Local-Government-Owned Commercial Banks'

Performance Influencer Factors in Indonesia

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Abstract

As one of government-owned banks; local-government-owned commercial banks in Indonesia have unique and critical roles to support local government to develop stronger local economic conditions. Moreover, study about influencer factors of local-government-owned commercial banks' performance become important and urgently needed, since only few studies about this previously. Meanwhile, commercial bank's performance is influenced by internal influencers and external influencers. Therefore, this study focuses on bank's soundness as internal factor influencer; and selected macroeconomics indicators as external factors influencer toward bank's performance. The result of this study shows even though CAR; CIR; NIM of all 19 local-government-owned commercial banks in Indonesia have reached first rank of the banks' soundness measurement; however, only 1 bank has reached first rank in LDR; and only 2 banks have reached first rank in NPL. Therefore, this study shows that local-government-owned commercial banks in Indonesia have serious problem in liquidity and asset quality. On the other hand, this study proves that local GDP growth rate and local GINI ratio - as external influencer – have no significant influencing toward banks' performance. Finally, this study concludes those local-government-owned commercial banks' performances - that represented by ROAA and ROAE - have been influenced by banks' soundness significantly; and there are no significant influencers from external factors. Thus, this study suggests the local-government-owned commercial banks to focus to increase and maintain their banks' soundness in order to increase their performance.

Keywords: CAMEL; Banks' Soundness; Macroeconomics; Banks' Performance; Commercial Banks.

Introduction

Banking sector plays an important role in the macroeconomics conditions due to all financial transaction flows are allocated through banks. Therefore, banks need continuous performance evaluation in order to ensure bank soundness and achieve higher bank performance.

Bank Indonesia (2015) releases information that Indonesia banking financial performance of the first semester of year 2015 is declining. ROA of banking industry falls from 2.85% (2nd semester 2014) to 2.29%. The banks' profitability is shrinking due to decreasing of ROA and increasing of Cost to Income Ratio (CIR). Moreover, the Loan to Deposit Ratio (LDR) falls from 89.30% (2nd semester 2014) to 88.62% as the sluggish economy stimulated a combination of weaker credit growth and stronger deposit growth. Domestic economic moderation led economic agents to save more at banks rather than invest in business expansion.

Thus, IMF[1] release financial soundness indicator for Indonesia; and one of them is Non-Performing Loan (NPL) to total loans. In general, NPL to total loans of financial industry in Indonesia is increasing from 2.075% in 2014 to 2.45% in 2015. Therefore, this study would like to investigate the 19 local-government-owned commercial banks in Indonesia contribution to country NPL to total loans ratio.

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[1] http://data.imf.org/regular.aspx?key=60949720

Moreover, the analysis of the connections between banks soundness and macroeconomic stability become popular research topic (Blejer et al, 2002). The banks' soundness is crucial for macroeconomic stability, thus this study would like to examine the Indonesia banks soundness year 2015 through CAMEL analysis, which are Capital, Asset, Management, Earnings, and Liquidity. This examination of banks' soundness is important to ensure the future of Indonesia macroeconomic stability.

On the other hand, study about local-government-owned commercial banks' performance is not a common topic, even though the economics scale impact to local community is significant. Since the local governments' performance is important to support state-government performance to develop stronger macroeconomics in Indonesia. Therefore, local-government-owned commercial banks have unique and critical roles to support local economics together with local government. Therefore, this study focuses to examine the influencer factors of 19 local-government-owned commercial banks' performance in Indonesia.

Literature Review

Banks' Soundness

CAMEL analysis is an effective measurement of supervisory monitoring of bank's soundness (Dincer et al, 2011); and an effective tools for earning warning system of financial distress Barker and Holdsworth (1993). Even though CAMEL analysis uses past financial data, but CAMEL analysis provides further insight into banks' current condition Hirtle and Lopez (1999). CAMEL is stand for Capital; Asset; Management; Earnings; and Liquidity. In Indonesia, CAMEL analysis as one of banks' soundness measurement is regulated by Bank Indonesia[2].

