



ANALYZE THE INFLUENCE OF CAPITAL ADEQUACY RATIO, NON PERFORMING LOAN, OPERATING EFFICIENCY, NET INTEREST MARGIN AND LOAN TO DEPOSIT RATIO TO RETURN ON ASSET

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Abstract

The objectives of this research to analyze the influence of CAR, NPL, BOPO, NIM and LDR to ROA of banking firms that listed on Indonesian Echange Stock's. This research using data from published Annual reports Banking Firms that published in the period of 2007-2012. The number of population for this research is 34 companies and the number of sample is 30 companies. Analyze technique to use in this research is multiple linier regression. The result of this research shows that CAR, NIM and LDR variables has a positive and significant influence to ROA, in other hand BOPO variables has a negative and significant influence to ROA on banking firm. While, NPL has a negative and not significant influence to stock ROA on banking firm.

Key words:..Capital Adequacy Ratio(CAR), Non Performing Loan (NPL), Operating Efficiency (BOPO), Net Interest Margin (NIM), Loan to Deposit Ratio (LDR), Return On Asset (ROA)

INTRODUCTION

The banking institution is one of means having a strategic role in partipating for development implementation. In respect with its strategic role as the public fund mobilizing institution, thus banking institution must always obtain an effective building and supervising in order Indonesian banking institution could function efficiently, healthy, fairly, and capable to face with more globalized competition (Rivai, Veithzeal, and Idroes, 2007). The bank's financial and nonfinancial healthy and condition is view of interests of all stakeholders, because they can be utilized by stakeholders for such bank performing evaluation in application of prudency and fairness principles toward existing specificatios and risk management (Tarawneh, 2006).

Methodological development in bank conditional valuation has a dynamic character, so that bank's healthy valuation system must always be fitted for relecting true bank condition, both currently and in the future. Such re-regulation are, among others, including the valuation approach perfection (quantitative and qualitative) and providing an additional valuation factors if they are required for (Tarawneh, 2006). For banking world, outcomes of such valuation can be used as a tool for the succeeding business strategic determination, meanwhile for Bank of Indonesia, it can be applied as a tool in policy specification and





implementation of supervisory strategy in order that when they are specified, banks can apply an appropriate banking valuation system (Rivai, Veithzeal, and Idroes, 2007).

Results from Sofyan's (2003) research showed that, banking performance can be measured by loan interest rate's average, deposit interest rate's average, and banking profitability. Profitability is the most appropriate indicator for a company's performance measurement. Such profitability measure used to illustrate a company performance ROE and ROA.

There are a substantial field cases showing that causes of reduction in banking performances, among others, are: (1) increased banking's non-performance loans, (2) the impact of bank liquidation brings about a reduction in community confidence toward banking world and government, thus it will triggers substantial fund drawing (3) a higher reduction of bank capitalization and among of them even with negative networth, because there is demand for allowance formation, negative spread, unprofitable, etc; (4) There are many banks are unable to fulfill their liabilities, especially in lower rupiah exchange rate; (5) the BMPK (Lending Maximum Limit) Violation; (6) Bank's capital or Capital Adequacy Ratio (CAR) has not reflected its real capability to absorb various loss risks; (7) unprofessional management and (8) Moral hazard (Bank of Indonesia, 2013).

In fact, the proxied public banking performance throughtout ROA figures perceived a waving and fluctuated periods, and there are some of them which perceive a reduced performance. In addition, there were also some banks perceived an extreme performance condition or minus-ROA figures. This instance becomes attractive for further research about whatever public banking condition in Indonesia has had an effective performance.

Results from Mawardi's (2005) research concluded that, factors affecting the public banking performance in Indonesia in which CAR and NIM have positive effect on ROA, meanwhile BOPO and NPL provide a negative effect on ROA. Research conducted by Werdaningtyas (2002) about factors affecting the *Take Over premerger* Bank's profitability in Indonesia showed that CAR provide a positive effect on ROA, LDR gives a negative effect on ROA, and Market Share does not affect on ROA.

