FINANCIAL PERFORMANCE OF ISLAMIC BANKING AFTER THE GLOBAL FINANCIAL CRISIS: A COMPARISON BETWEEN ISLAMIC COMMERCIAL BANKS AND ISLAMIC BUSINESS UNIT BANKS IN INDONESIA

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ABSTRACT

The global financial crisis has affected some industries or non-industries around the world. It has also impacted to Islamic banking in Indonesia, especially after 2007-2008. It has been recorded the Islamic banking industry in Indonesia shows a speedy recovery from the impact of the global financial crisis. Thus, this study aims to evaluate and examine the differences of Islamic banking's financial performance after the global financial crisis in Indonesia. The financial performances in this study are profitability ratio (Return on Asset (ROA) and Return on Equity (ROE)), liquidity ratio (Financing to Deposit Ratio (FDR) and Current Asset Ratio (CAR)) and solvency risk ratio (Equity Multiplier (EM) and Debt to Equity Ratio (DER)). The samples in this study are the six Islamic banks from Islamic Commercial Banks (*Bank Usaha Sharia* (BUS)) and Islamic Business Unit Banks (*Unit Usaha Sharia* (UUS)) in Indonesia. Based on the results shows by the descriptive statistic, UUS is more effective in using their assets to generate income compared to BUS, but BUS is greater to manage their financing and more liquid than UUS whose has higher risk than BUS during 2009-2013. Independent sample t-test shows that there is significant difference in terms of profitability, liquidity and solvency risk ratio between BUS and UUS Indonesia during 2009-2013.

Keywords: Financial Performance, Global Financial Crisis

ABSTRAK

Krisis kewangan global telah menjejaskan beberapa industri mahupun bukan industri di seluruh dunia. Ia juga memberi kesan kepada perbankan Islam di Indonesia, terutama selepas 2007-2008. Ia telah direkodkan bahawa industri perbankan Islam di Indonesia menunjukkan pemulihan yang cepat daripada kesan krisis kewangan global. Oleh itu, kajian ini bertujuan untuk menilai dan mengkaji perbezaan prestasi kewangan perbankan Islam selepas krisis kewangan global di Indonesia. Prestasi kewangan dalam kajian ini adalah nisbah keuntungan (Pulangan atas Aset (ROA) dan Pulangan atas Ekuiti (ROE)), nisbah mudah tunai (Pembiayaan untuk mendepositkan Nisbah (FDR) dan Nisbah Asset Semasa (CAR)) dan nisbah risiko kesolvenan (Ekuiti Multiplier (EM) dan Hutang kepada Ekuiti Nisbah (DER)). Sampel dalam kajian ini adalah enam bank Islam dari Bank Islam Perdagangan (Bank Usaha Sharia (BUS)) dan Unit Usaha Islam Bank (Unit Usaha Sharia (UUS)) di Indonesia. Berdasarkan keputusan bahawa statistik deskriptif, UUS adalah lebih berkesan dalam menggunakan aset mereka untuk menjana pendapatan berbanding BUS, tetapi BUS adalah lebih besar untuk menguruskan pembiayaan mereka dan lebih cair daripada UUS yang mempunyai risiko yang lebih tinggi daripada BUS semasa 2009-2013. "Independent sample t-test" menunjukkan bahawa terdapat perbezaan yang signifikan dari segi nisbah risiko keuntungan, kecairan dan kesolvenan antara BUS dan UUS Indonesia semasa 2009-2013.

Kata Kunci: Prestasi Kewangan, Krisis Kewangan Global

ACKNOWLEDGEMENT

In the name of Allah, the Most Gracious, the Most Merciful

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LIST OF ABBREVIATIONS

AIG	American International Group
BI	Bank Indonesia
BMI	Bank Muamalat Indonesia
BNIS	Bank Negara Indonesia Sharia
BPS	Bank Permata Sharia
BPR	Rural Banking (*Bank Perkreditan Rakyat*)
BPR	Islamic Rural Banking
BRIS	Bank *Rakyat* Indonesia Sharia
BSM	Bank Sharia Mandiri
BTNS	Bank Tabungan Negara Sharia
BU	Commercial Banking (*Bank Umum Nasional*)
BUS	Islamic Commercial Bank (*Bank Umum Sharia*)
CAR	Current Assets Ratio
CIMBNS	Bank CIMB Niaga Sharia
DER	Debt to Equity Ratio
DPK	Financing of the fund third
DSN	National Sharia Board (*Dewan Sharia National*)
EM	Equity Multiplier
FDR	Financing of Deposit Ratio
GIFR	Global Islamic Financial Report
IDB	Islamic Development Bank
ICMI	Indonesian Association of Muslim Intellectuals
IFCI	Islamic Finance Country Index
LDR	Loan-to-Deposit Ratio
LoLR	Lender of Last Resort
MBL	Meezan Bank Limited
MUI	Indonesian Islamic Scholar Council (*Majelis Ulama Indonesia*)
NIM	Net Interest Margin
NPF	Non-Performing Financing
PLS	Profit and Loss Sharing

ROA	Return on Asset
ROE	Return on Equity
UUS	Islamic Business Unit Bank (*Unit Usaha Sharia*)
US	United Stated

CHAPTER ONE

INTRODUCTION

1.1 Introduction

The global financial crisis has affected some industries or non-industries (also bank) around the world. It has also impacted to Islamic banking in Indonesia, especially after 2007-2008. This chapter introduced the background of the financial performance of Islamic banking after the global financial crisis in Indonesia where this study was conducted. The chapter consists of nine parts, which started from the problem statements, the research questions and objectives, followed by the significance of the study, the scope of the study, and the organization of the study and conclusion.

1.2 Background of the Study

Few years ago, the global financial crisis had been started from the United States and some developed countries. It has also impacted the financial crisis in some Asian countries. Alasrag (2010) said that the crisis since July 2007 can attract by the liquidity crisis because the United States lost their confidence in mortgage credit market. Usmani (2010) also stated the same things if the financial crisis in 2007-2008 can be stop the whole economic around the world rapidly. The global financial crisis gave bad impact not only for non-bank but also for the financial in bank.

The global financial crisis in the United States affected some countries like Russia, Denmark, United Kingdom, France, and Germany, then also in Asia Pacific countries like China, Taiwan, Singapore, Japan, and Australia. This situation automatically impacted Indonesian investment industries in finance institution in the United State. Financial industry or non-banking which were allocate their assets for getting income by capital share or obligation in foreign finance instrument, for examples City group, UBS, Merril Lynch, American International Group (AIG), etc., (Sudarsono, 2009). He also stated that, the direct impacts of the global financial crisis are the decrease of the liquidation and the increase of the commodity prices. Meanwhile, the exchange rate was very weak and caused the income capital ran slowly. The other impacts were the little number of consumers and investors conducted their business and some banks have had collapse and bankrupt. While the Indonesian economy was affected by the global financial crisis but nevertheless Indonesia was able to keep positive economic growth rates (Tambunan, 2010).

In short means, Indonesia recovered quickly after being hit hardly and contagious from the global financial crisis. To overcome this crisis, Bank Indonesia (BI) took several steps, namely strengthening the banking sector liquidity, increasing the number of credit demand at an appropriate level to support economic growth targets, and applying some policies related to the balance of payments. The policies implemented were targeted to strengthen banking sectors to anticipate the impact of the global liquidity drying, to support economic growth pursued credit growth is maintained at a fixed level, and seek funding to reduce the budget deficit of the state of non-market sources, such as sources of bilateral and multilateral (Sudarsono, 2009).

The evident to recover the global financial crisis quickly was because Indonesia at that time has had the Bank Muamalat Indonesia where the only one bank that was stable in terms of financial performance. While in 2009, Indonesia's stock market was one of the best performing indices (Indonesia Monetary Fund; Executive Summary, 2010).

In the assessment of the Global Islamic Financial Report (GIFR) in 2011, Indonesia ranked fourth country that has potential and conducive to the development of the Islamic finance industry after Iran, Malaysia and Saudi Arabia (Figure 1.1).

Country	Value
Iran	63
Malaysia	40
Saudi Arabia	35
Indonesia	29
United Arab Emirates	26
Kuwait	26
Pakistan	26
Bahrain	22
Bangladesh	16
Sudan	14
India	12
Qatar	11.2
Eqypt	10.7
Turkey	10.4
United Kingdom	8.8
Algeria	4.2
Syria	4.1
United Stated of America	4
Yemen	3.95
Jordan	3.91
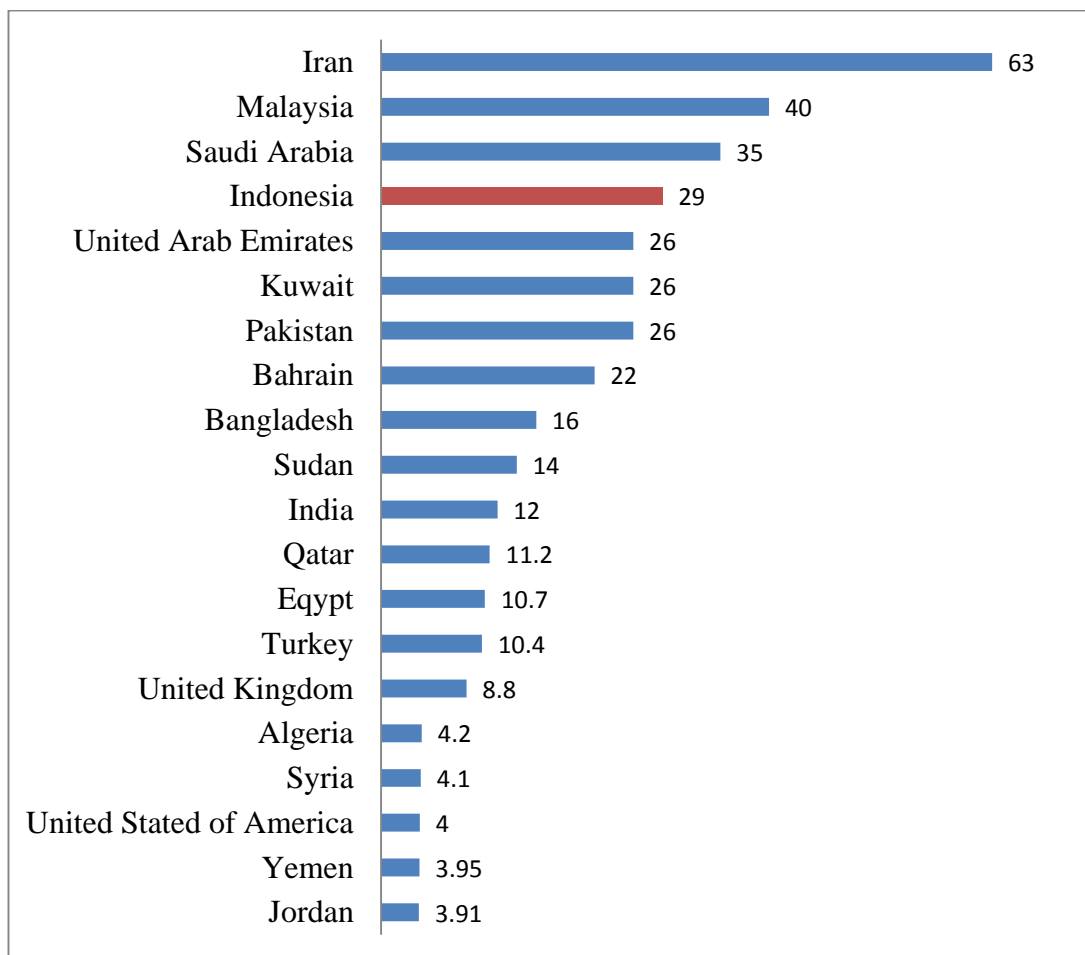
Figure 1.1
Global Islamic Financial Report (GIFR) in 2011
Source: Hussain, 2014

By looking at some aspects of the calculation of the index such as the number of Islamic banks, the number of non-bank financial institution of sharia, or Islamic finance asset size in Indonesia is projected to rank first in the next few years (Hussain, 2014). This optimism is in line with the pace of institutional expansion and acceleration of the growth of Islamic banking assets are very high, coupled with *sukuk* issuance volume continues to increase. So, Figure 1.1 as the other evidence showed that Islamic banking in Indonesia was qualified to cover the global financial crisis quickly.

As a Muslim-majority country, Indonesia should be one of example to develop the Islamic financial based fully for Islamic banking around the world. In Indonesia, the Islamic financial authorities to issue fatwas are centralized by the National Sharia Board (*Dewan Sharia National*: DSN) - Indonesian Islamic Scholar Council (*Majelis Ulama Indonesia*: MUI) (Ayu, 2012), which is an independent institution.

Islamic banking is a bank based on Sharia rules and also follows Sharia principles which are no usury (*riba*), uncertainty (*gharar*), and speculative (*maysir*) (Noor, 2006). The main issue that make difference between Islamic banking and other banking systems are, as we know that Islamic banking is free from interest, uncertainty and gambling. In addition, the prohibition of the interest has already stated in Al Quran:

اَلَّذِينَ يَأْكُلُونَ الرِّبَوٰا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِى يَتَخَبَّطُهُ الشَّيْطَنُ

مِنَ الْمَسِّ ذَٰلِكَ بِأَنَّهُمْ قَالُوٓا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَوٰا وَأَحَلَّ اللَّهُ الْبَيْعَ

وَحَرَّمَ الرِّبَوٰا فَمَن جَآءَهُۥ مَوْعِظَةٌ مِّن رَّبِّهِۦ فَانتَهَىٰ فَلَهُۥ مَا سَلَفَ وَأَمْرُهُۥٓ

إِلَى اللَّهِ وَمَنْ عَادَ فَأُو۟لَٰٓئِكَ أَصْحَٰبُ النَّارِ هُمْ فِيهَا خَٰلِدُونَ ﴿٢٧٥﴾

"Those who devour usury will not stand except as stand one whom the Evil one by his touch Hath driven to madness. That is because they say: "Trade is like usury," but Allah hath permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for Allah (to judge); but those who repeat (The offence) are companions of the Fire: They will abide therein (for ever)." (2:275).

In Article1 No. 13 Constitution No. 7 in 1992 (Constitution of Indonesia Republic, 1992), said:

"Sharia principle is the rule of Islamic law based on the agreement between the bank and other parties to save money and or financing business activities, or other activities stated in conformity with sharia, for example, financing based on the profit sharing (*Mudarabah*), financing based on the principle of equity (*Musharakah*), the principle of buying and selling goods with profit (*Murabah*), or financing of capital goods is based on the principle of pure rental without option (*Ijarah*), or with the choice of transfer of ownership of the leased goods from the bank by another party (*Ijarawaiqtina*). "

In an Article 1 No. 12 Constitution No. 21 in 2008 (Constitution of Indonesian Republic, 2008), Sharia principle is defined as:

"Sharia principle is the principle of Islamic law in banking activities based on the fatwa issued by the agency that has authority in the determination of the fatwa in sharia field."

Means, in collecting asset or saving also in service quality in Islamic bank must based on transaction (*aqad*) in Islamic rules or appropriately as fatwa from DSN MUI. In an Article 2 Regulation of BI No.9/19/PBI/2007 affirmed that the fulfilment of Islamic principles by justice (*'adl*), balance (*tawazun*), benefit (*maslahah*), and universalism (activities around the globe).

According to Noor (2006), Bank Muamalat Indoneisa which was established in 1992 and the first Islamic bank as follow Islamic rules in Indonesia, where the MUI as the initiator to Bank Muamalat Indonesia's establishment, and the president Soeharto has contributed as the main initiator, and ICMI (Indonesian Association of Muslim Intellectuals, 2014) also participated as a supporter of Bank Muamalat Indonesia establishment (Bank Muamalah, 2012).