Table 1: Banks' Soundness Measurements
Source: Circulation Letter of Bank Indonesia Regulation No. 6/23/DPNP year 2004

Banks' Soundness Measurement	Proxy	1st Rank	2nd Rank	3rd Rank	4th Rank	5th Rank
Capital	CAR	$CAR \geq 12\%$	$9\% \leq CAR < 12\%$	$8\% \leq CAR < 9\%$	$6\% \leq CAR < 8\%$	$CAR \leq 6\%$
Asset	NPL	$NPL \leq 2\%$	$2\% < NPL \leq 3\%$	$3\% < NPL \leq 6\%$	$6\% < NPL \leq 9\%$	$NPL > 9\%$
Management	CIR	$CIR \leq 94\%$	$94\% < CIR \leq 95\%$	$95\% < CIR \leq 96\%$	$96\% < CIR \leq 97\%$	$CIR > 97\%$
Earnings	NIM	$NIM > 3\%$	$2\% < NIM \leq 3\%$	$1.5\% < NIM \leq 2\%$	$1\% < NIM \leq 1.5\%$	$NIM \leq 1\%$
Liquidity	LDR	$LDR \leq 75\%$	$75\% < LDR \leq 85\%$	$85\% < LDR \leq 100\%$	$100\% < LDR \leq 120\%$	$LDR > 120\%$

The banks' soundness rank in Indonesia is divided into 5 levels, and the criteria are explained on table 1 above. Moreover, the detail of each bank's soundness indicators is explained as follows:

Capital

Vong and Chan (2016) stated that the dimension of Capital Adequacy is an important factor to help the bank in understanding the shock attractive capability during risk. Capital Adequacy Ratio ensures that bank enable to deal with any unexpected condition because of credit risk, market risk, exchange risk, and interest risk. CAR has positive relationship with return on assets (ROA), in the other hand, has inversely relates to return on equity (ROE) (Ankenbrand, 2015).

Asset

The loan quality is important to banking industry, in order to value its asset quality. This study adopts Loan Loss Residual/Gross Loans Ratio to represent Non-Performing-Loans

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[2] Bank Indonesia Regulation No: 6/10/PBI/2004 about Commercial Bank's soundness measurement system.

(NPL). Asset Quality helps bank to measure the risk of debtor's point of view. This ratio will benefit the bank in understanding the reserved amount in the event of bad investment.

Management

Management Quality reflects the management soundness of a bank (Ahsan, 2016). Management has important role as a safeguard to operate bank in proper manner. This study adopts Cost to Income Ratio (CIR) as an indicator to measure the banks' management operational. Hess and Francis (2004) find that there is no clear correlation between CIR towards banks' performance.

Earnings

The quality of earnings is a crucial criterion which represents the quality of a bank's profitability and its capability to maintain quality and earn consistently (Mishra and Aspal, 2013). In other words, bank depends on its earnings to perform the activities such as adequate capital levels, engaging with new activities, and maintaining competitive outlook. This study adopts Net Interest Margin (NIM) as an indicator to measure earnings quality of banks' soundness. Mishra and Aspal (2013) also explaine that NIM is the difference between the interest income and the interest expended

Liquidity

Liquidity ratio in a bank measures the ability to pay its current obligations (Hazzi and Kilani, 2016). The main activity of bank is using the funding effectively for lending necessity. Loan to Deposit Ratio (LDR) measures bank's liquidity as well as the profitability of the bank, thus the ratio is calculated by dividing the total amount of loans, by the total amount of deposits. High LDR indicates that bank's issuing more deposits in the form of interest bearing loans, or bank generates more income (Rengasamy, 2014). Rengasamy (2014) find that LDR have positive impact to banks' performance.

Macroeconomics Indicators

This study focuses to investigate two important macroeconomics indicators, which are local GDP growth rate and local GINI ratio impact towards banks' performance, with detail as follows:

Local GDP Growth Rate

Gross Domestic Product (GDP) is one of the most important economic indicators used by economic decision makers and government in planning and constructs the policies (Hamza and Khan, 2014). In this study local GDP growth rate is used as a benchmark of local economic condition that will affected banks' performance. Mazadzi and Maseya (2015) find on his research that GDP growth has a positive impact to bank performance.

Local GINI Ratio

GINI ratio is a globally measurement tools to measure income inequality in a country (The World Bank, 2013). Previous research that discuss about main determinants of profitability of the largest banks in the republic of Croatia by Odobasic et al (2014) state that level of concentration of GINI ratio is directly related to the financial performance of the banks. Since this study focuses on local-government-owned commercial banks' performance, therefore this study uses local GINI ratio as macroeconomics indicators together with local GDP growth rate.

