

Bank Performance with CAMELS Ratios towards earnings management practices In State Banks and Private Banks

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Abstract

Fentje Salhuteru, Fransina Wattimena. Bank Performance with CAMELS Ratios towards earnings management practices In State Banks and Private Banks. This study aimed to examine the influence of CAMELS ratio toward earnings management practices in state bank limited to PT Bank Negara Indonesia(Persero), PT Bank BTN (Persero),PT Bank Central Asia Tbkdan PT Bank ArthaGraha. This study used secondary data of monthly financial report of the state bank published by Bank Indonesia during 2012 and 2013. The sampling technique used are purposive sampling with the sample from 18 months of bank financial statements. Earnings management are proxy by discretionary accruals that have been adapted to the characteristics of banking . Determination of the coefficient of earnings management was done by regressing total accruals which was calculated with the model Healy and Jones. Testing the influence of the earnings management and the effect of CAMELS ratio towards earnings management was done using the multiple regression. During research period show as variable and data research was normally distributed. Based on test, multicollinearity test, heteroskedasticity test and auto correlation test classic assumption deviation has no founded, this indicate that the available data has fulfill the condition to use multi linear regression model.This result of research shows to Government Bank,Variable NPM, positive significant influence toward earnings management. Ratio CAR and MR negative not significant influence,RORA,ROA,LDR positive not significant toward earnings management. to Private Bank,Variable ROA,NPM, positive significant influence toward earnings management. Ratio CAR and LDR negative not significant influence,RORA and MR positive not significant toward earnings management.

Keywords: CAMELS ratio , discretionary Accruals and Earnings Management

INTRODUCTION

To assess the performance of the Bank is necessary to report the Financial reports usually consists of a balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the financial statements (Accounting Standards Keuangan No.1 per 1 Juli2009).

In accrual basis financial statements chosen because it is more rational and fair in reflecting the real financial condition of the company, but on the other hand, it use the accrual basis can provide more flexibility to the management in selecting the method of accounting for not deviate from the applicable financial accounting standards. The choice of accounting method that management deliberately selected for specific purposes called earnings management or earnings management (Halim, et al., 2005).

In Indonesia, research on indications of earnings management in the conventional banking sector has been carried out by many researchers, among others Setiawati and Naim (2001), Rahmawati, et al., (2007) and Nasution and Setiawan (2007). Nasution research results and Setiawan (2007) showed that in the period 2000 to 2004 the banking company in Indonesia to follow the pattern of earnings management to maximize profits. One of the reasons banks do

earnings management companies is the tight regulation of the banking industry than others, for example, a bank must meet the minimum criteria of CAR (Nasution and Setiawan, 2007). This triggers a manager to manage earnings in the company's efforts to meet the criteria required by Bank Indonesia (Setiawati and Naim, 2001 and Rahmawati and Baridwan 2006 in Nasution and Setiawan, 2007).

Discretionary accruals is a way to reduce or state reporting earnings through manipulation detection difficult in the accounting policy relating to accruals, for example by raising the cost of depreciation (Listyani, 2007). Discretionary accruals are used in research Zahara and Veronica (2009) is a model of Healy (1985) and Jones (1991) which has been adapted to the characteristics of the bank and also used in this study.

Discretionary accruals models used in this study refers to the formula developed by Healy (1985) and Jones (1991). CAMELS ratios and proxies to be used in this research refers to research Zahara and Veronica (2009) previously used by Nasser (2003), Payamta and Machfoedz (1999). Capital component in this model is measured by the ratio of CAR (Capital Adequacy Ratio), a component of Asset quality is measured by the ratio of RORA (Return On Assets risked), Management component measured by ROA (Return on Assets), the component is measured by the ratio of NPM Earnings (Net Profit margin), the components Liquidity is measured by the ratio of LDR (Loan to Deposit Ratio), and Sensitivity to Market Risk (S) measured by MR (Market Risk). Nasser (2003), using the CAMEL ratios to compare the performance of state banks with private banks and see its effect on stock prices. The results showed that the ratio of CAMEL which consist of the CAR, RORA, ROA, and NPM LDR, there is no difference between government banks with private banks, except for the ratio of NPM and CAMEL ratio overall effect on stock prices. While Zahara and Veronica (2009) found that the ratio of CAMEL has no significant negative effect on earnings management in Islamic banks.

