SURAT KETERANGAN KLARIFIKASI TINGKAT SIMILARITAS ARTIKEL
SKET/ 812 /XII/2018/UBJ

Rektor Universitas Bhayangkara Jakarta Raya dengan ini menerangkan bahwa:

Nama	:	Dr. Irma Setyawati, S.E., M.M
NIP	:	196610011993032001
NIDN	:	0001106601
Fakultas/Program Studi	:	Ekonomi/Magister Manajemen

Dosen sebagaimana di atas, telah melakukan publikasi karya ilmiahnya, sebagai berikut:

Nama artikel	:	Assessing the Islamic Banking Financial Performance in Indonesia
Penulis	:	Irma Setyawati, Dwi Kartini, Sulaeman Rachman, Erie Febrian
Nama jurnal	:	International Journal of Education and Research
Volume	:	Volume 3, Number 10 (Part – 2)
Tahun	:	Oktober, 2015
Penerbit	:	Contemporary Research Center

Hasil *scan plagiarism* dengan menggunakan dengan menggunakan *software Turnitin*, pada tanggal 5 November 2018, ditemukan tingkat similiritas sebesar 99%. Adapun klarifikasi yang kami berikan adalah:

1. www.ijern.com sebesar 98%, berasal dari URL International Journal of Education and Research (IJERN) di mana artikel tersebut diterbitkan.

    a.

b.

Title: Examining Structural the Effects of Destination Image of Makassar, Indonesia on the Tourist Destination Satisfaction

Author: [1]Ahmad Ab., [2]Otto Randa Payangan, [2]Nurdjanah Hamid, [2]Idayanti Nursyamsi

PDF

Title: ASSESSING THE ISLAMIC BANKING FINANCIAL PERFORMANCE IN INDONESIA

Author: IRMA SETYAWATI, DWI KARTINI, SULAEMAN RACHMAN, ERIE FEBRIAN

PDF

2. Submitted to CVC Nigeria Consortium sebesar 2%, terkait dengan kata-kata International Journal of Education and Research yang merupakan *header* dari nama jurnal di tiap-tiap halaman dari artikel

2

International Journal of Education and Research

Submitted to CVC Nigeria Consortium
Student Paper

P

Because submitted papers remain the intellectual property of their authors, instructors, and respective institutions, we are unable to show you the content of this paper at this time. If you would still like to view this paper, please click on the institution name above to submit a permission request to the author's instructor.

Demikian surat pernyataan klarifikasi tingkat similiritas artikel jurnal untuk dapat digunakan sebagaimana mestinya.

Jakarta, 07 Desember 2018

REKTOR UNIVERSITAS BHAYANGKARA JAKARTA RAYA

Dr. H. BAMBANG KARSONO, Drs, S.H., M.M.
INSPEKTUR JENDERAL POLISI (PURN)

ASSESSING THE ISLAMIC BANKING FINANCIAL PERFORMANCE IN INDONESIA

BY

IRMA SETYAWATI
Student of Doctoral Program of Management Science at Padjadjaran University, Bandung, Indonesia
Lecture of Economic Faculty at Institut Bisnis & Informatika Kosgoro 1957, Jakarta, Indonesia
Email : s_etyawati@yahoo.com
+62811847114

DWI KARTINI
Proffesor of Doctoral Program at Padjadjaran University, Bandung, Indonesia
Email : dwi.kartiniy@gmail.com
+628157000016

SULAEMAN RACHMAN
Lecture of Doctoral Program at Padjadjaran University, Bandung, Indonesia
Email : sulaeman.rachman@fe.unpad.ac.id
+62818209559

ERIE FEBRIAN
Lecture of Doctoral Program at Padjadjaran University, Bandung, Indonesia
Email : erie_febrian@fe.unpad.ac.id

ABSTRACT

Research aims to assess the Islamic bank performance in Indonesia. There are assessed six ratio includes return on assets, finance deposit ratio, capital adequacy ratio, non-financing income divided by total assets, non performing financing and market share. The results showed that finance deposit ratio, capital adequacy ratio, ratio of operating expenses to total assets and non-performing financing in accordance with the target set, whereas ratio of non-financing income by total assets and market share is not in accordance with the targets set

Keywords *– financial performance, Islamic banking*

1.0 Introduction

The recent credit crisis of USA, also known as subprime mortgage crisis as one of the main indicators of the 2007-2010 financial crisis, has wreaked havoc and extreme turbulence in the world financial markets. A credit crisis, also known as a credit crunch, is commonly referred to as severe shortage of money or credit in the economy (Farook, 2009). Hence, good banking performance is very important in the national economy or international, and supervision needed all the time. Banks play an important role in the stability and development of the economy through their expected contribution to improving the efficiency of reallocating and utilizing funds and ultimately resources in the economy. Therefore, the stability, efficiency, and consequently profitability of the banking sector are of vital importance for the stability and growth of the

whole economy (Al-Omar & Al-Mutairi, 2008). With many obstacles, sharia banks shown increase extraordinary in reserve bank growth and the number of clients (Alam, et al., 2011).

The cause of almost conventional banks affected the crisis exception Islamic bank, according Riawan (2010) because they were adheres the capitalism theory, in which management and business is run for the single purpose to maximization shareholders welfare, as a result a business organization built only to win the competition so that profit can be optimal. Its impact every element in the organization had to move to single purpose to maximization shareholders welfare, while psychological sideand human spiritual neglected. Now sharia banking become an essential part in the world and were regarded as an alternative system that worthy of some systems offered, so that were received in universal (Noor & Ahmad, 2012). `

Islamic finance in Indonesia, the largest Muslim country has evolved since around 1990, mainly in response to political demands from Muslim scholars and organizations. The first Islamic cooperatives were established in 1990, followed by rural banks in 1991 and the first Islamic commercial bank in 1992 (Seibel, 2008; Abdu & Omar, 2012). In 1998, Bank Indonesia gave official recognition, as part of a new banking act, to the existence of dual banking system, conventional and Islamic, or shariah-based (Seibel, 2008). During monetary crisis 1997, only Islamic banks that is not an apocalyptic severe in the Indonesian financial system. With the support of the act of number 21 of 2008 about sharia banking, conventional banks develop their businesses into Islamic bank (BUS) or Islamic business unit (UUS) and convert rural bank into rural sharia bank by operating based on sharia principle (Abduh & Omar, 2012). The success of the operation of sharia banks and its growth due the powerful alternative than conventional banks' practice (Al-Salem, 2008; Safiullah, 2010; Alam, et al, 2011; Ahmad & Ahmad, 2011).

