

## FINANCIAL PERFORMANCE ANALYSIS OF BANK SULUT USING DUPONT SYSTEM, YEAR 2009-2012.

by:

**Riska Margarit Kojoh**

Faculty of Economics and Business,  
International Business Administration (IBA) Program  
University of Sam Ratulangi Manado  
email: [riska.kojoh@nycmail.com](mailto:riska.kojoh@nycmail.com)

### ABSTRACT

Bank Sulut is the only one of the regional bank in North Sulawesi. Regional bank is known as its own regional economy growth agency. Financial performance analysis is important to set company plans and decision in order to achieve their goals. This research analyze the financial performance of bank Sulut for the period 2009-2012 by using the DuPont system based on analysis of return on equity and return on investment model. Theories supporting research are financial performance and financial statement. The population of this research is all financial statement of Bank Sulut from year 1961 until year 2012. The sample of this research is Bank Sulut audited financial statement from 2009-2012 that have been issued. It was found that the financial performance of Bank Sulut is good in the term of return on equity and return on investment. Bank Sulut financial performance can generally stated as good performance. Profitability ratios of Bank Sulut show the ability of the bank to increase profit, so the net income can cover the expenses cost. Bank Sulut management needs to pay attention closely to cash management in order to keep cash rate above the regulation and have to increase interest income with controlled expenses to increase both shareholder investment and company investment.

**Keywords:** *financial performance, financial statement*

### INTRODUCTION

#### Research Background

People keep a big financial wealth proportion in banks in any form, like savings accounts or bank deposits. Banks also granted loans for consumption used, like credit loan for buying vehicles by mostly given to state employees, or for business used, like credit loan for capital to start new businesses. It makes banks not only affecting everyday life but also involving large funds flows in our economy. Though other financial institutions exist such as insurance companies, finance companies, and pension funds, however, banks are the largest financial intermediaries in our economy.

Competition among banks in Indonesia now is heating up, moreover Indonesia has to ready for economic society in 2015. For anticipating the economic society in 2015, strong capital is necessary not only for national level, it also needed in regional level. Regional banks have important role in regional economy growth, which is providing funds for businesses or project to helping the regional development in order to supporting national development and enhance economy growth. In short, regional banks are the regional development agents that funding productive real sector to increase the regional economic growth.

Financial institutions in Sulawesi Utara are including with 43 banks with 1 finance company listed with their 315 offices are widely spread in North Sulawesi. Bank Sulut, As the only one North Sulawesi regional bank, competes with other 42 state banks, private national banks, foreign banks and joint banks. Despite of high competitiveness level, Bank Sulut still manage their Loan Deposit Ratio appropriate as the requirement by Bank Indonesia, among 78%-100%, while some other regional banks cannot fulfill the LDR requirement. This is mainly caused by the loan quality, which dominates by loan for consumption, especially loan for regional employees and state employees.

Bank Sulut mostly handling fund from local government. Until 2012, government shares in Bank Sulut as much as 68.29% because PT. Mega Corpora bought 24.90% of Bank Sulut share. Mega Corpora chairman explained that they want to help strengthen Bank Sulut capital. He also expected to make a synergy with Mega Corpora's Bank, Bank Mega. This has contradictive opinion, because of Bank Sulut is a regional bank that own by governments and buy governments shares make some parties concerns about Mega Corpora would full acquisition Bank Sulut. This is an example of how important the regional bank ownership issue, since it basically owned by local government.

Financial performance is important because it is the foundation of a company management in making decisions. Financial performance is the based on make an assessment about company performance. With clear and brief information of financial performance of the company, the decisions maker will effectively and efficiently make decisions that compatible and suitable with situation company is having. Especially for financial institutions such as banking sector. Company need to evaluate the business plan and its strategy, whether to continuing the recent plan and strategy or new one. Financial performance can identify company ability of establishing the market position and decides the next step. Financial performance is useful to decide the company is ready or not to move on to another level. Financial performance is also important because it is indicate how well the company ability in managing and allocating their resources.

Profitability of a commercial bank can be an indicator of its performance. In order to measure bank performance, it is necessary to assess more in-depth bank performance with using analysis method that measure financial performance comprehensively. It is necessary to increase service quality and bank performance as an intermediate financial institution in economic development. Profit helps business to grow and its owners financial more stable. It also show company overall efficiency and performance. Company also can measure their own performance to achieve their goals for short term or long term. There are two performance measurements, return on equity (ROE) and return on investment (ROI). ROE is a profitability ratio that measure bank capability in earning profit. ROE can also help investors distinguishes between companies that are profit creators and those that are profit burners. A steadily increasing ROE is a hint that management is giving shareholders more for their money. ROI measures company investment, decisions or actions. Simply put, ROE indicates how well management is employing the investors' capital invested in the company and ROI indicates how well company investing, make decisions or taking actions.