Since that time, other Islamic bank such as BRI Sharia (Bank Rakyat Indonesia Sharia), Bank Sharia Mandiri, BNI Sharia (Bank Negara Indonesia Sharia) are operating in Islamic Commercial Bank system (after this, Islamic Commercial Bank system the writer writes as the BUS) as state owned Bank. In addition, Indonesia also has Islamic Business Unit Bank (after this, Islamic Business Unit Bank system the writer writes as the UUS) which was established in 1999. The examples of UUS are CIMB Niaga Sharia, Bank Permata Sharia, etc., which are operating as a private owned bank.

Table 1.1
The development of Islamic Banking in 2009-2013

Islamic Bank	2009	2010	2011	2012	2013
Islamic Commercial Bank (BUS)	6	11	11	11	11
Islamic Business Bank Unit (UUS)	25	23	24	24	24
Total of BUS & UUS	998	1477	1737	2262	2461

Source: Bank Indonesia: Statistic of Indonesian Banking 12(1), 2013

Table 1.1 shows the development of BUS and UUS in five years since 2009 until 2013. There were only 6 BUS and 25 UUS in 2009. Later BUS increased significantly in 2010 to 10, but at the same time UUS decreased to 23. In the end 2013 the BUS became 11 and UUS just 24. Next, both of BUS and UUS total offices number increased gradually from 2009 to 2013.

Table 1.2
The Growth of Assets of Islamic Bank

Growth of Assets of Islamic Banking (Billion Rp)					
Indicator	2009	2010	2011	2012	2013
Islamic Commercial Bank (BUS)	48.014	79.186	116.930	147.581	174.056
Islamic Business Bank Unit (UUS)	18.076	18.333	28.536	47.437	59.074

Source: Bank Indonesia: Statistic of Indonesian Banking 12(1), 2013

Table 1.2 shows the growth of asset of Islamic banking from 2009 until 2013. Both BUS and UUS significantly increase year by year. It means that, both of them showed the growth of assets of Islamic banking that were very superior at that time.
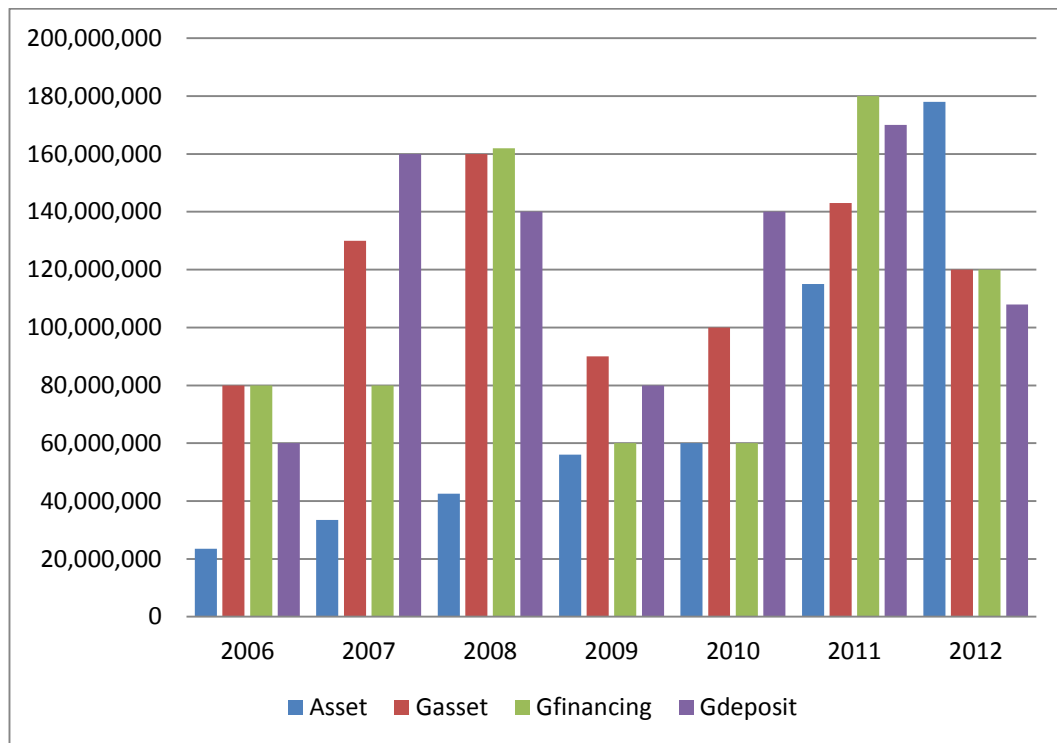
Figure 1.2
Development of Islamic Banking Industries (BUS & UUS)
Source: Bank Indonesia: Outlook perbankan syariah tahun 2013, 2013

Figure 1.2 shows that, before the global financial crisis (in 2006), even during the global financial crisis in 2007-2008 and also after the global financial crisis in 2009 until 2012, both of BUS and UUS show the same fluctuate trends. Up to September 2009 until the first month of 2010, the gross financing decreased slightly until nearly Rp. 60 Million while the gross asset was more than Rp. 100 Million and Rp. 140 Million riched at the peak for the gross deposit at the same time. Nonetheless, the fluctuated trend shows in the Figure 1.2, Islamic banking in Indonesia was trying to cover the problem after the global financial crisis by increasing their asset, gross financing and gross deposit.

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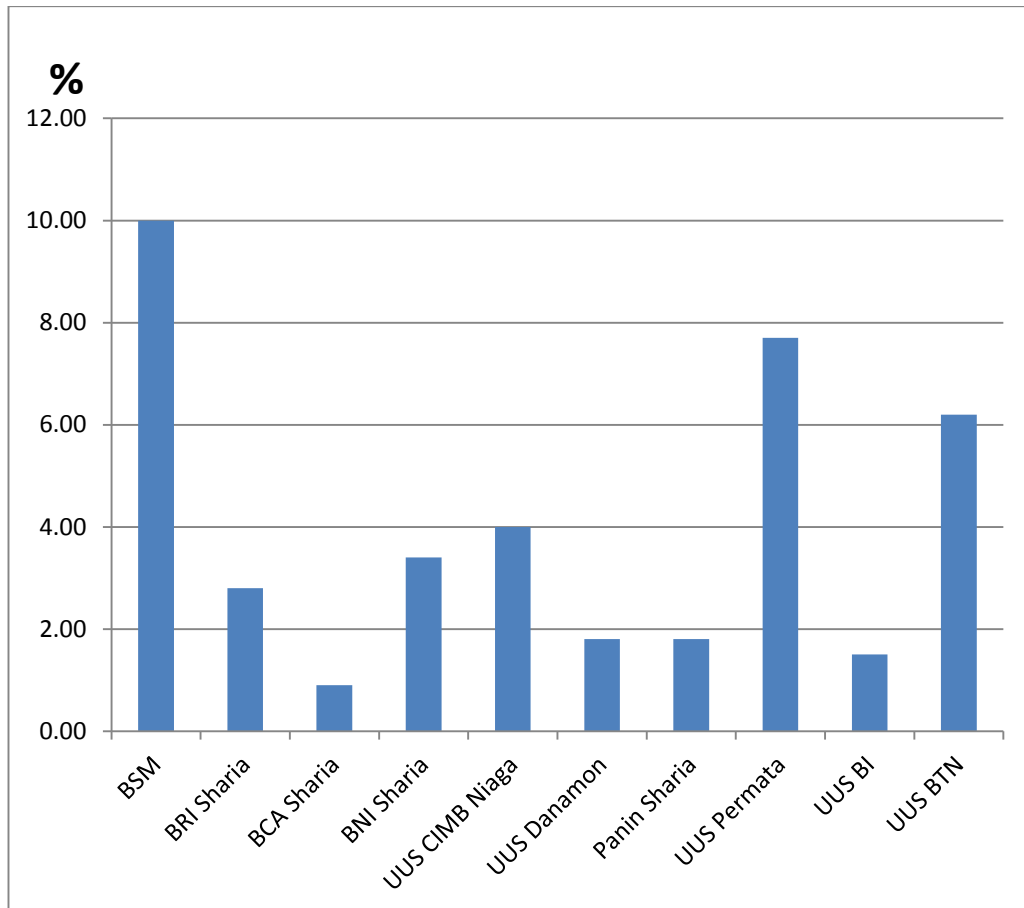
Figure 1.3
Share of Islamic bank with their central bank (September 2012)
Source: Bank Indonesia: Outlook perbankan syariah tahun 2013, 2013

Figure 1.3 shows that the highest percentage of shares in 2012 was BSM which accounted for 10% and the lowest was BCA Sharia at nearly 1%. BSM, BNI Sharia and BRI Sharia recorded among the top 3 level of the higher percentage of BUS. While the highest percentages of top 3 levels as UUS are Bank Permata Sharia, BTN Sharia (Bank Tabungan Negara Sharia), and CIMB Niaga Sharia during the same period. Lastly, 6 numbers of Islamic banks showed terrific in financial performance after the global financial crisis in 2012.
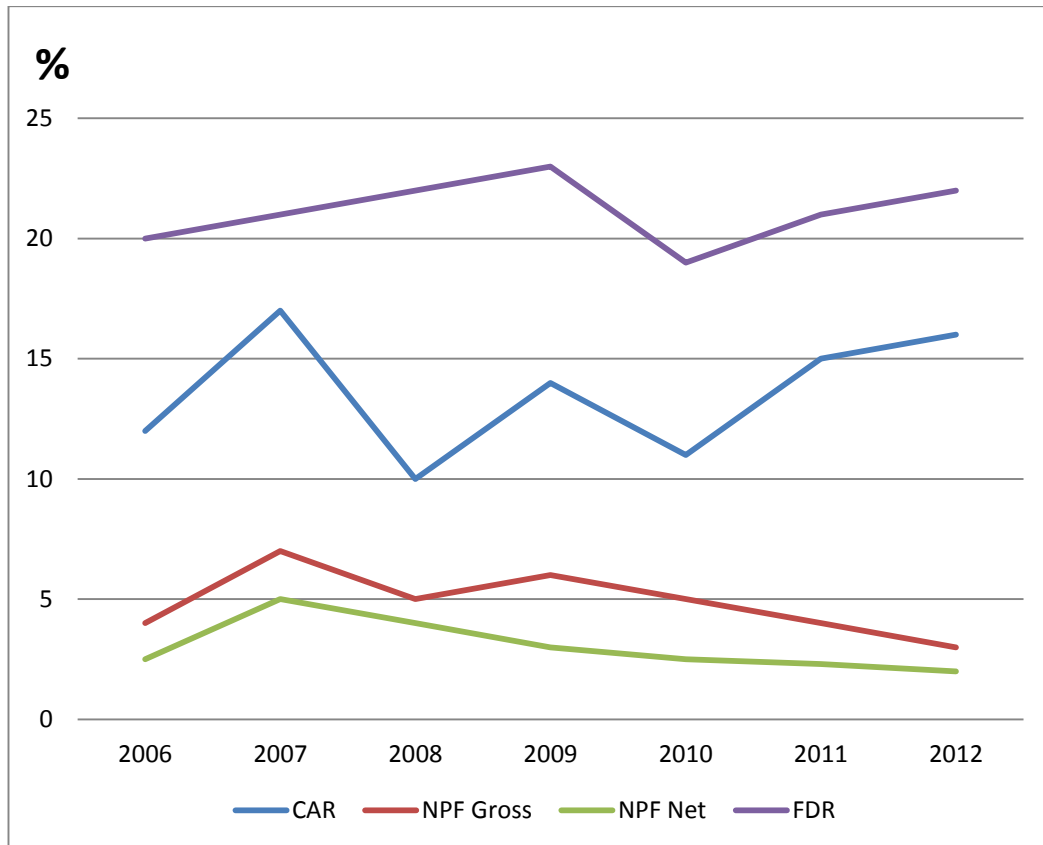
Figure 1.4
FDR, CAR, and NPF of Islamic Banks (BUS & UUS) in 2006-2012
Source: Bank Indonesia: Outlook perbankan syariah tahun 2013, 2013

Figure 1.4 shows that the four ratios (CAR, Gross NPF, NPF and FDR) found to fluctuate every year. The fluctuated significantly was for CAR (Current Assets Ratio) percentage and that also fallen many percentages since of June 2008 until March 2009. Gross NPF (Non-Performing Financing) and Net-NPF were in similar pattern which was accounted to grow at 2.50% in 2006, both of them also recorded a high increased in September 2007, but they decreased slightly at the end of September in 2012. FDR (Financing of Deposit Ratio) percentages were from 20.00 and few fluctuated in the same percentage during the same period. Hence, FDR percentage more important to shows good financial performance of Islamic banking until the end of 2012.

Statistic of Bank Indonesia which was recorded the development of Islamic banking's performance in 2013, shows that the rate of return on assets of Islamic banking reflected by ROA and ROE accounted for 2.11% and 25.51% respectively better than last year decrease from 1.75% and 17.43%. The increase of financing increased followed by remarkable performance as it able to lower the ROA ratio becomes 75.04% compared to 79.17% last year (Bank Indonesia: Outlook of Sharia Banking, 2013).

To sum up of the above phenomena, both of BUS and UUS have the potential to shows their financial performance after the global financial crisis. Their financial performance will comprises in term of probability ratio, liquidity ratio and solvency risk ratio during 2009 until 2013.

1.3 Problem Statement

It has been recorded the Islamic banking industry in Indonesia shows a speedy recovery from the impact of global financial crisis. Islamic banking is managed in the last 4 years showed an increase in significant (mean around 31%), and even the growth of the period 2011-2012 (36.62%) was higher than the growth in the period 2009 to 2010 (24.67%) (Bank Indonesia: Outlook perbankan syariah tahun 2013, 2013).

Al-Qudah and Jaradat (2013) explains that in general, the greater the asset will provide financial services that the larger the customers so that they can move on

financing. In addition, Boyd and Runkle in Al-Qudah and Jaradat (2013) also added that the larger the bank's assets will bring the bank on condition of economies of scale the larger the improvement of profitability of BUS.

According to Bank Indonesia (2012), BUS that recorded the four Islamic banks was good at financial performance criterias, namely Bank Muamalat Indonesia (BMI), Bank Sharia Mandiri (BSM), Bank Rakyat Indonesia Sharia (BRIS) and Bank Mega Sharia (BMS). Bank Shariah Mandiri (BSM) and Bank Muamalat Indonesia were listed as the two largest Islamic banks with total assets of Rp. 55 trillion and Rp. 46 trillion, respectively (Bank Indonesia: Outlook perbankan syariah tahun 2013, 2013).

The numbers of BUS and UUS was not change during 2011 until October 2012, BUS (11 pieces) and UUS (24 pieces). Although, the services needed by the community of Islamic banking was increased widespread. That was as reflected by the increase of the branch office from 452 to 508 offices, while the Branch Office and the Office Cash has increased by 440 offices (from around 300 offices) in the same period (Bank Indonesia: Outlook perbankan syariah tahun 2013, 2013). Overall the number of Islamic banking offices which were operated until at the end of 2013 compared to the previous year increased from 2,262 offices to 2,461 offices. While the development of Islamic banking during the past year, up to 2013 was encouraging. Nonetheless, Islamic banking is able to grew around 37% so that the total assets were up to Rp174.09 trillion. Financing has reached Rp. 135.58 trillion (40.06%) and fund raising be Rp. 134.45 trillion (32.06%) (Bank Indonesia: Outlook perbankan syariah tahun 2013, 2013). Hence, both of BUS and UUS show good financial performance by increased their total offices and also total assets.

Even BUS and UUS also show good financial performance, but there was no previous study shows the best financial performance between both of them after global financial crisis in Indonesia. So that, this study would to evaluate and examine the financial performance of Islamic banking by the probability ratio (ROA and ROE), liquidity ratio (FDR and CAR) and solvency risk ratio (EM and DER).