This study aims to analyze the influence of CAR, RORA, ROA, NPM and MR to the practice of earnings management in state-owned banks and private banks.

THEORETICAL STUDY AND LITERATURE

Accrual concept

Statement of Financial Accounting Concepts (SFAC) as quoted Widowati (2009) states that the emphasis on the accrual accounting records the financial impact on the entity transactions and other events and circumstances that have cash consequences for the entity in the period of the event or transaction and the circumstances of the only in the period of cash received or paid by the entity.

The concept of accruals used to find the basic accounting concept of matching. According to this concept, recognition of expenses and revenues should be recognized in accordance with the rights that are measured in a single accounting period without regard to the receipt of cash in cash. Income is recognized in the income statement if the increase in future economic benefits related to an increase in assets or decrease in liabilities. Expenses are recognized in the income statement when a decrease in future economic benefits related to a decrease in assets or increase in liabilities has occurred simultaneously with the increase in admissions decrease in obligations or assets. Therefore, recognition of revenues and expenses according to generally accepted accounting standards using the accrual basis of accounting.

Zahara and Veronica (2009) to detect the possibility of earnings management in Islamic banking in Indonesia through the use of discretionary accruals that have been adapted to the characteristics of banking. This model is considered as the best model in detecting earnings management and provide the most robust results (Dechow et al., 1995 in Pudyastuti, 2009). In other words is discretionary accruals accruals are used to reduce or increase reported earnings by selecting accounting policies by management that are subjective in order to decrease or increase profits (Scott, 2009).

Rasio CAMELS

The ratio of the model consists of a component CAMELS Capital, Asset quality, Management, Earning, Liquidity and sensitivity. Based on Bank Indonesia Regulation No. 13/1 / PBI / 2011tentang Rating System for Commercial Banks, capital components used to assess the capital adequacy of banks in securing positions and anticipating risk exposure risk exposure that will arise. Asset quality components are used to assess the condition of the bank's assets, including the anticipation of the default risk of the financing (credit risk) will appear. Management component is used to assess the ability of the managerial board of banks doing business in accordance with the principles of general management, adequacy of the bank's risk management and compliance of the provisions relating to both prudential and bank compliance and commitment to Indonesian Bank. Components of earnings are used to assess the ability of banks to generate profits. While the liquidity component is used to assess the bank's ability to maintain adequate levels of liquidity, including liquidity risk anticipate will shows (Bank Indonesia Circular 9/24 / DPbS) Assessment component ratio and sensitivity to market risk based on Interest Rate Risk Ratio (IRRR) a proxy to market risk (market risk). IRRR shows the bank's ability to cover interest costs to be incurred by interest income generated. CAMELS ratio models are also used in research and Machfoedz Payamta (1999), Nasser and Aryati (2000), Nasser (2003) and Zahara and Veronica (2009). This ratio consists of the CAR, RORA, ROA, NPM and LDR. CAR (Capital Adequacy Ratio) is the ratio of equity to total assets (Bastian and Suhardjono, 2006). RORA Ratio (Return On Asset risked) was obtained from a comparison of profit before tax to productive assets, this ratio indicates the profitability of banks (Zahara and Veronica, 2009). ROA (Return on Assets) shows the comparison of earnings before taxes by the asset. While NPM (Net Profit Margin) obtained from the operating profit to income ratio (Bastian and Suhardjono, 2006). Ratio RORA, ROA and NPM demonstrated the ability of banks to generate profits from operating activities. While LDR (Loan to Deposit Ratio) is the ratio between the amount of credit given by the number of third-party funds. Third party funds are funds collected from customers through bank products such as current accounts, call money, time deposits, time deposits, certificates of deposit, commercial paper issued, savings and loans received (Nasser, 2003). LDR is used to look at the liquidity of the bank.

