COMPARATIVE ANALYSIS ON DETERMINANTS OF PROFITABILITY OF DOMESTIC AND FOREIGN BANKS IN INDONESIA

(EMPIRICAL STUDIES ON COMMERCIAL BANKS USING MONTHLY REPORT OF BANKS FINANCIAL STATEMENTS PERIOD OF 2014.1-2015.12)

UNDERGRADUATE THESIS

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I am who undersigned here, Alfonsus Aristo Wibowo, claim that bachelor thesis entitled "Comparative Analysis on Determinants of Profitability of Domestic and Foreign Banks in Indonesia (Empirical Studies on Commercial Banks Using Monthly Report of Banks Financial Statements Period of 2014.1-2015.12)" is my owing writing. Hereby I declare in truth that inside this bachelor thesis there is no other's writing as a whole or as a part which I took by copy or initiate in a form of sentence or symbol which represent writer's idea or opinion, which I admit as my own, and/or there is no a part or a whole writing that I copied, or I took from other's writing, without giving credits to its original writer.

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MOTTO

"In everything set them an example by doing what is good. In your teaching show integrity, seriousness and soundness of speech that cannot be condemned, so that those who oppose you may be ashamed because they have nothing bad to say about us." (Titus 2:7-8)

"Continuous effort – not strength or intelligence – is the key to unlocking out potential" (Winston Churchill)

"Don't anger your parents in order to please other people. Those other people did not spend their lives building yours." (Anonymous)

I dedicate this thesis for my Parents.

ABSTRACT

Profitability has an important role for bank sustainability, profitability is one of the most important pillars for bank in running their activities. Bank in generating profit, there are some things that must be considered, for instance is determinant factors that will affect the growth of profitability. By knowing the determinant factors of profitability, banks will be more prudent in doing strategies for generating greater profit and to face the unpredictable circumstances. The purposes of this research are to analyse the influence of Total Assets, Equity, Loan Loss Provisions, Off-Balance Sheet Activities, Overhead Costs, and Lagged Profitability to Profitability (ROA and NIM) of Domestic and Foreign Banks that operating in Indonesia period of 2014 – 2015, and also this research will present the comparative analysis of both bank groups (domestic and foreign).

The population of this study were 66 Domestic Banks and 39 Foreign Banks (commercial banks) operating in Indonesia. This research also used monthly report of banks financial statements over the period of 2014(1)-2015(12). In the fact, data of monthly reports will provide more complete and accurate information to give a better result. This study used the cross-section method in taking the population.

The results of this research had found various results, proving that the determinant factors used in this research had an influence on Foreign and Domestic Banks profitability. But there were some results that were not in accordance with the hypotheses that had been made. From this research also obtained, that there was a difference between influence of determinants factors to Domestic Banks profitability with influence of determinant factors to Foreign Banks profitability.

Keywords: Profitability, ROA, NIM, Assets, Equity, Loan Loss Provisions, Off-Balance Sheet, Overhead Costs, Lagged Profitability

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Semarang, 24th May 2018

Yours Truly,

Alfonsus Aristo Wibowo

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CHAPTER I

INTRODUCTION

1.1 Research Background

In the period 1997 – 1998 Indonesia experienced economic crisis and monetary crisis due to the financial crisis experienced by Thailand which caused various fluctuation took place in Indonesia. This financial crisis began from Thai Currency Crisis at the end of June 1997 which affected many countries in Asia, Especially Indonesia. The exchange rate continued decline sharply and there was lack of liquidity due to the destruction of Interbank Money Market. At that time, Rupiah depreciation continued to reach 600% in less than one year, that is from IDR 2.350,- into IDR 16.000,- / 1 USD. Then the Interbank Money Market Interest Rate reached 300% / Year. This was also influenced by Indonesia's political stability and national security which at that time was unstable due to the demonstration to overthrow the regime of President Soeharto. By the end of that period, Indonesia's economic growth decreased by 13,7% and there was an increased in the prices of goods in almost all regions of Indonesia.

