

**COMPARISON OF FINANCIAL PERFORMANCE BETWEEN
BANK SYARIAH MANDIRI AND CIMB ISLAMIC BANK MALAYSIA**

A THESIS

**Presented as Partial Fulfillment of the Requirements to Obtain
Bachelor Degree in Management Department**



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2012**

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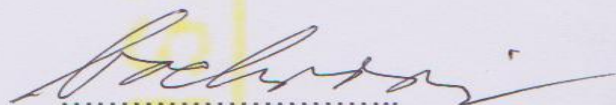
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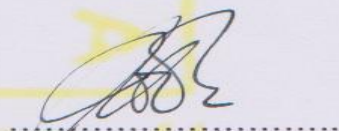
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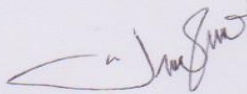


DECLARATION OF AUTHENTICITY

Herein I declare the originality of this thesis; I have not presented anyone else's work to obtain my university degree, nor have I presented anyone else's words, ideas or expression without acknowledgement. All quotations are cited and listed in the bibliography of this thesis.

If in the future this statement is proven to be false, I am willing to accept any sanction complying with the determined regulation for its consequence

Yogyakarta, March 2012



Andinna Eva Habiba



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Hopefully what I write in this research can have contribution in future research and contribution in developing the world of banking in the future.

Yogyakarta, March 2012

Andinna Eva Habiba

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Abstract

Andinna Eva Habiba (2012). Comparison of Financial Performance Between Bank Syariah Mandiri and CIMB Islamic Bank Malaysia. Yogyakarta, International Program, Universitas Islam Indonesia.

This research objective is to compare the financial performance between Bank Syariah Mandiri as an Indonesian Islamic Bank and CIMB Islamic Bank as Malaysian Islamic Bank. Moreover, the complementary objective is to know how the Indonesian Islamic Bank position compared to Malaysian Islamic Bank. Therefore, it can be concluded that which component, Bank Syariah Mandiri as the largest Islamic Banking in Indonesia need to be improved to be better Indonesia Islamic Bank in the future.

This study took 6 years of financial performance to be compared and analyzed, which is from 2005 – 2010. The main source of this financial performance is from banks annual report. To detect the significance of different between Bank Syariah Mandiri and CIMB Islamic Bank, SPSS 17.0 version is used by implementing the paired sample t-test on comparative analysis. Furthermore, comparing the mean of the ratios to identify which ratios has better financial performance of Bank Syariah Mandiri compared to CIMB Islamic Bank.

The result shows that from 18 ratios, four of them: Financing to Deposit Ratio (FDR), Non Performing Ratio (NPF), Individual to Deposit Ratio, and Salaries & Benefit Ratio are significant ratios on this difference. In addition, CIMB Islamic Bank has better result than Bank Syariah Mandiri on those ratios, thus, Bank Syariah Mandiri need to improve on those ratios as priority.

Keyword: *Financial Performance, Ratios, Bank Syariah Mandiri, CIMB Islamic Bank, Significant, Islamic Banking*

Abstraksi

Andinna Eva Habiba (2012). Comparison of Financial Perfomance Between Bank Syariah Mandiri and CIMB Islamic Bank Bank Malaysia. Yogyakarta, International Program, Universitas Islam Indonesia.

Penelitian ini bertujuan untuk membandingkan kinerja keuangan antara Bank Syariah Mandiri sebagai sebuah Bank Syariah di Indonesia dan CIMB Islamic Bank sebagai Bank Syariah di Malaysia. Selain itu, tujuan lebih lanjut adalah untuk mengetahui posisi Bank Syariah di Indonesia jika dibandingkan dengan Bank Syariah di Malaysia. Sehingga, dapat disimpulkan bahwa komponen mana Bank Syariah Mandiri sebagai Bank Syariah terbesar di Indonesia perlu meningkatkan kinerja untuk menjadi Bank Syariah yang lebih baik di masa mendatang.

Study ini mengambil 6 tahun kinerja keuangan untuk dibandingkan dan dianalisis, yaitu dari tahun 2005 – 2010. Sumber utama yang digunakan adalah dari Laporan Keuangan Tahunan dari masing – masing bank. Untuk mendeteksi signifikansi perbedaan antara Bank Syariah Mandiri dan CIMB Islamic Bank, digunakan SPSS versi 17.0 dengan mengimplementasikan paired sample t-test pada comparative analysis. Lebih lanjut, membandingkan mean pada rasio untuk mengidentifikasi rasio apa yang lebih baik pada Bank Syariah Mandiri jika dibandingkan dengan CIMB Islamic Bank.

Hasil yang diperoleh menunjukkan signifikansi perbedaan pada Financing to Deposit Ratio (FDR), Non Performing Ratio (NPF), Individual to Deposit Ratio, dan Salaries & Benefit Ratio. Lebih lanjut, CIMB Islamic Bank mempunyai kinerja keuangan yang lebih baik pada rasio tersebut daripada Bank Syariah Mandiri. Oleh karena itu, Bank Syariah Mandiri perlu mengutamakan peningkatkan kinerja pada rasio tersebut.

Kata Kunci: *Kinerja Keuangan, Rasio, Bank Syariah Mandiri, CIMB Islamic Bank, Signifikan, Perbankan Syariah*

CHAPTER I

INTRODUCTION

1.1. Background of the Study

The growing number of Islamic Banking institutions and the increasing of education by practitioners (bankers), academicians, and Islamic proselytizer to the society create a new huge demand of Islamic Banking products and services. Completed by global recession in 2008 driving many people realize that Conventional Finance is not the suitable system in Economy. Many people think that there is something wrong with the system and they try to look for the solution. In the same time, Islamic Finance arises and offers the solution. Prohibition of *Riba'* is the most popular reason in converting from Conventional to Islamic system of economy. Besides, they also seek the country model which implementing this system as the reference. Automatically, since they have found Islamic system, they look for Islamic countries or countries with huge of Islamic citizens, such as Middle East countries, Malaysia, and of course Indonesia. Based on many researches and analysis, many of them concluded that Malaysia is better to be a reference of the implementation of Islamic system on its Economy than other countries, includes Indonesia.

One of the reasons why Malaysia becomes a reference of the implementation of Islamic system in economy is its Islamic Banking. Since banking is the most famous financial institutions and the most favorite intermediaries to meet the demand and the supply of money. In addition, compared with other financial institutions, banks have important role to help in managing the economy stability in a country. Therefore, to detect the financial performance of Islamic Banks in Indonesia, Malaysia will be used as a benchmark. Further, the method that will be used in this research is by detecting some Financial Ratios. By analyzing these ratios, so that the question about which part of Indonesian Islamic Bank is better from Malaysian Islamic Bank can be answered. Thus, encouraging of innovation is expected to build better Indonesia Islamic Banking industry. Although, as general, Malaysian Islamic Bank is better than Indonesian's, there are some ratios indicating that Indonesian Islamic Bank is better than Malaysian Islamic Bank. By the same method, question about which part Indonesian Islamic Banking is worse than Malaysian Islamic Banking can be verified. Thus, learning and adapting the method to Indonesian Islamic Banks is necessary. In short, the main objective is to make Indonesian Islamic Banks better in serving the *ummah* in the future; in Indonesia and international environment for both Islamic and non-Islamic customers. It based on the reason that Muslims are created to be advantageous to other creatures.

The additional reason why Malaysia is taken as a benchmark is the close relation of culture with Indonesia. Hence, it is easier to apply the method of Malaysian Islamic Banks. However, Indonesia needs some adaptations in the implementations. Here, especially on review of related literature (Chapter 2), before the research reported and analyzed, the history, achievement, and legal applied of Islamic banking implementation in both countries, Indonesia and Malaysia would be described generally. Moreover, the history, award achievement, management, and other identifications of CIMB Islamic Bank as Malaysia Islamic Bank and Bank Syariah Mandiri (BSM) as Indonesia Islamic Bank will be elaborated in Chapter 3 on Research Subject.

Reason why the researcher uses CIMB Islamic Bank and Bank Syariah Mandiri as the model in detecting the financial performances is because both banks lies on the top three Islamic banks in their countries. In addition, their financial year is closed in December 31st each year. Therefore, the numbers showed are comparable since they represent the truly same period (from January 1st – December 31st). Moreover, although both banks run their own business but they are originated from the conventional banks' subsidiary. As known that Bank Syariah Mandiri is product of spin-off (separation) from Bank Mandiri while CIMB Islamic Bank is in process of leveraging its parent company, CIMB Bank Berhad in Malaysia.

1.2. Problem Formulation

There are some conclusions that can be detected by analyzing the result of this research, however, in focusing this research, the problems hoped will be solved are:

- a. How is the performance of Bank Syariah Mandiri and CIMB Islamic Bank?
- b. Which part Bank Syariah Mandiri is better and worse than CIMB Islamic Bank?

1.3. Problem Identification

According to the background of this study, Islamic Economic arises and grows surprisingly and Banking institutions are the most famous financial institutions in Indonesia. Completed by the objective to encourage the better performance of Indonesian Islamic Banking, the researcher will detect Bank Syariah Mandiri as an Indonesian Islamic Banking through formulating some financial and banking ratios and then, comparing with the CIMB Islamic Bank as Malaysian Islamic Banking performance with the same ratios.

Since in 2004, Malaysian Islamic Banking assets are half of total Islamic banking assets in the Gulf Cooperation Council (which consists of Bahrain, Kuwait, Qatar, Saudi Arabia, and United Arab Emirates) and the

presence of foreign players supports the position of Malaysia as the international Islamic financial center, are the reason why Malaysia is used as benchmark. Furthermore, more or less 82% of Islamic fixed income securities issued globally out of Malaysia, therefore, Malaysia now is claimed as the largest Islamic banking market in the world (Venardos, 2006).

The second reason is Malaysia has similar culture with Indonesia comparing with the Middle East countries. Thus, if Indonesia has the willingness to implement what Malaysia did, it is easier to adapt in Indonesia culture.

After, comparing those ratios, it can be seen which ratios Indonesia has better performance easily. Thus, the improvements are suitable in building better Islamic Banking in Indonesia.

By the same method, some ratios Bank Syariah Mandiri that have worse performance than CIMB Islamic Bank's performance can be found. Therefore, the evaluating is more suitable to be done. Moreover, implementing what CIMB Islamic Bank did is good to be applied. However, it also needs to be adapted since Indonesia's culture and conditions are not exactly the same with Malaysia's culture and conditions.