Bank Muamalat Indonesia, BSM and BRI Sharia are the top 3 levels of the highest percentages as BUS. While the top 3 levels of the higher percentages as UUS were Bank Permata Sharia, BTN Sharia, and CIMB Niaga Sharia in 2012. Thus, the focuses on this study are to evaluate and examine the financial performance of Islamic bank between BUS and UUS after the global financial crisis in Indonesia.

1.4 Research Questions

This research attempts to answer the following questions:

1) How different the profitability ratio (ROA and ROE) between Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013?

2) How different the liquidity ratio (FDR and CAR) between Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013?

3) How different the solvency risk ratio (EM and DER) between Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013?

1.5 Research Objective

The main objectives of this research are to evaluate and examine the financial performance of Islamic banks. Specifically the study attempts to:

1) To evaluate the profitability ratio (ROA and ROE) of Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013.

2) To evaluate the liquidity ratio (FDR and CAR) of Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013.

3) To evaluate the solvency risk ratio (EM and DER) of Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013.

1.6 Significance of the Study

This research deals with financial performance of Islamic bank, focus BUS and UUS after the global financial crisis and the important to evaluate and examine this study.

a) To the bank management

The results regarding to the financial performance of BUS and UUS as Islamic bank will be beneficial for banks to improve their performance in the future. Thus, the outcome of this study will help the banks to evaluate their financial performance by the three ratios, profitability ratio (ROA and ROE), liquidity ratio (FDR and CAR) and solvency risk ratio (EM and DER).

b) To the depositors and investors

This study is beneficial for the depositors and investors to know the performance of the bank after the global financial crisis so that it can help them in terms of decision making and subsequently lead them to perform the rational action.

c) To the research area

This study attempts to identify how the banking industry survives after global financial crisis in Indonesia. Since there is no latest evidence shows that the studies on the particular topic which is the financial performance of Islamic banking in Indonesia after the global financial crisis. So, this research focuses on the comparison between BUS and UUS by showing the differences in term of probability ratio, liquidity ratio and solvency risk ratio.

1.7 Scope of the Study

The discussion on this research will focus on comparative of financial performance BUS and UUS in Indonesia after the global financial crisis (during 2009 until 2013). This study will further to evaluate the financial performance of both Islamic banks and analyse the 3 ratios of financial performance which are profitability ratio (ROA and ROE), liquidity ratio (FDR and CAR) and solvency risk ratio (EM and DER).

However, the variables used in this research involve annual ratios based on financial performance of Islamic bank. A set of data will be analyzed using a descriptive statistic and independent sample T-test of 6 Islamic banks that were chosen based on their characteristics in the period of 2009-2013, slightly after the global financial crisis in 2007-2008.

1.8 Organization of the Study

This study is divided into five chapters. **Chapter 1** provides the background of the research, the problem statement, the research questions, the research objectives, the significance of the study, the scope and limitation of the study, the organization of the study and conclusion.

Chapter 2 contains of the literature review and the previous research related to this research. The review includes discussion of the global financial crisis, Islamic banking and the financial performance.

Chapter 3 describes the methodology used in this research include the research design, the sampling and data collection, the measurement of variable, the method of the data analysis and also the research hypothesis.

Chapter 4 describes the detail of the research finding. The first is profile of respondents, then analyse descriptive financial performance of Islamic banking (BUS and UUS) after the global financial crisis and the results of the hypothesis presented. Lastly, a conclusion of the results is presented at the end of this chapter.

Chapter 5 is summary of the findings of the research followed by discussion. Policy implications and limitations of this research are also discussed. So it has the recommendation for future research.

1.9 Conclusion

This chapter presents a general view about the outline and direction of the research execution. The focus of this chapter is to discuss several questions about the research regarding the global financial crisis of Islamic banking in Indonesia. This chapter consists of the background of the study, the problem statement, the research questions, the research objectives, the significance of the study, the scope of the study, the organization of the study and conclusion.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews previous researches related to this study. The review includes discussion of the global financial crisis, financial performance, and finally Islamic banking. In section one, this chapter will discuss of the global financial crisis such as the global financial crisis in general and its impact on Islamic banks in Indonesia. Second section was discussed Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) as Islamic banking. Lastly, this chapter also include about financial performance of Islamic banking in Indonesia.

2.2 Global Financial Crisis (2007-2008)

The global financial crisis simply means the worth economics' situation in the world, caused by the mortgage market credit in US in 2007-2008. In other meaning, the global financial crisis is a difficult business environment to succeed in since potential consumers tend to reduce their purchases of goods and services until the economic situation improves (Nasso, 2010). Sudarsono (2009) states, the financial engineering instruments in the form of subprime mortgage were causing the financial crisis in the US. Subprime mortgage or letter of credit housing (mortgage) low interest in 2001-2005 led to the increasing demand for home (boom in the housing market).

Subprime mortgage is a letter of credit that can be traded by mortgage giver (mortgage lenders) to another party (collateral debt swap) with interest specific, such as commercial banks. Bank then sells as a portfolio the mortgage to the investment as a bank. The liquidity is needed that make the bank sells the house confiscated with low prices. The inability of the banks to make a profit will disturb the optimal payment of subprime mortgage derivatives that also will disturb the confidence of investors (Outlook of Indonesian Economic 2009-2014, 2009).

Finally, in order to not undermine the liquidity badly, investors are comprised of the large company branches which having the small branches around the world. However, lately, some companies' anticipation eventually went bankrupt because the sale of derivatives does not meet the liquidity needs of this situation shake the US stock market and Europe until finally in Asia (Sudarsono, 2009).

Kassim (2013) was studied the global financial crisis also said, in the countries such as Malaysia, Japan, and the UK, tax preferential measures and banking and financial law amendments have been undertaken to enable financial transactions. With the current developments in the global financial scenario, further efforts have been undertaken to strengthen the foundations the Islamic banking industry to face the new global financial challenges.

In Indonesia, Wijayanthi (2013) stated the crisis does not cause the weaknesses of Indonesian economy fundamentals but mainly that because the private foreign debt has reached large proportions and the US dollar exchange rate was overshooting from the value. That statement was proved by (Sudarsono, 2009), the financial crisis

led to a large number of funds repatriated giving rise to the sale of shares and debt securities in the amount of the big one. The fall in confidence in the domestic market led to a demand against the dollar increases significantly, this means the resulting value of the dollar against rupiah is increasing.

Simorangkir (2011) stated that that the depreciation is also potentially exacerbated by greater than levels of depreciation of currencies outside the dollar and depreciation almost all currencies outside the dollar as the dollar pulled back to back-up liquidity in the US firm. This state makes the dollar more expensive because the dollar is getting scarce and demand dollar was finally increased. The experience the financial crisis of 1998-2003 has brought the world Indonesian banks survived the crisis of 2008. This is due to the crisis 1998 has affected the improvement in some aspects, such as transparency that meet the accountability and effectiveness, professionalism and competence, compliance with banking regulations and the precautionary principle.

Other meaning of financial crisis is a situation in which the value of financial institutions or assets drop rapidly and it is often associated with a panic or a run on the banks, in which investors sell off assets or withdraw money from savings accounts with the expectation that the value of those assets will drop if they remain at a financial institution (Constitution of Indonesian Republic, No 6, 2009). In that situation, all the countries have the same problem how to solve it quickly by any solution where bank or non-bank industry tries to give the solution.
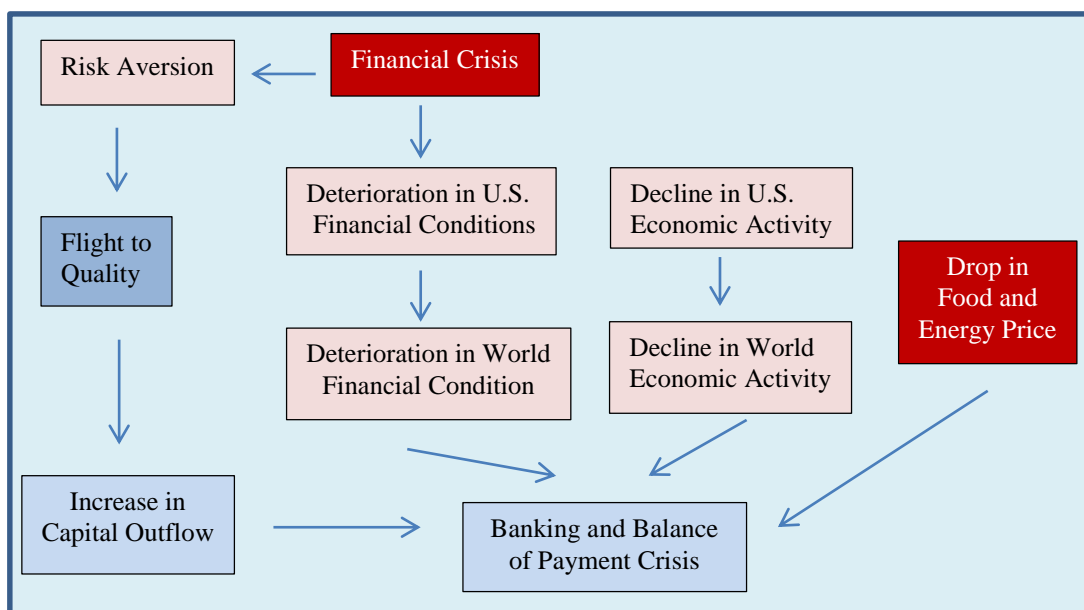
Figure 2.1
Scheme impact on the global economic crisis
Source: Constitution of Indonesian Republic No. 6, 2009.

Figure 2.1 shows the impact of the current global financial crisis which affected various countries including Indonesia, due to interdependency of the global financial system. Responding to the global financial crisis, the Indonesian government continue to anticipate and also responsible to stem the crisis. So that the global financial was stable and the national financial system was maintained (Constitution of Republic Indonesia, No 6, 2009).

However, during the implementation of the LoLR (Lender of Last Resort is an institution, usually a country's central bank, that offers loans to banks or other eligible institutions that are experiencing financial difficulty or are considered highly risky or near collapse) conducted by Bank Indonesia through the provision of credit facilities to distressed banks short-term funding and guaranteed with high quality collateral and liquid, but arrangements regarding the collateral criteria inconsistent with the current economy (Constitution of Indonesian Republic, No 6, 2009).

According to Titiheruw, Soesastro and Atje (2009), up to September 2008, Indonesia's economy was still showing some resilience towards the global financial crisis already underway in the world's most powerful economies. However, during the October-December 2008 period, the country's economy experienced deteriorating economic performance at an unprecedented speed; quarterly economic growth decrease from 6.1% to 5.2% on a yearly basis and export growth was at only 1.82%, the slowest since 1986. With downward revision to the country's economic growth in 2009 to 4-4.7% (previously 5% in 2008), the government plans a fiscal stimulus package to maintain private consumption levels to cushion the impact of the global financial crisis, as domestic consumption has contributed a significant share (65%) of Indonesia's GDP.

On the other side, World Bank in Gutierrez, Paci and Park (2010) stated the global financial crisis has affected Indonesian financial institutions because of a relatively open capital account, significant foreign holdings of equities and debt, the relatively large foreign ownership of Indonesian banks, and the lingering memories of the 1997 Asian financial crisis that has made investors wary of exchange rate volatility.

Then the financial crisis led to Bank Indonesia (BI) raised the Bank Indonesia's rate to curb inflation caused by the falling value of the rupiah against with dollar. The increase of BI rate would respond to the higher interest rate of conventional bank. However, that BI rate increase does not affect in Islamic banks. The trading system in Islamic banks, where margin payments based on a fixed rate which is based contract provisions cannot be changed at that time, but financial crisis possibly will affect the return of Islamic banks as it will affect the industry's outcome to get optimal profit (Sudarsono, 2009).

In keeping liquidity, interest rate remains a benchmark for banks sharia in determining the level of margin and profit sharing ratio of Islamic banks. By lowering financing margin rate than the fee rate / for profit from savings and deposits, the financing in Islamic banks are more attractive for investors than conventional banks. This situation will led to increased funds for financing of the fund third (DPK) incoming and consequently financing deposit ratio (FDR) of Islamic bank would increase. Sometime, that condition will lead the investor run from Islamic banks to conventional banks because they will enjoy the benefits of higher interest compared with Islamic banks. Meaning here, the increase of outflows will increase the liquidity risk of Islamic banks. To cover this situation, Islamic banks need increase the extra rate / fee / profit sharing for checking, savings, and time to deposits (Sudarsono, 2009).

2.3 Islamic Banks

According to Zainol, Shaari and Ali (2009), establishment of Islamic banks is associated with a growing awareness among the people who practice the Islamic way as its way of life and also in other aspects likein the fields of finance and banking.

However, Islamic banks not just provide their services for muslim only but also to non-Muslim customers as well. Its means that, Islamic banking is ideal to all level of society regardless of race.

2.3.1 Background of Islamic Bank

The practice of Islamic banking in the world has existed since the time of Prophet Muhammad (pbuh) around the 7th SM century (Kafabih & Ekawaty, 2014) explains that the Prophet lived since the 7th SM century and has been practicing Islamic economics until the reign of Umar bin Abdul Aziz in which it is said that no one has the right or to accept charity. Bank at the time of the Prophet also perform three main functions, which accept deposits, lend money, and other services such as money transfer services. They also explain that at the time of the Prophet practice usually only done per person and one person only did one task. In the Abbasid era, the individual began to perform banking functions as well as three banks began to evolve with the emergence of various types of currency with precious different metal content and different value.

The word bank is derived from the Italian word which is "*banco*". The word means shelf or bench or money changer utilized to display the coins. Therefore, a bank is an authorized institution to take deposits for the purpose of extending long and short-term financial facilities (Ayub, 2009).

Islamic banking was established as an alternative to conventional banking by Dr. Ahmed Alnajar who conceived the idea from a savings bank in Germany started the Islamic Banking movement that was interest free in the year 1963 in Mit Ghamar a small town in Egypt. Followed by the success of Dr. Alnajar's endeavor other Islamic banks came into existence. In 1971, the Nasser Social Bank was founded in Egypt lending out money on profit and loss sharing basis and helping people in need.

In 1974, the "Islamic Development Bank" (IDB) was established as the first true Islamic bank which now has the membership of 55 countries, and operates from its head office in Jeddah, KSA . In 1975, the concept of Islamic banking spread to United Arab Emirates establishing Dubai Islamic bank and The Islamic Development (IDB) Bank in Jeddah, Saudi Arabia. Islamic Banking is the fastest growing segment of the credit markets in the Muslim countries (Amba & Almukharreq, 2013).

In 1970, Islamic banking was almost unknown and considered to be wishful thinking. By the early years of the twenty-first century, however, Islamic banking has become a reality that cannot be ignored, for it is growing at steady pace (Zainol et al., 2009).

Islamic banking has the same purpose as conventional banking except that it operates in accordance with the rules of Sharia, known as *Fiqh al-Muamalat* (Islamic rules on transactions). The principle source of the Sharia is The Qur'an followed by the recorded sayings and actions of Prophet Muhammad (pbuh) – the Hadith where solutions to problems that cannot be found in these two sources, ruling are made based on the consensus of a community leaned scholars, independent reasoning of an Islamic scholar and custom, so long as such rulings to not deviate from the fundamental teachings in the Qur'an (Siddiqi, 2006).

It is evident that Islamic finance was practiced predominantly in the Muslim world throughout the Middle Ages, fostering trade and business activities. In Spain and the Mediterranean and Baltic States, Islamic merchants became indispensable middlemen for trading activities. It is claimed that many concepts, techniques, and

instruments of Islamic finance were later adopted by European financiers and businessmen (Ayub, 2009). Nonetheless, in some Islamic countries, upon religious concerns with the payment of interest, there are banks based on equity in accordance with Sharia. The scheme is that of profit and loss sharing (PLS) in overcoming the interest. In 2004, fifty countries have Islamic banks, and Iran and Sudan have all their financial institutions operating under full-fledge Islamic system. Bangladesh, Egypt, Indonesia, Jordan, Malaysia and Turkey have Islamic financial institutions working together with the conventional banks (García, Cibils and Maino, 2004).