This research was aimed to identify seven ratio of Islamic bank performance in Indonesia by monthly data from 11 Islamic banks from January 2011 until December 2013 includes finance deposit ratio, capital adequacy ratio, ratio of operating cost by total assets, ratio of non-financing income by total assets, non performing financing and market share. Research on Islamic banks and financing is the relatively new phenomena in global financial markets and its research only a few and scattered with limited range. Whereas research on performance in Islamic banking banks little done.

2.0 Theoretical framework
2.1 Profitability

Theories about the bank's profitability began in the early 1980s, applied using two models of industrial organization. The theory are theory of market power (MP) and theory of efficiency structure (ES) and added portfolio balance theory (Athanasoglou, et al, 2006; Olweny & Shipho, 2011). Application of the hypothetical market power in the banking industry stated that the profitability of a bank is affected by the structure of the industrial market. There are two approaches in the theory of market power, namely the structure conduct performance (SCP) and the relative market power (RMP). Structure conduct performance approach suggest that the level of concentration in the banking industry has the potential to make bank market forces so as to raise its profitability. Banks that have a high concentration in the market will gain abnormal profit because of its ability in determining the interest rate is lower and provide a level higher loan interest as a result of collusion or monopoly, as compared to companies operating with small market concentration, irrespective of efficiency (Tregenna, 2009). Hypothesis structure conduct performance or collusion postulates that market structure affects the behavior or attitude of the company through pricing policy and investment, and ultimately affect the profitability (Mirzaei, et al., 2011).

While the relative market power approach states that bank profitability is influenced by market share. Efficiency structure hypothesis which states that banks can generate higher profits due to more efficient than other banks. There are two approaches in the efficiency structure theory, namely X - efficiency and scale - efficiency. X - efficiency approach states that a more efficient

company would be higher profitability due to lower issuance costs (Athanasoglou, et al, 2005; M. Kabir Hassan, 2006; Olweny & Shipho, 2011). While the scale efficiency approach - stated that the bank has the economies of scale not due to differences in management or technology. Equilibrium theory is a model of a diversified portfolio of assets. Optimum benefits derived from assets is a function of policy decision-making is determined by several factors, such as the rate of return of portfolio assets, the risk of ownership of assets and the size of the portfolio (Atemnkeng & Joseph, 2006; Olweny & Shipho, 2011) ,

Market power theory assumes that bank profitability is a function of external market factors, while the theoretical efficiency and balance portfolio structure assumes that the bank's profitability is influenced by internal efficiency and management policies. Thus, bank profitability is a function of internal and external variables. In the study Aburime (2005), Al Tamini (2010), Ongore & Kusa (2013), internal variables that affect bank performance (profitability) is characteristic of individual banks determined by the decisions of the board of directors and internal management, while external variables is widely sectors in the economy which may affect the sustainability of the bank

Profitability measured by return on assets (ROA) to measure the overall ability of the company to generate profit with the overall assets owned by the company. With ROA, can be assessed efficiency companies use assets in operating activities to produce profits. The return on assets (ROA) was obtained from the net profit before tax divided by total assets.

2.2 Liquidity

Liquidity refers to the ability of the bank to fulfill its obligations, mainly of depositors (Ongore & Kusa, 2013). Firm liquidity relates to the ability of a company to convert assets to cash (Broome & Robinson, 2009). Liquidity is vital in periods of low earnings where the firm is unable to access capital markets and serves as an important buffer to continue normal business operations (Anderson, 2002).

Research conducted Shen, et. al (2009) may use the current assets divided by demand deposits, whereas the other sizes use the ratio of current assets to short-term funding (Kosmidou, et.al, 2005). Bank liquidity risk arising from the bank's inability to accommodate the decrease in liabilities or increased funding on the assets side (Sufian, 2010) and to measure liquidity risk used liquidity ratio (Shen, et.al, 2009). The other studies used the ratio of loans to total assets (Demirguc-Kunt and Huizinga, 1999; Athanasoglou et al., 2006), the ratio of net loans to finance short-term (Pasiouras and Kosmidou, 2007; Kosmidou, 2008; Naceur and Kandil, 2009). Previous studies, the liquidity ratio is calculated by using the ratio of current assets to total assets (Bourke, 1989; Molyneux and Thornton, 1992; Barth, et.al, 2003; Demirguc-Kent, et.al, 2003), the ratio of current assets against third party funds (Shen, et, al, 2009) and the ratio of current assets to short-term funding (Kosmidou, et.al, 2005). Broome & Robinson (2009) use cash flow ratios *fcf_sales* and *ocash_sales* to measure liquidity. Vlachvei & Notta (2009) used the ratio of current assets over total assets to measure liquidity in rapid growth firms and slow growth firms. High-value ratios mean higher risk of liquidity and banks will experience liquidity problems (Shen, et.al, 2009).

In the research used financing to deposits ratio, shows the liquidity risk is the ratio of a bank financing to fund third parties.

2.3. Capital

Solvency indicates a healthy company. The solvency ratio was calculated by dividing stockholders' equity by total assets. The greater this ratio will be more healthy companies, whereas company with a small solvency ratio means shareholders' capital is less than the debt. Companies with such situations very high risk for bankruptcy (Loi & Khan, 2012; Benhayoun, et.al, 2014). In the pecking order theory there were a hierarchy to financing firm growth. A company's manager will use retained earnings first as input for investments and will borrow at the next stage. When the company is in the first stage, the manager will choose to invest using the retained earnings to grow. This means that the internal financing will continue

until the retained earnings equal to zero, then the nominator of the solvency ratio will decline and the solvency will decrease.