Research Methodology

This study has divided into two steps. Firstly, this study investigates the soundness level of all 19 local-government-owned commercial banks in Indonesia. After that, this study will use data panel regression to find the impact of banks' soundness indicators and macroeconomics indicators towards banks' performance indicators.

Dependent and Independent Variables

This study emphasis on average ratios, such as Return on Average Assets (ROAA); and Return on Average Equity (ROAE) instead of ROA and ROE as dependent variables. Investigate banks' performance using average performance is closer to the real performance compare with end of the year performance.

Therefore, Table 2 declares dependent and independent variables of this study, including with indicator and its data source. This study focuses Capital Adequacy Ratio (CAR); Loan Loss Res/Gross Loans Ratio (NPL); Cost to Income Ratio (CIR); Net Interest Margin Ratio (NIM); and Net Loans/Deposit & Short-Term Funding Ratio (LDR) as banks' soundness indicators; in order to represent internal influencer towards banks' performance.

Table 2: Data Samples' Country Rank and World Rank
Data Source: Bankscope

Variable	Indicators	Data Source
Dependent:		
Bank's Performance	- ROAA (Y1)	BankScope
	- ROAE (Y2)	BankScope
Independent:		
- Banks' Soundness	- Capital: Capital Adequacy Ratio (X1)	BankScope
	- Asset: Loan Loss Res / Gross Loans Ratio (X2)	BankScope
	- Management: Cost to Income Ratio (X3)	BankScope
	- Earning: Net Interest Margin (X4)	BankScope
	- Liquidity: Net Loans / Dep & ST Funding Ratio (X5)	BankScope
- Macroeconomics	- Local GDP Growth Rate (X6)	https://www.bps.go.id
	- Local GINI Rate (X7)	http://data.go.id/dataset/rasio-gini

This study emphasis to describe NPL as Loan Loss Res/Gross Loans Ratio, because the real NPL when the loans has been write-off or when impaired loans reach 6 months. Meanwhile, this study believe that doubtful loans (between 1 to 3 months); and impaired loans (after 3 months) still have an opportunity to be collected, even though is small opportunities. As external influencers, this study focuses on 2 macroeconomics indicators, which are local GDP growth rate and local GINI ratio.

Data Sample Descriptive Analysis

This study uses secondary data of banks' soundness from Bankscope; and local macroeconomics indicators from government official website. The unit analysis of this study is 19 local-government-owned commercial banks in Indonesia; and analysis period 2014-2015. Table 3 below presents the data samples' country rank and world rank. Among 19 local-government-owned commercial banks in Indonesia, PT BDP Jawa Barat dan Banten Tbk reaches the highest country rank and world rank based on assets.

Table 3: Data Samples' Country Rank and World Rank
Data Source: Bankscope

Bank Name	Province	Country rank by assets, roll.	World rank by assets, roll.
PT BPD Jawa Barat dan Banten Tbk	West Java	15	1760
PT. BPD Jawa Timur	East Java	26	2656
Bank BPD Jateng-Bank Pembangunan Daerah Jawa Tengah	Central Java	29	2716
PT Bank DKI	DKI	30	2798
Bank Pembangunan Daerah Kalimantan Timur	East Kalimantan	31	3071
PT. Bank SUMUT	North Sumatra	40	3607
Pt Bank Pembangunan Daerah Papua	Papua	44	3753
PT Bank Pembangunan Daerah Riau Kepri	Riau	47	4021
PT Bank Pembangunan Daerah Bali	Bali	48	4037
PT Bank Pembangunan Daerah Sumatera Barat	West Sumatra	49	4051
PT Bank Aceh	Aceh	50	4142
Bank Sumsel Babel	South Sumatra	51	4234
PT Bank Pembangunan Daerah Kalimantan Barat	West Kalimantan	55	4963
PT Bank Pembangunan Daerah Sulawesi Utara-Pt Bank Sulutgo	North Sulawesi	60	5517
PT Bank Pembangunan Daerah Istimewa Yogyakarta	DI Yogyakarta	63	6164
Bank Nusantara Parahyangan	West Java	64	6190
PT Bank Jawa Barat Banten Syariah	West Java	69	6944
PT Bank Pembangunan Daerah Jambi	Jambi	71	7025
Bank Antardaerah	East Java	97	11457

