

FINANCIAL PERFORMANCE SEGMENTATION CHANGES IN REGIONAL DEVELOPMENT BANKS



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Abstract

Merger and acquisition of a banking company are generally understood as efforts to enhance the company by combining strengths or compensating for the weaknesses of one company with the strengths of another. To face the dynamics of the domestic and global economy and information technology, it is necessary to strengthen the structure, resilience, and competitiveness of the national banking industry, which can be achieved by strengthening bank capital and banking consolidation in Indonesia, especially Regional Development Banks. To promote the stability of the banking industry, particularly the strengthening of individual banks, merger and acquisition strategies in the form of banking consolidation need to be considered. Banking consolidation policies are one of the policy options regulators take to strengthen financial system stability. One of the processes that must be carried out is analyzing the performance to find companies that are suitable for acquisition, in accordance with the problem statement: How is the performance of the Regional Development Banks that become acquiring banks, and how is the performance of Regional Development Banks whose core capital does not yet meet regulatory requirements, making them suitable for acquisition. Data from 27 Regional Development Banks were analyzed based on several financial ratios, namely ROA, ROE, NIM, LDR, CAR, and NPL, and the changes in economic performance into five clusters using IBM SPSS version 27 with K-Mean Cluster Classification. The analysis showed that out of the 27 Regional Development Banks, 11 banks experienced a status increase, 10 companies experienced a decrease, and 6 did not change. It was found that the performance of 4 Regional Development Banks that would become acquiring banks is "good" and there are 3 banks, namely Bank Jambi, Bank Kalteng, and Bank Sultra, which are considered very suitable for acquisition with a status of "Very Good".

Keywords: Acquisition, Regional Development Banks, Financial Performance, K-Mean Clustering

INTRODUCTION

Merger and acquisition are corporate actions and business strategies commonly used in the business world to build a company's competitive advantage, which in turn can increase the company's value while maximizing the prosperity of the company's owners or shareholders. Merger and acquisition are significant strategies within the corporate scope and are also one of the solutions to address bankruptcy. The primary objectives of mergers and acquisitions are broadly to strengthen the structure, achieve desired growth, create synergy between entities, diversify products, increase sales, design strategies for the company to compete with others, and minimize failure. Ultimately, these actions aim to maximize profits, thereby enhancing the prosperity of the company's owners or shareholders.

To address the dynamics of the domestic and global economy and information technology, it is necessary to strengthen the structure, resilience, and competitiveness of the national banking industry. Strengthening the structure, resilience, and competitiveness of the national banking industry, aimed at supporting national economic stability and growth, can be achieved by enhancing bank capital and banking consolidation in Indonesia.

The primary goal of mergers and acquisitions for companies is to achieve synergistic benefits by collaborating with other companies rather than operating independently and to maximize shareholder wealth (Malik, 2014; Joshipura and Panda, 2019; Tarigan, 2018). In the current business landscape, mergers and acquisitions are used not only to compete effectively in a tight market but also to increase profit margins, enhance market share, and build dominance in the international arena (Hitt and Pisano, 2003). Additionally, mergers and acquisitions offer significant benefits, including increased profitability and enhanced shareholder value (Yaghoubi et al., 2016; Tarigan, 2018). Researchers continue to explore the critical question of whether mergers and acquisitions positively impact companies in terms of profitability. While mergers and acquisitions are seen as a promising growth strategy for companies, some studies (Dutta and Dutta, 2015) indicate that acquiring companies often experience negative abnormal returns. Various research findings also investigate the extent to which stock prices can fully reflect the impact of significant corporate events such as mergers and acquisitions (Boateng and Bi, 2013). Interestingly, these results challenge the idea of an efficient market (Dutta and Dutta, 2015), where, in a semi-strong efficient market,

stock prices should already include all relevant information during the announcement period of corporate events, including mergers and acquisitions. One of the strategies for company development and sustainability is through acquisition.

Mergers and acquisitions are forms of external corporate expansion strategies by combining one company with another. According to Sriyani et al. (2022), a merger is the combination of companies of different sizes where the larger company remains, and the smaller company is absorbed into the larger one. Meanwhile, an acquisition is a business combination where the acquirer purchases a portion of the shares of the acquired company, thereby gaining control over the management of the acquired company. When two or more companies merge to form a new company, it is called a consolidation, which is a form of external expansion. In Indonesia, there are several terms used to describe these actions, such as merger, acquisition, amalgamation, fusion, and consolidation, which are regulated by laws and government regulations.

