

RATIO VS. EVA: A PERFORMANCE ANALYSIS IN INDONESIAN PUBLICLY-LISTED BANKS

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ABSTRACT

In this era of tight competition among companies in running their business, companies' performance required to be assessed, observed, and evaluated to gain information about what needs to be done in order to develop further. As one of the most crucial business segment in the economy, banks and their performances are considered to be taken into further study.

This study attempts to classify how good the banks sampled performance according to Bank Indonesia's standard of bank's healthiness. Then, by measuring its performance through ratio analysis in the form of return on assets (ROA), net interest margin (NIM), capital adequacy ratio (CAR), non-performing loan (NPL), loan-to-deposit ratio (LDR), and a market measure in form of economic value added (EVA), this study expects to observe the influences of those measurements toward banks' performances in terms of total assets, total debts, and interest expense.

This research uses historical data on financial reports of the banks issued by Bank Indonesia that compiled over a period of 8 years (2002-2010). The sampled banks are publicly-listed in Indonesia and represent the 10 largest banks in terms of assets size, as per the 2010 Indonesia Banking Directory. A statistical analysis of the data using PLS is conducted to test and establish a comprehensive interpretation as well as predictions on the research model. It is expected that EVA influences banks performance more than ratio analysis.

Keywords: performance, bank, economic value added, ratio analysis

1. INTRODUCTION

It has become public knowledge that a nation's income is generated from various industrial sectors within a nation, such as; mining, agriculture, export/import, and services. To maintain sustainable economic growth, companies must adhere to efficiency and effectiveness in utilizing limited resources. The better the business does, the more positive the impact to the economy. This is deemed required to continually enhance the competitiveness and contribute to the national economy. To do so, companies are in-need of funding, both internally and

externally. In such cases, on the external funding source, banks play a very important role. Relying on their lending operations, banks take-on the role as financial intermediaries for companies across industrial sectors (Shaher, Kasawneh, & Salem, 2011). In essence, the banking sector contributes also to the country's national income and growth, not only via credit extensions, but also from analyzing, evaluating, and monitoring companies' performance (Dash & Das, 2009).

With the emergence of various businesses in Indonesia, the role of banks and financial institutions, in general, becomes increasingly important. As previously mentioned, growth and expansion intention rely on the monetary supports of financial institutions. The increase in business activities fuels the emergence of new financing sources, from both banks and financial institutions, including other alternatives. For existing banks and financial institutions, the emergence of new banks and financial institutions, undoubtedly, create new threats. An alternative financing mechanism, such as from the stock market, especially through IPO is certainly available, particularly for established companies (Schiozer, Oliveira, & Saito, 2010). Aside from strict and heavily enforced rules and regulations from the stock market, some potential benefits include; dividends yield, and capital gain. With such potential benefits, it means that more companies decide to go public to finance growth (Soemitro, 2012). As for existing publicly-listed companies, the stock market provides the perfect vehicle to increase the companies' market capitalization (Mensah, Awunyo-Vitor, & Sey, 2010).

The Capital Market and Financial Institution Supervisory Board, or commonly referred to in Indonesia as "Bapepam-LK", which is the controlling body for the Indonesian stock market has since 1976, has initiated more strict rules and regulations on the listed companies. One of the examples on Bapepam-LK's strict rules and regulations is enforcing more transparency in the financial reporting to increase existing investors' confidence in the Indonesian stock market (www.wordpress.com, 2011). Presently, the reporting requirements of listed companies in the stock market enable the public and potential investors in monitoring performance and changes in companies' financial condition, including predicting future movements in stock price. If the measurements for companies may be vary, banks' standard performance measures are set by Bank Indonesia.

1.1. RESEARCH PROBLEMS & QUESTIONS

The main issues to be investigated are; (1) how banks performance measured and analyzed as well as evaluated in a certain period of time (2002-2010) based on BI criteria, (2) analyzing the impact of ratios and EVA toward banking performance, and (3) evaluating the selected factors toward bank performance.

Therefore, the probable research questions are as follows;

Question # 1: How good was the performance of the Indonesian banks since 2002?

Question # 2: What were the influential factors on bank performance since 2002?

1.2. LIMITATIONS

In this study, the applicable limitations are as follows; (1) financial reports of the banks that comprise of 10 banks, which are publicly listed in the Bursa Efek Indonesia (BEI), or popularly known as the Jakarta Stock Exchange (JSE), including on the list of 10 largest banks in Indonesia in 2010 in accordance with the 2010 Indonesia Banking Directory, (2) the focus is on the performance, which are generally used within the banking industry, including other relevant key performance indicators typically used by companies across industries, and

(3) the data spans only during 2002 - 2010.

2. LITERATURE REVIEW

2.1. OVERVIEW

The banking sector's massive influence on the country's economy forces the importance of performance to be closely monitored to minimize the chances on potential multiplier effects. In recent years, banks not only compete with other banks, but also with non bank financial services like insurance firms and currency exchanges (Wilcox, 2005). Nevertheless, banks still remain the primary source of funds for many companies. To adapt with market changes and market demands, including maintaining competitiveness, banks need to increase performance by meeting the customer's need. (Lin, Chang, & Lin, 2011). In serving customer needs, banks need to consider the benefits for customers, including all stakeholders.

As previously mentioned, for banks, the measures of performance are generally set by Bank Indonesia, as the central bank of the Republic of Indonesia. Such measurements are classified into four basic categories; capital, asset quality, earning, and liquidity. To add a contemporary measure, EVA becomes an interesting phenomenon for analysis.

A bank can be defined based on the economic functions it provides, the services provided to its customers or the legal basis for its existence (Rose & Hudgins, 2008). Nowadays banks' economic function are no longer limited to only the traditional services of saving accounts or credit accounts, but have extended their financial services to cover and/or act as investment bankers, insurance providers, financial planners, business advisors for companies, and many other innovative services. Several types of banks based on their source of capital and business focus are commercial banks, retail banks, and state-owned banks. Based on the legal basis, there are banks and non-bank financial institutions, which are regulated to remain on their purposes, and to prevent unfair competition. According to the Indonesian Law on Banking Number 10 Year 1998 issued on November 10, 1998, is a business entity that accumulates funds from the public in the form of savings and distributes the funds to the public in the form of credit or other forms with the aim of enhancing the living standard of the people. Under the Indonesian law, banks should not be solely business driven, but should also function as an agent of development toward building the social responsibility (www.wordpress.com, 2011).

The role and operation of banking industry, particularly in Indonesia, must always refer to rules and regulation made by Central Bank of Indonesia, or commonly known as Bank Indonesia (BI). In order to maintain the banks performance, BI has made several rules which implicitly state that banks performance should be following the BI criteria of banks healthiness in form of ratios. The BI criteria, then, can be used by all interested parties to measure banks condition on every aspect available.

2.2. PERFORMANCE MANAGEMENT

Performance management is achieved goals planned develop by individual as well as teams performance in an organization, based on a systematic process to improve organizational performance (Chompukum, 2012). The objectives of performance management are to manage employees regularly meet the organization's goal through reward & punishment, motivation, feedback, and coaching, have a clear image on the expected achievements, who are responsible to it, what contribution to be made, through forcing every members in the organization to perform their potential well. The effective and efficient performance management is established when every members of the organizations communicate well and

comprehend with each task given to achieve certain goals set by the organization which then finally improve company's financial performance. To evaluate the performance, financial-accounting-based measurements may have to be incorporated, such as; ROE, EPS, and some selected market-based performance measurements (Verweire & Berghe, 2004), such as; shareholders' value added (SVA), EVA, and market value added (MVA).

Banks' financial statements are the major source of financial information toward evaluating banks' performances. From the balance sheets, the main issues to bring up, include; total assets, total liabilities, and interest expense since these issues may represent the major portion of banks' activities.

1. Total Asset

Every company rely on its assets to perform such activities including production and sales in order to provide the future services and benefits to gain cash inflows as well as accumulating profit (Weygandt, Kieso, & Kimmel, 2008). The evaluation, in terms of assets, by assessing the results of activities such as production and sales that yields profit, will eventually enhance more assets in the future. This is the reason why asset are one of the most important part of a business, including bank. However, banks' total assets comprises of slightly different components than other companies.

Bank Indonesia, as the regulator of financial system in Indonesia, advises a bank's total assets composition by summarizing all items in the asset side of its balance sheet consisting cash, placement to Bank Indonesia, interbank placement, spot and derivatives claims securities (consists of measured at fair value through profit and loss, available for sale, hold to maturity, loan and receivables), securities sold under repurchase agreement or repo, claims on securities bought under reverse repo, acceptance claims, loans (measured at fair value through profit and loss, available for sale, hold to maturity, loan and receivables), sharia/Islamic financing, equity investment, impairment on financial assets (securities, loans, others), intangible assets (accumulated amortization of intangible assets), fixed assets and equipment (accumulated depreciation on fixed assets and equipment), abandoned property, foreclosed assets, suspense accounts, inter branch assets (conducting operational activities in Indonesia, conducting operational activities outside Indonesia), impairment on other assets, non earning assets provision, leasing, deferred tax assets, and other assets (Indonesia Banking Directory 2010, 2011).

2. Total Liabilities

Company's performance can also be measured by its liability. Liability is a company's debt and obligations to be paid including credit purchases, payables such as taxes and wages payable, and money borrowed as many businesses commonly used it to perform its activities (Weygandt, Kieso, & Kimmel, 2008).