CAMELS ratio models are also widely used by previous researchers to examine the performance of the banking industries, as proven models CAMELS ratio is very suitable and accurate to be used as a performance evaluator banking industries and to predict the failure rate. In America, Sinkley (1992) in Mongid (2000) has been successful in identifying and detecting virtually all banking issues for 15 years. Manao (2004) using the ratio of CAMELS model to see whether the financial ratios were measured with a CAMELS models differ significantly between healthy bank with a bank that failed. The use of ratios in research models CAMELS indication of earnings management is consistent with the idea that this ratio has been shown to assess the performance of the banking di industri and is believed to greatly affect the performance of earnings management practices. If the performance in a bad company, there

will be an incentive for managers to commit acts of earnings management, especially related to the tight regulation of banking in Indonesia (Setiawati and Naim, 2001; Rahmawati and Baridwan and 2006 in Nasution and Setiawan, 2007). In general, the ratio of CAMELS is an effective and useful tool in identifying problem banks (Mongid, 2000), so hopefully it can also detect the Government Bank of earnings management.

HYPOTHESIS

Capital Adequacy Ratio

Analysis of bank health using CAMELS ratios stipulated in Bank Indonesia Regulation No. 6/10 / PBI / 2004 dated 12 April 2004 and Circular Letter No. 6/23 / DPNP dated May 31, 2004 about the Rating System for Commercial Banks include an assessment of the factors - faktor CAMELS (Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk). Many conventional banks do earnings management in its efforts to meet the CAMELS ratios stipulated by Bank Indonesia (Rahmawati and Baridwan 2006 in Nasution and Setiawan, 2007). The banks that decreased levels of health scores tend to perform earnings management (Setiawati and Naim, 2001 in Zahara and Veronica, 2009). While Susanto (2003) in Zahara and Veronica (2009) found indications of earnings management practices carried out by the group bank yang unhealthy and one of the dominant factors that encourage banks do earnings management is the motive of improving the performance of the bank.

The banking industry has more stringent regulations than other industries, for example, a bank must meet the criteria of minimum CAR (Nasution and Setiawan, 2007). Endriani (2004) in Zahara and Veronica (2009) found a bank makes profit management efforts in attempting to comply with the minimum capital adequacy ratio set by Bank Indonesia. If the bank has reduced its capital can not inject more funds then the bank will be reduced CAR (Aryati danManao, 2000). Profits made by the bank's management has intensified with the direction reversed to the level of CAR, where the bank has more lower from the CAR of Bank Indonesia's minimum requirement tends to be more intensive practice of earnings management and vice versa (Zahara and Veronica, 2009) concluded that the value .So CAR influent to negative management earnings. Based on the above matters, we can take hypothesis as follows:

H1a: CAR negative impact on the practice of earnings management in state-owned banks.

H1b: CAR negative impact on the practice of earnings management in private banks.

Return On Risked Assets

RORA ratio is the ratio of profit before tax to productive assets. Productive assets are assets which used to earn income. Robb (1998) in Zahara and Veronica (2009) demonstrate empirically that banks tend to perform earnings management practices by increasing profits, if earned income is lower than the ratio RORA wanted to. So suspected that do not find the minimum requirement in the previous period will motivate banks do earnings management, to get a sufficient ratio of RORA the health standards of banks in the current period as a signal that the bank is healthy goes to category. Above explanation, it can be hypothesized: H2a: Positive RORA effect on the practice of earnings management in state-owned banks.

H2b: Positive RORA effect on the practice of earnings management in private banks.

Return On Assets

ROA is the ratio between net income by aset. Rasio ini demonstrate the effectiveness of asset management, the higher the number the more productive. Aryati ROA shows asset

management and Manao (2000) using ROA ratio to predict bank failure rates significant approved results. The lower the ROA ratio is expected to be motivated bank to perform earnings management by increasing profits. Ratio nature is equal to the ratio of RORA (Zahara and Veronica, 2009). Based on the hypothesis constructed commentary to see the effect of ROA to bank management earnings in the Government. Based on these descriptions, then the hypothesis is formulated as follows:

H3a: Positive ROA effect on the practice of earnings management in state-owned banks.