1.4. Problem Limitation

This research focuses on detecting the financial performance between Bank Syariah Mandiri as representative of Indonesia Islamic Bank and CIMB Islamic Bank as representative of Malaysia Islamic Bank. The financial performance can be accessed by analyzing the annual report reported by each banks. Then, data are directed will be investigated using some financial and banking ratios. Moreover, not all annual reports will be used to find the performance, but only Annual Report year 2006, 2008, and 2010 will be used. Since in every annual report consists of 2 years report, which is report on that year and the previous year. Therefore, the year excludes the year above will not be inspected.

In addition, since this research is on financial performance, other performances which are not included on financial performances are not investigated.

1.5. Research Objectives

The objectives in this research are extremely complex, have continuity, and have correlation one and other. The main objective of this research is to encourage the better performance of Indonesia Islamic Banks. The method is by finding and analyzing the performance differences between Malaysian Islamic Bank (as benchmark), which started in 1983, and Indonesia Islamic Bank, which firstly established in 1992. Even though both

of these countries recently undergo the fast growing of Islamic Banking industry; the implementation, experiences, and achievements are absolutely different. The factors of differences include the time when the Islamic Bank established, the role of government, the respond of the society, and the human resources of Islamic banking industry in making improvement of the industry.

1.6. Research Contributions

After knowing the differences and analyze the performance of Bank Syariah Mandiri and CIMB Islamic Bank, the researcher will find the part of differences between them. Based on the analysis result, there will be some suggestions coming to make better performance of Bank Syariah Mandiri as Indonesian Islamic Banks. Since, the Malaysia culture and Indonesia culture are not really different, but the implementation of Islamic Bank and the respond from the citizens may be different. Thus, the suggestions will also think about the social condition in Indonesia.

The suggestions will also provide the predictive influences if the suggestions applied. For instance, in one aspect, CIMB Islamic Bank is one of banks that provide the simple credit to the small and medium enterprises. From this, Bank Syariah Mandiri can learn the simple model of credit distribution to the small and medium enterprises so that the willingness of

citizens to open their business will be higher. If the willingness is higher, it will give benefit to the Indonesia economy. First, the higher willingness opening business will strengthen the economy of Indonesia. Second, it will decrease the unemployment and make the Gross Domestic Product in Indonesia better as well. In short, the target contribution is Indonesia economy improvement through Islamic Banking.

CHAPTER II:

REVIEW OF RELATED LITERATURE

2.1 Theoretical Review

In this theoretical view, some terms will be described in details are about Islamic Banking.

2.1.1. Islamic Banking: Introduction

According to Adiwarman Karim (2005), in *ushul fiqh* there is a principle stating that “*maa laa yatimm al-wajib illa bihi fahuwa wajib*” which means “if something must exist before an obligation is considered perfect, it is obligatory to ensure that something exist”. In Karim’s (2005) opinion, doing economic activity is an obligatory since this is an activity that makes a living. Further, in modern times, economic will not work well without the existence of banking institution, thus it is obligatory to bring banking institutions to existence.

In addition, the activities in banking institutions are considered as *muamalah* that Prophet Muhammad PBUH (Peace and Blessing Upon Him) did not provide the detail items as he stated “*Antum a’lamu bi umuuri duniyakum*” means that “You are more knowledgeable of your worldly concerns”. Al-Quran and As Sunah

only provide the basic principles and philosophies as well as impart clarifications over prohibitions to avoid. In short, we can conclude that anything is permissible and as much as possible we can resort to innovative and creativity.

2.1.2. Islamic Banking: History and Development

To motivate in developing the Islamic banking quality in serving *ummah*, it is better to know and understand the milestone of Islamic Banking starting from Rasulullah PBUH era. From the simplest way, the development, the declining, and the raised up nowadays.

Since there are many sources on Islamic Banking history, the researcher only use two main sources to get the narration story. The first main source in recitation of the Islamic Banking History and Development will come from Ir. Adiwarman A. Karim, SE, MBA, MAEP's great book entitled "Islamic Banking: The Fiqh and Financial Analysis" on his third edition published by RajaGrafindo Persada. In addition, as confirming and addition, the additional source entitled "Islamic Banking: How to manage Risk and Improve Profitability" from Amr Mohamed El Tiby will be used.

The history and development of Islamic banking will be described in some stages, the first stage is “Banking Practices in Age of Prophet Muhammad PBUH and His Immediate Companions”, describing on how Prophet PBUH and his immediate companion doing banking transaction. In this stage, the early practice of Islamic Banking will be shown. The second stage is “Banking Practices During the Time of Bani Umayyah and Bani Abbasiyah” describing on the well development of Islamic Banking. The next stage is discussing on “Banking Practices in Europe” describing the starting of interest based system and answer why the interest based bank become worldly spread. The last stage will describe “The Modern Islamic Banking” talking about the ‘return’ of Islamic compliant banking until nowadays.

a. Banking Practices in Age of Prophet Muhammad PBUH and His Immediate Companions

Actually, there was no institution called as ‘bank’ on the age of Prophet PBUH. However, the banking transaction, such as saving (deposit), loan, and transferring money has existed during Rasulullah PBUH era. The player in saving, loan, and transferring was done by individually, or usually called as one man-one function basis (Karim, 2005).

According to Hamoud (1985), cited by Karim (2005, p. 16) claimed that even the Prophet PBUH that known as *Al-Amin* (trusted) was entrusted by Mecca people with safekeeping their money. In this concept, it is not allowed to the trustee to use the money. Further, Haron (1985) cited by Karim (2005, p.17) as well as Haron and Shanmugam (1997) cited by El Tiby (2011, p.8) that Prophet PBUH's companion, Zubair bin Al Awwam, chose to receive money as a loan. Under this concept, he had right to use the money, and naturally of loan, he had to pay back the money. Another companion, with the same source, Abdullah bin Zubair in Mecca sent his money to his brother Hisab bin Zubair who lived in Iraq. Using checks was also used by Omar ibn Khatab in paying benefits in support of business in the cities between Syam and Yemen. With these checks, the beneficiaries would be able to collect from *Baitul Mal* a quantity of wheat imported from Egypt (Sadr, 1989 cited by Karim 2005, p.17).

Besides, the fund distribution for profit sharing based working capital, such as *mudharabah*, *muza'arah*, and *musaqah* had been common practice in early days among Muhajirins and Anshars (Sadr, 1989 cited by Karim, 2005, p.17)

b. Banking Practices During the Time of Bani Umayyah and Bani Abbasiyah

The development from one man-one function basis to one man-multiple function basis was firstly known in Bani Abbasiyah time. The people who had this special skill called as *Jihbiz* (Karim, 2001 cited by Karim, 2005, p. 18). The role of banker was raised in reign of Muqtadir (908-932 AD). Sooner, the people had their own bankers, such as Ibnu Furat employed Harun Ibnu Imran and Joseph Ibnu Wahab, Ibnu Abi Isa employed Ali ibn Isa, and even, Abdullah Al-Baridi had three bankers; two Jewish and one Christian (Karim, 2005).

Banking began to develop rapidly when various type of currencies were in circulation, as each coin had its own precious metal content, thus each coin had its own value. Therefore, the practice of money exchange was raised. Further, the main development of banking transaction was pointed out of the distribution of checks (*saq*) as an instrument of payment. Meanwhile, moneylenders that established the overseas offices began to use checks as a payment of transaction. The later development, money could be transferred across country without the need to move physically (Karim, 2005).

c. *Banking Practices in Europe*

The development in banking course that the role of *Jihbiz* was adapted to be an institution that nowadays known as banking institutions. The interest based has been flourished when King Henry VIII in 1545 permitted instituting interest as long as it was not excessive. Then, his successor, King Edward VI revoked the permission of interest. However, it did not last long. He was succeeded by Queen Elizabeth I who reinstated monetary interest (Karim 2001 cited by Karim 2005).

Next, the exploration and colonialization to all corners of the world was done by European countries. Thus, the global economic became their dominance. At the same time, the Islamic civilization was in decline and Islamic states gradually fell into the grips of colonialization of European countries (Karim, 2005). El Tiby (2011) clearer stated that the golden era of Bani Abbasiyah (750-1258), when the Islamic empire reached Spain in the west and India in the east (larger than Roman empire), all elements were from Muslim including science. However, Muslims at the time failed to develop and establish a financial system that caters for the financial needs both for Muslims and non-Muslims. Consequently, Islamic institutions collapsed and were replaced by European Economic.

d. The Modern Islamic Banking

Since the global economic is dominated by European countries, thus the Islamic countries tried to establish non-interest based institutions. The first undertaking non-interest based institution was in Malaysia in the mid of 40's with idea to invest pilgrims' saving in real estate and plantations in accordance with Sharia principle. However, it was a failure (Haron, 1985 cited by Karim 2005 and El Tiby, 2011). The next experiment was done by Pakistan in late of 50's where non-interest credit institution was established in the country's rural area, unfortunately, it did not continue (Wilson, 1983 cited by Karim, 2005 and El Tiby, 2011). In addition, in 1962, Malaysian government set up the Pilgrim's Management Fund to help prospective pilgrims save their money and get profit (El Tiby, 2011).

The most successful and innovative experiment was in Egypt in 1963 by establishing Mit Ghamr Local Savings Bank. This institution was mostly appreciated by farmers and rural communities. Number of depositors rose extremely from 17,650 in 1963/1964 to 251,152 in 1966/1967. Besides, the total saving also massively increased from LE 40,944 to LE 1,828,375 in the same period. Fatefully, the political effects forced Mit Ghamr to be acquiesced taken by the National Bank of Egypt that

employed interest-based in 1967. Next, in 1971 the non-interest based was revived under the Sadat's regime by establishing Nasser Social Bank with the purpose to resume business based on the concept practically by Mit Ghamr (Karim, 2005).

The success of Mit Ghamr inspired the Muslim all over the world. The proof is Islamic Conference Organization (ICO) established. One of its agendas was to create Islamic banks by establishing Islamic Development Bank (IDB) in October 1975 with 22 countries member. IDB provided financial development assistance to its members, assisted in establishment Islamic banks in countries member, and played a pivotal role in research activities on Islamic economic, banking, and finance. Today, IDB's headquarters is in Jeddah, Kingdom Saudi of Arabia; has two regional offices in Rabat, Kingdom of Morocco, and Kuala Lumpur, Malaysia; and has 43 countries member (Karim, 2005 and El Tiby, 2011).

In 1970's, the establishment of Islamic Banks spread to many countries. For example, Pakistan, Iran, and Sudan replace their all-financial institutions by interest-free based; while Malaysia and Indonesia noninterest-based run side by side with conventional institutions. Further, one country on European continent, Denmark, established the first Islamic banking in

Europe in 1983 called as The Islamic Bank International of Denmark (Trolle-Schultz, 1986 cited by Karim, 2005). Nowadays, many western banks have also opened the ‘Islamic windows’ thus, they also provide Islamic financial products (Karim, 2005).