Islamic banking provides for payment-settlement as well as credit-provision arrangements. Islamic banking has three vantage points, firstly, relates to the relationship between demand depositors and banks. The second relates to the relationship between savers and banks. The final vantage point relates of the relationship between banks and fund users. The three relationships are demand depositors and Islamic banks, savers and Islamic banks and investment and Islamic banks (Al-Jarhi, 2004).

In Indonesia, establishment of Islamic banks were initiated by the Indonesian Ulema Council (MUI) which then from a working group to establish Bank Muamalat Indonesia (BMI) in 1991 and began operating in 1992. Wherein, Indonesia has two kinds of banking systems, Islamic Commercial Banking (BUS) and Islamic Business Unit Bank (UUS).

Andriansyah (2009) explains that Islamic banking began to grow since the approval of Article No. 10 of 1998 on Islamic banking which regulates in detail the legal basis and the type of Islamic banking business. The law is a renewal of the Article No. 7 1992 in which Islamic principles are still vague, which is expressed as a principle for the results.

2.3.2 Islamic Commercial Banks (BUS)

Regulation of Indonesian Republic No. 7 1992, "profit-loss sharing system" introduced for Commercial Banking (*Bank Umum Nasional*: BU) and Rural Banking (*Bank Perkreditan Rakyat*: BPR). In beginning of 1980, the government was facing the difficulties to control interest rate system in Indonesia. That why the government looking for solution and finally, some BPRS (Islamic Rural Banking) were established on October 27th, 1988 in Indonesia (Usman, 2009).

BPRS Berkah Amal Sejahtera and BPRS Dana Mardhatillah were established on August 19th, 1991 in Bandung. Then BPRS Amanah Rabinah was followed on October 24th, 1991 and BPRS Hareukat (November 10th, 1991) also in Aceh. However, Bank Muamalat Indonesia was established in first may, 1992 as the only one Islamic banking in Indonesia. After two years, in 1994, PT. Syarikat Takaful Indonesia also was established (Usman, 2009). In 2009, BUS was increased to 6 Islamic banks and the number of BUS was still 11 Islamic banks that started from 2009 to 2013 (Bank Indonesia: *Statistic of Indonesian Banking 12*(1), 2013).

Islamic Commercial Banks (*Bannk Umum Nasional Shariah*: BUS) are everything related to about Islamic Bank and Sharia Business Unit, covering institutional, business activities, as well as the manner and process in conduct its operations (Constitution of Republic Indonesia, No. 21, 2008).

Masood and Ashraf (2012) explain that the bank-specific factors are internal bank where management can intervene directly through policies which are made and the bank management decisions. Bank specific in this study is the property owned by the bank, i.e., asset size, as well as the risks faced by the internal management of BUS, i.e., liquidity and operational efficiency. Asset size is the total assets owned and picturing BUS property owned.

2.3.3 Islamic Business Unit Banks (UUS)

In Regulation of Indonesian Republic No. 10 1998 as changes of Regulation of Indonesian Republic No. 7 1992, which contain "bank based on profit-loss sharing" to "bank based on sharia rules". That regulation also allowed conventional banking system or sharia banking system that managed by conventional banks or Islamic banks, either that Commercial banking or Rural Banking (BPR). So, conventional banks followed "Dual Banking System" that called Islamic Business Unit Banks (*Unit Usaha Sharia:* UUS) (Usman, 2009).

On June, 1999, the first UUS were Bank IFI Sharia and Bank Sharia Mandiri. In 2000, Bank Indonesia (BI) recorded that was some conventional bank had Sharia window, they were Bank Niaga Sharia, Bank BTN Sharia, Bank Mega Sharia, Bank BRI Sharia, Bank Bukopin Sharia, BPD Jabar Sharia, and BPD Aceh Sharia (Usman, 2009). Followed the year, the number of UUS was increased and there was 24 UUS at the end in 2013 (Bank Indonesia: Statistic of Indonesian Banking 12(1), 2013).

Islamic Business Unit Banks (UUS) are a unit of General Bank headquarters Conventional which serves as the head office of office or unit conducting business based on Sharia Principles, or unit of work in the office branch of a bank domiciled abroad conducting conventional business which serves as the head office of the branch offices sharia and / or sharia units (Constitution of Republic Indonesia, No. 21, 2008).

Al-Qudah and Jaradat (2013) explains that in general, the greater the asset will provide financial services that the larger the customers so that they can move on financing, in addition, Boyd and Runkle in Al-Qudah and Jaradat (2013) also added that the larger the bank's assets will bring the bank on condition of economies of scale that will improve profitability BUS and also UUS. Economies of scale is a condition in which the bank has received information regarding the risks facing so that the bank has been able to design methods and gauges own risk, so that the capital is reserved to decline and generate more profit.

2.4 Financial Performance

Financial performance is any report of the industry for their performance such as the asset, liability and equity (Katchova and Enlow, 2013). They provide all that information in one book each month or year, but sometime they compare the month or the year. The function of the financial performance is the reader will easily read and know about their financial performance from annual report (each month or each six months or each year or five years).

Financial performance in general consists of five big ratios; profitability ratio (profit margin, ROA and ROE), liquidity ratio (CAR and quick ratio), debt management ratio or solvency risk ratio (DER and times interest earned), asset management ratio (inventory turnover and asset turnover) and market value ratio (price earning, book to value and market to book) (Koh, Brigham and Michael, 2014). Ross, Westerfield and Jordan (2008) stated the same financial performance as them, but they added some ratios such as cash ratio in liquidity ratio, EM and cash coverage in debt management ratio and receivable turnover in asset management ratio.

According to Keown, Martin, Petty and David (2005), they mentioned four measurements of financial performance; liquidity ratio, inventory turnover ratio, profitability ratio and debt ratio. On the other view, Emekekwue (2005) only mentioned loan safety ratio, management ratio and profitability ratio as the measurements of financial performance. The other measurements of financial performance by Affandi (2011) are profitability ratio (ROA, ROE, OER, and NIM), liquidity ratio (FDR, CAR and CDR) and solvency risk ratio (EM and DER).

In this study only have three ratios; the first ratio is profitability ratios which are Return on Asset (ROA) and Return on Equity (ROE). The second ratio is liquidity ratio. Financing to Deposit Ratio (FDR) and Current Asset Ratio (CAR) are included in liquidity ratio. The third ratio is solvency risk ratio where Equity Multiplier (EM) and Debt to Equity Ratio (DER) are to see how the bank can manage their risk to bankrupt.

Long year ago, Moin (2008) was compared Islamic banking and conventional banking in Pakistan. The aim of his study was to examine and evaluate their performance, i.e. Meezan Bank Limited (MBL) in comparison with that of a group of 5 Pakistani conventional banks in term of profitability, liquidity, risk, and efficiency for the period of 2003-2007. The study found that MBL is less profitable, more solvent, and less efficient compare to the average of the 5 conventional banks. However, the result of his studied (Moin, 2008), that there was no significant difference in liquidity between the two sets of banks. The reasons are due to the facts that conventional banks in Pakistan have longer history and experience in doing banking business and hold dominating position in the financial sector with its large share in the overall financial assets of Pakistan, as compared to Islamic banks, which in true sense, started only a few years back with all letter and spirit.

In other study by Bintawim and Saud (2011) was focusing on the performance of Islamic Bank in Saudi Arabia during 2005 and 2009. The objective of that paper is to provide performance analysis comparison of Saudi banks as well as to examine the impact of banks' internal characteristics indicators on financial performance. The results show that large banks performance has reached the mature growth unlike

medium-size banks. Meanwhile, small-size banks are facing some difficulties to achieve a better growth. The results indicate all Saudi banks are doing well to maintain the stability of banking sector. In addition, regression results show that banks' size has a negative impact on financial performance, while asset utilization has a positive impact on Saudi banks profitability.

Usman and Khan (2012) focusing on their study to evaluate the comparative financial performance of Islamic and conventional banks in Pakistan. To make an appropriate comparative study profitability and liquidity ratios of Islamic banks (Mezan Bank Ltd, Bank Islamic and Albaraka) and conventional banks (Faysal Bank, KASB and Bank of Khyber) are used during the period from 2007 to 2009. The sampled banks are selected on covenant sampling technique on the basis of almost having equal weight of invested capital and number of existing branches. To make substantially noteworthy results, paired sample t-test is used. The results show that Islamic banks have high growth rate and profitability over the conventional banks. Moreover the Islamic banks have high liquidity power over conventional banks.

Hazzi and Kilani (2013) also studied the financial performance also. The aim of their study was to statistically examine the financial performance for both of Islamic and Traditional banks in Malaysia to know whether or not there are significant differences between such banks with respect to profitability, liquidity and risk performance. They found that the Traditional banks are more profitable than Islamic banks, while the latter is more liquid and less risky, especially with respect to the risk-weighted capital ratio, than the Traditional banks.

According to Irfan, Majed and Zaman (2014), the objective of this study is to estimate and analyse the Islamic banks efficiency in South Asian Countries. The study sample consists of four countries i.e. Pakistan, Iran, Brunei and Bangladesh for being similar legal, social and economic framework for Islamic banking systems from 2004 to 2011. The results demonstrate that Islamic banking is efficient on asset ratio (98.19%), equity ratio (91.4%) and 77.03% for net profit ratio. As per the efficiency-ranking measurement, Brunei stands at top followed by Pakistan, Iran and Bangladesh among the South Asian countries.

Table 2.1
Financial Performance Ratio of BUS and UUS (2005-2009)

Ratio	2005	2006	2007	2008	2009	Mean
ROA	1.35%	1.55%	2.07%	1.42%	1.38%	1.55%
ROE	26.71%	36.94%	53.91%	37.94%	34.14%	37.93%
NPF	2.82%	4.75%	4.05%	3.95%	5.72%	4.26%
FDR	97.75%	98.90%	99.76%	103.65%	98.11%	99.63%
BOPO	78.91%	76.77%	76.54%	81.75%	84.05%	79.60%

Source: Bank Indonesia: Statistic of Islamic Banking 2009 (2009).

Table 2.1 shows, that there are significant differences for each financial ratio between Islamic Commercial Banks (Bank Syariah Mandiri and Bank Mega Syariah) and Conventional Commercial Banks (Bank Mandiri and Bank Mega) in Indonesia (focus on 2006 to 2010). Islamic Commercial Banks (BUS) has better performance in terms of LDR and ROA ratios, while the Conventional Commercial Banks are better performance in terms of the CAR, NPL, and BOPO (Ningsih, 2012).

Table 2.2
Comparison of Islamic Banking and Conventional Indicators in Indonesia

Bank	ROA		ROE		BOPO		NIM	
	Sharia	Conv	Sharia	Conv	Sharia	Conv	Sharia	Conv
A	1.91	3.38	66.64	23.81	76.54	67.22	2.14	5.51
B	1.52	3.34	20.79	26.53	85.52	60.87	5.01	6.26
C	0.4	2.4	3.18	18.04	98.56	79.06	7.59	5.85
Mean	1.28	3.07	30.2	22.79	86.87	69.05	4.91	5.87

Source: Bank Indonesia (2013)., (Conv: Conventional).

According to Alamsyah (2013), in terms of profitability by the three banks in Table 2.2, ROA of Islamic banks are smaller than conventional banks (1.28% and 3.07%). Even in terms of ROE are greater (30.20% and 22.79%). That is as shows from Table 2.2, that the Islamic bank capital condition is relatively smaller than conventional banks. However, Islamic banks in Indonesia are more profitable compared with Islamic banks in Malaysia as well as the Eastern Region Middle, as seen from the Table 2.3 of indicators ROA and ROE (Alamsyah, 2013).

Table 2.3
Comparison of Inter-State Islamic Banking Indicators

Bank	ROA			ROE			BOPO			NIM		
	IND	MAL	MEC	IND	MAL	MEC	IND	MAL	MEC	IND	MAL	MEC
A	1.91	0.95	3.64	66.64	27.37	23.37	76.54	29.59	27.83	2.14	2.78	5.15
B	1.52	1.14	1.54	20.79	17.23	13.85	85.52	39.5	42.31	5.01	2.93	4.41
C	0.4	0.76	1.12	3.18	9.97	10.94	98.56	64.3	41.04	7.59	4.07	3.6
Mean	1.28	0.95	2.1	30.2	18.17	16.05	86.87	44.46	37.06	4.91	3.26	4.39

Source: Bank Indonesia: Perkembangan dan Prospek Perbankan Syariah Indonesia: Tantangan Dalam Menyongsong MEA 20151, 2013. (IND: Indonesia; MAL: Malaysia; and MEC: Middle East Countries).

On the other side, the profitability of Islamic banks operating in Malaysia was significant effect by expenses ratio, loans ratio, deposits ratio, technical efficiency and bank size and there is no significant effect of the global financial crisis on the profitability of Islamic banks in Malaysia (Muda, Shaharuddin and Embaya, 2013). Based on the research by Widagdo and Ika (2009), the results of statistical tests using paired t-tests show no difference financial performance of Islamic banks before and after the MUI fatwa about the prohibition of interest.

Kafabih (2014) showed the efficiency of sharia bank in period 2009-2013 in which liquidity and gross domestic product positively affects sharia bank profitability in Indonesia while operational efficiency and inflation negatively affect sharia bank profitability in Indonesia. He also found that the rise of asset size wasn't followed by the rise of sharia bank profitability in Indonesia. This because of the rise percentage of sharia bank asset wasn't followed by the rise percentage of profit they get.

Ramadhan (2013) focuses on the Islamic Commercial Bank and Islamic Business Unit Bank in Indonesia during 2008-2012. After using the test (F-test), it showed that the Inflation, NPF and BOPO have a significant impact on banking profitability of Islamic banks. While based on the partial results of hypothesis testing (t-test) showed that the Islamic banks indicate that Inflation variable and NPF not influence of probability Islamic. While the BOPO variable has a significant to the profitability of Islamic banks, the value of adjusted R2 in regression models obtained for publicly traded banks 0.769. This shows that the major effect of independent variables is Inflation, NPF and BOPO to the dependent variable (ROA) of 76.7% while the remaining 23.3% is influenced by other ratios such as CAR, FDR and SIZE.

2.5 Conclusion

The global financial crisis occurred because of the mortgage in US also affected Islamic banking in Indonesia, where Islamic banking in Indonesia has two systems, BUS and UUS. On the opposite, Indonesia can cover it rapidly, one of the reason because at that time, Islamic banking in Indonesia has Bank Muamalat Indonesia. After that some of conventional banking opens to UUS. This study will show how the growth in Islamic banking in Indonesia after the global financial crisis especially since 2009-2013.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter begins with discussion on the research hypothesis. The purpose of this chapter is to know the research process. Then this chapter also describes the methodology used in this research include research design, sampling and data collection, because the sampling will choose based on some characteristics. The definition and measurement of variable and also discuss about method of data analysis technique in this chapter.

3.2 Research Hypothesis

Based on the research questions and research objectives, the research is designed to recognize the financial performance of Islamic banking (BUS and UUS) after global financial crisis during 2009-2013. Financial performances used are profitability ratio (ROA and ROE); liquidity ratio (FDR and CAR); and solvency risk ratio (EM and DER). Based on the research questions and research objectives, three hypotheses are generated:

Hypothesis 1

H1o: There is no significant difference between profitability ratio (ROA and ROE) of Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013.

H1a: There is a significant difference between profitability ratio ((ROA and ROE) of Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013.

Hypothesis 2

H2o: There is no significant difference between liquidity ratio (FDR and CAR) of Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013.

