



Research Paper

Analysis of NII and Its Influence on the Performance of Government-owned Banks and Private Banks in Indonesia

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ABSTRACT:- The performance of Indonesian banking fluctuates. After Pakto '88 the number of new banks increased rapidly and then declined after monetary crisis in 1997-1998. Mergers between banks will make banking industry more concentrated marked by declining number of banks. Because an industry is more concentration, the possibility of collusions is bigger. Based on the purpose, this study was a descriptive associative study. This study used Path Analysis to measure the level of influence on data arranged in the conceptual framework of this study. This study discovered moderation of market power when controlling loans between net interest income and the performance of private and government-owned banks.

Keywords:- Loan To Deposit, Net Interest Income, Performance Of State Bank, Performance Of Private Bank

I. INTRODUCTION

Strategic step which can be applied is improving bank performance. The good performance of a bank is expected to regain public's trust on the bank or overall banking system. On the other hand, bank performance can be a benchmark for the health of the bank. Intuitively it can be said that healthy banks will get support and trust from the public and be able to avoid problematic conditions. One of the approaches which can be used to discover bank performance is Capital, Assets quality, Management, Earnings, Liquidity and Sensitivity to Market Risk (CAMELS) financial ratio. In practice, in Indonesia CAMELS is used as an indicator for the assessment of the health of commercial banks as stated in the Regulation of Bank Indonesia (PBI) 13/1/PBI/2011 dated 5 January 2011. The results of assessment using CAMEL analysis instrument are applied to determine the level of bank health which is categorized into four predicates which are: "Healthy", "Quite Healthy", "Less Healthy" and "Unhealthy".

The performance of Indonesian banking fluctuates. After Pakto '88 the number of new banks increased rapidly and then declined after monetary crisis in 1997-1998. While in 1998 the number of commercial banks was 208 with 7661 offices, in 2006, the number of commercial banks declined to 130 banks with 9110 offices (see Table 1 and Figure 1). Bank composition consisted of 5 limited-owned banks, 26 regional development banks, 35 foreign exchange national private commercial banks, 36 non-foreign exchange national private commercial banks, 17 joint venture banks, and 11 foreign banks. The declining number of banks was due to revocation of business license and bank merger. In 1999, Law (UU) No 23 of Year 1999 on Bank Indonesia was published, emphasizing that Bank Indonesia (BI) has a more focused objective which is achieving and maintaining stability of the value of rupiah, which is a condition of continuous economic growth. A few years later, Bank Indonesia published Architecture of Indonesian Banking (API) as the overall basic framework of Indonesian banking system. API is expected to provide direction, shape, and order of banking industry for five to ten years in the future (BI, 2007, Architecture of Indonesian Banking).

Together with efforts to strengthen the structure of banking industry, Bank Indonesia offers three types of consolidation programs. First, consensual consolidation (market driven), second, prescribed consolidation (directives) and third, compulsory consolidation. There are three options of consolidation steps: proposed acquisition by anchor banks, merged with another bank group and combination of acquisition and merger. In the next 10-15 years or 2015-2020, an optimal banking structure is expected to be created. The implementation API will cause a wave of merges in Indonesian banking industry. Mergers between banks will make banking industry more concentrated marked by declining number of banks. Whether this means competition will be fiercer is still up for debate. Because an industry is more concentration, the possibility of collusions is bigger.

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Possible competitions and cooperation in Indonesian banking industry are characterized by two things. First, Indonesian banking industry is characterized by varying sizes of banks so big and small banks don't have to compete in the same market segments. Second, among banks in the same classes there is market segmentation. Third, among banks with the same characteristics, competition doesn't always happen. Banks usually compete to look for and maintain customers using prizes and services. Banks also compete in giving credits. However, banks no longer compete in interest rate. The increase of interest rate usually applies evenly and at the same and is no longer a determinant factor of competition. Fourth, someone or a company is a customer of more than one bank. Fifth, bank performance (ROA and ROE) isn't influenced by size of banks. It shows that large banks don't have better chance than small banks in making profit. It means that large banks in Indonesia don't have market force which allows them to have more profit.