Government Regulation No. 28 of 1999 defines a merger as the combination of two or more banks by retaining the existence of one bank and dissolving the others without prior liquidation. Consolidation is the combination of two or more banks by establishing a new bank and dissolving the previous banks without prior liquidation. An acquisition is the takeover of a bank's ownership resulting in a transfer of control over the bank. Bank mergers, consolidations, and acquisitions can be initiated by: (a) the banks themselves; (b) the request of Bank Indonesia; or (c) the initiative of a temporary special body for banking rehabilitation. Bank mergers, consolidations, and acquisitions initiated by the banks themselves must first obtain approval from the leadership of Bank Indonesia. The obligation to obtain prior approval from the leadership of Bank Indonesia also applies to mergers and consolidations initiated by a temporary special body for banking rehabilitation. Bank mergers, consolidations, and acquisitions must consider: (a) the interests of the bank, creditors, minority shareholders, and bank employees; and (b) the public interest and fair competition in banking business operations.

The banking consolidation policy is one of the policy options taken by regulators to strengthen the stability of the financial system. A series of consolidation policies were issued by Bank Indonesia (BI) and later by the Otoritas Jasa Keuangan (OJK) in the form of

minimum capital regulations, restrictions on foreign ownership, and the single presence policy. As a result, the banking sector has consistently become more consolidated and concentrated, shrinking from 239 banks in 1996 to 151 banks in 2000, and continuing to decline to 110 banks in 2020.

In this regard, to strengthen the capabilities and competitiveness of Indonesia's banking industry, the OJK issued a new policy to enhance capital and promote banking consolidation through OJK Regulation No. 12/POJK.03/2020 on the Consolidation of Commercial Banks, which relaxes the single presence policy by allowing controlling shareholders to own more than one bank. This OJK regulation is part of efforts to strengthen the structure, resilience, and competitiveness of the banking industry, ultimately supporting national stability and growth. Additionally, this regulation aims to make the banking industry more efficient by increasing economies of scale. A Banking Business Group (KUB) is a group of banks under common ownership and/or control, consisting of two or more banks. Controlling shareholders are allowed to own more than one bank by forming a KUB. As stated in Article 3, banking consolidation can be carried out through the following schemes: 1) merger, consolidation, or integration; 2) acquisition accompanied by merger, consolidation, or integration; 3) forming a KUB for owned banks; 4) forming a KUB in the event of a spin-off of a Sharia business unit; 5) forming a KUB due to an acquisition. The consolidation scheme through the formation of a KUB facilitates efforts or investors to rescue banks through acquisition.

The issuance of the OJK Commercial Bank Consolidation Regulation will assist national economic growth by allowing controlling shareholders to own more than one bank by forming a KUB, thus eliminating the need to merge the acquired banks. Through the formation of a KUB, synergies among the banks within it are created, and the parent company can support the liquidity of its subsidiaries. Therefore, after the issuance of the OJK Commercial Bank Consolidation Regulation, acquisitions by large banks of smaller banks have become common.

The significant question regarding the relationship between banking consolidation and various factors, particularly efficiency, competition, market power, and financial stability, remains a relevant debate. Studies on the impact of banking consolidation are

inconclusive, mainly because consolidation policies have diverse effects across different economies. Some studies have analyzed how appropriate consolidation strategies affect post-consolidation bank performance. For example, post-consolidation performance analysis of European Union banks varies depending on their business strategies (Altunbas and Marques, 2008), and the impact of consolidation on the profitability of Italian banks (Weber, 2017). Different results were found by Montgomery et al. (2014), who discovered that banking consolidation in Japan generally had a positive impact on entity profits due to increased bank market power. However, this impact was not found in cost structure efficiency. Other studies linking market structure, competition, and market power to financial system stability also yield varied conclusions. Carletti et al. (2002) and Osuagwu and Nwoko (2017) found that greater market power encourages banks to compete efficiently, particularly in their cost structures. However, studies by Liu et al. (2012), Ventouri (2018), and Zhang and Matthew (2018) considering the banking industry structure in emerging economies and ASEAN countries with their monopolistic and heterogeneous competition characteristics in terms of market scale and market independence from authority intervention found different results.

The highly concentrated banking industry in Indonesia creates a significant disparity in market power and market share between large and small banks and has a monopolistic competition characteristic that segments banking competition, resulting in an uneven playing field between large and small banks. Large banks tend to operate in more competitive markets, while smaller banks exploit asymmetric information in niche segments (Yildirim and Phillippatos, 2006). Consistent with the segmentation of the banking industry, Yusgiantoro et al. (2019) concluded that banking consolidation, which can increase market power in each bank, tends to strengthen individual bank stability, especially in non-state-owned banks and banks with relatively large assets. Similar recommendations were also made for banks with relatively small total assets.

To promote banking industry stability, particularly individual bank strength, banking consolidation strategies need to be considered. Additionally, this consolidation is expected to strengthen each bank's market power and market share. However, it remains to be proven whether these goals will be achieved and whether the resulting changes in market power and market share will impact financial system stability, which needs further analysis.

