THE IMPACT OF CAMELS FINANCIAL RATIO TO THE BANK PERFORMANCE:
AN EMPIRICAL STUDY ON THE BANKS WITH CAPITAL BETWEEN 1 TRILLION TO 50 TRILLION RUPIAHS IN 2005-2009

THESIS

Presented as Partial Fulfillment of the Requirements for the Degree of Sarjana Ekonomi (S1) in Management Program

Faculty of Economics, Atma Jaya Yogyakarta University

Compiled by:

Yohanes Kristiawan Hartono

NPM: 07 12 16668

FAKULTY OF ECONOMICS

UNIVERSITAS ATMA JAYA YOGYAKARTA

DECEMBER 2010

THESIS

THE IMPACT OF CAMELS FINANCIAL RATIO TO THE BANK PERFORMANCE: AN EMPIRICAL STUDY ON THE BANKS WITH CAPITAL BETWEEN 1 TRILLION TO 50 TRILLION RUPIAHS IN 2005-2009

I hereby recommend that the thesis prepared under my supervisor by

YOHANES KRISTIAWAN HARTONO

Student ID Number: 07 12 16668

Be accepted as partial fulfillment of the requirement of the degree of Sarjana Ekonomi (S1) in Management Program

Supervisor

Prof. Dr. J Sukmawati S., MM

Yogyakarta, 09 December 2010

Faculty of Economics

Universitas Atma Jaya Yogyakarta

This is to certify that the thesis entitled

THE IMPACT OF CAMELS FINANCIAL RATIO TO THE BANK PERFORMANCE:
AN EMPIRICAL STUDY ON THE BANKS WITH CAPITAL BETWEEN 1 TRILLION TO 50 TRILLION RUPIAHS IN 2005-2009

Presented by:

Yohanes Kristiawan Hartono

Student ID Number: 07 12 16668

Has been defended and accepted towards fulfillment of the requirement

For the Degree of Sarjana Ekonomi (S1) in Management Program

Faculty of Economics, Universitas Atma Jaya Yogyakarta

On

EXAMINATION COMMITTEE

Chairman

J. Sukmawati, Prof., Dr., MM.

Member

Alexander Jatmiko W., SE., SIP.,MSF

F. Wisnu Isdaryadi, Drs., MBA

Yogyakarta, January 10th, 2010

Dean

Dr. Dorothea Wahyu Ariani, F.E, M.T.

STATEMENT OF THESIS AUTHENTICITY

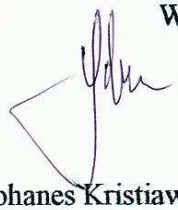
I, Yohanes Kristiawan Hartono hereby declare that I compiled the thesis with the following title:

THE IMPACT OF CAMELS FINANCIAL RATIO TO THE BANK PERFORMANCE:
AN EMPIRICAL STUDY ON THE BANKS WITH CAPITAL BETWEEN 1 TRILLION TO 50 TRILLION RUPIAHS IN 2005-2009

Is really my own thinking and writing. I fully acknowledge that my writing does not contain others or parts of others writing, except for those that have been cited in the references.

Yogyakarta, 15 December 2010

Which states,



Yohanes Kristiawan Hartono

This Thesis Is Dedicated To:

Lord Jesus Christ

My Beloved Family

Lisa

All of my friends

ACKNOWLEDGEMENT

Thanks to the Lord Jesus Christ for blessing, mercy, and grace so that this thesis can be resolved by the author. Thanks for always brings me an opportunity, support and victory, so I can finished this writing and finished my study at Atma Jaya Yogyakarta University.

This thesis is presented as partial fulfillment of the requirements for the degree of Sarjana Ekonomi (S1) in Management Program, Faculty of Economic Atma Jaya University Yogyakarta. The title of the thesis is "THE IMPACT OF CAMELS FINANCIAL RATIO TO THE BANK PERFORMANCE: AN EMPIRICAL STUDY ON THE BANKS WITH CAPITAL BETWEEN 1 TRILLION TO 50 TRILLION RUPIAHS IN 2005-2009".

In this Opportunity I want to give thanks to all people that always assist, support, encourage and teach me, they are:

1. Lord Jesus Christ, above all blessing, grace and love so that this thesis can be resolved.
2. Prof. Dr. J. Sukmawati S., MM. as a supervisor who has spent time to provide guidance and advice so that this thesis can be resolved.
3. Mr. Alex Jatmiko Wibowo, SE., SIP., M.SF that lecture finance on international class, test writers and provide valuable input on this essay.