Meanwhile, Usman's (2003) research showed that NIM provided a positif effect on ROA because of ROA itself is affected by profit, furthermore LDR gives a significant influence on the bank's profit, so it is also predicted that LDR has a significant influence on ROA, and NPL does not give a significant influence on profit changes. Meanwhile, research conducted by Suyono (2005) demonstrated that factors having significant influences on ROA consist of CAR, BOPO, and LDR. For NIM, NPL, profit and loan growth variables do not showed significant results on ROA.

Referring to those above descriptions, strengthening for this research implementation, namely, analyzing the effect of CAR, BOPO, NPL, NIM, and LDR ratios on listed banking performance in the BEI. In relation with those said above, thus this research will express how extent is the Capital Adequacy Ratio (CAR), Non Performing Loan (NPL), BOPO, Net Interest Margin (NIM), Loan Deposit Ratio (LDR) effects on banking performance measured by the Return on Asset (ROA).



LITERATURE REVIEW

The Bank is a legal entity which collect fund from community in saving account and distribute them to community in loan and other forms in attempt to improve all peoples living level (UU RI, No.10, 1998). The Carton and Hofer's (2006) Performance of Firm Theory said that, "In general, the concept of organizational performance is based upon the idea that an organization is the voluntary association of productive assets, including human, physical and capital resources, for the purpose of achieving a shared purpose". For determining organization or company performance, thus it is important to make a performance valuation.

The banking performance is an outcomes produced by bank in specific period by referring to predetermined standard. It must be measurable outcomes and illustrate an empirical bank condition from a variety of agreed measurement. For evaluating the banking performance level, it is made a series of evaluative action for business output valuation in specific period. It can be services as attributes from the banking working success.

Capital Adequacy Ratio (CAR) and its influence on Return On Asset (ROA)

Capital Adequacy Ratio (ROA) is a ratio showing how extent is the bank's capitalization ability to absorb its loan failure risks that may occur. The higher this ratio value, the higher such banking healthy, and otherwise.

CAR (Capital Adequacy Ratio) is a ratio showing how large is total bank's asset containing risks (loan, investment, securities, account receivable on other banks) would be financed from itself capital in addition from fund outside bank's sources. The CAR figures determined by Bank Indonesia is minimally 8%, if it is under 8%, meaning such bank is unable to absorb possible lost existed from its activity, and then if it is above 8%, showing that such bank is more solvable (Bank Indonesia, 2004)

Therefore, the higher bank's solvability, it has indirect effect on increasing of that bank performance, because loss suffered by bank can be absorbed from itself capital. The research conducted by Achmad et al (2003) showed that Capital Adequacy Ratio (CAR) highly affect on bank's bankruptcy. Total capital owned by a bank can be used to predict whether such bank will or not experience bankruptcy in the future. Thus, it can be made a logical thinking that throughout a good bank's capital adequacy, it will be able to operate efficiently.

Result from Achmad et.al. (2003) research showed that such Capital Adequacy Ratio (CAR) values affect indirectly Return on Asset (ROA), because profit is the ROA ratio's formatting component; thus larger CAR will affect to create a higher bank's Return on Asset (ROA).

Results of the Zimmerman's (2000) research expressed that capital is a variable that can be applied as basis for bank's performing measurement, reflecting from CAMEL rating (Capital, Asset, Management, Earning, Liquidity) components. Therefore, total capital owned by a

bank will affect its total productive asset, thus it will increase asset utilization (Koch, 2000), so such capital must be larger one. Therefore, it can be concluded that larger CAR, thus ROA would also be larger one, and it will in turn make bank's financial performance will be increased and better one.

It is also true with Mawardi's (2005) research findings concluded that, CAR does not affect on ROA as a proxy from bank's financial performance because CAR is statistically not significant. This instance, according to Mawardi (2005) occurred because the Peraturan Bank Indonesia made specification that CAR must be minimally 8%, therefore bankers must add their bank's capital from fresh money for fulfilling such minimal 8% capital requirement. Meanwhile, true condition when such research was conducted (1998-2001) showed that public confidence level on bank is low due to occurrence of the banking crisis. Therefore, it is fair such CAR did not affect on ROA, because whatever total capital owned by a bank if public confidence level is still low, such bank would not able to run effectively its intermediate function.