### **Research Objective**

The objective for this research is to analyze financial performance of bank Sulut in term of company investment and shareholders investment.

## **THEORETICAL FRAMEWORK**

### **Financial Management**

Financial management is about making and keeping the economic value or wealth by taking the best financial decisions (Keown et al, 2005:4)

### **Financial Performance & Financial Statement**

Performance measurement makes company try to do their best in order to increase stockholders wealth or maximize the profit (Hilton-Platt, 2011:222). Financial statement gives investors information about company condition in term of financial health, current state and financial policies (Brigham et al, 2010:27). Financial statement is the base data to do the calculation of measuring company financial performance. Financial statement is the sum of company activities in order to achieve their goals.

### **Return on Equity**

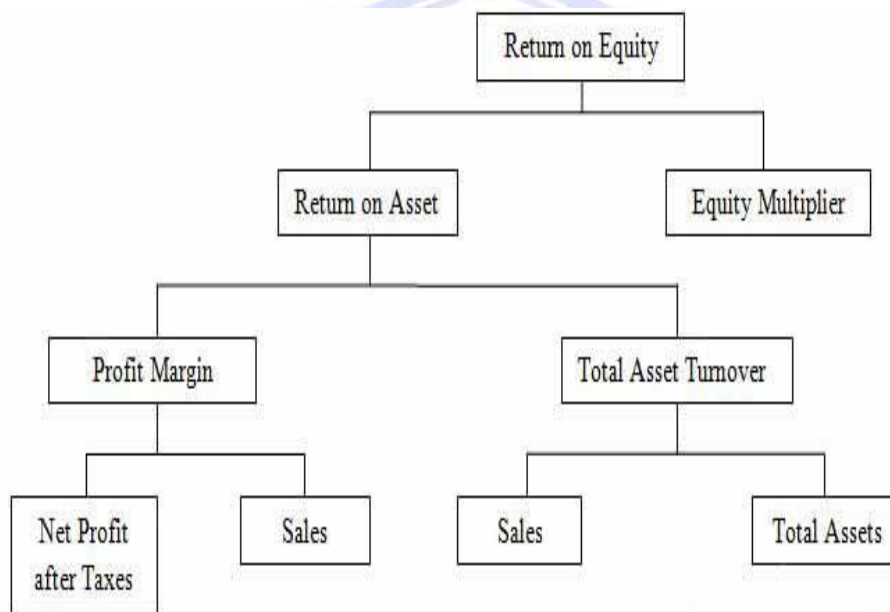
Investors are observing ROE because this ratio shows their return equity investment. In general bank may now want to holding too much capital in order to generate their cash so would increase ROE number. Investors are looking company with higher ROE because it means the company is better in generating profit (Mishkin, 2010:232). ROE indicates the effectiveness of bank employing their assets. Bank with high ROE tend to manage the utilization of their asset better than the bank with low ROE (Ongore – Kusa, 2013).

**Return on Investment**

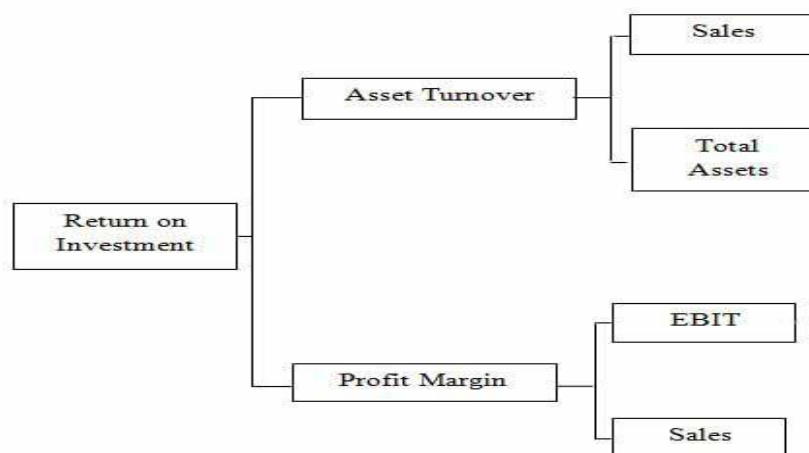
Profit margin and total asset turnover are combined in ROI to overcome both ratios weakness. Profit margin ignores company invested fund to gain profit. Total asset turnover does not consider the profits that come from using assets. ROI suits operating income with available assets in order to gain a return. ROI shows how efficient company uses their assets. Company that use asset efficiently tend to have high return. Less efficient company tend to have lower return (Hampton, 1983: 135-136).