Several commercial banks are aggressively pursuing compliance with the Otoritas Jasa Keuangan (OJK) regulations on minimum core capital of IDR 3 trillion through rights issues and private placements. Meanwhile, several Regional Development Banks (BPD) opted for forming a Banking Business Group (KUB), which offers an easier path than the other two actions due to limited regional budgets. The KUB scheme is a relief provided by the regulator in banking consolidation. Banks with large capital only need to inject capital into smaller banks. Subsequently, they will synergize by sharing infrastructure, so smaller banks do not need to increase their capital to IDR 3 trillion but only a minimum of IDR 1 trillion.

As is known, several banks are conducting consolidation actions driven by the requirement to meet the IDR 3 trillion core capital regulation from the Otoritas Jasa Keuangan (OJK). OJK Regulation No. 12/POJK.03/2020 on the Consolidation of Commercial Banks mandates banks to have a minimum core capital of IDR 3 trillion by December 31st, 2023. Regional Development Banks (BPD) must meet the IDR 3 trillion core capital requirement by December 31, 2024, at the latest. The minimum core capital regulation was issued with the consideration: (1) as an effort to create a sound, strong, and efficient banking system that can ensure financial system stability and promote sustainable national economic growth, and (2) to strengthen the structure of BPD and other commercial banks following the objectives set in the Indonesian Banking Architecture (API) (Djumhana, 2008). The OJK regulation encourages the strengthening of BPD capital so that BPD can enhance their role as drivers of regional economic growth and anticipate current banking industry trends, where one emerging capital strengthening scheme is through the Banking Business Group (KUB). KUB can become a synergy amid the significant trend towards digitalization in the banking world. BPD should anticipate ongoing changes, especially in digital banking competition. Competition in digital banking opens opportunities for new competition winners but must be supported by strong capital. Efforts to accelerate and socialize the KUB scheme to become a trend in strengthening core capital in each BPD must be carried out massively to all stakeholders.

Based on the bank's quarterly financial report as of December 2023, there are 12 Regional Development Banks (BPD) whose core capital does not meet the minimum requirement of IDR 3 trillion, as follows:

Table 1.
Regional Development Banks (BPD) Whose Core Capital Does Not Meet the Minimum Requirement of IDR 3 Trillion

No	Bank Name	Core Capital (Mio Rp)
1	Bank SulutGo	1.774.542
2	Bank Maluku Malut	1.411.681
3	Bank Sultra	1.828.728
4	Bank Sulteng	1.299.439
5	Bank NTT	2.336.861
6	Bank NTB Syariah	1.654.798
7	Bank Kalteng	2.596.947
8	Bank Kalsel	2.751.214
9	Bank Banten	1.256.664
10	Bank Lampung	1.333.737
11	Bank Bengkulu	1.270.608
12	Bank Jambi	2.377.200

Source: www.idx.co.id & www.ojk.go.id processed

Currently, there are already four Regional Development Banks (BPD) that have declared themselves as anchors or parent banks in the Bank Business Group (KUB). These include Bank BJB, Bank DKI, Bank Jateng, and Bank Jatim. These BPD are in the KBMI 2 group with core capital ranging from IDR 6 trillion to IDR 14 trillion, making them the largest BPD in terms of core capital among the 27 existing BPD. An anchor bank is a bank with good performance and potential, which also takes the initiative to acquire other banks. The Otoritas Jasa Keuangan (OJK) specifies two main requirements for banks wishing to become anchor banks in the integrated KUB scheme: strong capitalization and liquidity. BPD or other

banks that declare their readiness to become anchors or parent banks in the KUB must also meet good governance and risk management regulations.

The Bank Business Group (KUB) is the most rational option for BPD struggling to secure additional fresh funds from owners. Merger and acquisition are good banking choices for implementing OJK's strategic partnership. OJK encourages commercial banks to continue consolidating to increase capital and performance in order to face the prospects and challenges of Indonesia's economy. OJK indeed promotes bank consolidation to achieve efficiency in the industry. OJK will also conduct research or economic needs tests regarding bank efficiency in Indonesia. Currently, OJK observes that the gap between one BPD and another is still quite wide in various aspects, such as capital, governance, human resources, and issues related to digitalization, among others.

The formation of Bank Business Groups (KUB) is not the best solution for Regional Development Banks (BPD), as it would reduce the rights of local governments in owning and managing banks to support their regional economies as Controlling Shareholders (PSP). Therefore, an appropriate strategy is needed to strengthen the capital structure of BPD to meet the minimum core capital requirements set by OJK regulations. Prihartono (2018) in his research stated that implementing bank mergers to achieve synergy is not easy, as many factors need to be considered to ensure the resulting bank is healthy. This includes finding complementary, synergistic partners and adhering to regulations. A merger between one bank and another is not only a technical matter but also involves the working cultures of the bank units, so the merger process must be studied and carried out carefully. Therefore, many things need to be done before merging, including calculating the benefits and costs of the merger transaction. Banks that do not know their potential merger partners well need time for an approach, especially regarding transparency. This transparency pertains to both financial conditions and assets, but it should not contradict the bank's confidentiality aspect.