Banking became one of the sectors that was affected by the economic and monetary crisis that hit Indonesia in the period of 1997-1998. The decision made by the Government with Central Bank of Indonesia (Bank Indonesia) on the liquidation policy of 16 banks on November 1, 1997 which was also the result of evaluation and recommendation from International Monetary Fund (IMF) was considered as the triggered to the crisis of public trusts in the banking sector. As a result of the policy, there was withdrawal of funds in banks on a large scale by the public (Rush), most of the funds had used to speculate the foreign exchange which resulted Rupiah been getting depreciated in a long term. Many banks were unable to pay off interbank loans that gave effect to the counterparty that eventually experienced liquidity as well (Domino Effect) and then followed by a lack of the liquidity of the economy as a whole (Liquidity Crunch).

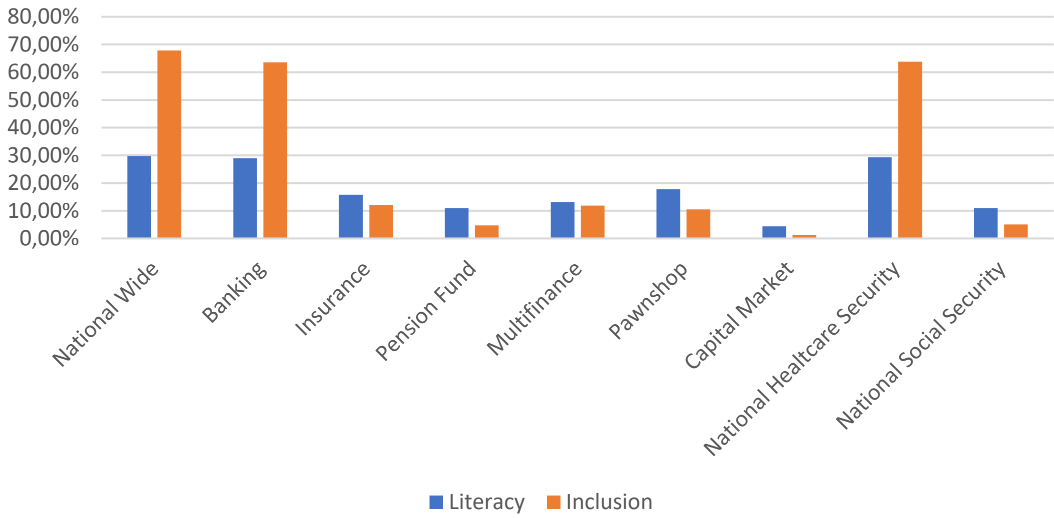
The Government with Central Bank (BI) assisted by the International Monetary Fund (IMF) had been undertaking various measure, stabilization, and improvement programs to prevent further destruction of the banking system caused by the crisis of public trusts. Those policies were written in the Memorandum of Economic and Financial Policy. On January 26, 1998 the Government had decided to guarantee the repayment of bank debt through a blanket guarantee program. However, at that time the Government was hit by a bad financial condition and therefore Central Bank (Bank Indonesia) had provided the bailout fund known as Bank Indonesia Liquidity Assistance (BILA). The total funds to assist this sector was RP. 144,5 Trillion, of course this was in line with the commitment of Bank Indonesia in assisted with the government to implement the macroeconomic policy of Indonesia. Hoped that the provision of Bank Indonesia Liquidity Assistance would had ended the bank closure in Indonesia, so that people's trust could be increased.

The Government continued to make efforts in restructuring. For example. The government established The Indonesian Bank Restructuring Agency (IBRA) that was taken to implement the program and took control on the Government Guarantee Program on the obligations of commercial banks, the Government also focused on banking restructuring efforts. The government also issued the bank restructuring policy that applies to all banks, the first policy was to rebuild the banks in good condition with recapitalization program and improvement of banking regulations. Second, the policy was to resolve the problems that experienced by banks with the acceleration of banking restructuring. Banking restructuring itself had a way to organize into two groups of banks, the first group was banks that needed to be recapitalized and the second group was banks that required more intensive supervision.

