonesia, with the application of the CAMEL (C-Capital, A-Asset, M-Management, E-Earning, L-Liquidity) method which consists of Capital Adequacy Ratio (CAR) to assess Capital Adequacy, Non-Performing Loan (NPL) to assess Asset Quality, Net Profit Margin (NPM) to assess Management Quality, Return on Assets (ROA) and Operating Expense to Operating Income (BOPO) to assess Earning/ Profitability and Loan to Deposit Ratio (LDR) to assess Liquidity. Then, the percentage number of CAR, NPL, NPM, ROA, BOPO and LDR will be used as a map towards CAMEL Composite Rating based on the Bank Indonesia Regulation Number 6/10/PBI/2004, to indicate the bank's health level from each component. The source data has been obtained from the Audited Financial Reports of Danamon for the periods of 2013 to 2017. The results of the research indicates that Capital, Asset and Earning of PT Bank Danamon Indonesia, Tbk. was a strong, or very healthy predicate. Whereas Management and Liquidity were fair, or a quite healthy predicate.

Key words: *CAMEL, Capital Adequacy Ratio, Non Performing Loan, Net Profit Margin, Management Quality.*

Introduction

Financial sectors, specifically banks, play an essential part in financial development and industrialization by directing funds from depositors towards the borrowers. Over this process banks will benefit from the spread different of interests charged. Their role of intermediary can be said as a catalyst for economic growth (Funso, Kolade and Ojo, 2012). In making sure banks are actually operating and performing well, financial performance analysis is needed. Financial Performance Analysis is one of the very fundamental information for companies to measure overall financial soundness and the quality of its management (Piyu, 1992). This information is not only important for the banks that do financial performance itself but it is also important for the all other banks, as banks are interconnected for payment and many other functions (Kumbirai and Webb, 2010). Failure/bankruptcy of one bank can cause an economic turmoil situation (Al Karim and Alam, 2013). With such implications, it is very important to measure and manage financial health or the completion of financial analysis periodically (Sangmi & Nazir, 2010).

In addition, as stated by Munawir (2000), there are several objectives on measuring/doing financial performance analysis such as, 1) **to Determine Liquidity Level**: Liquidity demonstrates a company ability to meet its financial obligations that must be settled immediately upon billing, 2) **to Determine Solvency Level**: Solvency shows the companies ability to fulfil its financial obligations if the company is liquidated, in both short-term and long-term financial situations, 3) **to Determine Profitability Level**: Profitability shows the company ability to generate profit over a certain period, 4) to **Determine Stability Level**: Stability indicates a company ability to conduct its business where the company will have the ability to repay its debts and pay interest on its debts on time.

Recently Mitsubishi UFJ Financial Group (MUFG) agreed to buy 73.8 percent shares of PT Bank Danamon Indonesia, Tbk. (the fifth largest commercial bank in Indonesia in terms of market capitalization), because they perceived Indonesia as one of the key drivers with great future development, and they have tried to build up a stronger presence in this country. They see a big opportunity in Indonesia, to tap into the emerging middle class in an economy with a population of over 250 million people. Based on the lack of information of recent financial performance analysis anywhere of PT Bank Danamon Indonesia, Tbk., therefore this study will focus on it to analyse whether MUFG is making the right decision on acquisitioning the PT Bank Danamon Indonesia, Tbk. and whether PT Bank Danamon Indonesia, Tbk. is actually in a strong and healthy condition or not.

Literature Review

Gangga M et al. (2015) have made an attempt to evaluate the financial performance of equities micro finance limited in Chennai using CAMEL analysis. According to them, financial performance analysis is very important for the company to plan, to be able to control its resources and to do pre determination of future activities. The analysis gives information that company should maintain an optimum level of cash, increase the sales to earn more profit and utilize its assets more efficiently and effectively. Furthermore, as supported by Budiyanto (2014) and Afriany (2018), the importance of financial ratio analysis using CAMEL can also be used to rate the health of bank.