4. Mr. Felix Wisnu Isdaryadi, Drs., MBA that test writers and provide valuable input on this essay.
5. The teaching staff, library staff, and staff of FE Securities Gallery UAJY who have provided guidance and assistance during the writer studying in UAJY.
6. Papa and Mama for the support and affection that always given.
7. Lisa on all the attention, affection, assistance, patience, who always accompany the author until this thesis is finished. Thank you for always encourage me to do the thesis.
8. All of my friends in the International class 2007. Thank you for the wonderful moment guys.
9. My friends in KSPM especially David. Thanks for taking your time to discussing my thesis.
10. All my friends and those who have give support and prayers for this thesis quickly resolved.

The writer realizes that there are still a lot of mistake in this thesis, let the writer apologizes before. Suggestions and comments are very welcome for the improvements of this thesis. At least but not last the writer hopes that this thesis can bring advantages and useful to readers.

Yogyakarta, December 2010

Yohanes Kristiawan Hartono

TABLE OF CONTENTS

TITLE PAGE
APPROVEMENT PAGE
STATEMENT OF THESIS AUTHETICITY
ACKNOWLEDGEMENT
TABLE OF CONTENTS
LIST OF TABLES
ABSTRACT

Page

CHAPTER I INTRODUCTION

A. Research Background 1
1. Problem Statement 10
2. Scope of the Problem 11
B. Objective and Benefit of the Research..... 12
1. Objective of the Research..... 12
2. Benefit of the Research 13
C. Research Report Outline 13

CHAPTER II THEORETICAL BACKGROUND

A. Theoretical Background..... 15
1. Indonesian Banking..... 15
2. Development of the Indonesian Banking 15
3. Indonesian Banking Architecture (API)..... 21
4. Banking Performance Analysis 22
5. Banking Financial Statement..... 24
6. Financial Statement Analysis 28
7. Health Assessment of Banks by CAMELS Method..... 31
B. Previous Research about CAMELS Ratio 41

C. Hypothesis Development 45

CHAPTER III RESEARCH METODOLOGY

A. Population and Sample 47
B. Data and Data gathering 50
1. Data 50
2. Data Gathering 51
C. Variable and Variable Measurement 51
1. Variable 51
2. Variable Measurement 52
C. Method of Analysis and Hypothesis Testing 53
1. Method of Analysis 53
2. Hypothesis Testing 55

CHAPTER IV DATA ANALYSIS

A. Research Description 60
B. Pooled Least Square 60
1. Common Effect Method 61
2. Fixed Effect Method 65
3. Random Effect Method 69
C. The Selection of Pooled Least Square Estimation Method 74
1. Common Effect – Fixed Effect (F-test) 74
2. Fixed Effect – Random Effect (Hausman test) 75
D. Regression with Fixed Effect Method 76

CHAPTER V CONCLUSION

A. Conclusion 85
B. Limitation 86
C. Suggestions for Further Research 87

LIST OF THE TABLES

Page

Table 1. Name of the sample banks..... 48
Table 2. Panel Data Regression Common Effect Method..... 61
Table 3. Pooled least square with Fixed Effect Method 65
Table 4. Pooled least square with Random Effect Method..... 69
Table 5. Hausman test..... 76
Table 6. Pooled least square with Fixed Effect Method 77

THE IMPACT OF CAMELS FINANCIAL RATIO TO THE BANK PERFORMANCE:
AN EMPIRICAL STUDY ON THE BANKS WITH CAPITAL BETWEEN 1 TRILLION TO 50 TRILLION RUPIAHS IN 2005-2009

Compiled by:

Yohanes Kristiawan Hartono

NPM: 07 12 16668

Supervisor **Prof. Dr. J. Sukmawati S., MM**

The research is about the analysis of impact of the CAMELS financial ratios to the Bank Performance. In this case the writer use Return on Assets as the proxy for Bank Performance. The objective of This research performed in order to test the influence of the variable, Capital Adequacy Ratio (CAR), Non Performing Loan (NPL), Provision Fulfillment Earning Assets (PPAP) Net Interest Margin (NIM), Return on Equity (ROE), Operational Expenses Operational Income (BOPO), Loan to Deposit Ratio (LDR), and Sensitivity to Market risk (CARS) toward Return on Asset (ROA). Using purposive sampling method, the writer has selected 47 banks with 1 trillion up to 50 trillion rupiahs of assets according to classification stated in Indonesia Banking Architects from Central Bank.

The Research uses Pooled Least Square (PLS) method with Eview3 software. Data analyzed with multi linear regression of Pooled least square and hypotheses test used t-statistic and F-statistic at level of significance 5%.

The research finds out that the model of this study may explain the dependent variable Return on Assets (ROA) of 89.17%. The F-test show that simultaneously the dependent variables effect on ROA, in α level of 95%. Capital Adequacy Ratio (CAR), Return on Equity (ROE), Net Interest Margin (NIM), Operational Expenses Operational Income (BOPO) proven to significantly influence Return on Assets.

Keyword: CAMELS financial ratios, Pooled Least Square, Bank Performance