Because of the crisis in 1997 – 1998 period, Central Bank (Bank Indonesia) and the Government had been improving policies in the banking sector until Financial Services Authority (FSA) known as Otoritas Jasa Keuangan (OJK) was formed in 2012 and FSA have been taking over all the banking regulatory functions. One of the policies was loosening the entry of Foreign Banks to Indonesia and facilitated foreign direct investment to banks in Indonesia, this phenomenon is certainly supported by liberalization policies and followed by market globalization. According to (Haneef, 2012), Foreign Banks in Pakistan have been rising sharply since the end of 1980s and the drastic increase in the late 1990s. Similar to what happened in Indonesia and other developing countries were also targeted by Foreign Banks from “advance economics” countries in the late 1990s.

According to Financial Services Authority Regulation (NO 50/POJK.03/2017) defined that Foreign Bank is a branch office of a bank domiciled abroad that operating in Indonesia, Foreign Bank can also have categorized commercial bank in the form of Indonesian legal entities which more than 50% (fifty percent) of their shares are owned by foreign nationals and/or foreign legal entities either individually or collectively. Foreign Banks are owned banks jointly by foreign national and/or foreign legal entities less than or equal to 50% (fifty percent) but there is control by foreign nationals and/or salt legal entities.

Figure 1.1
Indonesia Financial Literacy and Inclusion by Sector in 2016



Source: Survey Financial Literacy and Inclusion, Financial Services Authority (2016)

Foreign Banks have always been interesting to invest in Indonesia because Indonesia's Market has great potential prospects, the growth of Foreign Banks from years to years after crisis 1997 – 1998 have been increasing sharply. Foreign Banks have been starting their operations in Indonesia because Indonesia has a million of people that can be their targets. Indonesia has 34 Provinces, 99 Cities, and 83.184 Villages, which there are still many Indonesian who do not have access to the financial services industry, especially banks because of the wide and huge are of the region and far out of reach of the government. from figure 1.1 can be seen that the level of Indonesian society literacy in the banking sector at 28.9% and financial inclusion rate of 63,6% (Financial Services Authority, 2016). The data shows a positive trend because the level literacy and banking inclusion is far above other financial services sectors, indicating that the society has sufficient knowledge or literacy on banking services. People have started to use banking services for transaction activities. From the figure above can be concluded also that Foreign and Domestic Bank have a great opportunity in business activity. Banks still have ample space for efforts to improve access to financial products and services for all societies in all regions, especially the marginal society.

The entry of Foreign Banks to Indonesia gives impacts for better competition on banking industry. The first way for Foreign Banks to enter Indonesia was by opening a branch in the capital city of Indonesia also followed by other cities, opening a branch means it has officially operated in the country. According to (Levine, 1996) mentioned that the entry of Foreign Banks can increase the growth of domestic finance, then Foreign Banks can also increase access to international capital markets. (Helhel, 2015) argued that the presence of Foreign Banks can influence Domestic Banks to developing their techniques and knowledge in banking. Foreign Banks can improve the quality of financial services for Domestic Banks due to competition in operational capability and technological sophistication. These things can be a fighting power and competitiveness to promote a more transparent industry.

According to (Atsushi, 2004), the presence of Foreign Banks into a host country provides a good and healthy influences in improving the efficiency of banking sector performance in host country. The entry of Foreign Banks will certainly increase its own competitiveness for Domestic Banks, especially in improving the performance and honesty in business. These positive impacts are certainly very good for a competitive environment so that all banks both Foreign and Domestic Banks can compete fairly by increasing the ability of banking and technological progress, so that more efficient in working. The entry of Foreign Banks can improve the function of the banking market, so that Foreign Banks and Domestic Banks can compete with healthy and keep giving priority the consumer's welfare is the main thing (Claessens, 2000).

(Xu, 2011) argued that the entry of Foreign Banks is marked by an increase in the performance of Domestic Banking sector and surely the banking will be more competitive and efficient. Foreign Banks present are in addition to having a goal to take advantage but also provide benefits for the society, for instance is the growth of national credit comes from the contribution of Foreign Banks to the host country and also open up greater investment opportunities for the public to invest in international financial services. Which will certainly provide good impacts for the growth of national economy. According to (Claessens & Horen, 2012) Foreign Banks can strengthen the efficiency level of the domestic financial system and will certainly increase access to financial services and strengthen the state financial sector, this is in line with the increase in economic growth.