Budiyanto (2014) conducted research on financial ratio analysis to rate the health of the bank on LQ-45 Company in BEI by using the CAMEL model and assigning predicate based on BI composite rating from Bank Indonesia regulation number 6/10/PBI/2004 towards those 5 banks. His findings from the study implicated that all banks had gained very healthy predicate on CAR, ROA, and BOPO ratios, while only one bank gained the health predicate on KAP ratio and LDR ratio. However, all banks gained unhealthy predicate on the NPM ratio. Then based on the findings he defined that: 1) Strong Capital Adequacy Ratio (CAR) reflects that the company is capable of covering loans disburse with bank capital, 2) Strong Assets Quality reflects that the company is capable of covering the bad debts, 3) Strong Net Profit Margin reflects that the company has good management and which will effect on good profit, 4) Strong Return on Asset reflects that the company is able to generate a good profit, 5) Strong Operating Expenses to Operating Income reflects that company is able to control operational costs against operating income, 6) Strong Loan to Deposit Ratio (LDR) reflects that company is able to repay depositors based by relying on credit provided as a source of liquidity.

In addition, Afriany (2018), studied the performance of PT Bank Rakyat Indonesia from 2013 – 2015 periods by applying the CAMEL Model and Composite Rating as well. Findings of the study using CAMEL revealed that during the period of 2013 – 2015, in terms of Capital, ROA and Liquidity were healthy. However, as for Asset Quality it was considered as fairly healthy which one level lower than healthy, because many debtors were not able to pay off their credit. She suggested that the Bank Rakyat Indonesia needs to be more careful in managing its asset and should improve its asset quality.

Alani F et al. (2013) stated that there are two approaches on doing financial performance analysis which are the traditional methods and the modern methods. In traditional methods (qualitative), financial analysts use financial ratios like the CAMEL model for the purpose of analysis and the pre determination of a company's future activities (Al Sayah and Ameri, 2007). In traditional method, analysts compare the trend changes between year to year, and also compare it towards the standard or industry indicators (Hayali, 2004). In the modern (quantitative) method, the work is largely computerized. An analytical program is designed and prepared to produce the output information from many problems faced by the company by processing through huge storage of company's data itself and the surrounding economy (Al Sayah and Ameri, 2003). Then it mapped into statistical method which is based on group of data that collected from up to 5 years back.

However, even though the modern (quantitative) method is a time and cost saving approach, Matar (2003) stated, especially for the banking or industry sector it is recommended to use the traditional (qualitative) method instead. The reason is mainly due to bank's assets and liabilities falling within the cash category. With this category, the bank will need to assess several risks associated which are the risk of cash purchasing powers due to a high inflation rate and exchange price risks arising from volatility in foreign exchange rates. In addition, liquidity and solvency indicators that is part of qualitative analysis are also very important indicators than other types of economic indicators as the largest part of banks' assets is financed by other sources.

Research Method and the Variables

Generally, components of the assessment used to do bank's performance analysis as based on the Bank of Indonesia Regulation no.13/24/DPNP/2011, which includes Capital Adequacy, Assets Quality, Management Earning and Liquidity (CAMEL). The CAMEL approach was originally introduced back in 1979 when the Uniform Financial Institutions Rating System (UFIRS) was implemented in the US. Banking institutions will be examined and rated based on the five components relating to the bank's operations & performance (Sahajwala & Van den Bergh, 2000).

Capital Adequacy

It is an important factor for banks to cover current risk exposure and anticipate exposure risks in the future (Mulalem, 2015). In doing this, Bank Indonesia sets Capital Adequacy Ratio (CAR), minimum capital obligations which bank should always monitor and maintain as a certain proportion of total Risk Weighted Asset (RWA).

$$\boxed{\textbf{Capital Adequacy Ratio} = \frac{\textbf{Capital}}{\textbf{Risk Weighted Asset}} \textbf{ x 100\%}}$$

After we determine the value, based on Bank Indonesia Regulation Number 6/10/PBI/2004, **Capital Adequacy Ratio (CAR)** assessment will be classified into five composite rating as Table 1. below.

Table 1: CAR Composite Rating BI 6/10/PBI/2004 Standard.

