

FINANCIAL SERVICE COMPANY FAIR VALUATION BY USING THE EXCESS RETURN MODEL, CASE STUDY OF PT. BPR FAJAR WARAPASTIKA

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Abstract

In the evolving financial landscape of Indonesia, the consolidation of rural banks has been identified as a potentially significant trend. Given the escalating consolidation trend among rural banks in Indonesia, accurate company valuation has become crucial in enabling strategic decision-making, particularly in potential shareholder exit activities or divestment. The objective is to assess the fair valuation of PT. BPR Fajar Warapastika, a rural bank located in Lampung, by using an Excess Return Model.

This valuation is crucial in providing stakeholders with a clear view of the company's financial health and future prospects. It would support regulators, existing shareholders, and potential investors in their decision-making process, aligning their strategies for consolidation, possible exit activity, and investments. It could also provide rural banks, like PT. BPR Fajar Warapastika, with insights into business operations, ultimately aided the mission to bolster financial inclusion in Indonesia's rural regions. Additionally, it could serve as a blueprint for the valuation of other rural banks in Indonesia, thereby contributing to a more stable and transparent financial environment.

Keywords: Valuation, Excess Return Model, Financial Service Firm, Rural Bank

1. Introduction

Bank is an institution that receives deposits and channels those deposits into lending activities, either directly or through capital markets [1]. A bank is a financial intermediary that accepts deposits from individuals and institutions and provides loans, as well as a range of other financial services, such as payment processing, investment advice, and wealth management [2]. Moreover, A bank is a financial institution whose primary function is to serve as a conduit for transferring funds from savers to borrowers and to transform these funds into a more usable form [3]. Based on Act of the Republic of Indonesia number 10 of 1998 as amended by Act number 4 of 2023 bank is a corporate entity mobilizing funds from the public in the forms of deposits and channelling them to the public in the forms of Credit and/or other forms in order to improve the living standards of the common people. Based on those definitions, the bank has three main activities: collecting funds, channelling funds, and providing other bank services.

Commercial banks and rural banks are the two types of banks that exist in Indonesia. According to the Act of the Republic of Indonesia, number 10 of 1998, article 5th, commercial banks and rural banks are differentiated based on the economic scale at which they operate. In Indonesia, commercial banks are referred to as "bank umum," and rural banks are referred to as "BPR" or "Bank Perkreditan Rakyat." These two types of banks engage in distinct types of business.

Compared to commercial banks, rural banks offer just a few services, such as time deposits, savings accounts, and

other services that serve the purpose of rural banks in channelling funds. Rural banks are prohibited from receiving demand current accounts (also known as giro) and providing insurance, making their activities more restricted than commercial banks. A rural bank assists micro, small, and medium enterprises and the informal sector with financial services. The majority of rural banks are located in rural regions, making them easily accessible to their customers.

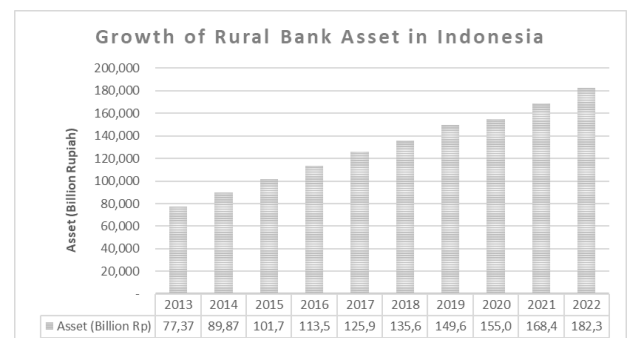


Figure 1. Growth of Rural Banks assets in Indonesia
Source: Otoritas Jasa Keuangan

From Figure 1 can be seen that the growth of rural bank assets in Indonesia during the last 10 years is continuously growing. Within 10 years, the total asset of a rural bank increased by more than double by 104.9 billion rupiah or equal to 136%. The total asset each year is growing even during the Covid-19 pandemic situation, with an average growth of 10% per year. This trend shows the potential of this rural bank industry which will keep its continuous growth.

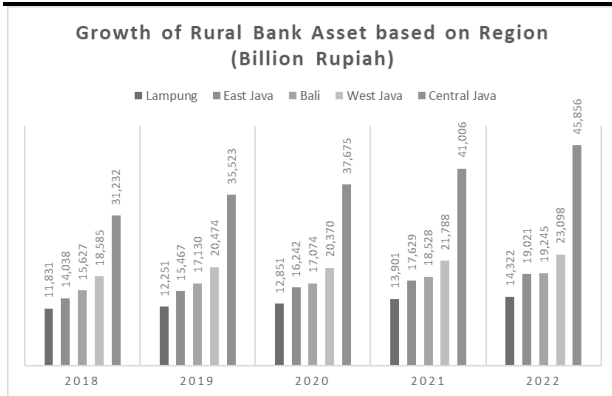


Figure 2. Growth of rural bank’s assets based on region
Source: Otoritas Jasa Keuangan

Based on the total asset, there are 5 provinces with the highest asset of the rural bank: Central Java, West Java, Bali, East Java, and Lampung. In 2022 the total assets of rural banks of this top 5 province are 121,543 billion rupiah. It means these top 5 provinces contribute 67% of rural banks’ total assets in all 34 provinces in Indonesia.

Lampung, as one of the top 5 provinces, has a good opportunity for rural banks, while also there are some challenges being faced. According to Aprianus John Risnad, the Deputy Director of Supervision at the Financial Services Authority (OJK) in Lampung, one of the challenges faced by the banking industry, particularly in Rural Banks (BPR) and Sharia Rural Banks (BPRS), is the need to mitigate risks as the credit relaxation measures related to the Covid-19 pandemic come to an end. He mentioned that although there has been a decreasing trend, the restructuring of Covid-19 loans remained high at Rp148.72 billion until the first quarter of 2023. These remarks were made during the peak celebration of National BPR-BPRS Day at Bank Utomo in Bandar Lampung on Sunday, 28th May 2023 [4].

OJK has emphasized the need for consolidation among Rural Banks (BPR) and Sharia Rural Banks (BPRS) to strengthen the capacity and competitiveness. There are still five BPR with core capital below 6 billion Rupiah, while three BPR have undergone a merger in Lampung. OJK highlighted the importance of responding to the follow-up actions of Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (P2SK), which provides a greater opportunity for BPR and BPRS to contribute to the national economy.

The total number of Rural Banks (BPR) and Sharia Rural Banks (BPRS) in the operational area of the Lampung OJK is 34, comprising 23 conventional BPR and 11 Sharia BPR. According to financial data, until the first quarter of 2023, the credit disbursement (financing) by BPR-BPRS amounted to Rp11.48 trillion, showing an 8.06% year-on-year increase. This accounted for 15.10% of the total banking financing. These banks are supported by 44 branch offices, 35 cash offices, and 11 ATMs. The non-performing loan (NPL) ratio for BPR stood at 1.90%, while for BPRS it was 4.38% [4].