H2a: There is a significant difference between liquidity ratio (FDR and CAR) of Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013.

Hypothesis 3

H3o: There is no significant difference between solvency risk ratio (EM and DER) of Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013.

H3a: There is a significant difference between solvency risk ratio (EM and DER) of Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013.

3.3 Population and Sample of the Study

Population is the "whole number of people and inhabitants occupying a specific geographical locality". It is "the total number or amount of things, especially writing a given area" (Hornby, 2000). The population in this study is Islamic Banking in Indonesia. Nowadays, BUS has 11 Islamic banks and 24 Islamic Banks as UUS in 2013 (Bank Indonesia: Statistic of Indonesian Banking 12(1), 2013).

Sample is "part of the number and characteristics possessed by the population. When a large population and researchers may not learn about all population, for example because of limited funds, manpower, and time, then researchers can use samples drawn from that population. So, sample is "a number of people or things taken from a larger group and used in test to provide information about the group" (Sugiyono, 1999).

The sample in this study should have some characteristics, such as BUS and UUS whose the owner is government or private banks, then they should up-date the annual report every years (especially during 2009-2013) and they are included in the top 3 level financial performance in 2013. This study also uses semi-annual report to get the data which are in June and December in one year.

This study focuses on Bank Muamalat Indonesia (BMI), Bank Rakyat Indonesia Sharia (BRIS), and Bank Sharia Mandiri (BSM) as BUS samples. Sample for UUS are Bank Permata Syariah (BPS), Bank BTN Sharia (BTNS), and Bank CIMB Niaga Syariah (CIMBNS). Because these six of that Islamic banks are appropriate to the characteristics were explained before.

3.4 Research Design

A research design is a blueprint for the collection, measurement, and analysis of data, which is based on the research question of the study (Sekaran and Bougie, 2013). Research design focuses more to determine the type of data, data collection, and sampling technique in order to achieve the research objectives.

This study is a quantitative research in which the research uses data in the form of quantitative facts or data numbers and everything that can be counted (Pohan, 2007). Quantitative research performed after investigators gather all the data needed for the study (Pohan, 2007). Quantitative research in this study used purposive sampling.

According to Sekaran and Bougie (2013) sampling is an important characteristic of every research that entails in-depth examination. There are various sampling techniques used in the academic research field. Basically, they can be categorized into two, namely, probability and non-probability sampling (Sekaran & Bougie, 2013; Zikmund et al., 2010). Purposive sampling is one of non-probability sampling. Purposive sampling is a non-representative subset of some larger population, and is constructed to serve a very specific need or purpose. This study used purposive sampling because not all of the sample in the population will be taken as the sample. Some characteristics for the selection is that the Islamic bank is the sample in this study, such as BUS and UUS whose the owner is government or private banks, then they should up-date the annual report every years (especially during 2009-2013) and they are included in the three top level financial performance in 2013.

However, the population of this study is Islamic banking in Indonesia. The table 3.1 shows the list of Islamic Banking Indonesia at the end of 2013, where BUS has 11 Islamic banks and UUS has 24 Islamic banks

Table 3.1
The List of BUS and UUS in Indonesia.

BUS	UUS
1. Bank Sharia Mandiri	1. Bank Danamon Sharia
2. Bank Muamalat Indonesia	2. Bank Permata Shariah
3. Bank BNI Sharia	3. Bank Internasional Indonesia (BII) Sharia
4. Bank BRI Sharia	4. CIMB Niaga Sharia
5. Bank Mega Indonesia Sharia	5. BTN Sharia
6. Bank Jabar and Banten Sharia	6. Bank Tabungan Pensiunan Nasional (BTPN) Sharia
7. Bank Panin Sharia	7. OCBC NISP Sharia
8. Bank Bukopin Sharia	8. Bank Sinarmas Sharia
9. Bank Victoria Sharia	9. Bank DKI Sharia
10. BCA Sharia	10. HSBC, Ltd. Sharia
11. Maybank Indonesia Sharia	11. BPD DIY Sharia
	12. BPD Jawa Tengah (Jateng) Sharia
	13. BPD JawaTimur (Jatim) Sharia
	14. BPD Banda Aceh Sharia
	15. BPD Sumatera Utara (Sumut) Sharia
	16. BPD Sumatera Barat (Sumbar) Sharia
	17. BPD Riau Sharia
	18. BPD Sumatera Selatan (Sumsel) Sharia
	19. BPD Kalimantan Selatan (Kalsel) Sharia
	20. BPD Kalimantan Barat (Kalbar) Sharia
	21. BPD Kalimantan Timur (Kaltim) Sharia

	22. BPD Sulawesi Selatan (Sulsel) Sharia
	23. BPD Nusa Tenggara Barat (NTB) Sharia
	24. BPD Jambi Sharia

Source: Bank Indonesia, 2013.

According to the characteristics explained before, the satisfied Islamic banks are Bank Muamalat Indonesia (BMI), Bank Rakyat Indonesia Sharia (BRIS), and Bank Sharia Mandiri (BSM) as BUS samples. The samples as UUS are Bank BTN Sharia (BTNS), Bank CIMB Niaga Sharia (CIMBNS), and Bank Permata Sharia (BPS).

3.5 Definition and Measurement of Variable

This study only has one variable that was financial performance; profitability ratio (ROA and ROE), liquidity ratio (FDR and CAR), and solvency risk ratio (EM and DER).

3.5.1 Profitability Ratio

Profitability ratio is a financial ratio that reflects the outcome of the entire financial policy and operational decisions (Bringham and Houston, 2010). According Albertazzi and Gambacorta, in Akhtar Ali and Saqadat (2011), the profitability of Islamic banking business cycle is very important to be able to assess the health and stability of the banking sector.

Profitability ratios in this research are Return on Asset (ROA) and Return on Equity (ROE). Profitability ratios are one of measurement tool of performance showing how much the bank is earning compared to its sales, assets or equity (Affandi, 2011). The ratio is intended to measure how efficient the firm uses its assets and how efficient the firm manages its operations (Koh., et al, 2014).

3.5.1.1 Return on Asset (ROA)

According to Affandi (2011), Return on assets (ROA) states how well the Bank to manage its resources and also to show how banks can manage these assets into net income. This ratio tells us how much the profit the managers are able to generate using the company's asset base shows how effective a job they are doing (Ross, Stephen, Jordan, Ahmad, Fauziah, Nasruddin, Faizah, Zaemah and Norazlina, 2006).

The calculation of profitability by Mankiw (2007) in his book handbook of Islamic Banking explained that one measure of a bank's profitability can be seen through the ROA. ROA in this study is calculated as follows:

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

3.5.1.2 Return on Equity (ROE)

Return on Equity (ROE) measures how much revenue the bank is getting to any assets invested. A higher ROE means indicate higher managerial performance as well. Capital is also defined as ownership in the company in the form of common stock or preferred stock (Affandi, 2011). It is calculated as follows:

$$ROE = \frac{Net\ Income}{Equity\ Capital}$$

3.5.2 Liquidity Ratio

The liquidity ratio represents information about a bank's ability to meet short-term financial obligations (Affandi, 2011). So when withdrawals exceeded new deposits significantly over a short period, then there is the difficulty of liquidity to banks.

Liquidity ratio is a ratio that also shows the bank's ability to meet its obligations when it is due (Brigham and Houston, 2010). The liquidity ratio in this study is peroxide by Financing to Deposit Ratio (FDR). Liquidity, which is calculated by FDR, describes the bank's liabilities in the form of financing compulsory Islamic Banks. On average banks maintain liquidity in the range of 70% to 100%. The greater the level of liquidity indicates the greater the productive assets distributed so that it will increase profitability BUS also obtained. In this study, the liquidity ratio is measured using Financing to Deposit Ratio (FDR) and Asset Current Ratio (CAR).

3.5.2.1 Financing to Deposit Ratio (FDR)

This ratio measures how many total deposits collected after being used for the purpose of funding (Affandi, 2011) or to measure the composition of the number of financings compared to the number of public funds (Kasmir, 2010). The higher FDR bank, the higher volume of financing extended. It is calculated as follows:

$$FDR = \frac{\text{Total Financing}}{\text{Total Deposit}}$$

3.5.2.2 Current Asset Ratio (CAR)

A high CAR indicates that the bank has more liquid assets and also a naturally lower ratio is more than a sign of liquidity as long-term assets (Affandi, 2011). The ratio is calculated as follows:

$$CAR = \frac{\text{Current Assets}}{\text{Total Assets}}$$

3.5.3. Solvency Risk Ratio

Solvency risk ratio shows that the bank is able to sustain a loss of liability. Banks will dissolve when total asset is greater than liability. That also lead the banks are at risk to bankrupts. There are two measurements below this ratio to determine the risk and solvency namely Equity Multiplier (EM) and Debt to Equity Ratio (DER).

3.5.3.1 Equity Multiplier (EM)

EM is a ratio analysed how banks use debt to finance its assets. Or also called as financial leverage ratio or leverage ratio, wherein a higher EM means banks has to borrow more funds to convert assets into capital stock. Values higher than EM showed a greater risk to the bank (Affandi, 2011). EM is calculated as follows:

$$EM = \frac{\text{Total Asset}}{\text{Share Capital}}$$

3.5.3.2 Debt to Equity Ratio (DER)

A bank's financial leverage is calculated by dividing long-term debt to shareholders' equity. It shows what proportion of equity and bank debt that has been used to finance its assets.

Which means, a high ratio of debt/ equity generally the bank has been aggressive in financing growth with debt (Affandi, 2011). It can also lead to volatile earnings due to the burden of additional dependents. DER is calculated as follows:

$$DER = \frac{Debt}{Equity\ Capital}$$

3.6 Data Collection Technique

In collecting the data, this research uses secondary data. The method of research is an activity which was conducted by the writer to collect data. Therefore, the activity is important to get valid data. To collect the data, the writer used document analysis method of collection. Document analysis in this study is data collection from annual report from the website of Islamic banking in Indonesia, specifically this study will refer directly to website of Islamic Bank; Bank Muamalat Indonesia (BMI), Bank Sharia Mandiri (BSM), BRI sharia as BUS. The others are Bank Permata Sharia, BTN Sharia, and CIMB Niaga Sharia as UUS.

3.7 Data Analysis Techniques

In this study, a quantitative research is carried out because the data was analyzed statistically. In doing so, the writer employs the descriptive statistic and independent sample T-test.

3.7.1 Descriptive Statistic

Descriptive statistic is how to measure the data by the range, minimum, maximum, and frequency. It is also includes measures of central tendency such as the mean, median, mode, and standard deviation. Descriptive statistic using EViews software (Version 7.2.) is employed to evaluate the difference between BUS and UUS after the global financial crisis during 2009-2013.

3.7.2 Independent Sample T-test

Independent sample T-test is normally used to test or to compare the differences between two means of two related groups in order to detect whether there is any statistically significant difference between the means. In this study, T-test is used simple hypothesis test of means test in EViews software (Version 7.2.) is employed to examine the significant difference between BUS and UUS after the global financial crisis during 2009-2013, that as mention in Table 3.2.

Table 3.2
Data Analysis Technique

No	Hypothesis	Test
1	H1o: There is no significant difference between profitability ratio (ROA and ROE) of Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013.	T-test

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	H1a: There is a significant difference between profitability ratio (ROA and ROE) of Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013.	
2	H2o: There is no significant difference between liquidity ratio (FDR and CAR) of Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013. H2a: There is a significant difference between liquidity ratio (FDR and CAR) of Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013.	T-test
3	H3o: There is no significant difference between solvency risk ratio (EM and DER) of Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013. H3a: There is a significant difference between solvency risk ratio (EM and DER) of Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013.	T-test

The function of both descriptive statistic and independent sample t-test are to evaluate and examine the significant difference of financial performance of Islamic banking especially for BUS and UUS after the global financial crisis (2009-2013).

3.8 Conclusion

This chapter discusses the research design which is based on the quantitative approach through the use secondary data. Then, it also explains research hypothesis, the procedure and the process of the research design, population and sample, data collection technique and data analysis technique. Moreover, the data analysis technique used descriptive statistic and independent sample t-test by EViews software (Version 7.2) and the results of the analysis are explained in chapter 4.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter discussed briefly about the data analysis and the findings of this study. That started by an introduction, the financial performance of Islamic banking in Indonesia after the global financial crisis and conclusion. The discussion will be followed by the financial performance including three ratios which are profitability ratio (ROA and ROE), liquidity ratio (FDR and CAR) and solvency risk ratio (EM and DER).

4.2 Descriptive Statistic of Islamic Banking's Financial Performances after the Global Financial Crisis (2009-2013) in Indonesia

Descriptive statistic such are mean, median, maximum, minimum and standard deviation of the financial performance of Islamic banking after the global financial crisis in Indonesia, where the source of data is the semi-annual report (on June and December in one year) of each website of Islamic banking with the total of 30 observations. The ratios in this study are profitability (ROA and ROE), liquidity (FDR and CAR), and solvency risk (EM and DER). Then each ratio would show in more detail in a form of tables and also figures. Thus, the descriptive statistic employs to evaluate the difference of Islamic banking's financial performance during 2009-2013.

4.2.1 Profitability Ratio of Islamic Banking

Bank profitability can be measured by Return on Asset (ROA) and also Return on Equity (ROE) ratios. These profitability ratios measure how the banks have used their assets to generate income effectively. Table 4.1 shows the profitability of BUS and UUS as the Islamic banking in Indonesia.

Table 4.1
Profitability Ratio of Islamic Banking

Ratio	Islamic Commercial Banks (BUS)				Islamic Business Unit Banks (UUS)			
	Mean	Max	Min	Obv	Mean	Max	Min	Obv
ROA	0.0097	0.0154	0.0001	30	0.0135	0.0214	0.0082	30
ROE	0.1473	0.3287	0.0112	30	0.1504	0.2609	0.0907	30

Source: Annual Report of Islamic banking 2009-2013

Table 4.1 shows that UUS has demonstrated better ROA and ROE as indicated by higher means compared to BUS. Based on the data, the mean of UUS is higher than BUS as 0.0135 and 0.0097 respectively. Where the minimum of UUS is 0.0082 and the maximum is 0.0214 in term of ROA ratio. In contrast, BUS has minimum and maximum are 0.0001 and 0.0154 accordingly. Table 4.1 also shows the ROE's mean of BUS and UUS is no different to 0.1473 and 0.15004. Where BUS's minimum 0.0112 and maximum 0.3287 and UUS is 0.0907 and 0.2609 respectively. Overall, the management of UUS performed more effective to generate income compared to BUS after global financial crisis.