H3b: Positive ROA effect on the practice of earnings management in private banks.

Net Profit Margin

NPM ratio indicates the ability of banks to generate profits from operations activity. Healthy banks will get a mighty nett income and operating income is also proportional or proportional to its net income. And vice versa for the failed bank (Aryati and Manao, 2000). So allegedly low ratio of NPM will motivate to do bank earnings management. This ratio positive effect on earnings management practice. Based on the previous description, it is formulated hypothesis as following:

H4a: Positive effect of NPM on earnings management practices in State Bank.

H4B: NPM Positive effect on the practice of earnings management in state-owned banks.

Loan to Deposit Ratio

LDR (Loan to Deposit Ratio) is the ratio between the numberof loans with third-party funds.This LDR shows ability of banks to channel funds from third party which is gathered. Benefits received from bank lending to the contrary is the income bank must issue a reward to third party fund which is the cost for the bank. The lower value LDR which also showed lower bank earnings, then it will motivate banks to manage earnings to increase profits (Zahara and Veronica, 2009). Aryati and Manao (2000) found that there LDR difference between a healthy bank with a bank with financial problems.

Arnawa research results (2006) in Zahara and Veronica (2009) shows LDR ratio is negatively affect earnings management practices in the bank allegedly significant. So this ratio also negatively affect earnings management practices in banks. Based on the description above, then the hypothesis is formulated as follows:

H5a: LDR negatively effect an earnings of the management practices in state-owned banks.

H5B: LDR negatively effect an earnings of the management practices on private banks.

Significant effect to the banks profit. This ratio suspect negative influence to banks profit management practice. Based on the description above, then the hypothesis is formulated as follows:

H5a:LDR negatively effect an earnings of the management practices on goverment banks.

H5b:LDR negatively effect an earnings of the management practices on private banks.

Market Risk

The last factor of financial ratios is the CAMELS model of sensitivity to market risk factors or also known as sensitivity to market risk. This factor is a factor that is newly added in 2004 were based on the Circular Letter No. 6/23 / DPNP May 31, 2004, from the previous CAMEL is

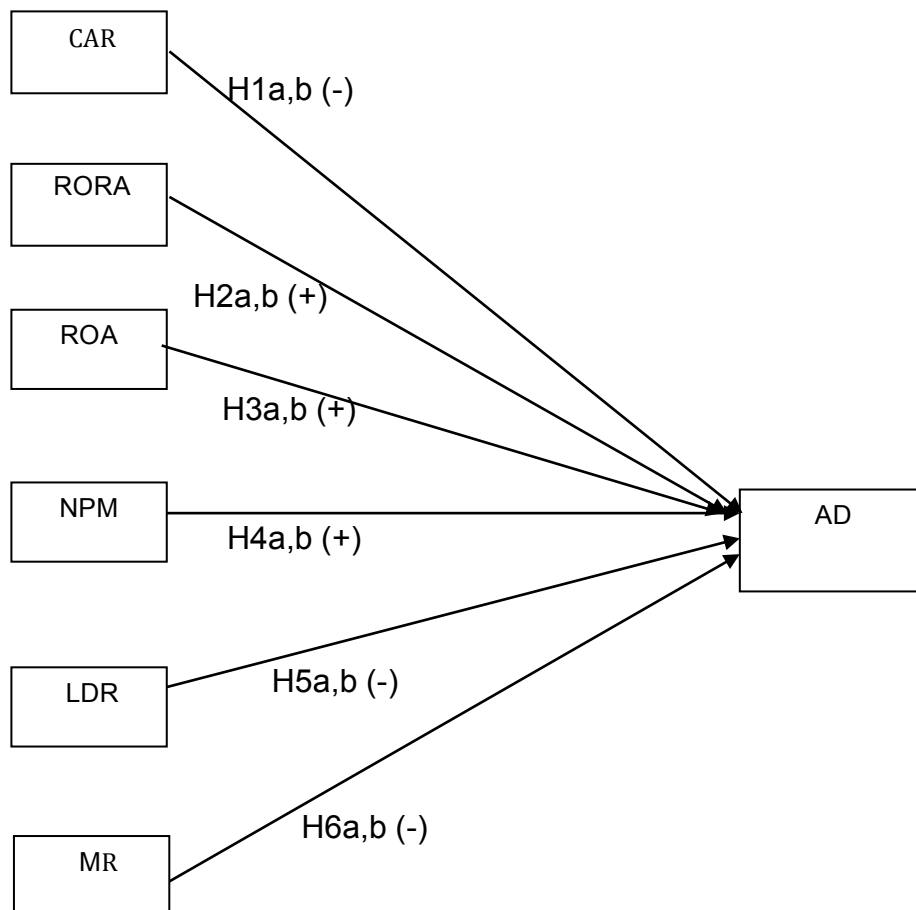
a financial ratio models. Sensitivity factor is used to measure the extent of a bank's sensitivity to market risk happen. Market risk itself is a risk factor arising from the movement of the market and also the movement of the variable market price of the portfolio held by a bank. Sensitivity judge on risk market is intended to assess the bank's financial ability to anticipate changes in market risk caused by exchange rate movements. Sensitivity to market risk assessment carried out by assessing the magnitude of the excess modal yang used to cover the bank's risk compared with the risk of losses arising from the effect of changes in the risk of major market. The more this ratio indicates the positive direction in the face of market risks that the banks had the possibility of getting an unhealthy condition small, then the hypothesis can be developed as follows:

H6a: MR negatively effect earnings management practices in state-owned banks.

H6b: MR negatively effect earnings management practices on private banks

Based on the hypothesis proposed research model is shown in Figure 1:

Picture 1. Research Model



METHODOLOGY

Population and Sample

The population in this study is a government bank and private banks in Indonesia. Sampling was done by purposive sampling in order to obtain a sample in accordance with the specified criteria. The criteria used to select the sample is (1) The Company publishes a monthly

financial report for the period from January 2012 to June 2013, which is expressed in dollars (USD); (2) Data available complete financial statements as a whole published from January 2012 to June 2013, both necessary for detecting and calculating the ratio of earnings management CAMELS. The sample in this study is the Bank Negara Indonesia and Bank State Savings Bank which is the Government and Bank Central Asia and Bank Artha Graha which is a Private Bank.

DATA COLLECTION AND ANALYSIS METHODS

Data collected through the CAMELS ratio www.bi.go.id

To examine the effect of the ratio of camels to earnings management practices in the Bank used the following model $AD_{it} = \alpha + \beta_1 CAR_{it} + \beta_2 RORA_{it} + \beta_3 NPM_{it} + \beta_4 ROA_{it} + \beta_5 LDR_{it} + \beta_6 MR_{it} + \epsilon$
 Denganekspektasi: $\beta_1 < 0, \beta_2 < 0, \beta_3 < 0, \beta_4 < 0, \beta_5 < 0$ dan $\beta_6 < 0$

RESULTS AND DISCUSSION

Classical Test Assumptions

Normality test

Testing for normality using the Kolmogorov Smirnov test. For State Bank indicates that the data variable CAR, RORA, ROA, NPM, LDR, MR, and AD has a significance value of each sequence was 0,775; 0,958; 0,868; 0,034; 0,191; 0,692 and 0,965. As for the Private Bank values the significance of each sequence by 0,462; 0,874; 0,965; 0,309; 0,381; 0,792 and 0,900. These results indicate men above 0.05 level of significance, this means all the data both government and private banks which exist in all the variables used were normally distributed.

Multicollinearity Test

The results of such calculations are shown in Table 1 shows the tolerance values for all the independent variables above 0.10 and VIF values for all the independent variables are also under 10 This is consistent with the condition of the occurrence of multicollinearity, so that all the independent variables used for the predictor variables feasible.