This research aims to identify and analyze the changes in the financial performance of regional banks and assess the potential for acquiring companies deemed suitable for acquisition. To acquire a company, an analysis of its financial performance or financial ratios is necessary. Financial ratio analysis can be divided into four categories: liquidity ratios, activity ratios, leverage ratios, and profitability ratios. As known, these four financial ratio

analyses are used to assess a company's performance and effectiveness. Generally, based on previous research, liquidity ratios can be measured using the current ratio and quick ratio. Activity ratios can be calculated using total asset turnover and fixed asset turnover. Leverage ratios are measured through the debt-to-equity ratio and debt-to-asset ratio. Profitability ratios are measured through return on equity and net profit margin (Sinekti, 2022).

REVIEW OF LITERATURE

Financial performance is a financial analysis used to measure and monitor a company's financial development, assessed using proper financial principles. Financial performance represents a company's success in achieving profits based on certain benchmarks that serve as measures of the company's success (Unrati et al., 2019). Financial performance reports are crucial documents for a company, as they reveal the company's condition in terms of fund mobilization and allocation. Financial performance reports can help measure a company's financial performance indicators for the latest period. It is important to use financial performance reports as a basis for making financial decisions, and information about a company's financial performance is presented in a company's financial statements.

According to financial performance measurement (Munawir, 2012):

- a. Determine the level of liquidity, and the company's ability to meet financial obligations that must be fulfilled, or the company's ability to meet financial obligations when they are due.
- b. Gain an understanding of solvency, which is the company's ability to meet its financial obligations when the company is liquidated, including both short-term and long-term financial obligations.
- c. Determine the level of profitability and the company's ability to generate profits during a specific period.
- d. Assess business stability by understanding the company's ability to operate steadily and its capacity to pay dividends regularly.

Financial Ratio Analysis

The financial ratios used by banks and non-bank companies are relatively similar. The main difference lies in the type of ratios used to evaluate a specific ratio, with banks typically employing a greater variety of ratios. Bank Financial Ratios are measures used to determine the health of a bank and to understand its financial condition based on the financial statements periodically presented by the bank. These financial statements reflect the bank's performance over a specific period. The preparation of financial statements is done following established standards, and the analysis uses financial ratios as per the applicable standards.

In the book "Financial Statements" by Jumingan (2006:243), it is stated that bank financial ratios have several purposes:

1. To determine the adequacy of the bank's capital to support its activities efficiently.
2. To measure the bank's ability to meet short-term obligations.
3. To assess the bank's ability to generate profit through its operations.
4. To measure the bank's ability to withstand risks from operational activities.
5. To evaluate management's performance in using all assets efficiently.

The benefits of Bank Financial Ratios include:

1. Estimating the bank's financial results and condition.
2. Diagnosing managerial, operational, and other issues.
3. Reducing unavoidable uncertainties often encountered in decision-making processes.
4. Providing initial considerations in investment selection.
5. Measuring the success rate of the bank's management.

In this research, the financial ratios analyzed are as follows:

1. Return On Assets (ROA)

Return On Assets (ROA) is a ratio that measures the ability of a bank to generate profit or income (referred to as profitability) by comparing net income to the total resources or assets it owns. Its function is to assess how effectively a bank uses its assets to generate income. The higher the ROA value, the better the bank's ability to generate profit. The formula to calculate ROA is:

$$\text{Return On Asset} = \frac{\text{Net Income}}{\text{Total Assets}} \times 100\%$$

2. Return On Equity (ROE)

Return On Equity (ROE) measures how efficiently a company utilizes its shareholders' equity. The higher the ROE, the better the company is at generating profit from its equity. The formula to calculate ROE is:

$$\text{Return On Equity} = \frac{\text{Net Income}}{\text{Total Equity}} \times 100\%$$

3. Net Interest Margin (NIM)

Net Interest Margin (NIM) is a ratio used to measure a bank's management ability to manage its productive assets to generate net interest income. The higher this ratio, the greater the interest income. The higher this ratio, the greater the interest income on the productive assets managed by the bank, reducing the likelihood of the bank facing problems. The formula to calculate NIM is:

$$\text{Net Interest Margin} = \frac{\text{Net Interest Income}}{\text{Average Interest Earning Assets}} \times 100\%$$

4. Loan to Deposits Ratio (LDR)

Loan to Deposits Ratio (LDR) is a ratio that measures a bank's ability to meet short-term obligations (liquidity) by dividing total loans by total third-party funds (DPK). Bank liquidity needs to be managed to meet the needs when customers withdraw their funds and to provide loans (credit) to borrowers (debtors). If the LDR is too high, it means the bank does not have sufficient liquidity to cover its obligations to customers (DPK). Conversely, if the LDR is too low, it means the bank has adequate liquidity but may have lower income, as banks earn income through the loans they provide. LDR can be calculated by:

$$\text{Loan to Deposits Ratio} = \frac{\text{Total Credit To Non-Bank Third Parties}}{\text{Total Third Party Funds}} \times 100\%$$