**Previous Research**

Almazari (2012) found that the performance of The Arab Bank in 2000-2009 effected bythe slight negative financial crisis that hit the region at that time. McGowan and Stambaugh (2012) found that return on assets of Monarch Bank derives primarily from return on loans with 86% of the investment weighted return on assets. Ongore and Kusa (2013) found that bank specific factors significantly affect the performance of commercial banks in Kenya, except liquidity level. Financial performance of commercial banks in Kenya is driven mainly by board and management decisions, while macroeconomic factors have insignificant contribution. Sheela and Karthikeyan (2012) found that ROE and ROI is the most comprehensive measure of profitability of a firm.



**Figure 1. Conceptual Framework of ROE.**



**Figure 2. Conceptual Framework of ROI.**

## RESEARCH METHOD

### Type of Research

This research uses the descriptive type of research that will explain about the characteristic of the variables of interest in Bank Sulut financial situation in 2009-2012. The analysis of its financial performance used to make measurements through the methods of financial analysis.

### Place and Time of Research

This research is conducted in Manado, North Sulawesi. The time of research being conducted is from June-August 2013.

### Population and Sample

Population is the entire group of people, events, or things which a researcher desire to research, and sample is the subset or subgroup of population (Sekaran and Bougie, 2010:443-444). The population of this research is all financial statement (balance sheet and income statement) of Bank Sulut from year 1961 until year 2012. The sample of this research is Bank Sulut audited financial statement (balance sheet and income statement) from 2009-2012 that have been issued.

### Data Collection Method

This research uses an approach of financial analysis, so that the data source that used is secondary data, which is data already exist and do not have to be collected by the researcher (Sekaran and Bougie, 2009:4). Secondary data is data that have been previously gathered for some other purposes (indirect research). They consist of net profit after taxes, total equity, total assets, operating income, gross profit (profit before tax). This research also has some information collected as complimentary. Those data are taken from books, journals, and relevant literature from library and internet.

### Operational Definition of Research Variables

Financial Performance is the ability of company to generate their assets and capital to profitability in order to achieve maximum investment return.

### Data Analysis Method

#### DuPont System

DuPont System is a tool or method that uses to analyze profitability and return on equity of company. DuPont system also provides a basic framework to calculate ratios for more in-depth financial analysis to show the strength or weakness of a company. DuPont System is a financial statements analysis technique that useful because it is assisting managers in evaluating company financial condition (Keown et al, 2005:86). DuPont system gives the management clearer aspects that affect the return on equity and the interrelationship among net profit margin, asset turnover and debt ratio. Management is guide to determining its effectiveness in managing the company's resources to maximize the return earned on investors (Keown et al, 2005:87).

DuPont measurement analysis directly related to the use of financial ratios such as profit margin, total asset turnover and equity multiplier in order to calculate the return on equity. Profit margin show how much the company earns on its sales. Profit margin depends primarily on costs and sales prices. If a company set a premium price and press the costs, profit margin rise and help its ROE. Total asset turnover is a multiplier that shows how many times the profit margin is earned each year. The result of profit margin times total asset turnover is company ROA (Brigham et al, 2010: 75).

DuPont system also helps company to analyze their return on company investment. Company investment is the effort of company to improve quality of their services or products, such as purchase recent machinery or build new building. This will help company to distinguish between efforts that have result in enhance their performance or consuming product that have negative impact in their financial statement. Financial staff may explore some ways to improve their performance quality with use ROI in DuPont system with analyzing details that make investment earn positive result or turn investment into consumption that burns profit and have negative impact in financial statement of company.