PT. BPR Fajar Warapastika

Since its establishment in 1992, Bank Fajar is continuously growing. Based on the financial statement in December 2022, the total asset of PT. BPR Fajar Warapastika is 35.7 billion rupiah. But currently, Bank Fajar is facing some issues related to the company’s valuation. Bank Fajar need to understand the fair valuation of the company in order to respond to some challenge in the long-term and short-term period. Company fair valuation is the crucial element for Bank Fajar if the consolidation with another company is planned to be done, or during the shareholders exit.

Indonesian Finance Minister Sri Mulyani Indrawati, during the plenary session for the enactment of the PPSK law, explained that the business activities of BPR will be expanded. This includes the ability to engage in foreign currency exchange and fund transfers. Furthermore, BPR is now allowed to make public offerings on the stock exchange, subject to the conditions and regulations set by the Financial Services Authority (OJK). This provision is outlined in Article 23 of the PPSK law. These changes aim to enhance the role of BPRs in supporting micro, small, and medium-sized enterprises (MSME), which play a crucial role in the Indonesian economy.

With the current PPSK law, the government emphasizes the importance of BPR engaging in consolidation through mergers. The government expressed that it envisions future consolidation in BPR, aiming to improve its efficiency so that rural banks can serve a larger customer base and provide more credit with affordable interest rates. The government revealed that the Financial Services Authority (OJK) is developing a BPR consolidation roadmap. In formulating this consolidation roadmap, the government ensures that various indicators are taken into account while considering the stability of the domestic financial system. Through these consolidation efforts, it is hoped that the role of BPR in Indonesia’s economy will be further strengthened.

Based on the trend and the willingness of the government to encourage consolidation among rural banks, in the near future, there will be numerous consolidation actions taken by BPR, including in Lampung Province. Bank Fajar also needs to be prepared related to this merger and consolidation. One of the key elements of doing the merger is determining the fair value of the company. Estimating a company’s fair valuation will be one of the keys to making the merger and acquisition process go forward successfully.

2. Literature Review

As with any other company that needs to analyze its performance periodically, banks must also assess their performance for the benefit of management, owners, and the government (through Bank Indonesia) to understand the current business conditions and facilitate decision-making for future business policies. Performance analysis covers both operational and non-operational aspects of the bank. In Indonesia, the commonly used method, in

accordance with Bank Indonesia's regulations, is known as the assessment of the rural bank's soundness level. This assessment includes both financial and non-financial aspects.

The method used to assess the rural bank's soundness level is known as CAMEL. CAMEL represents key aspects that greatly influence the bank's financial condition, which, in turn, affects its overall soundness. The CAMEL method involves evaluating specific ratios in each component. The CAMEL method includes the following components:

C = Capital: assesses the adequacy of the bank's capital ratio.

A = Asset: evaluates the ratio of productive assets.

M = Management: assesses the quality of bank management.

E = Earning: analyzes the bank's profitability ratio.

L = Liquidity: evaluates the bank's liquidity ratio.

The CAMEL method provides a comprehensive framework to evaluate and monitor a bank's performance, ensuring a holistic assessment of its financial strength, risk management, operational efficiency, and overall health [5]. Each component plays a crucial role in determining the overall strength and stability of the bank. By assessing these factors, banks can identify areas that require improvement and make informed decisions regarding their business strategies.

Capital Adequacy Ratio

Capital Adequacy Ratio (CAR) is a fundamental measure that evaluates a rural bank's capital adequacy in relation to its risk-weighted assets. It is calculated by dividing the bank's total capital by its risk-weighted assets (RWA). The RWA assigns different weights to each asset category based on the level of risk associated with them. This calculation methodology is outlined in the Decree of Director Bank Indonesia No. 30/12/KEP/Dir on 30 April 1997, which provides guidelines for evaluating the financial soundness of rural banks in Indonesia.

In the case of rural banks, the minimum CAR requirement is set at 8%. However, based on OJK Regulation No. 5/POJK.03/2015, the requirement has been increased to 12%. This regulatory change reflects the recognition of the importance of maintaining higher capital levels to ensure rural banks can effectively overcome current risks and anticipate risks in the future.

CAR is a crucial assessment of a bank's capital sufficiency to mitigate risk in the current and future [6]. A higher CAR is generally associated with a higher Return on Equity (ROE), indicating that rural banks with stronger capital positions tend to generate more favourable returns for their shareholders.

Non-Performing Loan

Non-Performing Loan (NPL) is a loan that exhibits below standard, doubtful, or poor quality, as defined by statutory provisions and regulations concerning the assessment of asset quality in the Indonesian Financial Services

Authority (OJK). NPL indicates credit risk, as a higher NPL ratio can expose banks to potential losses. When borrowers do not repay loans granted by banks in accordance with the agreed terms, it leads to non-performing loans. This situation has detrimental effects on the bank's financial performance, as the funds issued by the bank remain outstanding and may not generate interest income or be fully recovered, thereby reducing overall profitability [7].

Rural banks need to manage the NPL effectively to mitigate credit risks and maintain financial stability. To ensure sound loan portfolio quality, Bank Indonesia has set a guideline to keep the NPL ratio below 5%, as stated in Bank Indonesia Regulation No. 15/2/PBI/2013. This regulation aims to promote prudential lending practices and safeguard the banking system's health.

Managing NPL is critical for rural banks, as non-performing loans can significantly impact financial performance. Banks can enhance profitability and mitigate potential losses from credit defaults by closely monitoring and minimizing the NPL ratio.

Return on Asset

Return on Asset (ROA) is a crucial financial metric that reflects a bank's ability to generate profits through effective asset management. According to the guidelines outlined in the Decree of Director Bank Indonesia No. 30/12/KEP/Dir dated April 30, 1997, which related to the evaluation of the financial soundness of rural banks in Indonesia, the calculation of ROA for rural banks involves dividing the total profit in the last 12 months by the average of the asset during the same period. A higher ROA value indicates better overall performance, demonstrating how efficiently a bank utilizes its assets [8]. ROA can be utilized as a descriptor of a bank's financial performance [9].

ROA is calculated by comparing the income before tax to the total assets of a bank [10]. The profit before tax represents the net profit generated from the bank's operational activities, while the total assets encompass every asset owned by the rural bank. A higher ROA also indicates a higher level of profitability of the company, signifying that the bank effectively utilizes its assets to achieve its profit goals [11].