In the research used capital adequacy ratio, show one measure to determine capital adequacy of banks if experiencing a shock. Although there are no provisions on how the amount of capital that is sufficient to overcome the problem of capital, but the government would be pleased if the bank has a higher capital than the minimum amount has been set to reduce the case of bank failure. Considered capital reserves can help banks to cover losses and avoid failure in the long term (O 'Hara, 1983; Dowd, 1999; Chen, 2003; Toby, 2008; Petersen, 2008; Awojobi & Amel, 2011). Under the agreement Basel I and Basel II, banks are required to provide a minimum capital of 8%. Similarly, Bank Indonesia Regulation Number 10/15/PBI/2008 mentioned banks are required to have a capital adequacy ratio of 8% minimum. Capital adequacy ratio is calculated by dividing the amount of capital to risk-weighted assets total (O 'Hara, 1983; Chen, 2003; Toby, 2008; Petersen, 2008; Awojobi & Amel, 2011).

2.4. Income Diversification

Non financing income was a proxy of non-traditional activities, to measure the diversification of income. Non-financing income includes commissions, services, fees, underwriting fees, net income from sales of securities and net income from the sale of foreign exchange (Sufian & Habibullah, 2010). In his research, Sufian (2010), Sufian and Habibullah (2010) using NII/TA (non-interest income divided by total assets) for measuring the diversification of the bank's traditional funding sources. The increase revenues from non-financing (fee-based) is expected to raise profits. If expectations of an impending increase in revenues from non-financing, the bank's business shifted from the traditional intermediaries, so that will reduce income from financing and simultaneously will reduce the financing problems and the risk of financing (Pennathur, et.al, 2010).

2.5. Asset Quality

Asset quality is one of the factors that affect the credit risk in conventional banks, where the value of the portfolio unchanged because there are unexpected changes in the credit quality of the issuer or a business partner. In the conventional banking system, lending activity is considered to be a business credit risk. However, Islamic banking, lending operations have been replaced by investment and partnership contract, so the financing risk management becomes more important (Misman, 2012).

Non-performing financing is the ratio between the funding jammed with total financing. The mean a bad loans if the bank really is not capable of facing the risks posed by the loans. Credit risk is defined as the risk of loss with respect to the borrower (counterparty) can not and does not want to fulfill the obligation to pay back the borrowed funds in full at maturity or afterwards (Yunis, 2008). An indicator showing losses due to credit risk is reflected in the amount of non-performing loans, the Islamic banking terminology called non perfoming financing.

2.6. Market Power

Market power theory in the banking industry stated that the bank's performance is affected by the structure of the industrial market. There are two approaches in the market power theory, namely the structure conduct performance and the relative market power. Structure conduct performance approach suggest that the level of concentration in the banking industry has the potential to make bank market power to raise its profitability. Banks that have a high concentration in the market will gain abnormal profit because of its ability in determining the interest rate is lower and provide a level higher credit interest (Tregenna, 2009). Whereas the relative market power approach stating that the bank's performance is influenced by market share (Athanasoglou, et al, 2005; Hassan Kabir M., 2006; Olweny & Shipho, 2011).

Market share is the ratio calculates a company's total product sales compared to the total industry (Geurts & Withlark, 1993). Market share reflects the current competitive position in the market. Companies with a large market share can give satisfaction to customers with better and eventually will enjoy a

competitive advantage (Schawalbach, 1991). Customers using market share as a signal of quality of products produced by the company (Jacobson, 1988).

The higher market share lead to greater profits because companies have market power in industry, and scale effects and learning effects make lower cost (Buzzel et al,1975). In his research, Phillips et. al (1989) found that market share influence return directly and also indirect effect through cost reduction.

3.0 Methodology

This study used a descriptive design which is intended to obtain a picture about the reality or test braid on the fact that already exists or is already underway on the subject. Within this design, researchers did not do manipulation treatment or placement subject.

Data form of monthly financial reports of 11 Islamic banks in Indonesia, which consists of a balance sheet, income statement, asset quality and capital adequacy calculation period January 2010 to December 2013, were obtained from published reports of Bank Indonesia and the Financial Services Authority. The eleven Islamic banks in Indonesia are PT Bank BNI Syariah (BNI-S), PT Bank Muamalat Indonesia (BMI), PT Bank Syariah Mandiri (BSM), PT Bank Mega Syariah (BMS), PT Bank BCA Syariah (BCAS), PT Bank BRI Syariah (BRIS), PT Bank Jabar Banten Syariah (BJBS), PT Bank Panin Syariah (BPnS), PT Bank Bukopin Syariah (BKPS), PT Bank Vicoria Syariah (BVS), PT Maybank Syariah Indonesia (MBS).

Table 3.1 shows the indicators used to measure the financial performance of Islamic banks.
Table 3.1: Indicators of Financial Performance of Islamic Banks in Indonesia During the Period 2011 – 2013

No.	Variable	Sub variable	Concept	Indicator
1.	Profitability	Return on asset (ROA)	The company's ability to generate profits by using all its assets	Comparison between net income before tax to total assets
2.	Liquidity	Finance to deposit ratio (FDR)	Parameters that indicate the effectiveness of the distribution of third party funds	Comparison between financing with third party funds
3.	Capital	Capital adequacy ratio (CAR)	Parameters that indicate the minimum capital to be provided by banks	Comparison between capital to risk-weighted assets (RWA)
4.	Income diversification	Non-financing income divided by total assets (NFI/TA)	Parameters that indicates the diversification of income	Comparison between the non-financing income to total assets
5.	Assets Quality	Non Performing Financing (NPF)	Parameters that indicate the quality of provision of funds and adequacy of reserves	The comparison between the amount of financing problems divided by total financing extended
6.	Market power	Market share (MS)	Parameters that indicates the market share of banks	Comparison of the total assets of Islamic banks given period divided by total assets of the entire banking industry this period

To determine the financial performance of Islamic banks in more depth, then made a comparison with the conventional banks during the same period

4.0 Empirical Result

Based on data from the financial statements of 11 Islamic banks in Indonesia, the empirical results are presented in Table 4.1 below.