Then, Picture 1 below shows the net income growth rate and total asset growth rate year 2015. In 2015, 80% of 19 local-government-owned commercial banks in Indonesia are decreasing in net income growth rate; and the average net income growth rate is – 16%.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Series1 (Net Income Growth Rate)	0.12	-0.15	0.01	-0.55	-0.25	-0.10	-0.61	-0.46	-0.08	-0.03	-0.04	0.40	-0.01	-0.28	0.19	-0.37	-0.21	-0.17	-0.49
Series1 (Total Asset Growth Rate)	0.05	0.02	0.04	-0.04	0.04	-0.07	0.12	-0.22	0.04	-0.03	0.02	0.11	0.05	-0.10	0.17	-0.18	0.27	0.03	-0.08
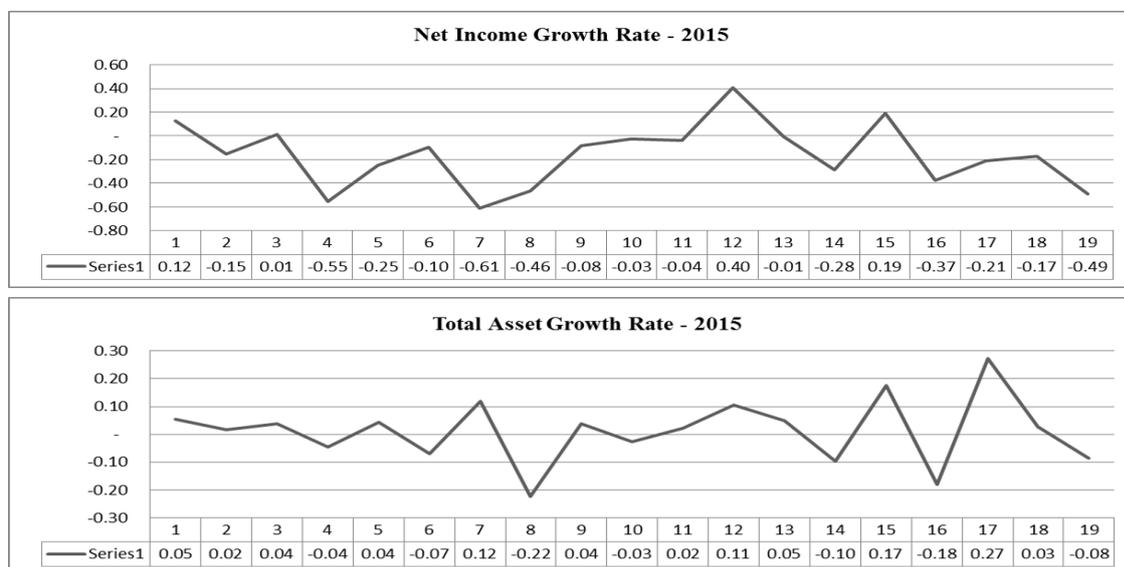
Picture 1: Total Asset Growth Rate & Net Income Growth Rate - 2015
Data Source: Bankscope

Meanwhile, the performance of total asset growth rate 2015 of 19 local-government-owned commercial banks in Indonesia is 1% in average; and 38% has negative total asset growth rate. It means 38% of those banks has less total asset in 2015 compared with total asset in 2014.

Table 4: Banks' Financial Performance Descriptive Statistics
Data Source: Bankscope

Banks Financial Performance Descriptives Statistics	Average	Median	Max	Min
Dependent Variables:				
- ROAA (Y1)	1.74	1.85	2.98	0.34
- ROAE (Y2)	15.34	16.1	25.17	2.92
Independent Variables:				
- Capital: Capital Adequacy Ratio (X1)	18.5	18.05	29.48	13.3
- Asset: Loan Loss Res / Gross Loans Ratio (X2)	2.32	1.65	8.01	0.39
- Management: Cost to Income Ratio (X3)	59.03	58.62	90.2	35.44
- Earning: Net Interest Margin (X4)	7.56	7.37	10.49	4.64
- Liquidity: Net Loans / Dep & ST Funding Ratio (X5)	31.13	18.43	399.52	9.19