Operating Expense to Operating Revenue

Operating Expense to Operating Revenue (BOPO) is a ratio that reflects the efficiency level in managing a bank's operational activities. It is calculated by dividing the total operating expenses over a specific period, typically the previous 12 months, by the total operating income during the same period. The calculation methodology for BOPO in rural banks is outlined in the Decree of the Director Bank Indonesia No. 30/12/KEP/Dir on 30 April 1997, which provides guidelines for evaluating the soundness of rural banks in Indonesia.

In order to maintain a healthy level of efficiency, it is recommended by the Bank of Indonesia that the BOPO ratio remains below or equal to 93.52%. This threshold indicates that the rural bank is effectively managing its operational costs in relation to its operating revenue. BOPO is significant as a ratio that helps measure a bank's effectiveness and operation performance in conducting its operational activities [12].

Efficient management of operational costs is crucial for rural banks to enhance profitability and maintain financial stability. By effectively controlling expenses while generating sufficient operating income, rural banks can optimize operational efficiency and allocate resources more prudently.

Loan to Deposit Ratio

Loan to Deposit Ratio (LDR) is a metric that measures the proportion of credit disbursed by rural bank in relation to the funds it receives in the form of deposits. LDR reflects how much rural bank utilizes the funds it receives for lending purposes. As per the regulations outlined in the Decree of Director Bank Indonesia No. 30/12/KEP/Dir on 30 April 1997, the calculation of LDR in rural banks is by dividing the total amount of credit distributed by the total funds received. The funds received, in this context, include deposits and savings from the public, loans received for a period exceeding three months, savings and between bank deposits held more than three months, including core capital and loan capital.

LDR is an important indicator of rural bank's lending activities and ability to mobilize funds from depositors for productive purposes. A balanced and prudent LDR helps maintain the stability and sustainability of the banking sector by ensuring that banks have sufficient liquidity to meet depositor withdrawals while efficiently utilizing those funds for credit provision to the economy.

LDR ratio provides insights into a bank's lending operations and potential profitability [13]. A higher LDR suggests that the bank is actively disbursing loans, and if managed effectively, it can lead to increased profits. On the other hand, an excessively high LDR may indicate a higher risk of non-performing loans and potential liquidity issues for the bank.

Bank Indonesia regulates the LDR to balance credit expansion and prudential lending practices. By setting limits on the LDR ratio, authorities aim to prevent excessive risk-taking by banks and promote responsible lending. These guidelines ensure that rural banks have adequate reserves and liquidity to meet customer demands and withstand economic fluctuations. Bank Indonesia has set regulatory limits for the LDR, ranging from 78% to 92%, as specified in Regulation of Bank Indonesia No. 15/15/PBI/2013.

Cash Ratio

Cash Ratio measures the sufficiency of liquid assets, demonstrating a bank's ability to fulfil its immediate financial obligations. As outlined in the Decree of Director Bank Indonesia No. 30/12/KEP/Dir on 30 April 1997, which is related to the evaluation of the financial stability of rural banks, the cash ratio is calculated by summing cash and other cash equivalent. This sum is then divided by current liabilities. A healthy cash ratio is considered to be equal to or greater than 4.05%.

The Cash Ratio is a crucial metric for rural banks as it reflects their ability to meet short-term financial obligations promptly. A strong cash ratio indicates a bank's sound financial position and effective liquidity management. It gives confidence to depositors and stakeholders, assuring the bank can fulfil its financial commitments without relying excessively on external funding sources. Cash Ratio is important as an indicator of a rural bank's liquidity and ability to meet current liabilities [14]. Maintaining an adequate cash ratio is essential for ensuring the stability and soundness of rural banks.

Valuation of Financial Service Company

Company valuation is a fundamental aspect of the business world, serving as a vital instrument for investors, shareholders, and financial analysts. It estimates the monetary value of a company based on its present and potential future performance. The process of valuing a company necessitates a thorough comprehension of numerous factors, such as financial metrics, the dynamic of the industry, the condition of the market, and the growth prospects.

A company's fair value is established through the process of company valuation, which involves taking a company's fundamental characteristics and anticipated future cash flows into consideration in order to arrive at an estimate of that company valuation. Instead of relying solely on current market prices to determine the value of a company, it will be more beneficial to estimate the intrinsic value of the company and then use that estimate to determine the value of the company. The fair value of an asset or a company reflects to the price that market is willing to pay for it, taking into account the level of risk and the expected cash flows it will generate in the future [15].

A financial services firm such as bank, insurance company, and investment company are a company that provides financial products and services to individuals or other businesses. A bank generates revenue from the margin between the interest it pays those from whom it raises funds (depositors) and the interest it charges those who borrow from it (lenders), as well as from the other services it provides to its depositors and lenders. For two reasons, valuing banks, insurance companies, and other financial service firms presents some challenges. The first issue is that the nature of the businesses of the bank makes it difficult to define both debt and reinvestment, thereby estimating cash flows considerably more complicated.

The other is that they are typically highly regulated, and the effects of regulatory requirements on value must be taken into account.

A company raises capital from equity investors and creditors and then uses these funds to make some investments. To determine the value of a non-financial service company, the firm's assets, not just its equity, are evaluated. Debt has a distinct connotation within a financial services company. Most financial service firms regard debt as a raw material rather than a source of capital. In other words, debt to a bank is like steel to an automobile manufacturer; it is something that can be processed into other financial products which will be sold for a profit at a higher price. Therefore, only equity capital is included in the definition of capital for financial service companies. It is also supported by regulatory authorities, who only consider equity or equity-like financing as regulatory capital.

In Indonesia, where both Bank Indonesia and OJK highly regulate banks, financial service firms are subject to stringent regulation. To ensure that banks do not place depositors at risk, capital ratios must be maintained. Furthermore, financial service companies are frequently limited in terms of where they can invest their capital. Regulatory authorities frequently restrict the entry of new firms into the industry, as well as mergers between existing firms. From a valuation point of view, growth and reinvestment assumptions are connected. In financial service firms, these assumptions must be evaluated to ensure that regulatory requirements are complied with.

Excess Return Model

The Excess Return Model is an approach which can accommodate the specific nature of a financial services firm. Excess Return Model can overcome some challenges in determining total capital in a financial service company, such as a bank, because it only considers equity and excess return when valuing the financial firm. The excess return model formulates the equity value of a company as follows.

$$\text{Value of equity} = \text{Equity capital invested currently} + \text{Present value of expected excess returns to equity investors}$$

This approach also takes into account investments made in the future. Therefore, the projection not only accounts for where the financial service company will target their future investments, but also the return that they expect to generate on those investments. The excess return model needs the use of two different inputs in order to calculate the valuation. The first input is the amount of equity capital that is currently being invested by the firm, and another one is the expected excess return to equity investors during the subsequent period.