5. Capital Adequacy Ratio (CAR)

Capital Adequacy Ratio (CAR) is a capital adequacy ratio that shows a bank's ability to provide funds to cover potential risks of losses. This ratio is important because maintaining CAR at a safe level (at least 8%) also protects customers and maintains the overall stability of the financial system. The higher the CAR, the better the bank's ability

to face potential risks of losses. CAR can be obtained by dividing total capital by risk-weighted assets (ATMR), as shown in the formula below:

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Equity}}{\text{Risk-weighted assets}} \times 100\%$$

6. Non-Performing Loan (NPL)

Non-Performing Loan (NPL) refers to borrowers or groups of borrowers classified in collectability categories 3, 4, and 5 out of 5 credit categories, which include substandard, doubtful, and bad debts. The NPL ratio indicates the bank's management's ability to manage problematic loans granted by the bank. Thus, the higher this ratio, the worse the quality of the bank's loans, increasing the amount of problematic loans and the likelihood of the bank facing problems. NPL can be calculated by:

$$\text{Non Performing Loans} = \frac{\text{Total Bad Debts}}{\text{Total Loans}} \times 100\%$$

This analysis aims to determine whether a company's financial health is robust or critical and weak, which can serve as a consideration in acquisition decisions based on the company's financial ratios. Additionally, it is beneficial to observe changes in the company's financial quality from year to year as determined by these ratios.

Based on the background described above; by grouping the performance of regional development banks and determining the best cluster in terms of change, the research questions of this study are: How is the performance of Regional Development Banks that become anchor banks and potential acquirers? How is the performance of Regional Development Banks whose core capital does not yet meet regulatory requirements and is deemed suitable for acquisition?

The purpose of this study is to group the performance of Regional Development Banks and determine the best cluster in terms of change to analyze the performance of Regional Development Banks that become anchor banks and potential acquirers and to analyze the performance of Regional Development Banks whose core capital does not yet meet regulatory requirements and are deemed suitable for acquisition.

RESEARCH METHOD

In this research, the author uses the quantitative K-Means Cluster method. Quantitative research is a research method that collects data in numerical form and analyzes it using statistical techniques. This research aims to measure and explain phenomena objectively, test hypotheses, or identify patterns and relationships between existing variables. Quantitative research examines the relationships between variables that are measured numerically and analyzed using various statistical techniques and graphics (Saunders, Lewis, & Thornhill, 2019). Quantitative data is a collection of information obtained from observations and presented in numerical form (Hamid, Sufi, Konadi, & Akmal, 2019). K-Means Cluster is a popular quantitative method used for data clustering and analysis. K-Means Cluster is a partition-based clustering algorithm that aims to group similar data points into one cluster. Here is an overview of the K-Means Cluster method:

1. Data collection for Regional Development Banks was taken from the websites www.idx.co.id and www.ojk.go.id with the most complete data for the reporting periods of December 2022 and December 2023, covering 27 banks, focusing on six financial ratios.
2. Data Preparation Stage
3. Determining the number of clusters, which is 5 clusters
4. K-Means data analysis stage using SPSS
5. Performance Analysis Stage

The variables used in this study are the ratios: Return On Assets (ROA), Return On Equity (ROE), Net Interest Margin (NIM), Loan to Deposits Ratio (LDR), Capital Adequacy Ratio (CAR), and Non-Performing Loan (NPL).

RESULTS AND DISCUSSION

Before performing K-Means Clustering, the author grouped companies operating in the banking sector, specifically Regional Development Banks, for the financial report periods ending in December 2022 and December 2023.