Table 1: Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
CAR (Pemerintah)	.172	5.824
CAR (Swasta)	.570	1.751
RORA (Pemerintah)	.470	2.126
RORA (Swasta)	.110	9.487
ROA (Pemerintah)	.367	2.763
ROA (Swasta)	.190	5.337
NPM (Pemerintah)	.372	2.685
NPM (Swasta)	.247	4.047
LDR (Pemerintah)	.576	1.736

LDR (Swasta)	.306	3.266
MR (Pemerintah)	.292	3.425
MR (Swasta)	.449	2.229

a. Dependend variable: AD

Autocorrelation

From the test results autocorrelation using the Durbin Watson test for State Bank acquired DW values (d) of 2.365. While the value of du according to the table for the sample (n) 18 with 6 independent variables (k = 6) is 1.592, so that the obtained value of $du < d < 4 - du$. While the test results obtained values for private banks DW (d) of 2.359. While the value of due according to the table for the sample (n) 18 with 6 independent variables (k = 6) is 1.592, so that the obtained value of $du < d < 4 - du$. Thus it can be said that the data is autocorrelation.

From the calculation results obtained for the Government Bank calculated F value of 124 234 greater than F table at 1.74 and a significance value of 0.000. Coefficient of determination for government banks amounted to 0.985. For the calculation of private bank calculated F value of 87.61 is greater than the F table at 1.74 and a significance value of 0.000. Coefficient of determination for private banks amounted to 0.980. Since the significance value is less than 5% of the viable models (goodness of fit).

Hypothesis Testing Results

Hypothesis testing is done using multiple regression.

The test results showed the regression equation :

1. Government banks are $AD = -0,131 - 0,203CAR + 0,207RORA + 0,042ROA + 0,228NPM + 0,010LDR - 0,610MR$
2. Private banks are $AD = -0,021 - 0,100CAR + 0,006RORA + 2,661ROA + 0,079NPM - 0,005 LDR - 0,110MR$

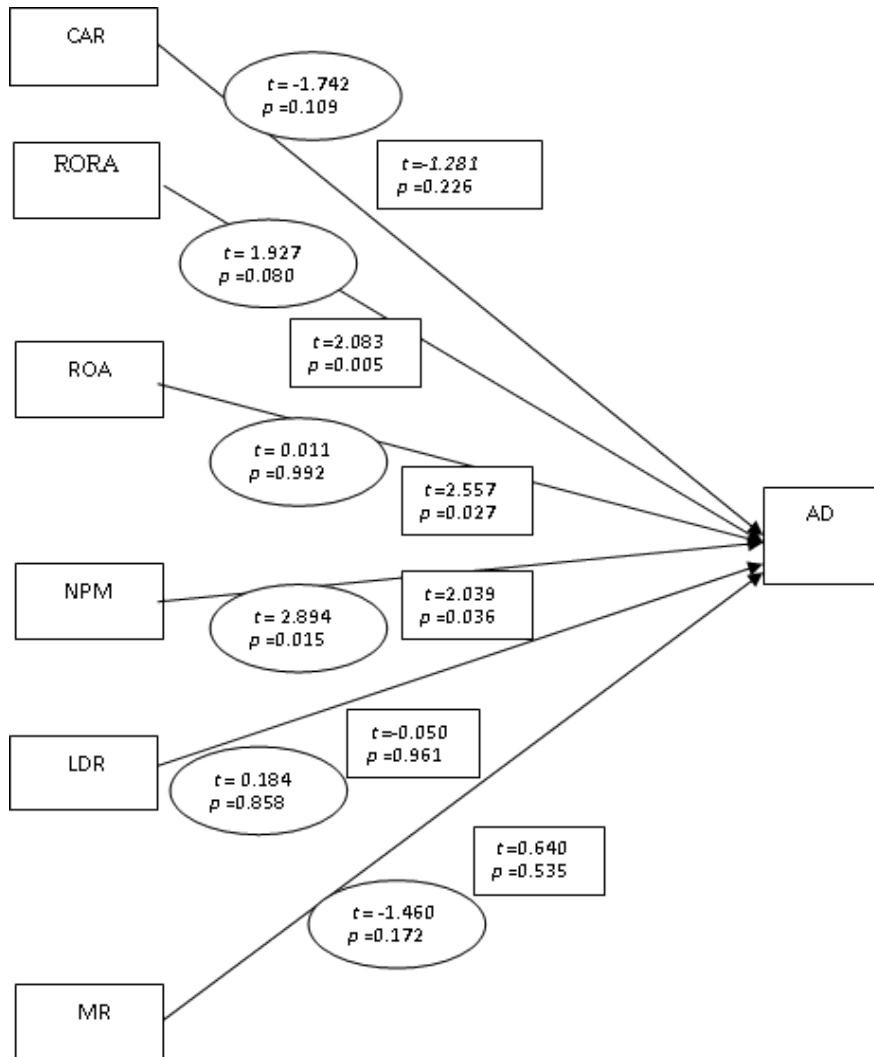
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The results of hypothesis testing are complete can be seen in Table 2 and Figure 2