4.2.1.1 Return on Asset (ROA)

Return on asset (ROA) is net income divided total asset. Based on the data, Figure 4.1 shows the ROA of BUS is fluctuate. That depends on how the bank able to generate the profit per 6 month. The lowest value is BRI sharia on June 2011 (0.0001) and the highest is Bank Muamalat Indonesia on December 2010 (0.0133). It can be concluded that Bank Muamalat Indonesia is a stronger financial performance during 2009-2013.
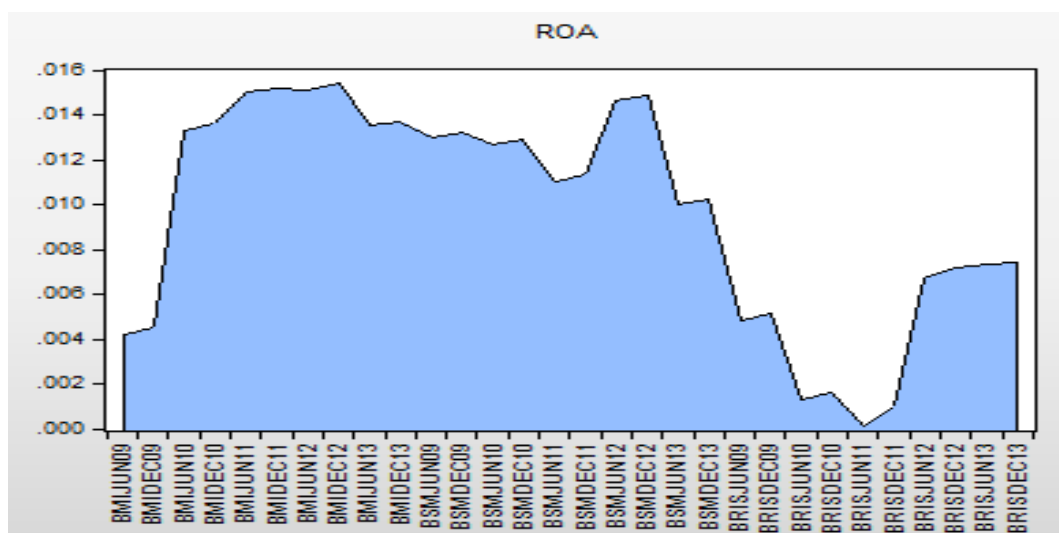

Figure 4.1
ROA Ratio of Islamic Commercial Banks (BUS)
Source: Annual Report of BUS 2009-2013

According to the Figure 4.2, it shows the UUS's ROA. Where the lowest is BTN Sharia on June 2009 at 0.0082 and the higher is CIMB Niaga Sharia on December 2012 at 0.0214. It means that CIMB Niaga Sharia decreased their net earnings from 2012 to 2013. Hence, CIMB Niaga Sharia on December 2012 is greater compared to other UUS in term of ROA ratio.
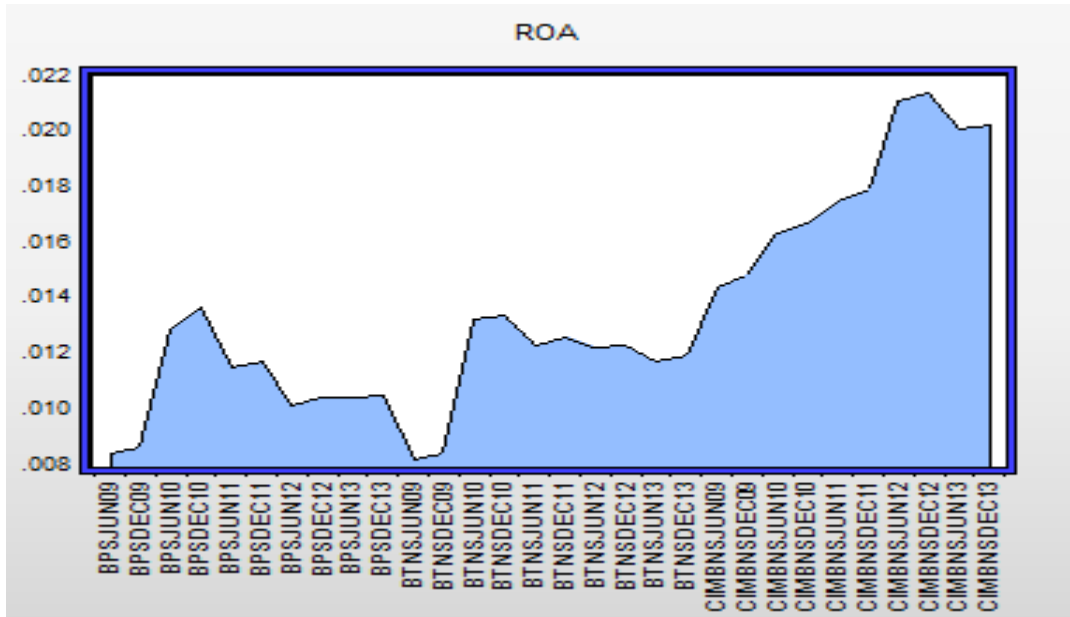
Figure 4.2
ROA Ratio of Islamic Business Unit Banks (UUS)
Source: Annual Report of UUS 2009-2013

To sump up all the explanation before, Bank Muamalat Indonesia as BUS (0.0133) and CIMB Niaga Sharia as UUS (0.0214) had the highest values of ROA. That means, both of them good at managing their assets into net earnings even in different years (on June 2010 and December 2012) and Bank Muamalat Indonesia is greater in term of ROA than CIMB Niaga Sharia during 2009-2013.

4.2.1.2 Return on Equity (ROE)

Return on Equity (ROE) is net income divided equity capital. Figure 4.3, the data recorded BRI Sharia on June 2010 is the lowest value (0.0112) and the highest is Bank Muamalat Indonesia on December 2013 (0.3287). So that, Bank Muamalat Indonesia in that year has much earning to get for each rupiah invested rather than other BUS.
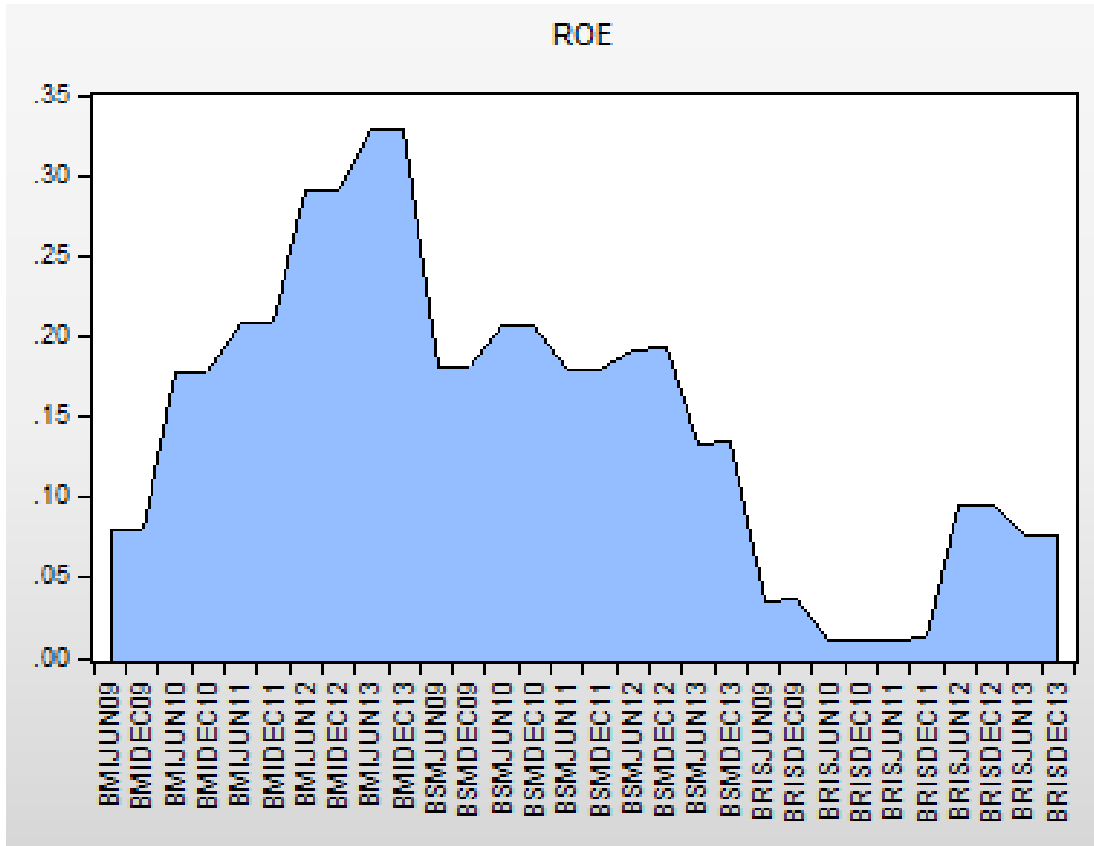
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Figure 4.3
ROE Ratio of Islamic Commercial Banks (BUS)
Source: Annual Report of BUS 2009-2013

Figure 4.4, the data recorded BTN Sharia on June 2009 is the lowest value and CIMB Niaga Sharia on December 2009 is the higher at 0.0907 and 0.2609 respectively. Either the lowest or the highest values were happened in the same year (2009) but it is in different month (June and December). Nevertheless, CIMB Niaga Sharia on December 2009 has much earning to get for each rupiah invested compared to other UUS during 2009-2013.
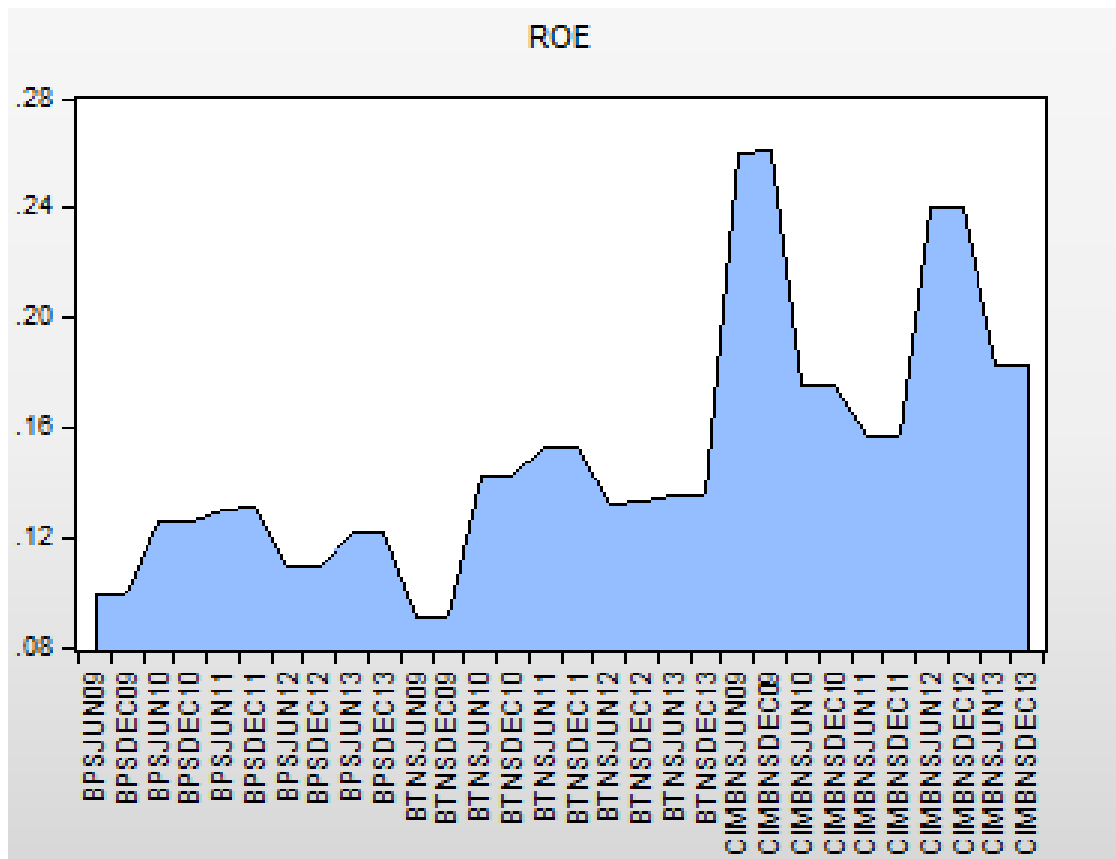
Figure 4.4
ROE Ratio of Islamic Business Unit Banks (UUS)
Source: Annual Report of UUS 2009-2013

However, the ROE's higher value was Bank Muamalat Indonesia as BUS (0.3287) and CIMB Niaga Sharia as UUS (0.2609) in different year (2013 and2009). In the other meaning, the Bank Muamalat Indonesia was better in order to have much earning than CIMB Niaga Sharia during 2009-2013.

In conclusion, the different of profitability ratio based on the ROA and ROE; BUS had higher value than UUS by desperate comparison. Meanwhile, UUS is effectively used their assets to generate income than BUS.

4.2.2 Liquidity Ratio of Islamic Banking

The liquidity ratio provides information about a bank's ability to meet its short term financial obligation and recurring operating expenses. For the purpose of this study, liquidity is measured by two ratios which are Financing Deposit Ratio (FDR) and Current Asset Ratio (CAR). These ratios are important in measuring the ability of bank to meet both its short term and long term obligations. Table 4.2 shows the liquidity ratio of BUS and UUS as the Islamic banking in Indonesia.

Table 4.2
Liquidity Ratio of Islamic Banking

Ratio	Islamic Commercial Banks (BUS)				Islamic Business Unit Banks (UUS)			
	Mean	Max	Min	Obv	Mean	Max	Min	Obv
FDR	1.2133	2.4100	0.6063	30	0.6308	1.0483	0.0491	30
CAR	0.9556	0.9787	0.7743	30	0.5686	0.9856	0.0623	30

Source: Annual Report of Islamic banking 2009-2013

Table 4.2 shows that the BUS percentage has almost double than UUS for FDR and CAR ratios. FDR indicates the value of a banks financing funded by depositor. The higher value means the higher financing extended. It means that the BUS has more financing compared to UUS (1.2133 and 0.6308 accordingly). Where the FDR's minimum is 0.0491 and maximum at 0.0483. In the other side, BUS's minimum and maximum reads 0.6063 and 2.4100 respectively.

Table 4.2 also shows the CAR's mean of BUS and UUS was significantly different by 0.9556 and 0.5686 respectively. In term of minimum values, BUS is highest than UUS by difference between 0.7743 and 0.0623. In contrast, the maximum values between BUS and UUS recorded small different (0.9856 to 0.9787 accordingly). Thus, the BUS value has almost double than UUS in liquidity ratio during five years (2009-2013).