Table 2.
Financial Position as of December 2022 and 2023

No	Bank Name	Code	2022						2023					
			ROA %	ROE %	NIM %	LDR %	CAR %	NPL %	ROA %	ROE %	NIM %	LDR %	CAR %	NPL %
1	Bank Aceh Syariah	116	2,00	15,08	6,89	75,44	23,52	0,04	2,05	13,02	6,77	76,38	22,70	0,24
2	Bank Sumut	117	2,39	17,24	6,39	87,28	20,13	1,21	2,33	17,42	6,26	83,81	22,70	1,13
3	Bank Riau Kepri Syariah	119	2,31	18,09	5,98	72,67	22,00	0,33	1,33	8,96	4,67	85,90	22,11	0,45
4	Bank Nagari	118	1,93	14,20	7,09	91,50	21,11	0,18	2,18	15,08	6,46	92,62	21,78	0,26
5	Bank Jambi	115	3,43	18,92	6,54	95,08	31,24	0,28	3,63	16,08	6,04	94,38	38,54	0,64
6	Bank Sumsel Babel	120	2,07	13,70	7,41	76,45	21,54	0,48	2,13	13,66	7,18	87,30	22,53	0,54
7	Bank Bengkulu	133	1,82	12,06	6,92	90,48	24,52	0,50	1,27	6,79	5,97	90,34	26,46	0,48
8	Bank Lampung	121	2,01	15,16	4,85	77,47	26,47	1,52	2,30	13,92	6,05	89,88	26,28	1,50
9	Bank DKI	111	1,65	10,10	4,71	74,30	24,84	0,27	1,67	10,36	4,17	81,73	25,63	0,58
10	Bank Banten	137	-3,46	-17,22	2,68	88,78	43,38	1,39	0,72	2,14	4,05	98,98	44,72	1,09
11	Bank BJB	110	1,75	18,63	5,86	85,03	19,19	0,46	1,29	13,37	4,89	87,54	20,05	0,75
12	Bank Jateng	113	2,95	22,89	6,56	84,57	21,70	0,00	2,45	16,79	5,83	88,98	22,28	0,52
13	Bank DIY	112	2,18	9,78	5,84	79,21	31,39	0,69	2,23	8,82	6,61	79,32	34,13	0,98
14	Bank Jatim	114	1,95	16,24	5,11	56,50	24,74	1,01	1,87	13,96	5,57	70,03	25,71	1,21
15	Bank Kalbar	123	2,59	12,99	6,98	82,48	29,66	0,47	2,72	12,18	6,44	82,11	37,18	0,61
16	Bank Kaltim Kaltara	124	1,35	8,17	5,23	49,29	24,05	2,03	1,12	7,70	5,27	56,99	41,27	0,96
17	Bank Kalteng	125	2,75	14,27	8,92	88,67	27,92	0,67	2,69	12,29	8,26	90,75	36,25	1,04
18	Bank Kalsel	122	1,70	11,66	5,02	80,94	25,33	0,51	1,43	10,18	5,12	84,06	25,44	0,76
19	Bank SulutGo	127	1,65	16,50	7,68	83,40	18,51	1,52	1,68	15,07	7,71	95,71	20,40	1,61
20	Bank Sulselbar	126	2,95	15,72	6,60	111,54	27,54	0,19	2,91	15,44	6,06	111,24	28,61	0,74
21	Bank Sulteng	134	2,90	20,17	6,50	76,95	26,12	1,87	2,97	19,90	6,43	97,83	27,32	2,06
22	Bank Sultra	135	3,54	20,88	8,88	84,35	27,29	0,19	4,31	25,37	9,23	94,02	34,86	0,14
23	Bank NTB Syariah	128	1,93	12,38	5,64	89,21	26,36	0,22	2,07	13,58	5,37	94,35	24,47	0,17
24	Bank NTT	130	1,82	10,40	7,28	92,31	26,89	1,68	0,65	4,95	7,02	96,73	25,35	1,23
25	Bank BPD Bali	129	2,68	18,27	6,00	75,85	21,58	0,06	3,24	20,23	7,16	75,65	25,38	0,02
26	Bank Papua	132	1,77	10,66	6,27	75,22	23,53	0,87	1,62	11,08	6,43	76,51	23,79	0,67
27	Bank Maluku Malut	131	2,88	14,85	7,47	73,75	32,21	0,84	1,85	8,29	6,89	93,00	31,12	0,88

Source: www.idx.co.id & www.ojk.go.id processed

K-Means Clustering Analysis

Data was processed using six variables to assess the feasibility of companies for acquisition using K-Means Clustering analysis, and the results obtained are as follows:

Table 3.
Final Cluster Centers December 2022

	Cluster				
	1	2	3	4	5
ROA %	2,23	1,65	2,95	-3,46	2,36
ROE %	14,21	12,21	15,72	-17,22	16,22
NIM %	6,16	5,17	6,60	2,68	7,07
LDR %	76,73	52,90	111,54	88,78	88,35
CAR %	25,68	24,40	27,54	43,38	24,08
NPL %	0,66	1,52	0,19	1,39	0,63

Table 4.
Final Cluster Centers December 2023

	Cluster				
	1	2	3	4	5
ROA %	1,12	1,29	2,00	3,54	2,08
ROE %	7,70	5,22	12,72	17,91	14,00
NIM %	5,27	5,47	5,94	7,84	6,51
LDR %	56,99	95,99	82,64	93,05	98,08
CAR %	41,27	37,92	25,49	36,55	24,66
NPL %	0,96	0,99	0,70	0,61	1,01

Table 5.
Number of Cases in each Cluster

2022			2023		
Cluster	1	12,000	Cluster	1	1,000
	2	2,000		2	2,000
	3	1,000		3	15,000
	4	1,000		4	3,000
	5	11,000		5	6,000
Valid		27,000	Valid		27,000
Missing		0,000	Missing		0,000