For banks in Indonesia, Bank Indonesia, as the country's central bank, advises the composition of bank's total liabilities by summarizing all items in the liability side of its balance sheet consisting current account, saving account, time deposit, revenue sharing investment, liabilities to Bank Indonesia, interbank liabilities, spot and derivatives liabilities, liabilities on securities sold under repurchase agreement or repo, acceptance liabilities, issued securities, loans received, margin deposit, inter branch liabilities (consist of conducting operational activities in Indonesia, conducting operational activities outside Indonesia), deferred tax liabilities, provision on commitment and contingencies, other liabilities, profit sharing investment, minority interest, loaned capital, paid in capital (capital, unpaid capital, treasury stock), additional paid in capital (agio, disagio, donated

capital, translation adjustment, other comprehensive gain (loss), others, fund for paid up capital)), reserves of fixed asset revaluation, reserves of quasi reorganization, reserves of restructuring under common control, reserves (general reserves, appropriated reserves), gain/loss (previous years, current year) (Indonesia Banking Directory 2010, 2011).

3. Interest Expenses

In general, expense is the cost of assets consumed or services used in the process of earning revenue (Weygandt, Kieso, & Kimmel, 2008). The example of interest expenses are interest on deposits, which are often represented almost 60% of bank's total interest cost, and interest owed on short-term and long-term borrowings such as federal funds from other depository institutions and subordinated notes (Rose & Hudgins, 2008).

Bank's profit is mainly generated from margin in its major activities, such as borrowing money from depositors and lends money to the borrower. The return on bank's loan or investment which bearing interest will be such a potential source of income called interest income, and use to pay many bank's major expenses, such as; interest on deposits and operational costs (Fries, Neven, & Seabright, 2002). Hence, the optimal difference between the composition of interest given to depositors and borrowers can affect on bank performance.

2.3. RATIO ANALYSIS

Comparing companies of different sizes are often done through calculating and comparing financial ratios to comparing companies of different sizes. Financial ratios eliminate size issues since the calculation involves the relationships between different sets of financial information which yield percentages, multiples or time period. In general, there are standard ratios derived from financial statement analysis that are used to measure performance across industries. Financial institutions, particularly banks have very different ways of reporting financial information.

Financial information of a company, including banks, usually obtained and measured, through performance evaluation by using financial ratio analysis based on the CAMEL consisting of capital, assets, management, earning, and liquidity. This method is used to evaluate the performance of a company from the financial perspective, from year to year, as well as provide an overview of visible steps to be taken to improve it in the future (Jha & Hui, 2012).

The CAMEL ratios description from banking perspective is as follows (Oktaviani, 2002); (1) capital – as one of the major driver for banks' operational activities, (2) assets quality - an assets management via extended credits which will affect the interest market condition, (3) management quality - the policy's made by the board, including strategy execution and internal control, (4) earnings - the value created through optimization of banks' income and assets to cover expenses, and (5) liquidity - to measure banks ability in meeting all short and long-term liabilities. In Indonesia, the reporting standards are approximately similar to CAMEL, and such standards have been widely recognized.

Table 2.1: Ratio Analysis

No.	Ratio	Formula
I.	Capital	
	CAR	$\frac{\text{Capital}}{\text{Risk weighted assets}} \dots\dots\dots(2.1)$

No.	Ratio	Formula
	Fixed assets to capital	$\frac{\text{Fixed assets and inventory}}{\text{Capital}}$(2.2)
II. Assets Quality		
	Troubled productive asset	$\frac{\text{Troubled productive asset}}{\text{Total earning assets}}$(2.3)
	NPL	$\frac{\text{Bad credit loans}}{\text{Total credit}}$(2.4)
	Provision for loan losses to earning assets	$\frac{\text{Provision for loan losses}}{\text{Total earning assets}}$(2.5)
	Provision for loan losses compliance	$\frac{\text{Provision for loan losses formed}}{\text{Provision for loan losses must be formed}}$(2.6)
III. Earnings		
	ROA	$\frac{\text{Profit before tax}}{\text{Average assets}}$(2.7)
	ROE	$\frac{\text{Profit after tax}}{\text{Average equity}}$(2.8)
	NIM	$\frac{\text{Net interest income}}{\text{Average earning assets}}$(2.9)
	Operating expenses to operating income	$\frac{\text{Total operating expenses}}{\text{Total operating income}}$(2.10)
IV. Liquidity		
	LDR	$\frac{\text{Loans}}{\text{Deposits}}$(2.11)

Source: (Bank Indonesia: Peraturan, 2001)

This study limits the CAMEL ratios into sections covering each indicator, as stated in BI procedure above. There are 5 (five) ratios considered as the most crucial in banking industry. Those are as follow:

1. CAR - represents the percentage of banks' capital to its risk. The importance of CAR, then, require a standard in which has been developed internationally to ensure the bank's healthiness. The purpose of CAR is to protect and not to lose the depositor's fund by determining the level of losses before bankruptcy (News Releases, 2007).
2. ROA - represents the percentage of the operating assets. It is an indicator of profitability (Scott & Arias, 2011). As in bank, the more profitable the business in this sector, it will contribute to stability of the financial system in a country. Taking into account that bank, as a financial intermediary has the most important role on the economy (Deger & Anbar, 2011).
3. NPL - represents the bad credit to its total asset. NPL is one of bank's major problems since it detains a bank's profitability and therefore need to be reduced continuously (Haneef, Riaz, Ramzan, Rana, Ishaq, & Karim, 2012).
4. NIM - represents the banks' ability in managing its assets to gain net interest income or can be referred as profit margin. The bigger the bank's NIM, it will affect the bank's gain or loss since one of the bank's primary source of income is its interest rate (Agistiara, 2011).
5. LDR - refers to the extent to which banks are able to cover withdrawal of deposits by customers and rely on the proceeds gained from the loans as their source of liquidity. Regardless of the benefits or profit that can be obtained through allocating total deposit available from customers for loans, it also bears the risk should the deposit owners withdraws or the debtor cannot pay back the loan. On the other hand, the deposit funds available for lending would cause such opportunity loss for the bank should they not

utilize it (Purwana, 2009).

Each of those CAMEL ratios are measured in percentage and have boundaries which distinguish the ratio as good or poor and to maintain its healthiness by comparing the ratio with a bank's health standard provision from BI. The standard and characteristic of the specific ratios are as follow:

Table 2.2: Proportion of Ratio Analysis

Name	Standard Proportion	Explanation
CAR	8% - 14%	Good > 14%; Poor < 8%; minimum requirement according to BI is 8%
NPL	5% - 8%	Good < 5%; Poor > 8%; practically must be < 5%
ROA	0,5% - 1,25%	Good > 1.25%; Poor < 0.5%
NIM	1.5% - 2%	Good > 2%; Poor < 1.5%; practically 6 % is the most ideal
LDR	85% - 110%; <50 %	Good 50% - 85%; Poor >100%

Source: (Bank Indonesia: Peraturan, 2004), **modified**

2.4. ECONOMIC VALUE ADDED

The increasing level of competition along with constraints to be encountered, namely complex financial instruments and worldwide recession, making the traditional performance measurement such as ratio analysis showed visible weakness, and therefore seeking new performance measurements to be developed is very important. That are why the likes of shareholder value added, economic value added, and market value added were created, since these modern performance measurements focused on the future, and the other on the past (Walsh, 1996). In addition, there are some evidence that since 1990, such new performance measures that are typically indicative of the company's value like SVA, EVA, and MVA as value based measures can be tools for monitoring a firm's performance (Arabsalehi & Mahmoodi, 2012).

Furthermore, the focus will be on Economic value added (EVA) which is the Stern Stewart & Co. devising concept of an internal management performance measure that compares net operating profit to total cost of capital. EVA or also known as Economic Profit is important because it is used as an indicator of how profitable company projects are and it therefore serves as a reflection of management performance with its ability to fulfill all the operating costs and cost of capital. EVA¹ or Economic Profit formula is:

$$EVA = NOPAT - Capital Charge \dots \dots \dots (2.12)$$

Whereby; NOPAT refers to Net operating profit after tax², and Capital Charge signifies Capital employed³ * Weighted average cost of capital⁴

In terms of measuring performance, though there are some disadvantages and/or critics, the use of EVA is advantageous for the following reasons (Rago, 2008), (1) to note firm's

¹ Positive EVA indicates value creation/wealth creation. Consequently, negative EVA indicates value reduction/capital consumption (Wibowo & Berasategui, 2008).

² This is before paying costs and noncash bookkeeping entries.

³ Capital employed or "invested capital" is similar to the amount of equity, and interest-bearing liabilities, and other debts.

⁴ WACC equals to proportionately-weighted total cost of every capital categories (Sakir, 2009).

efficiency level by utilizing the minimal amount of capital required to obtain more value for the firm, at least for the current and/or past periods, (2) managerial incentives are also noted to create a more profitable company, yet maintaining the level of efficiency, which fuels more value creation for the firm, (3) EVA can be broadly applied across firms and/or industries, particularly those firms with similar sizes, and (4) it is relatively simple to understand EVA.

2.5. PREVIOUS STUDIES

This section contains of several studies that has been done previously to support the current research. The relevant theories as well as information in the previous study will be used in further analysis to strengthen such findings in this research.