## RESULT AND DISCUSSION

### Result

#### Income Statement Items

Bank Sulut has three sources of income, they are interest income, non interest income and gains and net income. Interest income fluctuated in past four years. Interest income increased from Rp 566,784 million in 2009 to Rp 833,684 million in 2010. Decreased to Rp 707,373 million in 2011 and increased to Rp 836.292 million in 2012 with average Rp 736,033.25 million. Interest income in 2009 and 2011 were below the average. Non interest income and gains also fluctuated in these past four years. Decreased from Rp 57,109 million in 2009 to Rp 41,301 million in 2010. Then increased to Rp 50,070 million in 2011 and enormously increased to Rp 97,518 million in 2012 with average Rp 61.499,5 million. Interest income in 2009, 2010 and 2011 were below the average. Net income also fluctuated. Increased twice from Rp 39,637 million in 2009 to Rp 79,899 million in 2010. Then decreased to Rp 72,498 million in 2011 and enormously increased to Rp 139,191 million in 2012 with average Rp 82,806.25 million. Net income in 2009, 2010 and 2011 were below the average. Net income increased three times from Rp 39,637 million in 2009 to Rp 139,191 million in 2012.

Bank Sulut has four expenses categories, they are interest expenses, non interest expenses, non operational gain/loss and income tax. Interest expenses increased from Rp 343,168 million in 2009 to Rp 412,403 million in 2010. Then decreased to Rp 307,888 million in 2011 and slightly increased to Rp 412,403 million in 2012 with average Rp 354,733 million. Interest expenses in 2009 and 2011 were below the average. Non interest expenses steadily increased in these past four years. From Rp 220,624 million in 2009 to Rp 369,715 million in 2012 with average Rp 314,506 million. Non interest expenses in 2009 was the only one below the average. Non operational in 2009 gain Rp 118 million and in 2010 loss Rp 12,247 million. Then decreased to Rp 9,607 million in 2011 and increased to Rp 11,907 million in 2012 with average loss Rp 8,467.75 million. Income tax fluctuated in past four years. Increased from Rp 20,582 million in 2009 to Rp 38,353 million in 2010. Then decreased to Rp 31,848 in 2011 and enormously increased to Rp 57,522 million in 2012 with average Rp 37,076.25 million. Income tax in 2009 and 2011 were below the average. Income tax increased almost three times from Rp 20.582 million in 2009 to Rp 57,522 million in 2012.

#### Balance Sheet Items

Bank Sulut has four major categories of assets, they are cash, customer loans, securities and deposits as well as fixed and other assets. Cash fluctuated in these past four years. Increased from Rp 52,137 million in 2009 to Rp 73,191 million in 2010. Increased again to Rp 161,625 million in 2011 and decreased to Rp 118,438 in 2012 with average Rp 101,347.75 million. Cash in 2009 and 2010 were below the average. Cash increased twice from Rp 52,137 million in 2009 to Rp 118,438 million in 2012. Customer loans were steadily increased in these last four years. Customer loans increased twice from Rp 2.237.999 million in 2009 to Rp 4,639,789 million in 2012 with average Rp 3,415,572.25 million. Customer loan in 2009 were below the average. Securities and deposits of Bank Sulut steadily increased in these past four years. Securities and deposits increased almost twice from Rp 972,577 million in 2009 to Rp 1,647,406 million in 2012. Fixed and other assets fluctuated in these past four years. Decreased from Rp 34.801 million in 2011 and increased twice to Rp 88,954 million in 2012 with average Rp 58,448 million. Fixed and other asstes in 2010 and 2011 were below the average. Total assets were steadily increased in these past four years. Increased twice from Rp 3.336 million in 2009 to Rp 6.548.587 million in 2012.

Bank Sulut has three majors liability accounts, they are deposits, other liabilities, and shareholder funds. Deposits steadily increased in these past four years. Increased twice from Rp 2,232,363 million in 2009 to Rp 4,281,696 million in 2012 with average Rp 3,277,080.75. Deposits in 2009 and 2010 were below the average. Other liabilities steadily increased. Increased twice from Rp 879,823 million in 2009 to Rp 1,719,833 million in 2012 with average 1,227,478.75 million. Other liabilities in 2009 were below the average. Equity was steadily increased in these past four years. Increased twice from Rp 224,660 million in 2009 to Rp 547,058 in 2012 with average Rp 372,159.75 million. Total liabilities and shareholder equities trend was same with total assets trend.