CAR Value	Rating	Definition
CAR ≥ 12%	1	Strong
9% ≤ CAR < 12%	2	Satisfactory
8% ≤ CAR < 9%	3	Fair
6% < CAR < 8%	4	Marginal
CAR ≤ 6%	5	Unsatisfactory

Assets Quality

It is assessed in order to measure the assets condition owned by banks and the adequacy of credit risk management. Credit risk is the risk of loss due to a debtor's failure to make repayment of loan (Chen et al, 2009). The assessment is done by assessing the Non Performing Loan (NPL), which indicates management capabilities on controlling bad debts and comparing them to the total credits given by the bank. As written by Grier (2007), a high percentage of NPL is the major cause of the most bank failures.

$$\text{Non-Performing Loan} = \frac{\text{Total Non-Performing Loan}}{\text{Total Loan}} \times 100\%$$

After we determine the value, based on Bank Indonesia Regulation Number 6/10/PBI/2004 **Non-Performing Loan (NPL)** assessment will be classified into five composite rating as Table 2. below.

Table 2: NPL Composite Rating BI 6/10/PBI/2004 Standard.

NPL Value	Rating	Definition
≤ 2%	1	Strong
2% < NPL < 5%	2	Satisfactory
5% ≤ NPL ≤ 8%	3	Fair
8% < NPL <	4	Marginal

12%		
≥ 12%	5	Unsatisfactory

Management

It is assessed through the components of the general management, system implementation, risk management, bank compliance against regulations, and the commitment to Bank Indonesia and other parties. Net Profit Margin (NPM) can be used to assess this component on the grounds that whole bank's management activities including general and risk management in the end will have effects on the profit margin of the company.

$$\boxed{\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Net Sales Revenue}} \times 100\%}$$

After we determine the value, based on Bank Indonesia Regulation Number 6/10/PBI/2004 **Net Profit Margin (NPM)** assessment will be classified into five composite rating as Table 3. below.

Table 3: NPM Composite Rating BI 6/10/PBI/2004 Standard.

NPM Value	Rating	Definition
NPM ≥ 100%	1	Strong
81% ≤ NPM < 100%	2	Satisfactory
66% ≤ NPM < 81%	3	Fair
51% ≤ NPM < 66%	4	Marginal
NPM < 51%	5	Unsatisfactory

Earning

It is used to measure the level of business efficiency and profitability achieved by the bank. Profitability is very important for bank to provide opportunities to invest more, engaging in new activities and grow while at the same time providing dividends to shareholder. Based on the Circular Letter from Bank Indonesia No. 12/11/DPNP March 31, 2010, financial ratios that can be used to measure this component is Return on Asset (ROA) and Operating Expense to Operating Income (BOPO). ROA is used to evaluate the bank capabilities on generating profit compare to total assets. The higher the ROA means the more efficient company. Moreover, BOPO will compare between the operating expense and operating income, and it is contrary to ROA where the lower the ratio the more efficient the company. The more efficient the company, the more profit will be earned by company.

$$\text{Return on Asset} = \frac{\text{Income Before Tax}}{\text{Total Assets}} \times 100\%$$

$$\text{BOPO} = \frac{\text{Operating Expense}}{\text{Operating Income}} \times 100\%$$

After we determine the value, based on Bank Indonesia Regulation Number 6/10/PBI/2004 **Return on Asset (ROA), BOPO** assessment will be classified into five composite rating as Table 4. and Table 5. below.

Table 4: ROA Composite Rating BI 6/10/PBI/2004 Standard.

ROA Value	Rating	Definition
ROA > 1.5%	1	Strong
1.25% < ROA ≤ 1.5%	2	Satisfactory
0.5% < ROA ≤ 1.25%	3	Fair
0% < ROA ≤ 0.5%	4	Marginal
ROA ≤ 0%	5	Unsatisfactory

Table 5: BOPO Composite Rating BI 6/10/PBI/2004 Standard.

BOPO Value	Rating	Definition
≤ 90%	1	Strong
90% < BOPO < 94%	2	Satisfactory
94% ≤ BOPO ≤ 96%	3	Fair
96% < BOPO < 100%	4	Marginal
≥ 100%	5	Unsatisfactory

Liquidity

It is used to measure the bank's ability to meet its current obligations. In simple words, it measures a bank's ability to return the money to its depositors when they demand it. Banks should able to maintain a level of a sufficient amount of money to be able to give back obligations to depositors in a timely manner; and prepared to do a quick asset liquidating with minimal loss (Mulalem, 2015). Loan to Deposit Ratio (LDR) can be used to assess this component by comparing the lending/credit granted amount and the amount of funding/funds received.

$$\text{Loan to Deposit Ratio} = \frac{\text{Total Loan}}{\text{Third Party Funds}} \times 100\%$$

After we determine the value, based on Bank Indonesia Regulation Number 6/10/PBI/2004 **Loan to Deposit Ratio (LDR)** assessment will be classified into five composite rating as Table 6. below.

