SUMMARY

RESANDY HERLAMBANG. Analysis of Bond Characteristics on Bond Return in The Banking Industries 2010-2013. Supervised by NUNUNG NURY ARTONO and TRIAS ANDATI.

Capital market is a way to obtain long term financing by traded the financial instrument. One of the financial instrument that bought and sold in the capital market is a bond. Bond is a debt security that issued by government or corporate that require the issuer to make payments periodically. Bond market has an important role as an alternative financing in the long term and has increased over the last years, its development can not be separated from the gap between interest rate in bond and interest rate in bank, the company would get the advantage through offering bond. In addition, investors will get the advantage too if they invested in bond.

The banking industries are one of the most important actor in the economy of a country, both public and industry needs its service to support their business activities. This sector is very sensitive with the changes in interest rate, it will adjust if there is a change in interest rate so it will affect on return. Based on statistik perbankan Indonesia 2013, net interest margin has decreased over the last five years so this situation will affect on its profitability. Moreover, the structure of financing in bank regarding on the proportion among short term funding and lending that not suitable can cause a mismatch risk seeing that the financing of bank comes from third parties in which the fund can be withdrawn by depositor at any time, so this can lead to an inability bank as a financial intermediary function. Therefore, financing through offering bond will strengthen their capital structure. The growing conditions in the Indonesian corporate bond transactions from time to time showed that corporate bonds, especially in the banking industries are increasingly in demand despite the profitability of bank has decreased, therefore, needs to be known the determinants of bond characteristics on bond return.

One of the factors that need to be considered in a bond is the interest rate, the bond is very susceptible to change in interest rates because it can have an impact on bond price changes and will also impact on bond return. Another factor that has an influence on bond returns are the maturity period, default risk and financial information. The length of time to maturity will be very sensitive to price changes, this is due to changes in interest rates over the maturity period. Price changes can be measured by duration, because duration is a proxy of maturity risk and the effective tool in measuring maturity of the bond. Default risk is the uncertainty from the possibility of default by the issuer. Investors can determine the financial strength and risk by considering the potential future bond ratings that issued by rating agency securities. High or low level of risk may play a role in determining bond ratings, so the bond rating can give an idea of the risk of default. Investors may consider financial information through a debt-to-equity ratio (DER). DER is an indicator of capital structure and financial risk, which is the ratio between debt and equity. Referring to the above problems, this study aims to analyze the
development of bond returns and analyze the factors in bond characteristic that important in bond returns on the banking industries.

Return measured by using the formula of Gebhardt et al. (2003). Sampling method used with purposive sampling which has 5 criteria. The sample of this study amounted 14 bonds from 23 total population of bonds in the banking industries 2010-2013.

During the study period, the level of the highest and lowest bond returns are not owned by the same bonds but different in each period. The increase in bond returns occurred from the period of 2010 and 2011 and then moved down at the end of 2012 and continued to decline until 2013. The movement bonds return banking industries are experiencing fluctuation caused by the influence of the characteristics of the bond itself, such as the interest rate (BI rate), the price of the bond, yield to maturity, rating, and maturity period (duration).

This study uses a model of random effect, that has $R^2$ value of 73.62 percent, which means that the independent variables can explain the effects on bond returns at 73.62 percent. Simultaneously (F test) showed that all the independent variables have an influence on the dependent. Partially (t test), there are three variables that have effect on the dependent variable, there are yield to maturity, interest rate, and duration. While rating and debt to equity do not affect on bond return.

**Keywords:** bond characteristics, bond return, corporate bond