Table 4 shows all 19 local-government-owned commercial banks in Indonesia have strong capital adequacy ratio (CAR) because all of them exceed the minimum requirement rate, which is 8%. Meanwhile for asset quality (NPL) only 9 out of 19 local-government-owned commercial banks in Indonesia reach below 2% as it is required on rank 1 asset quality. This information shows NPL becomes serious issue of local-government-owned commercial banks in Indonesia. Then management quality (CIR) and earning quality (NIM) of all 19 local-government-owned commercial banks in Indonesia reach the first rank requirement for CIR and NIM. Moreover, liquidity quality (LDR) of 19 local-government-owned commercial banks in Indonesia able to reach less than 75% or first rank requirement, except PT Bank Jawa Barat Banten Syariah that reach average 211.30% in year 2014-2015.

Research Results and Discussions

Banks' Soundness Analysis Results

After presenting the net income growth rate and total asset growth rate in 2015, this study investigates the banks' soundness of 19 local-government-owned commercial banks in Indonesia; through CAMEL analysis. Table 5 below shows that Bank Pembangunan Daerah Sumatera and Bank Nusantara Parahyangan is the most soundness bank in 2014-2015, with total CAMEL score 1.15.

The CAMEL analysis above, the most soundness local-state-owned commercial banks in Indonesia fail to fulfil 1st rank in all CAMEL criteria. This study shows that NPL and LDR become big problem for 19 local-state-owned commercial banks in Indonesia. So, those banks have poor loan quality in general; and they have liquidity problem. However, all of 19 local-state-owned commercial banks in Indonesia perform well in CAR, NIM and CIR. This result shows that all 19 local-state-owned commercial banks in Indonesia has implement an effective and efficient operational management, sufficient capital adequacy ratio, and has sufficient net interest margin.

Table 5: CAMEL ANALYSIS (2014-2015)
Source: Circulation Letter of Bank Indonesia Regulation No. 6/23/DPNP year 2004

No	Bank Name	CAR - AVERAGE (2014 - 2015) 25%	NPL - AVERAGE (2014 - 2015) 30%	CIR - AVERAGE (2014 - 2015) 10%	NIM - AVERAGE (2014 - 2015) 25%	LDR - AVERAGE (2014 - 2015) 10%	CAMEL	CAMEL RANK
1	PT BPD Jawa Barat dan Banten Tbk	1	3	1	1	2	1.55	6
2	PT. BPD Jawa Timur	1	3	1	1	2	1.55	6
3	Bank BPD Jateng-Bank Pembangunan Daerah Jawa Tengah	1	3	1	1	3	1.75	7
4	PT Bank DKI	1	2	1	1	2	1.40	3
5	Bank Pembangunan Daerah Kalimantan	1	4	1	1	2	1.80	8
6	PT. Bank SUMUT	1	3	1	1	3	1.80	8
7	Pt Bank Pembangunan Daerah Papua	1	2	1	1	2	1.40	3
8	PT Bank Pembangunan Daerah Riau	1	3	1	1	2	1.55	6
9	PT Bank Pembangunan Daerah Bali	1	4	1	1	3	1.95	9
10	Pt Bank Pembangunan Daerah Sumatera	1	1	1	1	3	1.15	1
11	Pt Bank Aceh	1	2	1	1	2	1.40	3
12	Bank Sumsel Babel	1	4	1	1	2	1.80	8
13	Pt Bank Pembangunan Daerah	1	3	1	1	3	1.75	7
14	PT Bank Pembangunan Daerah Sulawesi Utara-Pt Bank Sulutgo	1	3	1	1	3	1.80	8
15	Pt Bank Pembangunan Daerah Istimewa Yogyakarta	1	3	1	1	2	1.50	4
16	Bank Nusantara Parahyangan	1	1	1	1	3	1.15	1
17	PT Bank Jawa Barat Banten Syariah	1	2	1	1	3	1.35	2
18	Pt Bank Pembangunan Daerah Jambi	1	3	1	1	2	1.53	5
19	Bank Antardaerah	1	5	1	1	1	2.05	10

Furthermore, Table 5 presents CAMEL descriptive analysis of all 19 local-state-owned commercial banks in Indonesia. Above CAMEL analysis shows that Pt. Bank Pembangunan Daerah Sumatera and Bank Nusantara Parahyangan are the most soundness local-government-owned commercial banks in Indonesia; even though both of them have liquidity problem. While Bank Antardaerah has the least soundness rank and the bank has serious problem on NPL.