2.2. Islamic Banking in Countries

In order to have the general view of countries where both banks located, Indonesia and Malaysia, the histories, the role of government, the development, and the achievement, here elaborated the overview of Islamic Banking in each country. The identification of Islamic banking in each country also can be consideration in analyzing and suggestion.

2.2.1. Indonesia Islamic Banks: Overview

Islamic Banking in Indonesia existed by the Sharia Banking operations in the Act No. 7 of 1992, which provided for a dual banking system of conventional and Shariah, as well as Shariah units (Hamzah, 2010). Then this regulation was amended as Act No. 10 of 1998 concerning banking came into force to give stronger legal foundation for the existence of Sharia banking system. In the new Act No. 23 of 1999, Bank Indonesia gives authority to all Banks in

Indonesia to conduct their task according to Sharia principles. Then, Bank Indonesia established an Islamic Banking Development Committee consisting of Oversight Committee, Expert Committee, and Working Committee. The main tasks of the Committee are to regulate instruments in order to develop a more comprehensive set of rules and regulations. The measurement is a conducive environment for the development of Islamic banking (Venardos, 2006).

In 1994, the government launched BMT (Baitul al-Maal wa at-Tamwil) as national movement and focuses on its target market on minor traders and hawkers. The Union of Muslims Indonesia Intellectuals (ICMI) was established PT MMI (Manajemen Musyarakah Indonesia) which aims to provide the institutional liaison between small enterprises and investors. The MMI plans to create “People’s Sharia Credit Bank” which using profit sharing arrangements (Ahmed, 2006).

In 2003, the government issued the law of Islamic Banks. This law includes the procedure and share responsibility for taking risks of business of operational Islamic banking conducting the assessment on the development banking regulations and development of accounting standard banks for Islamic banking. Moreover, Bank Indonesia issued the decrees of Board of Managing Director concerning Islamic commercial and rural banks which have

presented legal framework in developing and expanding Islamic banking network. Not only that, Bank Indonesia is also active in educating Islamic Banking concept as alternative interest free system to the public which recently, becomes more popular in the world (Ahmed, 2006; Venardos, 2006).

The blue print was written in 2002 in developing Islamic Banking and Indonesia Capital Market Master Plan 2005-2009 which was designed to develop Sharia-based capital market products. Currently, in 2004, the Indonesian Islamic Banking assets reached 1% of total banking assets in Indonesia compared with 0.7% in 2003. Then, the improvement done in 2005, the asset of Islamic banking was 1.8% of total banking assets (Ahmed, 2006; Venardos, 2006).

By 2006, Bank Indonesia had 17 regulations relating to Islamic Banking with more than 14 circular letters and 2 guidance books distributed to standardize and enhance the awareness and practice of Islamic Banking and finance. By passing the new regulation of Islamic Banking in early 2009, Bank Indonesia regulates the minimum capital and shareholding requirements for new commercial Islamic Bank (BUS – Bank Umum Syariah). In the same year, the Central Bank has also put in place additional regulations and distributed circular letters (Hamzah, 2010).

Besides, in 2006, Bank Indonesia also launched the Shariah Banking Development Acceleration Program to fast track the role of Islamic Banking in National industry. The program's six pillars or objectives involve the strengthening of:

- (a) Shariah banking institutions
- (b) Shariah bank product development
- (c) Public Education and Alliance Strategic Partners
- (d) The governmental role and Shariah Bank Legal Framework
- (e) Shariah Bank Human Resources
- (f) Shariah Bank Supervision

This acceleration program targeted the asset of Islamic Banking increase up to 5.25% of national banking asset as December 2015. As earlier target, Shariah Banking asset was to reach 2% of total banking asset by the end of 2008 from 1.5% by end of 2006. Although, this target was not met, it should be noted that the annual growth rate of Islamic Banking was 65% compared with 7% growth of Conventional Banking (Hamzah, 2010).

As developing, in 2008, both Sovereign *Sukuk* Law (Law No. 19 of 2008) and Sharia Banking Law (Law No. 21 of 2008) were passed, leading to significance stimulus practice for both Islamic Capital Market and Islamic Banking. Moreover, Law No. 21 of 2008 seeks to facilitate still wider opportunities for the development of

Sharia Banking. The main highlights of this Law include a clearer process for conventional banks to convert their Conventional licenses to Islamic licenses. The Law also place new deadline for existing Islamic Banking units into a full Islamic bank – either within 15 years or when Islamic units asset surpass 50% of its parent’s asset value, whichever is sooner. As result of the regulation, on May 2008, there were three full-pledged Islamic Banks in Indonesia: Bank Muamalat, Bank Mega Syariah, Bank Syariah Mandiri; 25 Shariah units within national and regional banks; and 120 rural banks operating under Shariah principles (Hamzah, 2010).

2.2.2 Malaysia Islamic Banks: Overview

In April 1983, Islamic banking firstly introduced in Malaysia through Islamic Banking Act (IBA), by the establishment of Bank Islam Malaysia Berhad on July 1, 1983. After more than a decade in operations, Bank Islam Malaysia Berhad expanded with 80 branches and 1200 employees throughout the country (Overview Islamic Banking in Malaysia). IBA also provided Bank Negara (Central Bank of Malaysia) with powers as supervisor and regulator for Islamic Bank, similar case with other licensed banks. The implementation of Islamic bank at the time was a dual banking

system which allowed Islamic banking and conventional banking to exist side by side. The implementation model of exist side by side was continued by the existence of conventional bank in offering Islamic banking products to customers under regulation of Banking and Financial Institution Act (BAFIA). Central Bank of Malaysia also introduced an Interest-Free Banking Scheme (Skim Perbankan Tanpa Faedah – STPF) in March 1993 (Ahmed, 2006; Venardos, 2006, Overview Islamic Banking in Malaysia, n.d.).

In terms of products and services, there are more than 40 Islamic financial products and services that may be offered by the banks using various Islamic concepts such as Mudharabah, Musyarakah, Murabahah, Bai' Bithaman Ajil (Bai' Muajjal), Ijarah, Qardhul Hasan, Istisna' and Ijarah Thumma Al-Bai'. To link the institutions and the instruments, the Islamic Interbank Money Market (IIMM) was introduced on 4 January 1994 (Overview Islamic Banking in Malaysia, n.d.).

Later, in 1997, to streamline and harmonize the Sharia implementation among banking industries, Bank Negara Malaysia (BNM) established the National Sharia Advisory Council (NSAC) as the highest authority on Islamic Banking and *takaful* in Malaysia. The main objectives of NSAC are to act as the single authoritative body to advise BNM, to coordinate Sharia issue with respect to

Islamic finance and banking, and to analyze and evaluate Sharia aspects of new products submitted by banking institutions and *takaful* companies (Venardos, 2006). Recent study expressed that seven of ten Malaysian who implement Islamic Banking are non-Muslims. Since Islamic banking is not only for Muslims, more than half- of Malaysian Islamic loans flow to non-Muslims (Ahmed, 2006).

In the end of 2004, the total assets of Malaysian Islamic Bank reached 11.3% of total assets in banking system and in that year, the gross and net non-performing loans (NPL) ratio decreased from 8.5% to 8.1% and from 5.5% to 5.3% respectively. Moreover, total Islamic bank financing was 61.2% of total Islamic banking assets in 2003. In 2004, BNM brought forward the Islamic banking sector's liberalization, actually planned for 2007, by issuing three new Islamic financial institutions from the Middle East. The presence of foreign players will make the position of Malaysia as the international Islamic financial center. The interesting note is in 2004, Malaysian Islamic Banking assets are half of total Islamic banking assets in the Gulf Cooperation Council (consists of Bahrain, Kuwait, Qatar, Saudi Arabia, and United Arab Emirates). Furthermore, more or less 82% of Islamic fixed income securities issued globally out of

Malaysia, therefore, Malaysia now become the largest Islamic banking market in the world (Venardos, 2006).

At the early stage, home financing facilities based on the principle of *Bai Bithaman Ajil* (deferred sale) as well as saving and investment accounts based on principle of *Wadiah* (safekeeping) and *Mudharabah* (profit sharing) were introduced. Later, various trade financing products based on *Murabahah* (cost plus profit sale), *Ijarah* (leasing), *Bai Al-Takjiri* (leasing ending with ownership), *Kafalah* (guarantee), and *Qardhul Hasan* (benevolent loan) were offered. Personal Financing based on *Bai Al Inah*, another deferred sale instrument, also becomes available (Hussain & Thani, 2010, p. 85)

Since Islamic banking products include trading instead of lending, the financing documents would comprise sale and purchase and transaction become repetitious. It is the reason why the Stamp Act 1949 (SA) was amended to provide the repayments of money provided under a scheme of financing made according to the Shariah. The chargeable stamp duty should be calculated on the principal amount provided by the financier or financing body. This avoids the double stamp duty or otherwise would be payable since there are two sale and purchase agreements entered into *Bai Bithaman Ajil* and *Murabahah* transaction (Hussain & Thani, 2010, p. 86-87).

On November 1, 2006, the Governor of Bank Negara Malaysia; Tan Sri Dr Zeti Akhtar Aziz held a dialogue with the members of financial services fraternity within Islamic Banking & Finance industry in Kuala Lumpur on the Malaysian Islamic Financial Centre (MIFC). As announced on August 14, 2006, MIFC is the government's initiative to capture the current globalizing momentum of Islamic Finance and institutionalize the country as the major international Islamic finance hub ASEAN, East Asia, South Asia, and the Middle East. Therefore, the strategies of MIFC are as follows:

- a. Liberalizing the Islamic Banking, *Takaful*, and re-*takaful* markets with the issuance of new licenses to allow far increased foreign participation
- b. Attracting international entities by allowing foreign equity up to 49% in existing Islamic banking & Takaful
- c. Issuing International Islamic Bank (IIB) and International Takaful Operations licenses to qualified Malaysian and foreign companies to conduct the full range business in international currencies and enjoy a 10-year tax exemption under the Income Tax 1967 beginning from the year of assessment 2007 to year of assessment 2016. This is effective from September 15, 2006

- d. Allowing the existing Malaysian institutions to set up International Currency Business Units (ICBUs) to offer Islamic Financial services with a similar 10-year tax exemption to enable them to compete with IIB; effective from September 15, 2006
- e. Giving greater flexibility to Labuan offshore entities offering Islamic financial services to open operation offices anywhere in Malaysia, without the requirement of having to maintain a Labuan management office. According to LOFSA's MIFC announcement dated October 12, 2006, there is also no limitation on the staffing and number of operation offices to be opened outside Labuan. This would allow the six existing offshore Islamic banks and Islamic investment banks and two re-takaful companies operating there to participate in the MIFC.