Table 2.3: Previous Studies

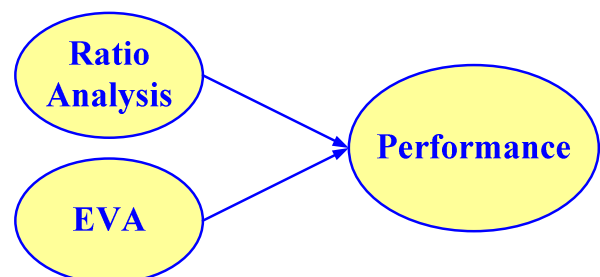
Title/Author	Findings
The Impact of Interest Expenses and Non-Interest Expense on Net Income: An analytical Study on Select UAE Banks (Inguva, Djeddi, & Djeddi, 2012)	<ul style="list-style-type: none"> • Total income increased as the value of interest expenses increases. • Profit or income contains of interest expenses as part of the calculation.
Pengaruh Rasio <i>Capital, Assets, Earning</i> dan <i>Liquidity</i> Terhadap Pertumbuhan Laba Pada Perbankan di Indonesia (Studi Empiris Pada Perbankan di Indonesia) (Sapariyah, 2010)	<ul style="list-style-type: none"> • Bank Performance in terms of profit is influenced by Financial Ratios consisting of capital, assets, earnings, and liquidity differently. • Capital and assets are positively and significantly influencing profit growth. • Earnings are negatively and insignificantly influencing profit growth. • Liquidity is negatively and significantly influences profit growth.
The Relationship Between Economic Value Added (EVA®) and Market Value Added (MVA) With Reported Earnings: An Empirical Research of 40 Listed Companies in Indonesia Stock Exchange for The Year 2004-2007 (Wibowo & Berasategui, 2008)	<ul style="list-style-type: none"> • EVA influences the reported earnings in Indonesian listed companies. • The relationship between EVA and reported earnings is not as high as in growth prediction model.
Factors Affecting Bank Profitability in Pakistan (Gul, Irshad, & Zaman, 2011)	<ul style="list-style-type: none"> • Banks with more equity capital, total assets, loans, deposits and macro factors such as economic growth, are perceived to a higher profitability. • Both internal and external factors impacted significantly on profitability.

2.6. RESEARCH MODEL

Based on the background and literature studies, the research model is as illustrated to note the relationships among variables.

Referring to the previously stated research questions, the following hypotheses are formulated

Figure 2.1: Research Model



H₁: Ratio analysis influences bank performance

H₂: EVA influences bank performance.

3. RESEARCH METHOD

3.1. OVERVIEW

This research follows a descriptive-quantitative research method (Zikmund, 2003). The data in this research is solely based on secondary data, particularly from annual reports/financial statements of those publicly-traded banks, including references, such as; books, journals, and other articles on previous studies on banks performance analysis. Though this study is primarily based on quantitative method, a qualitative approximation to study the issues surrounding those publicly-traded banks is also conducted. The purposive sampling method is used to emphasize on publicly-listed banks. Data analysis is processed in Partial Least Square (PLS).

3.2. DATA COLLECTION

The following table shows all publicly-traded banks at BEI, as published by Bisnis Indonesia newspaper on November 8, 2012.

Table 3.1: Publicly-Traded Banks at BEI

No	Code	Company Name
1.	AGRO	Bank Rakyat Indonesia Agroniaga Tbk.
2.	BABP	Bank ICB Bumiputera Tbk.
3.	BACA	Bank Capital Indonesia Tbk
4.	BAEK	Bank Ekonomi Raharja Tbk.
5.	BBCA	Bank Central Asia Tbk.
6.	BBKP	Bank Bukopin Tbk.
7.	BBNI	Bank Negara Indonesia (Persero) Tbk.
8.	BBNP	Bank Nusantara Parahyangan Tbk
9.	BBRI	Bank Rakyat Indonesia (Persero) Tbk.
10.	BBTN	Bank Tabungan Negara (Persero) Tbk.
11.	BCIC	Bank Mutiara Tbk
12.	BDMN	Bank Danamon Indonesia Tbk.
13.	BEKS	Bank Pundi Indonesia Tbk.
14.	BJBR	Bank Pembangunan Daerah Jawa Barat dan Banten Tbk
15.	BJTM	Bank Pembangunan Daerah Jawa Timur Tbk
16.	BKSW	Bank QNB Kesawan Tbk.
17.	BMRI	Bank Mandiri (Persero) Tbk.
18.	BNBA	Bank Bumi Arta Tbk.
19.	BNGA	Bank CIMB Niaga Tbk.
20.	BNII	Bank Internasional Indonesia Tbk.
21.	BNLI	Bank Permata Tbk
22.	BSIM	Bank Sinarmas Tbk.
23.	BSWD	Bank Of India Indonesia Tbk.
24.	BTPN	Bank Tabungan Pensiunan Nasional Tbk
25.	BVIC	Bank Victoria International Tbk
26.	INPC	Bank Artha Graha Internasional Tbk.
27.	MAYA	Bank Mayapada Internasional Tbk
28.	MCOR	Bank Windu Kentjana Internasional Tbk.

No	Code	Company Name
29.	MEGA	Bank Mega Tbk.
30.	NISP	Bank OCBC NISP Tbk
31.	PNBN	Bank Pan Indonesia Tbk
32.	SDRA	Bank Himpunan Saudara 1906 Tbk.

Source: (Bisnis Indonesia, 2012)

Following the above list of publicly-traded banks, this study emphasizes on 10 largest banks based on total assets as per the report of Bank Indonesia in 2010. Those 10 banks are as follows;

Table 3.2: Sampled Banks

NO	ID BANK	BANK NAME	31 Dec 2010 Rp (in thousands)
1	008	PT. BANK MANDIRI (PERSERO), Tbk	407.826.161
2	002	PT. BANK RAKYAT INDONESIA (PERSERO), Tbk.	398.393.138
3	014	PT. BANK CENTRAL ASIA, Tbk.	321.973.412
4	009	PT. BANK NEGARA INDONESIA (PERSERO), Tbk	240.590.147
5	022	PT. BANK CIMB NIAGA, TBK	142.812.919
6	011	PT. BANK DANAMON INDONESIA, Tbk	113.864.875
7	019	PT. PAN INDONESIA BANK, Tbk	105.918.394
8	013	PT. BANK PERMATA, Tbk (formerly PT. BANK BALI)	73.570.333
9	016	PT. BANK INTERNASIONAL INDONESIA, Tbk	71.624.563
10	200	PT. BANK TABUNGAN NEGARA (PERSERO), TBK	68.385.539

Source: (Indonesia Banking Directory 2010, 2011)

3.3. VARIABLES

The indicators for all the variables used in this study are taken from banks' annual report/financial statements. The details are summarized below.

Table 3.3: Variables and Indicators

Variables	Indicators	Explanation
Ratio Analysis	Capital	To represent the ratio analysis in terms of capital, this study uses Capital Adequacy Ratio (CAR)
	Asset Quality	To represent the ratio analysis in terms of assets, this study uses Non Performing Loan (NPL)
	Earnings	To represent the ratio analysis in terms of earnings, this study uses Return on Assets (ROA) and Net Interest Margin (NIM)
	Liquidity	To represent the ratio analysis in terms of Liquidity, this study uses Loan to Deposit Ratio (LDR)
Economic Value Added	NOPAT	The Net operating profit after tax used in this study is bank net income.
	Capital Charge	Based on the formula of capital charge = Invested capital or capital employed * WACC, this study uses details such as follow; <ul style="list-style-type: none"> Capital employed = Fixed asset + Investment + Working

Variables	Indicators	Explanation
		Capital • WACC= proportion of debt * Cost of debt
Performance	Total Assets	It is expected that the higher level of total assets mirrors better performance.
	Interest Expense	It is expected that the lower level of interest expense mirrors better performance
	Total Liabilities	It is expected that the lower level of interest expense mirrors better performance

3.4. STATISTICAL ANALYSIS

The statistical analysis used is PLS. It is considered as a “smaller version” of what structural equation modeling is all about, which relies on the basis of variance to solve multiple regressions with specific data problems, small sample size, any missing values, autocorrelation and multicollinearity occurrence among variables (Lubis & Otok, 2012). Hence, PLS offers an alternative tool on analyzing the structural equation modeling (Mustakini, 2011).

3.4.1. VALIDITY TEST

The data process in this study uses reflective indicators that its convergent validity test will be assessed by *loading factor* (correlation between item score/component score with the construct). The usual rule of thumb considers that loading value that are greater than 0.50 (> 0.50) is practically significant. The more influence of loading factor on interpreting metric factors indicated by greater value of loading. Then, discriminant validity is assessed through Average Variance Extracted (AVE) which value must be greater than 0.5 (Mustakini, 2011). The formula is as follows (Ghozali, 2006):

$$AVE = \frac{\sum \lambda_i^2}{\sum \lambda_i^2 + \sum \text{var}(\epsilon_i)} \dots\dots\dots(3.6)$$

Note: λ_i = component loading; $\text{Var}(\epsilon_i) = 1 - \lambda_i$

3.4.2. RELIABILITY TEST

Reliability test measures the internal consistency of the measuring instruments. There are two (2) methods to assess it such as *Cronbach's alpha* and *composite reliability*. However, Composite Reliability is considered the better at estimating internal consistency of a construct. A construct considered reliable if the value is greater than 0.60 (Mustakini, 2011). The formula is as follows (Ghozali, 2006):

$$\rho_c = \frac{(\sum \lambda_i)^2}{(\sum \lambda_i)^2 + \sum \text{var}(\epsilon_i)} \dots\dots\dots(3.7)$$

Note: λ_i = component loading; $\text{Var}(\epsilon_i) = 1 - \lambda_i$

Commonly, the fitness of variables is evaluated by the goodness of fit, or R^2 for dependent construct and path coefficients or t-values each path between construct to test the significance in a structural model. R^2 value used to measure the change variation level of independent variables on the dependent variable. A good model prediction represents by the greater the value of R^2 . However, since PLS software does not provide the measurements on goodness of fit, R^2 value can be used. Path coefficients value represents the significance level on

hypothesis testing. Path coefficients score stated as t-statistic must be above 1.96 for two-tailed hypothesis, and above 1.64 for one-tailed hypothesis, and alpha 5% and power 80% (Mustakini, 2011).