Banks' Performance Analysis Results

Based on data panel random-effects GLS regression result of bank soundness and macroeconomics factor towards ROAA; has generated equation as follows:

$$Y1 \text{ (ROAA)} = 6.73 - 0.28\, X1 \text{ (Capital)} - 0.25\, X2 \text{ (Asset)} - 0.03\, X3 \text{ (Management)} + 0.22\, X4 \text{ (Earnings)} - 0.35\, X5 \text{ (Liquidity)} - 1.80\, X6 \text{ (GDP Growth Rate)} - 1.67\, X7 \text{ (GINI Ratio)}$$

Table 6: Random-Effects GLS Regression Result - Part 1
(Self-Analysis through Data Panel Random-Effects GLS)

```
Random-effects GLS regression          Number of obs      =         33
Group variable: Bank                    Number of groups   =         19

R-sq:                                   Obs per group:
    within  = 0.8844                               min =          1
    between = 0.6117                               avg =        1.7
    overall = 0.6311                               max =          2

                                        Wald chi2(7)       =      90.72
corr(u_i, X)    = 0 (assumed)           Prob > chi2        =     0.0000
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Y1	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
X1	-.0277513	.0181847	-1.53	0.127	-.0633928	.0078901
X2	-.2547202	.0445193	-5.72	0.000	-.3419764	-.167464
X3	-.0324688	.0068584	-4.73	0.000	-.0459109	-.0190267
X4	.2172025	.0587793	3.70	0.000	.1019971	.3324079
X5	-.0351603	.0078588	-4.47	0.000	-.0505631	-.0197574
X6	-1.805976	1.447088	-1.25	0.212	-4.642215	1.030264
X7	-1.670008	1.626401	-1.03	0.305	-4.857696	1.517681
_cons	6.730339	1.142853	5.89	0.000	4.490389	8.970289
sigma_u	.27227845					
sigma_e	.08815992					
rho	.90511065	(fraction of variance due to u_i)				

Statistics result of this study

shows that ROAA has significantly influenced by X2 (Asset); X3 (Management); X4 (Earnings); and X5 (Liquidity). The result shows that only earnings quality (NIM) has positive influence towards ROAA. Commonly, ROAA has been positively influence by CAR and LDR; unlike this study results. This is interesting findings, because all 19 local-government-owned commercial banks have perfect score (rank 1) for CAR.

On top of that, CAR has insignificant influence towards ROAA. This uncommon result needs further study emphasis on the find the reasons. However, this study suspects that this uncommon result is related with the business nature of local-government-owned commercial banks in Indonesia.

Furthermore, this study finds that LDR has negative influence towards ROAA; where according to Rengasamy (2014) mentions that LDR has positive influence towards ROAA. Once again, this study suspects that the business nature of local-government-owned commercial banks unlike other commercial banks in Indonesia.

Since the local-government-owned commercial banks support local government activities, including distributing funds channel from state-government to the local citizen in Indonesia; therefore, this study suspects that bank income from services is higher than the common business nature of others commercial banks. However, further empirical study is required to know the real reason.

Meanwhile, this study states data panel random-effects GLS regression result of bank soundness and macroeconomics factor towards ROAE as an equation below:

Y2 (ROAE) = 58.11 – 0.62 X1 (Capital) – 2.18 X2 (Asset) – 0.20 X3 (Management) + 2.18 X4 (Earnings) – 0.33 X5 (Liquidity) – 11.79 X6 (GDP Growth Rate) – 7.15 X7 (GINI Ratio)

Statistics result of this study shows that X1 (Capital); X2 (Asset); X3 (Management); X4 (Earnings); and X5 (Liquidity) have significant influence toward ROAE.   In short, bank's soundness has significant influence towards ROAE. This study finds that local GDP Growth Rate and local GINI Ratio have negative and no significant influence toward ROAA and ROAE.

Table 7: Random-Effects GLS Regression Result - Part 2
(Self-Analysis through Data Panel Random-Effects GLS)

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Random-effects GLS regression              Number of obs      =          33
Group variable: Bank                       Number of groups   =          19

R-sq:                                      Obs per group:
    within  = 0.9435                                    min =           1
    between = 0.3583                                    avg =         1.7
    overall = 0.4112                                    max =           2

                                           Wald chi2(7)       =      114.91
corr(u_i, X)   = 0 (assumed)               Prob > chi2        =      0.0000
```