Based on the background and research motivation above, the formulations of the problem were (1) Do total productive asset, loan to deposit ratio, ratio of deposit interest to loan interest, and sensitive gap determine Net Interest Income ?. (2) Do total productive asset, loan to deposit ratio, ratio of deposit interest to loan interest, sensitive gap, and Net Interest Income determine the performance of government-owned banks and private banks?. (3) Do Net Interest Income determine the performance of government-owned banks and private banks moderated by market power?. (4) Is there any difference between market power moderations of government-owned banks and private banks?

II. THEORETICAL REVIEW

1. Net Interest Income

Net interest income (NII) is the difference between interest income from the use of productive asset and cost of the use of debt. Empirically, in banking practice, assets in one of distributed commercials funds, followed by personal loans, mortgages, construction loans and investment securities. Net interest income depends on each bank, especially in implementing interest rate, such as using floating rate, flat rate, or sliding rate. NII can be more or less sensitive due to changes in interest rate. If changes of the interest rate of debts are faster than assets, it can be called "liability-sensitive." Furthermore, banks experience "asset-sensitive" if changes of interests rate of debts are slower than assets due to improving economic environment. Exposure happens on NII to change interest rate which is measured by dollar maturity gap (DMG), which is difference between the dollar values of assets which is reassessed with values of debts in a period.

Study on net interest income by Angbazo (1997) show that net interest income is influenced by default risk but not with interest rate risk which is consistent with the amount of concentration on short-term assets and value-protecting instruments recorded on separate balances (off balance sheet). Banks are generally very sensitive to interest rate risk but not to default. Net interest income as one of the important aspects in intermediating process is a key indicator in the efficiency of intermediation resources. Large spreads in deregulation environments indicate competition in banking system or illustrate certain degree of monopoly (Patti and Dell Ariccia, 2004).

High level of bank profit will be reached if banks perform their duty as an intermediate between fund owners and fund users well. If banks perform their duty well, banks will get positive difference of interest income called Net interest income (NII). NII is the difference between Interest Income and Interest Expenses (Imam Rusyamsi, 1999) in Syahru (2006). NII shows a bank's ability in producing income from interest by assessing the bank's performance in distributing credits. This is considering banks' operational income depends on difference of interests (spread) of distributed credits.

2. Market Power

Naylah (2010) market power is a company's ability to influence market price and/or defeat competitors. Behaviors will impact company strategies, profit of companies, obstacles to enter markets, position of companies in industries, and behaviors of competitors. Bikker (2002) explains that industrial economy theory states that declining level of concentration in a market will cause declination of companies' ability in the market to increase price above marginal cost (market power). The decline of market power indicates an increase in the level of competition in the markets. Market power is a measure of performance which shows a company's ability to raise price above marginal cost (Church and Ware, 2000). In relation with the shape of market structure, companies in perfectly competitive markets don't have market power, while companies in monopoly markets have the highest level of market power. Thus, a conclusion can be drawn that the more competitive a market is, the lower the market power, and conversely the less competitive a market is, the higher the increase of market power in that market.

Declining level of concentration in a market will have positive impact on market efficiency based on the view of Structure-Conduct-Performance (SCP) approach where the quality of the performance of a market depends on the shape of existing market structure. The more concentrated the market, the bigger the companies'

ability to raise price above marginal cost, meaning market power will be higher. High market power indicates declining level of competition.

III. PRODUCTIVE ASSET

Productive asset is total a bank's fund investment in credits, securities, inclusions and other investments to obtain income. Levinthal and Myatt (1994) state that earning assets include all assets which produce explicit interest income or rent income. This is usually measures by subtracting all non-earning assets, such as cash and bank, buildings, equipments, and other assets from total assets. According to a study by Javaid et al. (2011), productive asset has insignificant negative influence on profitability. Olweny and Shipo (2011), Alper and Anbar (2011) have conflicting result in which the quality of earning assets have significant negative influence of profitability. A study by Ahmad et al. (2008) states that the quality of credit port folios of banks has significant positive influence on capital of banks. A study by Cantor and Johnson (1992) state that the asset used by banks have insignificant negative influence on ratio of banks' capital.