### Return on Equity

ROE in 2009-2010 raised 10.17% then fell 10.94% bigger than the raised. Between 2011 and 2012 ROE raised 8.57% but not bigger than both raised and fell before. ROA in 2009-2010 raised 0.66% and then fell 0.48%. The biggest raised was 0.76% between 2011 and 2012. NPM trend is following both net income and operating income trends. In 2009 to 2010 NPM raised 2.78%. Then raised 0.44% between 2010 and 2011. The significant rose was 5.33% between 2011 and 2012. Net income raised Rp 40,262 million from Rp 39,637 million in 2009 to 79,899 million 2010. Then fell Rp 7,401 million to Rp 72,498 million in 2011 and enormously raised Rp 66,693 million to Rp 139,191 million in 2012. Operating income raised Rp 251,092 million from Rp 623,893 million in 2009 to Rp 874,985 million in 2010. Then fell Rp 117,542 million to Rp 757,443 in 2011. Then raised Rp 176,368 million to Rp 933,810 million in 2012. Total asset turnover trend rose 0.015 point in 2009-2010. Then fell 0.059 point between 2010 and 2011 then slight fell 0.0036 point between 2011 and 2012. The total assets trend is like operating income, steadily growing for this past 4 years. Between 2009 and 2010 raised Rp 986,564 million. Even though the raised between 2010 and 2011 is the least compare to the other, bank Sulut still manage their total assets growth above 900,000. The biggest rose was in between 2011 and 2012 as much as Rp 1,250,553 million. Total equity trend steadily rose in these past 4 years. Between 2009 and 2010 raised Rp 62,606 million. Then between 2010 and 2011 total equity raised Rp 143,389 million and was the biggest number of growth compare to the other. Between 2011 and 2012 total equity raised Rp 117,403 million.

### Return on Investment

ROI in 2009-2010 raised 0.93% and fall 0.77 point afterwards. Between 2011 and 2012 ROI raised 1.03% and bigger than the both raised and fell before. Between 2009 and 2010 equity multiplier raised 0.20 and this is the only rise in past 4 years. Between 2010 and 2011 equity multiplier fell 2.72 and bigger than the raised before. Between 2011 and 2012 it fell again 0.36 and also bigger than the raised in 2009-2010. EBIT between 2009 and 2010 gross profit raised Rp 58,033 million then fell 13,906 in 2010 and 2010. Then raised Rp 92,367 million between 2011 and 2012. In 2009-2010 raised 0.038 point and then raised again 0.003 point. In 2011-2012 profit margin is raised 0.072 point.

### Discussion

Return on equity of Bank Sulut in this past 4 years highest number was 27.81% in 2010 affected by both ROA and equity multiplier. ROA in 2010 was the second highest number among other and equity multiplier in 2010 was also the highest number among the other. It was because of the total equity is below the average while total assets was almost in average number. According to Keown et al (2005: 81), increase the use of debt relational to equity, without harming the company's financial position will make ROE high. Total asset was affected by customer loans that above the average. It was because of productive loans that given rose 2% from 10% in 2009 according to Bank Sulut. KUR (credit for small business) was reach 80% means that 20 billion Rupiahs from total target 25 billion Rupiahs.

The lowest ROE was 2011 affected by the low number of both ROA and equity multiplier. Both of ROA and equity multiplier in 2011 was below the average. ROA was affected by the low number of both net profit margin and asset turnover. Net profit margin was affected by the number of net income that below the average. Total asset turnover was affected by the operating income that below the average while total asset was above the average. Cash in 2011 was above the average and impact in total asset. According to Mishkin (2010: 232) with any given ROA, the lower the bank capital, the higher the return for the owners of the bank. So if bank was holding cash, the ROE would be low. According to beritamando.com, Bank Sulut was holding cash because of Bank Sulut CAR was below the CAR regulation by Bank Indonesia. NPM and TAT are affected by income tax that near with its average point and interest income that above its average but only differ 0.37%.

Although equity multiplier in 2009 was high, ROE in 2009 was below the average. It caused by ROA was the lowest number compare to the other. ROA 2009 was low because of NPM 2009 that was also the lowest number compare to the other years. NPM affected by the numbers of net income that in the lowest number compare to the other years net income. Asset turnover was also in the lowest, so ROE in 2009 was not the lowest among all. Asset turnover 2009 was low because of operating income in 2009 was the lowest compare to the other years.

In year 2012, ROE was above the average because of its ROA was the highest compare to other years. ROA was affected by NPM number that was the highest among other. NPM was affected by both net income and operation income that was the highest compare to other years net income and operation income. It caused by interest income in 2012 was the highest compare to other years interest income. Customer loan in 2012 was above the average and it was because of Bank Sulut rose the productive loans according to manadobisnis.com. Although ROA 2012 was the highest but equity multiplier was the lowest. It affected by total equity that above the average. In 2012, total equity rose because of the additional equity by Mega Corpora.