4. DATA ANALYSIS

As mentioned, the selected 10 banks with the largest total assets in 2010 based on the 2010 report of the Indonesia Banking Directory, as issued by Bank Indonesia in 2011 are as follows;

4.1. OVERVIEW ON BANKS

4.1.1. PT BANK CIMB NIAGA, TBK

Bank CIMB Niaga was established in 1955 under the name of Bank Niaga. Bank CIMB Niaga was recognized as trusted provider of quality and services is the result of the bank's focus on building core values and developing professionalism in banking since first operated. In 1987, Bank Niaga became the first Indonesian bank to provide customers with access to their accounts through ATM access. In 1989, Bank Niaga became a listed company on the Jakarta and Surabaya Stock Exchange (now the Indonesia Stock Exchange/IDX). In 1991, Bank CIMB Niaga became the first bank to provide on-line banking facilities. In May 2008, Bank Niaga changed its name to become Bank CIMB Niaga, as a result of Khazanah, the shareholder of Bank Niaga (via CIMB Group) and of LippoBank since 2007 to plan and secure majority shareholders' obligations toward Bank Indonesia's Single Presence Policy. The merger plan agreement between Bank CIMB Niaga and LippoBank was signed in June 2008 and followed subsequently by Merger Plan Approval from Bank Indonesia and the issuance of a Merger Notification's Acceptance Letter from the Ministry of Justice and Human Rights in October 2008. LippoBank officially merged into Bank CIMB Niaga on November 1, 2008 (Legal day 1 or LD1) and launched the Bank's new logo in recognition. Since then, Bank CIMB Niaga has become the 5th largest bank in Indonesia, in terms of assets, deposits, lending and branch distribution network by combining its major services in retail, SME and corporate banking, payment services. Bank CIMB Niaga's commitment is to maintain its integrity and perseverance by always providing the motto of customers first and passion for excellence. Furthermore, the bank will continue to leverage its strengths to fully realize all of the synergies which the merger has to offer. These are the core values of Bank CIMB Niaga that will be used in the future (PT Bank CIMB Niaga, Tbk, 2012). The details of the bank's shareholders and their shareholdings as of December 2010 are as follows:

Table 4.1: Shareholders of PT Bank CIMB Niaga, Tbk

Shareholders	Ownership
CIMB Group Holding Berhad	96, 91 %
Public	3, 09 %

Source: (Indonesia Banking Directory 2010, 2011)

4.1.2. PT BANK PERMATA, TBK

Bank Permata was formed as a result of a merger of five banks under the supervision of National Bank Restructuring Agency of the Republic of Indonesia, or commonly known as BPPN in 2002. Those banks were; PT Bank Bali Tbk, PT Bank Universal Tbk, PT Bank Prima Express, PT Bank Artamedia, and PT Bank Patriot. The process of a great transformation in the organization began in 2004, when Standard Chartered Bank and PT Astra International Tbk took over Bank Permata. Furthermore, as a form of commitment to Bank Permata, the joint ownership of major shareholders has increased to 89.01% in 2006. Hence, the ultimate strengths of Bank Permata is in its unique combination of the two

strategic shareholders; PT Astra International Tbk as one of the largest companies in Indonesia and has strong experience in the domestic market, and Standard Chartered Bank has the international expertise and experience (PT Bank Permata, Tbk, 2012). The details of the bank's shareholders and their shareholdings as of December 2010 are as follows:

Table 4.2: Shareholders of PT Bank Permata, Tbk

Shareholders	Ownership
PT. Astra International, Tbk	44, 515 %
Standard Chartered	44, 515 %
Public	10, 970 %

Source: (Indonesia Banking Directory 2010, 2011)

4.1.3. PT BANK DANAMON, TBK

PT Bank Danamon Indonesia Tbk was established in 1956. The name originally came from "monetary fund" and was used shortly after the company changed its name from Bank Kopra in 1956. In 1988, Bank Indonesia issued banking reformation package known as PAKTO 88 to stimulate competition in the banking sector by providing easier requirements as well as liberalization in establishing new commercial bank, private bank or joint venture banks. As a result, it became one of the first foreign exchange banks in Indonesia and was listed on Jakarta Stock Exchange. Following its survival with the status of "Taken over Banks" by the government of Indonesia, in the middle of financial crisis in 1990s, Bank Danamon has become one of the largest and strongest commercial bank in Asia. In 2011, Bank Danamon was regarded as the 6th largest bank in Indonesia in terms of assets and the 2nd in the branch network with 2900 branch offices and point of sales, including DSP and sharia unit as well as the branch subsidiaries. The bank vision is to care and help millions of people to achieve prosperity. To achieve it, Bank Danamon is determined to be the leading financial institution in Indonesia by being an organization focusing on customers, providing services in every segment with unique value in each segments, support by high technology. Now, Bank Danamon is one of the largest financial institutions in Indonesia based on its employees that total 61,875 (including subsidiary employees) in September 2011. In 2004, Bank Danamon has reached almost all business segments, namely mass market, commercial and small to medium enterprise banking, retail, credit card, sharia, corporate banking, treasury banking, and the stock market and securities. Also, in 2004 the bank has established a security and insurance business through Adira Insurance and Adira Credit, and when the bank bought American Express card in 2006, it became one of the largest card issuers in Indonesia (PT Bank Danamon, Tbk, 2011). The details of the bank's shareholders and their shareholdings as of December 2010 are as follows:

Table 4.3: Shareholders of PT Bank Danamon, Tbk

Shareholders	Ownership
Asia Financial (Indonesia) Pte Ltd.	67, 42 %
Public (Below 5 %)	32, 58 %

Source: (Indonesia Banking Directory 2010, 2011)

4.1.4. PT BANK CENTRAL ASIA, TBK

It was established on February 21, 1957 and was originally named Bank Central Asia (BCA). BCA became one of the largest retail/consumer banks in Indonesia. It provides not only the common services, but also covering vast majority of electronic services; ATM BCA, Debit BCA, Tunai BCA, Klik BCA, m-BCA, SMS Top UP BCA, BCA by Phone and Halo BCA. As of December 2009, BCA owned 875 branch offices spreading across Indonesia and 3

offices abroad in Nassau, Hong Kong and Singapore. In addition, BCA owned 6.611 ATM across Indonesia and increased clients from 1,2 million (2008) to 1,7 million (2009). In July 2009, BCA achieved reward as “Top Rated Banks in Indonesia” in Info Bank Awards 2009 (PT Bank Central Asia, Tbk, 2012). On June 1, 2004, BCA signed a cooperation agreement with PT Kliring Berjangka Indonesia (Persero) as Margin Depository Banks, Insurance Compensation Fund and the Fund. It was preceded by the recommendation from Bank Indonesia on May 7, 2004 and the approval of BAPPEBTI as the highest authority in futures trading on May 21, 2004 (PT Kliring Berjangka Indonesia, 2010).

The details of the bank’s shareholders and their shareholdings as of December 2010 are as follows:

Table 4.4: Shareholders of PT Bank Central Asia, Tbk

Shareholders	Ownership
Public	49, 91 %
Farindo Investment (Mauritius) Ltd qualitate qua (qq)	47, 15 %
Anthony Salim	1, 76 %
PT. Bank Central Asia Tbk (treasury stock)	1, 18 %

Source: (Indonesia Banking Directory 2010, 2011)

4.1.5. PT BANK PAN INDONESIA, TBK

Panin Bank was established in 1971 and was listed on the Jakarta Stock Exchange in 1982 as the first Indonesian bank to go public. Since the bank started its operation, the management has strived to deliver value to all stakeholders by striking a balance between prudence and progressive growth. A strong capital base and prudent risk management has allowed the bank to navigate economic volatility and periods of uncertainty. Panin Bank was one of the very few Indonesian banks not recapitalized by the Government after the Monetary Crisis of 1998. As of the end of December 2011, Panin’s assets amounting to Rp 125 trillion, total deposits Rp 85.7 trillion, credit outstanding Rp 75.7 trillion and total net worth Rp 19.8 trillion, with market capitalization of Rp 18.8 trillion. Panin Bank operates through its 450 branches and is ranked as the seventh-largest national bank in term of total assets (PT Bank Pan Indonesia, 2008). The details of the bank’s shareholders and their shareholdings as of December 2010 are as follows:

Table 4.5: Shareholders of PT Bank Pan Indonesia, Tbk

Shareholders	Ownership
PT. Panin Financial Tbk	44, 68 %
Shareholders not PSP and not through capital market \geq 5 %	38, 82 %
Others Public each $<$ 5 %	16, 5 %

Source: (Indonesia Banking Directory 2010, 2011)

4.1.6. PT BANK MANDIRI (PERSERO), TBK

Bank Mandiri was established on October 2, 1998, as part of the restructuring program implemented by the government of Indonesia. In July 1999, the four state-owned banks, Bank Bumi Daya, Bank Dagang Negara, Bank Ekspor Impor Indonesia and Bank Pembangunan Indonesia, merged into Bank Mandiri. Each of the banks has an integral role in the economic development of Indonesia (PT Bank Mandiri (Persero), Tbk, 2012). To this day, Bank Mandiri continues the tradition of more than 140 years in contributing to the banking industry and the economy of Indonesia.