1. Equity capital invested currently

Typically, the equity capital currently invested in a company is measured by its book value. Even though the book value of equity is an accounting measure that is

affected by accounting decisions, it should be a much more reliable measure of equity invested in a financial services company than in a manufacturing company for two reasons. The first is that the assets of a financial services company are frequently financial assets that have been marked to market, whereas the assets of a manufacturing company are typically tangible assets, and the differences between book value and market value are typically much greater. The second factor is that depreciation, which can be a significant factor in determining book value for manufacturing companies, is typically negligible for financial service companies.

2. Expected excess return to equity

The excess return on equity is calculated by subtracting the return on equity by the cost of equity, both of which are relative to the equity capital invested. The formula is shown below.

$$\text{Excess equity return} = (\text{Return on equity} - \text{Cost of equity}) / (\text{Equity Capital Invested})$$

When conducting an analysis of a company that provides financial services, it is possible to derive the return on equity from the most recent period as well as from periods in the past. But actually the return on equity that is required is the return that is anticipated for the future. In order to do this, a review of the firm's strengths and weaknesses, as well as the competition that it faces and changes in the regulatory capital needs, is required.

3. Research Methodology

The research framework for this final project will explain how to estimate the intrinsic value of PT. BPR Fajar Warapastika's valuation, will provide an accurate estimation of the company's fair valuation. In addition to this, it provides an explanation of the methods and tools that were utilized in order to determine the fair valuation of the firm and makes a suggestion related to company valuation.

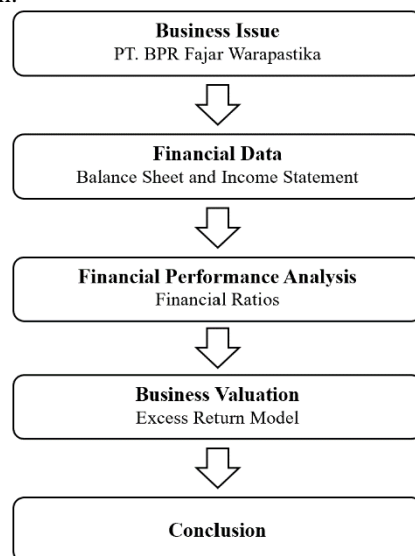


Figure 3. Research Design

Several financial ratios will be calculated in order to evaluate the internal condition of the company. The financial ratios which will be calculated such as Capital Adequacy Ratio (CAR), Non-Performing Loan (NPL), Return on Asset (ROA), Operating Expense to Operating Revenue (BOPO), Loan to Deposit Ratio (LDR), and Cash Ratio. The calculation and evaluation of these ratios will be based on the currently applicable regulation in Indonesia related with soundness level of rural bank. The analysis will be based on Balance Sheet (Table 1) and Income Statement (Table 2) of PT. BPR Fajar Warapastika in 2022.

Table 1. Balance Sheet PT. BPR Fajar Warapastika 2022

in thousand IDR	2022
ASSET	
Cash in rupiah	440,052
Cash in foreign exchange	0
Securities	0
Placement to other banks	7,453,550
-/- Allowance for the Elimination of Productive Assets	0
Total	7,453,550
Credit given	
a. To Rural Bank	0
b. To Commercial Bank	0
c. To non-bank related parties	487,106
d. To non-bank non related parties	23,661,318
-/- Allowance for the Elimination of Productive Assets	177,771
Total	23,970,653
Foreclosed assets	
Fixed assets and inventory	0
a. Land and buildings	3,203,359
b. -/- Accumulated depreciation	381,028
c. Inventory	1,321,884
d. -/- Accumulated depreciation	876,809
Intangible assets	210,437
-/- Accumulation of amortization	186,056
Other assets	521,513
Total asset	35,677,555
LIABILITY	
Obligations due immediately	97,427
Deposit	
a. Saving	11,037,789
b. Deposit	3,959,500
Savings from other banks	8,300,000
Loans received	2,951,950
Capital-obligation deposit funds	0
Other liabilities	121,347
Total liabilities	26,468,013
EQUITY	
Paid up capital	
a. Basic Capital	8,000,000
b. Unpaid Capital	1,476,000
Additional paid-in capital	
a. Agio (Disagio)	0
b. Donated Capital	0
c. Capital-Equity Deposit Funds	0
d. Other Additional Paid-in Capital	0
Other Equity	
a. Gain (Loss) from Changes in Value of Available-for-Sale Financial Assets	0
b. Gain from Fixed Assets Revaluation	0
c. Other	0
d. Income Tax related to Other Equity	0
Reserve	
a. General	0
b. Objective	721,230
Profit (Loss)	
a. Past years	26,306
b. Current year	1,938,006
Total Equity	9,209,542

In order to do the company fair valuation by using Excess Return Model, there are several stages need to be done. (1) Assuming risk free rate, (2) Deciding risk premium rate, (3) Specify beta of the company, (4) Calculating cost of equity, (5) Calculating excess equity return, (6)

Calculating value of equity. After all the stages, the exact number of company equity valuation will be determined.

Table 2. Income Statement PT. BPR Fajar Warapastika

in thousand IDR	2022
OPERATING INCOME AND EXPENSES	
INTEREST INCOME	
a. Contractual Interest	5,698,699
b. Credit Provision	152,282
c. Transaction Fee -/-	0
Total Interest Income	5,850,980
Other Income	784,595
TOTAL OPERATING INCOME	6,635,575
INTEREST EXPENSE	
a. Contractual Interest Expense	794,483
b. Transaction Fees	726
Credit Restructuring Loss Expense	0
Provision for Earning Assets Losses	227,747
Marketing Expenses	30,409
Research and Development Expenses	0
Administrative and General Expenses	3,250,255
Other Expenses	78,900
TOTAL OPERATING EXPENSES	4,382,520
OPERATING PROFIT (LOSS)	2,253,055
NON OPERATIONAL INCOME AND EXPENSES	
Non-Operating Income	105,980
NON OPERATING EXPENSES	
Sales Losses	0
Other	101,129
NON OPERATIONAL PROFIT (LOSS)	4,851
PROFIT (LOSS) FOR THE YEAR BEFORE INCOME TAX	2,257,906
ESTIMATED INCOME TAX	319,900
TOTAL PROFIT (LOSS) FOR THE YEAR	1,938,006
OTHER COMPREHENSIVE INCOME	
WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	
a. Profit from Fixed Assets Revaluation	0
b. Other	0
c. Related Income Tax	0
OTHER COMPREHENSIVE INCOME AFTER TAX	0
TOTAL COMPREHENSIVE PROFIT (LOSS) FOR THE YEAR	0

4. Discussion

Capital Adequacy Ratio

The value of total capital and risk-weighted assets (RWA) is required to calculate CAR. Guidance of calculating the capital and RWA of rural bank can be obtained from Bank Indonesia Circular Letter Number 8/28/DPBPR dated 12 December 2006.