IV. GAP SENSITIVE

Gap analysis is widely adopted by financial institutions during the 80s to manage interest rate risk. However, gap analysis is more complicated and less widely used, according to (Findlay, 1990). Sienna and Timothy (2004) state that gap sensitive strongly determines a company's ability to produce Net Interest Income (NIM). Blejer & Sagari (1988) state that gap sensitive is interest rate risk measured by the use of re-pricing gap analysis and duration analysis. Liquidity risk is measure by gap analysis because bank balance consists of assets and liabilities movement of domestic interest rate is the main source of interest risk. The difference between total assets and mature liability indicates the level of exposure on the risk of changes of margins in assets and liabilities. Deshmukh et al (1983) argue that gap analysis is an asset-liability management technique which can be used to asses interest rate risk or liquidity risk.

V. CREDIT INTEREST RATE

Definition of credit interest rate according to Kasmir (2008:80) is interest charged to borrowers or selling price which must be paid by customers to their banks. While the definition of interest rate according to Sunariyah (2004:80) is the price of loans. Interest rate is the percentage of principal per time unit. Interest is a measure of resources price used by debtors which must be paid to creditors. The definition of bank interest according to Kasmir (2008:131) is compensation given by banks based on conventional principles to customers who buy or sell their products. Interest can also be defined as price which must be paid to customers (who have savings) with what must be paid by customers to banks (customers who receive loans). Bank income occurs if pricing credits bigger than cost of fund. Therefore, so that banks receive income, credit interest rate should be determined. Credit interest rate is determined by three components which are: Cost of Fund (COF), Overhead Cost(OHC), and Spread Profit (SP).

VI. LOAN TO DEPOSIT RATIO

Loan to Deposit Ratio(LDR) as one of liquidity indicators is used to discover the liquidity ratio of a bank which shows the ability of a bank in fulfilling its short-term obligations or mature liabilities. Based on regulation of BI, suggested LDR is in the range of 85% - 110% so that banks don't only rely on income from obligation interest, recapitalization, SBI and other investment instruments but also run their function as intermediating institutions. The increase of LDR is interpreted as the increase of expansion of bank credit not offset by collection of third party fund. The value of LDR is determined by a formula formulated by Bank Indonesia in Circular Letter of Bank Indonesia No.6/23/DPNP/2004 dated 31 May 2004 regarding System of Assessment of the Health of Commercial Banks, as follows: $LDR = \frac{\text{Total Credit given}}{\text{Third Party fund}} \times 100\%$. Loan To Deposit Ratio (LDR) is comparison between credit diven and fund received by banks (Sudirman, 2000:193). LDR is a traditional measurement which shows time deposits, clearing, savings, etc. used in fulfilling customers' loan requests. This ratio is used to measure the level of liquidity. High ratio shows that a bank lends all of its fund (loan-up)or relatively not liquid (illiquid). Conversely low ration shows liquid bank with excess fund capacity ready to be lent (Mahardian, 2008). LDR is also called ratio of credit to total third party fund used to measure third party fund distributed in credits. According to Sapariyah's (2010) study, Loan to Deposit Ratio partially has positive and significant influence on ROA. Other studies by Dewi and Suartana (2008), Mahardian (2008) and Purwana (2009) discover that Loan to Deposit Ratio has significant influence on profitability.

VII. RESEARCH METHOD

Based on the purpose, this study was a descriptive associative study which looks for influence and explains causal relationship between endogenous variable and exogenous variables which consisted of Total

Earning assets (TAP), Loan To Deposit Ratio (LDR), Ratio of Saving Interest to Credit Interest (BS/BK), Sensitive Gap, Net Interest Income, Market Power, Bank Performance (ROA).

This study used Path Analysis to measure the level of influence on data arranged in the conceptual framework of this study. The locations of this study were state and private banks with main offices in Jakarta. The population of this study was all state banks in Indonesia which are PT. Bank BNI (Persero), Tbk, PT. Bank BRI (Persero), Tbk, PT. Bank Mandiri (Persero), PT. Bank BTN (Persero), Tbk, and foreign exchange national private banks which are PT. Bank BCA, Tbk, PT. Bank Danamon, Tbk, PT. Bank CIMB NIAGA, Tbk, PT. Bank Panin, Tbk, PT. Bank Permata, Tbk, and PT. Bank BII, Tbk. Sampling was determined by purposive sampling method which is sample determination, based on the following criteria: Banks which had been go-public for ten years from 2001-2013, whose financial statements had been audited by KAP, published financial statements and notes of financial statements in 2001-2013, had total earning assets bigger or the same as Rp 100 trillion per 31 December 2013, had positive equity.