Test Results Table

hypothesis		Unstandardized Coefficients		t	sig	Keterangan
		B	Std. Error			
	Constant (Government)	-.131	.049	2.648	.023	
	Constant (Private)	-.021	.071	-.291	.777	
1a	CAR (Government)	-.203	.116	1.742	.109	
1b	CAR (Private)	-.100	.078	1.281	.226	
2a	RORA (Government)	.207	.108	1.927	.080	
2b	RORA (Private)	.006	.027	.227	.824	
3a	ROA (Government)	.042	3.872	.011	.992	
3b	ROA (Private)	2.661	1.040	2.557	.027	
4a	NPM (Government)	.228	.079	2.894	.015	
4b	NPM (Private)	.079	.039	2.039	.036	
5a	LDR (Government)	.010	.055	.184	.858	
5b	LDR (Private)	-.005	.097	-.050	.961	
6a	MR (Government)	-.610	.418	1.460	.172	
6b	MR (Private)	.011	.017	.640	.535	

Hypothesis Test Results Pictures



Hipotesis 1a

The results of the hypothesis testing shows that the CAR variable has a value of slope (B) negative. This means that the CAR variables negatively affect earnings management in banks BNI and BTN but not significant results of this study indicate that the higher the CAR is achieved by the bank showed the better performance of the bank, so the bank's revenue increased profits. Capital adequacy of banks reflects the company's own capital, because of the large capital, bank management is very flexible in placing funds into profitable investment activities.

Hipotesis 1b

Results of hypothesis testing showed that the ratio of CAR on Private banks also have a negative value. This means that the CAR variables negatively affect earnings management in banks BCA and Bank Artha Graha, but significantly above the levels specified alpha level of 5% so that hypothesis 1b is rejected. The results of this study indicate that the higher CAR achieved by the bank showed the better performance of the bank, so the bank's revenue increased profits. Capital adequacy of banks reflects the company's own capital, so that the Bank does not conduct earnings management in order to meet capital adequacy.

Hipotesis 2a

Results of hypothesis testing indicate that RORA ratio variable has a value of slope (B) positive. This means that the ratio of RORA positive but not significant effect on earnings management in banks BNI and BTN that hypothesis 2 is rejected. These results together with the results of the research Zahara and Veronica (2009), where in the ratio of research RORA also a positive effect.

Hipotesis 2b

The results of testing this hypothesis indicates that RORA ratio variable has a value of slope (B) with a positive value of t table 0.227 and significant level of 0.824 exceeds the alpha level (0.05). This means that the ratio of RORA and no significant positive effect on earnings management in Bank Central Asia and Bank Artha Graha, so that hypothesis 2 is rejected

Hipotesis 3a

Results of hypothesis testing showed that the ROA variable has a value of slope (B) Positive. This means that the variable ROA positive effect on earnings management in banks BNI and BTN but not significantly so the hypothesis is rejected 3a. The results of this study differ from the results of research Zahara and Veronica (2009) and Arnawa (2006) previously found a positive effect of ROA and not significantly better at business unit sharia and Islamic banks and the conventional banks.