The total capital of PT. BPR Fajar Warapastika as mentioned in Table 3 below is Rp 8,273,290,968. While for the RWA the calculation is shown on Table 4. The RWA of PT. BPR Fajar Warapastika is Rp 20,085,401,164. So, the calculation of RWA is shown below.

$$\begin{aligned} \text{Capital Adequacy Ratio} &= \frac{\text{Total Capital}}{\text{Risk Weighted Assets}} \times 100\% \\ \text{Capital Adequacy Ratio} &= \frac{8,273,290,968}{20,085,401,164} \times 100\% \\ \text{CAR} &= 41.19\% \end{aligned}$$

Table 3. Capital of PT. BPR Fajar Warapastika

Capital	Amount (IDR)	Weight	2022 (IDR)
Core Capital			
1.1. Paid-up capital	6,524,000,000	100%	6,524,000,000
1.2. Contribution Capital	-		-
1.3. Capital Deposit Funds	-		-
1.4. General Reserve	721,230,283	100%	721,230,283
1.5. Destination Reserve	-		-
1.6. Retained earning	-		-
1.7. Profits of Past Years	26,305,861	100%	26,305,861
1.8. Loss of Past Years	-		-
1.9. Profit for the Year After Deducting Shortage of PPAP (max 50% After THP)	1,938,006,423	50%	969,003,211
1.10. Current Year Loss	-		-
Sub Total Core Capital			8,240,539,356
1.11. Goodwill	-		-
1.12. Disadvantages of PPAP	-		-
1.13. Foreclosed Collateral that has exceeded the 1 year period since the takeover is the value recorded on the BPR balance sheet	-		-
1.14. Losses of past years -/-	-		-
1.15. Rugi tahun Berjalan -/-	-		-
Total Core Capital			8,240,539,356
Complementary Capital			
2.1. Capital components that meet the requirements	-		-
2.2. Fixed asset revaluation surplus	-		-
2.3. Allowance for General Earning Assets (maximum 1.25% of RWA)	32,751,612	1.25%	-
2.4. Amount of Supplementary Capital that is Calculated (max. 100% of core capital)	32,751,612	100%	32,751,612
Total Supplementary Capital			32,751,612
Total Capital			8,273,290,968

Table 4. Risk Weighted Assets (RWA)

Category	Amount (In IDR)	Risk Weight	Risk Weighted Assets (RWA)
1. Cash	440,052,400	0%	-
2. Bank Indonesia Certificates (SBI)	-		-
3. Loans provided with liquid collateral in the form of SBI, debt securities issued by the Government of the Republic of Indonesia, savings and/or deposits blocked at the BPR concerned based on an agreement between the BPR and the customer accompanied by a power of attorney for disbursement, and precious metals, for the lowest value between the collateral and debit balance.	632,913,000	0%	-
4. Foreclosed Collateral (AYDA) which has exceeded 1 (one) year from date takeover	-		-
5. Credit provided with collateral in the form of stored gold jewelry or under the control of the BPR.	-		-
6. Placements with other banks in the form of demand deposits, time deposits, certificates of deposit, savings, and other claims to other banks.	7,453,550,113	20%	1,490,710,023
7. Credit to or guaranteed by other banks or local governments.	-		-
8. Portion of loans guaranteed by State/Regional Owned Enterprises (BUMN/BUMD) conducting business as credit guarantors.	-		-
9. Loans with collateral in the form of land and residential houses/shop houses/office houses bound by first mortgage.	4,462,395,042	30%	1,338,718,513
10. Credit to BUMN/BUMD	-		-
11. Credit to BUMN/BUMD or loans guaranteed by BUMN/BUMD that carry out credit guarantee business but do not meet the requirements to be granted risk weight of 20%	-		-
12. Credit to Employees/Retirees who meet the requirements	-		-
13. Loans with collateral in the form of land and residences/shop houses/office houses that have certificates controlled by the BPR and are supported by a power of attorney to sell but not bound by the first mortgage.	688,773,350	50%	344,386,675
14. Credit to Micro and Small Enterprises that meet all the criteria	15,830,734,596	70%	11,081,514,217
15. Credit with collateral in the form of motorized vehicles, boats or motorized boats accompanied by proof of ownership and binding has been carried out fiduciary in accordance with laws and regulations.	-		-
16. Other bills or credit that do not meet the risk weight criteria above	1,955,108,676	100%	1,955,108,676
17. Bills or loans that are past due or with bad quality	63,005,200	100%	63,005,200
a. Bills or credit that are past due	7,508,000		-
b. Bills or credit with bad quality	55,497,200		-
18. Fixed assets, inventory and intangible assets.	3,290,444,204	100%	3,290,444,204
19. Foreclosed Collateral (AYDA) which has not exceeded 1 (one) year since takeover date.	-		-
20. Other assets besides those mentioned above.	521,513,657	100%	521,513,657
RWA amount	35,401,495,438		20,085,401,164

Based on calculation CAR of PT. BPR Fajar Warapastika is 41.19%. According to the Decree of Director Bank Indonesia No. 30/12/KEP/Dir on 30 April 1997, rural bank with CAR value more than 8% can be categorized as healthy.

Non-Performing Loan

Non-performing loan consist of loan quality which categorized as substandard, doubtful, and bad. Non-performing loan and total loan data is required to calculate NPL. These data can be retrieved from productive asset quality report as shown on Table 5.

Table 5. Productive Asset Quality Report

Loan	Amount (in thousand IDR)					
	Good	Under Concern	Substandard	Doubtful	Bad	Total
a. To rural bank	-	-	-	-	-	-
b. To commercial bank	-	-	-	-	-	-
c. To non-bank related parties	488,693	-	-	-	-	488,693
d. To non-bank non related parties	21,345,639	1,993,017	168,174	-	200,250	23,707,080
Total Loan	21,834,332	1,993,017	168,174	-	200,250	24,195,773

From Table 5 the amount of non-performing loan which is categorized as substandard, doubtful, and bad loan is Rp 368,424,000. While for the total loan amount is Rp 24,195,773. So, the NPL calculation is shown below:

$$\begin{aligned} \text{Non - Performing Loan Ratio} &= \frac{\text{Non - Performing Loan}}{\text{Total Loan}} \times 100\% \\ \text{Non - Performing Loan Ratio} &= \frac{368,424,000}{24,195,773,000} \times 100\% \\ \text{NPL} &= 1.52\% \end{aligned}$$

Based on calculation NPL of PT. BPR Fajar Warapastika is 1.52%. According to the Bank Indonesia Regulation No. 15/2/PBI/2013, rural bank with NPL value less than 5% can be categorized as healthy.