The details of the bank's shareholders and their shareholdings as of December 2010 are as follows:

Table 4.6: Shareholders of PT Bank Mandiri (Persero), Tbk

Shareholders	Ownership
The Republic of Indonesia	66,77 %
Public	33,23 %

Source: (Indonesia Banking Directory 2010, 2011)

4.1.7. PT BANK RAKYAT INDONESIA (PERSERO), TBK

PT. Bank Rakyat Indonesia (Persero) or BRI is one of one of the biggest state-owned companies in Indonesia as well as one of the oldest and biggest banks in Indonesia. It was established on December 16, 1895 with the main focus is in micro, small to medium size enterprises. The bank also has the biggest network across Indonesia. At the end of 2010, BRI reportedly has 7,004 networks all over Indonesia, consisting of 18 regional offices, 14 regional audit offices, 413 branches, 822 cash offices, 4,649 BRI units, and 817 "teras" BRI (BRI Annual Report, 2010). The details of the bank's shareholders and their shareholdings as of December 2010 are as follows:

Table 4.7: Shareholders of PT Bank Rakyat Indonesia (Persero), Tbk

Shareholders	Ownership
National Public	6,85 %
The Republic of Indonesia	56,77 %
Foreign Public	36,38 %

Source: (Indonesia Banking Directory 2010, 2011)

4.1.8. PT BANK TABUNGAN NEGARA (PERSERO), TBK

Bank BTN was established in 1897 under the name Postspaarbank. The name was changed to Bank Tabungan Pos in 1950 and became Bank Tabungan Negara In 1963. Bank BTN listed its stock offering on 17 December 2009 on the Indonesia Stock Exchange, and was the first Indonesian bank to securitize assets by recording Asset Backed Securities - Collective Investment Contracts. Bank BTN focuses its services in housing finance, and prioritizes it be the market dominance to provide the best outcome for its stakeholders. However, the Bank also provides various modern and comprehensive banking products and services for conventional and sharia banking services which have developed to meet the needs of Indonesian families. Currently, the Bank's service provision is supported by its operational network throughout Indonesia, including both full and Post Office branches connected to Bank BTN online as well as ATMs using the Link, ATM Bersama and Visa networks (BTN Annual Report, 2010). The details of the bank's shareholders and their shareholdings as of December 2010 are as follows:

Table 4.8: Shareholders of PT Bank Tabungan Negara (Persero), Tbk

Shareholders	Ownership
The Republic of Indonesia	72,92 %
Public	27,08 %

Source: (Indonesia Banking Directory 2010, 2011)

4.1.9 PT BANK NEGARA INDONESIA (PERSERO), TBK

BNI was established in 1946, under the name of Bank Negara Indonesia, as the first wholly-

owned state bank, entrusted with the issuance and management of Rupiah bank notes. In 1945, the status changed to a commercial bank. In 1968, BNI renamed to be Bank Negara Indonesia 1946 and with the primary task of improving the economy of the nation, with emphasis on the industrial sectors (BNI Annual Report, 2010). The details of the bank's shareholders and their shareholdings as of December 2010 are as follows:

Table 4.9: Shareholders of PT Bank Negara Indonesia (Persero), Tbk

Shareholders	Ownership
The Republic of Indonesia	60 %
Foreign Public	22,99 %
Domestic Public	17,01 %

Source: (Indonesia Banking Directory 2010, 2011)

4.1.10. PT BANK INTERNATIONAL INDONESIA, TBK

PT Bank International Indonesia Tbk ("BII or the Company, or Bank") was established on May 15, 1959. In 1980, BII merged with PT Bank Tabungan Untuk Umum 1859 Surabaya. BII listed its shares on the Jakarta Stock Exchange and Surabaya Stock Exchange in 1989 (now the Indonesia Stock Exchange or IDX) after earning foreign exchange bank status in 1988. BII has become one of Indonesia's leading local private banks until now and one of the largest banks in Indonesia. In 1999, BII was recapitalized under the National Recapitalization Program. As a result of the Recapitalization program, the Bank's share ownership was transferred from Sinar Mas group to the Government of Indonesia through the Indonesian Bank Restructuring Agency (IBRA). The bank focuses its services in consumer, small, medium, enterprises, up to commercial and corporate Banking.

Financial Holdings Pte, Ltd. (Sorak Consortium) acquired a 51% interest in the bank in December 2003, through a process conducted by Indonesia Bank Restructuring Agency (IBRA). Sorak consortium members comprised of Asia Financial Holdings Pte, Ltd, Kookmin Bank, ICB Financial Group Holdings Ltd, and Barclays Bank PLC. On September 30, 2008 Malayan Banking Berhad (Maybank), through Maybank Offshore Corporate Services (Labuan) Sdn. Bhd. (MOCS), a wholly owned subsidiary, completed the acquisition of a 100% stake in Sorak Financial Holdings Pte. Ltd, which at the time of the transaction owned a total of 55.51% stake in BII. In December 2008, MOCS completed a tender offer for the remaining BII shares, and acquired an additional shareholding. As of year-end 2010, BII's network comprised 330 branches including 5 Sharia branches, and 3 overseas branches and 937 Automatic Teller Machines (ATMs) and 15 Cash Deposit Machines (CDMs) nationwide. BII is one of few banks that connect to all networks in Indonesia namely ATM Prima, ATM Bersama, ALTO, and CIRRUS, Malaysia's MEPS network as well as 2,800 Maybank ATMs in Malaysia and Singapore (BII Annual Report, 2010).

The details of the bank's shareholders and their shareholdings as of December 2010 are as follows:

Table 4.10: Shareholders PT International Indonesia, Tbk

Shareholders	Ownership
Sorak Financial Holding Pte. Ltd	54, 33 %
Maybank Offshore Corporate Services (Labuan) Sdn Bhd	43, 05 %
Public	2, 62 %

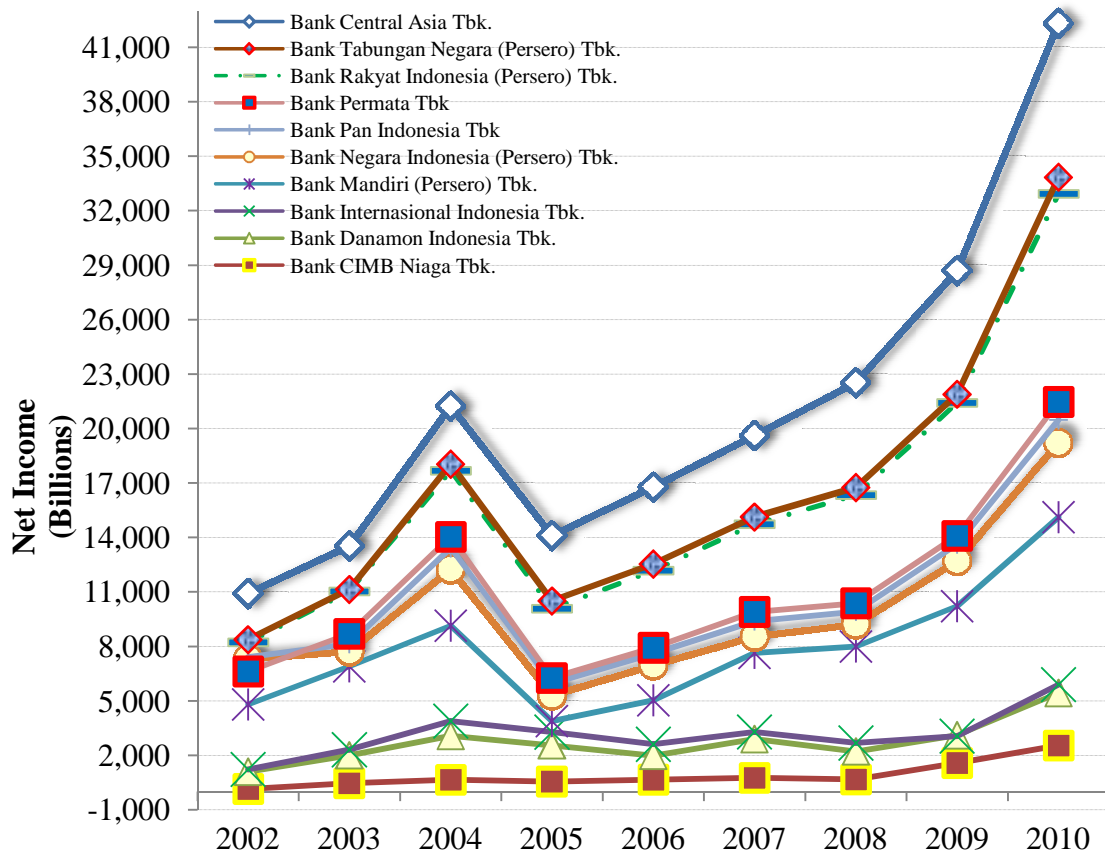
Source: (Indonesia Banking Directory 2010, 2011)

4.2. DATA COMPARISON

The 10 sampled banks are directly compared by noting the net income and closing price at the end of the year to observe some information on how well the banks' progress from 2002-2010.

The graph shows, that the overall trend of banks' net income increases each year. However, there are number of banks that show major fluctuations during the span of observation. For instance, almost all banks, except Bank BCA Tbk, Bank BRI (Persero) Tbk, and Bank BTN (Persero) experienced significant drops from 2004 to 2005.