Foreign Banks must always be connected with international financial services business, in this case (Xu, 2011) confirmed that Foreign Banks are much more experienced in financial trading and foreign exchange business. Indonesia is a country that included in the G-20 countries, where the trade in products and services in its import and export activities greatly affects other countries, especially China, India, and ASEAN countries. Financial services trade transactions such as capital market and money market continue to increase in line with economic development, the presence of Foreign Banks as the intermediary and facilitator can be said to be required.

There are lots of debates and researches that continues to be done by many researchers about the impact of the presence of Foreign Banks on the performance and profitability of Domestic Banks. Both have an almost unequal market segment, if the target of Domestic Banks are household and business sector, whereas Foreign Banks are more targeted to the business of financial trading and foreign exchange business. But it cannot be denied that the task of the bank as an intermediary function makes both to compete with each other. According to (Haneef, 2012) Domestic Banks had the advantage of many resources to invest the deposit in the form of debt to the public, this causes Domestic Banks in Pakistan got higher Return on Assets (ROA) and Return on Equity (ROE), it could had been concluded the research in Pakistan that the performance of Domestic Bank was better than Foreign Bank. It is inversely proportional to the (Helhel, 2015) stated that there were significant differences in profitability between Domestic Banks and Foreign Banks in the measurement of Profit Expense Margin (PEM), Net Interest Margin (NIM), and Return on Equity (ROE) in the Georgia bank Industry.

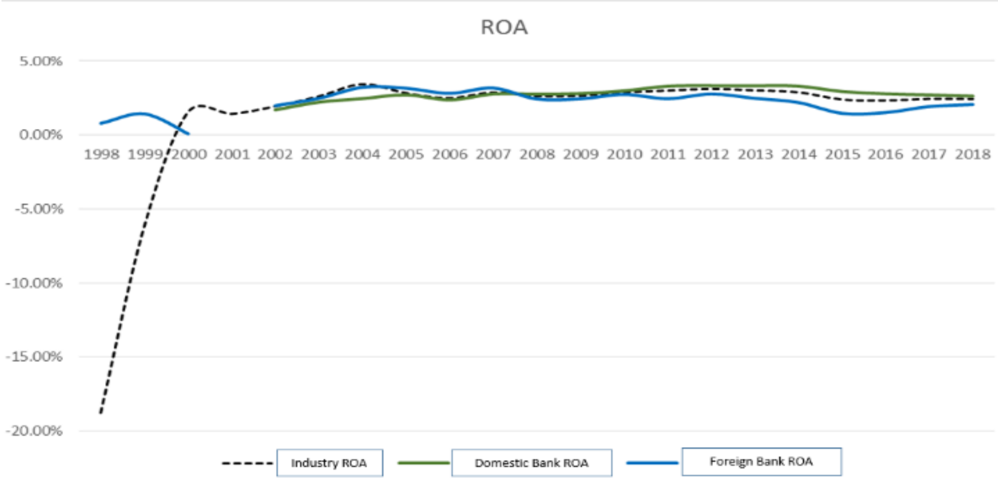
Previous researchers have provided different results on Foreign Banks versus Domestic Banks in terms of profitability and performance. According to (Claessens, 2000) that the study involved the national bank markets in 80 countries found that in developing countries, Foreign Banks tend to had more profitability and higher interest margin compared to Domestic Banks and the presence of Foreign Banks could reduce profitability and margin from Domestic Banks. This research was related to a research that argued Domestic Banks had lower cost efficiency compared to Foreign Banks and Foreign Banks had been generated greater profitability. This was because Domestic Banks had poor quality management in managing banks and affected cost efficiency, this study was researched in France (Rouissi & Bouzgarrou, 2012). The two researches above had one specific difference, which the first researcher said that Foreign Banks in developing countries had higher profits, but the second researcher conducted in developed countries that was French, found that Foreign Banks in France had more cost efficiency and higher profit.