Table 6: LDR Composite Rating BI 6/10/PBI/2004 Standard.

LDR Value	Rating	Definition
≤ 75%	1	Strong
75% < LDR ≤ 85%	2	Satisfactory
85% < LDR ≤ 100%	3	Fair
100% < LDR ≤ 120%	4	Marginal
> 120%	5	Unsatisfactory

Result and Discussion

Capital Adequacy

The Figure 1. below shows the percentage of PT Bank Danamon Indonesia, Tbk. CAR trend from 2013 to 2017. At glance, PT Bank Danamon Indonesia, Tbk. CAR was showing an upward trend from year to year and reaches the highest number of CAR of 23.24% in 2017.

According to the Figure 1., CAR was 17.48% in 2013 and this number slightly increased in the next year to 18.17%. In 2015, the CAR amounted 20.84% or an incremental of 2.67%, the highest incremental out of 5 years period from 2013 to 2017 and afterwards, the CAR percentage steadily inclined from 2015 to 2017 when CAR was recorded at 22.30% in 2016 and 23.24% in 2017.

The higher the CAR number from year to year meansing that the PT Bank Danamon Indonesia, Tbk. has even better capability each year to guarantee the assets of the banks, especially in loans disbursed with a number of bank capital. This ratio is generated by PT Bank Danamon Indonesia, Tbk. It is also categorized as Composite Rating 1 and also exceeding Bank Indonesia CAR Regulation of minimum 8% which means very healthy/ strong indeed.

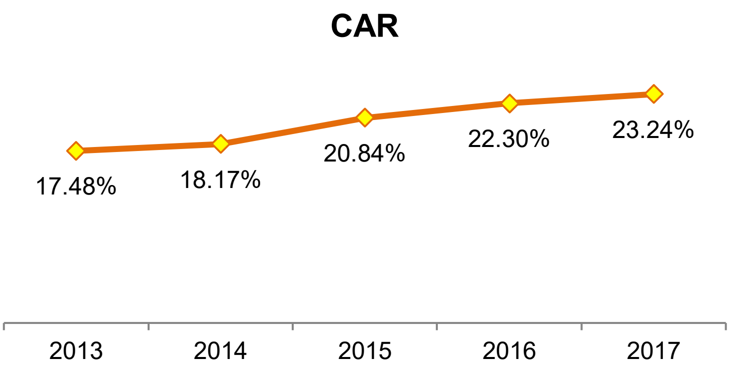

Figure 1.
Capital Adequacy Ratio Trend for 2013 -2017 (in %)

Asset Quality

As mentioned above, Non-Performing Loan (NPL) will be used to measure asset quality of PT Bank Danamon Indonesia, Tbk.. The given line graph as shown on Figure 2. compares the NPL trend of PT Bank Danamon Indonesia, Tbk. from 2013 to 2017. The NPL is given in percentage and it is evident from the diagram that NPL in PT Bank Danamon Indonesia, Tbk. was highest in 2015, while it was lowest in 2013.

According to the given graph, the NPL in PT Bank Danamon Indonesia, Tbk. was 1.14% in 2013 and it increased to around 1.34% in the next year. The highest NPL was in 2015, amounting 1.98%. From 2016 to 2017, the NPL kept on decreasing to 1.96% in 2016 and reached to 1.88% in 2017.

Evaluating from the NPL trend of Bank Danamon for five years period from 2013 to 2017, it is safe to assume that Bank Danamon had a very healthy/ strong asset quality as the NPL ratio was always below 2% or categorized as Composite Rating 1.