Figure 4.1: Net Income

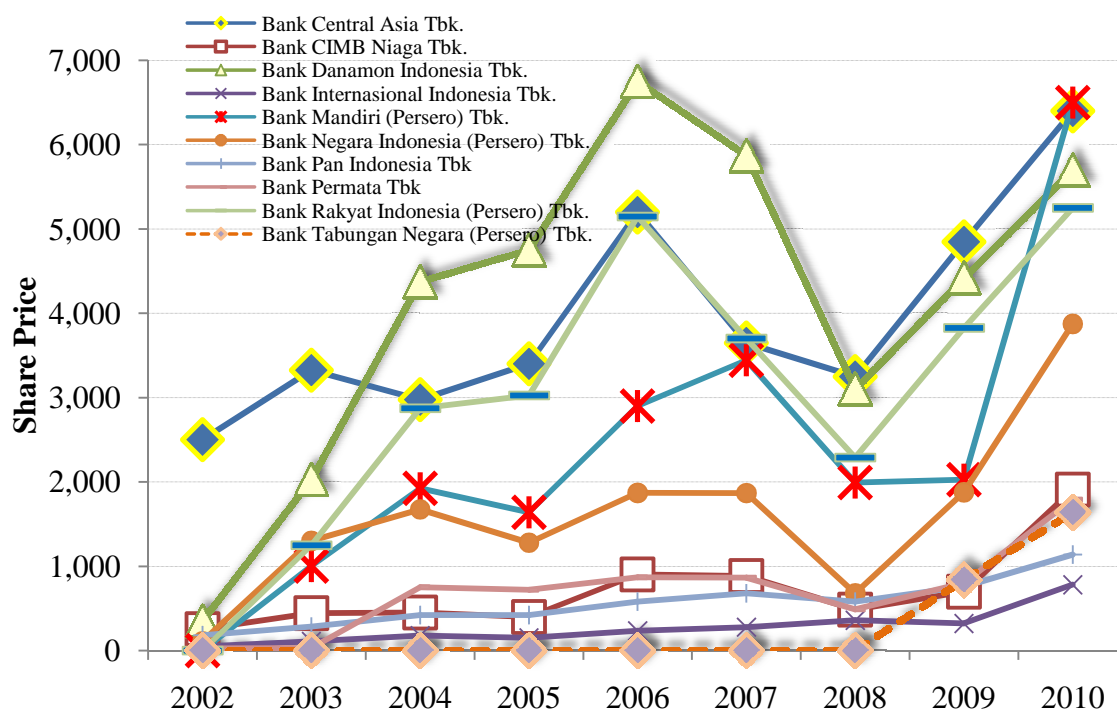


Source: (Indonesia Banking Directory 2010, 2011)

Among the 10 sampled banks, BRI's net income shows the most consistent increase each year, which was followed by Bank Mandiri (Persero) Tbk, and Bank BCA Tbk. A brief analysis on bank's share price is also made in order to gain additional information about the movement in the market.

The figure below represents the closing share price in BEI at the end of each year during the period of 2002-2010. In general, the movement shows fluctuations in share price. Some banks more than others experience larger fluctuations. The share price of the majority of banks dropped drastically in 2008. Bank Mandiri (Persero) Tbk and Bank BCA Tbk were the leading banks in the market in the time span observed. The tables below provide a more accurate description on the extent of inter-relationship between net income and share price movements.

Figure 4.2: Share Price



Source: (Dunia Investasi, 2011), modified

Table 4.11: Percentage of Change in Net Income and Share Price

Year	Bank Negara Indonesia (Persero) Tbk.		Bank Pan Indonesia Tbk		Bank Permata Tbk		Bank Rakyat Indonesia (Persero) Tbk.		Bank Tabungan Negara (Persero) Tbk.	
	Income	share	Income	share	Income	share	Income	share	Income	share
2003	-67%	1082%	315%	58%	-169%	20%	44%		-17%	
2004	273%	29%	182%	47%	12%	2400%	57%	130%	198%	
2005	-54%	-24%	-43%	0%	-53%	-4%	5%	5%	18%	
2006	36%	46%	-3%	38%	6%	21%	12%	70%	-16%	
2007	-53%	0%	31%	17%	60%	-1%	14%	-28%	10%	
2008	36%	-64%	-18%	-15%	-9%	-43%	23%	-38%	7%	
2009	103%	176%	31%	31%	6%	63%	23%	67%	14%	
2010	65%	106%	37%	50%	105%	124%	57%	37%	87%	95%

Year	Bank Central Asia Tbk.		Bank CIMB Niaga Tbk.		Bank Danamon Indonesia Tbk.		Bank Internasional Indonesia Tbk.		Bank Mandiri (Persero) Tbk.	
	Income	share	Income	share	Income	share	Income	share	Income	share
2003	-6%	33%	231%	73%	61%	479%	133%	120%	28%	
2004	34%	-11%	41%	2%	57%	116%	166%	63%	15%	93%

Year	Bank Central Asia Tbk.		Bank CIMB Niaga Tbk.		Bank Danamon Indonesia Tbk.		Bank International Indonesia Tbk.		Bank Mandiri (Persero) Tbk.	
	Income	share	Income	share	Income	share	Income	share	Income	share
2005	13%	14%	-17%	-12%	-17%	9%	-12%	-16%	-89%	-15%
2006	18%	53%	18%	127%	-34%	42%	-13%	55%	301%	77%
2007	6%	-30%	19%	-2%	60%	-13%	-36%	18%	79%	19%
2008	29%	-11%	-12%	-45%	-28%	-47%	16%	30%	22%	-42%
2009	18%	49%	131%	43%	0%	43%	-109%	-11%	35%	2%
2010	25%	32%	63%	174%	88%	29%	-1225%	144%	29%	221%

Source: (Indonesia Banking Directory 2010, 2011), modified

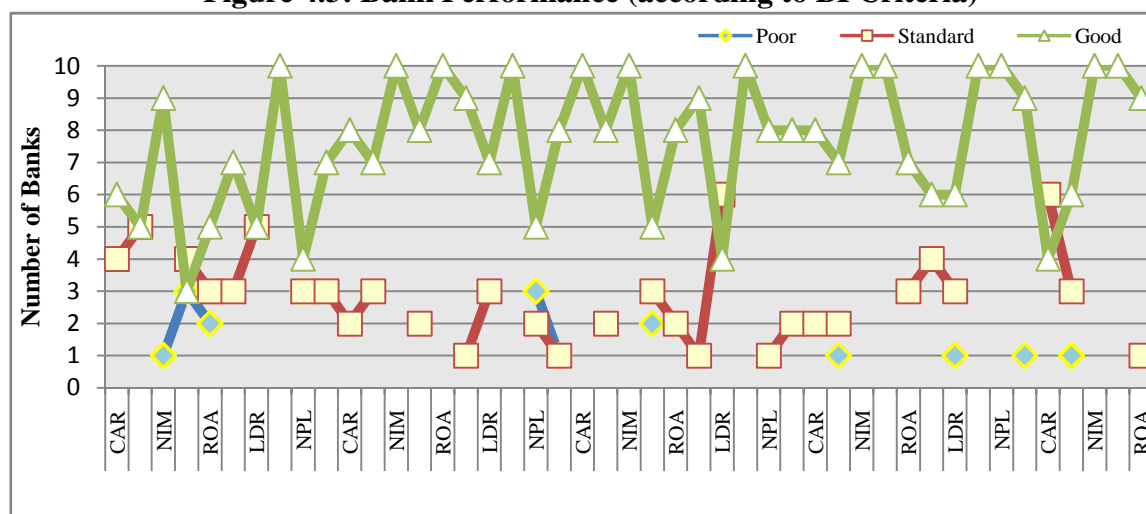
By observing the change in percentage of bank's net income and share price, apparently banks that are listed in Stock Exchange do not necessarily have a stable net income and the share price is not always related to performance. As an assumption that the market will consider company's performance for such decision making like buying or selling stock, apparently it is not represented by just considering the net income side.

Based on the previous table, for instance, Bank BCA Tbk which showed a decline of 6% in net income from 2002 to 2003, yet, the bank's share price increased by 33%. The other example, despite increases in Bank BCA's net income from 2003 to 2004 of 34%, its share price showed a decline of 11%. As such, in order to obtain a more in depth understanding of bank performance, analysis utilizing other performance indicators besides net income is required. Specifically in this study these indicators are total assets, total debt or liabilities and interest expense through ratio analysis and EVA.

4.3. BANKS PERFORMANCE

The table shows banks sampled performance which is measured by several ratios in form of CAR, LDR, NIM, NPL, and ROA to be assessed in accordance with Bank Indonesia criteria of bank's healthiness. These performances are assessed from 2002-2010 and separated in to 3 categories; good, standard, and poor. The result of this performance assessment is shown in the following graphical illustration.

Figure 4.3: Bank Performance (according to BI Criteria)