Public Trusts in Domestic Banking is believed still to be high, especially in developing countries. Consumers will feel safer and more understand in using the financial services and investments offered by Domestic Banks. According to (San, Theng, & Heng, 2011) indicated that Domestic Banks in Malaysia had higher levels of efficiency compared to Foreign Banks, which also made the profitability of Domestic Banks higher thank Foreign Banks. The banking market in Turkey also showed similar results that Return on Equity (ROE), Assets Quality, Management Effectiveness, and Total Assets of Domestic Bank were better than Foreign Bank (Doğan, 2013). The next developing country is Pakistan, the results showed that Domestic Banks had higher performance and profitability than Foreign Banks (Haneef, 2012).

Foreign Banks in addition can increase competition for more transparent but also provide serious concerns for Domestic Banks. The presence of Foreign Banks to a developing country like Indonesia, it is feared to reduce profits and performance of Domestic Banks. According to (Hermes & Lensink, 2004) the presence of Foreign Banks will have an impact on the increasing of Domestic Bank's margin and cost. This happens at the low point of financial development. In the opposite way, Foreign Banks presence decreases costs and margins of Domestic Banks at the higher point of financial development.

Graphic below will present the difference in profitability (ROA and NIM) between Domestic and Foreign banks in Indonesia in recent years.

Graph 1.2
Domestic and Foreign Banks ROA in Indonesia

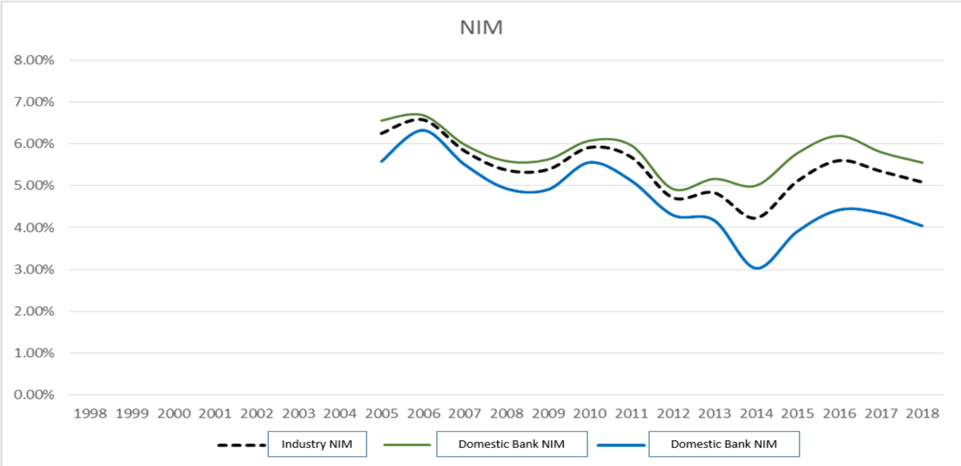


Source: Financial Services Authority (OJK)

From the graph above can be concluded that in the last 8 years (from 2010 – 2018), domestic bank has higher ROA compared to Foreign Bank.

Graph 1.3

Domestic and Foreign Banks NIM in Indonesia



Source: Financial Services Authority (OJK)

From the graph above can also be concluded that from 2005 to 2018 Domestic Bank has higher NIM than Foreign Bank, even Foreign Bank NIM is lower than the average of NIM banking industry in Indonesia. from the two graphs above, it can be said that the profitability of Domestic Bank is still higher that the profitability of foreign bank. it shows that domestic bank still play an important role in the national banking industry.

There was a research that discussed about determinant of bank's profitability, this research was made by Asli Demirgüç-Kunt and Harry Huizinga, this research studied about factors influenced the interest margin and profitability of banks in developed and developing countries in 1988-1995. From Kunt and Huizinga research, it was found that bank characteristics (size, leverage, type of business, foreign ownership), macro indicators, financial taxation, deposit insurance, financial structure significantly affect profitability and bank interest margin (Demirgüc-Kunt & Huizinga, 1998). There were several findings found by Kunt and Huizinga. Well-capitalized bank had higher net interest margins and more profit. Kunt and Huizinga had also shown that international ownership in bank had a significant impact on profitability, Foreign Banks had higher profitability and interest margin compared to Domestic Banks in developing countries.

