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THE EFFECT OF NON PERFORMING LOANS, OPERATING EXPENSE TO OPERATING INCOME, AND LOAN TO DEPOSIT RATIO ON STOCK RETURN AT CONVENTIONAL BANKS

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Abstract: This research is conducted to determine the effect of NPL, BOPO, and LDR on Stock Return of private banks and government banks as conventional banks in Indonesia. This research uses multiple linear regression analysis with three predictors. The results show that NPL and LDR have no significant effect on Stock Return, while BOPO has significant effect on Stock Return.

Keywords: *NPL, BOPO, LDR, stock return, bank*

Bank is a financial system owned by each country, or a company runs financial service and gains trust from people to manage their money. Some tools used to assess bank performance are risk and return analysis tool to assess financial performance (Rose, 2005). According to regulation of Bank of Indonesia, no. 13/1/2011, bank management is evaluated by using risk based bank rating approach with tools of good corporate governance implementation, earning and capital, and CAMELS to assess bank's performance in general.

Asset quality is valuation of asset by bank, by way of comparing between assets that have been classified by productive assets. In comparison to the provision for loan losses to classified productive assets. Asset quality is proxied by using the non-performing loans (NPL) as part of banking management in order to manage troubled loans and give it to the bank (Mulyono, 1999). The lower the NPL, the more it influences the increase of stock return, due to the burden of credit risk incurred by the bank or the benefit is getting smaller and smaller, it will increase its profits and can increase stock returns.

Selective monitor by bank on the credit use and the ability of debtors to fulfill their obligations can lower NPL and increase bank profit. Khadaffi and Syamni (2011) and Haryetti (2012) support this by stating that non performing loans has no significant effect on stock price return, with an explanation if the NPL increases it will raise rising credit risks by banks and thus result in a low bank income and lower stock returns.

Management is assessing the management factors which are conducted in the assessment of management components and apply bank risk management under regulation, and having commitment to Bank of Indonesia and to other parties. In this research, management used is BOPO or operating expenses towards operating income (Siamat, 1995). According to Pahlevie (2009), bank operating expenses can be used to run company activities, while operating income is the form of income earned from bank performance. If a bank is able to reduce its

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operating cost, it will get maximum benefits and will have direct impact on increased stock returns to shareholders. Research conducted by Khadaffi and Syamni (2011) and Wijaya, *et al.*, (2012) reveal that ROA does not have significant effect on stock price returns. That is because banks are less able to control their operating costs, causing nonoptimal operating income. Nonoptimal operating income will also decrease bank performance, resulting decrease in return obtained by the investor.

These related researches indicate variation in their result, or in other words, different research variables cause difference research result. Therefore, this research attempts to review the simiar topic but with presenting new data in order to show new results as well. This research is guided by the following questions:

- Does non performing loans have significant effect on stock return at conventional bank?
- Do operating cost and operating income have significant effect on stock return at conventional bank?
- Does loan deposit ratio have significant effect on stock return at conventional bank?

METHOD

This research is quantitative in nature, by focusing on theory testing with variables and data analysis tool. The relationships between variables are tested by using hypotheses testing. The research was conducted in Indonesia Stock Exchange using secondary data in form of annual financial report of 2009, 2010, and 2011. The banking financial statements were obtaind from BEI Corner of Brawijaya University. Criteria for target population are as follows:

- Banking financial statements listed on Indonesia Stock Exchange;
- Financial statement with final date December 31, 2009–2011 and had been published by an audited banking company
- Positive equity held by bank in 2009–2011
- Banking financial report for 2009–2011 that earned positive profit.

Based on these criteria and target population, the number of population was 19 banks (3 state-owned banks and 16 private banks). The state-owned banks are BRI, BNI, and Mandiri, and the private banks are BCA, Artha Graha International, Victoria International, Bukopin, Bumi, Capital Indonesia, Danamon, Ekonomi Raharja, Association, ICB Bumiputera, Kesawan, Mayapada International, Mega, Nusantara Parahyangan, OCBC NISP, and Permata.

This research used pooled data from 2009 to 2011. According to Ghozali (2011), pooled data are data combining two elements, which are time series and cross sectional. Pooled data or panel data were obtained by combining time series data from 2009 to 2011 and a cross sectional samples from 19 banks, so the total number of observed data was 57 observations.

Technique of data collection used in this research was documentation technique in form of financial statements and Indonesian Capital Market Directory (ICMD) in banking from 2009 to 2011. These financial data were already through annual financial statements review.

The research variable used first was stock return. Return implies equivalent exchange from investment. Stock return is divided into two, namely realized return and expected return. (Khadaffi & Syamni, 2011).

$$Rt = \frac{Pt - (Pt - 1)}{Pt - 1}$$

Stock return : Rt
Stock price during certain period : Pt
Stock price with previous period : Pt – 1

Asset quality was measured by using non-performing loans, which is the ability of bank management to manage non-performing loans granted by banks. In this case, loan is all credits given to third parties excluding credit to other banks (Kasmir, 2011).

$$\text{Non performing loans: } \frac{\text{Troubled loan}}{\text{Total kredit}}$$

Management was measured by using ROA as the ratio used to measure *management* in order to find out how much bank operating expense compared to bank operating income at the end of each year. It is a bank management's responsibility to control operating expense towards operating income (Kashmir, 2011).