In year 2012, ROI was the highest compare to other years even though total asset 2012 was the highest. It caused by profit margin that was the highest compare to other years, since the gross profit and operating income were the highest. Gross profit was affected by interest income that was the highest compare to other years. Total assets were high because of customer loans were the highest and fixed and other assets were above the average. ROI 2009 was the lowest compare to other years ROI because of the lowest profit margin and asset turnover. Gross profit in 2009 was also the lowest and impact in profit margin. Operating income was also the lowest in 2009 and impact in asset turnover.

ROI in 2010 was above the average because of the highest number of asset turnover compare to other years. According to Hampton (1983:195), if a company asset turnover is high, the asset leverage is also high. Asset turnover was affected by operating income that above the average even though total asset in 2010 was above the average and impact in asset turnover. Interest income in 2010 also was above its average. Cash and fixed and other assets were below the average point and securities and deposits were near with its average. ROI in 2011 was below the average caused by both profit margin and asset turnover were below its average. Gross profit and operating income were below the average and impact in profit margin while total assets were above its average. Interest income in 2011 was only differ 0.37% and non operational loss in 2010 was above the average and impact in gross profit and operating income.

## CONCLUSION AND RECOMMENDATION

### Conclusion

Based on result and discussion, Bank Sulut financial performance can generally stated as good performance. Profitability ratios of Bank Sulut show the ability of the bank to increase profit, so the net income can cover the expenses cost. In the period of 2009-2012, Bank Sulut best performance in term of shareholders investment occurred in 2010. In 2010, it's given customer loan reach the highest level. The lowest performance occurred in 2011. In that year Bank Sulut was holding the cash and income was below the average level. In the period of 2009-2012, Bank Sulut best performance in term of company investment occurred in 2012. In 2012, its interest income, customer loans and fixed and other assets were high. The lowest performance occurred in 2009. In that year Bank Sulut gross profit reach the low level.

### Recommendation

Several recommendations based on result and discussion: (1) Bank Sulut management needs to pay attention closely to cash management in order to keep cash rate above the regulation and (2) in order to gain more income, Bank Sulut have to increase interest income with controlled expenses to increase both shareholder investment and company investment.

**REFERENCES**

- Almazari, A. A. 2012. Financial Performance Analysis of the Jordanian Bank by Using the DuPont System of Financial Analysis. *International Journal of Economics and Finance*, 4(4), 86-94.
- Brigham, E. F., Houston, J. F., Chiang, Y., Lee, H., Arrifin, B. 2010. *Essential of Financial Management*. 2<sup>nd</sup> ed. Cengage Learning Asia Pte Ltd., Singapore.
- Hampton, J. J. 1983. *Financial Decision Making: Concept, Problems and Cases*. 3<sup>rd</sup> ed. Prentice Hall India, Inc., New Delhi.
- Hilton, R. W., & Platt, D. E. 2011. *Managerial Accounting: Global Edition*. 9<sup>th</sup> ed. McGraw-Hill, Inc., NY.
- Keown, A. J, Martin, J. D., Petty J. W., Scott, D. F. Jr. 2005. *Financial Management*. 10<sup>th</sup> ed. Pearson Education, Inc., New Jersey.
- McGowan, C. B. Jr., & Stambaugh, A. R. 2012. Using Dissaggregated Return on Assets to Conduct a Financial Analysis of a Commercial Bank Using an Extension of the DuPont System of Financial Analysis. *Accounting and Finance Research*, 1(1), 152-161.
- Mishkin, F. S. 2010. *The Economics of Money, Banking and Financial Markets*. 2<sup>nd</sup> ed. Pearson Education. Inc., Boston.
- Ongore, V. O., & Kusa, G. B. 2013. Determinants of Financial Performance of Commercial Banks in Kenya. *International Journal of Economics and Financial Issues*, 3(1), 237-252.
- Sekaran, U., Bougie, R. 2009. *Research Methods for Business: A Skill Building Approach*. 5<sup>th</sup> ed. John Wiley and Sons Ltd., West Sussex, United Kingdom.
- Sheela, S. C., & Karthikeyan, K. 2012. Financial Performance of Pharmaceutical Industry in India using DuPont Analysis. *European Journal of Business and Management*, 4(14), 84-91