Hipotesis 3b

Results of hypothesis testing showed that the ROA variable has a value of slope (B) Positive. This means that the variable ROA positive effect on earnings management in banks BCA and Bank Artha Graha at the alpha level of 5% ($p = 0.027$, $p < 0.05$), so the hypothesis 3 is accepted. The average value of ROA ratio is very low, around 0.9% so as allegedly strong enough to significantly affect discretionary accruals. ROA ratio standards set by Bank Indonesia is $> 1.22\%$ or 1.5% ideally, in this study ROA Private banks are in the category of less healthy bank performance.

Hipotesis 4a

Results of hypothesis testing showed that the ratio of NPM has slope value (B) Positive. This means that the ratio of NPM positive effect on earnings management in banks BNI and Bank BTN and the alpha level of 5% ($p = 0.015$, $p < 0.05$), so the hypothesis 4 is accepted. These results were confirmed by the results of research Zahara and Veronica (2009) to represent the ratio of NPM positive and significant effect on earnings management is proxied by discretionary accruals.

Hipotesis 4b

Results of hypothesis testing showed that the ratio of positive and significant effect of NPM on earnings management in banks BCA and Bank Artha Graha alpha level of 5% ($p = 0.036$, $p < 0.05$), so the hypothesis 4 is accepted. These results together with the results of the research Zahara and Veronica (2009) to represent the ratio of NPM positive and significant effect on earnings management is proxied by discretionary accruals.

Hipotesis 5a

Results of hypothesis testing showed that LDR variable has a value of slope (B) Positive. This means that the LDR variable and no significant positive effect on alpha level of 5% ($p = 0.858$, $p > 0.05$), so the hypothesis 5a rejected to earnings management at BNI and BTN. These results

differ from previous studies. Zahara and Veronica (2009) found that the LDR and no significant negative effect.

Hipotesis 5b

Results of hypothesis testing showed that LDR variable has a value of slope (B) negative. This means that the variable LDR negatively affect earnings management in banks BNI and BTN thus hypothesis 5 is rejected, because the significance level of 0.961 ($p > 0.05$). These results are consistent with previous research. Zahara and Veronica (2009) found that LDR has negative and not significant.

Hipotesis 6a

The results of the analysis of the sixth hypothesis states that MR has a negative and insignificant effect on earnings management due to significant MR values greater than a predetermined level of significance that is equal to 0:05, so the hypothesis is rejected. This study does not support the research conducted by Adi Yunanto Kusumo (2007) which states that the MR ratio significantly affect the soundness of Islamic banks. These results are also not consistent with the assumption that the bank is high MR has a tendency to bank soundness good. This is because the excess reserves of capital that has been reserved is used to cover the debts that are still not covered everything.

Hipotesis 6b

Results of hypothesis testing showed that the MR ratio has a value of variable slope (B) Positive. This means that the ratio of MR positive effect on earnings management in banks BCA and Bank Artha Graha thus hypothesis 6 is rejected. Sensitivity to market risk assessment is intended to assess the bank's financial ability to anticipate changes in market risk caused by exchange rate movements. Sensitivity to market risk assessment carried out by assessing the amount of excess capital that is used to cover the bank's risk compared with the risk of losses arising from the effect of changes in market risk.

CONCLUSIONS AND FURTHER RESEARCH

The company's performance can be improved by applying the Risk Management consistently and consistent profit growth may also be a way to optimize the existing capital rather than earnings management is done to get a good image among the public and to meet the standards set by Bank Indonesia. Future studies should use the annual financial statements include the financial statements, so that all the information needed to complete the research available. If the study used a sample of financial statements reported to Bank Indonesia, the calculation of the variable ratio should be adjusted CAMELS Bank Indonesia regulation approach in assessing the soundness of banks are eligible to operate, so the results are more accurate. Future studies are expected to use a specific model-based accrual in accordance with the characteristics of banking.

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