$$\text{BOPO} = \frac{\text{Operating expense}}{\text{Operating income}}$$

Liquidity was measured by using loan-deposit ratio, which is the ratio between the amount of funds distributed to the public (credit) with the amount of public funds and equity used (Kashmir, 2011).

$$\text{Loan deposit ratio} = \frac{\text{Total loans}}{\text{Total deposit + equity}}$$

The analysis was performed to measure relationship between variables (asset quality) of non-performing loans, (management of) operating expenses towards operating income, and (liquidity) loan-deposit ratio towards stock return variable. This current research aimed to determine the effect of independent variables on dependent variable using multiple linear regression model as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Stock return = Y
Constant = β_0
Coefficient regression = $\beta_{1\text{-}3}$
Non Performing Loans = X_1
Operating expense operating income = X_2
Loan to Deposits Ratio = X_3
Disturbance = e

RESULT AND DISCUSSIONS

a. Dependent Variable: Stock

Table 1 shows the regression result with the equation of Stock Return = 0.525 + 0.026 NPL + 0.108 BOPO - 0.562 LDR + 0.222, which means that when NPL, BOPO, and LDR are equal to 0 (Zero) then the value of Stock Return is 0.525. Based on Table 1, t-counting of NPL variable was 0952 with a significance level of (α) 0.345 and $t_{table\ (0.025;\ 53)}$ of 2,021, which

Table 1. Result of Coefficients[a] Hypothesis Test

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1 (Constant)	.525	.222		2.358	.022	.078	.971					
NPL	.026	.027	.118	.952	.345	-.029	.081	.067	.130	.115	.958	1.044
BOPO	.108	.030	.443	3.629	.001	.048	.168	.413	.446	.439	.983	1.018
LDR	-.562	.311	-.225	-1.808	.076	-1.186	.062	-.146	-.241	-.219	.943	1.060

a. Dependent Variable: Stock

means that the hypothesis that states the more the NPL increases the lower the stock return was rejected. This result shows different result compared to previous related researches such as Khadaffi and Syamni (2011), Syauta and Widjaja (2009) which state that the more the NPL decreases, the more the stock return increase.

This result difference shows that variation in research results can be resulted from different sampling taken from different years. Several researches show positive result, that is, the more the NPL decreases the lower the stock return and vice versa. However, this research shows diferrent result than the previous researches, since the increased NPL not necessarily means low stock return.

Based on Table 1, the obtained $_t$ value of BOPO variable amounted to 3.629 with a significance level of (α) 0.001 and $t_{table\ (0.025;\ 53)}$ of 2,021, which means that the hypothesis states that the lower the BOPO the greater the stock return receive was accepted. This result supports research results of Kuspita (2011) and Anisma (2012) which state that BOPO must be considered if we want to get the desired profit through business. This result also supports previous researches that the lower the operating expense and operating income (BOPO), the more it gives difference of profit from stock returns since all banks in this research are categorized in open company with share ownership.

Table 1 also shows that the obtained t_{count} on LDR variable was -1808 with a significance level of (α) 0.076 and $t_{table\ (0.025;\ 53)}$ of 2,021, which means the hypothesis states that the higher the LDR the more the stock decrease was rejected. This difference in results suggests that low LDR performance not necessarily decreases stock returns, or vice versa. In other words, LDR not necessarily shows positive effect in supporting the increase and decrease of stock return.

Later, Table 1 shows that LDR and NPL variables have no effect on stock return, which means that those two variables have no effect on increase and decrease of stock return at conventional banks in this research. Although there are differences in results with some previous studies, this research proves that stock return is not always affected by NPL and LDR.

The most dominant variable in this study is BOPO, as the only independent variable that affects the dependent variable. Yet another fact in the results of this study based on Table 1 shows that NPL, BOPO, and LDR have simultaneous effect on stock returns, means that if the tests are done simultaneously, these three independent variables have significant effect on stock return of conventional banks. These results support previous research findings that show similar results. F_{count} of NPLs, ROA, and LDR simultaneously at 5,094 with significance level (α) 0.004 and $F_{table\ (0,025;\ 54)}$ of 2.780.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

- Non Performing Loans does not affect stock return.
- Operating Expenses and Operating Income (ROA) has significant effect on stock return. This result supports previous researches that the lower the operating expense and operating income (BOPO), the more it gives difference of profit from stock returns since

all banks in this research are categorized in open company with share ownership.

- Loan to Deposits Ratio (LDR) does not have a significant effect on stock return. This result suggests that low LDR performance not necessarily decreases stock returns, or vice versa. In other words, LDR not necessarily shows positive effect in supporting the increase and decrease of stock return since the research result showed LDR has no effect on stock return.

Recommendations

- Although NPL does not have effect on stock return, it is advisable for banks to maintain non-performing loan levels in accordance with the regulations of Bank of Indonesi, which is lesser than or equal to 5%.
- BOPO affects the stock return, therefore conventional banks need to pay close attention to management or operational cost efficiency and maximize operating income.
- Although LDR has no effect on stock returns does not mean that the bank does not have to worry about liquidity, but liquidity turnover rate should be maintained to avoid idle funds which can cause cash flow imbalance.
- BOPO becomes the only variable that affects stock return so it needs to be considered and well managed in order to maintain efficient operating expense.

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