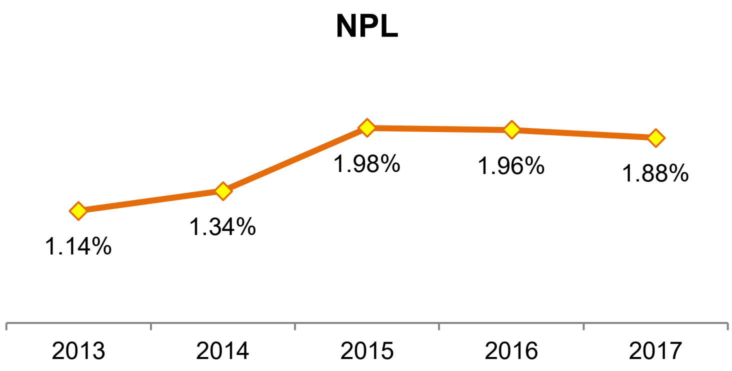

Figure 2.
Non-Performing Loan Trend for 2013 - 2017 (in %)

Management Quality

To measure management quality of PT Bank Danamon Indonesia, Tbk., Net Profit Margin (NPM) will be used. If the number of profit margin is high, it means meaning that it has a good management quality that has a strong ability to generate net income from its main operating activities.

The given Figure 3. shows data on Net Profit Margin (NPM) from year 2013 to 2017. As is presented in the illustration, the highest percentage of NPM was done in 2014 and lowest NPM were in 2016.

As presented in the line graph, initially in 2013, 80.56% of NPM was achieved in 2013 and this amount increasing for the next year towards 83.85% which was the largest percentage throughout the 5 year period from 2013 to 2017. After that, the NPM kept on declining steadily and reached 65.64% in 2016. With some fluctuations, finally the NPM reached to 79.27% in 2017.

In summary, PT Bank Danamon Indonesia, Tbk. NPM shows a fair level or averagely categorized Composite Rating 3. This low rating of NPM might indicate that PT Bank Danamon Indonesia, Tbk. was not operating as efficiently as it can. be. This might be due to employing too many numbers of employees in the company, lowering fee- based charges to customers from transactions to increase competitiveness in the market or also as a result of growth/ expansion from higher investments to cater to larger business needs.

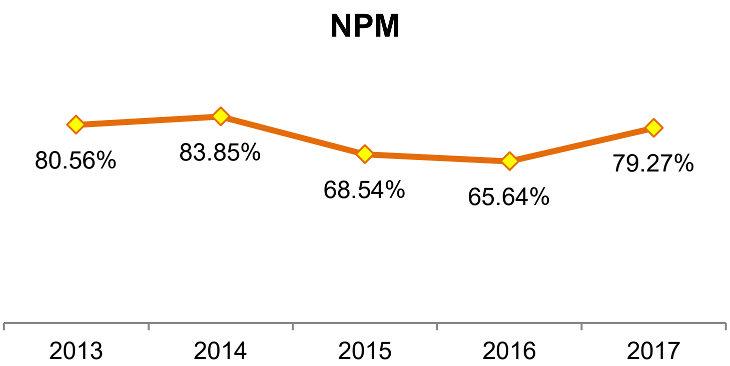

Figure 3.
Net Profit Margin Trend for 2013 - 2017 (in %)

Earning Analysis

According to Kashmir (2008), earning/ profitability analysis is to measure the bank's ability in terms of how efficient and how profitable it is. In determining profitability, ROA and BOPO will be used. ROA as shown on in Figure 4. indicates PT Bank Danamon Indonesia, Tbk., has the ability to earn profit and overall efficiency from the years 2013 to 2017. BOPO on the other hand as shown on Figure 5. indicates PT Bank Danamon Indonesia, Tbk. efficiency and ability to do its operating activities from year 2013 to 2017 (Kuncoro and Suhardjono, 2002). The higher the ROA means the more efficient the company, and it is contrary to ROA where the lower the ratio of BOPO the more efficient the company. This was actually shown from the two linetwo-line graphs (ROA and BOPO) that shows an inversely proportional trend. ROA was increasing in the years 2013 to 2014 from 2.42% to 3.01% while BOPO was decreasing from 77.46% to 75.76% for the same period. The inverse trend continues again in 2015 to 2017. In 2015, ROA was decreasing by 1.74% from 2014 to a level of 1.27% then followed by constant increased in the next 2 years amounting 2.00% in 2016 and 2.50% in 2017 while BOPO in 2015 increased by 9.69% to 85.45% then followed by constant decreased in next 2 years amounting 77.16% in 2016 and 71.96% in 2017.