Non Performing Loan (NPL) and its influence on Return On Asset (ROA)

The risk is, according to Peraturan Bank Indonesia Nomor 5 of 2003, an potential occurred event that can result in the banking's loss. It is always inherent in the banking world, and it is caused by external and internal environmental situational factors, a more competitive banking business development. One of banking business risk in according to Peraturan Bank Indonesia is the lending risk, defined as: existed risk as consequence from the counterparty failure in fulfilling its liability. Meanwhile lending (loan) risk is the risk faced by bank in distributing its fund in loan formation to the people. Due to various instances, debtor may be not capable to fulfill his liability to bank, such as payment of principal, interest, and others. Debtor inability to fulfill his liability would make perceive some loss because related bank can't collect its expected revenues.

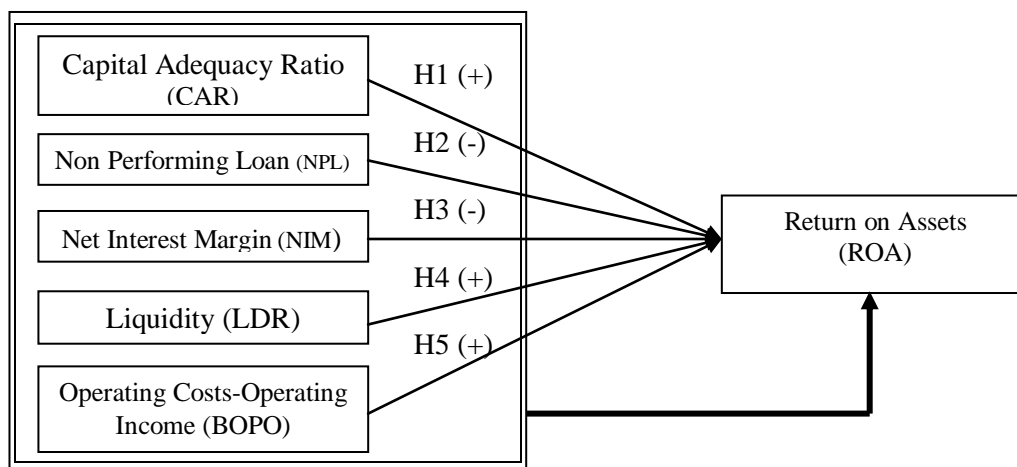


Figure 1. The Research Framework



THE METHOD OF RESEARCH

Population for this research consisted of listed banking companies in Bursa Efek Indonesia (BEI) in research period (2007 - 2012). Total going-public banks since 2007 and still existed in 2012 amount to 34 banks. Samples of research is taken by the purposive sampling method, in which samples are used if they fulfill these following criteria: The banking companies which has been going public in BEI since original research period (2007) and they are still existed in BEI up to 2012. In addition, there are available financial reporting data for research period (2007-2012). Based on criteria in sampling as it is stated above, thus total sample used in this research amount to 30 banks. The banking performance analysis is performed with financial ratio calculation, such as CAR, BOPO, NPL, NIM, and LDR, and these individual ratios furthermore are tested their influence on ROA (Return on Asset) ratio.

The analytical method used is the multiple linear regression model in which its equation can be written as the following:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$$

where:

Y	=	Banking's ROA in the BEI
a	=	constant
X1	=	<i>Capital Adequacy Ratio (CAR)</i>
X2	=	<i>Non Performing Loan (NPL)</i>
X3	=	<i>Operating Costs-Operating Income (BOPO)</i>
X4	=	<i>Net Interest Margin (NIM)</i>
X5	=	<i>Loan to Deposit Ratio (LDR)</i>
b1, ..., bn	=	coefficient of regression
e	=	<i>error term</i>

Here, coefficient of regression value is very determining factor as an analytical bases, especially considering this research is a fundamental method. It means that if *b* coefficient has a positive (+) value, thus it can be said that there is unidirectional influence between independent variable and dependent variable. Otherwise, if *b* coefficient has a negative (-) value, it shows a negative influence in which an increased independent variable value will result in reduction in dependent variable value.