Table 6.
Cluster Membership

Case Number	Bank Name	Code	2022		2023	
			Cluster	Distance	Cluster	Distance
1	Bank Aceh Syariah	116	1	2,840	3	6,922
2	Bank Sumut	117	5	4,312	3	5,630
3	Bank Riau Kepri Syariah	119	1	6,726	3	6,190
4	Bank Nagari	118	5	4,813	5	6,310
5	Bank Jambi	115	5	10,267	4	3,514
6	Bank Sumsel Babel	120	1	4,372	3	5,744
7	Bank Bengkulu	133	5	4,724	3	9,797
8	Bank Lampung	121	1	2,139	3	7,436
9	Bank DKI	111	1	5,107	3	3,106
10	Bank Banten	137	4	0,000	2	8,184
11	Bank BJB	110	5	6,529	3	7,463
12	Bank Jateng	113	5	8,094	3	8,210
13	Bank DIY	112	1	7,646	3	10,069
14	Bank Jatim	114	2	5,454	3	12,686
15	Bank Kalbar	123	1	7,158	3	11,746
16	Bank Kaltim Kaltara	124	2	5,454	1	0,000
17	Bank Kalteng	125	5	4,714	4	6,172
18	Bank Kalsel	122	1	5,096	3	3,076
19	Bank SulutGo	127	5	7,569	5	5,179
20	Bank Sulselbar	126	3	0,000	5	13,851
21	Bank Sulteng	134	1	6,148	5	6,621
22	Bank Sultra	135	5	7,277	4	7,882
23	Bank NTB Syariah	128	5	4,801	5	4,016
24	Bank NTT	130	5	7,670	5	9,307
25	Bank BPD Bali	129	1	5,889	3	10,429
26	Bank Papua	132	1	4,446	3	6,594
27	Bank Maluku Maluku	131	1	7,352	2	8,184

Based on the K-Means Clustering data above, five types of values will be formed:

Table 7.
Grade Status

Grade Status	Status Type
A	Very Good
B	Good
C	Fair
D	Bad
E	Very Bad

For clusters in December 2022 and December 2023, the status types obtained are as follows:

Table 8.
Grade and Final Cluster Center 2022 and 2023

Grade Status	2022 Cluster					Grade Status	2023 Cluster				
	1	2	3	4	5		1	2	3	4	5
ROA %	2,23	1,65	2,95	-3,46	2,36	ROA %	1,12	1,29	2,00	3,54	2,08
ROE %	14,21	12,21	15,72	-17,22	16,22	ROE %	7,70	5,22	12,72	17,91	14,00
NIM %	6,16	5,17	6,60	2,68	7,07	NIM %	5,27	5,47	5,94	7,84	6,51
LDR %	76,73	52,90	111,54	88,78	88,35	LDR %	56,99	95,99	82,64	93,05	98,08
CAR %	25,68	24,40	27,54	43,38	24,08	CAR %	41,27	37,92	25,49	36,55	24,66
NPL %	0,66	1,52	0,19	1,39	0,63	NPL %	0,96	0,99	0,70	0,61	1,01

Table 9.
Grade Changes 2022 and 2023

Case Number	Bank Name	Code	December 2022		December 2023		Changes
			Cluster	Grade Status	Cluster	Grade Status	
1	Bank Nagari	118	5	A	5	C	↓ -2
2	Bank SulutGo	127	5	A	5	C	↓ -2
3	Bank NTB Syariah	128	5	A	5	C	↓ -2
4	Bank NTT	130	5	A	5	C	↓ -2
5	Bank Maluku Malut	131	1	C	2	E	↓ -2
6	Bank Sumut	117	5	A	3	B	↓ -1
7	Bank Bengkulu	133	5	A	3	B	↓ -1
8	Bank BJB	110	5	A	3	B	↓ -1
9	Bank Jateng	113	5	A	3	B	↓ -1
10	Bank Sulselbar	126	3	B	5	C	↓ -1
11	Bank Jambi	115	5	A	4	A	→ 0
12	Bank Banten	137	4	E	2	E	→ 0
13	Bank Kaltim Kaltara	124	2	D	1	D	→ 0
14	Bank Kalteng	125	5	A	4	A	→ 0
15	Bank Sulteng	134	1	C	5	C	→ 0
16	Bank Sultra	135	5	A	4	A	→ 0
17	Bank Aceh Syariah	116	1	C	3	B	↑ 1
18	Bank Riau Kepri Syariah	119	1	C	3	B	↑ 1
19	Bank Sumsel Babel	120	1	C	3	B	↑ 1
20	Bank Lampung	121	1	C	3	B	↑ 1
21	Bank DKI	111	1	C	3	B	↑ 1
22	Bank DIY	112	1	C	3	B	↑ 1
23	Bank Kalbar	123	1	C	3	B	↑ 1
24	Bank Kalsel	122	1	C	3	B	↑ 1
25	Bank BPD Bali	129	1	C	3	B	↑ 1
26	Bank Papua	132	1	C	3	B	↑ 1
27	Bank Jatim	114	2	D	3	B	↑ 2