There was another research that considered to be a reference, (Bouzgarrou, Jouida, & Louhichi, 2017) examined which banks had higher profitability between Foreign Banks versus Domestic Banks. This previous research had shown the result of Foreign Banks from "advance economy" countries and Foreign Banks from "Emerging Economy" countries, which bank was having higher profitability in France using data from 170 commercial banks in France consisting of 105 Domestic Banks and 65 Foreign Banks from the year 2000-2012. The level of profitability was measured by using Return on Assets (ROA), ROA is the ratio of corporate finance by measuring the strength of the bank (assets) that could generate a profit at the level of income, the second was the Return on Equity (ROE) which the definition is a ratio that shows the ability of companies in generating net income with using owner's capital. The third was the Net Interest Margin (NIM), which the definition is the measure of the difference between the interest income generated by the bank to the value of interest paid to the lender, and the results show income from interest activity. The previous research also showed that the profitability of Foreign Banks and Domestic Banks in France were tested with various determinants related to bank assets that affected the level of profitability. For the examples were bank's total assets (LTA) that the definition is the amount of the whole assets that bank had, Equity to Total Assets Ratio (EQTA) that the definition is to measure the attachment or motivation of the owner for the sustainability of the business, this ratio measures the amount of bank's capital itself to fund the entire assets of the company. Then there was also another determinant of profitability, which was Overhead to Total Assets (OVTA) that has the definition the ratio that is useful for measuring non-financial expense and personnel expense compared to the total assets of a bank. Hereinafter was Loan Loss Provisions to Total Assets Ratio (LLPTA) this determinant could been an indicator about how bank with assets quality could generated interest. LLPTA might been considered for calculated credit risk. The last determinant to affect the profitability that connected with bank assets was Off-Balance Sheet + Total Assets Ratio (OBSOBSTA), this ratio measured how important activity outside the balance sheet to the bank.

The subsequent determinants of profitability from the research above was Loans to Customers and Short-Term Funding (LCSTF), which this ratio had measured the importance of credit was provided by the bank to all consumers, this ratio compared the liquid assets (loans) to the fund (deposits). Then there were three other determinants namely, Foreign Banks (FB) was a dummy variable that signified the difference between Foreign Banks and Domestic Banks. Then, the second was Lagged One Year Profitability (L1. Prof) measured using ROA, NIM, ROE. The last was Lagged Two Years Profitability (L2. Prof) also measured using ROA, NIM, and ROE. The previous research above also presented the determinant factor to profitability that came from the external condition of bank. The first was the Gross Domestic Product (GDP), this Variable measured the results of a country's economic performance and growth, how low and high economic growth affected the profitability of banks. The subsequent was inflation rate that surely had an impact of rising costs of banks operations when the inflation rate was increase, which signified a decreasing on the bank's income. The last was financial crisis (FC). This factor was most crucial to the condition of bank's profitability, because it could affect the liquidity and bank loans rate quickly.

This research will examine the various determinants (*Lagged One Year Profitability (L1. PROF), Lagged Two Years Profitability (L2. PROF), Loan Loss Provision to Total Assets Ratio (LLPTA), Overhead to Total Revenue (OVTR), Off-Balance Sheet to Total Assets Ratio (OBSTA) divided by 2 proxies, which are Contingency to Total Assets Ratio (CNTA) and Commitment to Total Assets Ratio (CMTA), Equity to Total Assets Ratio (EQTA), Bank's Total Assets (LTA))* that will affect the profitability (ROA and NIM) of both Domestic Banks and Foreign Banks, this research will also examine some differences of influence between determinants of profitability of Domestic Bank and determinants of profitability of Foreign Bank by using a Chow Test.

This research is different from the previous researches above that have been explained, what distinguishes this research with the previous research are this research conducted in developing country that is Indonesia, which have a condition of economy and banking industry which is quite different from developed countries. This study will also change and erase some independent variables that existed in the previous research, the variable that will be changed is Overhead to Total Assets becomes Overhead to Total Revenue by using Operating Efficiency Ratio approach, the reason is this research want to see a wider scheme between the effect of bank's efficiency on profitability. This research doesn't use control variables to be studied.