D. Research Result

The result of data processing in Table 1 shows that the level of data distribution for the performance of government-owned banks is 0.3513, showing that the levels of profit among state banks weren't very different in terms of percentage, while the performance of private banks is 1.00925, showing gap in profit distribution among banks. Meanwhile, Total Earning assets, Loan To Deposit Ratio, BS/BK Ratio, Sensitive Gap, Market Power, Net Interest Income variables between government-owned banks and private banks is around 0,00. Therefore, data collection result could be processed further in model testing and test of accuracy of estimates between dependent variables and independent variables.

Table 1. Descriptive Statistics

	Min	Max	Mean
Total Earning Asset	7.40	8.84	8.1925
Loan To Deposit Ratio	-.81	.08	-.1895
Rasio BS/BK	-1.29	-.69	-.8991
Sensitive Gap	-.78	.06	-.2836
Market Power	-1.29	-.69	-.8991
Net Interest Income	-1.99	-.85	-1.2986
Performance of State Banks	-2.34	-1.25	-1.6607
Total Earning Asset	5.43	8.65	7.1766
Loan To Deposit Ratio	-.81	.50	-.0342
Rasio BS/BK	-1.74	-.69	-1.3035
Sensitive Gap	-.99	.66	-.1921
Market Power	-3.21	2.70	-1.2731
Net Interest Income	-1.74	-.69	-1.3035
Performance of Private Banks	-3.46	2.46	-1.6215

State banks variable of Table 2 shows negative correlation between Total Earning assets and Sensitive Gap and NII. LDR with BS/BK ratio, NII and market power showed positive correlation. Model validity in private banks showed negative correlation between total earning assets and NII, BS/BK ratio and NII, while the rest were positively correlated. That indication showed that validity of private banks was better than government-owned banks.

Table 2. Descriptive Statistics

Control Variables			Total Earning Asset	LDR	Rasio BS/BK	Sensitive Gap	NII	Market Power
Performance of State	Total Earning Asset	r	1.000	.360	.087	-.034	-.018	.087
		Sig	.	.000	.214	.627	.797	.214
	LDR	r	.360	1.000	-.100	.157	-.099	-
		Sig						.100

Banks	Rasio BS/BK	Sig	.000	.	.152	.024	.155	.152	
		r	.087	-.100	1.000	.057	-.007	1.000	
	Sensitive Gap	Sig	.214	.152	.	.414	.920	.000	
		r	-.034	.157	.057	1.000	-.077	.057	
	NII	Sig	.627	.024	.414	.	.273	.414	
		r	-.018	-.099	-.007	-.077	1.000	-.007	
	Market Power	Sig	.797	.155	.920	.273	.	.920	
		r	.087	-.100	1.000	.057	-.007	1.000	
	Performance of State Banks	Total Earning Asset	r	1.000	.591	.590	.478	-.159	.590
			Sig	.	.000	.000	.000	.264	.000
		LDR	r	.591	1.000	.100	.575	.333	.100
			Sig	.000	.	.484	.000	.017	.484
Rasio BS/BK		r	.590	.100	1.000	.057	-.062	1.000	
		Sig	.000	.484	.	.691	.668	.000	
Sensitive Gap		r	.478	.575	.057	1.000	.164	.057	
		Sig	.000	.000	.691	.	.251	.691	
NII		r	-.159	.333	-.062	.164	1.000	-.062	
		Sig	.264	.017	.668	.251	.	.668	
Market Power		r	.590	.100	1.000	.057	-.062	1.000	
		Sig	.000	.484	.000	.691	.668	.	

Source: SPSS V.22.00

Table 3 shows that Loan to Deposit Ratio had very high effect on the Net Interest Income of state banks, while Market Power didn't have any effect on Net Interest Income. Net Interest Income had very high direct effect on the performance of state banks. Loan to Deposit Ratio of private banks also had very high effect on the Net Interest Income of state banks, while Market Power didn't have any effect on Net Interest Income. Net Interest Income had high direct effect on the performance of private banks.