The downward ROA trend and upward BOPO trend in 2015 are both due to the incremental of NPL numbers over that year, as well as due toto the decreasing number of sales revenues during that year. Overall based on rating, PT Bank Danamon Indonesia, Tbk. earning capability is considered to be very healthy/ strong and is averagely categorized as Composite Rating 1. This means that PT Bank Danamon Indonesia, Tbk. could manage its operational and asset usage efficiency maximally.

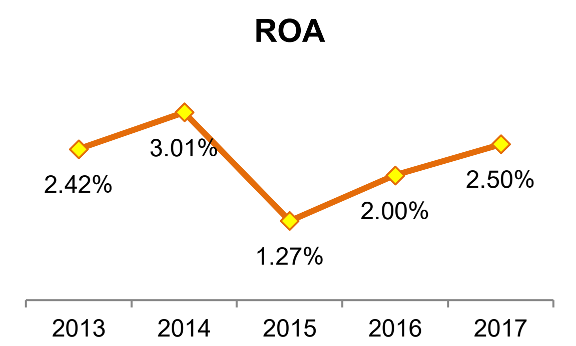

Figure 4.
Return on Asset Trend for 2013 - 2017 (in %)

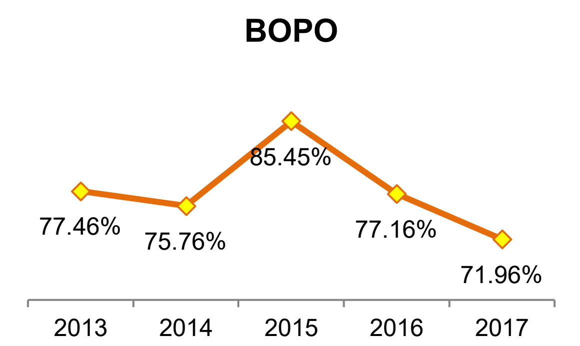

Figure 5.
Operating Expenses to Operating Income Trend for 2013 - 2017 (in %)

Liquidity Analysis

In analyzing liquidity, Loan to Deposit Ratio (LDR) is used to show the ability of the bank in repaying the withdrawal funds made by depositors by relying on credit given as a source of liquidity.

Figure 6. below showing shows the falling trend of PT Bank Danamon Indonesia, Tbk. LDR from 93.34% in 2013 to 89.79% in 2014 and towards 85.05% in 2015. Falling trends here shows that better bank's liquidity performance and actually were due to the incremental of third partythird-party funds by approximately 25% over that period. On the other hand, starting from 2015 to 2017 the trend of LDR was rising by 1.14% in 2016 and 2.09% in 2017 which made the amount of LDR 86.19% in 2016 and 88.28% in 2017.

These numbers concluded that PT Bank Danamon Indonesia, Tbk. LDR are categorized as fair or Composite Rating 3. However, even though it was not showing a strong rating it was still rated as considerable liquid. Conversely, as theoretically said that lower LDR is better and means more liquid but LDR number that is too low can also mean that bank may not be earning as much as it could be or too afraid to provide loans to market.

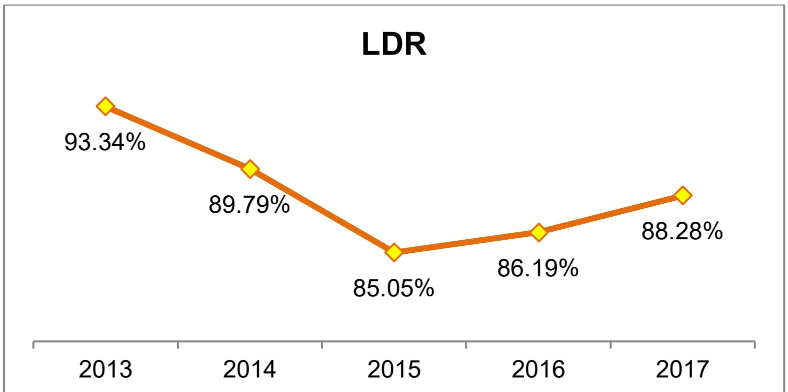

Figure 6.
Loan to Deposit Ratio Trend for 2013 - 2017 (in %)

Summary of Camel Ratios of PT Bank Danamon Indonesia, Tbk

Table 7. shows the summary of calculation of financial ratios using CAMEL method and BI Composite Rating 6/10/PBI/2004 for the periods of 2013 to 2017. The result then can be used as predicate whether PT Bank Danamon Indonesia, Tbk. was in strong/very healthy at the status level or not.