Return on Asset

In order to calculate ROA, income before tax and total asset data is needed. Income before tax of PT. BPR Fajar Warapastika can be obtained from Income Statement (Table 2). While for total assets, the amount is average of the monthly asset amount of PT. BPR Fajar Warapastika as shown on Table 6.

Table 6. Assets of PT. BPR Fajar Warapastika 2022

Month	Asset (IDR)
January	28,616,658,000
February	28,757,421,000
March	29,189,402,000
April	29,208,172,000
May	30,444,873,000
June	31,702,389,000
July	31,581,474,000
August	31,546,277,000
September	32,297,931,000
October	33,173,538,000
November	34,681,564,000
December	35,677,555,245
Average	31,406,437,854

Based on income statement 2022, the income before tax of PT. BPR Fajar Warapastika is Rp 2,257,906,000. While for the average of assets in 2022 from Table 6 is Rp 31,406,437,854. So, the ROA calculation is shown below:

$$\begin{aligned} \text{Return on Asset} &= \frac{\text{Income Before Tax}}{\text{Total Asset}} \times 100\% \\ \text{Return on Asset} &= \frac{2,257,906,000}{31,406,437,854} \times 100\% \\ \text{Return on Asset} &= 7.19\% \end{aligned}$$

Based on calculation, ROA of PT. BPR Fajar Warapastika is 7.19%. According to Decree of Director Bank Indonesia No. 30/12/KEP/Dir dated April 30, 1997, NPL 0% is scored 0 and for increased every 0.015% the scored is increased by 1 with maximum score 100. So the score for PT. BPR Fajar Warapastika is 100 and can be categorized as healthy.

Operating Expense to Operating Revenue

In order to calculate BOPO, total operating expense and total operating revenue data is needed. The data can be retrieved from the income statement (Table 2), the amount of total operating expense is Rp 4,382,520,000 and the

amount of total operating revenue is Rp 6,635,575,000. So the calculation of BOPO is shown below:

$$\begin{aligned} \text{BOPO} &= \frac{\text{Total Operating Expense}}{\text{Total Operating Revenue}} \times 100\% \\ \text{BOPO} &= \frac{4,382,520,000}{6,635,575,000} \times 100\% \\ \text{BOPO} &= 66.05\% \end{aligned}$$

Based on calculation, BOPO of PT. BPR Fajar Warapastika is 66.05%. According to Decree of Director Bank Indonesia No. 30/12/KEP/Dir dated April 30, 1997, BOPO 100% is scored 0 and for decreased every 0.08%, the score is increased by 1 with a maximum score of 100. So the score for PT. BPR Fajar Warapastika is 100 and can be categorized as healthy.

Loan to Deposit Ratio

The total loan amount and the total deposit amount data is required in order to calculate LDR. The total deposit data is amount of 3rd party deposit in form of saving and deposit, deposit received from bank and non-bank for more than 3 months. While the data of the total loans amount is the number of total loans given by the bank. The data of loans given and deposit received can be seen in Table 7.

From Table 7 can be retrieved the total loan amount of PT. BPR Fajar Warapastika is Rp 24,195,772,201. And the amount of total customer deposit is Rp 31,689,778,733. So the LDR calculation is shown below:

$$\begin{aligned} \text{Loan to Deposit Ratio} &= \frac{\text{Total Loan}}{\text{Customer Deposit}} \times 100\% \\ \text{Loan to Deposit Ratio} &= \frac{24,195,772,201}{31,689,778,733} \times 100\% \\ \text{Loan to Deposit Ratio} &= 76.35\% \end{aligned}$$

Table 7. Deposits received and loans given

Category	Amount 2022 (in IDR)
3rd Party Deposits	
a. Savings	11,037,789,259
b. Time Deposits (Deposits)	3,959,500,000
Deposits/Loans received not from the Bank > 3 months	8,451,950,118
Deposits and Loans received from banks for more than 3 months	-
Loan Capital	-
Core Capital	8,240,539,356
Amount of funds received	31,689,778,733
Productive Assets	
a. Loans given	24,195,772,201
b. Loans Given to Other Banks	
c. Other	
Total Productive Assets	24,195,772,201

Based on calculation, LDR of PT. BPR Fajar Warapastika is 76.35%. According to Decree of Director Bank Indonesia No. 30/12/KEP/Dir dated April 30, 1997, LDR 115% is scored 0 and for decreased every 1% the scored is increased by 4 with a maximum score of 100. So the score for PT. BPR Fajar Warapastika is 100 and can be categorized as healthy.

Cash Ratio

The total liquid assets and total current debt data are required in order to calculate the cash ratio. The total liquid assets are the amount of cash and assets in other banks in the form of current accounts and savings. While the total current debt is the amount of obligations paid immediately and 3rd party deposits in the form of savings and time deposits. The amount of total liquid assets and total current debt can be seen in Table 8.

Table 8. Liquid assets and current debt

Category	Amount 2022 (in IDR)
Liquid Assets	
a. Cash	440,052,400
b. Inter Bank Assets	
- Current account	2,052,056,127
- Savings	651,493,986
Total Liquid Assets	3,143,602,513
Current Debt	
a. Obligations Paid Immediately	97,426,899
b. 3rd Party Deposits	
- Savings	11,037,789,259
- Time deposit	3,959,500,000
- Deposits From Other Banks	-
- Loans from other banks for more than 3 months	-
Total Current Debt	15,094,716,158

From Table 8 can be retrieved the total liquid assets of PT. BPR Fajar Warapastika is Rp 3,143,602,513. And the amount of total current debt is Rp 15,094,716,158. So the cash ratio calculation is shown below:

$$\text{Cash Ratio} = \frac{\text{Cash and Cash Equivalent}}{\text{Current Liabilities}} \times 100\%$$

$$\text{Cash Ratio} = \frac{3,143,602,513}{15,094,716,158} \times 100\%$$

$$\text{Cash Ratio} = 20.83\%$$

Based on calculation, Cash Ratio of PT. BPR Fajar Warapastika is 20.83%. According to Decree of Director Bank Indonesia No. 30/12/KEP/Dir dated April 30, 1997, the Cash ratio 0% is scored 0 and for an increased every 0.05%, the score is increased by 1 with a maximum score of 100. So the score for PT. BPR Fajar Warapastika is 100 and can be categorized as healthy.

Company Fair Valuation

The Excess Return Model is used in order to determine the company's fair valuation of PT. BPR Fajar Warapastika. The Excess Return Model is an advanced financial valuation tool that helps determine a company's intrinsic value by comparing its expected return on equity (ROE) against the cost of equity capital. By assessing the company's ability to generate returns exceeding the expected cost of equity, this model provides valuable insights into its financial health and market competitiveness.

To apply the Excess Return Model, it is required to estimate the company's cost of equity capital. This is

accomplished using the Capital Asset Pricing Model (CAPM) which considers risk-free rate, market risk premium, and the company's beta. Once the cost of equity capital is determined, it is compared to the expected ROE of PT. BPR Fajar Warapastika.