DISCUSSION OF RESEARCH FINDINGS

Return on Asset's (ROA's) movement average in each banking companies listed in BEI in 20007-2012 period is presented in Table 1.

Table 1.
ROA, CAR, NPL, BOPO, NIM, dan LDR Averages
in 2007-2012 Period

Year	Percentages (%)					
	ROA	CAR	NPL	BOPO	NIM	LDR
2007	1.78	20.18	3.54	85.25	6.13	70.54
2008	-3.36	16.28	4.02	123.87	6.01	78.42
2009	1.35	17.59	4.27	91.47	5.85	74.32
2010	1.60	17.41	4.78	87.20	5.95	75.06
2011	2.18	17.13	2.41	84.52	5.90	78.72
2012	2.18	16.78	2.24	81.36	6.24	82.35

Sources :Processed BEI's Data

Table 2.
Output of Data Descriptive Analysis
(after eliminating the outlier)

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Deviation
ROA	174	-,129	,06	,0018	,00192
CAR	174	,008	,50	,1788	,00742
NPL	174	,000	,51	,0030	,00464
BOPO	174	,036	268,56	,8573	,02626
NIM	174	-,017	,166	,0617	,02458
LDR	174	,40	1,08	,7662	,14841
Valid N (listwise)	174				

Table 3.
Coefficients^a

Model	Unstandardized		Standardized	t	Sig.	
	Coefficients		Coefficients			
	B	Std. Error	Beta			
	(Constant)	,001	,015		,060	,952
	LN_CAR	,001	,004	,011	,184	,854
1	LN_NPL	-,014	,002	-,479	-7,909	,000
	LN_BOPO	-,025	,005	-,322	-5,438	,000
	LN_NIM	,012	,003	,221	3,576	,000
	LN_LDR	,009	,006	,091	1,432	,154

a. Dependent Variable: ROA

Hypothesis 1

The first proposed hypothesis states that CAR has positive and significant influence on ROA. From research finding, it is obtained coefficient of regression transformation for CAR variable as 0.001 with significance value as 0.854, where this value is not significant in 0.05



significance level, because predetermined significance level is larger. Therefore, the first hypothesis states that CAR has influence on ROA of listed banking companies in BEI is rejected.

The cause of the ROA variable insignificance in analytical period can be resulted from there are some companies, such as PT. Pundi Indonesia Tbk. and PT. Bank ICB Bumiputra had ever perceived minus condition in some periods. This condition may become one factor affecting CAR to be insignificant on Profit (ROA).

Hypothesis 2

The second proposed hypothesis states that NPL has a negative and significant influence on ROA. From research findings, it is obtained coefficient of regression transformative values for the NPL variable as -0.014 with significance value as 0.000, where this value is significant in 0.05 significance level because it is smaller than 0.05. Therefore, it can be concluded that NPL has negative and significant influence on ROA. Thus, the second hypothesis stating that NPL has a negative and significant influence on ROA can be accepted.

Result of this research demonstrated that current NPL level of the banking company is still classified as low, under 5%. The banking company always maintain that such NPL stay under 5%. Thus, a low NPL ratio illustrate a small nonperforming loan that is provided to debtor. If a specific bank shows a low NPL, it will reduce costs, both productive asset allowance or other expenses. In other words, a lower NPL owned by bank, thus it will increase such bank's performance. This research finding support Mawardi's (2005) that conclude such NPL has significantly negative influence on ROA.

Hypothesis 3

The third proposed hypothesis states that BOPO has negative and significant influence on ROA. From research finding, it is obtained coefficient of regression transformative values for BOPO variable as -0.25 with significance value as 0.000, where this value is significant in 0.05 significance level because it is smaller than 0.05. Therefore, the third hypothesis stating that BOPO has negative and significant influence on ROA can be accepted.