This research will also divide the variables Off-Balance Sheet to Total Assets Ratio (OBSTA) into 2 proxies which are Contingency to Total Assets Ratio (CNTA) and Commitment to Total Assets Ratio (CMTA). One thing that makes the research unique is this research using Monthly Report of Commercial Banks in Indonesia period from 2014.1-2015.12.

1.2 Problem Formulation

Based on the background that has been described, profitability is one of the most interesting factors to be discussed by measuring and comparing the profitability of Foreign Banks and Domestic Banks during full period 2014 – 2015 by using Monthly Report Financial Statements of Commercial Bank. This kind of researches rarely found in Indonesia makes something attract to study and discuss perfectly by refining existing studies.

From the gap phenomenon in the research background that have been explained, it can be concluded that the profitability of Domestic bank is still higher than Foreign bank. It is important for this study to see what factors affect the profitability of Domestic and Foreign banks that makes Domestic Banks have higher profitability than Foreign Banks.

Clarify the contents of the research background that has been described, the understanding of bank profitability itself is actually the ability of banks in obtaining profit, profitability is a measure in the percentage used to assess the ability of banks in generating profits at a certain level. According to (Sartono A, 2008) Profitability is the ability of the company to earn profit on the capitals, sales, as well as total assets. Banks in maintaining the level of profitability must certainly consider the determinants such as internal and external, from the internal factors, as an example is how good banks in carrying out banking management by maintaining the quality of assets and the quality of loans, and also keep banks safe as possible in carrying out its duties. External factors mean that coming from outside the bank such as inflation, crisis and others that can affect banks indirectly.

Table 1.2
Research Gap

Independent Variable to Profitability	Influence	Researchers
Total Assets 1. ………. 2 ……….	 Negative Significant Positive Significant	 Houssam & Jouida 2011 Kunt & Huizinga 1998
Equity 1. ……….	 Positive Significant	 Goddard & Wilson 2004
LLPTA 1. ………. 2. ……….	 Negative Significant Positive Significant	 Opoku-agyemang 2015 Ugur & Erkus 2010
OVTR 1. ………. 2. ……….	 Negative Significant Positive Significant	 Hermes & Lensink 2004 Ugur & Erkus 2010
L1. PROF 1. ………. 2. ……….	 Positive Significant Positive Significant	 Islam & Nishiyama 2016 Bouzgarrou et al., 2017
L2. PROF 1. ………. 2. ……….	 Positive Significant Positive Significant	 Kagecha 2014 Bouzgarrou et al., 2017
CNTA 1. ………. 2. ……….	 Negative Significant Positive Significant	 Siregar 2012 Angbazo 1995
CMTA 1. ………. 2. ……….	 Positive Significant Negative Significant	 Saunders et al., 2007 Siregar 2012

Source: Taken from Some Empirical Results

The inconsistency of previous research indicated that there might be another result that this research could have. Therefore, this research will examine about the determinants of some factors that can affect the profitability of Domestic and Foreign Banks in Indonesia, several studies in various countries are also examining the same thing but majority of those researches using annual data on bank financial statements, in contrast to this research that will use data of monthly report of bank financial statements that will definitely provide more accurate results between the relationship of some independent variables with the dependent variables. This research will also change some independent variable such as, Off-Balance Sheet divided into 2 proxies that are Contingency and Commitment, then Overhead to Total Revenue Ratio variable is proxied with Operating Efficiency Ratio. This research will also examine some differences of influence between determinants of profitability of Domestic Bank and determinants of profitability of Foreign Bank by using a Chow Test

Based on the problem formulation, it has been determined some research questions are as follows:

1. Does *Bank's Total Assets* influence the *Profitability* of Foreign Bank and Domestic Bank?
2. Does *Equity to Total Assets Ratio* influence the *Profitability* of Foreign Bank and Domestic Bank?
3. Does *Loan Loss Provision to Total Assets Ratio* influence the *Profitability* of Foreign Bank and Domestic Bank?
4. Does *Overhead to Total Revenue Ratio* influence the *Profitability* of Foreign Bank and Domestic Bank?