Table 7. Summary of Composite Rating BI 6/23/DPNP/2004 Standard of PT Bank Danamon Indonesia, Tbk

Analysis	Indicator	2013		2014		2015		2016		2017		Predicate
		Ratio	Rating	Ratio	Rating	Ratio	Rating	Ratio	Rating	Ratio	Rating	
Capital	CAR	17.48%	1	18.17%	1	20.84%	1	22.30%	1	23.24%	1	Strong
Asset Quality	NPL	1.14%	1	1.34%	1	1.98%	1	1.96%	1	1.88%	1	Strong
Management	NPM	80.56%	3	83.85%	2	68.54%	3	65.64%	4	79.27%	3	Fair
Earning	ROA	2.42%	1	3.01%	1	1.27%	2	2.00%	1	2.50%	1	Strong
	BOPO	77.46%	1	75.76%	1	85.45%	1	77.16%	1	71.96%	1	Strong
Liquidity	LDR	93.34%	3	89.79%	3	85.05%	3	86.19%	3	88.28%	3	Fair

Conclusion, Limitation and Future Research

Based on the Capital Adequacy Ratio (CAR) of PT Bank Danamon Indonesia, Tbk., the bank was showing positive growth with the percentage that kept increasing from year to year, and received a predicate of strong based on the rating. This reflects that PT Bank Danamon Indonesia, Tbk. has enough capital to cover any risks that may arise from the investment of its assets.

From the Non-Performing Loan (NPL) side, PT Bank Danamon Indonesia, Tbk. also showed the excellent pattern where it got a strong a predicate rating from year to year. Even though the number was increasing to 1.98% in 2015, but it was still under the strong predicate range. Judging from the five-year strong NPL trend of PT Bank Danamon Indonesia, Tbk., it can be concluded that it has an excellent asset quality, meaning that the management has great capabilities on controlling bad debts when compared to the total credits given by the bank.

However, the let-down point was shown in the management quality assessment. The Net Profit Margin (NPM) of PT Bank Danamon Indonesia, Tbk. Was only showing a fair rating. This means that the operation is not done as efficiently as it can be done, leaving room for improvement. What the bank should do is to cut down on operational waste and narrow the focus of product offer rather than selling too many different products.

On the earning/profitability analysis, Return on Asset (ROA) and Operating Expense per Operating Income (BOPO) has shown strong rating trend from year to year. The glitch in the lowest ROA followed by the highest BOPO incurred in 2015. Strong profitability of PT Bank Danamon Indonesia, Tbk. indicates that the company was able to gain profit as a whole and that company can efficiently control operational costs against the operating income that it received.

On assessing the liquidity analysis, LDR was managing on the fair rating side. But it does not mean that PT Bank Danamon Indonesia, Tbk. was not liquid and based on Bank Indonesia's statement actually LDR level that is still under 100% is still considerably healthy. This point also strengthens by the fact that there was never any news stating that the PT Bank Danamon Indonesia, Tbk. failed to repay withdrawal funds made by the depositors. The fact is actually where the stock price of PT Bank Danamon Indonesia, Tbk, is increasing from year to year. As previously mentioned, LDR number that is too low can also mean that bank may not be earning as much as it could be or too afraid to provide loan to market.

Based on the result as stated above, it is recommended that PT Bank Danamon Indonesia, Tbk. keeps the overall strong rating and should work to consistently improve its performance mostly on the management side. For the future reference, PT Bank Danamon Indonesia, Tbk. should run the financial analysis based on CAMEL periodically to determine its liquidity level, solvency level, profitability level and stability level under the new shareholder and management run by MUFG.

This study only focused on financial performance analysis of PT Bank Danamon Indonesia, Tbk. using CAMEL method. Data are taken from PT Bank Danamon Indonesia, Tbk. annual reports and audited financial reports. As there are many other banks with huge capital and also many other banks that currently doing merger and acquisition as well, it is suggested to continue research with many other banks to get more understanding on the situation. In addition, within this research, sensitivity to market risk factors is not included as it requires banks internal self- assessment on how it reacts to regulation and market. This factor is also important on examining management and bank's ability to react to opportunities, market and economic trend and to identify, measure, monitor and control exposure.

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