This research findings showed that if the BOPO increase, thus received ROA will reduce. This case is caused by level of bank efficiency in operating run, has impact on earning level produced by such bank. If operating activities were run effectively (in this case, BOPO is low), thus earning produced by such bank will increase. In addition, a large BOPO ratio is also caused by high collected funding expenses and low interest incomes from fund investment. Thus, the larger BOPO, the banking financial performance will also reduce, and opposite side will also occur, if the BOPO is lower; therefore, it can be drawn conclusion that a bank's financial performance will increase or better. Result of this finding support research findings conducted by Sarifudin (2005), where it investigated affecting factors in Profit changes from listed banking companies in BEI in 2000-2002 periode, and Kabir et, (2012) whom investigate bank's ratio analysis that has influence on ROA, where their

research demonstrated that BOPO has negative and significant influence on return on asset (ROA).

Hypothesis 4

The fourth proposed hypothesis states that NIM has positive and significant influence on ROA. From research finding, it is obtained coefficient of regression transformative values for NIM variable as 0.012 with significance value as 0.000, where this value is significant in 0.05 significance level because it is smaller than 0.05. Therefore, the fourth hypothesis stating that NIM has positive and significant influence on ROA can be accepted.

This research finding demonstrated that NIM showing bank's management capability in managing its productive assets for raising net interest incomes will be larger, thus it will increase interest incomes on productive asset managed by such bank, thus banking possibility will face with problems will be lower. Thus, the larger changes of bank's NIM, thus its profitability (ROA) would be larger one, meaning that its financial performance will be better and improve. Result of this finding support research findings conducted by Mawardi (2005), Usman (2003), where they show that NIM has a positive influence on ROA.

Hypothesis 5

The fifth proposed hypothesis states that LDR has positive and significant influence on ROA. From research finding, it is obtained coefficient of regression transformative values for LDR variable as 0.009 with significance value as 0.154, where this value is significant in 0.05 significance level because it larger than 0.05. Therefore, the fifth hypothesis stating that LDR has positive and significant influence on ROA can be rejected.

The standard specified by Bank Indonesia for ratio of loan distribution percentages on third party funds ranges between 80%-110%, so such bank can be stated to have a good profitability level, and its financial performance is also good (Bank Indonesia, 2004). However, it is seen from analytical periods, in average, such percentages just reaches about 76.62%, therefore, performance in loan distribution has not been maximal (have not reached specified standard), and it means that such company has also not reached a maximal profit. Seeing to this condition, it may be become factor causing LDR variable does not provide a significant influence on company's profit as proxied by ROA variable.

Overall

F-statistic test basically showed whether all independent variables included into model have simultaneously influence on its dependent variable. This F-test calculation output can be seen in Table 4.

Table 4.
The ANOVA^a F-Test Output

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,032	5	,006	28,840	,000 ^b
	Residual	,036	164	,000		



Total ,068 169

a. Dependent Variable: ROA

b. Predictors: (Constant), LN_LDR, LN_NPL, LN_BOPO, LN_CAR, LN_NIM

The coefficient of determination (R^2) does actually measure how far does model have capability to explain its dependent variable variation. R^2 value approaches one means that its independent variables provides nearly all information required to predict variation in dependent variable (Ghozali, 2006). The calculating output of coefficient of determination can be seen in Table 5.

Table 5.
The Calculation Output of Coefficient of Determination (R²)
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,684 ^a	,468	,452	,01487

a. Predictors: (Constant), LN_LDR, LN_NPL, LN_BOPO, LN_CAR, LN_NIM

Table 6.
The Calculation Output of Partial Regressive Transformation
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
	(Constant)	,001	,015	,060	,952
	LN_CAR	,001	,004	,011	,854
1	LN_NPL	-,014	,002	-,479	,000
	LN_BOPO	-,025	,005	-,322	,000
	LN_NIM	,012	,003	,221	,000
	LN_LDR	,009	,006	,091	,154

a. Dependent Variable: ROA

Equation of multiple regressive transformation is as following:

$$\text{ROA} = 0.001 + 0,001 \text{ LnCAR} - 0,014 \text{ LnNPL} - 0,25 \text{ LnBOPO} + 0,012 \text{ LnNIM} + 0,009 \text{ LnLDR}$$

Managerial Implication

The operating efficiency for management, (1) Larger BOPO ratio owned by a bank, thus it is smaller its ROA ratio level, or it can be stated that such bank financial performance will reduce; (2) If a specific bank suffer a high NPL risk, thus it will increase its costs, both its productive asset allowance costs or other expenses; in other words, the higher NPL suffered by a bank, thus it will disturb its performance, too; (3) Net Interest Margin reflects existing market risk due to presence of market variable movement, where it can make bank to suffer loss.