Y2	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
X1	-.6194922	.1621944	-3.82	0.000	-.9373875	-.3015969
X2	-2.181752	.4075737	-5.35	0.000	-2.980582	-1.382922
X3	-.2041088	.0599926	-3.40	0.001	-.3216922	-.0865254
X4	2.184683	.6118014	3.57	0.000	.9855748	3.383792
X5	-.3348821	.0739934	-4.53	0.000	-.4799064	-.1898578
X6	-11.79077	12.90932	-0.91	0.361	-37.09257	13.51103
X7	-7.1548	14.38616	-0.50	0.619	-35.35115	21.04155
_cons	58.10592	10.01664	5.80	0.000	38.47367	77.73816
sigma_u	3.2971991					
sigma_e	.74481681					
rho	.95144943	(fraction of variance due to u_i)				

Table 8: Summary
of T test Result
(Self-Analysis through Data Panel Random-Effects GLS)

T test	ROAA (Y1)	ROAE (Y2)
- Capital: Capital Adequacy Ratio (X1)	0.127	0.000*
- Asset: Loan Loss Res / Gross Loans Ratio (X2)	0.000*	0.000*
- Management: Cost to Income Ratio (X3)	0.000*	0.001*
- Earning: Net Interest Margin (X4)	0.000*	0.000*
- Liquidity: Net Loans / Dep & ST Funding Ratio (X5)	0.000*	0.000*
- Local GDP Growth Rate (X6)	0.212	0.361
- Local GINI Rate (X7)	0.305	0.619
* Significant (T<0.05)		

This finding is interesting, because theoretically bank's performance has positive significant influence towards macroeconomics indicators; and the other way around (Giradone et al, 2004). In order to answer this study finding, further study is needed. However, this study

suspect the business nature and business coverage area of local-government-owned commercial banks is one of the causes.

Conclusions and Suggestions

As a common believe that commercial banks' performance is influenced by internal influencers and external influencers. This study analysis internal influencers and external influencers towards 19 local-government-owned commercial banks' performance in Indonesia. The different nature of business of local-government-owned commercial bank compare with other commercial banks is interested to be examined.

This study focuses on bank's soundness as internal influencers towards bank's performance that represented by ROAA and ROAE. The findings show that bank's soundness is significant influence towards bank's performance; even though CAR only significant towards ROAE – unlike NPL; CIS; NIM; and LDR which have significant influence towards both measurement of bank's performance: ROAA and ROAE.

Meanwhile for external influencers, this study chooses local GDP Growth Rate and local GINI Ratio as macroeconomics indicators. This study finds that both local GDP Growth Rate and local GINI Ratio is insignificant toward ROAA and ROAE. Even though this study suspects insignificant result due to the nature of business of local-government-owned commercial bank that different from other commercial banks; but further study will be needed to confirm.

Moreover, through this study, it shows that local-government-owned commercial banks in Indonesia have serious problem on NPL and LDR even though the bank's soundness index still acceptable by Bank Indonesia regulation. NPL that represents asset quality shows the loan quality of local-government-owned commercial banks in Indonesia is low with average rank of 2.84. It means the banks have difficulty to collect their loan; and if the bank unable to solve this NPL problem, it will lead to financial distress. Low LDR rank with average rank of 2.37; shows that local-government-owned commercial banks in Indonesia have serious problem in liquidity. So, the loan to deposit ratio is low; and it will lead to low NIM in the future due to high burden to the bank to pay interest.

To conclude, this study finds the potential problem of local-government-owned commercial banks in Indonesia due to under performance of NPL and LDR that need serious solutions to solve it; since the performance of local-government-owned commercial banks are influenced by internal influencers only.

Therefore, this study suggests to emphasis on study about specific local-government-owned commercial banks' performance measurements since they have unique and different nature of business compare with other commercial banks.

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