CHAPTER I

INTRODUCTION

1.1 Background

Bank is a company that sell the services that involve in banking sector. Bank provide financial services to all of people. Bank is a mediator between people that need financing with people with more financing, besides provide another financial services. As a financing mediator, bank should have the people trust. Bank management faced by a few effort to keep the trust to get the symphaty from the prospective customer (Kasmir, 2004).

Bank as the trust institution and a part of the monetary system that has strategic position as economy development support. Bank health maintenance their health by keep maintain the liquidity so bank can fulfill the obligation to all party that withdraw or liquidate the savings in unknown time (Taswan dan Hersugondo, 1997). Bank management supposed to always keep the balance between liquidity level maintenance and bank high profitability and compliance capital needs (Jaeni, 1996).

In 2008, there is a bank bankruptcy case in Indonesia that discussed by people. The bank in the case is Century Bank. In Bank Indonesia's Board of Governor in 20 November 2008, known that the Capital Adequacy Ratio of Century Bank became negative 3.53% and still have liability maturity worth Rp 859,000,000,000 or more than the amount of Fasilitas Pendanaan Jangka Pendek (FPJP) that had been disbursed by Bank Indonesia worth Rp 689,000,000,000 (Republika, 2014).
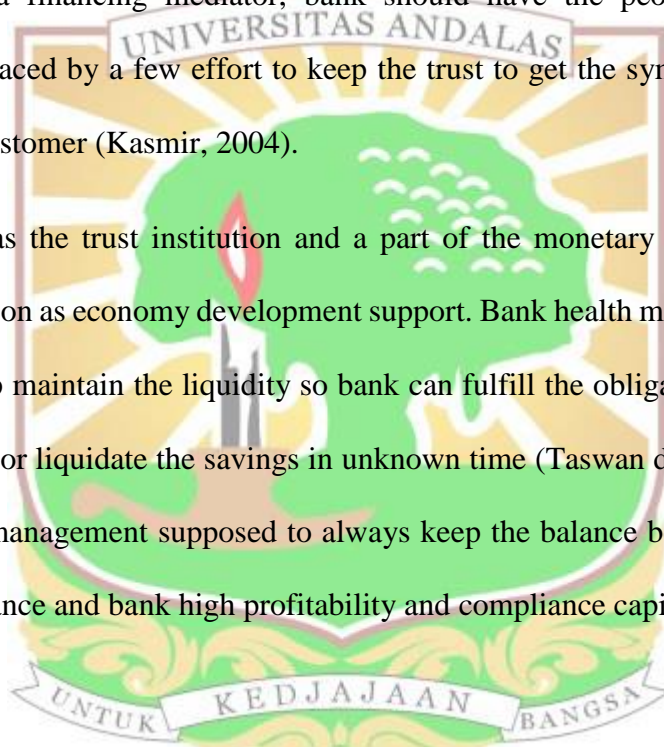
In order to prevent something bad happen in the bank, Bank Indonesia set the regulation to measure bank health. According to PBI Nomor: 13/1/PBI/2011 about Measurement General Bank Health Level, bank should use *Risk Based Bank Rating* Method. Risk Based Bank Rating (RBBR) has four measurement factors, there are *risk profile*, *Good Corporate Governance* (GCG), *Earnings*, and *Capital.*

Risk Profile that stated in SE BI No. 13/24/DPNP is a measurement toward inherent risk and risk management quality application. Risk Profile has 8 types of risk, there are market risk, loan risk, liquidity risk, operational risk, law risk, strategic risk, compliance risk, and reputation risk. *Good Corporate Governance* (GCG) measured by the aspect of *governance structure*, *governance process*, and *governance output*.

Another factor is *earning*. This factor including the earning performance, earning sources, *earning sustainability*, and earning management. According SE BI No 13/24/DPNP earning performance can be measured by *Returen on Asset* (ROA) and *Net Interest Margin* (NIM).

We also use *Capital Adequacy Ratio* (CAR) to measure capital. The measurement is include capital adequacy and capital management compared by the amount of risk-weighted assets (ATMR). Based on SE BI No. 26/2BPPP regulate that minimum CAR from the certain percentage toward ATMR is 8%.

Based on the description above, so researcher want to measure bank health level using RBBR that has four indicator, they are Risk Profile, GCG, Earning, and Capital. But the researcher using this method to Govermental Bank in West Sumatera, that is Bank Nagari.

1.2 Problem Formulation

1. How *Risk Profile* composite rank using NPL and LDR to determine Bank Nagari health?

2. How *Good Governance Corporate* composite rank to determine Bank Nagari health?

3. How *Earning* composite rank using ROA and NIM to determine Bank Nagari health?

4. How *Capital* composite rank using CAR to determine Bank Nagari health?

1.3 Purpose and Research Benefit

1.3.1 Research Purpose

According to problem that faced, this research purpose are:

1. To know *Risk Profile* composite rank using NPL and LDR to measure Bank Nagari health from 2011 – 2014.

2. To know *Good Corporate Governance* composite rank to measure Bank Nagari health from 2011 – 2014.

3. To know *Earning* composite rank using ROA and NIM to measure Bank Nagari health from 2011 – 2014.

4. To know *Capital* composite rank using CAR to measure Bank Nagari health from 2011 – 2014.

1.3.2 Research Benefit

This research benefit expected to give this kind of benefit:

1. We know the Bank Nagari *Risk Profile* rate.

2. We know the Bank Nagari *Good Corporate Governance* rate.

3. We know the Bank Nagari *Earning* rate.

4. We know the Bank Nagari *Capital* rate.

1.4 Writing Systematics

In the big line this research describe in 5 chapter with the writing system as follows:

1. CHAPTER I Introduction. This chapter describes about the problem background, problem formulation, purpose of research and benefit of research, and also writing system.

2. CHAPTER II Literature Review. This chapter is about basic theory that used as guideline by basic research in doing the analysis. Here the writer review the literature and preview research and then form theoritical framework and hypothesis.

3. CHAPTER III Research Method. This chapter describes about research variable and operational definition from each variable, the determination of population and sample, types and source of data, collecting method, and analysis method.

4. CHAPTER IV Result and Discussion. This chapter describes about descriptive analysis from the object of research and also analysis of hypothesis data test and interpretation result.

5. CHAPTER V Conclusion. This chapter contains description conclusions, limitations, and recomendations, the final sections consist of bibliography and appendix.