Table 4.1: Data Statistics

```
    Variable |       Obs        Mean    Std. Dev.        Min        Max
-------------+-------------------------------------------------------------
         ROA |       396        .996       1.102      .00067      4.204
         FDR |       396     140.968      47.721     108.801    442.355
         CAR |       396     17.6107       6.393           8      39.37
      NFI/TA |       396       1.886       2.174        .018     16.977
         NPF |       396        .823        .704        .003      3.921
          MS |       396       9.042       12.38        .346      46.13
-------------+-------------------------------------------------------------
```

Source : Data processed

4.1. Return on Assets (ROA)

Based on table 4.1, the average of ROA was 0.996%. When viewed from the mean of ROA indicates less good because its not in accordance with the regulations of Bank Indonesia Number 9/9/PBI /2007 regarding amendments to the regulations of Bank Indonesia Number 8/2/PBI/2006 on quality assets assessment of commercial banks conducting business based on sharia principles that ROA of commercial banks should be above 1.5%.

The highest of return on assets is 4.204% in Bank Muamalat Indonesia in March 2013. The ROA which centipede during the study period due to the increase in Bank Muamalat Indonesia business growth seen in the growth of the company's assets were driven by portfolio net financing growth, thereby increasing profit income (Bank Muamalat Indonesia, Annual Report 2013).

The lowest of return on assets is 0.0006% in Panin Syariah in April 2011. The ROA which is due to small operational expenses Panin Syariah bank is very large. Based on the bank's annual report Panin Syariah in 2012, Panin Bank Syariah launched in 2012 as a year of growth marked by the addition and enhancement of human resources, strengthening of infrastructure networks, information systems and technology, risk management and the implementation of good governance.

To determine the profitability performance as indicated by ROA, then made a comparison between Islamic banks with conventional banks with the same period, as shown in Figure 4.1.
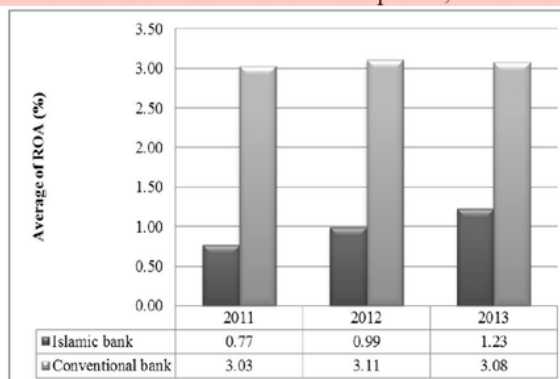

Figure 4.1 : The Average of ROA in Islamic Bank and Conventional Banks in Indonesia, Period 2011 - 2013

Based on Figure 4.1, overall, the profitability of Islamic banks seen from ROA in 2011-2013 has improved and increased. Compared with conventional banks which have an average of ROA above 3%, the level of profitability of Islamic banks is good enough ranged between 1% - 2%. High and low ROA influenced how the bank manager to allocate more assets into productive assets. But internal and external factors affecting the decisions of Islamic bank manager. Internal factors are limitations in the distribution of funds, products of Islamic banks is still limited, the revenue contribution from non-operating activities (income from activities other than disbursements) is relatively limited.

While external factors can be caused due to a lack of public understanding of the Islamic banks. Dian and Ahmed (2011) states in his research that the concept of murabaha that most popular in Islamic microfinance institutions, only 26.85% of which is understood by customers, customers who do not understand the concept of Mudharabah amounting to 80.72%, the same pattern applies to musharakah concept, whereas for ijara products, only a small percentage of customers who understand the concept, most of the customers do not recognize Islamic bank products. Public ignorance about Islamic bank products can be due to lack of education about the products Islamic bank by Bank Indonesia, the Financial Services Authority or the Islamic bank itself.

4.2. Finance to Deposit Ratio (FDR)

Based on table 4.1, FDR has an average of 140.968%. With a standard deviation of 47.721% indicates that the data deviates by ± 47.721 %% of the average. Standard deviation is smaller than the average value, the average value can be used as a representation of all the data.

The FDR was high of 422.355% at Bank BNI Syariah in August 2013, that mean every US $ 1, - third party funding source is used in the form of current assets of US $ 4,224. The higher of FDR, show the better the level of liquidity of a bank, but will impact on the profitability, because many funds derived from third party invested in unproductive assets or lack of ability of banks to collect funds from the public. The high value of FDR at Bank BNI Syariah in August 2013 due to financing improved considerably higher than the third-party funds.

While the FDR was low of 108.801% at Maybank Syariah in August 2013. The FDR of 108.801%, or 1,080 times means that every US $ 1, - third party funding sources used for financing of US $ 1,080. The lower of FDR is getting less good level of liquidity of a bank, but will increase the profitability for more third-party funds invested in productive assets or bank succeeded in collecting funds from the public. The lower of finance to deposit ratio at Maybank Syariah in August 2013 due to third party funds increased considerably higher than the financing.

To determine the liquidity performance as indicated by FDR, then made a comparison between Islamic banks with conventional banks with the same period, as shown in Figure 4.2.
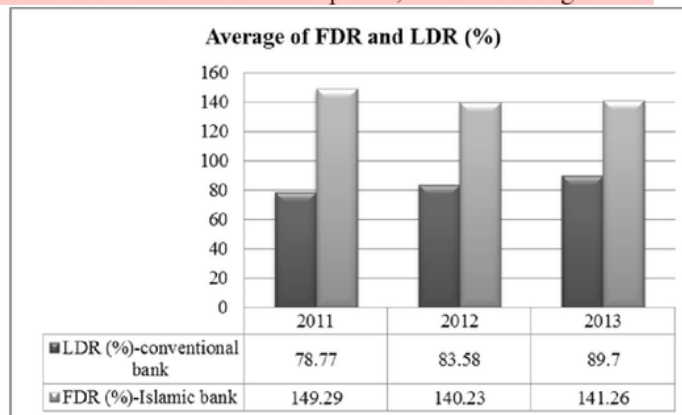
Average of FDR and LDR (%)

	2011	2012	2013
LDR (%)-conventional bank	78.77	83.58	89.7
FDR (%)-Islamic bank	149.29	140.23	141.26

Figure 4.2 : The Average of FDR in Islamic Bank and LDR in Conventional Banks in Indonesia, Period 2011 - 2013

Based on Figure 4.2, the average of LDR of conventional banks increased during the study period until it reaches 90%, while the FDR Islamic banks drop further to 140%. Good liquidity for conventional banking by 50% - 85% based on Bank Indonesia Circular Letter No. 6/23/ DPNP May 31, 2004, but the nature of Islamic banking business is not the same as conventional banking. Although the FDR Islamic banking is ranked 4 revolves around the 85% <FDR <100%, but the level of FDR, which reflects the high level of productivity in the use of bank funds. The level of FDR is high (above 100%) is ideal for Islamic banks.