The Excess Return Model's outcome indicates whether PT. BPR Fajar Warapastika is creating value for its shareholders. A positive excess return implies that the bank generates returns higher than the cost of equity, making it an attractive investment option. Conversely, a negative excess return suggests inefficiency in capital utilization or unfavorable market conditions.

Return on Equity

Return on Equity (ROE) is a ratio that assesses how effectively a company manages the equity or capital belonging to its shareholders in order to generate income. This ratio is closely related to a bank's dividend policy, which can be evaluated using the dividend payout ratio. Investors rely heavily on both ratios when evaluating a bank's profitability and ability to pay dividends as a sign of return on investment. The most frequent way this is done is by using the ROE ratio. The higher this ratio is, the more effectively the bank is managing either its equity or its capital in order to make a profit.

The calculation of ROE for rural banks involves dividing the net income by the book value of equity. Net income of PT. BPR Fajar Warapastika can be retrieved from income statement (Table 2) which the amount is Rp 1,938,006,000. While for the book value of equity the data can be obtained from the balance sheet (Table 1) with amount of equity for PT. BPR Fajar Warapastika is Rp 9,209,542,000. The calculation of ROE is shown below:

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

$$\text{Return on Equity} = \frac{1,938,006,000}{9,209,542,000} \times 100\%$$

$$\text{ROE} = 21.04\%$$

From the calculation, ROE of PT. BPR Fajar Warapastika is 21.04%. This value will be used during the calculation of company fair valuation by using the excess return model.

Cost of Equity

The return (commonly represented as a rate of return) that a company theoretically gives to its equity investors or shareholders to compensate for the risk incurred by investing their money is known as the cost of equity. A cost of equity calculation requires three inputs: a risk-free rate, a market risk premium, and a sensitivity index relative to the market (beta).

The capital asset pricing model (CAPM) is the most popular model used to calculate the cost of equity. As the CAPM calculates, the expected return for every investment is equal to the risk-free rate times the security's

beta multiplied by the market risk premium. The CAPM formula is shown below:

$$r_e = R_f + \beta (R_m - R_f)$$

where

- re = cost of equity
- Rf = risk-free rate
- β = stock sensitivity to the market
- Rm = Market return rate
- Rm-Rf = Market risk premium

The Capital Asset Pricing Model (CAPM) is used to determine the cost of equity and requires three inputs, including:

1. Risk-free return

According to Regulation of OJK No.35/POJK.04/2020, risk-free rate duration reference depends on the duration of the evaluated object. Since the valuation uses 5 years projection, the risk-free rate uses the Indonesian government 5 years bond rate. Based on PHEI (Penilai Harga Efek Indonesia), the 5-year Indonesian government bonds yield is 6.05% [16]. According to Damodaran, a risk-free rate for a country with a non-AAA rating should consider the default spread of that country [17]. Since Indonesia's Moody's rating is Baa2 with a default spread of 1.62% (Table 9), then the risk-free rate of Indonesia is:

$$\begin{aligned} \text{Risk-free rate} &= \text{Indonesia government bond yield} \\ &\quad - \text{Default spread} \\ &= 6.05\% - 1.62\% \\ &= 4.43\% \end{aligned}$$

So, the risk-free rate which will be used during calculation is 4.43%

Table 9. Country default spread and risk premium [18]

Country	Moody's rating	Default Spread	Country Risk Premium	Equity Risk Premium	Corporate Tax Rate
Abu Dhabi	Aa2	0.53%	0.75%	5.75%	15.00%
Albania	B1	4.82%	6.83%	11.83%	15.00%
Algeria	NR	3.85%	5.46%	10.46%	26.00%
Andorra (Principality of)	Baa2	2.04%	2.89%	7.89%	18.98%
Armenia	B3	6.95%	9.86%	14.86%	25.00%
Hong Kong	Aa3	0.64%	0.91%	5.91%	16.50%
Hungary	Baa2	2.04%	2.89%	7.89%	9.00%
Iceland	A2	0.91%	1.28%	6.28%	20.00%
India	Baa3	2.35%	3.33%	8.33%	30.00%
Indonesia	Baa2	2.04%	2.89%	7.89%	22.00%
Iran	NR	6.95%	9.86%	14.86%	20.23%
Iraq	Ca1	8.02%	11.38%	16.38%	15.00%
Ireland	Aa3	0.64%	0.91%	5.91%	12.50%
Isle of Man	Aa3	0.64%	0.91%	5.91%	0.00%
Turkey	B3	6.95%	9.86%	14.86%	23.00%
Turks and Caicos Islands	Baa1	1.71%	2.43%	7.43%	0.00%
Uganda	B2	5.88%	8.35%	13.35%	30.00%
Ukraine	Ca	12.84%	18.21%	23.21%	18.00%
United Arab Emirates	Aa2	0.53%	0.75%	5.75%	0.00%
United Kingdom	Aa3	0.64%	0.91%	5.91%	25.00%
United States	Aaa	0.00%	0.00%	5.00%	25.00%
Uruguay	Baa2	2.04%	2.89%	7.89%	25.00%
Uzbekistan	Ba3	3.85%	5.46%	10.46%	15.00%
Venezuela	C	17.50%	24.82%	29.82%	34.00%
Vietnam	Ba2	3.22%	4.57%	9.57%	20.00%
Yemen, Republic	NR	10.70%	15.18%	20.18%	20.00%
Zambia	Ca	12.84%	18.21%	23.21%	35.00%
Zimbabwe	NR	8.02%	11.38%	16.38%	25.00%

2. Beta

Beta estimates the correlation between PT. Fajar Warapastika share's return and the market's return. Since PT. Fajar Warapastika is a private company whose shares are not traded in the market; some other publicly traded companies will be used as a proxy for the industry average levered beta. Until now, there is no rural bank with

publicly traded shares. The publicly traded commercial banks also have significantly different amounts of assets and equity from PT. BPR Fajar Warapastika. Regional development bank (BPD) will be

used as the proxy because of the similarity of the scope of the area in which the regional development bank and rural bank want to develop the local area economically. There are only 3 publicly traded regional development banks; they are PT. BPD Jawa Barat dan Banten, PT. BPD Jawa Timur, PT. BPD Banten.

Each company's unlevered beta will be calculated using the debt-to-equity ratio and tax rate. Indonesia's corporate tax rate is 22%. The formula to calculate unlevered beta is shown below:

$$\beta_U = \frac{\beta_L}{1 + (1 - T) \times \frac{D}{E}}$$

where

- βU = Unlevered beta
- βL = Levered beta
- T = Tax rate
- D/E = Debt to equity ratio

The calculation of the company's unlevered beta and industry average beta is shown in Table 9 below.