4.2.2.1Financing to Deposit Ratio (FDR)

Financing to Deposit Ratio (FDR) is financing divided total deposit. According to Figure 4.5, the data recorded BRI Sharia on June 2009 was the lowest value (0.6063) and the highest is BSM on December 2009 (2.4100). So, BSM in that year has more financing extended compared to other BUS.
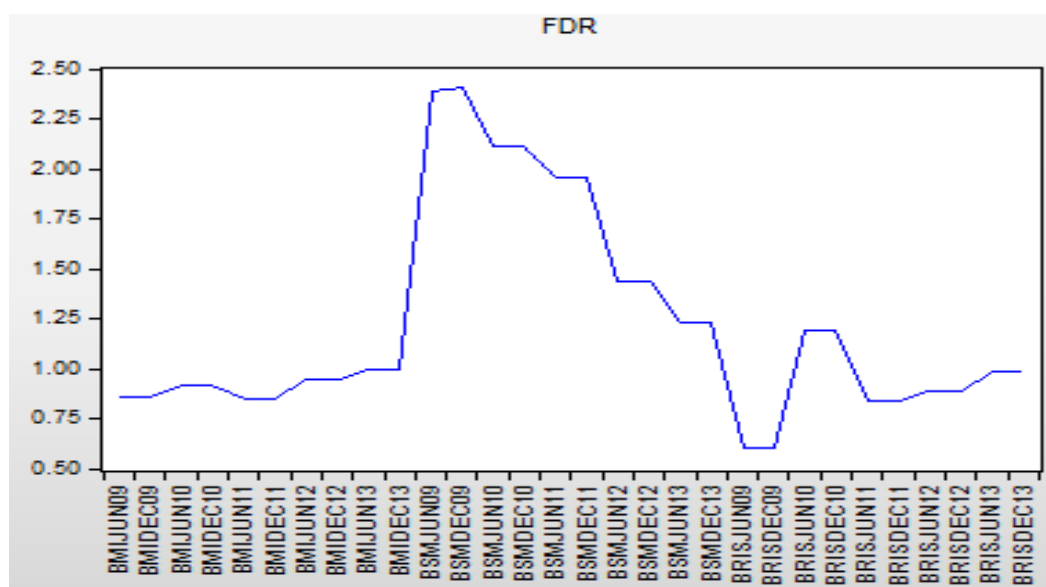

Figure 4.5
FDR Ratio of Islamic Commercial Banks (BUS)
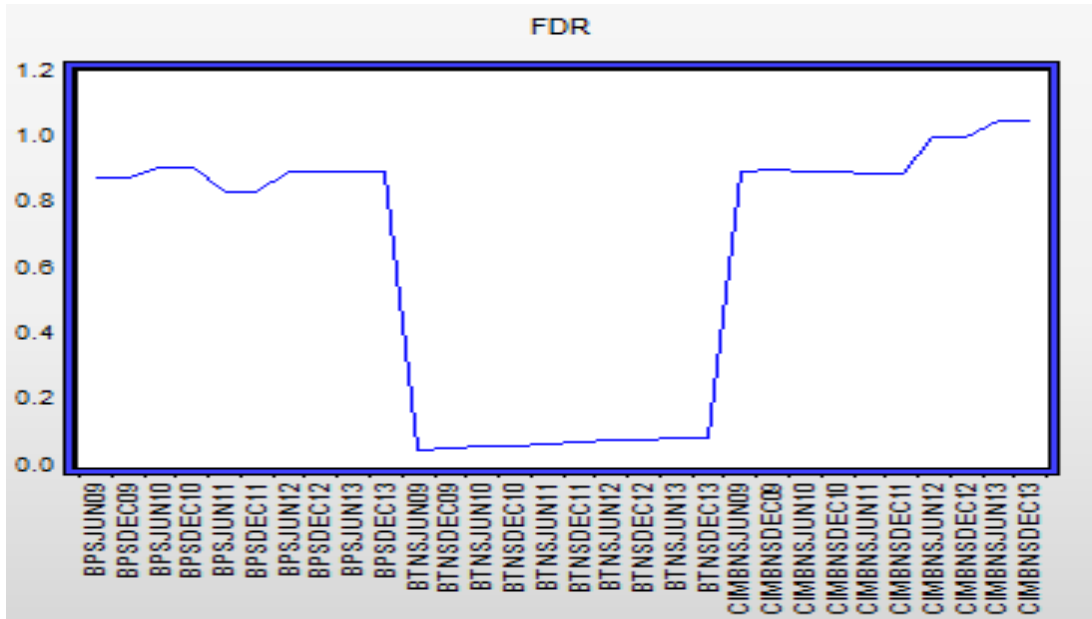Source: Annual Report of BUS 2009-2013

Figure 4.6
FDR Ratio of Islamic Business Unit Banks (UUS)
Source: Annual Report of UUS 2009-2013

Figure 4.6, the data founded that BTN Sharia on June 2009 is the lowest value and the higher is CIMB Sharia on December 2013 (0.0491 and 1.0483 accordingly). To conclude that UUS record the FDR is the lowest and the higher values after the global financial crisis did not in the same year.

4.2.2.2 Current Asset Ratio (CAR)

Current Asset Ratio (CAR) is current asset divided into total asset. It means that the CAR value is the higher that bank more liquid. Figure 4.7 shows BRI Sharia as the lowest and also the highest value (0.7743 and 0.9787 accordingly) even that in the different years (on June in 2011 and December in 2013). Nonetheless, BRI Sharia on December in 2013 had more liquid than other BUS after the global financial crisis.

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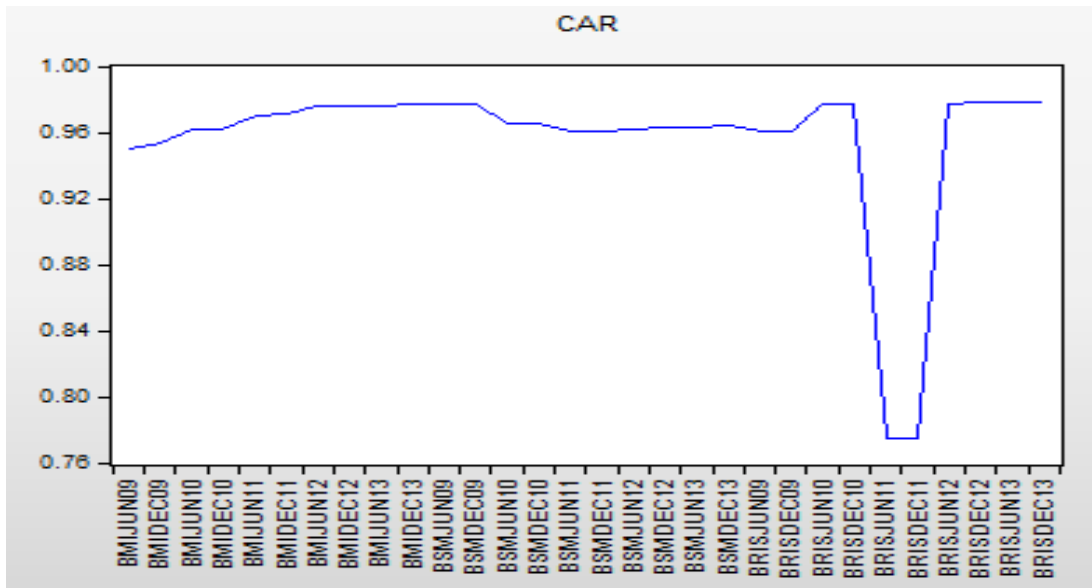
Figure 4.7
CAR Ratio of Islamic Commercial Banks (BUS)
Source: Annual Report of BUS 2009-2013

Based on Figure 4.8 record Bank Permata Sharia on December 2010 has had the higher value at 0.9856 and CIMB Niaga Sharia on June 2012 is the lowest (0.1411). Which means that CIMB Niaga Sharia at that time is illiquid compared to other UUS during 2009-2013.
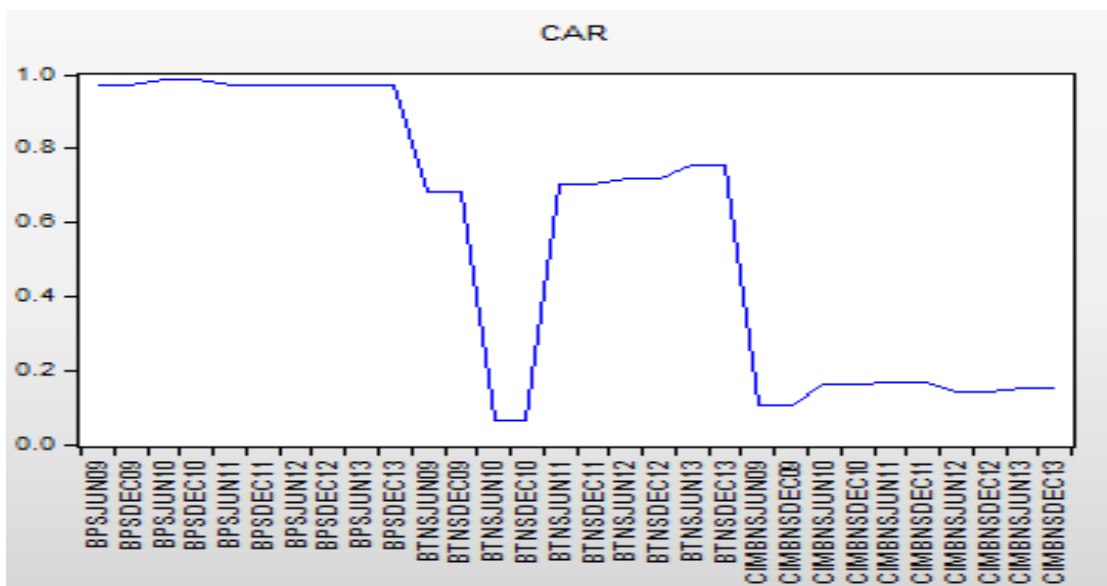

Figure 4.8
CAR Ratio of Islamic Business Unit Banks (UUS)
Source: Annual Report of UUS 2009-2013

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To sum up, BUS has more liquid than UUS based on FDR and CAR ratios. Both the ratio shows BUS is almost double values of UUS. Meaning that, BUS is greater to manage their financing and more liquid than UUS after the global financial crisis.

4.2.3 Solvency Risk Ratio of Islamic Banking

A bank is solvent when its total liabilities are greater than its total asset. The solvency ratio is used to gauge a bank's ability to meet its long term obligation. In this study, the solvency risk is measured by Equity Multiplier (EM) and Debt Equity Ratio.

Table 4.3
Solvency Risk Ratio of Islamic Banking

Ratio	Islamic Commercial Banks (BUS)				Islamic Business Unit Banks (UUS)			
	Mean	Max	Min	Obv	Mean	Max	Min	Obv
EM	29.60	54.57	1.59	30	38.55	136.60	4.47	30
DER	2.20	3.30	1.00	30	9.40	11.17	7.48	30

Source: Annual Report of Islamic banking 2009-2013

Table 4.3 shows EM and DER ratios of BUS and UUS during 2009-2013. The mean of BUS and UUS is significant different (29.60 and 38.56 respectively). That is because BUS's minimum is lowest than UUS between 1.59 and 4.47. That also happened in terms of maximums (54.58 and 137 accordingly). Hence, EM ratio indicates that UUS has borrowed more funds to finance their assets during 2009-2013.

Table 4.3 records DER of UUS was higher than BUS (2.20 and 9.41 respectively). Both of them have the minimum and maximum is closed (1 and 3.3 for BUS and 7.48 and 11.17 for UUS respectively). Thus, BUS was also better at financial performance than UUS during five years after the global financial crisis.

4.2.3.1 Equity Multiplier (EM)

Equity multiplier (EM) is a total asset divided to a total share capital. A higher EM indicates that bank has borrowed more funds to finance its asset which means the higher value of EM indicates greater risk for a bank. According to Figure 4.9, the highest of EM is Bank Muamalat Indonesia on December 2012 (54.58) and BRI Sharia on June 2009 as the lowest (1.59). That means that the highest and the lowest of EM happened in different years after the global financial crisis.
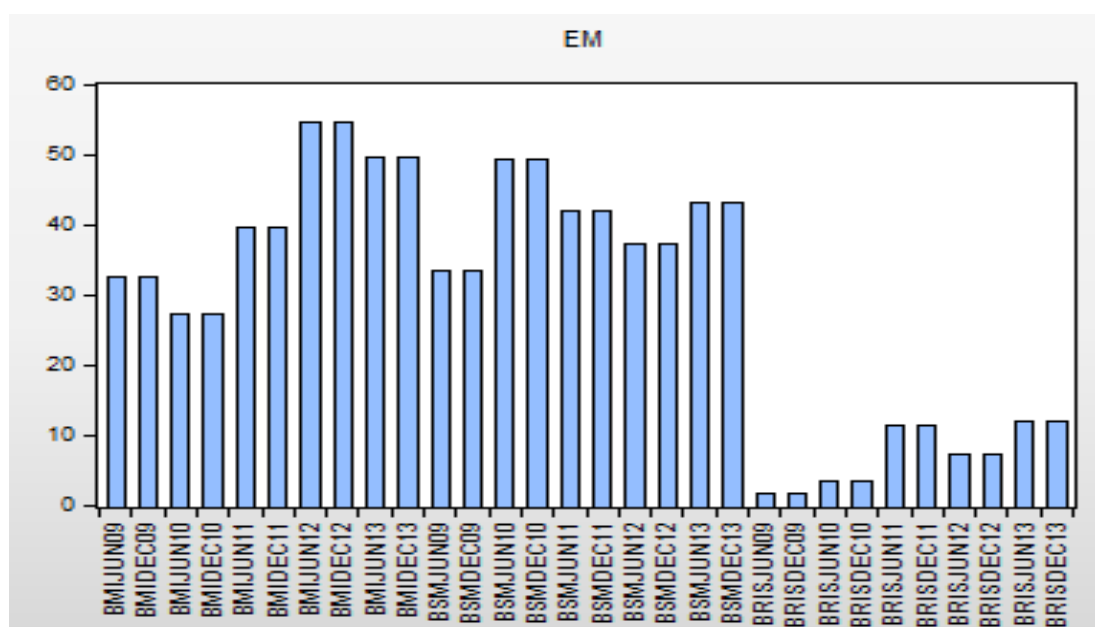

Figure 4.9
EM Ratio of Islamic Commercial Banks (BUS)
Source: Annual Report of BUS 2009-2013

Figure 4.10 shows the highest EM of UUS was Bank Permata Sharia on December 2013 (137) and the lowest is CIMB Niaga Sharia on June 2009 (4.4739). So, CIMB Niaga Sharia on June 2009 has the lowest risk compared to other UUS during five years (2009-20013).
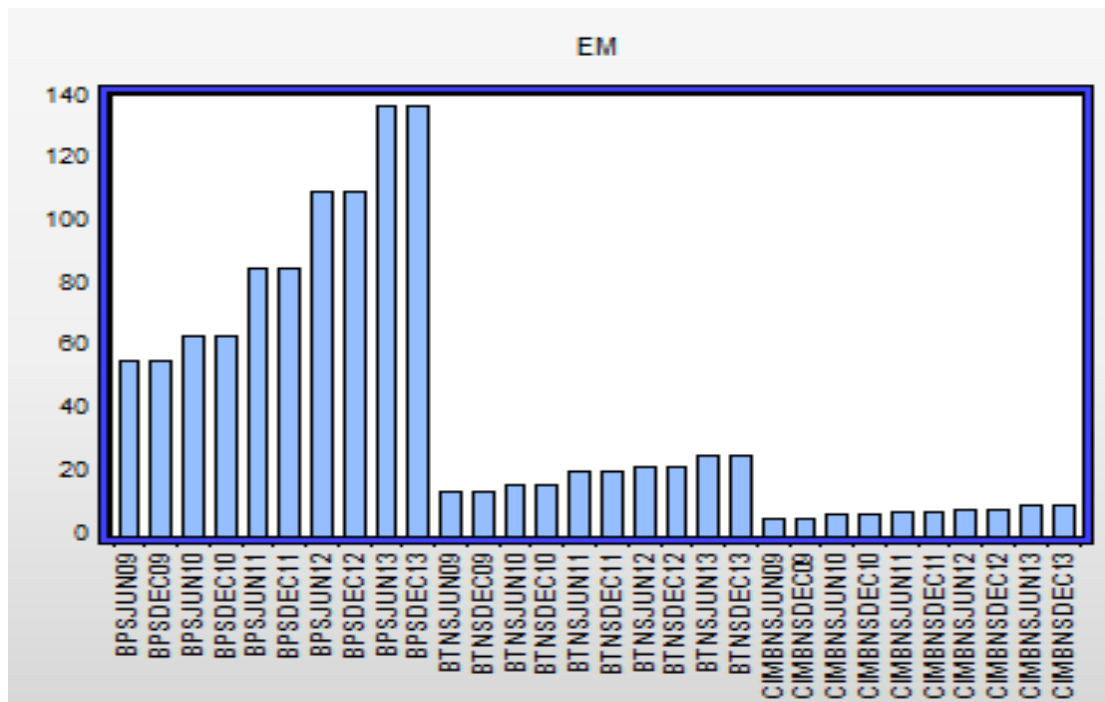
Figure 4.10
EM Ratio of Islamic Business Unit Banks (UUS)
Source: Annual Report of UUS 2009-2013

In short that BUS and UUS in term of EM during five years after the global financial crisis, Bank Muamalat Indonesia on December 2012 and Bank Permata Sharia on December 2013 (137 and 0.97 respectively) as the higher of EM ratio indicates greater risk for them. Opposite, BRI Sharia on June 2009 (1.59) and CIMB Niaga Sharia on June 2009 (4.47) as the lowest of EM ratio whose has also the lowest risk.

4.2.3.2 Debt Equity Ratio (DER)

Debt Equity Ratio (DER) is debt divided to equity capital. A higher DER means that bank has been aggressive in financing its growth with debt, because the lowest DER is a good sign for bank who has the little number of debt from the equity capital.