Source: (Indonesia Banking Directory 2010, 2011), modified

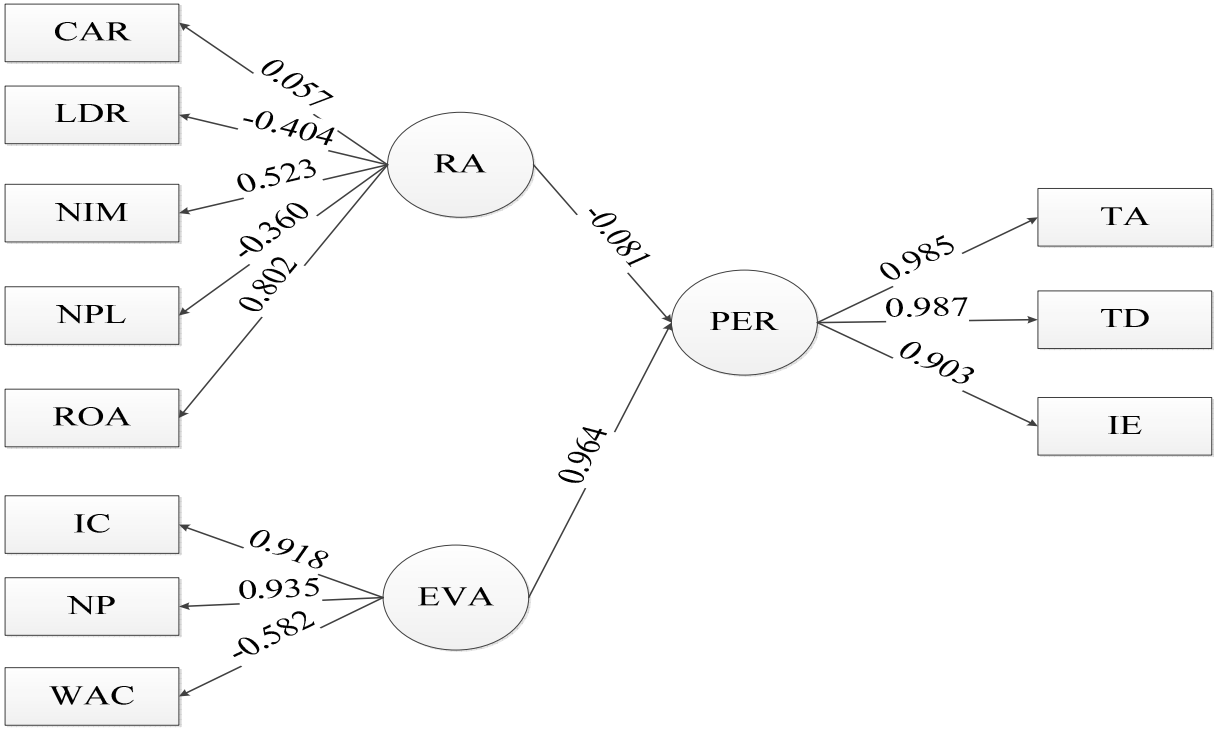
In general, banks' performance in terms of capital as represented by CAR shows that majority of banks continuously maintained the standard required from 2002 to 2010, and few of banks sampled showed good performance in a regular basis. Therefore, banks were considered fulfilling the BI criteria in providing adequate capital required. In terms of assets, as represented by NPL, the banks' performance was fluctuated from 2002 to 2010. However, it was just a minor fluctuation on banks NPL as shown in early years and from 2006 to 2007. In this case, banks NPL were considered fulfilling the BI criteria. With regards to earnings, as represented by ROA and NIM, as a whole, were considered meeting with the BI criteria. As in NIM, banks continuously showed good performance from 2002 to 2010. It was only in the first year that one bank showed below standard performance. Therefore, banks NIM were considered fulfilling the BI criteria.

Then, the other earnings performance as represented in banks ROA, showed a minor fluctuation since 2002 to 2010. The ROA performance as a whole, however, was considered fulfilling BI criteria. Liquidity as part of banks main activity that represented by LDR, as a whole, showed that banks maintained the LDR performance according to the standard required by BI. Banks LDR from 2002 to 2010 were consistently fulfilled the standard, with just few banks performance that does not meet the standard. Overall, the banks sampled performance within years of observation was consistently fulfilled the standard required by BI.

4.4. STATISTICAL ANALYSIS

The statistical results of PLS are shown in the following diagram.

Figure 4.4: Output Measurement Model 1



Source: Smart PLS

Convergent validity from measurement model by using reflective indicators was assessed

through loading factor of indicators which measure construct. In this research, there were 3 construct which consist of 3 to 5 indicators each. A good outer loading value required the loading factors (original sample estimate) is > 0.50 and significant ($t > 1.96$) (Mustakini, 2011). Based on the measurement model that can be seen in the above table, the results are as follows.

1. RA construct which was measured by 5 indicators, namely CAR, LDR, NIM, NPL, and ROA has 2 loading factors that are > 0.50 (NIM and ROA).
2. EVA construct which was measured by 3 indicators, namely IC, NP, and WAC has 2 loading factors that are > 0.50 (IC and NP).
3. PER construct which was measured by 3 indicators, namely TA, TD, IE has all loading factors that are > 0.50 .

Table 4.12: Outer Loading 1

	original sample estimate	mean of subsamples	Standard deviation	T-Statistic
RA				
CAR	0.057	0.154	0.269	0.210
LDR	-0.404	-0.232	0.428	0.944
NIM	0.523	0.137	0.548	0.953
NPL	-0.360	0.056	0.575	0.626
ROA	0.802	0.265	0.720	1.114
IE	0.903	0.927	0.037	24.597
TA	0.985	0.988	0.004	221.955
TD	0.987	0.989	0.004	266.320
IC	0.918	0.923	0.019	47.453
NP	0.935	0.930	0.015	62.443
WAC	-0.582	-0.635	0.114	5.111

Source: Smart PLS

Based on the statistical results above, the explanation of each indicator in the model are as follows.

1. Ratio Analysis (RA):

- LDR influences RA as much as 40%. Nonetheless, as LDR increases, RA drops. This appears to conform to the logical expectation that as loans increase, banks will bear additional risk. This reduces the satisfactory level of ratio of those banks. This is justified by the results of previous research stated that liquidity, as represented in LDR, negatively influences profit growth/ future profit (Sapariyah, 2010).
- CAR influences RA as much as 5.7%. As CAR increases, RA also increases. The logical perception on this related issue is that when CAR increases, banks are able to cover operational costs made to contribute on profitability. This is also justified by the results of previous research stated that capital positively influences future profit/ profit growth (Sapariyah, 2010).
- NIM influences RA as much as 52%. As NIM increases, RA also increases. Banks must manage its costs by funding from one of its primary source of income, interest rate from interest on deposit and loan interest to gain profit margin. When NIM increases, this shows the banks' ability to organize margin, hence, gain profit. However, it is not in line correspondingly with the previous research stated that earnings, in this case represented by NIM, negatively influence profit growth (Sapariyah, 2010).
- NPL influences RA as much as 36%. Nonetheless, as NPL increases, RA drops. This

appears to conform to the logical expectation that as non-performing loan increases, bank's asset will reduce. This reduces the satisfactory level of ratio of those banks. However, it is not in line correspondingly with the previous research stated that assets, in this case represented by NPL, positively influence profit growth (Sapariyah, 2010).

- ROA influences RA as much as 80%. As ROA increases, RA also increases. ROA is represented of how efficient banks operation to gain return or earnings. The more effective and efficient banks performance, it reflects on higher ROA as well. However, it is not followed correspondingly by previous research stated that earnings, in this case represented by ROA, negatively influenced profit growth (Sapariyah, 2010).

2. Economic Value Added (EVA):

- The total influence of IC as a measurement of EVA is about 92%. This means that as IC increases, EVA increases also. For 1 unit of increase in IC, EVA increases by 92%.
- The total influence of NP as a measurement of EVA is about 94%. This means that as NP increases, EVA increases also. For 1 unit of increase in NP, EVA increases by 94%.
- The total influence of WAC as a measurement of EVA is about 60%. Nonetheless, as WAC increases, EVA drops. When EVA is positive, then it shows companies succeed in their project, therefore, the profit as well as capital invested increase, and on the other hand, WAC drops (Wibowo & Berasategui, 2008).

3. Performance (PER):

- Banks' performance can be measured by IE at about 90%. To justify this result, a previous research stated that bank performance can be explained by interest expenses (Inguva, Djeddi, & Djeddi, 2012).
- Banks' performance can be measured by TA at about 98%. It is proven in a previous research stated that banks performance, can be measured by the total assets, deposits, loans and macro factors such as economic growth (Gul, Irshad, & Zaman, 2011).
- Banks' performance can be measured by TD at about 98%. The logical understanding on this issue is that TD reflects in the bank's business operation funded by their resources, in terms of assets. The return gained, then, used to pay their obligations or liabilities.

4. Ratio Analysis (RA) influences performance (PER) as much as 8.1%. Nonetheless, as RA increases, PER drops. This appears to conform to the logical expectation that there are inverse relationships on ratio analysis composite. For instance, as LDR increases, banks will bear certain risks, namely money loaned to the borrowers cannot be repaid. The result is bad loans that represented by NPL increased, hence assets reduced. The shortage amount of assets will then be covered by capital (CAR) to pay the liabilities.

5. Economic Value Added (EVA) influences performance (PER) as much as 96.4%. The rational reason in this matter is that EVA as the indicator of how profitable company projects will be affected by the amount of cost contained in WAC. The positive value means value creation, indicates by the positive value of NP and IC, and costs as reflected in WAC drops.

AVE value shows the validity of construct. A model is considered as good when each construct value > 0.50 (Mustakini, 2011). Based on the table above, it can be concluded that indicators in this research have fulfill the discriminant validity criteria except RA.

Table 4.13: Average Variance Extracted 1

	Average variance extracted (AVE)
RA	0.242
PER	0.921
EVA	0.685

Source: Smart PLS

Table 4.14: Composite Reliability 1

	Composite Reliability
RA	0.091
PER	0.972
EVA	0.631

Source: Smart PLS

A construct is considered reliable when the Composite Reliability value > 0.60 (Mustakini, 2011). On the table above, EVA and PER are statistically reliable.

Structural Model in PLS is evaluated by R-square for dependent variable and path coefficient (β) for independent variables with its significant assessment based on T-statistic for each path.

Table 4.15: Path Analysis Coefficients 1

	original sample estimate	mean of subsamples	Standard deviation	T-Statistic
RA -> PER	-0.081	-0.042	0.115	0.704
EVA -> PER	0.964	0.959	0.070	13.727

Source: Smart PLS

Based on the coefficients beta and T-statistic above, the obtained results on each hypothesis are as follows.

Hypothesis 1, which is ratio analysis influences bank performance, shows that RA negatively influence PER with coefficients beta of -0.081 and t-value of 0.704. That means the first hypothesis is not supported.

Hypothesis 2, which is EVA influences bank performance, shows that EVA positively influence PER with coefficients beta of 0.964 and t-value of 13.727. That means the first hypothesis is supported.

The number in the R-square table shows the power of influence between RA, and EVA to PER as much as 0.846. This means that 84.6% variations around the mean in PER can be explained by RA and EVA.

