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THESIS

COMPARING THE FINANCIAL PERFORMANCE OF ISLAMIC BANKS IN MALAYSIA AND INDONESIA DURING 2004-2008

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ABSTRACT

The aim of this research is to examine whether there are any significant differences on Financing to Deposit Ratio (FDR), Return On Assets (ROA), Return On Equity (ROE), Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), Net Profit Margin (NPM), and Operating Efficiency Ratio (OER), Cash Flow Adequacy Ratio, Cash Flow Return on Asset, and Operating Index of Islamic banking in Malaysia and Indonesia. The populations are all Islamic Bank in Malaysia and Indonesia. The research design involves a sample including 2 Islamic Bank in Indonesia and 2 Islamic Bank in Malaysia which are issued annual report on 2004-2008. The samples are selected by using purposive sampling method. Independent Sample T-Test of SPSS version 15 is used for analyzing the samples. The results can conclude that Islamic Bank in Indonesia are better and significant than Islamic Bank in Malaysia on ROA, ROE, CAR, NPF and Islamic Bank in Malaysia are better and significant than Islamic Bank in Indonesia on FDR.

Keyword: Islamic Bank, Financial Performance, Independent Sample T-test

CHAPTER I

INTRODUCTION

1.1 Problem Background

The Islamic banks exist since the early 1960s. The first Islamic bank was established in 1963 as a pilot project in the form of rural savings bank in a small town of Egypt, Mit Ghamr. After that, the movement of Islamic banking came back to life in mid 1970s. The establishment of Islamic Development Bank in 1975 triggered the development of Islamic banks in many countries, such as Dubai Islamic Bank in Dubai (1975), Faisal Islamic Bank in Egypt and Sudan (1977), and Kuwait Finance House in Kuwait (1977). By the end of 2005, more than 300 institutions in over 65 jurisdictions are managing assets worth around 700 - 1000 billion US dollars in a *Shariah* compatible manner. A large part of the banking and Takaful is concentrated in Bahrain, Malaysia, and Sudan. A significant part of mutual funds concentrate in the Saudi Arabian and Malaysian markets in addition to the more advanced international capital markets[1].

In Malaysia, Islamic financial institutions exist since the establishment of the Pilgrimage fund board in 1969. Malaysia started the establishment of Islamic bank, Bank Islam Malaysia Berhad or BIMB, in 1983. To accelerate the nationwide dissemination of Islamic banking, Bank Negara Malaysia or BNM (the central bank of Malaysia) implemented Islamic banking scheme or Islamic windows structure, which allow the conventional banks to offer

[1] Ascarya Diana Yumanit *Comparing the Efficiency of Islamic Banks in Malaysia and Indonesia*

Islamic banking products and services using their existing infrastructure including staff and branches. Today, Islamic financial system in Malaysia has emerged as important component that contributes to the growth and development of Malaysian economy by diversifying the players encompasses the domestic as well as the foreign banking players. The Islamic banking system in Malaysia is represented by 29 Islamic banking institutions comprising of 2 Islamic banks, 2 Islamic subsidiaries and 25 Islamic banking scheme banks. Moreover, Islamic banking in Malaysia has reached more than 10% of the banking market share. It is envisioned in the Financial Sector Master Plan (FSMP) that the Islamic banking industry in Malaysia would achieve 20% of the banking market share in 2010[1].

In Indonesia, Islamic financial institutions started to emerge in early 1980s with the establishment of Baitut Tamwil-Salman in Bandung and Koperasi Ridho Gusti in Jakarta. The first Islamic Bank in Indonesia, Bank Muamalat Indonesia, was established in 1992. The development of Islamic bank has been accelerated since Bank Indonesia (the central bank of Indonesia) allowed conventional banks to open Islamic branch. This Islamic branch can offer Islamic banking products and services separated from its conventional parent with its own infrastructure, including staff and branches. The Islamic banking system in Indonesia is currently represented by 3 Islamic banks and 19 Islamic branches, and 105 Islamic Peoples Credit Bank, with 620 offices and 439 office channeling spread throughout the country. They offer comprehensive and wide range of Islamic financial products and services and cater 1.54% of the banking market share. It is expected that the Islamic

CHAPTER V

CONCLUSIONS

5.1 Conclusions

When viewed from the development, the financial development of Islamic banks in Indonesia is more stable for Financial Deposit Ratio (FDR), Return on Asset (ROA), Return on Equity (ROE), Non Performing Financing (NPF), Net Profit Margin (NPM), Operating Efficiency Ratio (OER), Cash Flow Adequacy Ratio (CFAR), Cash Flow on Return Asset (CFRA). This indicates that Islamic banks in Indonesia are able to maintain better performance indicators. Meanwhile, the financial development of Islamic banks in Malaysia is more stable for Capital Adequacy Ratio (CAR) and Operating Index (OI).

Therefore, from this research, the researcher can conclude that Islamic banks in Indonesia are better than Islamic banks in Malaysia because from Return on Asset Ratio, Islamic banks in Indonesia converted the money more effectively; it has to be invested into net income than Islamic banks in Malaysia.. Islamic banks in Indonesia is more profitable because they can maximize the use of equity to get more profit. It can be seen from Return on Equity. Non-Performing Financing Islamic banks in Malaysia indicates that Islamic banks in Malaysia take more risk in their operations and investment, because their NPF are higher than NPF of Islamic banks in Indonesia. But

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