According to that, MIFC succeed in making average annual growth of 18-20% of Islamic Banking asset in 2006, and currently accounting for 15.4% of total banking asset in Malaysia, and other achievements in Takaful, Islamic Capital Market, and Islamic Finance (Hussain & Thani, 2010, p. 92–97).

In short, currently, Malaysia has 13 full-pledged Islamic banks, which 4 of them presence in global Islamic banking industry: Al Rajhi Banking & Investment Corporation Berhad, Kuwait Finance House (Malaysia) Berhad, Asian Finance Bank Berhad, and

HSBC Amanah Malaysia Berhad. Moreover, in terms of legal infrastructure, a dedicated High Court has been established to handle cases in Islamic Banking and Finance, and a working group on Shariah has been formed to conduct a comprehensive review of Islamic Banking issues, as well as to formulate a guide for the innovation of IBF product. Furthermore, to meet the global demands for competent and qualified human capital of this industry, BNM has established a dedicated university called as the International Centre for Education in Islamic Finance (INCEIF). Besides INCEIF, BNM also established the International Shariah Research Academy (ISRA) as a specialized research outfit funded and backed by an endowment from BNM to conduct research concerning issues in the fast-growing field of Islamic Finance and support existing local and international standard-setting bodies (Hussain & Thani, 2010, p. 97-98)

2.3. Hypothesis Formulation

The hypothesis in this research is:

There are significant performance differences between Bank Syariah Mandiri (Indonesian Islamic Bank) and CIMB Islamic Bank (Malaysian Islamic Bank) in the last 6 years.

CHAPTER III:

RESEARCH METHOD

3.1 Research Method

The main methodology used in this research is analyzing the financial ratios from the annual report of each bank, Bank Syariah Mandiri and CIMB Islamic Bank. Then, the data are calculated to get the ratios and by using SPSS, the significance level, the mean, and the standard deviation will be found.

3.2 Research Subject

To simplify, there are two banks to be researched of this research. One bank is in Malaysia and one bank is from Indonesia. In Indonesia, Bank Syariah Mandiri (BSM), the largest Islamic Bank in Indonesia by assets (Salahuddin Ahmed, 2006), is selected as the sample of this research from Indonesia. Besides, BSM is a stated-owned company, so that its performance can be as representative of Indonesia Islamic Banking. From Malaysia, CIMB Islamic Bank is selected as the sample bank from Malaysian Islamic Bank. The reason is CIMB Islamic Bank, nowadays, is one the top three Islamic Banks in Malaysia. Besides, CIMB Islamic Bank has December in each year as ended of its Financial Year. This ended

Financial Year is same with BSM, so that, this validity is high when comparing. To get the clearer view in each banks, here, the description of those banks are elaborated:

3.2.1 Bank Syariah Mandiri (BSM): Profile

Established since 1999, BSM has in fact appeared as blessings and morale learnt from the 1997-1998 economic and monetary crises. As is known, the economic and monetary crisis, followed by multi-dimension crisis including in the national politics, has massively affected all aspects of public life, not an exception to business matters. Under such a condition, the conventional banks that dominated banking industry suffered from the worst crisis. The government finally took action by restructuring and recapitalizing the banks in Indonesia. One of the conventional banks, PT Bank Susila Bakti (BSB) owned jointly by Employee Welfare Foundation (YKP) of PT Bank Dagang Negara and PT Mahkota Prestasi also suffered from the crisis. BSB sought to survive the crisis by merger with other banks and inviting foreign investors (Company Profile on Bank Syariah Mandiri Official Website).

At the same time, the government merged four banks (Bank Dagang Negara, Bank Bumi Daya, Bank Exim, and Bapindo) to become a new bank under the name PT Bank Mandiri (Persero) on

July 31, 1999. The merger policy also positioned and declared PT Bank Mandiri (Persero) as the new majority owner of BSB. Further to the merger, Bank Mandiri embarked on consolidation and commissioned Sharia Banking Development Team. The team aims to develop sharia banking business services within the Bank Mandiri business group as a response to the law enforcement of UU No. 10 Year of 1998 that allows commercial banks for running sharia transaction services (dual banking system). The Sharia Banking Development Team concluded that the law enforcement serves the right time for converting PT Bank Susila Bakti from conventional to sharia banking. Accordingly, the Sharia Banking Development Team prepared the system and infrastructure to change conventional banking activities of BSB to a bank running based on sharia principles under the name PT Bank Syariah Mandiri just as legalized with the Notaries Act of Sutjipto, SH, No. 23 dated September 8, 1999 (Company Profile on Bank Syariah Mandiri Official Website).

The change in BSB business type into sharia commercial bank has been approved by the Bank Indonesia Governor through Decree No. 1/24/ KEP.GBI/1999, October 25, 1999. Through the Decree of Senior Deputy Governor of Bank Indonesia No. 1/1/KEP.DGS/ 1999, the central bank approved the bank renaming into PT Bank Syariah Mandiri. Following the approval and legal

registration, PT Bank Syariah Mandiri has officially been in operation since 25 Rajab 1420 H or November 1, 1999 (Company Profile on Bank Syariah Mandiri Official Website).

In addition, in 2011 there are several awards got by BSM from domestic and international, some of them are:

- a. The Best Islamic Fully Pledged Bank 2011 by Karim Business Consulting
- b. Asiamoney Islamic Bank Award 2011 by Asiamoney
- c. Annual Report Award 2010 by BI, Bapepam-LK, BEI, State Owned-Enterprises Ministry, KNKG, Ikatan Akuntan Indonesia, and Ditjen Pajak
- d. Deals of the Year by Redmoney/Islamic Finance News
- e. Indonesia Sharia Bank Loyalty Index by Markplus and Infobank
- f. Best Islamic Retail Bank Award by The Asset Asian Hongkong
- g. Best Brand Platinum Awards by Majalah SWA and Mars Survey Institutions
- h. Corporate Image Award by Bloomberg Business Week and Frontier Consulting Group

(Source: Company Profile on Bank Syariah Mandiri Official Website).

As at November 2011; Bank Syariah Mandiri, which is led by Yuslam Fauzi as President Director, Dr. Muhammad Syafi'i Antonio as a Sharia Supervisory Board, and Achmad Marzuki as Independent Commissioner; has 13,185 employees, 630 offices nationwide, and 598 ATM machines nationwide (Company Profile on Bank Syariah Mandiri Official Website).

3.2.2 CIMB Islamic Bank: Profile

CIMB Islamic Bank is the global Islamic banking and finance franchise of CIMB Group, ASEAN's leading universal banking franchise. CIMB Islamic Bank offers an extensive suite of innovative Shariah-compliant products and services that encompass consumer banking, investment banking, asset management, *takaful*, private banking and wealth management solutions in Southeast Asia and other major world cities. Headquartered in Kuala Lumpur, CIMB Islamic Bank's main markets are Malaysia, Indonesia, Thailand, and Singapore, countries in which it has full universal banking capabilities (About Us on CIMB Islamic Bank Official Website).

Led by Badlisyah Abdul Ghani as Executive Director / Chief Executive Officer, Sheikh Professor Dr Mohammad Hashim Kamalli as Sharia Committees, and Datuk Dr Syed Muhamad Syed Abdul

Kadir as Independent Non Executive Director; CIMB Islamic Bank has presence in Bahrain, Brunei, and United Kingdom as well (About Us on CIMB Islamic Bank Official Website).

Furthermore, there are many awards reached by CIMB Islamic Bank. The newest are:

- a. Best Islamic Bank in Malaysia by Asiamoney Best Islamic Bank Award 2011
- b. Best Islamic Bank in Asia by Asiamoney Best Islamic Bank Award 2011
- c. Best Islamic Finance Bank in Malaysia by Alpha Southeast Asia Best Financial Award 2011
- d. Marquee Award for Best Islamic Finance Bank in Southeast Asia by Alpha Southeast Asia Best Financial Award 2011
- e. Islamic Finance Deal of the Year 2011 in Asia Pacific –Winner: Khazanah Nasional’s \$1.5 Billion Sukuk- by The Banker Deal of the Year Award 2011
- f. Outstanding contribution to the development Islamic Finance – Badlisyah Abdul Ghani, CEO of CIMB Islamic Bank by Euromoney Islamic Finance Award 2010

(Source: Achievement – Award 2011 on CIMB Group Official Website).

3.3. Research Setting

To detect the significance performance of two Islamic Banks, Bank Syariah Mandiri, and CIMB Islamic Bank, the research design used in this research is by analyzing the categories. The categories are defined as Profitability Ratios, Liquidity Ratios, Risk & Solvency Ratios, Efficiency Ratios, and Bank's Ratios. Each category is represented by some ratios:

a. Profitability Ratios

According to Van Horne (2005) as cited by Moin (2008), these ratios are used to assess the ability of the business to generate earnings in comparison with its all expenses and other relevant costs during a specific time period. On this research, some ratios will be used to identify the profitability, these are:

1. Return on Asset (ROA)

According to Samad & Hasan (2000) as cited by Moin (2008), ROA measures net earnings per unit of a given asset, moreover, how bank can convert its assets into earnings. Generally, a higher ratio means better managerial performance and efficient utilization of the assets of the firm and lower ratio is the indicator of inefficient use of assets (Moin, 2008). However, in this research, Profit Before Tax (PBT) is used because this term is really showed the bank's performance, without any tax deduction or other similar expenses. In addition, the

tax rules applied are different between Indonesia and Malaysia. In short, ROA can be defined as

$$ROA = \frac{\textit{Profit Before Tax}}{\textit{Total Asset}}$$

2. Return on Equity (ROE)

According to Samad & Hasan (2000) as cited by Moin (2008), ROE is net earnings per dollar equity capital. By and large, higher ROE means better managerial performance. Similar with ROA that ROE uses the Profit Before Tax by the same reasons. In equation, ROE is defined as

$$ROE = \frac{\textit{Profit Before Tax}}{\textit{Total Equity}}$$

3. Return on Capital (ROC)

According Yudhistira (2003), ROC would be based on the return of economic activity in which the funds were utilized. ROC is also defined as:

$$ROC = \frac{\textit{Profit Before Tax}}{\textit{Initial Capital}}$$

4. Profit to Expense Ratio (PER)

According to Samad & Hasan (2000) as cited by Moin (2008), this ratio measures the operating profitability of the bank with regards

to its total operating expenses. A higher PER means that bank is cost efficient and is making higher profits. In short, PER is defined as:

$$PER = \frac{\text{Profit Before Tax}}{\text{Operational Expenses}}$$

b. Liquidity Ratios

Liquidity ratios indicate the ability of the firm to meet recurring financial obligations. Liquidity is important for the firm to avoid defaulting on its financial obligations and, thus, to avoid experiencing financial distress (Ross, Westerfield, Jaffe 2005 as cited by Moin 2008). In addition, the higher liquidity ratios mean bank has larger margin of safety and ability to cover its short term obligations (Samad & Hasan, 2005 as cited by Moin, 2008). The ratios includes on liquidity ratio will be used in this research are:

1. Financing to Deposit Ratio (FDR)

Bank with low FDR is considered to have excessive liquidity potentially lower profits, and hence less risk as compared to the bank with high FDR. However, high FDR indicates that a bank has taken more financial stress by making excessive loans and also shows risk that to meet depositors' claims bank may have to sell some loans at loss (Moin, 2008). On equation, FDR is written as:

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

2. Financing to Asset Ratio (FAR)

FAR measures liquidity of the bank in terms of its total assets. That is, it gauges the percentage of total assets the bank has invested in financings. The higher is the ratio the less the liquidity is of the bank. Similar to FDR, the bank with low FAR is also considered to be more liquid as compared to the bank with higher FAR. However, high FAR is an indication of potentially higher profitability and hence more risk (Moin, 2008). In another way, FAR is identified as well as:

$$FAR = \frac{\text{Total Gross Financing}}{\text{Total Asset}}$$

3. Non Performing Ratio (NPF)

Since it is prohibited in giving loan and taking interest in Islamic concept, thus, the concept of loan in Islamic Banking is change to be financing. However, in detecting the financing performance usually, the ratio of loan can be used. According to Article IV and FSAP reports (IMF) (2004) as stated by Cihak and Schaek (2007), Non Performing Loan (NPL) is ratio to identify the bank's risk by

comparing the nonperforming loans to total gross loans on the aggregate level. Thus, in short, NPF is also defined as:

$$NPF = \frac{\text{Non Performing Financing}}{\text{Total Gross Financing}}$$

c. Risk & Solvency Ratios

This ratio determines the probability that the firm default on its debt contacts (Ross, Wedsterfield, and Jaffe 2005 as cited by Moin, 2008). In addition, If the amount of assets is greater than amount of its all types of liabilities, the bank is considered to be solvent (Moin, 2008). To identify the banks' ability in facing long-term obligations, here some ratios will be analyzed:

1. Liabilities to Equity Ratio (LER)

This ratio is actually originated from Debt to Equity Ratio (DER), however, since there is a difference in accounting process between Bank Syraiah Mandiri and CIMB Islamic Bank, thus Liabilities (as larger means of debt) is used. According to Moin, (2008), DER is one of the tools to measure the extent to which firm uses debt. A bank with lower DER is considered better as compared to the bank with higher DER. By the same source that DER is defined as Total Debt divided by Shareholder's Equity, thus LER is defined as:

$$LER = \frac{\text{Total Liabilities}}{\text{Total Equity's Shareholder}}$$

2. Liabilities to Total Asset Ratio (LTAR)

By the same reason in finding LER, this ratio is actually generated from Debt to Total Asset Ratio (DTAR). According to Moin (2008), DTAR is the amount of total debt firm used to finance its total assets. It is an indicator of financial strength of the bank. It provides information about the solvency and the ability of the firm to obtain additional financing for potentially attractive investment opportunities. Higher DTAR means bank has financed most of its assets through debt as compared to the equity financing. Moreover, higher DTAR indicates that bank is involved in more risky business. Since DTAR is Total Debt divided by Total Asset, in simplifying, LTAR is written as:

$$LTAR = \frac{\text{Total Liabilities}}{\text{Total Asset}}$$

3. Equity Multiplier (EM)

According to Moin (2008), EM is how many times the total assets are of the shareholders' equity measured by equity multiplier. Higher value of EM means that bank has used more debt to convert into assets with share capital. Generally, the higher is the EM the greater is the risk for a bank. To calculate EM, this formula can be used:

$$EM = \frac{\text{Total Asset}}{\text{Total Shareholder's Equity}}$$

4. Capital to Asset Ratio (CAR)

Bourke (1989) as cited by Bashir (2000) stated that profitable banks remain well capitalized or the view that well capitalized banks enjoy access to cheaper (less risky) sources of funds with subsequent improvement in profit rates. In short, higher CAR means a bank is less risk. To simplify, CAR is calculated as:

$$CAR = \frac{\text{Capital}}{\text{Total Asset}}$$

d. Efficiency Ratios

According to Moin (2008), this ratio measures effectively and efficiently the firm in managing and controlling its assets. Higher value of these ratios is

taken as good indicator which means firm is doing well. This research will analyze these ratios to detect the efficiency ratio:

1. Asset Utilization (AU)

How effectively the bank is utilizing all of its assets is measured by assets utilization ratio. If the ratio of AU is low, the bank is not using its assets to their capacity and should either increase total revenues or dispose of some of the assets (Ross, Westerfield, and Jaffe, 2005 as cited by Moin, 2008). AU is simply defined as:

$$AU = \frac{\text{Total Operational Revenue}}{\text{Total Asset}}$$

2. Cost to Income Ratio (CI)

Burger and Moormann (2008) stated that CI shows how many Euros (or dollars etc.) were needed in a given period of time to generate one Euro (or dollar etc.) in revenue. Consequently, the CI measures the output of a bank in relation to its utilized input. Therefore, a high CI is equivalent to low productivity and low efficiency and vice versa. To calculate CI, this formula is used:

$$CI = \frac{\text{Total Operational Expenses}}{\text{Total Operational Revenue}}$$

3. Sales to Branch Ratio (SBR)

As stated by Reichheld (2003) that a manager presents employees with numbers from previous week (or day) showing the percentage (and names) of a branch offices' customers who are promoters, passively satisfied, and detractors. In addition, he said "We need more promoters and fewer detractors in order to grow". Thus, it is a strong relationship between sales made in each branch. Therefore, to evaluate the effectiveness the researcher uses this ratio. Higher number means a bank more effective in running its business. SBR is calculated as:

$$SBR = \frac{\text{Total Operating Revenue}}{\text{Number of branches}}$$

e. Bank's Ratios

These ratios are not included in any books of financial ratios as general. These ratios are used to identify the bank's performance in both countries. To simplify, there are only four ratios to detect this Bank's Ratios. They are:

1. Bank size (in Billion Rupiahs)

Berger, Rosen, Udell (2001) stated that banking market size structure refers to the distribution of market shares of different size classes of banks in a local market, whether or not that size is

achieved entirely in that local market. Moreover, according to Almazari (2011) stated that a bank's size is to find its total asset, higher total asset means the better size of a bank. Although there will be CIMB Islamic Bank as Malaysian bank that using Ringgit Malaysia, the currency will be exchanged to Rupiahs to make easy in comparing. This exchanged uses the rate as per December 31st, 2010 as source from <http://www.bi.go.id>. In addition, in making simple of numbering the Asset will be stated in Billion. Simplified, Bank Size is defined as:

$$\text{Bank Size} = \text{Total Asset}$$

2. Individual Deposit to Total Deposit

The objective of this ratio is to know how much individual deposit contributes in total deposit. This ratio represents the huge of customers primarily from each country. As to Mohan (n.d.) stated that to mobilize deposits, the cooperative banks depend on individual depositors as well as cooperative societies. In calculating this ratio, this formula can be defined as:

$$\text{Individual Deposit to Total Deposit} = \frac{\text{Individual Deposit}}{\text{Total Deposit}}$$

3. Salaries and Benefit to Total Asset

According to Hays, De Iurigo, and Gibert (2009) that salaries and benefit to Total Asset is a proxy for management since salaries and benefits are generally the largest non-interest expense element of bank overhead and are also controllable by management. In addition, it is a measure of how effective a bank is in using overhead expenses including salaries and benefit costs and occupancy expenses as well as other operating expenses in generating revenues. It means, lower percentage means more effective of banking performance. To simplify, this ratio is calculated as:

$$\text{Salaries and Benefit to Total Asset} = \frac{\text{Salaries and Benefit}}{\text{Total Asset}}$$

4. Total Deposit to Total Asset

Tarawneh (2006) as cited by Almazari (2011) stated that the bank with higher total capital, deposits, credits, or total assets does not always mean that has better profitability performance. The ratio's objective is to find how much deposit (funding) as bank's liability compared with the Total Asset owned by bank. Moreover, according to Almazari (2011), this ratio considered as asset-liability management. The lower number (represent the lower

deposit, thus the lower liabilities) means the better way in managing the asset-liability. In making simple, this ratio is calculated as:

$$\text{Total Deposit to Total Asset} = \frac{\text{Total Deposit}}{\text{Total Asset}}$$

Those ratios above selected since there are sophisticated Sharia Accounting Principles differences between Indonesia and Malaysia. On Malaysia's Accounting, there is Investment Deposit to represent Time Deposit. In Indonesia's, since Time Deposit includes in investment, therefore, Indonesia Islamic Bank calls it as Dana Syirkah Temporer. This Dana Syirkah Temporer is not including in Liabilities or Customer Deposit like in Malaysia. Hence, the researcher cannot compare Time Deposit with the Dana Syirkah Temporer since both countries have different definition on it. In another word, time deposit and Dana Syirkah Temporer are not comparable. In addition, there are still many sophisticated Accounting differences. Therefore, ratios above are selected with the defining Accounting program comparable.

Those ratios are constructed from the annually balance sheet from 2005 until 2010. The long range of the years, which is 6 years, allows us not only to know the performance in the long time and to decrease the bias data, but also to show the banks' performance as general in long-term period.

3.4. Research Instrument

Some instruments will be used to support the research. Exclusively, since this research is analyzing the financial ratios, of course, the main instrument is Annual Report. Next, in computing the ratios, the researcher uses Microsoft Excel 2007. In addition, in founding the mean, standard deviation, and the significance level, the researcher uses SPSS 17.0 version.

3.5. Research Procedures

The data needed in this research are data on annually balance sheet in the last 6 years, which is from 2005 until 2010. Moreover, the analysis of six years will decrease the bias data and describing the performance in general. The data are generated from Annual Report 2006, 2008, and 2010 for each banks, since the annual reports provide the financial report on that year and previous year. Since the CIMB Islamic Bank did not publish the annual report of 2010, thus data for 2009 and 2010 are produced from CIMB Group Annual Report 2010 on 'The Operation of Islamic Banking'.