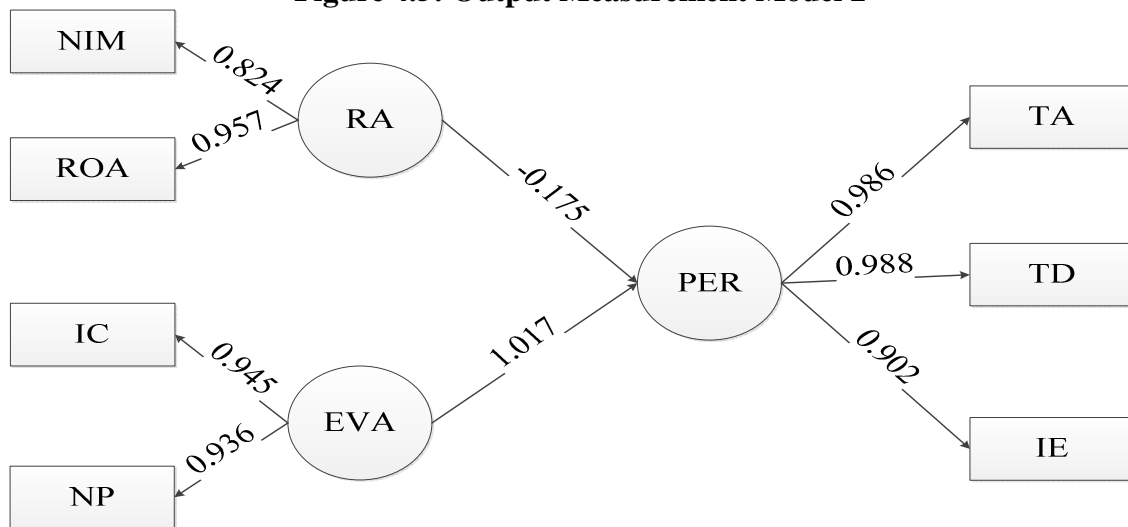
Table 4.16: R-Square 1

	R-square
RA	
PER	0.846
EVA	

Source: Smart PLS

From the statistical analysis above, further analysis was necessary to gain understanding on the relationships and level of contribution among indicators in the model. The process was the same as previous phase conducted, however, in this second phase, RA eliminates CAR, NPL, and LDR whereas EVA eliminates WAC. The results are as follows. The measurement model for validity and reliability test, are as follows.

Figure 4.5: Output Measurement Model 2



Source: Smart PLS

Convergent validity from measurement model by using reflective indicators is assessed through loading factor of indicators which measure construct. In this research, there are 3 construct which consist of 2 to 3 indicators each. A good outer loading value required the loading factor (original sample estimate) is > 0.50 and significant ($t > 1.96$) (Mustakini, 2011). Based on the measurement model that can be seen in the above table, the results are as follows.

- RA construct which measured by 2 indicators, namely NIM and ROA has all loading factors that are > 0.50 (NIM and ROA).
- EVA construct which measured by 2 indicators, namely IC and NP has all loading factors that are > 0.50 (IC and NP).
- PER construct which measured by 3 indicators, namely TA, TD, IE has all loading factors that are > 0.50 .

Table 4.17: Outer Loading 2

	original sample estimate	mean of subsamples	Standard deviation	T-Statistic
RA				
NIM	0.824	0.772	0.127	6.511
ROA	0.957	0.954	0.040	24.081

	original sample estimate	mean of subsamples	Standard deviation	T-Statistic
PER				
IE	0.902	0.939	0.026	35.126
TA	0.986	0.990	0.003	325.757
TD	0.988	0.991	0.002	408.621
EVA				
IC	0.945	0.940	0.013	72.174
NP	0.936	0.929	0.013	71.321

Source: Smart PLS

Furthermore, the explanations of those indicators are elaborated into such as follows.

1. RA:

- ROA influences RA as much as 95%. As CAR increases, RA also increases.
- NIM influences RA as much as 82%. As NIM increases, RA also increases.

2. EVA:

- The total influence of IC as a measurement of EVA is about 94%. This means that as IC increases, EVA increases also. For 1 unit of increase in IC, EVA increases by 94%.
- The total influence of NP as a measurement of EVA is about 93%. This means that as NP increases, EVA increases also. For 1 unit of increase in NP, EVA increases by 93%.

3. PER

- Banks' performance can be measured by IE at about 90%.
- Banks' performance can be measured by TA at about 98%.
- Banks' performance can be measured by TD at about 98%.

4. RA influences PER as much as 17.5 %. As RA increases, PER drops.

5. EVA influences PER as much as 101.7 %.

Table 4.18: Average Variance Extracted 2

	Average variance extracted (AVE)
RA	0.798
PER	0.921
EVA	0.884

Source: Smart PLS

Table 4.19: Composite Reliability 2

	Composite Reliability
RA	0.887
PER	0.972
EVA	0.939

Source: Smart PLS

AVE value shows the validity of construct. A model is considered as good when each construct value > 0.50 (Mustakini, 2011). Based on the table above, it can be concluded that indicators in this research have fulfill the discriminant validity criteria.

A construct considered reliable when the Composite Reliability value > 0.60 (Mustakini, 2011). On the above table, EVA and PER are statistically reliable.

Structural Model in PLS is evaluated by R-square for dependent variable and path coefficient (β) for independent variables with its significant assessment based on T-statistic for each path.

Table 4.20: Path Coefficients 2

	original sample estimate	mean of subsamples	Standard deviation	T-Statistic
RA -> PER	-0.175	-0.190	0.066	2.641
EVA -> PER	1.017	1.021	0.038	26.802

Source: Smart PLS

Based on the coefficients beta and T-statistic above, the obtained results on each hypothesis are as follows.

Hypothesis 1, which is ratio analysis influences bank performance, shows that RA negatively influence PER with coefficients beta of -0.175 and t-value of 0.704. That means the first hypothesis is not supported.

Hypothesis 2, which is EVA influences bank performance, shows that EVA positively influence PER with coefficients beta of 1.017 and t-value of 13.727. That means the first hypothesis is supported.

Table 4.21: R-Square

	R-square
RA	
PER	0.911
EVA	

Source: Smart PLS

The number in the R-square table shows the power of influence between RA, and EVA to PER as much as 0,846. This means that 84.6% variations around the mean in PER can be explained by RA and EVA.

5. CONCLUSION AND RECOMMENDATION

Conclusions can be summarized as follows;

1. The banks' performance based on BI criteria indicated that performance as represented by CAR, NPL, LDR, NIM, ROA were consistently fulfilled Bank Indonesia's standard of banks healthiness. Hence, the performance of Indonesian banks was relatively fit and well for the periods of 2002-2010. Taking into account the banks' crucial role in the economy, some tight regulations must be implemented to prevent unexpected conduct in banking industry. In this case, BI as central bank has managed the banking industry to follow the rules and regulation given, in terms of banks healthiness. BI's policies would have a significant impact on banking industry in running their business which then contributes to Indonesia economy.
2. Hypotheses tested results are as follows:

- a) Hypothesis 1 is that RA negatively influences PER. Based on data analyzed, there are causal relationships and the respective contribution and magnitude of each variable that affects performance. The construct of RA impacts on the indicators in varying magnitude, and while LDR and NPL are inversely impacted, other indicators specifically NIM and CAR show a positive relationship. Hence, the negative relationship between RA and PER is not an inverse relationship by itself but is due to the contributing negative relationship indicators within the RA composite. The logical expectation to support that ROA and NIM both strongly influences RA is that banking assets are mainly loans and investment, from which revenue is derived. The more interest income from loans generated, the more potential revenue derived. Also, the more activity performed such as investment, the more potential profit generated. Therefore, both ROA and NIM as earnings indicators can be determined by bank's assets. The strong influences of ROA and NIM toward RA are even more obvious within the banks sampled, since the sample consists of Indonesia's largest banks in terms of total assets.
- b) The result of hypothesis 2 is that EVA positively influences PER. Value added is created when a company's project yields profit, as reflected in positive influence on PER, which causes the cost as reflected in WAC to decrease. Similarly, NP and IC increases as the profit generated.

Then, to assist further research based on the data analyzed results, the recommendation is as follows:

1. As several indicators in RA have an inverse relationship to one another, then, those indicators must be separately analyzed when performing such a statistical analysis. For instance, the LDR, NPL, and CAR should not be bound in the ratio analysis composite to prevent inverse relationship among indicators. As a result of non statistical analysis, which in this study used 4 (four) indicators, namely capital (in form of CAR), assets quality (NPL), earnings (NIM and ROA), and liquidity (LDR), individually shows that majority of banks were able to maintain the standard requirement of banks healthiness by BI in the span of 8 years from 2002 to 2010. As such, the resulting of non statistical analysis of the 5 ratios indicator combined as one should also showed similar results. Further analysis is suggested where each variable comprising, namely assets, earnings, capital, and liquidity, is analyzed separately in order to gain understanding of how each respective variable actually contributes to performance.
2. The variety of performance measurements that are widely used to measure banks performance, or other firms, can provide information from several aspects and perspectives, which then contribute to the higher level of performance in the future. Several modern measurements such as Shareholder Value Added and Market Value Added then can be applied to discover the best measurement among banks, in terms of maximizing values. Value added generated or created from banks performance, can be measured by Shareholder Value Added (SVA) that represents shareholders benefits from banks performance. Market Value Added (MVA) that represents value created from a company performance listed in stock exchange market, by considering general market, as well as the potential shareholders benefits can also be analyzed further. Taking into account, that one of the most important target to be achieved in doing business is to increase the shareholder value.

In addition, banks performance can also be measured by their interest income or net interest

income, and net income, in order to gain such deep understanding of the best measurement between income generated and cost incurred.

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