

CHAPTER I

INTRODUCTION

1.1 Research Background

Risk management begins with an awareness of the risks in a company that can not be avoided or eliminated, and therefore should be managed. Bank of Indonesia has taken strategic steps in encouraging the implementation of risk management at the Bank (see Regulation No. 13/1/PBI/2011 on the Assessment of Commercial Banks). Referring to Bank Indonesia Regulation (PBI) No. 13/1/PBI/2011, bank is required to conduct an assessment of the bank, individually or consolidated by using the approach of Risk-Based Bank Rating (RBBR) which includes an assessment of the four factors, namely: risk profile, Good Corporate Governance (GCG), earnings and capital - RGEC.

Teguh Supangkat (2011) explains that the background of this regulation is the global financial reform as response to the global financial crisis in 2008. Indonesia as a member of the G-20 has to make improvements framework of Risk Based Supervision (RBS) and assessment of the bank with an increased awareness of risk management. This corresponds with the Basel II and Basel III, which the Basel III contains about capital strengthening and improvement of risk management. In addition, the bank must increase the banking sector's ability to absorb potential risks and prevent the spread of the financial sector crisis on economic sectors.

Profitability is used to measure the efficiency of management based on the returns generated from loans and investments. Profitability ratios that important

for banks is Return On Asset (ROA). ROA is the ratio of earnings before taxes to total assets. The greater the ROA shows the better performance of the company. This will be a positive influence on the company and its shareholders. So that the profits are one measurement of the companies performance that are often used as a basis standard in decision making.

Table 1.1

ROA of Commercial Banks in Indonesia

For 2010-2015

No	Bank's Name	2010	2011	2012	2013	2014	2015
1	Bank Artha Graha International Tbk	0.76	0.72	0.66	1.39	0.57	1.07
2	Bank Central Asia Tbk	3.5	3.8	3.6	3.8	3.9	3.84
3	Bank CIMB Niaga Tbk	2.75	2.85	3.18	2.76	1.4	0.24
4	Bank Danamon Tbk.	2.7	2.6	2.7	2.5	1.4	1.2
5	Bank Saudara Tbk	2.78	3	2.78	2.23	1.1	2.78
6	Bank Mandiri Tbk	3.4	3.4	3.5	3.66	3.57	3.15
7	Bank Mayapada Tbk	1.22	2.07	2.41	2.53	1.98	2.1
8	Bank Negara Indonesia Tbk	2.5	2.9	2.9	3.4	3.5	2.6
9	Bank OCBC NISP Tbk	1.29	1.91	1.79	1.81	1.72	1.8
10	Bank Permata Tbk	2	1.66	1.7	1.55	1.1	0.2
11	Bank Rakyat Indonesia Tbk	4.64	4.93	5.15	5.03	4.74	4.19
12	Bank BTPN Tbk	3.99	4.38	4.71	4.54	3.61	3.1
13	Bank Mega	2.45	2.29	2.74	1.14	1.04	1.97
14	Bank Tabungan Negara Tbk	1.7	2.03	1.94	1.79	1.12	1.61

Source: annual report of each bank

Based on table 1.1 the bank has a fluctuating ROA from 2010-2015. Based on Bank Indonesia standard a healthy ROA has value above 1.5%. Some banks such as Bank Central Asia, Bank Negara Indonesia, Bank Mandiri, Bank Rakyat Indonesia, and the Bank Tabungan Negara have shown healthy level of ROA in accordance with the provisions of Bank Indonesia. But there are still

some banks that have ROA under the conditions imposed by Bank Indonesia such as Bank Arta Graha International, Bank Danamon, Bank Saudara, and Bank Permata.

Most banks have an healthy level of ROA until 2013 although in 2014 nearly all banks decreased. This is because the banking profitability in 2014 under pressure due to a decrease in net interest margin (NIM) and increased costs for credit losses. NIM decreased dramatically since the monetary authority to run a strict policy in 2013 from an average 5.4% to 4.3% in 2013. The decline in profit of the banking sector was caused by the tight liquidity and declining business prospects so that the banks tend to be defensive in running the business (Issa Almawadi, 2015).