Note :

- ↑ : Increase
- : No changes
- ↓ : Decrease

Based on the above results, it can be seen that there are banks that experienced changes from December 2022 to December 2023: 11 banks showed an increase in status, 10 companies showed a decrease, and 6 companies showed no change. Based on these data, the

performance of the Regional Development Banks that are anchor banks poised for acquisition is as follows:

Table 10.
Grade Changes Anchor Bank 2022 and 2023

Case Number	Bank Name	Code	December 2022		December 2023		Changes	Status Type
			Cluster	Grade Status	Cluster	Grade Status		
1	Bank BJB	110	5	A	3	B	↓ -1	Good
2	Bank Jateng	113	5	A	3	B	↓ -1	Good
3	Bank DKI	111	1	C	3	B	↑ 1	Good
4	Bank Jatim	114	2	D	3	B	↑ 2	Good

Performance of Regional Development Banks with core capital not meeting regulatory requirements and suitable for acquisition:

- ✓ 3 banks have a "very good" status with no change in "grade status."
- ✓ 3 banks have a "good" status, consisting of 2 banks with an increase " grade status " and 1 bank with a decrease " grade status."
- ✓ 4 banks have a "fair" status, consisting of 1 bank with no change in " grade status " and 3 banks with a decreased " grade status."
- ✓ 2 banks have a "very bad" status, consisting of 1 bank with no change in "status ranking" and 1 bank with a decreased "status ranking."

This can be seen in the following table:

Table 11.
Grade Changes Regional Development Banks (BPD) Whose Core Capital Does Not Meet the Minimum Requirement of IDR 3 Trillion 2022 and 2023

Case Number	Bank Name	Code	December 2022		December 2023		Changes	Status Type
			Cluster	Grade Status	Cluster	Grade Status		
1	Bank Jambi	115	5	A	4	A	→ 0	Very Good
2	Bank Kalteng	125	5	A	4	A	→ 0	Very Good
3	Bank Sultra	135	5	A	4	A	→ 0	Very Good
4	Bank Bengkulu	133	5	A	3	B	↓ -1	Good
5	Bank Lampung	121	1	C	3	B	↑ 1	Good
6	Bank Kalsel	122	1	C	3	B	↑ 1	Good
7	Bank SulutGo	127	5	A	5	C	↓ -2	Fair
8	Bank NTB Syariah	128	5	A	5	C	↓ -2	Fair
9	Bank NTT	130	5	A	5	C	↓ -2	Fair
10	Bank Sulteng	134	1	C	5	C	→ 0	Fair
11	Bank Maluku Malut	131	1	C	2	E	↓ -2	Very Bad
12	Bank Banten	137	4	E	2	E	→ 0	Very Bad

Based on these data, three banks, namely Bank Jambi, Bank Kalteng, and Bank Sultra, are considered very suitable for acquisition with a "Very Good" status.

CONCLUSION

Mergers and acquisitions are forms of external expansion strategies where one company merges with another. Several banks are undertaking consolidation actions driven by the requirement to meet the core capital of Rp. 3 trillion set by the Otoritas Jasa Keuangan (OJK). For Regional Development Banks (BPD), it is mandatory to meet the core capital requirement of Rp. 3 trillion by no later than December 31, 2024. Bank Holding Companies (KUB) have become the most rational option for BPD struggling to obtain fresh capital from their owners. Mergers and acquisitions are good banking options for executing OJK's strategic partnership. Four BPD have already declared themselves as anchors or KUB holding companies. Among them are Bank BJB, Bank DKI, Bank Jateng, and Bank Jatim. According to the quarterly financial report of banks as of December 2023, there are 12 BPDs whose core capital has not yet met regulatory requirements. The variables used in this research are the ratios: Return on Assets (ROA), Return On Equity (ROE), Net Interest Margin (NIM),

Loan to Deposits Ratio (LDR), Capital Adequacy Ratio (CAR), and Non-Performing Loan (NPL).

Based on the results of the research on 27 Regional Development Banks, it can be seen that there are banks that experienced changes from December 2022 to December 2023. There are 11 banks that saw a status increase, 10 companies that experienced a decrease, and 6 companies that showed no change. It can be noted that the performance of the 4 Regional Development Banks, which are Anchor Banks poised for acquisition, is "good." The performance of Regional Development Banks with core capital that does not yet meet regulatory requirements and are suitable for acquisition includes 3 banks with "very good" status, 3 banks with "good" status, 4 banks with "fair" status, and 2 banks with "very bad" status. Based on this data, the three banks that are deemed very suitable for acquisition with a "Very Good" status are Bank Jambi, Bank Kalteng, and Bank Sultra.

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