Table 10. Unlevered beta and industry average beta

Company	β _L	Debt (million IDR)	Equity (million IDR)	D/E	β _U
PT. BPD Jawa Barat dan Banten	0.88	23,534,688	14,745,986	159.60%	0.39
PT. BPD Jawa Timur	0.94	662,469	11,445,861	5.79%	0.90
PT. BPD Banten	-0.29	1,330	1,641,776	0.08%	-0.29
Average				55.2%	0.33

Based on the calculation, the industry average beta is 0.33, and the industry average debt-to-equity ratio is 55.2%. The levered beta of PT. BPR Fajar Warapastika will be calculated by using this data. The formula and calculation are below.

$$\begin{aligned} \beta_L &= \beta_U \times [1 + (1 - T) \times \frac{D}{E}] \\ \beta_L &= 0.33 \times [1 + (1 - 0.22) \times 0.552] \\ \beta_L &= 0.48 \end{aligned}$$

So, the beta of PT. BPR Fajar Warapastika which will be used for the calculation is 0.48.

3. Market risk premium

According to Aswath Damodaran, the equity risk premium of a country is the amount of mature equity market premium for an AAA-rated country added by country premium. The equity risk premium for the United States with AAA Moody's rating is 5.00%. Indonesia, with Moody's rating of Baa2, has a country risk premium of 2.89% (Table 9). So the market risk premium is:

$$\begin{aligned} \text{Market risk premium} &= \text{Base premium for mature equity market} + \text{Country premium} \\ &= 5.00\% + 2.89\% \\ &= 7.89\% \end{aligned}$$

So, the country risk premium which will be used for calculation is 7.89%.

The CAPM formula can be used to determine the cost of equity for PT. BPR Fajar Warapastika after computing the previously specified inputs:

$$r_e = R_f + \beta (R_m - R_f)$$

$$r_e = 4.43\% + 0.48 (7.89\%)$$

$$r_e = 8.22\%$$

Excess Return Model

The firm valuation of PT. BPR Fajar Warapastika can be examined after the return on equity and cost of equity calculations have been made. Several conditions are implemented when the excess return model is used, including the following:

1. The net income is determined by multiplying the expected Return on Equity (ROE) by the book value of equity for each year.
2. The cost of equity is found by multiplying the cost of equity rate by each year's amount of equity.
3. Excess Equity Return is the difference between net income and the cost of equity. The present value is the amount of the expected excess return in the present.

4. The book value of equity is either the current year's book value of equity or the amount of the book value of equity from the previous year added by retained earnings after assuming dividend payments.
5. The cost of equity is determined according to what has been specified above, and it is supposed to stay the same during the projection year.
6. Return on Equity (ROE) is determined according to what has been specified above, and it is supposed to stay the same during the projection year.
7. Dividend Payout Ratio governed in Laws of the Republic of Indonesia No. 40 year 2007 about Limited Liability Company, mentioned that minimum retained earnings is 20% from profit. So, the Dividend Payout Ratio is assumed to be 80%.
8. Retained earnings are the remaining amount of net income after the assumed dividends are paid.
9. It is assumed that all retained earnings will be allocated into core capital.

With all assumption and data which already described above, the fair value calculation by using Excess Return Model shown in Table 11.

Table 11. Excess Return Valuation of PT. BPR Fajar Warapastika

(in thousand IDR)	2022	2023	2024	2025	2026	2027
Net Income	1,938,006	2,019,239	2,104,209	2,192,754	2,285,025	2,381,179
Equity Cost (-)	757,024	788,885	822,081	856,675	892,724	930,289
Excess Equity Return		1,230,354	1,282,127	1,336,079	1,392,301	1,450,889
Present Value		1,136,901	1,094,753	1,054,167	1,015,087	977,455
Total Present Value	5,278,362					
Book Value of Equity	9,209,542	9,597,143	10,000,991	10,421,833	10,860,383	11,317,388
Cost of Equity	8.22%	8.22%	8.22%	8.22%	8.22%	8.22%
Equity Cost	757,024	788,885	822,081	856,675	892,724	930,289
Return on Equity	21.04%	21.04%	21.04%	21.04%	21.04%	21.04%
Net Income	1,938,006	2,019,239	2,104,209	2,192,754	2,285,025	2,381,179
Dividend Payout Ratio	80%	80%	80%	80%	80%	80%
Dividend Paid	1,550,405	1,615,391	1,683,367	1,754,203	1,828,020	1,904,943
Retained Earning	387,601	403,848	420,842	438,551	457,005	476,236

Firm Value = Equity book value

$$+ \text{Present value of excess equity return}$$

$$= 9,209,542,000 + 5,278,362,000$$

$$= 14,487,904,000$$

Based on calculation using Excess Return Model, the company fair value of PT. BPR Fajar Warapastika is Rp 14,487,904,000.

5. Conclusion

This research aims to provide the suggestion of fair valuation from PT. BPR Fajar Warapastika. While during the analysis, the company's financial performance is also being evaluated. Several financial ratios are being analyzed to understand the company's financial condition. The results of the analysis are as follow:

1. The capital aspect of PT. BPR Fajar Warapastika is being evaluated by analyzing Capital Adequacy Ratio (CAR). The CAR of PT. BPR Fajar Warapastika is 41.19%. It means that the company is considered to be

above the minimum requirements needed to suggest solvency because it has adequate capital to cover unexpected losses.

2. The assets aspect of PT. BPR Fajar Warapastika is being evaluated by analyzing Non-Performing Loan (NPL). The NPL of PT. BPR Fajar Warapastika is 1.5%. It means that the company has a low amount of loan that is subject to late repayment or is unlikely to be repaid by the borrower in full, and it can be concluded that all of the outstanding loans pose a low risk to the bank.
3. The rentability aspect of PT. BPR Fajar Warapastika is being evaluated by analyzing Return on Asset (ROA) and Operating Expense to Operating Revenue (BOPO). The ROA of PT. BPR Fajar Warapastika is 7.19%, while the BOPO is 66.05%. It means that the company is able to manage the asset efficiently in order to generate profits. The company is also able to manage the operation activity in gathering and distributing funds.
4. The liquidity aspect of PT. BPR Fajar Warapastika is being evaluated by analyzing Loan to Deposit Ratio (LDR) and Cash Ratio. The LDR of PT. BPR Fajar Warapastika is 76.35%, and the Cash Ratio is 20.83%. It means that the company has the ability to cover short-term obligations.
5. The company valuation is calculated by using Excess Return Model. The parameters which are being examined in order to do the valuation by using this method are the cost of equity, Return on Equity (ROE), and the book value of equity. Based on previous analysis, the company's fair valuation of PT. BPR Fajar Warapastika is Rp 14,487,904,000.

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