ABSTRACT

This research is conducted to analyze the influence of market share, competition, diversification, capitalization (equity to total asset ratio), credit risk (non performing loans), and size toward Return on Asset (ROA) as a measure of bank profitability.

The empirical analysis covered the period from 2009 to 2013. Using purposive sampling method, the sample in this study are 19 conventional commercial banks in Indonesia with the largest market share on deposits. The data for the study were obtained from secondary sources including the annual reports and financial statements of the selected banks. Ordinary Least Square (OLS) method of multiple linear regression was employed for the data analysis.

Results of this research show that all the independent variables have significant effect on ROA. The effect of variables such as market share, HHI DIV, Lerner Index (LI), Equity to total asset ratio (EAR), and Size on ROA are positive and significant. While there is a negative and significant relationship between credit risk (NPL) and ROA. The results also indicate that the Indonesian commercial banking industry has become more competitive. The empirical evidence of the relationship between market structure and bank performance has shown that there is a strong support for the theory of Relative Market Power. The coefficient of adjusted R^2*, which indicates the quality of fitness of the model, shows that about 64,08% of the changes in ROA are caused by the combined influence of the independent variables.*

Key Words: *Relative Market Power, Profitability* (ROA), *Market Structure, Competition, Diversification,Capitalization, Credit Risk, Size, Bank*