In Islamic banking industry, the trend of growth in financing higher than the funding, because Islamic banking instruments are very limited, so the banks do not have many options for placing their excess liquidity. In addition, FDR is greater than 100% is caused also by the facility Islamic financial market is still small. Will be different when the Islamic financial market conditions have become more sophisticated, given before channeled into financing, third party funds will be used to enter into the Islamic financial instruments such as Bank Indonesia Certificates Sharia (SBIS) and Sharia Government Securities (SBNS).

Third party funds is seen as a mandate, so that Islamic banking shall distribute it to the real sector (non-interest). To keep amount of FDR, the bank's ability to add third-party funds has become very important business of Islamic banking using the principles for the results thus depositors will save money if it gets yield favorable results and gain certainty that the funds saved channeled all business activities in accordance with Islamic law. In addition, Islamic banking is still possible to grow, meaning that Islamic banking can optimize resources for expansion and growth of Islamic banking financing still needs to be improved because its market share in Indonesia is still below 5% of the total national banking industry loans.

4.3.   Capital Adequacy Ratio (CAR)

Based on table 4.1, capital adequacy ratio had a mean of 17.611%. With a standard deviation of 20.29% indicates that the data deviates by ± 6.393% of the average. Standard deviation is smaller than the average value, the average value can be used as a good representation of the overall data.

The CAR was the highest at 39.37% in Bank Victoria Syariah in February 2012. The high of CAR due to risk weighted assets (RWA) PT Bank Victoria Syariah still weighs little in which the use of the funds contained in assets as well as the use of the administrative accounts are still scattered in the post with a low risk. While the lowest of CAR of 8% in BNI Syariah Bank in September 2013. The condition in accordance with the percentage of the minimum capital requirements required by the Bank for International Settlements (BIS) and the Bank Indonesia Regulation Number 15/12/ PBI / 2013that the CAR of Commercial Banks in the amount of 8%. With the value of capital adequacy ratio of at least 8%, is expected to Islamic banking in Indonesia will be more robust and not vulnerable to problems, because the capital adequacy ratio will be able to face a greater risk of greater well.

To determine the capital performance as indicated by CAR, then made a comparison between Islamic banks with conventional banks with the same period, as shown in Figure 4.3.
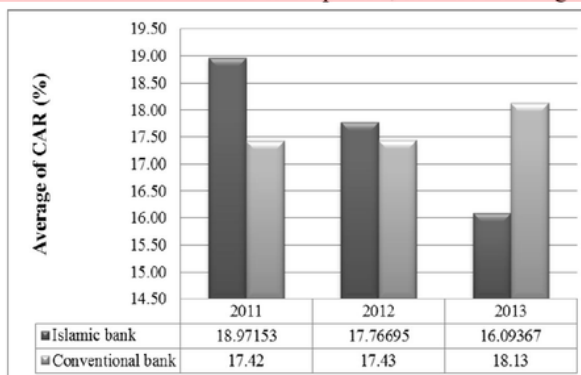

Average of CAR (%)	2011	2012	2013
■ Islamic bank	18.97153	17.76695	16.09367
▨ Conventional bank	17.42	17.43	18.13

Figure 4.3 : The Average of CAR in Islamic Bank and Conventional Banks in Indonesia, Period 2011 - 2013

Based on Figure 4.3, CAR Islamic banks and conventional banks are stable and are in accordance with the regulations, so that they have sufficient capacity for expansion and have the ability to absorb risks.

4.4.   Non-financing Income Divided by Total Assets (NFI/TA)

Based on table 4.1, the NFI/TA has an average of 1.886%. With a standard deviation of 2.174% indicates that the data deviates by ± 2.174% of the average value. Standard deviation is greater than the average value, the average value is less good representation of the overall data. The NFI/TA was high of 16.977% in Bank Mandiri Syariah in January 2013, while NFI/TA was low of 0.018% in Bank Panin Syariah in May 2012.

To determine the income diversification performance as indicated by NFI/TA, then made a comparison between NFI/TA Islamic banks with conventional banks with the same period, as shown in Figure 4.4. Based on Figure 4.4, during the study period, NFI/TA for eleventh Islamic bank in Indonesia showed stable. Islamic bank in Indonesia still relies on more than 95% of its revenue from the financial sector, it is evident from NFT/TA ranges from 0.3% - 5%. Some Islamic banks has increased NFI/TA is quite high, such as Mega Syariah bank, Bank Muamalat Indonesia, Bank Victoria Syariah and Bank BCA Syariah.
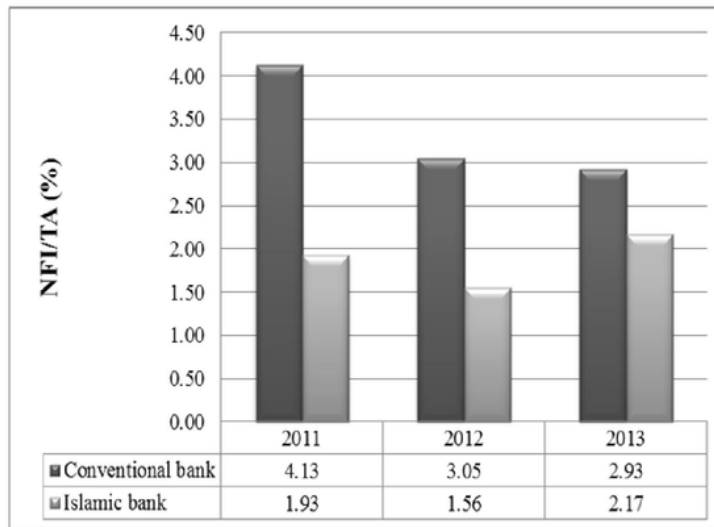

	2011	2012	2013
■ Conventional bank	4.13	3.05	2.93
▣ Islamic bank	1.93	1.56	2.17

Figure 4.4 : The Average of NFI/TA in Islamic Bank and Conventional Banks in Indonesia, Period 2011 – 2013.