Table 3. Effect, Covariance, Intercept, and Error Term

Effect		Total Earning Asset	Loan To Deposit Ratio	Rasio BS/BK	Sensitive Gap	Market Power	Net Interest Income	β_1	α_0	β_0
Total	Net Interest Income (Y ₁)	-,358	,776	,876	,199	,000		,020	2,626	
Dir		-,358	,776	,876	,199	,000	,000			
Indir		,000	,000	,000	,000	,000	,000			
Total	Performance of State Banks (Y _{2a})	-,301	,652	,737	,168	,583	,841	,025		-,044
Dir		,000	,000	,000	,000	,583	,841			
Indir		-,301	,652	,737	,168	,000	,000			
Total	Net Interest Income (Y ₁)	,008	-,276	-,081	-,281	,000		,472	-	1,496
Dir		,008	-,276	-,081	-,281	,000	,000			
Indir		,000	,000	,000	,000	,000	,000			

Total	Performan	,002	-,055	-,016	-,056	-,517	,200	,975		-
Dir	ce of	,000	,000	,000	,000	-,517	,200			2,041
Indir	Private Bank (Y _{2b})	,002	-,055	-,016	-,056	,000	,000			

Source: Amos V.18.00

Table 3 below shows the result of variable compatibility test. The result of estimation analysis by CFI Test or Comparative Fit Index showed that the model was acceptable although other indicator weren't compatible yet. The result of compatibility test among variables showed that the model could continue with complete model testing.

F. Causality Relationship Between Variables

After compatibility testing on the model in this study, the next was testing hypothesis causality. Table 4 below shows the significance of influence between variables. If the probability value is below P≤5% or out of limit by ± 1,96 in two-way test then it's significant, while if it's within ± 1,96 then it's not significant (Sugiyono, 2008). Based on the result of data testing, it's discovered that Total Earning assets, Loan to Deposit Ratio, BS/BK Ratio significantly determined the Net Interest Income of State Banks, while Sensitive Gap didn't determine it at all. On the other hand for private banks, Total Earning assets, Loan to Deposit Ratio, BS/BK Ratio, Sensitive Gap, and Net Interest Income didn't significantly determine Net Interest Income of private banks.

Table 4. Regression Weights Net Interest Income

Influence			λ	σ	t	P	Significance
Net Interest Income Of State Bank (Y1a)	<	Total Earning Asset (X ₁)	-,358	,096	-3,713	***	Significant
	<	LDR (X ₂)	,776	,162	4,801	***	Significant
	<	Rasio BS/BK (X ₃)	,876	,237	3,703	***	Significant
	<	Sensitive Gap (X ₄)	,199	,145	1,379	,168	Not Significant
Net Interest Income of Private Bank (Y1b)	<	Total Earning Asset(X ₁)	,008	,074	,103	,918	Not Significant
	<	LDR (X ₂)	-,276	,220	-1,257	,209	Not Significant
	<	Rasio BS/BK(X ₃)	-,081	,184	-,438	,661	Not Significant
	<	Sensitive Gap (X ₄)	-,281	,259	-1,083	,279	Not Signifikan

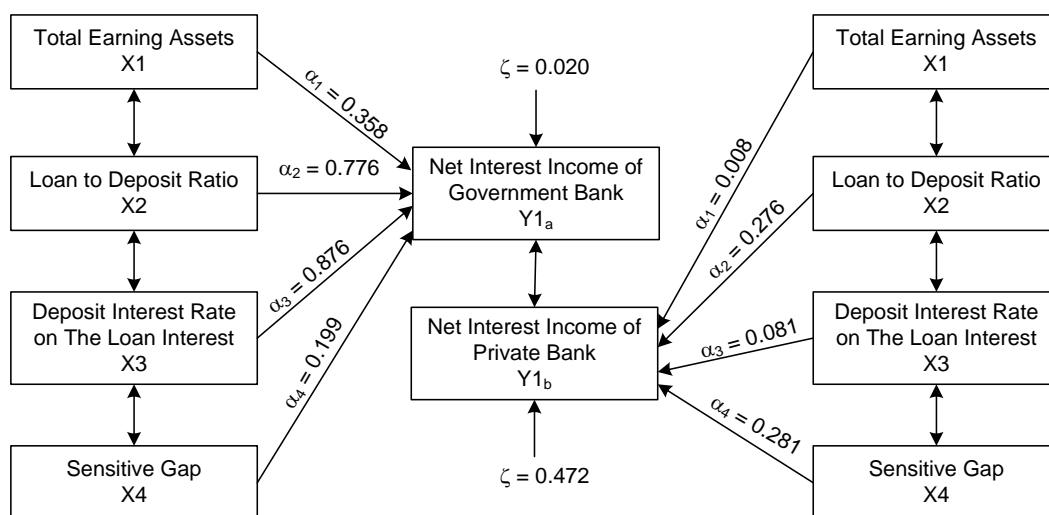


Figure 1. Estimation Results Net Interest Income Research Against Government Banks and Private Banks