5. Does *Lagged One Year Profitability* influence the *Profitability* of Foreign Bank and Domestic Bank?

6. Does *Lagged Two Years Profitability* influence the *Profitability* of Foreign Bank and Domestic Bank?

7. Does *Contingency to Total Assets Ratio* influence the *Profitability* of Foreign Bank and domestic?

8. Does *Commitment to Total Assets Ratio* influence the *Profitability* of Foreign Bank and domestic?

9. Do *LTA, EQTA, LLPTA, CNTA, CMTA, OVTR, L1. PROF, L2. PROF* have differences of influence to the *Profitability* of Foreign Bank and Domestic Bank?

1.3 Research Objective

Based on the research background and problem formulation above, we can certify that the objectives of this research are:

1. To analyze the influence of *Bank's Total Assets* towards the *Profitability* of Foreign Bank and Domestic Bank.

2. To analyze the influence of *Equity to Total Assets Ratio* towards the *Profitability* of Foreign Bank and Domestic Bank.

3. To analyze the influence of *Loan Loss Provision to Total Assets Ratio* towards the *Profitability* of Foreign Bank and Domestic Bank.

4. To analyze the influence of *Overhead to Total Revenue Ratio* towards the *Profitability* of Foreign Bank and Domestic Bank.

5. To analyze the influence of *Lagged One Year Profitability* towards the *Profitability* of Foreign Bank and Domestic Bank.

6. To analyze the influence of *Lagged Two Years Profitability* towards the *Profitability* of Foreign Bank and Domestic Bank.

7. To analyze the influence of *Contingency to Total Assets Ratio* towards the *Profitability* of Foreign Bank and Domestic Bank.

8. To analyze the influence of *Commitment to Total Assets Ratio* towards the *Profitability* of Foreign Bank and Domestic Bank.

9. To analyze the differences of influence of *LTA, EQTA, LLPTA, CNTA, CMTA, OVTR, L1. PROF, L2. PROF* toward the *Profitability* of Foreign Bank and Domestic Bank.

1.4 Research Benefits

1.4.1 Academic Usability

This research is expected to be used as an academic reference for future researchers who will examine on the same theme, so that can be used as a reference. This research is also expected can provide a great contribution to the science of banking industry in Indonesia.

1.4.2 Practical Usability

1. For Banks:

This research is expected to provide the bank for any factors that affecting bank's profitability especially crucial factors, so that the bank can maintain the profitability level mainly if there is a crisis period, this research is also expected Foreign Banks and Domestic Banks in Indonesia can compete more competitive and in a healthy manner.

2. For Economic Actors and Bank's Costumers

   This research is expected to be a reference and consideration for economic actors and bank's costumers to be able to choose the bank well in accordance with good prospects as well, and also expected this research can increase the willingness of economic actors to invest in the banking industry.

1.5 Research Outline

This research consists of 5 chapters that would explain about The Profitability of Foreign Bank and Domestic Bank during financial crisis period and full period. The systematization in this research would be as follows:

Chapter I Introduction

This chapter mixes the problem background of Indonesia Monetary and Financial Crisis that hit Indonesia banking Industry in 1997-1998, The presence of Foreign Banks in Indonesia, comparation researches between Foreign Banks and Domestic Banks in many countries, problem formulation, research objectives, research benefits, and research outline.

Chapter II Literature Review

This chapter explains the theoretical basic that support the research undertaken as a basis reference of theory and analysis. This chapter describes all definitions of independent variables and control variables. In this chapter is also describes previous empirical evidence, conceptual frameworks, and hypothesis.

Chapter III Research Method

This chapter explains the description about the method used, consisting of: research variables, variables operational definition, population and sample, data type and sources, data collection method and data analysis method.

Chapter IV Result and Analysis

This chapter describes in detail the results of the research that has been done and provide a clear discussion, this chapter consists of research object description, data analysis, result interpretation, and author's argumentations on the research's results

Chapter V Concluding

This chapter describes the conclusions of the research that has been done, research constraints, and suggestions for the future research.