. This illustrates that Islamic banks have started doing product diversification, although not maximal. Distribution of funding is still the main source of increased revenues, especially revenues from the contract Murabaha and Musharaka financing. While Islamic commercial bank income derived from fee-based income is only 4.02%. Islamic banks to optimize function and quality of banking services to increase revenue from fee-based. Unlike the banking business in the Republic of Korea, where non-interest income divided by total assets (NII / TA) has an average value of 75.4%, meaning the bank has diversified products and rely on revenue from fee-based (Sufian, 2010).

4.5.   Non Performing Financing (NPF)

Based on table 4.1, NPF has an average of 0.823%. With a standard deviation of 0.704% indicates that the data deviates by ± 0.704% of the average value. Value of standard deviation is smaller than the average value, the average value is a good representation of the overall data. The NPF was high of 3.921% on Bank BRI Syariah in August 2011 and the minimum of NPF as low as 0.003% in Bank Muamalat

Indonesia in June 2013. The NPF which is ideal in accordance with Bank Indonesia maximum of 5% according to Bank Indonesia Regulation Number 15/2/PBI/2013 about the Status Determination and Follow-up Bank Supervision.

To determine the asset quality performance as indicated by NPF, then made a comparison between NFI/TA Islamic banks with conventional banks with the same period, as shown in Figure 4.5.

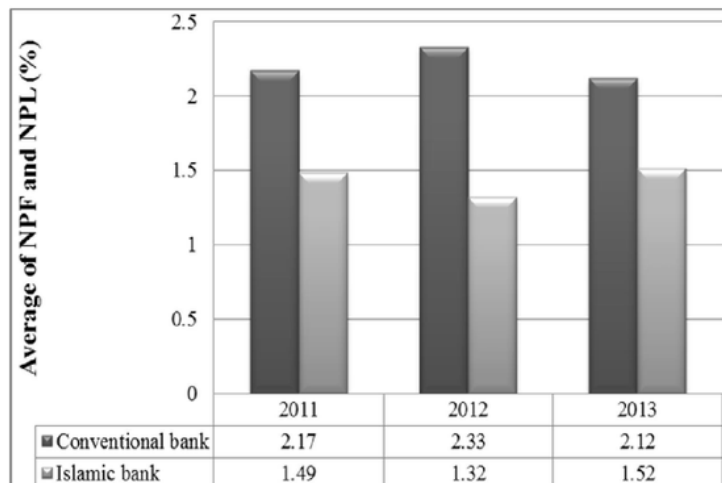|	2011	2012	2013
■ Conventional bank	2.17	2.33	2.12
▨ Islamic bank	1.49	1.32	1.52

Figure 4.5 : The Average of NPF in Islamic Bank and NPL in Conventional Banks in Indonesia, Period 2011 – 2013.

Based on Figure 4.5, NPF Islamic banks do not exceed 2%, while non-performing loan (NPL) conventional banks in excess of 2%. Thus the financing of the management of Islamic banks is better, because of the differences in the concept of distribution of funds. However, the overall NPF and NPL Islamic banks and conventional banks in accordance with applicable regulations, thus both Islamic banks and conventional banks are able to manage financing / non-performing loans as well.

According to the type of use, the distribution of non-current financing in Islamic banks during the study period, most large distributed for working capital (53.32%), consumption (26.88%), and investments (19.8%). According to the finance group, the distribution of non-current financing in Islamic banking during the study period, the greatest channeled to small and medium enterprises (68.44%) and in addition to small and medium enterprises (31.56%). While based on the economic sector, the distribution of non-current financing in Islamic banking during the study period, the greatest channeled to business services (24.55%), trade (16.87%) and construction (10.89%).

4.6. Market Share (MS)

Based on table 4.1, the MS has an average of 9.09%. With a standard deviation of 0.34% indicates that the data deviates by ± 0.346% of the average value. Standard deviation is greater than the average value, the average value is less good representation of the overall data.

The MS is the highest of 46.130% at Bank Syariah Muamalat in December 2013, while the MS was low of 0.346% in Victoria Islamic Bank in November 2011. The MS was highest of 46.130% at Bank Muamalat Indonesia in December 2013, while the MS was low of 0.346% in Victoria Syariah Bank in November 2011. The mean of MS during the Islamic banks increased tendency study period. Among the eleven Islamic bank, Bank Syariah Mandiri highest rank of the entire Islamic banks, meaning that the market share of Bank Syariah Mandiri highest.

The average MS of Islamic banks during the study period by 4.4%, then less in line with market power approach. In the market power approach is stated that the high level of market share in the banking industry to make the bank has the potential of market forces so as to raise its performance. Banks that have a high market share will earn abnormal profit because of its ability in determining the interest rate is lower and giving loan interest rate is higher as a result of collusion (explicitly or tacitly) or monopoly, regardless of efficiency, compared with the company which operates with a small market share (Athanasoglou, et al, 2006; Olweny & Shipho, 2011) . It is natural that the level of profitability of Islamic banks in Indonesia is low, because of the low of its market share.

To determine the market power as indicated by MS, then made a comparison between MS Islamic banks with conventional banks with the same period, as shown in Figure 4.6.