Table 5 shows that the Net Interest Income of government-owned banks and private banks significantly determined the performance of banks. However, in terms of value, the significance of government-owned banks is 0,0% while private banks 4,6%, meaning government-owned banks were better. Moderation of market power of private banks is 0.0% while private banks 0,2%, showing that both significantly moderated the amount of Net Interest Income of the performance of banks. But if the moderations of market power in both bank groups were compared, government-owned banks were better in market share.

Table 5. Regression Weights Performance of State Banks and Private

Influence		λ	σ	t	P	Significance
Perform ance of State Banks (Y2a)	< NII (Y ₁)	,841	,115	7,341	***	Significant
	< Market Power (X ₅)	,583	,181	3,223	,001	Significant
X ₅ Y _{2a}	< Market Power (X ₅)	0.490	0.021	23.660	***	Significant
Perform ance of Private Bank (Y2b)	< NII (Y ₁)	,200	,099	2,023	,043	Significant
	< Market Power (X ₅)	,517	,259	1,998	,046	Significant
X ₅ Y _{2b}	< Market Power (X ₅)	0.103	0.026	4.042	0.002	Significant

Source: Amos V.18.00

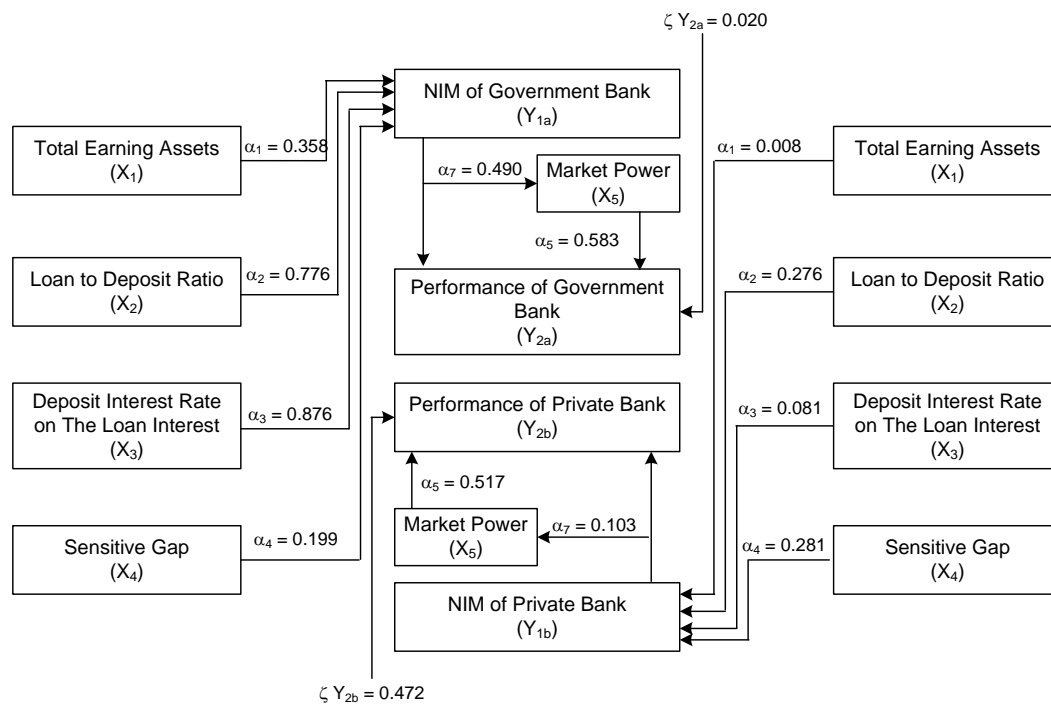


Figure 2. Relationship Model Moderation Net Interest Income and Market Power on Bank Performance