Based on the financial statements of banks, Government-Owned Banks (GOBs) still dominate the profitability of banking industry. In 2014 the total profit recorded by Bank Mandiri, Bank Rakyat Indonesia (BRI), Bank Negara Indonesia (BNI) and Bank Tabungan Negara (BTN) reached Rp 56 trillion, up 12.07% from the profit in 2013 reached Rp 49.97 trillion. Meanwhile, the privately-owned banks recorded profit only Rp 26.13 trillion, down 7.06% on profit at the end of 2013 which amounted to Rp 28.12 trillion.

BNI become the bank with the highest profit growth with a record of 19.1% from Rp 9.05 trillion to Rp 10.78 trillion and become the only GOBs that have increased ROA in 2014, unfortunately it felt in 2015 because of the sluggish economic condition. Meanwhile, the BTN become a GOB posted a decline of profit 28.59% from Rp 1.56 trillion to Rp 1.12 trillion, yet increase in 2015. For private banks, only BCA bank that recorded profit growth and ROA. The highest

profit growth of BCA was Rp 16.49 trillion, up 15.7% from Rp 14.25 trillion.

The data above shows that there is more information needed as causal factors of declining ROA. These factors can be seen from company's financial statements and other information relating to the financial statements. Results of these financial ratios provide information about the condition of a bank that will be used by the bank itself and the relevant parties such as creditors, investors, and customers.

Authors interested in examining the financial ratios in Government-Owned Banks during the period 2010-2015 by using the Risk-Based Bank Rating (RBBR) method. It is based on the grounds (1) Profitability ratios are shown in table 1.1, The GOB is a bank group that has the highest profitability ratios among another conventional bank as well as the income generated can be an addition to the state revenue; (2) Change of Basel II to Basel III that banks must have sufficient capital reserves to improve the health of banks in a crisis.

1.2 Research Question

Based on the background that has been expressed above, then it can be determined the problems raised in this research,

1. What is the the credit risk of Government Owned Banks over period 2010-2015?
2. What is the the liquidity risk of Government Owned Banks over period 2010-2015?
3. What is the the market risk of Government Owned Banks over period 2010-2015?

4. What is the the earning ratio of Government Owned Banks over period 2010-2015?
5. What is the the capital ratio of Government Owned Banks over period 2010-2015?

1.3 Research Objectives

This research aims to achieving the following research objectives are to :

1. Analyze the financial ratio in Government Owned Banks by using the indicator of credit risk
2. Analyze the financial ratio in Government Owned Banks by using the indicator of liquidity risk
3. Analyze the financial ratio in Government Owned Banks by using the indicator of market risk
4. Analyze the financial ratio in Government Owned Banks by using the indicator of earning ratio
5. Analyze the financial ratio in Government Owned Banks by using the indicator of capital ratio

1.4 Research Contribution

1. For Writer

To apply the theory that has been acquired over the course and giving insight about measuring banking performance and the implementation of accounting science.

2. For Banking Practitioner

Analysis result obtained from this research is expected to be a consideration for the management of banking operation and to improve corporate performance.

3. For the Investors

This study is expected to be a reference and input for an investor in making investment decisions.

4. For Other Researchers

This study is expected to give additional insights to conduct further research.

1.5 Writing Systematic

This research is divided into five chapters, those are:

Chapter I (Introduction)

This chapter explains the overview of the background of the introduction, problem definition, purpose and benefit of the research and writing systematic.

Chapter II (Theoretical framework)

Theoretical framework provides an overview of literature survey about Risk-Based Bank Rating, Factors of Risk-Based Bank Rating which are profile risk factors, Good Corporate Governance factors, earning factors, and capital, the difference between CAMELS and RBBR methode, BASEL II, BASEL III, and previous researchs

Chapter III (Research Method)

Research method discuss research object, type of research, type of data used, data gathering method, financial ratios of RBBR method, and data analyze technique.

Chapter IV (Result and Discussion)

This chapter discusses the results of data analysis and discussion to research methods in chapter three, so it will give research the results with the existing criteria and answer the questions that have been mentioned in the research question.

Chapter V (Conclusion)

This chapter describes the conclusions of a study conducted from the analysis and limitations of the study, as for suggestion addressed to interested parties of the results of research and subsequent studies.