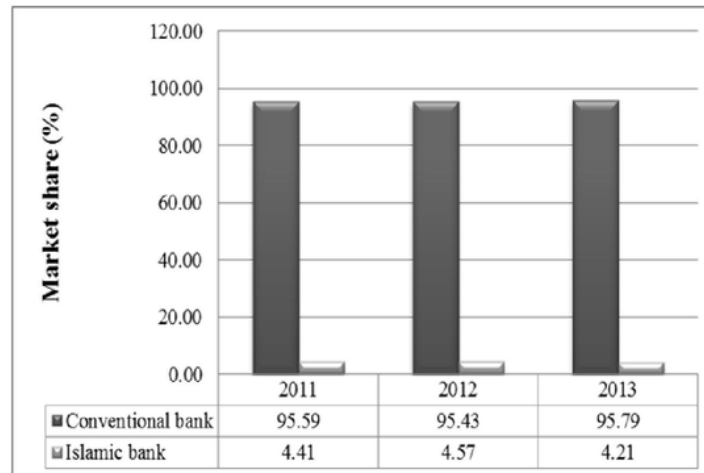|	2011	2012	2013
Conventional bank	95.59	95.43	95.79
Islamic bank	4.41	4.57	4.21

Figure 4.6 : The Average of MS in Islamic Bank and Conventional Banks in Indonesia, Period 2011 – 2013.

Differences in market share between Islamic banks with conventional banks are located on the amount of total assets, although the total asset of Islamic banks have increased from 2011 - 2013. In 2011, total assets of Islamic banks was 21.7 times compared to conventional banks. In 2012, total assets of Islamic bank assets was 20.9 times compared to conventional banks. Whereas in 2013, total assets of Islamic bank was 22.8 times compared to conventional banks. This indicates that the total assets of Islamic banks is very small compared to conventional banks. The total assets of Islamic banks is only about 4% of the total assets contained in the Indonesian banking industry, so that the market share of Islamic banks is still very small (Banking Statistics Data in Indonesia).

5.0. Conclusion

The average of ROA Islamic banks by 1%, due to internal and external factors, such as limitations in the distribution of funds, banking products, the revenue contribution from non-operating activities (income from activities other than disbursements). The average of FDR Islamic banks amounted to 141%, the management of Islamic banks providing additional own funds to increase the amount of funds distributed to the public, because the nature of Islamic banking business is not the same as the conventional banking, where public funds are trust that must be distributed to non-interest sector. The average of NFI/TA amounting to 2%, it means that Islamic banks have started doing product diversification although not up to approximately 90% of its revenue still relies on the financial sector. The average of NPF Islamic banks amounted to 0.8%, under the provisions of the Bank Indonesia Regulation Number 15/2 / PBI / 2013 by 5%, thus can manage the financing problems as well. The average of MS by 9%, a small market share less in line with market

power approach, where small market share makes Islamic banks do not have the potential of market forces so that it can degrade performance.

Islamic banks in Indonesia is still recovering, and assets of Islamic banks accounted for only 5% of total assets in the banking industry in Indonesia, so it is still operating below the minimum efficient scale, meaning that Islamic banks begin his bank concentration below the optimal level. Although the first Islamic bank in Indonesia established since 1992, but the product cycle most Islamic banks is still at the stage of introduction and growing for survival.

6.0. References

Abduh. Muhamad, Omar. Mohd Azmi. (2012). Islamic banking and economic growth : the Indonesian experience. International Journal of Islamic and Middle Eastern Finance and Management, 5 (1), 35 – 47.

Aburime, Uhomoibhi Toni. (2009). Determinants of bank profitability : company-level evidence from Nigeria. [Online] Available : http://www1.feb.vva.nl/rof/59.pdf (January 15, 2014)

Ahmad. Nor Hayati, Ahmad. Shahrul Nizam. (2011). key factors influencing credit risk of Islamic bank: a Malaysian case. [Online] Available : http://repo.uum.edu.my/3578/. (January 14, 2014)

Alam. Hassan Mobeen., Noreen. Hafsa., Karamat. Monazza., Ilyas. Muhammad. (2011). Islamic banking : insulation against US credit crisis. International Journal of Business and Social Science, 2 (10), 193-201.

Anderson, R. (2002). Capital structure, firm liquidity and growth. NBB Working Paper No.27, Research Series. National Bank of Belgium.

Atemkeng. J. Tabi., Joseph. Nzongang. (2006). Market structure and profitability performance in banking industry of CFA countries : the case of commercial banks in Cameron. [Online] Available : http://www.jsd-africa.com/Jsda/Summer_2006/PDF/ARC_MarketStructureProfitabilityPerformace.pdf (December 20, 2013)

Athanasoglou, Panayiotis P. et al. (2006). Bank-specific, industry-specific and macroeconomic determinants of bank profitability. Working Paper No. 25. [Online] Available : http://www.bankofgreece.gr/BogEkdoseis/Paper200525.pdf. (January 15, 2014)

Awojobi. Omotola, Amel. Roya. (2011). Analysis risk management in banks : evidence of bank efficiency and macroeconomic impact. Journal of Money, Investment and Banking, 22, 147 – 162.

A.Riawan Amin, et al. (2010). Menggagas manajemen syariah, teori dan praktek the celestial management, Jakarta : Penerbit Salemba Empat (Chapter 2).

Al-Omar, Al-Mutairi. (2008). Bank-specific determinants of profitability : the case of Kuwait. Journal of Economic & Administrative Sciences, 24 (2), 20- 34

Al-Salem, Faoud. (2008). The size and scope of the Islamic finance industry : an analysis. International Journal of Management, 25 (1), 124 – 129

Al-Tamimi, Hussein A. Hassan. (2010). Factors influencing performance of the UAE Islamic and conventional national banks. Global Journal of Business Researc, 4 (2), 1 – 9

Benhayoun. Nesrin, Chairi Ikram, Amina Gonnouni El, Lyhyaoui Abdelouahid. (2014). Islamic banking challenges lie in the growth of islamic economy despite of the free interest loans policy: evidences from support vector machine approach. ACRN Journal of Finance and Risk Perspectives, 3 (1), 19 - 31

Broome. Tracey, Robinson. Justin, Moore. Winston. (2009). Liquidity and the firm size-growth nexus in Barbados. The Annual Review Seminar Research Department Central Bank of Barbados, 27-30.