In addition, since the data are created from Annual Report 2006, 2008, and 2010, the availability data on number of branches are on those years. Thus, the ratios counted are only on those years. While the mean of sales to number of branches ratio will be divided by three.

Then, data generated are computed to get the ratios. After getting the ratios for each year, the researcher uses the paired sample t-test model on SPSS program 17.0 version with confidence level 95% by using two tales. Therefore, the mean, the standard deviation, and ratios' significance are elaborated. The ratios which have significance value less than 0.05 concludes as significance while the ratios which have significance value more than 0.05 concludes as not significant.

3.6. Technique of Data Analysis

After figures of significance value found, the next step then is analysis of representing those figures. As stated on Data Procedures that if significance value less than 0.05 means the differences between BSM's and CIMB Islamic Bank's performance is significance. By this, it can be seen how much the mean of those banks. Therefore, it can be concluded that which is better performance between Bank Syariah Mandiri and CIMB Islamic Bank.

Vice versa, if significance value more than 0.05 means that the differences between those banks are not significance. In other words, those performances are mostly same, although it still can be seen which is better performance between them.

In, short by doing this technique of analysis, it can be shown which ratios of Bank Syariah Mandiri are better or worse than CIMB Islamic Bank. Thus, by getting the conclusions, the recommendation is easily formulated.

CHAPTER IV:

RESEARCH FINDINGS, DISCUSSION, AND IMPLICATIONS

4.1. Data Description

The data generated from the Annual Report are still raw. It is difficult to analyze the performance based on the raw data since the size of both banks are different. Besides, the experiences (known from the year of establishment) are really different between them. In addition, Bank Syariah Mandiri still provides the products and services nationally while CIMB Islamic Bank already has overseas branches.

To compare and make the comparison is fair, the using of ratios is implemented. These ratios are comparing a part of a bank with another part of the same bank. Then, it can be compared with other banks in similar ratios. However, six ratios (representative the number of the year) still have difficulties in comparing of two banks. Therefore, using SPSS is needed to find the mean for those six ratios.

Besides, by using SPSS, it can be found as well of standard deviation and significance value. Thus, the significance or not significance value of differences of two banks are easily shown.

4.2. Research Findings & Discussions

The gross finding of this research is the ratios showed in each year of both banks. In line with the sources that data are generated from Annual Report 2006 – 2010 of those banks. Thus, the ratios found are from 2006 – 2010 (see Appendix 4.1: The Comparative Ratios 2006 – 2010).

Therefore, in making simple the comparison as well as to find the significance; on Appendix 4.2: The Significance Comparative Ratios Bank Syariah Mandiri – CIMB Islamic Bank; shows the mean of all ratios, standard deviation, t test, and value of significance.

On table of Appendix 4.2: The Significance Comparative Ratios Bank Syariah Mandiri – CIMB Islamic Bank demonstrates that not all ratios are significant. From 18 ratios, 10 ratios are not significant. In short, there are eight ratios that illustrate the significant performances. From this result, it can be accomplished that from ratios selected, Bank Syariah Mandiri's performance is not really different with CIMB Islamic Bank's performance. In other word, like CIMB Islamic Bank, Bank Syariah Mandiri is actually compatible in international market.

4.2.1. Non Significant Ratios

To detect which ratios BSM has relatively same performance with CIMB Islamic Bank, here, these are 10 non-significant ratios:

a. Return on Asset (ROA) on Profitability Ratio

ROA	Mean	Standard deviation	T-test	Significance value
Bank Syariah Mandiri	1.54%	0.0332100	1.471	0.201 (not significant)
CIMB Islamic Bank	2.01%	0.0222931		

Table 4.1: ROA Comparison

ROA is a ratio to detect the profitability of company per unit of Total Asset given (Samad & Hasan, 2000 as cited by Moin 2008). As generally known that the higher ROA means the higher profitability made by the company. In this ratio, the significant value is 0.201 (consider as not significant). Although ROA is not significant, however, BSM's mean of ROA is lower than CIMB Islamic Bank by 0.47. Mean of BSM's ROA is 1.54% while CIMB Islamic Bank's mean is 2.01%. In short, BSM has less profitability than CIMB Islamic Bank.

b. Return on Equity (ROE) on Profitability Ratio

ROE	Mean	Standard deviation	T-test	Significance value
Bank Syariah Mandiri	61.58%	0.2460524	0.373	0.724 (not significance)
CIMB Islamic Bank	53.25%	0.3514994		

Table 4.2: ROE Comparison

Relatively same with ROA, ROE is to detect profitability. Thus, the higher percentage is better performance. However, ROE is profitability per a dollar equity (Samad & Hasan, 2000 as cited by Moin 2008). The difference of ROE is smaller than differences of ROA since the significance value is higher: 0.724. Further, unlike ROA, BSM's ROE is higher than CIMB Islamic Bank. BSM's mean is 61.58% while CIMB Islamic Bank mean is 53.25%. It means that BSM's profitability on equity is better than CIMB Islamic Bank.

c. Return on Capital (ROC) on Profitability Ratio

ROC	Mean	Standard deviation	T-test	Significance value
Bank Syariah Mandiri	52.08%	0.2089209	1.217	0.278 (not significant)
CIMB Islamic Bank	34.37%	0.5447855		

Table 4.3: ROC Comparison

ROC would be based on the return of economic activity in which the funds were utilized (Yudhistira, 2003). In another word, this ratio is to know how develop a company in creating profit from its initial capital. Like ROE, BSM has higher ROC than CIMB Islamic Bank. BSM's mean is 52.08%, while CIMB Islamic

Bank is 34.37% with significance value 0.278. In short, based on this ratio, BSM has better performance than CIMB Islamic Bank.

d. Profit to Expense Ratio (PER) on Profitability Ratio

PER	Mean	Standard deviation	T-test	Significance value
Bank Syariah Mandiri	29.34%	0.7600350	-1.245	0.268 (not significant)
CIMB Islamic Bank	102.47%	1.4680548		

Table 4.4: PER Comparison

PER measures the operating profitability of the bank with regards to its total operating expenses (Samad & Hasan, 2000 as stated by Moin, 2008). Like other profitability ratios, the higher number represents the better performance of the company. Like ROA, BSM's PER is lower than CIMB Islamic Bank with significance value is relatively same with ROA, which is 0.268. Further, BSM's mean is 29.34% while CIMB Islamic Bank is 102.47%. Thus, in this ratio, BSM has worse performance than CIMB Islamic Bank.

e. Financing to Asset Ratio (FAR) on Liquidity Ratio

FAR	Mean	Standard deviation	T-test	Significance value
Bank Syariah Mandiri	28.66%	0.0472196	-0.360	0.733 (not significant)
CIMB Islamic Bank	31.76%	0.2245995		

Table 4.5: FAR Comparison

FAR measures liquidity of the bank in terms of its total assets. That is, it gauges the percentage of total assets the bank has invested in financings (Moin, 2008). In this ration, the significant level of FAR is 0.733 (considered as not significant) with BSM's mean is 28.66% and CIMB Islamic Bank mean is 31.76%. It means the financing proportion to Asset difference is not significant. In this case, BSM's financing is lower than CIMB Islamic Bank's financing. Thus, Indonesia has lower liquidity risk than Malaysia.

f. Equity Multiplier (EM) on Risk & Solvency Ratio

I

EM	Mean	Standard deviation	T-test	Significance value
Bank Syariah Mandiri	1494.66%	4.5906470	-0.518	0.627 (not significant)
CIMB Islamic Bank	1642.73%	7.3440744		

Table 4.6: EM Comparison

According to Moin (2008), EM is how many times the total assets are of the shareholders' equity measured by equity multiplier. Generally, the higher is the EM the greater is the risk for a bank. BSM has lower EM than CIMB Islamic Bank means that BSM has lower Asset than CIMB Islamic Bank as proportion to Equity. BSM's mean is 1,494.66% while CIMB Islamic Bank's is 1,642.73% with significance value is 0.627 (considered as not significant). It means that BSM has higher composition of equity (lower composition of liquidities) than CIMB Islamic Bank, so that Bank Syariah Mandiri has less risk.

g. Capital to Asset Ratio (CAR) on Risk & Solvency Ratio

CAR	Mean	Standard deviation	T-test	Significance value
Bank Syariah Mandiri	3.19%	0.0079665	-1.273	0.259 (not significant)
CIMB Islamic Bank	6.31%	0.0659683		

Table 4.7: CAR Comparison

Bourke (1989) as cited by Bashir (2000) stated that profitable banks remain well capitalized or the view that well capitalized banks enjoy access to cheaper (less risky) sources of funds with subsequent improvement in profit rates. In short, higher CAR means a bank is less risk. BSM has lower CAR than CIMB

Islamic Bank, means that BSM used less Capital than CIMB Islamic Bank. On risk perspective, BSM is more risk since BSM used higher proportion on debt in its Asset than CIMB Islamic Bank.

h. Cost to Income Ratio (CI) on Efficiency Ratio

CI	Mean	Standard deviation	T-test	Significance value
Bank Syariah Mandiri	49.76%	0.0383386	-0.710	0.509 (not significant)
CIMB Islamic Bank	118.60%	2.3784096		

Table 4.8: CI Comparison

CI measures the output of a bank in relation to its utilized input. Therefore, a high CI is equivalent to low productivity and low efficiency and vice versa (Burger & Moormann, 2008).. This ratio shows that BSM is more efficient than CIMB Islamic Bank since BSM's mean is 49.76% while CIMB Islamic Bank's is 118.60% with significant value is 0.509 (consider as not significant). This means that almost 50% of BSM's income runs to cost and more than 100% of CIMB Islamic Bank's income runs to cost.

i. Sales to Branches Ratio on Efficiency Ratio

SBR	Mean	Standard deviation	T-test	Significance value
Bank Syariah Mandiri	82.43%	0.3429107	-0.478	0.680 (not significant)
CIMB Islamic Bank	108.33%	1.2420921		

Table 4.9: Sales to Branch Comparison

Reichheld (2003) stated, “We need more promoters and fewer detractors in order to grow”. Thus, it is a strong relationship between sales made in each branch. Therefore, higher number means a bank more effective in running its business.

Unlike CI, this efficiency ratio describes that CIMB Islamic Bank is more efficient than BSM.

j. Bank Size (in Billion Rupiahs) on Bank's Ratio

Bank Size (in Billion Rupiahs)	Mean	Standard deviation	T-test	Significance value
Bank Syariah Mandiri	17,049.61	90,946.6130000	-2.113	0.088 (not significant)
CIMB Islamic Bank	49,084.38	4,593.5590000		

Table 4.10: Bank Size Comparison

Berger, Rosen, Udell (2001) stated that banking market size structure refers to the distribution of market shares of different size classes of banks in a local market, whether or not that size is

achieved entirely in that local market. Generally, in knowing a bank's size is to find its total asset. Higher total asset means the greater bank since a bank is safer from any risks. The significant value of this ratio is 0.088. This number closes to significant since the differences of bank's size is quite far, which BSM's mean is less than CIMB Islamic Bank's.

