ABSTRACT

This study aims to analyze the determinants of capital buffer on 16 Biggest comercial banks in Indonesia. Research model based on Ayuso, et al. (2004), Tabak, et al. (2011), and Jokipii and Milne (2008). The model consists of 5 independent variables that are Return on Equity (ROE_{t-1}), Non Performing Loan (NPL), Increment of Capital Buffer (IncrBUFF), Loans to Total Assets (VLOAN), and Bank's Share Assets (BSA) and one dependent variable which is Capital Buffer (BUFF).

This study conducted for the period 2004-2010. The empirical result showed capital buffer is affected mainly by two variables: Non Performing Loand and Increment of Capital Buffer. NPL positive sign signaling that comercial banks adopt a conservative behavior and do not take risks. Return on Equity (ROE_{t-1}) affected negaively to capital buffer, it is signaling that comercial banks in Indonesia may have unlimited acces to external capital and/or prefer their financing from equity. Loans to Total Assets (VLOAN) have negative and significant on influencing capital buffer, it also signaling that comercial banks in Indonesia use “bacward-looking” strategy by reducing their capital buffer during the boom of credit activities. Bank's Share Assets (BSA) finding is supporting Too Big To Fail (TBTF) nature that suggest the large banks tend to maintain their capital buffer lower than small banks.

Keywords : Capital Buffer, ROE_{t-1}, NPL, Increment of Capital Buffer, Loans to Total Assets, bank's Share Assets.