Buzzell. R. and Gale, B. (1987). The PIMS Principles, Free Press, New York

Chen. Jin. (2003). Capital adequacy of Chinese bank : evaluation and enhancement. Journal of International Banking Regulation, 4 (4), 320 – 327.

Demirgüç-Kunt. Asli, Ross. Levine. (2001). *Financial* structure and economic growth: perspectives and lessons. in Demirgüç-Kunt, Asli & Ross Levine, eds. *Financial structure and economic growth: a cross-country comparison of banks, markets, and development.* Cambridge, Mass.: MIT Press. 3-14.

Dowd, Kevin. (1999). Does asymetric information justify bank capital adequacy regulation?. Cato Journal, 19 (1), 39-47.

Farook. Riyazi., (2009). Global financial crisis unthinkable under Islamic banking principles. [Online] Available : http://www.scribd.com/doc/14941038/Global-Financial-Crisis-Unthinkable-Under-Islamic-Banking-Principles-by-Riyazi-Farook. (January 29, 2014)

Hassan, M. Kabir. (2006). The cost, profit and x-efficiency of Islamic banks. 12th ERF Conference Paper. [Online] Available : http://www.erf.org.eg/CMS/uploads/pdf/1184492515_Kabir_Hassan.pdf. (January 29, 2014)

Jacobson Robert. (1988). Distinguishing among competing theory of the market share effect. Journal of Marketing, 52 (4), 68 – 80.

Kosmidou. Kyriaki, Zopounidis, Constantin., (2005). Measurement of bank performance in Greece. South-Eastern Europe Journal of Economics, 1, 79-95. [Online] Available : http://www.asecu.gr/Seeje/issue10/kosmidou.pdf. (January 29, 2014)

Kosmidou, Kyriaki., (2008). The determinants of banks' profits in Greece during the period of EU financial integration. *Managerial Finance*, 34 (3), 146-159.

Loi. Teng Hou, Khan. Aslan Aslam., (2012). Determinants of firm growth : evidence from Belgian companies. [Online] Available : http://www.ethesis.net/Determinants/Determinants%20of%20firm%20growth%20Evidence%20from%20Belgian%20companies.pdf (January 23, 2014)

Mirzaei, Ali, et al., (2011). Does market structure matter on banks' profitability and stability? emerging versus advance economies. Economics and Finance Working Paper Series No. 11 – 12. Brunel University London. Departement of Economic and Finance.

Misman, Faridah Najuna., (2012). Financing structures, bank specific variables and credit risk: Malaysian Islamic bank. Journal of Business and Policy Research, 7 (1), 102 -114.

Naceur S. B., Kandil M., (2009). The impact of capital requirements on banks' cost of intermediation and performance: the case of Egypt. Journal of Economics and Business, 61 (1), 70-89

Noor. Mohamad Akbar., Ahmad. Nor Hayati Bt., (2012). Determinants of efficiency of Islamic banks. The IUP Journal of Bank Management, XI (12), 32 – 70.

Olweny. Tobias, Shipho. Themba Mamba., (2011). Effect of Banking sectoral factor on the profitability of commercial bank in Kenya. Economic and Finance Review, I (5), 1 – 30.

Ongore. Vincent Okoth, Kusa. Gemechu Berhanu., (2013). Determinants of financial performance of commercial banks in Kenya. International Journal of Economics and Financial Issues, 3 (1), 237-252.

O'Hara, Maureen., (1983). A dynamic theory of the banking firm. The Journal of Finance, 38 (l), 127 – 140.

Pasiourasa. Fotios, Kyriaki. Kosmidoua., (2007). Factors influencing the profitability of domestic and foreign commercial banks in the European Union. Research in International Business and Finance, 21 (2), 222-237

Pennathura. Anita, Subrahmanyamb Vijaya., Vishwasraoc Sharmila., (2010). Does non-interest income impact bank performance in emerging markets? The case of India. [Online] Available : https://ideas.repec.org/a/eee/jbfina/v36y2012i8p2203-2215.html (December 13, 2013)

Petersen. J. Mukuddem, Petersen. M.A., (2008). Optimizing asset and capital adequacy management in banking. Journal Option Theory Appl, 137, 205 – 230

Phillips. B., B. Kirchhoff., (1989). Formation, growth and survival; small firm dynamics in the US economy. Small Business Economics, 1, 65 - 67

Safiullah. Md., (2010). Superiority of conventional bank & Islamic bank of Bangladesh : a comparative study. International. Journal of Economic and Finance, 2 (3), 199 – 207

Seibel. Hans Dieter., (2008). Islamic microfinance in Indonesia: the challenge of institusional diversity, regulation and supervision, research notes and comment. Journal of Social Issues in Southeast Asia, 23 (1), 66-103.

Shen. Chung-Hua, Chen. Yi-Kai, Kao. Lan-Feng, Yeh. Chuan-Yi., (2009). Bank liquidity risk and performance. [Online] Available : http://www.finance.nsysu.edu.tw/SFM/17thSFM/program/FullPaper/083-231345511.pdf

Sufian. Fadzlan, Habibullah. Muzafar Shah., (2010). Assessing the Impact of financial crisis on bank performance. ASEAN Economic Bulletin, 27 (3), 245 – 262.

Sufian. Fadzlan, Majid. Muhamed Zulkhibri Abdul. (2011). The nexus between economic freedom and Islamic bank performance : emprical evidence from MENA banking sectors. 8th International Conference on Islamic Economics and Finance.

Toby, Adolphus J. (2008). Monetary Policy, capital adequacy regulation and banking system soundness in Nigeria : empirical research finding. Journal of Finance Management and Analysis, 2l (l), 32 – 46

Tregenna, F. (2009). The fat years: the structure and profitability of the US banking sector in the pre-crisis period. Cambridge Journal of Economics, 33(4), 609-632.

Yunis Rahmawulan, (2008). Perbandingan faktor penyebab timbulnya NPL dan NPF pada perbankan konvensional dan syariah di Indonesia. Thesis, Program Pasca Sarjana Universitas Indonesia