For emittent party (Bank's management), NIM ratio demonstrates how much is net interest margin obtained by such bank, where interest is margin from primary bank activity as funder party to needing parties. Because of such primary activity, so this NIM ratio is an important factor for such bank survival. Therefore, it is important that (company's management) must always maintain such NIM ratio reside in high position, so its profit will also be high, too. Throughout a high profit obtained, thus such bank's financial performance will also increase, too.

For investor party, NIM ratio can be used as a referring tool in determining their investment strategy. The higher NIM ratio, thus it will be higher too such bank capability to raise its net interest earning, therefore, there are more investors would be interested to invest in that bank.

For regulators (Bank Indonesia), it is expected to motivate banks (especially listed in BEI) to be more proactive in doing its loan expansion, so net interest margin obtained by such bank will be higher one. With high net interest earning, thus it can be made sure that such bank's financial performance will increase, too.

CONCLUSION

This research investigates that, whether Capital Adequacy Ratio, Non Performing Loan, BOPO, Net Interest Margin dan Loan to Deposit Ratio are able to affect Return On Asset of banking companies listed in Bursa Efek Indonesia in 2007-2012 period. The hypothesis testing output by using of multiple regression analysis with five independent variables (Capital Adequacy Ratio, Non Performing Loan, BOPO, Net Interest Margin and Loan to Deposit Ratio) and one dependent variable, Return On Asset, showed that:

1. Capital Adequacy Ratio is not significant on Return On Asset. In investigation period, CAR ratio has been averagely ranging 17.88%, where it has sufficiently far succeeded from standard specified by Bank Indonesia, 8%, therefore its influence is not significant on Return on Asset. In addition, another affecting factor on Capital Adequacy Ratio to be not significant on Profit. Ration in analytical period can be affected because there are some companies, such as PT. Pundi Indonesia Tbk and PT. Bank ICB Tbk were seen to perceive minus condition in some periods. It can be one of affecting factors that affect Capital Adequacy Ratio become insignificant on Profit.
2. Non Performing Loan has negative and significant influence on Return on Asset. In investigation period, banking companies's Non Performing Loan is still classified low, namely, under 5%. Thus, when NPL is low, it will create lower costs, both on productive asset allowance costs or other expenses; in other words, a lower Non Performing Loan suffered by a bank, thus it will increase its performance, and in turn improve company's Profit on Return On Asset.
3. BOPO has negative and significant influence on Return On Asset. Therefore, the larger BOPO, the lower or reduce banking financial performance. Otherwise, it is also true if





BOPO become smaller one, thus it can be concluded that a company (banking) financial performance will increase or improve too.

4. Net Interest Margin has positive and significant influence on Return On Asset. Therefore, the larger changes in Net Interest Margin perceived by a bank, thus it would be larger bank profitability obtained by such bank, too. It means that its financial performance becomes better and increase, too.
5. Loan to Deposit Ratio is not significant on Return On Asset. In analytical period, it is seen average ratio of Loan to Deposit Ratio (LDR) ranges in 76.62%, thus it is still under standard specified by Bank Indonesia, 80-110%. Therefore, with low ration of the Loan to Deposit Ratio, it illustrates that productive fund utilization has not been maximal, and it also affect to achievement of profit enjoyed by bank has not been maximal too.
6. Simultaneously, all Capital Adequacy Ratio, Non Performing Loan, BOPO, Net Interest Margin and Loan to Deposit Ratio variables have influences on Return On Asset .

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