According to Figure 4.11 shows DER of BUS was fluctuate. The highest DER is Bank Muamalat Indonesia on December 2012 and BSM on December 2013 as the lowest (3.3 and 1 respectively). To conclude that in terms of DER, Bank Muamalat Indonesia on December 2012 is aggressively in financing their growth with debt compared to other BUS during 2009-2013.

Figure 4.11
DER Ratio of Islamic Commercial Banks (BUS)
Source: Annual Report of BUS 2009-2013

Figure 4.12 shows DER ratio of UUS in five years after global financial crisis. CIMB Niaga Sharia on June 2013 as the lowest (7.48) and BTN Sharia on June 2009 (9.84). Thus, BTN Sharia on June 2009 was good at managing their debt to finance their assets compared to other UUS in the same period of time.
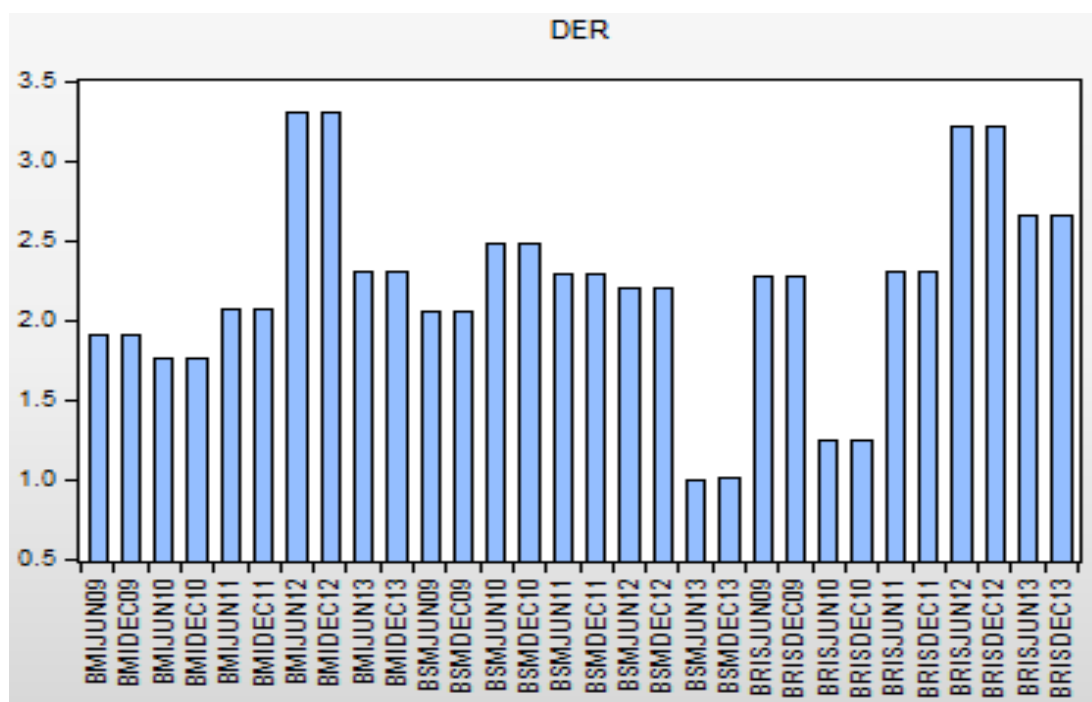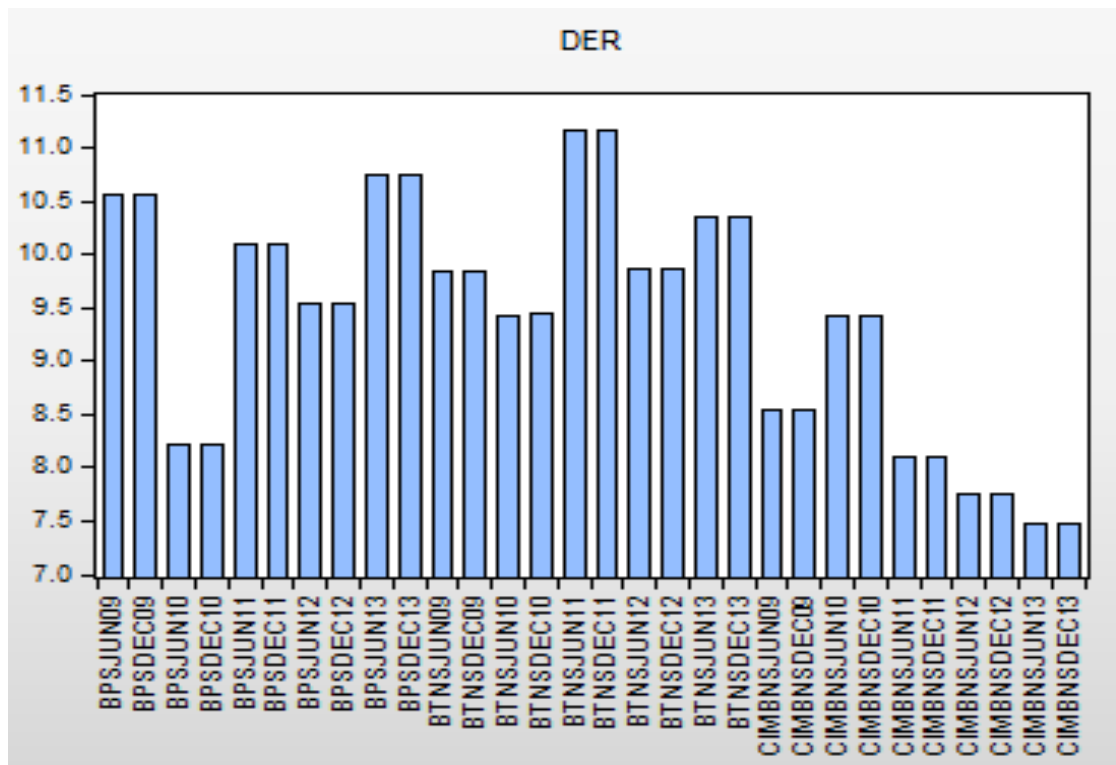

Figure 4.12
DER Ratio of Islamic Business Unit Banks (UUS)
Source: Annual Report of UUS 2009-2013

To sum up, in terms of solvency risk ratio, EM and DER shows BUS was also better at the financial performance than UUS during five years after global financial crisis. That means, solvency risk ratio indicates that UUS has borrowed more funds to finance their assets and so aggressive in financing their growth with debt. In the other meaning, UUS has higher risk than BUS during 2009-2013.

4.3 Independent Sample T-test

In this study, the independent sample T-test is employed to examine the significant difference between Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) as Islamic banking in Indonesia after global financial crisis since 2009-2013. The result of the independent sample T-test is shown in Table 4.4.

Table 4.4
The T-test's Result of Islamic Banking

Individual Test	T (P < t)		
	Mean	Value	Probability
Profitability Ratio			
ROA	0.0042	11.9137	0.0000***
ROE	0.0800	7.2462	0.0000***
Liquidity Ratio			
FDR	0.8578	0.9057	0.3688
CAR	0.9500	-4.4007	0.0000***
Solvency Risk Ratio			
EM	32.5230	0.3789	0.7062
DER	1.9008	8.0843	0.0000***

*** Significant at 0.01 level
Source: Annual Report of Islamic banking 2009-2013

A significant is when the profitability value is less than the size of test (P < 0.01), so the null hypothesis is rejected. Based on the result on the Table 4.3, the hypothesis I, H1o is rejected and H1a is accepted because both of the probabilities' ROA and ROE are 0.000 < 0.01. Which means that is a significant difference at 1% significant level

between the profitability ratio (ROA and ROE) of BUS and UUS in Indonesia during 2009-2013. Because at that time, in terms of ROA and ROE's values of UUS are highest than BUS.

In term of the hypothesis II, Table 4.3 founded that H2o is failed to rejected and H2a is failed to accepted for FDR ratio and oppositely for CAR ratio (0.3688 > 0.01 and 0.0000 < 0.01 respectively). So, in the liquidity ratio there are two meanings that FDR ratio is no significant different and CAR ratio is significant difference between BUS and UUS in Indonesia during 2009-2013. Even the liquidity ratio shows BUS's value is almost double than UUS.

Table 4.3 also recorded that the hypothesis III, the EM ratio shows H3o is failed to rejected and H3a is failed to accepted (0.7062 > 0.01). That is contrast with DER ratio which means H3o is rejected and H3a is accepted (0.0000 < 0.01). Moreover, in the solvency risk ratio record is no significant difference in term of EM ratio but DER ratio is significant difference between BUS and UUS in Indonesia during 2009-2013. Means, UUS has more debt than equity capital than BUS.

Overall, the financial performance of Islamic banking shows that there are the significant difference in terms of profitability, liquidity and solvency risk ratio between BUS and UUS in Indonesia during 2009-2013.

4.4 Conclusion

The data used in this study was obtained from 60 observations from Islamic banking after the global financial crisis in Indonesia. They are Bank Muamalat Indonesia (BMI), Bank Rakyat Indonesia Sharia (BRIS), and Bank Sharia Mandiri (BSM) as BUS samples. Sample for UUS are Bank Permata Sharia (BPS), Bank BTN Sharia (BTNS), and Bank CIMB Niaga Sharia (CIMBNS). The data took by semi-annually report in five years during 2009-2013. Descriptive statistic and independent sample T-test as the data technique analysis shows the significant difference of financial performance between BUS and UUS in Indonesia during 2009-2013.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarises the result of the analysis explained in the previous chapters and answer the research questions mentioned in chapter one and also concludes the answers from the hypotheses. This chapter begins with summary of findings, then policy implications and limitation of the study. It was end up with the future research and recommendation, and also the conclusion of this study.

5.2 Summary of Findings

Based on the results that are explained in chapter four, the descriptive statistic and independent sample T-test are used in order to evaluate and examine the difference of financial performance of Islamic banking after the global financial crisis in Indonesia. Where the sample of this study is Islamic banking namely: Bank Muamalat Indonesia (BMI), Bank Rakyat Indonesia Sharia (BRIS), and Bank Sharia Mandiri (BSM) as BUS samples. Then, the samples for UUS are Bank Permata Sharia (BPS), Bank BTN Sharia (BTNS), and Bank CIMB Niaga sharia (CIMBNS). The data is taking by semi-annually report in five years during 2009-2013. The ratios are profitability (ROA and ROE), liquidity (FDR and CAR), and solvency risk (EM and DER) in order to compare BUS and UUS.

First objective in this study is to evaluate the financial performance of Islamic banking in terms of the profitability ratio in Indonesia after the global financial crisis. UUS has demonstrated better ROA and ROE as indicated by the highest values compared to BUS. That shows UUS as a new Islamic banking growth quickly than BUS even BUS is established early than UUS. Although, UUS is more effective in using their assets to generate income compared to BUS

Second objective in this study is to evaluate the financial performance of Islamic banking in terms of the liquidity ratio in Indonesia after the global financial crisis. The result shows he BUS values is almost double than UUS for FDR and CAR ratio. Based on the data shows UUS's debt is increasing year by year and that is impact to UUS's performance. In contrast, BUS has a little amount of debts than equity capital. Thus, BUS is greater to manage their financing and more liquid than UUS.

Third objective in this study is to evaluate the financial performance of Islamic banking in terms of the solvency risk ratio in Indonesia after the global financial crisis. This ratio is concludes the EM of BUS is greater than UUS and also founded DER of UUS is higher value than BUS. That means, solvency risk ratio indicates UUS has borrowed more funds to finance their assets and so aggressive in financing their growth with debt. Hence, UUS has higher risk than BUS during 2009-2013.

However, the independent sample t-test employs to examine the significant differences between BUS and UUS as Islamic banking in Indonesia after the global financial crisis. Overall, all ratios are significant difference between BUS and UUS during 2009-2013.

5.3 Policy Implications

This study focuses on financial performance of Islamic banking after the global financial crisis in Indonesia. It is because Indonesia was one of affected countries by the global financial crisis in 2007-2008. However, Bank Indonesia (BI) recorded the financial performance of Islamic banking, but Bank Indonesia (BI) did not compared financial performance between BUS and UUS during that time. As we know, BUS was came early than UUS, thus BUS should have had greater performance compared to UUS.

This study employs to evaluate and examine the differences between financial performance of BUS and UUS in Indonesia during 2009-2013, this study uses descriptive analysis and independent sample T-test. After analysing the data, the result shows the different from both of BUS and UUS by descriptive statistic. Next, the independent sample T-test shows the financial performance between BUS and UUS have the significant difference during that time.

Overall, both of BUS and UUS have good performance after the global financial crisis. In the other side, they should increase their assets to generate their profits. After that, the bank must aware of the cash in order to have more liquid and to solve the higher risk in their financial performance. In short, this study shows the different of financial performance between BUS and UUS in Indonesia after the global financial crisis during 2009-2013.

5.4 Limitation of the Study

The limitation of this study only focuses on comparison of the financial performance between BUS and UUS after the global financial crisis. In this study, following how to know and measuring the development of Islamic Bank performance after the global financial crisis. This study further to evaluate the financial performance from the data by the three ratios of the financial performance are profitability ratio (ROA and ROE); liquidity ratio (FDR and CAR); and solvency risk ratio (EM and DER).

However, the population in this study was domestically chosen in Indonesia. There was 11 of BUS and 24 of UUS in Indonesia. To get the sample in this study, it was used purposive sampling by selected 3 characteristics of each bank should meet the qualification on that. They were Bank Muamalat Indonesia (BMI), Bank Sharia Mandiri (BSM), and BRI sharia as BUS. The other 3 are Permata Sharia, BTN Sharia, and CIMB Niaga Sharia as UUS. Hence, to answer the question of this study, the writer used descriptive statistic and independent sample T-test that employs to evaluate and examine the different of financial performance of Islamic banking during 2009-2013.

5.5 Future Research and Recommendations

This study has had evaluate and examine only for six Islamic banks in Indonesia in terms of financial performances. Also, it only focuses on after the global financial crisis in five years during 2009-2013. Thus, this study could be more generalized to

a large number of populations by evaluating and examining the financial performance in all Islamic banks in Indonesia. Another way, this could also be comparing the financial performance of Islamic banking with the other countries such as Malaysia, Singapore, Brunei Darussalam, etc.

Furthermore, the study of financial performance could have more ratios to show the financial performance good or not. So, the result would be different with previous study. Another useful of the study is to see the relationship of the financial performance and efficiency of Islamic bank.

5.6 Conclusion

This study was to evaluate and examine the financial performance by the three ratios of the financial performance namely profitability ratio (ROA and ROE); liquidity ratio (FDR and CAR); and solvency risk ratio (EM and DER), that to compare the Islamic Commercial Banks (BUS) and the Islamic Business Unit Banks (UUS) as Islamic banking in Indonesia after the global financial crisis (2009-2013).

The finding shows the different of Islamic banking such as Bank Muamalat Indonesia (BMI), Bank Sharia Mandiri (BSM), BRI sharia as BUS. The other there are Permata Sharia, BTN Sharia, and CIMB Niaga Sharia as UUS. The result that was analyzed by using independent sample T-test also shows the significant difference of financial performance between BUS and UUS during 2009-2013.

As recommendation to the Islamic banking in Indonesia, they should increase their asset to generate their profit. Moreover, the bank must be aware of the cash in order to have more liquid and to solve the higher risk in their financial performance. Next, the recommendation for another study, the study could be more general to a large number of populations by evaluating and examining the financial performance in all Islamic banks in Indonesia or could be compared through across to the country.

Finally, this study answered the objectives in terms of evaluating the differences of financial performance among Islamic banking and have the significantly difference of financial performance between BUS and UUS after the global financial crisis in Indonesia.

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