4.2.2. Significant Ratios

Deeper, controversy, here there are eight significance ratios:

a. Financing to Deposit Ratio (FDR) on Liquidity Ratio

FDR	Mean	Standard deviation	T-test	Significance value
Bank Syariah Mandiri	207.64%	0.6585987	7.500	0.001 (significant)
CIMB Islamic Bank	34.76%	0.2467141		

Table 4.11: FDR Comparison

Bank with low FDR is considered to have excessive liquidity potentially lower profits, and hence less risk as compared to the bank with high FDR (Moin, 2008). The significant value of this ratio is 0.001 (considered as significant). Mean of BSM's FDR is 207.64% with standard deviation 0.66 while mean of CIMB Islamic Bank's FDR is 34.76% with standard deviation 0.25. It means that BSM gives more on Financing rather than Deposit. In other words, for last 6 years, BSM's Financing is more than

BSM's Deposit up to twice higher. In liquidity perspective, BSM must be aware in doing financing to avoid liquidity risk.

b. Non Performing Ratio (NPF) on Liquidity Ratio

NPF	Mean	Standard deviation	T-test	Significance value
Bank Syariah Mandiri	5.02%	0.0134708	3.255	0.023 (significant)
CIMB Islamic Bank	2.00%	0.0220000		

Table 4.12: NPF Comparison

More exclusive than FDR, NPF is ratio to identify the bank's risk by comparing the nonperforming loans to total gross loans on the aggregate level (Moin, 2008). Like FDR, BSM has more liquidity risk since BSM has 5.02% on NPF ratio while CIMB Islamic Bank has 2.00% with significance value is 0.023 (considered as significant). From this ratio, it shows that BSM's risk on Non Performing Financing is more than twice of CIMB Islamic Bank.

c. Liabilities to Equity Ratio (LER) on Risk & Solvency Ratio

LER	Mean	Standard deviation	T-test	Significance value
Bank Syariah Mandiri	272.47%	0.6569248	-4.190	0.009 (significant)
CIMB Islamic Bank	1542.73%	7.3440744		

Table 4.13: LER Comparison

As stated on Chapter III that the theory of LER is originated from DER (Debt to Equity Ratio) that defined as one of the tools to measure the extent to which firm uses debt. A bank with lower DER is considered better as compared to the bank with higher DER (Moin, 2008). In this ratio, BSM is better than CIMB Islamic Bank since BSM has lower liabilities compared with equity than CIMB Islamic Bank. Therefore, BSM has lower risk in paying back the liabilities than CIMB Islamic Bank. Furthermore, since this ratio is significance, BSM is much safer.

d. Liabilities to Total Asset Ratio (LTAR) on Risk & Solvency Ratio

LTAR	Mean	Standard deviation	T-test	Significance value
Bank Syariah Mandiri	19.44%	0.0619167	-20.762	0.000 (significant)
CIMB Islamic Bank	92.38%	0.0452792		

Table 4.14: LTAR Comparison

Relatively same with LER, LTAR is originated from DTAR, that DTAR defined as the amount of total debt firm used to finance its total assets. It is an indicator of financial strength of the bank. Higher DTAR indicates that bank is involved in more risky business (Moin, 2008). By same method of analysis with LER,

BSM has less risk than CIMB Islamic Bank since BSM has lower liabilities on its Asset composition. Moreover, since its ratio is significance, in short, BSM is much safer.

e. Asset Utilization (AU) on Efficiency Ratio

AU	Mean	Standard deviation	T-test	Significance value
Bank Syariah Mandiri	10.72%	0.0074105	11.271	0.000 (significant)
CIMB Islamic Bank	3.45%	0.0161843		

Table 4.15: AU Comparison

Asset Utilization measures how effectively the bank is utilizing all of its assets. If the ratio of AU is low, the bank is not using its assets to their capacity and should either increase total revenues or dispose of some of the assets (Ross, Westerfield, and Jaffe, 2005 as cited by Moin, 2008). Thus the higher value means more asset utilized optimally. In other word, there is higher revenue contributes to Asset. In this ratio, BSM has higher value, thus it has the meaning that BSM is better than CIMB Islamic Bank.

f. Individual Deposit to Total Deposit on Bank Ratio

Individual Deposit to Total Deposit	Mean	Standard deviation	T-test	Significance value
Bank Syariah Mandiri	99.19%	0.0064664	3.588	0.016 (significant)
CIMB Islamic Bank	80.27%	0.1298059		

Table 4.16: Individual Deposit Comparison

Individual deposit to total deposit illustrates the percentage of individual deposit contributing to total deposit. As to Mohan (n.d.) stated that to mobilize deposits, the cooperative banks depend on individual depositors as well as cooperative societies. Both Bank Syariah Mandiri and CIMB Islamic Bank are not purely retail bank or corporate bank. Both of those banks service both retail and corporate needs. Therefore, the composition of retail and corporate should be balance. Since there are no balance figures from those banks (50%), then, the closest number to 50% is better. In this ratio, CIMB Islamic Bank has less number; therefore, BSM is not better in this ratio.

g. Salaries and Benefit to Total Asset on Bank Ratio

Salaries and Benefit to Total Asset	Mean	Standard deviation	T-test	Significance value
Bank Syariah Mandiri	1.74%	0.0013922	10.233	0.000 (significant)
CIMB Islamic Bank	0.39%	0.0038109		

Table 4. 17: Salaries and Benefit Comparison

According to Hays, De lurgio, and Gibert (2009), it is a measure of how effective a bank is in using overhead expenses including salaries and benefit costs and occupancy expenses as well as other operating expenses in generating revenues. It means, lower percentage means more effective of banking performance.

Furthermore, based on the result of comparison, CIMB Islamic Bank is better than Bank Syariah Mandiri.

h. Total Deposit to Total Asset on Bank Ratio

Total Deposit to Total Asset	Mean	Standard deviation	T-test	Significance value
Bank Syariah Mandiri	14.62%	0.0376587	-30.900	0.000 (significant)
CIMB Islamic Bank	90.06%	0.0378440		

Table 4.18: Total Deposit Comparison

According to Almazari (2011), this ratio considered as asset-liability management. Therefore, it is better if a bank has lower

percentage on a ratio that represents the small part of liabilities of bank related to this asset. As we can see that BSM has lower percentage on this ratio, so that BSM's performance is better than CIMB Islamic Bank.

4.2.3. Conclusion Comparative Ratios

To make easy in getting conclusion and comparing the significance result between Bank Syariah Mandiri (BSM) as Indonesia Islamic Bank and CIMB Islamic Bank as Malaysia Islamic Bank, below the conclusion matrix is shown. Further, to detect which ratios BSM is better than CIMB Islamic Bank, the last column on the same matrix is shown:

Categories	Ratios	Significance	Is BSM better?
Profitability Ratios	Return on Asset (ROA)	X	X
	Return on Equity (ROE)	X	V
	Return on Capital (ROC)	X	V
	Profit to Expense Ratio (PER)	X	X
Liquidity Ratios	Financing to Deposit Ratio (FDR)	V	X
	Financing to Asset Ratio (FAR)	X	X
	Non Performing Financing Ratio (NPF)	V	X
Risk & Solvency Ratios	Liabilities to Equity Ratio (LER)	V	V
	Liabilities to Total Asset Ratio (LTAR)	V	V
	Equity Multiplier (EM)	X	V
	Capital to Asset Ratio (CAR)	X	X
Efficiency Ratios	Asset Utilization (AU)	V	V
	Cost to Income Ratio (CI)	X	V
	Sales to Branch Ratio	X	X
Bank's Ratio	Bank Size (in Billion Rupiahs)	X	X
	Individual to Deposit Ratio	V	X
	Salaries and Benefit to Total Asset	V	X
	Total Deposit to Total Asset	V	V

Table 4.19: Summary of Comparison Ratios

From matrix above, it can be easily seen that Bank Syariah Mandiri's performance on profitability ratios are not significant. It means that the profitability of Bank Syariah Mandiri (BSM) as Indonesia Islamic Bank is competitive enough with CIMB Islamic Bank as Malaysia Islamic Bank. In addition, BSM is better on two ratios from four ratios on this category which are Return on Equity

(ROE) and Return on Capital (ROC), which represents that BSM is strong on capital.

Different on Liquidity Ratios that from all ratios show BSM is worse than CIMB Islamic Bank. Moreover, from three ratios, there are two ratios show that differences are significant. Those ratios are Financing to Deposit Ratio (FDR) and Non Performing Ratio (NPF). BSM gave more financing than CIMB Islamic Bank as well as the Non Performance Financing. It will reduce the liquidity as well as increase the risk.

Risk & Solvency Ratio is controversial category with Liquidity Ratios. If on Liquidity Ratios, BSM is worse, nevertheless on this category BSM is better in almost all ratios. From four ratios, there are two ratios are significant, there are: Liability to Equity Ratio (LER) and Liabilities to Total Asset Ratio (LTAR). It means BSM's liabilities are low, thus BSM is less risk than CIMB Islamic Bank in long-term period.

From three ratios on Efficiency categories, BSM is better on two ratios, which are Asset Utilization (AU) and Cost to Income ratio (CI). It shows that BSM is more efficient as a whole company. From these two ratios, AU results significance means utilization of Asset on BSM is much better.

The last category is Bank's ratios. Only Bank Size represents insignificance result, while the other three ratios are significance. From these three significance ratios, BSM is better on Total Deposit to Total Asset Ratio (less deposit thus less liabilities).

In short, from 18 ratios show that ten ratios are insignificant and eight ratios Bank Syariah Mandiri is better. Therefore, it can be concluded that Bank Syariah Mandiri as Indonesia Islamic Bank needs to improve this performance, primarily in financial ratios.

CHAPTER V

CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

Regarding from findings and discussion on Chapter IV, it can be concluded that from 18 ratios, there are ten ratios are insignificant: Return on Asset (ROA), Return on Equity (ROE), Return on Capital (ROC), Profit to Expense Ratio (PER), Financing to Asset Ratio (FAR), Equity Multiplier (EM), Capital to Asset Ratio (CAR), Cost to Income Ratio (CI), Sales to Branch Ratios, and Bank Size.