VIII. DISCUSSION OF RESEARCH RESULT

Based on the result of data testing, it's discovered that total earning assets, market power, loan to deposit, and BS/BK ratio determined the net interest income of government-owned banks. This was due to the large amount of commercial banks' fund distributed and third party fund was channeled to profitable funding objects. This discovery was consistent with Syarief (2006) who states that earning assets were channeled to higher loan interest than saving interest with improving economic condition. According to Afanasief et al. (2004), Angbazo (1997) and Brock and Rojas Suarez (2000). Afanasief et al. (2004) states that NII in Brazilian banks show declining tendency in 2001-2003 period due to unstable macroeconomic environment (Inflation and interest rate) and CAMELS ratio (CAR, ROA, BOPO, NPL, LDR and Risk) which cause declination of interest income. This is the main factor causing the decline of NII.

Angbazo (1997) tested factors influencing NII in banks in United States in 1989-1993 periode, in which the factors used were Interest Risk Ratio (IRR), LDR, NPL, and BOPO. The result shows that LDR and BOPO have positive influence on NII while IRR and NPL don't show significant influence on NII. Brock and Rojas Suarez (2000) show that LDR has significant positive influence on NII in banks in Bolivia, Columbia and Peru, supported by the result of Angbazo (1997) and Zainudin and Hartono (1999)'s studies.

Brock and Rojas Suarez (2000) test the influence of CAR, BOPO, NPL and LDR on NII in 5 Latin American countries which are: Argentina, Bolivia, Columbia, Chilli and Peru. The result shows that CAR has significant positive influence on NII in banks in Bolivia and Columbia, while in Argentina, Chilli and Peru it

doesn't have significant influence on NII. LDR shows significant positive influence on NII in banks in Bolivia, Columbia and Peru, while banks in Argentina don't show significant influence. Mean while NPL shows significant positive influence on NII in banks in Columbia but shows negative influence on NII in banks in Argentina and Peru.

Sensitive gap didn't determine net interest income of private banks because private banks maintained positive gaps but lack fund distribution to appropriate funding objects. According to Brock and Rojas Suarez (2000) if Sensitive gap is constantly maintained, there's no significant change on profit change. However, according to Brock and Rojas Suarez (2000) sensitive gap didn't have significant gap on NII in banks in Argentina because all productive assets are channeled with profitable market condition.

Net interest income and market power determined the performance of government-owned and private banks because banks generally maintain positive gaps in credit distribution. Hesti and Ainun (2012) state that market condition is still being considered in determining Net interest income and performance

This study discovered moderation of market power when controlling loans between net interest income and the performance of private and government-owned banks. This discovery was consistent with Hesti and Ainun's finding (2012) that market share is important to have better performance of banks. Total earning assets, loan to deposit, BS/BK ratio, and sensitive gap didn't determine net interest income of government-owned banks. It showed that the managements of government-owned banks also maintained positive sensitive gaps although during changes of asset and debt conditions, they changed.

IX. CONCLUSION

Based on the collected data and result of analysis in this study, the following could be concluded: 1) Total earning assets, loan to deposit, and BS/BK ratio determined net interest income of government-owned banks because the amount of channeled commercial fund and third party fund was generally channeled to profitable funding objects, 2) Sensitive gap didn't determine net interest income of private banks because private banks maintained positive gap condition but lack fund distribution to appropriate funding objects, 3) Net interest income and market power determined the performance of private and government-owned banks because banks generally maintained positive gaps in credit distribution, 4) Strong moderation of market power determined net interest income and performance of private and government-owned banks. This moderation was market opportunities used effectively, 4) Total earning assets, loan to deposit, BS/BK ratio, and sensitive gap didn't determine net interest income of government-owned banks because managements of government-owned banks maintained positive sensitive gaps on assets and debts and determination of interest change if optimum condition of credit distribution was achieved.

Based on research result, the implications of this study were 1) Investment credits and working capitals were distributed, assuming positive sensitive gap was maintained at optimum condition 2) Earning assets from commercial fund or third party fund should be distributed by considering the difference between saving interest and savings which produced high net interest income, 3) Studies on net interest income on the performance of private and government-owned banks should be intensified until it finds optimum gap point to be maintained with normal credit distribution.

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