Therefore, there eight ratios are significant: Financing to Deposit Ratio (FDR), Non Performing Ratio (NPF), Liabilities to Equity Ratio (LER), Liabilities to Total Asset Ratio (LTAR), Asset Utilization (AU), Individual to Deposit Ratio, Salaries and Benefit to Total Asset, and Total Deposit to Total Asset.

Besides, from 18 ratios as well, there are eight ratios that showed BSM is better. They are: Return on Equity (ROE), Return on Capital (ROC), Liabilities to Equity Ratio (LER), Liabilities to Total Asset Ratio (LTAR), Equity Multiplier (EM), Asset Utilization (AU), Cost to Income Ratio (CI), and Total Deposit to Total Asset.

Thus, there are ten ratios that showed BSM is need to be improved, they are: Return on Asset (ROA), Profit to Expense Ratio (PER), Financing to Deposit Ratio (FDR), Financing to Asset Ratio (FAR), Non Performing Ratio (NPF), Capital to Asset Ratio (CAR), Sales to Branch Ratio, Bank Size, and Individual to Deposit Ratio, and Salaries and Benefit to Total Asset.

5.2. Recommendations

As recommendations, it should be seen from ratios that Bank Syariah Mandiri is worse than CIMB Islamic Bank in order that Indonesia Islamic Bank can improve the performances.

As stated in conclusion that there are ten ratios which BSM is need to be improved. From these ten ratios, the priority should be improved are ratios that have significant different. These ratios are: Financing to Deposit Ratio (FDR), Non Performing Ratios (NPF), Individual to Deposit Ratio, and Salaries and Benefit to Total Asset.

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APPENDICES

Appendix 4.1: The Comparative Performance (2005-2010)

Items	Bank Syariah Mandiri (Indonesia)						CIMB Islamic Bank (Malaysia)					
	2005	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009	2010
In Billion Rupiahs (*1000,000,000)												
Income Statement												
Total Operational Revenue	865.49	934.42	1,407.19	2,037.38	2,417.99	3,334.61	11.52	179.23	1,305.51	2,013.55	3,480.77	5,619.46
Total Expenses	435.55	523.22	728.28	968.89	1,090.73	1,594.00	69.58	69.78	213,573216	353.06	711.46	818.96
Profit Before Tax	136.71	95.24	168.18	284.08	418.40	568.73	-60.96	10.29	269.81	283.07	921.05	2,880.62
Balance Sheet												
Total Assets	8,272.97	9,554.97	12,885.39	17,065.94	22,036.53	32,481.87	1,511.49	7,296.73	26,066.75	54,093.70	92,231.66	113,305.97
Total Liabilities	1,700.33	2,657.59	2,646.61	2,542.77	5,009.83	3,273.46	1,267.27	6,692.75	24,117.36	51,932.15	88,428.55	106,884.50
Capital	358.37	358.37	358.37	558.24	658.24	658.24	289.98	434.98	1,594.91	1,594.91	1,594.91	2,174.88
Shareholder's Equity	632.59	697.23	1,208.43	811.38	2,020.62	1,600.46	244.22	603.99	1,949.39	2,161.55	3,803.11	6,421.47
Total Gross Financing	1,698.66	2,673.31	4,337.43	5,577.38	6,595.46	8,831.11	18.08	1,288.55	6,279.15	17,820.93	49,812.78	68,708.48
Non Performing Financing	available on Annual Report						0.00	0.01	729.33	610.32	1,062.36	992.25
Total Deposit	1,270.30	2,064.43	1,875.24	1,862.38	2,736.68	4,188.58	1,254.44	6,640.20	23,480.79	50,915.86	84,967.22	101,983.05
Individual Deposit	1,261.66	2,058.99	1,857.73	1,850.68	2,681.02	4,174.66	1,254.44	4,746.60	21,739.89	39,615.83	58,519.70	72,275.59
Others												
# of Branches (including sub branches, cash offices, payment point, sharia services, and mobile cash offices)		212.00		315.00		507.00		383.00		367.00		1,175.00
Salaries and Benefit for Employee	152.58	148.28	207.80	294.25	395.19	622.68	17.05	0.14	79.77	136.96	305.69	392.28
RM 1 = Rp 2899.84 (from http://www.bi.go.id as at December 31 st , 2010)												

Appendix 4.2: The Comparative Ratios (2005-2010)

Categories	Ratios	Bank Syariah Mandiri (Indonesia)						CIMB Islamic Bank (Malaysia)					
		2005	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009	2010
Profitability Ratios	Return on Assets (ROA)	1.65%	1.00%	1.31%	1.66%	1.90%	1.75%	-4.03%	0.14%	1.04%	0.52%	1.00%	2.54%
	Return on Equity (ROE)	21.61%	13.66%	13.92%	35.01%	20.71%	35.54%	-24.96%	1.70%	13.84%	13.10%	24.22%	44.86%
	Return on Capital (ROC)	38.15%	26.57%	46.93%	50.89%	63.56%	86.40%	-21.02%	2.37%	16.92%	17.75%	57.75%	132.45%
	Profit to Expense Ratio (PER)	31.39%	18.20%	23.09%	29.32%	38.36%	35.68%	-87.62%	14.75%	126.33%	80.18%	129.46%	351.74%
Liquidity Ratios	Financing to Deposit Ratio (FDR)	133.72%	129.49%	231.30%	299.48%	241.00%	210.84%	1.44%	19.41%	26.74%	35.00%	58.63%	67.37%
	Financing to Asset Ratio (LAR)	20.53%	27.98%	33.66%	32.68%	29.93%	27.19%	1.20%	17.66%	24.09%	32.94%	54.01%	60.64%
	Non Performing Financing Ratio (NPF)	3.50%	6.94%	5.64%	5.66%	4.84%	3.52%	0.00%	0.00%	5.92%	1.61%	2.13%	1.44%
Risk & Solvency Ratios	Liabilities Equity Ratio (LER)	268.79%	381.16%	219.01%	313.39%	247.94%	204.53%	518.92%	1108.09%	1237.17%	2402.54%	2325.16%	1664.49%
	Liabilities Total Asset Ratio (LTAR)	20.55%	27.81%	20.54%	14.90%	22.73%	10.08%	83.84%	91.72%	92.52%	96.00%	95.88%	94.33%
	Equity Multiplier (EM)	1307.80%	1370.42%	1066.29%	2103.33%	1090.59%	2029.53%	618.92%	1208.09%	1337.17%	2502.54%	2425.16%	1764.49%
	Capital to Asset Ratio (CAR)	4.33%	3.75%	2.78%	3.27%	2.99%	2.03%	19.19%	5.96%	6.12%	2.95%	1.73%	2.92%
Efficiency Ratios	Asset Utilization (AU)	10.46%	9.78%	10.92%	11.94%	10.97%	10.27%	0.76%	2.46%	5.01%	3.72%	3.77%	4.96%
	Cost to Income Ratio (CI)	50.32%	55.99%	51.75%	47.56%	45.11%	47.80%	603.75%	38.93%	16.36%	17.53%	20.44%	14.57%
	Sales to branches ratio (SBR)		44.92%		90.19%		112.18%		2.69%		77.13%		245.16%
Bank's Ratios	Bank Size (Billion Rupiahs)	8,272.97	9,554.97	12,885.39	17,065.94	22,036.53	32,481.87	1,511.49	7,296.73	26,066.75	54,093.70	92,231.66	113,305.97
	Individual Deposit to Total Deposit (IDR)	99.32%	99.74%	99.07%	99.37%	97.97%	99.67%	100.00%	71.48%	92.59%	77.81%	68.87%	70.87%
	Salaries and Benefit to Total Asset (SBAR)	1.84%	1.55%	1.61%	1.72%	1.79%	1.92%	1.13%	0.00%	0.31%	0.25%	0.33%	0.35%
	Total Deposit to Total Asset (DAR)	15.35%	21.61%	14.55%	10.91%	12.42%	12.90%	82.99%	91.00%	90.08%	94.13%	92.19%	90.01%

Appendix 4.3: The Significance Comparative Ratios Bank Syariah Mandiri – CIMB Islamic Bank

Categories	Ratios	Mean		Standard Deviation		t test	Significance		Is BSM better?
		BSM	CIMB Islamic Bank	BSM	CIMB Islamic Bank		value	v / x	
Profitability Ratios	Return on Assets (ROA)	1.54%	2.01%	0.0332100	0.0222931	1.471	0.201	x	x
	Return on Equity (ROE)	61.58%	53.25%	0.2460524	0.3514994	0.373	0.724	x	v
	Return on Capital (ROC)	52.08%	34.37%	0.2089209	0.5447855	1.217	0.278	x	v
	Profit to Expense Ratio (PER)	29.34%	102.47%	0.7600350	1.4680548	-1.245	0.268	x	x
Liquidity Ratios	Financing to Deposit Ratio (FDR)	207.64%	34.76%	0.6585987	0.2467141	7.500	0.001	v	x
	Financing to Asset Ratio (FAR)	28.66%	31.76%	0.0472196	0.2245995	-0.360	0.733	x	x
	Non Performing Financing Ratio (NPF)	5.02%	2.00%	0.0134708	0.0220000	3.255	0.023	v	x
Risk & Solvency Ratios	Liabilities Equity Ratio (LER)	272.47%	1542.73%	0.6569248	7.3440744	-4.190	0.009	v	v
	Liabilities Total Asset Ratio (LTAR)	19.44%	92.38%	0.0619167	0.0452792	-20.762	0.000	v	v
	Equity Multiplier (EM)	1494.66%	1642.73%	4.5906470	7.3440744	-0.518	0.627	x	v
	Capital to Asset Ratio (CAR)	3.19%	6.31%	0.0079665	0.0659683	-1.273	0.259	x	x
Efficiency Ratios	Asset Utilization (AU)	10.72%	3.45%	0.0074105	0.0161843	11.271	0.000	v	v
	Cost to Income Ratio (CI)	49.76%	118.60%	0.0383386	2.3784096	-0.710	0.509	x	v
	Sales to branches ratio	82.43%	108.33%	0.3429107	1.2420921	-0.478	0.680	x	x
Bank's Ratios	Bank Size (in Billion Rupiahs)	17,049.61	49,084.38	90,946.6130000	4,593.5590000	-2.113	0.088	x	x
	Individual Deposit to Total Deposit	99.19%	80.27%	0.0064664	0.1298059	3.588	0.016	v	x
	Salaries and Benefit to Total Asset	1.74%	0.39%	0.0013922	0.0038109	10.233	0.000	v	x
	Total Deposit to Total Asset	14.62%	90.06%	0.0376587	0.0378440	-30.900	0.000	v	v